Chapter 1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2014-15 and analyses critical changes in the major financial indicators with reference to the previous year as well as the overall trend analysis. The base data for this analysis is the Finance Accounts of the IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports[1] have also been used to compare actual performance of IR during 2014-15 vis-à-vis targets set by it.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 below presents the summary of IR's fiscal transactions during 2013-14 to 2014-15.

Table 1.1 Summary of Receipts and Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2013-14	Budget Estimates 2014-15	Revised Estimates 2014-15	Actual 2014-15
1	Passenger Earnings	36,532.00 (16.63)	44,645.00	43,002.00	42,189.61 (15.49)
2	Freight Earnings	93,905.63 (10.14)	1,05,770.00	1,06,927.00	1,05,791.34 (12.66)
3	Other Coaching Earnings[2]	3,678.78 (20.44)	4,200.00	4,028.00	3,997.89 (8.67)
4	Sundry Earnings[3]	5,721.29 (34.26)	5,500.00	5,241.00	5,092.74 (-10.99)
5	Suspense	-279.52 (65.97)	50.00	50.00	-361.04 (29.16)
6	Gross Traffic Receipts[4] (Item No.1 to 5)	1,39,558.18 (12.79)	1,60,165.00	1,59,248.00	1,56,710.54 (12.29)
7	Ordinary Working Expenditure[5]	97,570.75 (16.14)	1,12,649.00	1,08,970.00	1,05,995.88 (8.63)
8	Appropriation to				
	Depreciation Reserve Fund	7,900.00 (15.33)	6,850.00	7,775.00	7,775.00 (-1.58)
	Pension Fund	24,850.00 (19.99)	28,550.00	29,225.00	29,225.00 (17.61)
9	Total Working Expenditure (Item No.7 and Item No. 8)	1,30,320.75 (16.80)	1,48,049.00	1,45,970.00	1,42,995.88 (9.73)
10	Net Traffic Receipts (Item No.6 – Item No. 9)	9,237.43 (-24.04)	12,116.00	13,278.00	13,714.66 (48.47)
11	Miscellaneous Receipts[6]	3,655.69 (49.34)	4,209.30	4,202.13	4,306.71 (17.81)

[1] Budget documents, Annual Statistical Statements of Indian Railways.
[2] Other coaching earnings from transportation of parcels, luggage and post office mail etc.
[3] Sundry Earnings from renting, leasing of building, catering services, advertisements, maintenance of sidings and level crossing, re-imbursement of loss on strategic lines etc.
[4] Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR.
[5] Operating Expenses of IR.
[6] Miscellaneous Receipts comprise of subsidy from Government of India (GoI) towards dividend relief and other concession, receipts by Railway Recruitment Board etc.

12	***Miscellaneous Expenditure***[7]	**1,144.05 (15.19)**	**1,126.56**	**1,027.54**	**1,182.89 (3.39)**
13	***Net Miscellaneous Receipt (Item No. 11 – Item No. 12)***	**2,511.64 (72.66)**	**3,082.74**	**3,174.59**	**3,123.83 (24.37)**
14	***Net Revenue (Item No.10 and Item No.13)***	**11,749.07 (-13.71)**	**15,198.74**	**16,452.59**	**16,838.49 (43.32)**
15	***Dividend Payable to General Revenues-Current year***	**8,008.67 (49.72)**	**9,135.00**	**9,174.13**	**9,173.55 (14.55)**
	Deferred Dividend of previous year	**0.00**	**0.00**	**0.00**	**0.00**
	Total Dividend Payable in Current year	**8,008.67 (49.72)**	**9,135.00**	**9,174.13**	**9,173.55 (14.55)**
16	***Net Surplus (Item No. 14 – Item No.15)***	**3,740.40 (-54.75)**	**6,063.74**	**7,278.46**	**7,664.94 (104.92)**
17	***Surplus available for appropriation***				
	Development Fund	**3,075.00 (-60.65)**	**300.00**	**1,305.62**	**1,374.94 (-55.29)**
	Capital Fund	**500.00 (10.80)**	**5,662.74**	**5,919.03**	**6,233.36 (1,146.67)**
	Debt Service Fund	**165.40**	**101.00**	**53.81**	**56.64 (-65.75)**

Source: Explanatory Memorandum on Railway Budgets for 2014-15 and 2015-16 and Accounts for 2014-15.
Note: Figures in brackets represent the increase/decrease in percentage over previous year.

