

## Chapter 1: Financial Management

### 1.1 Introduction

Indian Railways is the major transport service provider for the country carrying on an average 1.99 million tonnes of freight and about 17 million passengers per day. The Ministry of Railways (Railway Board) is responsible for management and formulation of policy for the Indian Railways. The Ministry supervises and controls 16 zonal railways, the Research, Design and Standards Organisation, Lucknow, the railway production units viz. Chittaranjan Locomotive Works, Chittaranjan, Integral Coach Factory, Perambur, Rail Coach Factory, Kapurthala, Diesel Locomotive Works, Varanasi, Diesel Loco Modernisation Works, Patiala and Rail Wheel Factory, Yelahanka and other railway establishments.

There are ten Public Sector Undertakings (PSU) which deal with various activities related to railway functioning such as Rail India Technical & Economic Services Ltd. (consultancy in transportation and infrastructure), Indian Railway Construction Corporation Ltd. (construction and consultancy), Indian Railway Finance Corporation Ltd. (mobilisation of funds for core railway activities), Container Corporation of India Ltd. (container traffic), Raitel Corporation of India Ltd. (modernisation of communication system), Indian Railway Catering and Tourism Corporation Ltd. (tourism and catering) etc. Joint venture companies with other organisations are also formed for the purpose of executing specific projects such as the Pipavav Railway Corporation Ltd. Two autonomous bodies function under the Ministry of Railways i.e. Centre for Railway Information Systems (CRIS) for computerization of various systems on Railways and Rail Land Development Authority (RLDA)<sup>1</sup> for commercial development of railway land.

The details of investment of the Railways in its Public Sector Undertakings are as follows:

(Rs. in crore)			
S. no.	Public Sector Undertaking	Investment	Percentage of investment
1.	Rail India Technical & Economic Services Ltd.(RITES)	4.00	100.00
2.	Indian Railway Construction Corporation Ltd. (IRCON)	4.94	99.73
3.	Indian Railway Finance Corporation Ltd. (IRFC)	500.00	100.00
4.	Container Corporation of India Ltd. (CONCOR)	41.01	63.09
5	Konkan Railway Corporation Ltd. (KRCL)	411.29	52.00
6.	Raitel Corporation of India Ltd.(RCIL)	15.00	100.00
7.	Indian Railway Catering and Tourism Corporation Ltd.(IRCTC)	20.00	100.00
8.	Mumbai Rail Vikas Corporation Ltd.(MRVC)	12.75	51.00
9.	Rail Vikas Nigam Ltd. (RVNL)	2,107.62	100.00
10.	Dedicated Freight Corridor Corporation of India	7.00	In formative stage

Railway finances were separated from the General finances through a Separation Convention in 1924 to secure stability for civil estimates by

<sup>1</sup> RLDA constituted in terms of Extraordinary Gazette Notification dated 31 October 2006

providing an assured contribution from railway revenues and also to introduce flexibility in the administration of railway finances. In 1949, the Separation Convention was reviewed and another convention resolution was adopted with effect from 1 April 1950, which recommended presentation of a separate railway budget every year, prior to presentation of the general budget. As contemplated in the convention of 1949, a Railway Convention Committee (RCC) was constituted in 1954 to review the rate of dividend<sup>2</sup> payable by the Indian Railways to the general revenues and other ancillary matters.

The ensuing paragraphs contain the results of an analysis of the financial performance of Indian Railways during the year 2006-07.

## 1.2 Financial Results

Financial results of the Indian Railways for the year 2006-07, compared with the Budget Estimates (BE) and Revised Estimates (RE) 2006-07 and actuals of the previous year (2005-06), are shown below:

(Rs. in crore)					
S.No.	Particulars	Actuals 2005-06	Budget Estimates 2006-07	Revised Estimates 2006-07	Actuals 2006-07
1	Gross Traffic Receipts	54,491.38	59,978.00	63,220.00	62,731.50
2	(a) Miscellaneous Receipts *	1,824.13	1,856.02	2,758.13	2,054.34
	(b) Miscellaneous Expenditure **	2,736.10	2,893.47	1,299.90	1,286.18
	Net Miscellaneous Receipts (a)-(b)	(-) 911.97	(-)1,037.45	1,458.23	768.16
3	<b>Total Receipts (1 + 2)</b>	53,579.41	58,940.55	64,678.23	63,499.66
4	(a) Ordinary Working Expenses	35,029.53	38,300.00	38,400.00	37,741.53
	(b) Less operation loss on strategic lines***			309.00	309.00
5	Appropriation to				
	(a) Depreciation Reserve Fund @	3,604.00	4,307.00	4,283.37	4,198.00
	(b) Pension Fund @	6,940.00	7,790.00	7,434.12	7,416.00
6	<b>Total Working Expenses (4 + 5)</b>	45,573.53	50,397.00	49,808.49	49,046.53
7	<b>Net Revenue (3 – 6)</b>	8,005.88	8,543.55	14,869.74	14,453.13
8	Dividend Payable to General Revenues				
	(a) Current year	3,004.92	3,207.73	3,579.26	3,583.81
	(b) Deferred Dividend of previous years	663.00	663.00	663.00	663.00
	<b>Net Dividend Paid</b>	3,667.92	3,870.73	4,242.26	4,246.81
9	<b>Net surplus available for appropriation (7 – 8)</b>	4,337.96	4,672.82	10,627.48	10,206.32
10	Surplus appropriated to				
	(a) Development Fund @	1,852.98	960.00	2,131.40	1,880.00
	(b) Special Railway Safety Fund	--	--	--	--
	(c) Railway Safety Fund	67.54	--	--	--
	(d) Railway Capital Fund @	2,417.44	3,712.82	8,496.08	8,326.32

\* actuals of 2005-06 and budget estimates and actuals for 2006-07 do not include the interest on railway fund balances.

<sup>2</sup> Under the "Separation Convention" the Railways are required to pay dividend at a fixed rate on the Capital advanced by the Government of India.

\*\* includes appropriation to Capital Fund towards repayment of Capital component of lease charges (Rs.1,615.59 crore) to IRFC during the 2005-06. From the Revised Estimates 2006-07, at the instance of audit, appropriation to Capital Fund on this account was made from the surplus

\*\*\* In the actuals of 2005-06 and budget estimates of 2006-07, operational loss on Strategic lines amounting to Rs. 281.91 crore and Rs. 272.50 crore respectively were adjusted from Dividend paid to General Revenues.

@ The Revised Estimates 2006-07, included interest on DRF and Pension Fund and surplus appropriated to DF and CF also includes interest on fund balance.

There was a growth of 15 per cent (Rs.8,240.12 crore) in gross traffic receipts over 2005-06 while the total working expenses rose by more than seven per cent (Rs.3,473 crore) from the previous year. The net revenue also increased by 80 per cent over the previous year.

During the year 2006-07, Ministry of Railways (Railway Board) carried out two major accounting reforms viz. (i) Accountal of Interest on Railway Fund Balances and (ii) treatment of loss on working of Strategic Lines without obtaining the approval of Railway Convention Committee (RCC) and the Comptroller and Auditor General of India (C&AG).

In regard to accountal of interest on fund balances, Ministry of Railways (MOR) proposed that the Ministry of Finance would transfer the interest on fund balances to Ministry of Railways as their Miscellaneous receipts and MOR would then appropriate the same to its Funds out of working expenses in case of Depreciation Reserve Fund (DRF) and Pension Fund (PF) while the interest on the balances of Capital Fund (CF) and Development Fund (DF) would be appropriated from the surplus. The proposal of railways to carry out this change was not agreed to in audit on the ground that this change would entail double accountal of expenditure on interest within the Consolidated Fund of India, once by the Ministry of Finance and again by the Ministry of Railways. However, the Ministry of Railways finalized their Accounts incorporating this change. Subsequently, at the instance of Audit, Ministry of Railways revised their Appropriation Accounts. However, the Finance Account of the Railways which is incorporated in the Finance Account of the Union Government could not be revised since the later had been tabled in Parliament. To this extent, there are differences in the figures as depicted in the Appropriation Accounts of the Railways and Finance Accounts of the Union Government which will be reflected as a note of error in the Union Government Finance Accounts for the year 2007-08.

In case of treatment of operational loss on strategic lines, the Ministry of Railways adjusted the operational loss as projected in the Revised Estimates 2006-07 (Rs.309 crore) from the ordinary working expenses instead of adjusting the amount from the dividend payable to General Revenues which was the procedure followed till 2005-06. Further, the actual loss was not worked out by the Railways as was being done hitherto. The actual operational losses on Strategic Lines on the basis of finalized accounts worked out to Rs.476.51 crore whereas the Ministry of Railways depicted an amount of Rs.309 crore. This was objected to in audit as the Profit and Loss Account of the Railways would not exhibit a true and fair view of their working expenses. Since the Ministry of Finance has agreed to reimburse the operational loss to Ministry of Railways, audit agreed that the amount reimbursed may be treated

as their traffic receipts by opening a separate minor head for accounting purposes. As the accounts of 2006-07 had already been finalized, the Ministry of Railways agreed to carry out the change as contemplated by audit in the Accounts of 2007-08.