1.2 Reliability of Budget Estimates

Accurate forecast of budget is critical to an organization's financial and operational performance. Assessment of how well the financial targets are met depends on how realistic the financial estimates were from the outset. During the current fiscal year IR could not achieve the projected performance in passenger earnings, other coaching earnings and sundry earnings. However, the performance in freight earnings marginally exceeded by 0.02 *per cent* (₹ 21.34 crore) the Budget Estimates. Anticipated Gross Traffic Receipts (GTR) of 2014-15 was not achieved and overall decline of 2.16 *per cent* (₹ 3,454.46 crore) was recorded as compared to the Budget Estimates. Ordinary Working Expenditure (OWE) and Total Working Expenditure (TWE) were marginally lower by 5.91 *per cent* (₹ 6,653.12 crore) and 3.41 *per cent* (₹ 5,053.12 crore) respectively as compared to the Budget Estimates. There was an increase in appropriation to Depreciation Reserve Fund (DRF) and Pension Fund by around 13.50 *per cent (₹ 925 crore)* and 2.36 *per cent* (₹ 675 crore) respectively when compared to Budget Estimates. The resultant net revenue was above the budget projections by 10.79 *per cent* (₹ 1,639.75 crore) due to increase in Net Traffic Receipts by 13.19 *per cent* (₹ 1,598.66 crore) and Net Miscellaneous Receipts by 1.33 *per cent* (₹ 41.09 crore) respectively.

[7] *Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit, Expenditure on Open Line Works (Revenue) etc.*

1.3 Fiscal Transactions in 2014-15-An overview

1.3.1 Gross Traffic Receipts (GTR)

GTR increased by 12.29 *per cent* during the current fiscal year (2014-15), this was less than the 12.79 *per cent* growth achieved during 2013-14, which was mainly due to decrease in growth rate of passenger earnings, other coaching earnings and sundry earnings. The growth rate of freight earnings (12.66 *per cent*) was higher as compared to previous year (10.14 *per cent*).

1.3.2 Ordinary Working Expenditure (OWE)

OWE increased by 8.63 *per cent* in current fiscal year over the previous year which was much lower than the growth rate of 16.14 *per cent* achieved during 2013-14.

1.3.3 Miscellaneous Receipts and Expenditure

In the current fiscal year, Miscellaneous Receipts as well as Miscellaneous Expenditure increased by 17.81 *per cent* and 3.39 *per cent* respectively over the previous year. Net Miscellaneous Receipts increased by 24.37 *per cent* over previous year.

1.3.4 Net Revenue

Net revenue in the current fiscal year increased by 43.32 *per cent*, which was significantly higher than the (-) 13.71 *per cent* growth achieved during previous year. This was mainly due to increase in growth rate of freight earnings (12.66 *per cent*) and decrease in growth rate of TWE (9.73 *per cent).*

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 2014-15 was taken at five *per cent* which was applicable for 2013-14 as the Railway Convention Committee (RCC) had not fixed the rate of dividend for 2014-15. Payment of dividend to general revenues in the current fiscal year increased by 14.55 *per cent* over the previous year. IR paid dividend of ₹ 9,173.55 crore in 2014-15.

1.3.6 Net Surplus available for Appropriation

Generation of Net surplus after meeting all revenue liabilities including payment of dividend increased by 104.92 *per cent* in current fiscal year. Net Surplus increased to ₹ 7,664.94 crore in 2014-15 as compared to ₹ 3,740.40 crore in 2013-14.

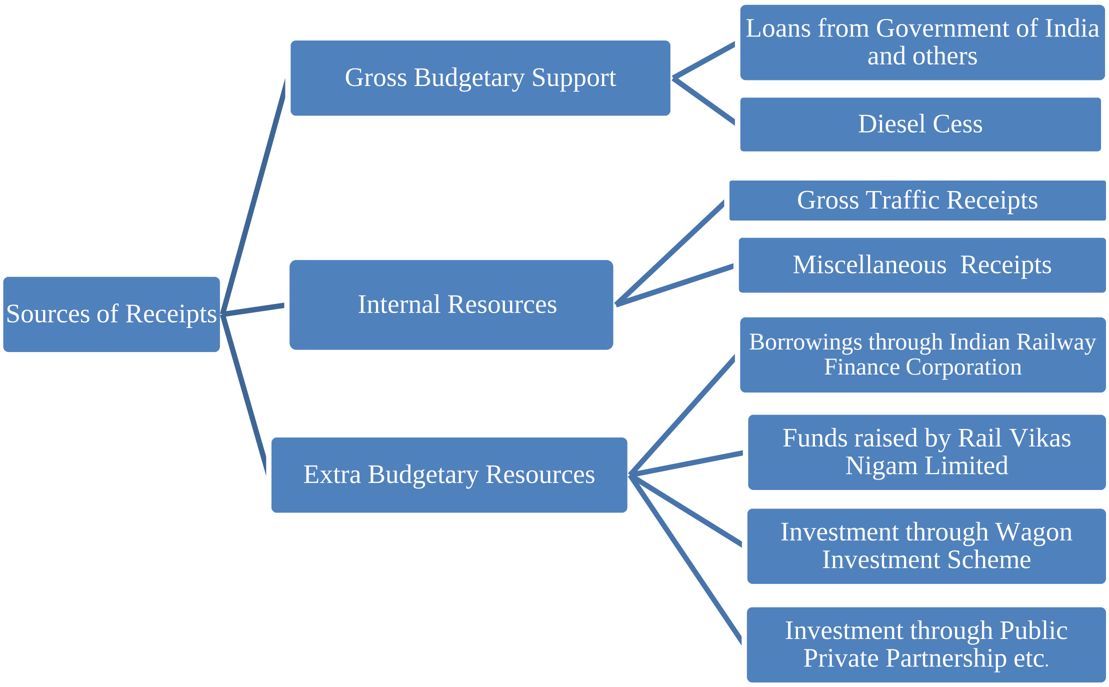
Net Surplus was more than the Budget Estimates by 26.41 *per cent* (₹ 1,601.20 crore). The increase in the Net Surplus as envisaged in the Budget Estimate was due to increase in Net Traffic Receipt (excess of GTR over TWE) by 13.19 *per cent* (₹ 1,598.66 crore), increase in Net Miscellaneous Receipts (excess of Miscellaneous Receipts over Miscellaneous Expenditure) by 1.33 *per cent* (₹ 41.09 crore*)* offset by higher payment of Dividend to General Revenues by 0.42 *per cent* (₹ 38.55 crore) against the Budget Estimates.

The Net Surplus to the tune of ₹ 1,374.94 crore, ₹ 6,233.36 crore and ₹ 56.64 crore was appropriated to Development Fund, Capital Fund and Debt Service Fund respectively in the current fiscal year.

1.4 Resources of IR

The main sources of IR receipts were as follows:

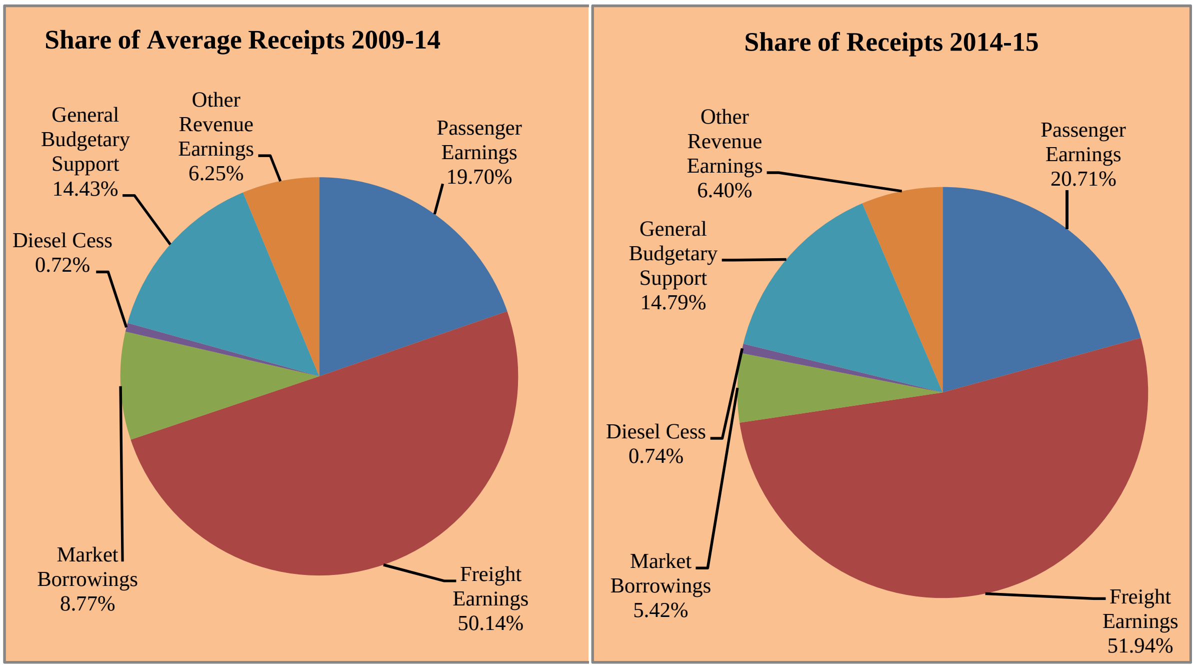
Figure 1.1: Sources of Receipts



The Total Revenue Receipts (GTR and Miscellaneous Receipts) from internal resources increased by 12.43 *per cent* during 2014-15 (Refer Figure 1.3) against the Compound Annual Growth Rate (CAGR)[8] of 13.99 *per cent* during 2010-14. The General Budgetary Support (GBS) increased by 11.26 *per cent* during 2014-15 against CAGR of 13.77 *per cent* during 2010-14, while extra budgetary resources (market borrowings) decreased by 27.46 *per cent* during 2014-15 against CAGR of 15.90 *per cent* during 2010-14. Thus, GBS[9] and internal resources of IR increased at a higher rate, than the extra budgetary resources (market borrowings) which significantly decreased in 2014-15. The negative growth rate in the extra budgetary resources (market borrowings) is indicative of IR's failure in raising the funds.