### 1.3 Gross Traffic Receipts

The detailed break-up of the traffic receipts of the Railways for the year 2006-07 along with the details of budget estimates (BE), revised estimates (RE) and actuals of previous year's receipts are shown below:

(Rs. in crore)

Traffic Earnings	Actuals 2005-06	Budget Estimates 2006-07	Revised Estimates 2006-07	Actuals 2006-07
Passenger	15,126.00	16,800.00	17,400.00	17,224.56
Goods	36,286.97	40,320.00	42,299.00	41,716.50
Other Coaching <sup>3</sup>	1,152.56	1,400.00	1,726.00	1,717.73
Sundries including Suspense	1,925.85	1,458.00	1,795.00	2,072.71
<b>Total</b>	<b>54,491.38</b>	<b>59,978.00</b>	<b>63,220.00</b>	<b>62,731.50</b>

There was an overall increase in traffic earnings by Rs.8,240.12 crore during the year 2006-07. The major portion (65.89 per cent) comprised goods earnings amounting to Rs.5,429.53 crore followed by Rs.2,098.56 crore (25.47 per cent) from passenger earnings.

Results of the review of the Railways performance in passenger and goods traffic are discussed in the succeeding paragraphs.

#### 1.3.1 Passenger Earnings

During 2006-07, the passenger earnings rose by 13.87 per cent over the previous year. Indian Railways carried 501.34 million more passengers, as compared to the previous year. The trends in passenger earnings vis-à-vis the average lead<sup>4</sup> and the average rate per passenger kilometre over the past five years are as follows:

Year	Passenger earnings (Rupees in crore)	No. of passengers (in millions)	Passenger kilometres (in millions)	Average lead per passenger (in kilometres) Col. (4) / (3)	Average earnings per passenger kilometre (in Paise) Col. (2) / (4) x100
(1)	(2)	(3)	(4)	(5)	(6)
2002-03	12,575.44	5,048.16	5,15,772	102.17	24.38
2003-04	13,298.33	5,202.91	5,42,052	104.18	24.53
2004-05	14,112.54	5,475.50	5,75,608	105.12	24.52
2005-06	15,126.00	5,832.39	6,16,632	105.73	24.53
2006-07	17,224.56	6,333.73	6,95,821	109.86	24.75

From the above, it can be seen that the Railways earned 24.75 paise for carrying a passenger over one kilometre in 2006-07 as against 24.53 paise in

<sup>3</sup> Other coaching includes minor heads other than passenger viz. special trains and reserved carriages, luggage, parcels, other coaching traffic, transport of post office mails and other miscellaneous coaching receipts

<sup>4</sup> Average haul of a passenger (or a tonne of freight)

2005-06. On an average, a passenger travelled 109.86 kilometres as against 105.73 kilometres in the previous year.

The earnings from passenger services increased over the previous year on all zonal railways. The percentage increase was less than ten per cent on Central, Eastern, Northern, North Western and South Western Railways. In Eastern and Northern Railways, despite reduction of original targets (Rs.1,083.06 crore and Rs.2,492.82 crore) by Rs. 43.76 crore and Rs. 175.72 crore, achievements fell short by Rs.28.18 crore and Rs.35.53 crore respectively. Shortfall in earnings on North Central (Rs.217.68 crore), East Coast (Rs.34.13 crore) and Southern Railways (Rs.21.23 crore) was more than Rs.20 crore as compared to Revised Estimates.

It was seen that the percentage increase in passenger earnings was more than the percentage increase in the number of passengers over the previous year. Further, about 71 per cent (Rs.1,493.29 crore) of the increase in total passenger earnings (Rs.2,098.55 crore) was in Second Class (Mail and Express).

An analysis of the reasons for increase in passenger earnings revealed that besides an increase of about nine per cent in the number of passengers, the introduction of enhanced reservation fee for tickets booked for journeys originating from other than ticket booking stations contributed approximately Rs.91.01 crore. Other reasons for increase in passenger earnings included realisation of Tatkal reservation charges (Rs.210.95 crore), increase in period of advance reservations from two months to three months (Rs.292.93 crore) and enhancement of cancellation charges (figures are not readily available).

### 1.3.2 Goods Earnings

During the last five years, there has been an increasing trend in the goods traffic carried by the Railways in terms of Net tonne kilometres<sup>5</sup> (NTKMs), as well as earnings. The trend for the last five years is given below:

Year	Net tonne kilometres (million)	Earnings (Rupees in crore)	Percentage of average annual growth over previous years		Earnings per NTKM (in Paise) Col. (3)/(2)
			Volume	Earnings	
(1)	(2)	(3)	(4)	(5)	(6)
2002-03	3,53,194	26,504.82	5.99	6.68	75.04
2003-04	3,81,241	27,617.96	7.94	4.20	72.44
2004-05	4,07,398	30,778.40	6.86	11.44	75.55
2005-06	4,39,596	36,286.97	7.90	17.90	82.55
2006-07	4,80,993	41,716.50	9.42	14.96	86.73

Railways earned 86.73 paise from carrying one tonne of goods over one kilometre in 2006-07 as against 82.55 paise in 2005-06. While the goods earnings increased by almost 15 per cent in 2006-07 as compared to 2005-06, the tonnage originating increased by more than nine per cent.

Against the budget projection of 726 million tonnes of originating revenue earning goods traffic, the Railways actually lifted 727.75 million tonnes. The

<sup>5</sup> Net tonne kilometre – Payload of one tonne carried over one kilometre

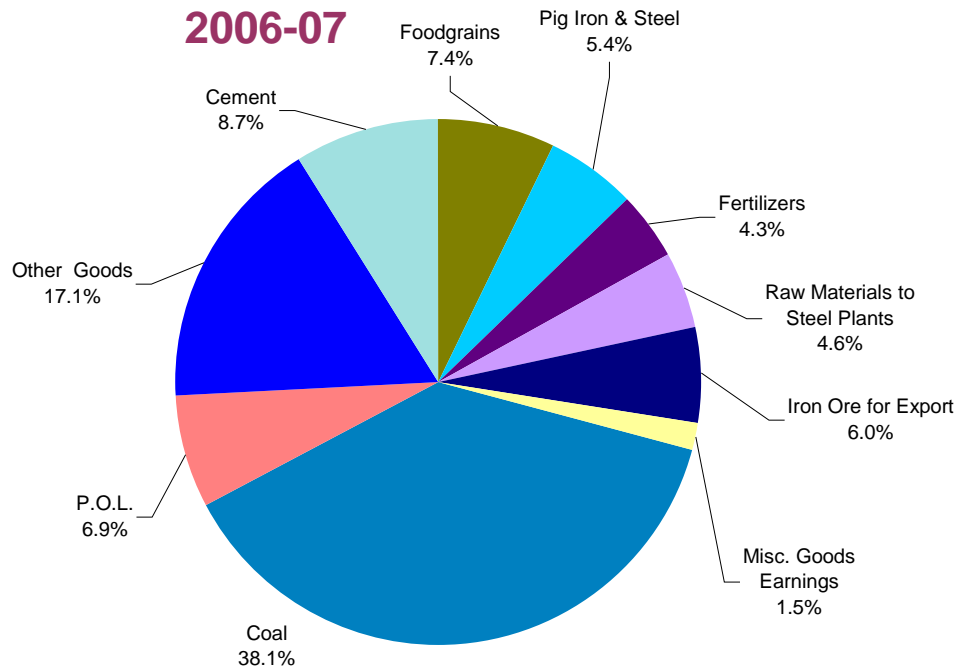
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increase was more than nine per cent (61.24 million tonnes) over the previous year. As compared to the performance of 2005-06, the NTKMs also increased by 41,397 million NTKMs. However, the average distance over which a tonne was carried marginally increased from 660 kms in 2005-06 to 661 kms in 2006-07.

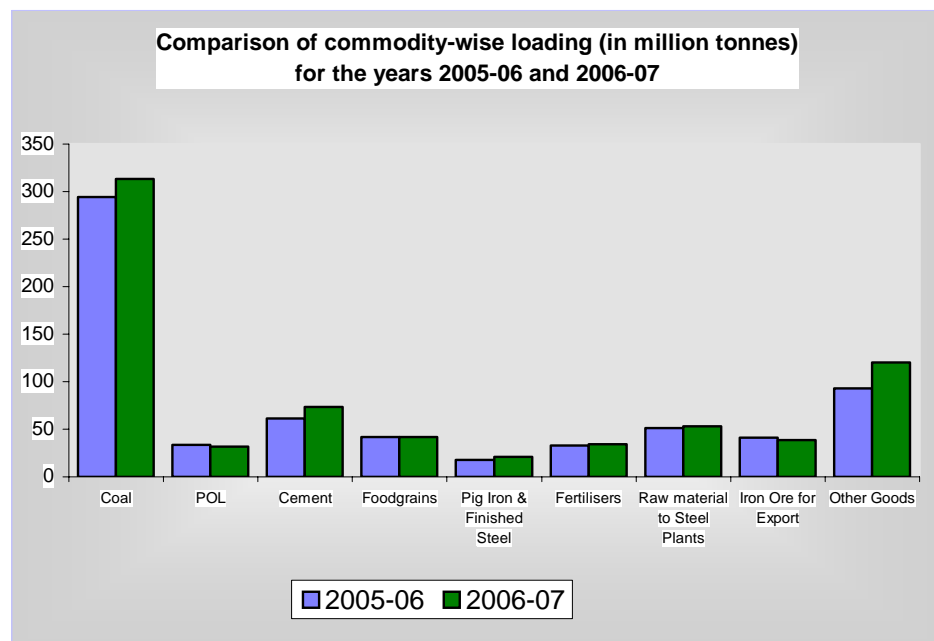
The analysis of freight earnings for various commodities is given in the following table:

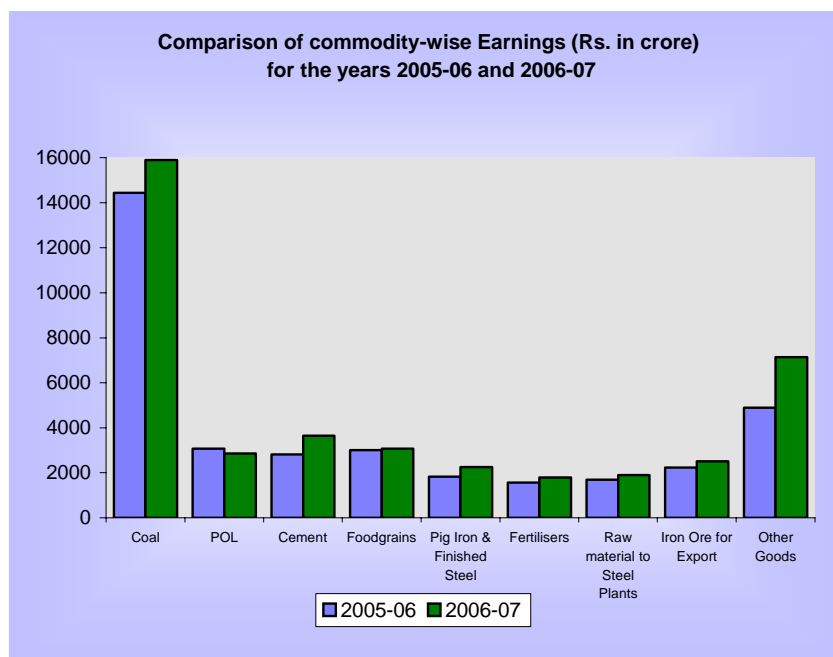
Commodity	Year	Tonnage Originating	Net Tonne Kilometres	Earnings	Average Lead	Increase/Decrease in tonnage originating during 2006-07 over 2005-06	Increase/Decrease in earnings during 2006-07 over 2005-06
		(Millions)	(Millions)	(Rupees in crore)	(in KMs)	(in Millions)	(Rupees in crore)
Coal	2005-06	294.25	1,70,439	14,432.96	579.23		
	2006-07	313.33	1,91,541	15,886.61	611.31	19.08	1453.65
POL	2005-06	33.45	24,281	3,069.36	725.89		
	2006-07	31.69	23,369	2,860.48	737.43	(-) 1.76	(-) 208.88
Cement	2005-06	61.19	32,830	2,824.02	536.53		
	2006-07	73.13	41,094	3,649.10	561.93	11.94	825.08
Food grains	2005-06	41.64	55,103	3,005.64	1,323.32		
	2006-07	41.84	47,851	3,071.46	1,143.67	0.20	65.82
Pig Iron & Finished Steel	2005-06	17.74	18,655	1,825.46	1,051.58		
	2006-07	21.04	22,394	2,259.25	1,064.35	3.30	433.79
Fertilizers	2005-06	32.65	26,708	1,569.07	818.01		
	2006-07	34.26	25,462	1,791.32	743.20	1.61	222.25
Raw Materials to Steel Plants	2005-06	51.35	17,406	1,691.26	338.97		
	2006-07	53.22	16,872	1,899.59	316.35	1.87	208.33
Iron Ore for Export	2005-06	41.24	20,980	2,226.14	508.73		
	2006-07	38.84	19,845	2,516.30	510.94	(-) 2.40	290.16
Other Goods	2005-06	93.00	73,194	4,890.78	787.03		
	2006-07	120.40	92,565	7,139.10	769.11	27.40	2,248.32
Misc. Goods Earnings	2005-06			752.28			
	2006-07			643.29		--	(-) 108.99
<b>Total</b>	<b>2005-06</b>	<b>666.51</b>	<b>4,39,596</b>	<b>36,286.97</b>	<b>659.55</b>		
	<b>2006-07</b>	<b>727.75</b>	<b>4,80,993</b>	<b>41,716.50</b>	<b>660.93</b>	<b>61.24</b>	<b>5,429.53</b>

The percentage share of earnings of various commodities during 2006-07 can be seen in the following chart:



The overall increase/ decrease in originating tonnage and earnings of various commodities in 2006-07 over the past year are depicted in the following graphs:





Though the goods earnings in respect of all the zonal railways were more than the previous year and ranged from an increase of 7.66 per cent (East Central Railway) to 26.09 per cent (South Western Railway), the earnings fell short of Revised Estimates by more than Rs.50 crore in South Central (Rs.252.09 crore), East Coast (Rs.122.20 crore), North Eastern (Rs.106.88 crore), Northeast Frontier (Rs.93.20 crore), North Western (Rs.84.53 crore), North Central (Rs.72.28 crore) and Central (Rs.59.93 crore) Railways.

Though while presenting the Railway budget for the year 2006-07, the Railway Minister had not proposed any increase in the freight rates, it was noticed in Audit that besides making upward revision in the classes of food grains and fertilizer, the Ministry of Railways (Railway Board) had increased the freight of all commodities with effect from 1 July 2006. The increase ranged from 1.6 per cent to 3.6 per cent as can be seen from the table given below:

Class	Distance slab	Rates prior to 1.7.2006 (per tonne)	Rates after 1.7.2006 (per tonne)	Increase (per tonne)	Percentage increase (per tonne)
100	200 kms	138.40	141.10	2.70	2.0
	500 kms	303.40	308.20	4.80	1.6
	1000kms	578.40	591.90	13.50	2.3
	1500 kms	853.40	873.80	20.40	2.4
	2000 kms	1,058.40	1,096.40	38.00	3.6
	2500 kms	1,208.40	1,245.60	37.20	3.1
110	200 kms	152.20	155.20	3.00	2.0
	500 kms	333.70	339.00	5.30	1.6
	1000kms	636.20	651.10	14.90	2.3
	1500 kms	938.70	961.20	22.50	2.4
	2000 kms	1,164.20	1,206.00	41.80	3.6
	2500 kms	1,329.20	1,370.20	41.00	3.1



Class	Distance slab	Rates prior to 1.7.2006 (per tonne)	Rates after 1.7.2006 (per tonne)	Increase (per tonne)	Percentage increase (per tonne)
140	200 kms	193.80	197.50	3.70	1.9
	500 kms	424.80	431.50	6.70	1.6
	1000kms	809.80	828.70	18.90	2.3
	1500 kms	1,194.80	1,223.30	28.50	2.4
	2000 kms	1,481.80	1,535.00	53.20	3.6
	2500 kms	1,691.80	1,743.80	52.00	3.1
180	200 kms	249.10	254.00	4.90	2.0
	500 kms	546.10	554.80	8.70	1.6
	1000kms	1,041.10	1,065.40	24.30	2.3
	1500 kms	1,536.10	1,572.80	36.70	2.4
	2000 kms	1,905.10	1,973.50	68.40	3.6
	2500 kms	2,175.10	2,242.10	67.00	3.1
220	200 kms	304.50	310.40	5.90	1.9
	500 kms	667.50	678.00	10.50	1.6
	1000kms	1,272.50	1,302.20	29.70	2.3
	1500 kms	1,877.50	1,922.40	44.90	2.4
	2000 kms	2,328.50	2,412.10	83.60	3.6
	2500 kms	2,658.50	2,740.30	81.80	3.1

Though the overall impact of this increase on goods earnings could not be worked out, for a few select commodities the increase worked out on the basis of average lead was of Rs.1,193 crore as given in the table below:

Commodity	Year	Tonnage Originating	Average Lead	Class	Freight rates per tonne		Increase in rates per tonne	Total increase in freight (Rs. in crore)
					2005-06	2006-07		
		(Millions)	(in KMs)					
Coal	2006-07	313.33	611.31	140	517.20	528.40	11.20	350.93
POL	2006-07	31.69	737.43	220	957.60	980.80	23.20	73.52
Cement	2006-07	73.13	561.93	140	478.70	488.30	9.60	70.20
Food grains	2005-06			100	660.90			
	2006-07	41.84	1,143.67	110		744.70	83.80	350.62
Pig Iron & Steel	2006-07	21.04	1,064.35	180	1,115.50	1,142.10	26.60	55.97
Fertilizers	2005-06			100	440.90			
	2006-07	34.26	743.2	110		496.70	55.80	191.17
Raw materials to steel plants	2006-07	53.22	316.35	160	332.30	344.60	12.30	65.46
Iron Ore for Export	2006-07	38.84	510.94	180	556.00	565.20	9.20	35.73
<b>Total</b>								<b>1,193.60</b>

#### 1.4 Unrealised Earnings

The Budget Estimates 2006-07 projected clearance of Rs.150 crore from the unrealised earnings<sup>6</sup> which was brought down to Rs.100 crore in the Revised Estimates 2006-07. Against these projections, the actual clearance (exclusive of Demands Recoverable) was Rs.373.03 crore, bringing the balance of

<sup>6</sup> Unrealised earnings constitute outstanding on account of traffic revenue

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unrealised earnings from Rs.1,586.42 crore at the end of 2005-06 to Rs.1,213.39 crore at the end of 2006-07.

About 81 per cent (Rs.981.73 crore) of the unrealised earnings (Rs.1,213.39 crore) was on account of outstanding dues recoverable from the State Electricity Boards (SEBs)/ Power Houses, almost all of which was on account of freight (Rs.958.74 crore).