[8] *Rate of growth over a period of years taking into account the effect of annual compounding.*
[9] *General Budgetary Support represents amount advanced by the Government of India to Ministry of Railways to finance capital expenditure.*

Figure 1.2: Relative Share of various Resources of IR



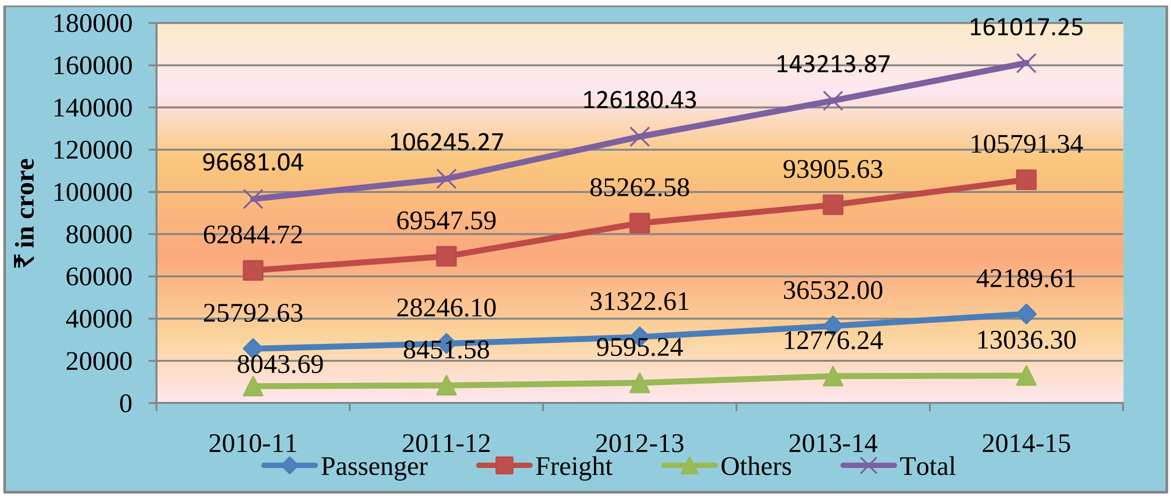
***Note:** Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings, Suspense and Miscellaneous Receipts*

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, GBS, other revenue earnings, and diesel cess increased slightly whereas share of market borrowings decreased in the current year as compared to average figures of receipts during 2009-14.

1.4.1 Revenue Receipts

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

Figure 1.3: Revenue Receipts during 2010-11 to 2014-15



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

Total Revenue Receipts increased at a CAGR of 13.99 *per cent* during 2010-14, however, the increase in the Total Revenue Receipts during year 2014-15 was 12.43 *per cent*. The annual inflation of all commodities on an average during 2014-15 was two *per cent*[10], which implies that the real increase in revenue receipts was 10.43 (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 2015 are shown in the Figure 1.4.

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

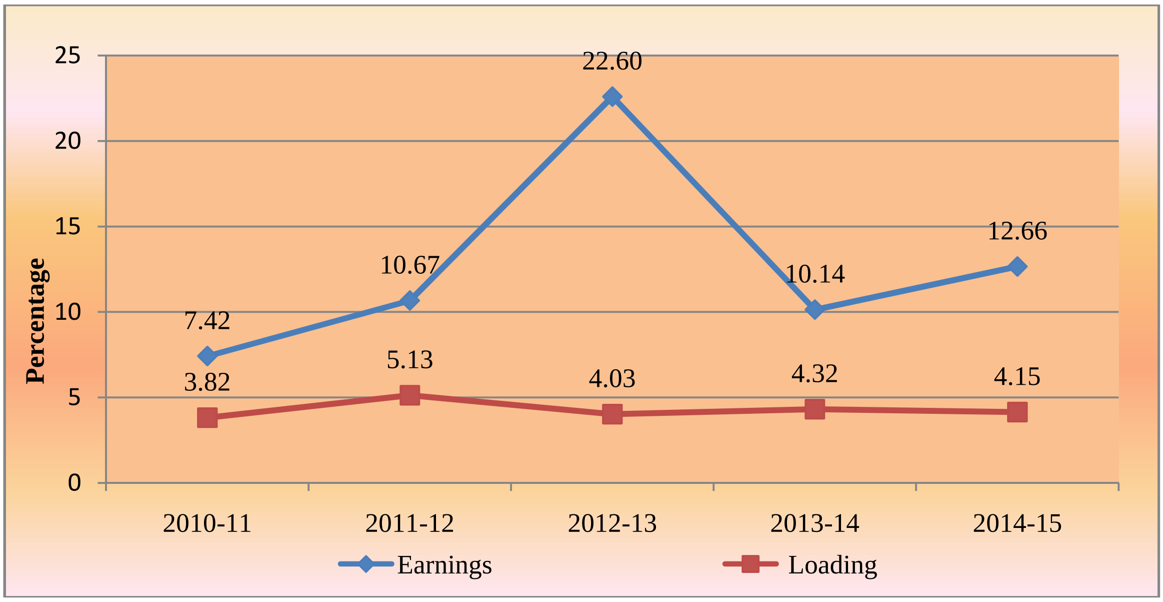


Figure 1.4 indicates a marginal decrease in the annual growth of freight loading in the current fiscal year. The annual incremental increase in loading (in absolute terms) ranged between 33.94 Million Tonne (2010-11) and 43.62 Million Tonne (2014-15) during the last five years. Increase in freight loading by 4.15 *per cent* during 2014-15 was less than the CAGR of 4.49 *per cent* achieved during 2010-14. The growth in freight earnings has increased to 12.66 *per cent* as compared to previous years' growth of 10.14 *per cent.* The growth rate of Net Tonne Kilometre (NTKM) increased by 2.42 *per cent* in current year (Table No.1.2).