The SEBs against whom the outstanding dues were in excess of three crore as on 31 March 2007 were as follows:

**(Rs. in crore)**

Sl. No.	Name of State Electricity Board/ Power House	Outstanding dues as on 31 March 2006	Outstanding dues as on 31 March 2007	Increase (+)/ decrease (-) during the year
1.	Badarpur Thermal Power Station (BTPS)	581.32	252.10	(-) 329.22
2.	Punjab State Electricity Board (PSEB)	442.19	443.09	(+) 0.90
3.	Delhi Vidyut Board (DVB)	176.61	177.10	(+) 0.49
4.	Rajasthan State Electricity Board (RSEB)	39.34	49.50	(+) 10.16
5.	Uttar Pradesh State Electricity Board (UPSEB)	31.75	34.19	(+) 2.44
6.	Haryana State Electricity Board	18.75	14.31	(-) 4.44
7.	National Thermal Power Corporation	4.91	4.98	(+) 0.07
8.	West Bengal State Electricity Board	3.53	3.16	(-) 0.37

An analysis in respect of five SEBs, where the outstanding dues were more than Rs.25 crore as on 31 March 2007 revealed the following:

- As against the commitment of paying Rs.100.21 crore out of the outstanding dues of Rs.581.32 crore during the year 2006-07, BTPS paid Rs.329.22 crore.
- In order to ensure timely realisation of Railway dues, the parties are required to maintain a security deposit with the Railways adjustable with the freight accruing during a specific period. In case the amount of freight exceeds the amount of security deposit the parties are required to pay the same along with replenishment of security deposit within a specified period. If the above conditions are not fulfilled a 'To-pay' surcharge is levied on the amount that exceeds the security deposit. It was observed that, though the outstanding dues in respect of PSEB and RSEB were on account of levy of 'To-pay' surcharge, the same were disputed by these SEBs and not paid. An amount of Rs.443.09 crore was outstanding against PSEB. The matter is sub-judice.
- In respect of DVB, out of total outstanding of Rs.177.10 crore, an amount of Rs.76 crore pertaining to the period prior to the constitution of DVB was yet to be settled in consultation with the Ministry of Power.
- Outstanding dues in respect of PSEB have been increasing consistently since 2000-01.

In view of the increasing trend of dues, the Ministry of Railways needs to take urgent steps not only to realise the outstanding dues but also to ensure that there are no further accruals.

### 1.4.1 Demands Recoverable

The Demands Recoverable, which represent outstandings in respect of (i) rent/lease charges for letting out Railway land and buildings and (ii) interest and maintenance charges from siding owners, increased by Rs.12.02 crore (almost 12 per cent), from Rs.102.09 crore at the end of March 2006 to Rs.114.11 crore at the end of March 2007. The demands recoverable on Eastern, East Central, Northern, North Central, South Eastern, South Central, South Western and South East Central Railways increased by Rs.20.36 crore.

### 1.5 Operating Ratio

The Operating Ratio represents the percentage of working expenses (including the expenses not yet paid) to traffic earnings (including the earnings not yet realised). The operating ratio, which was 83.72 per cent in 2005-06, improved to 78.68 per cent (by 5.04 per cent) in 2006-07 for the Railways as a whole.

The operating ratio of zonal railways and Metro, Kolkata during the last three years is shown in the following table:

S. no.	Zonal Railway	Operating Ratio			Improvement (+)/ Deterioration (-) in 2006-07 over 2005-06
		2004-05	2005-06	2006-07	
1.	South East Central	56.10	49.97	47.20	(+) 2.77
2.	East Coast	61.75	54.01	53.03	(+) 0.98
3.	North Central	66.71	61.06	58.22	(+) 2.84
4.	South Eastern	83.51	67.54	58.39	(+) 9.15
5.	South Central	83.62	79.70	71.83	(+) 7.87
6.	South Western	86.15	80.97	74.00	(+) 6.97
7.	East Central	98.90	82.29	85.23	(-) 2.94
8.	West Central	84.08	82.67	67.80	(+) 14.87
9.	Northern	92.89	84.21	88.28	(-) 4.07
10.	Central	82.48	84.82	79.34	(+) 5.48
11.	Western	90.85	85.15	79.23	(+) 5.92
12.	North Western	104.98	93.94	87.07	(+) 6.87
13.	Southern	120.79	114.46	105.85	(+) 8.61
14.	Northeast Frontier	159.45	142.53	117.61	(+) 24.92
15.	North Eastern	160.88	144.72	132.64	(+) 12.08
16.	Eastern	152.84	145.42	150.53	(-) 5.11
17.	Metro, Kolkata	264.38	237.92	221.28	(+) 16.64

From the above it can be seen that -

- Operating ratios of all the zonal railways, except Eastern, East Central and Northern Railways improved as compared to the previous year.
- The operating ratio of Northern Railway has deteriorated by 4.07 per cent from 84.21 per cent (2005-06) to 88.28 per cent (2006-07), East Central Railway by 2.94 per cent from 82.29 per cent (2005-06) to 85.23 per cent (2006-07) and Eastern Railway by 5.11 per cent from 145.42 per cent (2005-06) to 150.53 per cent (2006-07).

- During the year 2006-07, Ministry of Railways have not set off the losses on working of Strategic Lines from the total Dividend payment to General Revenue as was done in previous years i.e. 2005-06. Instead this amount (Rs.309 crore) has been taken as reduction in working expenses, which has resulted in understatement of actual working expenses thereby improving the Operating Ratio by 0.49 per cent.

### 1.6 Plan Expenditure

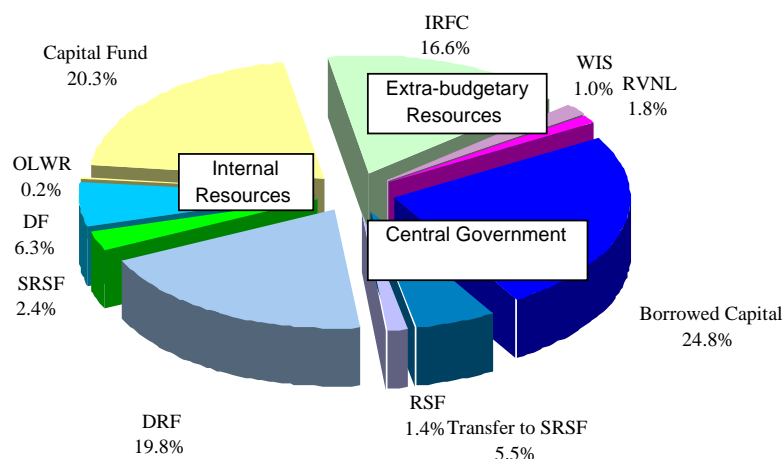
**1.6.1** The Indian Railways finance their expenditure on acquisition, construction, replacement and renewal of assets from budgetary support, market borrowings and their internal resources. The following table shows the break-up of various sources of finance vis-à-vis expenditure incurred during the year 2006-07:

#### Actual expenditure vis-à-vis sources of finance

(Rs. in crore)					
S. no.	Sources of Finance	Actuals 2005-06	Budget Estimate 2006-07	Revised Estimate 2006-07	Actuals 2006-07
<b>1</b>	<b><u>Central Government Support</u></b>				
	(i) Budgetary Support				
	(a) Borrowed Capital from General Revenues	5,312.46	5,435.14	6,485.14	6,189.21
	(b) Transfer to Special Railway Safety Fund	2,499.00	1,365.00	1,365.00	1,365.00
	(ii) Contribution from Central Road Fund to Railway Safety Fund (RSF)	262.24	710.86	710.78	359.94
	<b>Total Central Government Support</b>	<b>8,073.70</b>	<b>7,511.00</b>	<b>8,560.92</b>	<b>7,914.15</b>
<b>2</b>	<b><u>Internal Resources</u></b>				
	i) Depreciation Reserve Fund (DRF)	3,255.59	4,247.00	4,817.00	4,957.78
	ii) Development Fund (DF)	1,024.96	1,613.00	1,726.00	1,563.94
	iii) Capital Fund (CF)	2,426.11	4,009.00	4,815.00	5,069.61
	iv) Special Railway Safety Fund <sup>7</sup> (SRSF)	284.14	875.00	788.00	590.60
	v) Open Line Works – Revenue (OLWR)	42.80	50.00	60.00	51.07
	<b>Total Internal Resources</b>	<b>7,033.60</b>	<b>10,794.00</b>	<b>12,206.00</b>	<b>12,233.00</b>
	<b>Grand Total of Plan Funds (1+2)</b>	<b>15,107.30</b>	<b>18,305.00</b>	<b>20,766.92</b>	<b>20,147.15</b>
<b>3</b>	<b><u>External Resources</u></b>				
	(i) Indian Railway Finance Corporation (IRFC)	3,213.05	4,170.00	4,170.00	4,160.92
	(ii) Rail Vikas Nigam Limited (RVNL)	518.00	500.00	500.00	450.00
	(iii) Wagon Investment Scheme	-	500.00	210.00	244.00
	<b>Total External Resources</b>	<b>3,731.05</b>	<b>5,170.00</b>	<b>4,880.00</b>	<b>4,854.92</b>
	<b>GRAND TOTAL</b>	<b>18,838.35</b>	<b>23,475.00</b>	<b>25,646.92</b>	<b>25,002.07</b>

<sup>7</sup> SRSF is financed by levy of safety surcharge, railway surplus as well as allocation from General Revenues.