In 2014-15, freight earnings increased by 12.66 *per cent* over the previous year against the CAGR of 14.32 *per cent* achieved during 2010-14. The status of freight services statistics are given in the Table No. 1.2:

[10] *Source-Economic Survey, Ministry of Commerce and Industry*

Table 1.2 Freight Services Statistics

Year	*Loading (Million Tonne)*	*NTKM[11] (in million) (Revenue Freight Traffic only)*	*Earning (₹in crore)*	*Average lead (in kilometre)*	*Rate per tonne per km (in paise)*
2010-11	*921.73 (3.82)*	*625723 (4.19)*	*62,844.72 (7.42)*	*679*	*100.44 (3.10)*
2011-12	*969.05 (5.13)*	*667607 (6.69)*	*69,547.59 (10.67)*	*689*	*104.17 (3.72)*
2012-13	*1008.09 (4.03)*	*649645 (-2.69)*	*85,262.58 (22.60)*	*644*	*131.24 (25.99)*
2013-14	*1051.64 (4.32)*	*665810 (2.49)*	*93,905.63 (10.14)*	*633*	*141.04 (17.46)*
2014-15	*1095.26 (4.15)*	*681951 (2.42)*	*1,05,791.34 (12.66)*	*623*	*155.13 (9.99)*

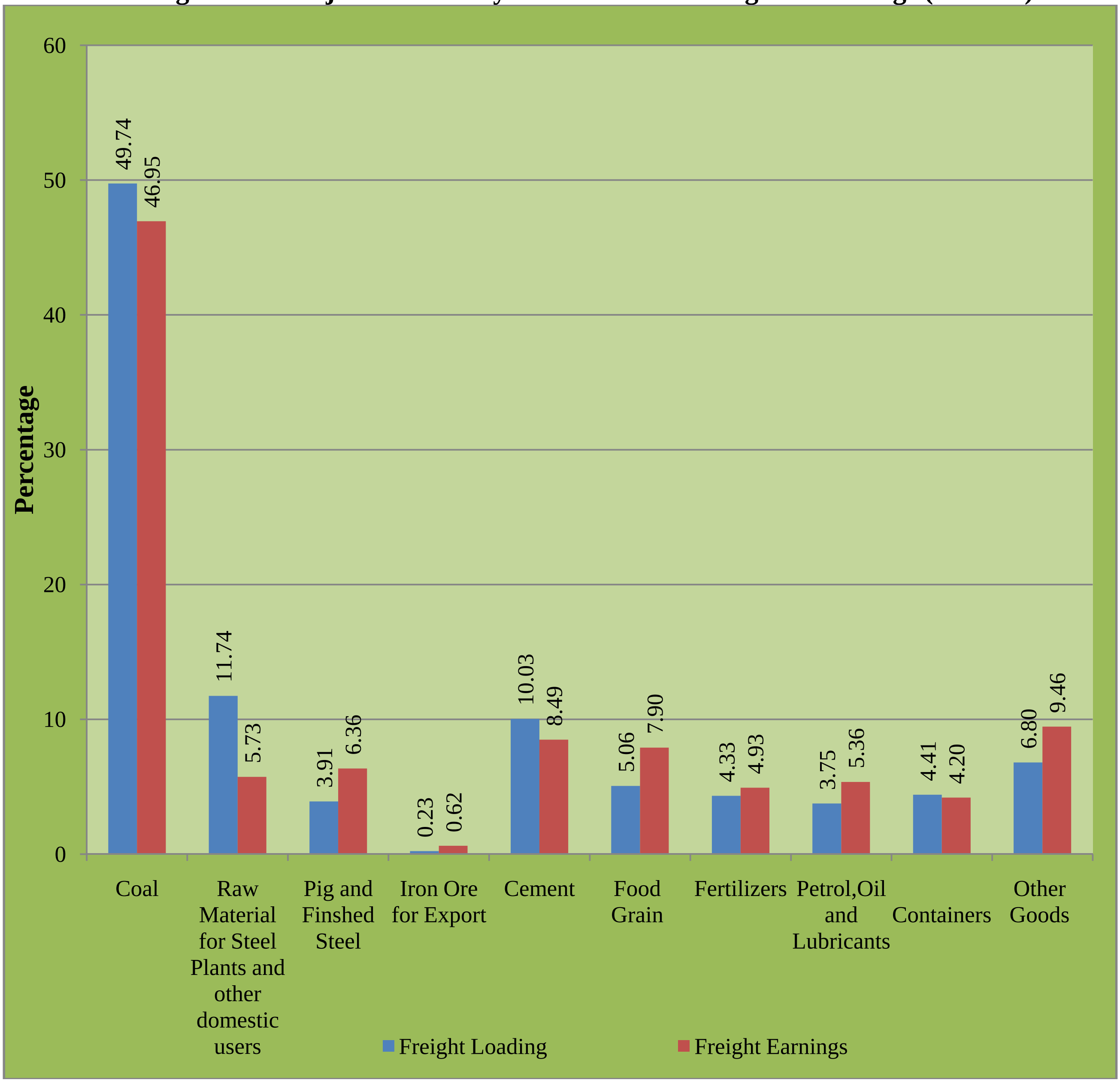
Source-Indian Railways Annual Statistical Statements (Statement No.13-Goods Revenue Statistics)
Note: (i) Figures in bracket represent percentage increase over previous year.
(ii) Figures of NTKM, Average Lead and Rate per tonne per km for 2012-13 are revised figures.
(iii) Figures of 2014-15 (except Earnings) are provisional.

During 2014-15, it was seen that the annual growth rate of freight loading and NTKM increased at the rate of 4.15 *per cent and* 2.42 *per cent* respectively. The growth rate of Rate per tonne per kilometer over the previous year was 9.99 *per cent* against the growth rate of 17.46 *per cent* achieved in 2013-14. The growth rate of freight earning during the current year was 12.66 *per cent* which was higher than the growth rate of 10.14 *per cent* recorded in 2013-14. Due to lower growth rate of loading and NTKM, the average lead (average haul of a tonne of freight) declined from 633 km in 2013-14 to 623 km in 2014-15.

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

[11] *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 (2014-15)



Note-Figures of Loading and Earnings for 2014-15 are provisional.

Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding Other Goods) contributed 90.54 *per cent* of the total freight earnings of IR. Iron ore for export constituted 0.23 *per cent* of the total loading and earned 0.62 *per cent* of the total freight earnings.

1.4.1.2 Passenger Earnings

Key performance indicators of passenger services are tabulated in Table 1.3.

Table 1.3 Passenger Services Statistics

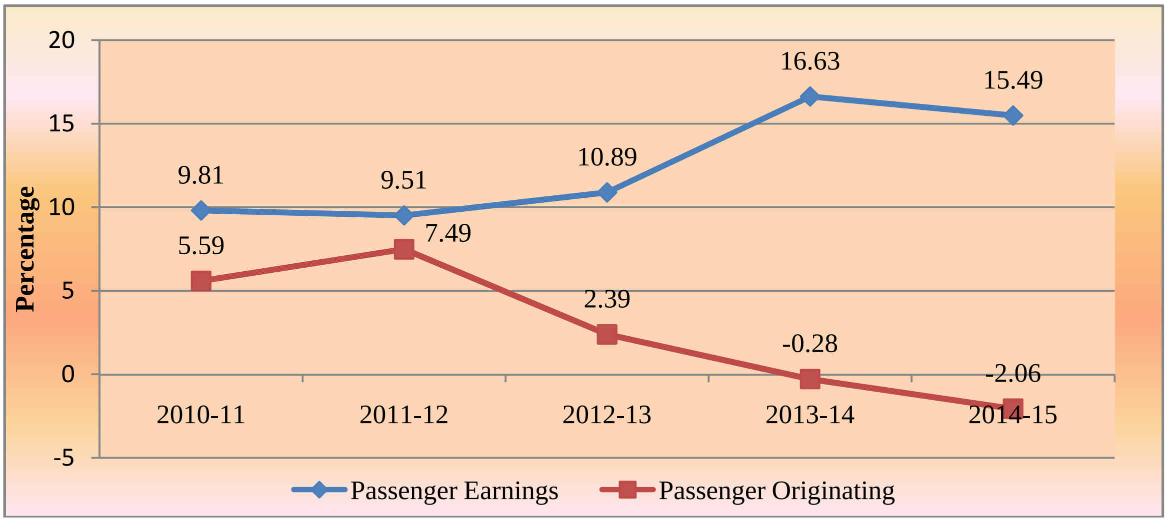
Year	*No. of Passenger (in millions)*	*Passenger Kilometre (in million)*	*Earnings (₹ in crore)*	*Average lead (in kilometre)*	*Average earnings per passenger per kilometre (in paise)*
2010-11	*7651.09 (5.59)*	*978508 (8.31)*	*25,792.63 (9.81)*	*127.89*	*26.36 (1.39)*
2011-12	*8224.38 (7.49)*	*1046522 (6.95)*	*28,246.10 (9.51)*	*127.25*	*26.99 (2.40)*
2012-13	*8420.71 (2.39)*	*1098103 (4.93)*	*31,322.68 (10.89)*	*130.41*	*28.52 (5.68)*
2013-14	*8397.06 (-0.28)*	*1158742 (5.52)*	*36,532.00 (16.63)*	*137.99*	*31.53 (10.53)*
2014-15	*8224.12 (-2.06)*	*1147190 (-1.00)*	*42,189.61 (15.49)*	*139.49*	*36.78 (16.65)*

Note: (i) Figures in bracket represent percentage increase over previous year.
(ii) Figures for 2014-15 (except Earnings) are provisional.