### Sources of Finance



#### 1.7 Undischarged liabilities

The Railways are required to pay dividend at a fixed rate on the Capital borrowed from the Central Government. The Railway Convention Committee of Parliament determines the rate of dividend payable by the Railways to the General Revenues every year. For the year 2006-07, the rate of dividend payable has been fixed at 6.5 per cent on the entire capital invested on the Railways from the General Revenues, irrespective of the year of investment. The undischarged liabilities on account of payment of interest (dividend) on investments made on new lines and shortfall in payment of current dividend due to inadequate net revenue, stood at Rs.6,058.97 crore as on 31 March 2007 as discussed below:

- The Railway Convention Committee allows a moratorium on payment of dividend on investments in new lines during the period of construction and for the first five years after it is opened to traffic; cumulative dividend is payable when the line shows surplus after meeting current dividend liability. The account of accumulated dividend liability is closed after 20 years, extinguishing such unliquidated liability. The liability on this account, which was Rs.4,936.03 crore as on 31 March 2006, has further increased by Rs.466.94 crore during the year 2006-07. Of this Railways paid Rs.8.00 crore during the year 2006-07 leaving a balance of Rs.5,394.97 crore as on 31 March 2007. Ministry of Railways may consider allotting more funds for reducing this liability.
- The deferred dividend liability of the Railways due to shortfall in the payment of current dividend of previous years as on 31 March 2006 was Rs.1,327 crore. During 2006-07, the Railways paid Rs.663 crore towards deferred dividend, bringing down the balance outstanding on this account to Rs.664.00 crore as on 31 March 2007.

## 1.8 Railway Funds

Railways operate various funds to meet the requirement of asset acquisition, construction, replacement and renewal as well as pension payments to the railway employees. These funds are either fully or partially financed by railway revenues/surplus, in addition to budgetary support from the Central Government and market borrowings. The details of some of the Railway Funds for the year 2006-07 are discussed below:

**1.8.1 Depreciation Reserve Fund:** Railways maintain DRF for replacement and renewal of assets. This fund is financed by transfers from revenues and Workshop Manufacture Suspense. The fund receives interest at the rate of 6.5 per cent per annum (the same as the rate of dividend payable to general revenues). The balances in Depreciation Reserve Fund for the last five years are shown in the following table:

(Rs. in crore)				
Year	Opening Balance	Accretion during the year	Withdrawals during the year	Closing Balance
2002-03	632.90	2,585.30	1,464.75	1,753.45*
2003-04	1,753.13*	2,842.83	1,905.03	2,690.93
2004-05	2,690.93	2,993.29	2,234.58	3,449.64
2005-06	3,453.64*	3,943.06	3,255.59	4,141.11
2006-07	4,141.11	4,545.73	4,957.78	3,729.06

Note: \* Differences between closing and opening balances are due to transfer made between DRF and Capital. Accretion during the year includes interest earned on the balance in the fund.

As against projection made in the Budget Estimates (Rs.4,307 crore) and Revised Estimates (Rs.4,108 crore) during 2006-07, an amount of Rs.4,198 crore was appropriated to DRF from revenue. The actual expenditure during the year 2006-07 was Rs.4,957.78 crore, which exceeded the Budget Estimates and Revised Estimates by Rs.710.78 crore and Rs.140.78 crore respectively. The expenditure was also more than the actual expenditure of the previous year by Rs.1,702.19 crore. The increase in expenditure from DRF was mainly on account of increase in expenditure as compared to the previous year viz. Rs.1,076.63 crore for Track Renewal Works (50 per cent), Rs.393.28 crore on Rolling Stock (70 per cent), Rs.61.70 crore on Bridge Works (39 per cent), Rs.35.16 crore on Other Electric Works (35 per cent), Rs.20.94 crore on Signalling and Telecommunication (18 per cent) and Rs.18.28 crore on Staff Quarters (51 per cent).

The annual contribution to the DRF from revenue is an important item of expenditure affecting the net revenues of the railways. Appropriation to this fund should be made in a scientific manner taking into account the historical cost, expected useful life and the expected residual value of the depreciated asset. However, Railways is appropriating funds to DRF depending upon the likely withdrawals and the balance available in the Fund as also the financial position of the Railways. Appropriation to DRF has gone down considerably from 12.09 per cent of the capital at charge in 1990-91 to 5.52 per cent in 2006-07. Details of appropriation to DRF as a percentage of capital at charge as well as total investment during last five years are given below:

(Rs. in crore)

Year	Capital at Charge (loan capital and capital fund)	Total investment (Investment as per Block Account less investment in Metropolitan Transport Project (Rlys) and Circular Railways)	Appropriation to DRF from Revenue	Appropriation to DRF as a percentage of	
				Capital-at-charge	Total investment
2002-03	51,099.09	77,915.77	2,401.41	4.70	3.08
2003-04	56,061.79	87,474.50	2,592.55	4.62	2.96
2004-05	59,346.94	98,507.58	2,700.00	4.55	2.74
2005-06	65,878.37	1,12,180.41	3,604.00	5.47	3.21
2006-07	76,030.70	1,30,168.51	4,198.00	5.52	3.23

Audit observed that Railways has failed to take into account the need for timely replacement of over-aged assets resulting in the accumulation of arrears in replacement of over-aged assets. Audit also observed that a non-lapsable Special Railway Safety Fund of Rs.17,000 crore which was financed through railway revenues by levy of safety surcharge (Rs.5,035 crore) and additional financial assistance (dividend free Capital) from General Revenues (Rs.11,965 crore) was created to liquidate arrears of assets renewals which could not be met from DRF due to paucity of funds. Besides SRSF, replacement of assets has also been financed through borrowings from IRFC. Thus, lower level of appropriation than required led to levy of surcharge, additional support from General Revenue and payment of lease charges on borrowed fund. Railways may thus consider contributing larger amount to this Fund especially in view of the considerable increase in net revenue.

**1.8.2 Special Railway Safety Fund:** SRSF was set up in 2001-02, to wipe out the arrears of replacements/ renewals of vital safety equipment (which are normally financed through DRF) by 2006-07. This fund was to be financed partly through railway revenues by levy of safety surcharge (Rs.5,035 crore) and balance (Rs.11,965 crore) through additional financial assistance (dividend free Capital) from General Revenues. The balance in the fund does not earn interest. The details of balance in the fund since 2001-02 along with transfer from Capital, appropriations from railway surplus and receipts from safety surcharge are shown in the following table:

(Rs. in crore)

Year	Opening balance	Appropriation to the fund			Budgetary support from GOI	Total accretion (5) + (6)	Withdrawal during the year	Closing balance
		Receipt from safety surcharge	from surplus	Total (3) + (4)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2001-02	0.00	304.86	150.24	455.10	1,000.00	1,455.10	1,434.28	20.82
2002-03	20.82	602.51	565.40	1167.91	1,350.00	2,517.91	2,486.31	52.42
2003-04	52.42	631.57	361.41	992.98	1,600.00	2,592.98	2,583.77	61.63
2004-05	61.63	679.16	100.01	779.17	2,975.00	3,754.17	3,677.78	138.02
2005-06	138.02	748.60	0.00	748.60	2,499.00	3,247.60	2,783.14	602.48
2006-07	602.48	817.66	0.00	817.66	1,365.00	2,182.66	1,955.60	829.54
<b>Total</b>		<b>3,784.36</b>	<b>1,177.06</b>	<b>4,961.42</b>	<b>10,789.00</b>	<b>15,750.42</b>	<b>14,920.88</b>	

As can be seen during the five years of operation of SRSF, as against the total committed budgetary support of Rs.11,965 crore upto 2006-07, the Railways received Rs.10,789 crore so far (March 2007). Further, as against a target of Rs.5,035 crore to be realised through levy of safety surcharge up to 2006-07, the Railways have realised Rs.3,784.36 crore (75 per cent) through safety surcharge so far (March 2007). In addition, the Railways have also appropriated an amount of Rs.1,177.06 crore to SRSF from their revenue surplus.

During the year 2006-07, this fund received Rs.1,365 crore by transfer from Capital and appropriation of Rs.817.66 crore being receipts from safety surcharge. The outgo on account of plan expenditure chargeable to this fund was Rs.1,955.60 crore against Budget and Revised Estimates of Rs.2,240 crore and Rs.2,153 crore respectively leaving a balance of Rs.829.54 crore in the fund on 31 March 2007. The major expenditure from SRSF was on Track Renewal (Rs.555.19 crore), Rolling Stock (Rs.470.56 crore), Signalling and Telecommunication (Rs.649.99 crore) and Bridge Works (Rs.245.89 crore). The year 2006-07 is the last year for completion of works under SRSF.

The financial progress of these works by the end of the year 2006-07, under various Plan heads was as follows:

(Rs. in crore)

Plan head	Financial target up to 2006-07	Financial progress up to 2006-07	Percentage of financial progress up to 2006-07
Track renewal works	7,670	7,969.56	103.91
Bridge Works	1,722	1,118.62	64.96
Signalling and Telecommunication Works	3,652.36	2,830.62	77.50
Rolling Stock	3,698.40	2,846.68	76.97
Other safety enhancement works	257.24	155.40	60.41

It was observed that though the Railways had achieved their financial target in respect of track renewal works, they were far behind in achieving their financial targets under other Plan heads viz. Bridge works, Signalling and Telecommunications, Rolling stock and other safety enhancement works.

**1.8.3 Development Fund:** The Development Fund is financed by appropriation from surplus and/or loans from General Revenues to meet expenditure on works relating to amenities for users of Railway transport, labour welfare works, safety works and unremunerative operating improvement works. The fund received interest at the rate of 9.19 per cent per annum (being the average rate of interest on Capital Outlay in Government Commercial Departments/Undertakings). As against a projected appropriation of Rs.960 crore in the Budget Estimates and Rs.1,880 crore (excluding interest) in the Revised Estimates, the appropriation from surplus to DF was Rs.1,880 crore during 2006-07. However, as against a budgeted expenditure of Rs.1,613 crore, which was further revised to Rs.1,726 crore, the expenditure by the Railways was only Rs.1,563.94 crore. Shortfalls in meeting the budgeted expenditure has resulted in accumulation of fund balance over the years as can be seen from the following table:

(Rs. in crore)

Year	Opening Balance	Accretion during the year	Withdrawals during the year	Closing Balance
2002-03	0.62	553.85	483.86	70.61
2003-04	70.61	748.99	554.30	265.30
2004-05	265.30	1,943.96	736.88	1,472.38
2005-06	1,532.76	2,039.46	1,024.96	2,547.26
2006-07	2,546.57	2,128.53	1,563.94	3,111.16

Note: Difference between closing balance of 2004-05 and opening balance of 2005-06 is due to transfer of Rs.60.38 crore from RSF. Difference between closing balance of 2005-06 and opening balance of 2006-07 is due to transfer of (-) Rs.0.69 crore from Capital. Accretion includes interest on the balance in the fund.