Despite decrease in number of originating passengers, it was seen that average earnings per passenger per kilometer increased from 31.53 paise in 2013-14 to 36.78 paise in 2014-15, which was mainly due to increase in passenger tariffs. Further, from the Table above, it can be seen that the average earnings per passenger per kilometre is on an increasing trend and this was achieved due to increase in passenger fares. Though, the passenger tariffs have been revised upwardly in the recent past, still IR is incurring losses[12] every year on passenger and other coaching services which needs to be looked into.

The growth in earnings from Passenger traffic and in Passengers Originating during the last five years (2010-11 to 2014-15) is shown in Figure 1.6.

Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings



The percentage increase in earnings from passenger traffic in 2014-15 over the previous year was 15.49 *per cent* which was above the CAGR of 12.30 *per cent* for the period 2010-14. The growth in passengers originating in 2014-15 over the previous year was negative (-2.06 *per cent)* and was below the CAGR of 3.15 *per cent* during 2010-14.

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

Audit observed that passenger earnings fell short of Budget Estimates in all zonal railways except Western Railway during 2014-15. The shortfall in passenger earnings targets was up to 9.75 *per cent* in East Central Railway and 0.22 *per cent* in Metro Railway/Kolkata.

1.4.1.3 Sundry Earnings and Other Coaching Earnings

Sundries and other coaching earnings constituted around six *per cent* of the GTR in the current fiscal year. It decreased by 3.29 *per cent* in 2014-15 against the growth rate of 28.49 *per cent* recorded in 2013-14. Analysis in audit revealed that earnings from lease rent decreased whereas earnings from interest and maintenance charges and advertisements increased in the current year as compared to the previous year. There was considerable scope for increasing revenue generation from advertisements and commercial utilization of railway land.

1.5 *Unrealized Earnings*[13]

Against the target for recovery of ₹ 50 crore during 2014-15 under unrealized earnings, IR accumulated ₹ 361.04 crore as unrealized earnings. The unrealized earnings rose from ₹ 1,848.98 crore in 2013-14 to ₹ 2,210.02 crore in 2014-15. At the end of the financial year unrealized earnings were ₹ 2,210.02 crore, of which ₹ 1,929.47 crore was under Traffic Suspense and ₹ 280.55 crore under Demand Recoverable. During the current fiscal year, Central Railway was the major contributor to the accumulation of unrealized earnings with ₹ 34.64 crore. This was followed by East Coast Railway with ₹ 27.46 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 ₹ 754.79 crore which constituted 39.12 *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 2014	Outstanding dues as of 31 March 2015	Increase (+)/decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	448.58	447.08	(-)1.50
2.	Delhi Vidyut Board (DVB)	114.28	114.28	-
3.	Rajasthan State Electricity Board (RSEB)	38.06	39.44	(+)1.38
4.	Maharashtra State Electricity Board (MSEB)	143.17	90.14	(-)53.03
5.	National Thermal Power Corporation (NTPC)	64.42	2.00	(-) 62.42

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

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

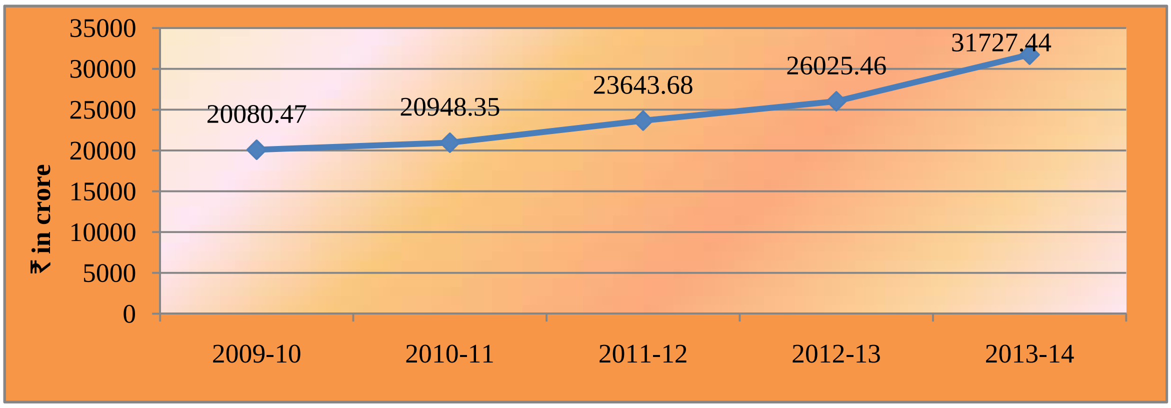
[13] *Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land and maintenance charges of sidings etc as 'Demand Recoverable'.*

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. The Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2013-14 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 ₹ 20,080.47 crore in 2009-10 to ₹ 31,727.44 crore in 2013-14[14]. The losses on passenger and other coaching services during the 2009-10 to 2013-14 are shown in the Figure 1.7(a).