**1.8.4 Capital Fund:** The Capital Fund was created with effect from 1 April 1993 to finance the capital works of the Railways. The balance amount of surplus left after appropriation to Development Fund is credited to this fund. The fund received interest at the rate of 6.5 per cent per annum (the same as the rate of dividend payable to general revenues). As against projected appropriation of Rs.8,274.66 crore in the RE, the actual appropriation to Capital Fund from surplus was Rs.8,326.32 crore. Against the budgeted expenditure of Rs.4,009 crore which was revised to Rs.4,815 crore, the actual expenditure from the fund was Rs.5,069.61 crore. The balances in Capital Fund for the last five years are shown in the following table:

(Rs. in crore)

Year	Opening Balance	Accretion during the year	Withdrawals during the year	Closing Balance
2002-03	13.47	0.94	0	14.41
2003-04	14.41	1.01	0	15.42
2004-05	15.42	1.00	0	16.42
2005-06	16.42	4,086.32	2,426.11	1,676.63
2006-07	1,676.63	8,541.15	5,069.61	5,148.17

Note: \*Accretions from 2002-03 to 2004-05 are on account of interest on the balance in the fund.

**1.8.5 Railway Safety Fund:** The Railway Safety Fund was created with effect from 1 April 2001 to finance works relating to Road Safety works viz. (i) manning of un-manned level crossings and (ii) conversion of level crossings into road over/ under bridges. The fund is to be funded from three sources viz. (i) contribution from Central Road Fund, (ii) Railway surplus left after payment of dividend and (iii) contribution made by the Ministry of Railways to the Railway Safety Works Fund (maintained by the Ministry of Finance) out of the Dividend payable to General Revenues. The balance in the fund does not earn interest. During the year 2006-07, the Ministry received an amount of Rs.710.86 crore from the Central Road Fund and Rs.2.57 crore out of dividend payable to General Revenues as contribution to this fund. The balances in Railway Safety Fund for the last five years are shown in the following table:

(Rs. in crore)

Year	Opening Balance	Accretion during the year	Withdrawals during the year	Closing Balance
2002-03	392.03	266.74	164.08	494.69
2003-04	494.69	435.74	166.12	764.31
2004-05	764.31	536.03	201.37	1,098.97
2005-06	1,038.58	780.92	262.24	1,557.26
2006-07	1,557.26	713.43	359.94	1,910.75

Note: Difference between closing balance of 2004-05 and opening balance of 2005-06 is due to transfer of Rs.60.39 crore to DF.

The expenditure on road safety works is shared equally between the Railways and the respective State Governments. During the past five years, the shortfall in expenditure on Railway Safety Works has always been more than fifty per cent of the budgeted provision. In 2006-07, the Railways could expend only Rs.359.94 crore ( 51 per cent) against the budget provision of Rs.710.86 crore. The shortfall in expenditure was due to State Governments not providing their portion of funds for taking up road safety works viz. construction of road over/under bridges, delay in finalisation of approach alignment and acquisition of land by the State Government/ Local Bodies, difficulties in removing

encroachments on approach portion of bridges and delay in shifting of services coming under the approach portion of work etc.

**1.8.6 Pension Fund:** The Fund, constituted in 1964, for meeting expenditure on pensionary benefits to retiring railways employees, was to be financed on the basis of actuarial calculation so that the Fund has adequate balance to meet the estimated liability on this account. However, after 1974, there was no actuarial assessment. Audit observed that contribution to the Fund was being made with reference to the trend of actual withdrawal as evident from the table below:

(Rs. in crore)

Year	Opening Balance	Accretion during the year (including interest)	Withdrawals during the year	Closing Balance
2002-03	467.18	6,192.10	5,653.57	1,005.71
2003-04	1,006.59	6,445.54	6,021.51	1,430.62
2004-05	1,430.62	6,875.71	6,696.89	1,609.44
2005-06	1,609.44	7,151.55	7,145.32	1,615.67
2006-07	1,615.67	7,633.57	7,448.15	1,801.09

Note: Opening balances as on 1<sup>st</sup> April includes Government Contribution for employees who opted for pension transferred from Contributory Provided Fund Accounts

The total accretion during the last five years was Rs.34,298.47 crore which included Rs.592.27 crore from Manufacturing Suspense, Rs.436.99 crore as interest on Fund balances and Rs.0.12 crore from contributory Provident Fund. Total withdrawal during this period amounted to Rs.32,965.44 crore. Thus accretion from revenue was just enough to meet the current liabilities on pensions. Railways may consider making the provision on actuarial basis in order to depict the pensionary liability in a more transparent manner.

## 1.9 Comments on Appropriation Accounts

**1.9.1** The Summary of Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2007, compared with the sums authorised in the Demands for Grants for expenditure of Central Government on Railways and passed under Articles 114 and 115 of the Constitution of India, is given in Appendix - I. The position is briefly summed up as follows:

(Rs. in crore)

	Original Grant/ Appropriation	Supplementary	Total	Actual Expenditure	Saving (-) / Excess (+)
<b>I. Revenue</b>					
Voted	70,233.88	4,823.68	75,057.56	73,182.82	(-) 1,874.74
Charged	40.80	5.09	45.89	48.56	2.67
Total	70,274.68	4,828.77	75,103.45	73,231.38	(-) 1,872.07
<b>II. Capital:</b> Assets Acquisition, Construction and Replacement (Expenditure met from Loan Capital, Depreciation Reserve Fund, Development Fund, Capital Fund, Railway Safety Fund, Special Railway Safety Fund and Open Line Works –Revenue)					
Voted	36,330.64	3,473.48	39,804.12	38,510.78	(-) 1,293.34
Charged	9.95	12.26	22.21	30.54	8.33
Total	36,340.59	3,485.74	39,826.33	38,541.32	(-) 1,285.01
<b>Total Voted</b>	<b>1,06,564.52</b>	<b>8,297.16</b>	<b>1,14,861.68</b>	<b>1,11,693.60</b>	<b>(-) 3,168.08</b>
<b>Total Charged</b>	<b>50.75</b>	<b>17.35</b>	<b>68.10</b>	<b>79.10</b>	<b>11.00</b>
<b>Grand Total</b>	<b>1,06,615.27</b>	<b>8,314.51</b>	<b>1,14,929.78</b>	<b>1,11,772.70</b>	<b>(-) 3,157.08</b>

The overall saving of Rs.3,157.08 crore was the net result of savings in sixteen grants and seven appropriations<sup>8</sup> and excess in four grants and nine appropriations.

**1.9.2 Supplementary Grants:** Ministry of Railways had obtained three Supplementary Grants for a total amount of Rs.8,314.51 crore during 2006-07. Supplementary grant for Rs.150 crore was sought in August 2006, Rs.568.01 crore in December 2006 and Rs.7,596.50 crore in March 2007, for accelerating the progress of various ongoing works and for taking up 'out of turn' works during 2006-07, which constitute 'New Service/New Instruments of Service'.

**1.9.3 Excess under Grants and Appropriations:** There was an aggregate excess of Rs.365.16 crore in four Grants (three Revenue and one Capital) and nine Appropriations (four Revenue and five Capital) as detailed below. These excesses require regularisation by Parliament under Article 115(1) (b) of the Constitution of India.

(Rs. in thousand)			
S.No	Grant/ Appropriation No.	Supplementary Provision	Excess Expenditure
1	Grant no. 1 – Railway Board	23,000	134
2	Appropriation No. 3 – General Superintendence and Services	494	102
3	Appropriation No. 4 – Repairs and Maintenance of Permanent Way and Works	18,229	4,049
4	Appropriation No. 5 – Repairs and Maintenance of Motive Power	1,919	250
5	Grant No. 10 – Operating Expenses – Fuel	45,19,724	2,33,874
6	Appropriation No. 12 -Working Expenses – Miscellaneous Working Expenses	4,370	31,451
7	Grant No. 15 -Dividend to General Revenues	37,15,300	45,478
8	Appropriation No. 16 – Assets, Acquisition, Construction and Replacement – Capital	79,317	27,551
9	Appropriation No. 16 – Assets, Acquisition, Construction and Replacement – Railway Funds	42,518	54,153
10	Grant No. 16 – Assets, Acquisition, Construction and Replacement – Railway Funds	127,65,682	32,52,951
11	Appropriation No. 16 – Assets, Acquisition, Construction and Replacement – Railway Safety Fund	772	5
12	Appropriation No. 16 – Assets, Acquisition, Construction and Replacement – Special Railway Safety Fund	0	404
13	Appropriation No. 16 – Assets, Acquisition, Construction and Replacement – Revenue	0	1,184

- In all the above Grants/ Appropriations (except two), excess expenditure was incurred even after obtaining supplementary provisions. This indicates the need for better budgetary control.

<sup>8</sup> Railways operate 16 Grants (15 Revenue Grants and one Capital Grant). Capital Grant No. 16 has five segments; reappropriation of funds is not permissible between the five segments. As such the total number of Grants has been taken as twenty.

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- There has been excess expenditure under Grant No. 10 for three consecutive years.
- Excess expenditure of more than Rs.100 crore was incurred under the following Minor Heads of Grants:

(Rs. in crore)

Minor / Plan Head	Original	Supple- mentary	Total Sanctioned Grant	Actual Expenditure	Excess
<b>Grant 10 – Operating Expenses – Fuel</b>					
Diesel Traction	6,174.23	372.04	6,546.27	6,729.58	183.31
<b>Grant 12 – Miscellaneous Working Expenses</b>					
Suspense	120.34	--	120.34	220.43	100.09
<b>Grant 16 – Assets, acquisition, construction and replacement – Capital</b>					
Gauge Conversion	909.77	91.14	1,000.91	1,146.86	145.95
Stores Suspense	8,225.73	282.72	8,508.45	8,712.42	203.97
<b>Grant 16 – Assets, acquisition, construction and replacement – Railway Funds</b>					
Gauge Conversion	538.88	164.00	720.88	1,164.10	461.22
Track Renewals	3,229.75	283.51	3,513.26	3,934.64	421.38
Investments	500.00	268.00	768.00	903.00	135.00
<b>Grant 16 – Assets, acquisition, construction and replacement – Special Railway Safety Fund</b>					
Track Renewals	491.00	0	491.00	681.77	190.77

#### 1.9.4 Savings under Grants and Appropriations

There was an aggregate saving of Rs.3,522.24 crore in sixteen grants and seven appropriations indicating defective budgeting or shortfall in performance or both.

- In the following grants, savings were more than Rs.100 crore:

(Rs. in crore)

S.No	Particulars	Amount
1.	Grant No.4 – Repairs and Maintenance of Permanent Way and Works	(-) 111.90
2.	Grant No.5 – Repairs and Maintenance Motive Powers	(-) 147.04
3.	Grant No. 7—Repairs and Maintenance Plant and Equipment	(-) 196.80
4.	Grant No. 9 – Operating Expenses- Traffic	(-) 164.05
5.	Grant No. 13- Provident Fund, Pension and Other Retirement Benefits	(-) 442.49
6.	Grant No. 14—Appropriation to Funds	(-) 556.54
7.	Grant No. 16 -- Capital	(-) 998.00
8.	Grant No.16 – Railway Safety Fund	(-) 350.66
9.	Grant No.16 – Special Railway Safety Fund	(-) 265.94

- Under the following Minor Heads of Grants, savings exceeded Rs.100 crore:

(Rs. in crore)

Plan Head	Original	Supple- mentary	Total Sanctioned Grant	Actual Expenditure	Saving (-)
<b>Grant 10 – Operating Expenses – Fuel</b>					
Electric Traction	4,698.62	79.94	4,778.56	4,620.03	(-) 158.53
<b>Grant 12 – Miscellaneous Working Expenses</b>					
Security	1,097.43	--	1,097.43	936.48	(-) 160.95
<b>Grant 13– Provident Fund, Pension and Other Retirement Benefits</b>					
Commuted Pension	1,023.65		1,023.65	778.33	(-) 245.32
Death-cum-Retirement Gratuity	972.60	--	972.60	822.44	(-) 150.16
<b>Grant No. 14—Appropriation to Funds</b>					
Appropriation to DRF	4,307.00	0	4,307.00	4,198.00	(-) 109.00
Appropriation to Pension Fund	7,800.00	0	7,800.00	7,426.00	(-) 374.00
<b>Grant No. 16- Assets, acquisition, construction and replacement-Capital</b>					
New Lines	1,497.42	560.30	2,057.72	1,642.67	(-) 415.05
Signalling & Telecommunication Works	140.00	0	140.00	20.45	(-) 119.55
Investment in Govt. Commercial Undertaking	750.00	--	750.00	357.00	(-) 393.00
<b>Grant No. 16- Assets, acquisition, construction and replacement-Special Railway Safety Fund (SRSF)</b>					
Rolling Stock	575.00	--	575.00	470.56	(-) 104.44
Bridge Works	402.97	--	402.97	246.71	(-) 156.26
Signalling & Telecommunication Works	807.00	--	807.00	651.01	(-) 155.99
<b>Grant No. 16- Assets, acquisition, construction and replacement- Railway Funds</b>					
Rolling Stock	1,338.00	171.98	1,509.98	1,201.32	(-) 308.66
Signalling & Telecommunication Works	578.45	81.26	659.71	507.55	(-) 152.16
<b>Grant No. 16- Assets, acquisition, construction and replacement-Railway Safety Fund (RSF)</b>					
Road safety Works Conversion of Unmanned Level crossing into manned crossing	275.00	--	275.00	145.13	(-) 129.87
Road safety Works (ROB/RUB)	435.82	--	435.82	215.02	(-) 220.80

- Supplementary grants of Rs.10.50 crore, Rs.0.20 lakh were taken in respect of Grant No.2 and Grant No.16- Railway Safety Fund respectively. However, these supplementary grants remained fully unutilised.
- The supplementary provisions were partially utilised in respect of Grant No.6, Grant No.16- Capital and Grant No.16 – OLWR and Appropriation No.8 and 13.
- As per the recommendations of the PAC, the Railways were required to furnish work-wise explanations for the variations (excess/savings) in respect of various Plan heads under Grant No.16. Out of 764 projects/works, Ministry of Railways did not explain excess and savings in respect of 398 projects / works.

**1.9.5 Reappropriations:** Several instances of reappropriation of funds indicate defective budgeting as follows:

- in the following cases, sanctioned provisions were unnecessarily supplemented by reappropriation, however, the actual expenditure was less than the sanctioned provisions , resulted in savings.

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(Rs. in crore)

Minor / Plan Head	Original	Supple- mentary	Reappro- priation	Final Allotment	Actual Expenditure	Savings (-)
<b>Grant No. 2- Miscellaneous Expenditure (General)</b>						
Miscellaneous Establishment	103.50	4.95	8.67	117.12	100.79	(-) 16.33
Payment to Worked Lines	0.32	--	0.01	0.33	0.32	(-) 0.01
<b>Grant No. 3-General Superintendence and Services</b>						
Material Management	345.62	--	0.12	345.74	340.00	(-) 5.74
Rolling Stock Management	113.21	--	4.53	117.74	112.95	(-) 4.79
Signalling & Telecommunication Management	64.96	--	2.59	67.55	63.11	(-) 4.44
<b>Grant No. 6- Repairs &amp; Maintenance of Carriage &amp; Wagons</b>						
Establishment in Offices	321.94	--	4.63	326.57	315.19	(-) 11.38
<b>Grant No. 16 – Assets, acquisition, construction and replacement – Capital</b>						
Rolling Stock	517.14	67.29	116.33	700.756	501.50	(-)199.26
<b>Grant No. 16 – Assets, acquisition, construction and replacement – OLWR</b>						
Machinery and Plants	14.00	1.26	0.90	16.16	11.31	(-) 4.85

- In the following cases, excess expenditure was incurred against the sanctioned grant, which further increased due to inappropriate surrender of funds:

(Rs. in crore)

Plan Head	Sanctioned Grant (Original + Supplementary)	Amount Surrendered (-)	Final Allotment	Actual Expenditure	Excess (+) (after Surrender)
<b>Grant No. 6- Repairs &amp; Maintenance of Carriage &amp; Wagons</b>					
Carriages	1,731.14	7.32	1,723.82	1,737.24	(+) 13.42
<b>Grant No. 8- Operating expenses –Rolling Stock and Equipment</b>					
Electric Multiple Units	98.48	2.45	96.03	99.39	(+) 3.36
<b>Grant No.16–Assets, acquisition, construction and replacement–Railway Funds</b>					
Investment in Govt. Commercial Undertakings	768.00	30.00	738.00	903.00	(+) 165.00

- In the following cases, the savings with respect to the sanctioned provision became excess due to inappropriate surrender of funds at the time of final allotment.

(Rs. in crore)

Minor / Plan Head	Sanctioned Grant (Original + Supplementary)	Amount Surrendered (-)	Final Allotment	Actual Expenditure	Excess (+)
<b>Grant No.2- Miscellaneous Expenditure</b>					
R D S O	69.80	5.67	64.13	65.60	1.47
<b>Grant No.6- Repairs &amp; Maintenance of Carriage &amp; Wagons</b>					
E M U Coaches	445.67	10.84	434.83	441.00	6.17
<b>Grant No.9- Working Expenses – Traffic</b>					
Safety	11.48	6.11	5.37	5.76	0.39
<b>Grant No.11- Working Expenses – Staff Welfare &amp; Amenities</b>					
Miscellaneous Expenses	0.36	1.07	(-)0.71	0.13	0.84

Minor / Plan Head	Sanctioned Grant (Original + Supplementary)	Amount Surrendered (-)	Final Allotment	Actual Expenditure	Excess (+)
<b>Grant No.12- Miscellaneous Working Expenses</b>					
Workmen's and Other Compensation Claims	23.87	3.15	20.71	21.27	0.56
Catering	181.77	59.80	121.97	132.26	10.29
<b>Grant No.13- Provident Fund, Pension and Other Retirement Benefits</b>					
Family Pension	1,198.30	161.04	1,037.26	1,125.64	88.38
Other Allowances, Other Pension and Other Expenses	202.74	54.24	148.50	149.62	1.12
<b>Grant No. 16 – Assets, acquisition, construction and replacement – Capital</b>					
New Lines Construction	2,057.72	428.64	1,629.08	1,642.67	13.59
<b>Grant No. 16 – Assets, acquisition, construction and replacement – Special Railway Safety Fund</b>					
Signalling & Telecommunication	807.00	177.25	629.75	651.01	21.26
<b>Grant No. 16 – Assets, acquisition, construction and replacement –Railway Fund</b>					
Traffic Facilities	443.31	73.68	369.63	373.19	3.56
Bridge Works	249.88	39.98	209.90	220.64	10.74
Electrification	106.00	30.13	75.87	81.43	5.56

- Railways re-appropriated funds without any original/supplementary budget provisions and incurred expenditure as indicated below:

(Rs. in thousands)

S.No.	Grant/Appropriation	Plan Head	Amount Re-appropriated	Expenditure incurred
1	Appropriation No.16- Capital	Manufacturing Suspense	188	550
2	Appropriation No.16- SRSF	Signaling & Telecommunication Works	300	704
3	Appropriation No.16- Railway Funds	Bridge Works	2,580	9,530
4	Appropriation No.16- Railway Funds	Other Electrical Works	260	260
5	Appropriation No.16- Revenue	Workshops-Including Production Units	350	340

- Under Appropriation No. 16 (Open Lines Works Revenue), expenditure of Rs.1184 thousands was incurred without any budget allocation.
- Under the following Plan Heads, expenditure was incurred by Railways without any budget provisions:

(Rs. in thousands)

S. No.	Grant/appropriation	Plan Head	Expenditure incurred
1	Appropriation No. 16- Capital	Doubling	1,586
2	Appropriation No. 16- Railway Funds	Staff Quarters	281
3	Grant No.16- Railway Funds	New Lines Construction	194
4	Grant No.16- Revenue	Track Renewal	660
5	Grant No.16- Revenue	Staff Quarters	111

**1.9.7 Recoveries in reduction of expenditure:** The demands for grants/appropriations are for the gross amount of expenditure, inclusive of recoveries arising from use of stores, etc., procured in the past or expenditure transferred to other Departments or Ministries. Under revenue, against the Revised Estimated recoveries of Rs.8,605.89 crore, actual recoveries were Rs.8,567.35 crore. Under Capital, against Revised Estimated recoveries of Rs.31,957.12 crore, actual recoveries were Rs.30,936.03 crore. Thus, the actual recoveries were less than the estimated amount in both Revenue as well as Capital.



## APPENDIX - I

(Reference Paragraph No.1.9)

## Grand Summary of Appropriation Accounts 2006-07

(In units of Rupees)

Number and name of the Grant/ Appropriation	Original Grant/ Appropriation	Supplementary	Final Grant/ Appropriation	Actual Expenditure	Excess (+)/ Savings (-)
<b>1</b>	<b>Revenue – Railway Board</b>				
	Voted	85,00,40,000	2,30,00,000	87,30,40,000	87,31,74,075 (+) 1,34,075
<b>2</b>	<b>Revenue – Miscellaneous Expenditure (General)</b>				
	Voted	279,55,60,000	10,50,00,000	290,05,60,000	272,50,94,813 (-) 17,54,65,187
<b>3</b>	<b>Revenue – Working Expenses – General Superintendence and Services</b>				
	Charged	--	4,94,000	4,94,000	5,95,667 (+) 1,01,667
	Voted	2157,71,12,000	--	2157,71,12,000	2105,46,99,974 (-) 52,24,12,026
<b>4</b>	<b>Revenue – Working Expenses – Repairs and Maintenance of Permanent Way and Works</b>				
	Charged	1,39,000	182,29,000	183,68,000	2,24,17,124 (+) 40,49,124
	Voted	3958,33,26,000	--	3958,33,26,000	3846,43,06,322 (-) 111,90,19,678
<b>5</b>	<b>Revenue – Working Expenses – Repairs and Maintenance of Motive Power</b>				
	Charged	50,000	19,19,000	19,69,000	22,19,314 (+) 2,50,314
	Voted	2135,64,44,000	--	2135,64,44,000	1988,59,96,840 (-) 147,04,47,160
<b>6</b>	<b>Revenue - Working Expenses – Repairs and Maintenance of Carriages and Wagons</b>				
	Charged	--	10,15,000	10,15,000	9,50,401 (-) 64,599
	Voted	4307,19,69,000	32,79,05,000	4339,98,74,000	4311,73,92,919 (-) 28,24,81,081
<b>7</b>	<b>Revenue - Working Expenses – Repairs and Maintenance of Plant and Equipment</b>				
	Charged	3,15,000	--	3,15,000	4,325 (-) 3,10,675
	Voted	2316,92,48,000	--	2316,92,48,000	2120,12,79,502 (-) 196,79,68,498
<b>8</b>	<b>Revenue - Working Expenses – Operating Expenses – Rolling Stock and Equipment</b>				
	Charged	--	5,33,000	5,33,000	3,41,815 (-) 1,91,185
	Voted	3174,57,45,000	--	3174,57,45,000	3112,67,75,093 (-) 61,89,69,907
<b>9</b>	<b>Revenue - Working Expenses – Operating Expenses – Traffic</b>				
	Charged	85,000	58,59,000	59,44,000	54,84,169 (-) 4,59,831
	Voted	6271,48,50,000	--	6271,48,50,000	6107,43,34,186 (-) 164,05,15,814
<b>10</b>	<b>Revenue - Working Expenses – Operating Expenses - Fuel</b>				
	Charged	--	1,80,00,000	1,80,00,000	1,48,07,423 (-) 31,92,577
	Voted	10875,58,21,000	451,97,24,000	11327,55,45,000	11350,94,19,182 (+) 23,38,74,182
<b>11</b>	<b>Revenue - Working Expenses – Staff Welfare and Amenities</b>				
	Charged	50,00,000	--	50,00,000	3,14,744 (-) 46,85,256
	Voted	1739,54,49,000	--	1739,54,49,000	1669,78,54,462 (-)69,75,94,538

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(In units of Rupees)

Number and name of the Grant/ Appropriation	Original Grant/ Appropriation	Supplementary	Final Grant/ Appropriation	Actual Expenditure	Excess (+)/ Savings (-)	
<b>12</b>	<b>Revenue - Working Expenses – Miscellaneous Working Expenses</b>					
	<i>Charged</i>	39,53,45,000	43,70,000	39,97,15,000	43,11,65,588	(+) 3,14,50,588
	Voted	1855,83,17,000	--	1855,83,17,000	1801,65,99,473	(-) 54,17,17,527
<b>13</b>	<b>Revenue - Working Expenses – Provident Fund, Pension and Other Retirement Benefits</b>					
	<i>Charged</i>	71,20,000	4,41,000	75,61,000	73,58,672	(-) 2,02,328
	Voted	7955,81,85,000	--	7955,81,85,000	7513,33,08,140	(-) 442,48,76,860
<b>14</b>	<b>Revenue - Appropriation to Funds – Depreciation Reserve Fund, Development Fund, Pension Fund, Capital Fund</b>					
	Voted	19249,94,00,000	3954,58,65,000	23204,52,65,000	22647,98,35,000	(-) 556,54,30,000
<b>15</b>	<b>Dividend to General Revenues, Repayment of Loans taken from General Revenues and Amortisation of Over-Capitalisation</b>					
	Voted	3870,73,00,000	371,53,00,000	4242,26,00,000	4246,80,77,535	(+) 4,54,77,535
<b>16</b>	<b>Assets – Acquisition, Construction and Replacement - Open Line Works – Revenue</b>					
	<i>Charged</i>	--	--	--	11,84,393	(+) 11,84,393
	Voted	50,00,00,000	5,00,00,000	55,00,00,000	50,96,71,475	(-) 4,03,58,525
	<b>Assets – Acquisition, Construction and Replacement - Other Expenditure – Capital</b>					
	<i>Charged</i>	6,70,00,000	7,93,17,000	14,63,17,000	17,38,67,990	(+) 2,75,50,990
	Voted	23556,45,41,000	2191,91,42,000	25748,36,83,000	24750,36,51,487	(-) 998,00,31,513
	<b>Assets – Acquisition, Construction and Replacement – Other Expenditure – Railway Safety Fund</b>					
	<i>Charged</i>	4,00,000	7,72,000	11,72,000	11,77,105	(+) 5,105
	Voted	710,82,00,000	20,000	710,82,20,000	360,15,70,514	(-) 350,66,49,486
	<b>Assets–Acquisition, Construction and Replacement–Other Expenditure–Special Railway Safety Fund</b>					
	<i>Charged</i>	3,00,000	--	3,00,000	7,04,318	(+) 4,04,318
	Voted	984,97,00,000	--	984,97,00,000	719,02,51,347	(-) 265,94,48,653
	<b>Assets – Acquisition, Construction and Replacement - Other Expenditure – Railway Funds</b>					
	<i>Charged</i>	3,18,00,000	4,25,18,000	7,43,18,000	12,84,70,933	(+) 5,41,52,933
	Voted	11028,40,00,000	1276,56,82,000	12304,96,82,000	12630,26,33,095	(+) 325,29,51,095
	<b>Grand Total</b>					
	<i>Charged</i>	50,75,54,000	17,34,67,000	68,10,21,000	79,10,63,981	11,00,42,981
	Voted	1065,64,52,07,000	8297,16,38,000	1148,61,68,45,000	111693,59,24,992	(-) 3168,09,20,008
<b>Grand Total</b>						
<b>Charged+Voted</b>		<b>1066,15,27,61,000</b>	<b>8314,51,05,000</b>	<b>1149,29,78,66,000</b>	<b>111772,69,88,973</b>	<b>(-) 3157,08,77,027</b>