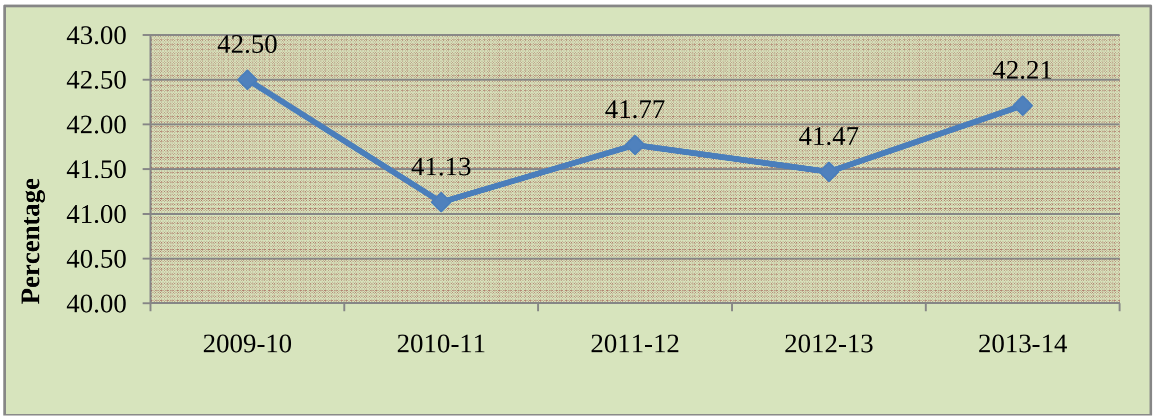
Figure 1.7 (a): Losses on Passenger and other Coaching Services (2009-10 to 2013-14)



Thus, due to increase in the loss on passenger and other coaching services from ₹ 26,025.46 crore in 2012-13 to ₹ 31,727.44 crore in 2013-14, the cross subsidy from freight earnings towards passenger and other coaching services has increased in 2013-14 as compared to previous year.

The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years as of 31 March 2014 are shown in Figure 1.7(b).

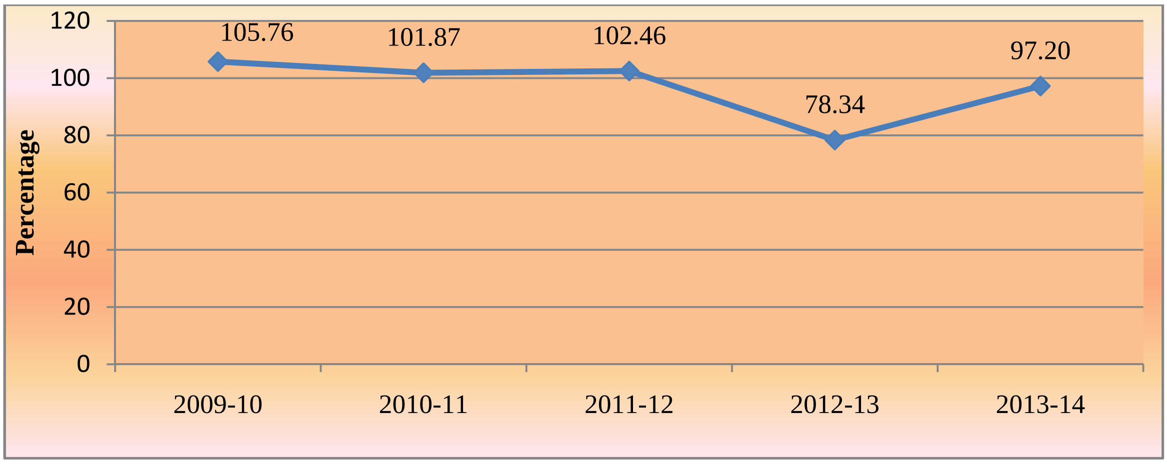
Figure 1.7(b): Percentage of expenditure on Passenger and Other Coaching Services left uncovered



[14] *Summary of End Results-Coaching Services-Profitability/Unit Costs for 2014-15 not compiled (October 2015).*

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 97.20 *per cent* profit from freight traffic during 2013-14 (profit from freight traffic in 2013-14 ₹ 32,641.69 crore) was utilized to compensate the loss of ₹ 31,727.44 crore on operation of passenger and other coaching services of IR. IR has been able to retain only 2.80 *per cent* of the profit on freight earning after subsidizing the loss on passenger services in 2013-14 as compared to 21.66 *per cent* in the previous year showing a shortfall 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 2009-10 to 2013-14:

Table 1.5 Operational losses of various Classes of Passenger Services

(₹ in crore)

Class of Passenger services	*2009-10*	*2010-11*	*2011-12*	*2012-13*	*2013-14*
AC-Ist class	*-53.14*	*-46.61*	*-38.78*	*-40.86*	*-47.39*
Ist class	*-32.67*	*16.47*	*-39.13*	*-61.36*	*-92.06*
AC 2 Tier	*-372.32*	*-407.93*	*-438.83*	*-348.09*	*-497.28*
AC 3 Tier	*212.14*	*266.31*	*499.33*	*494.99*	*410.67*
AC Chair car	*-2.11*	*33.62*	*-13.29*	*-38.12*	*-148.47*
Sleeper Class	*-5,333.90*	*-6,070.58*	*-6531.75*	*-6852.72*	*-8407.85*
Second class	*-3,401.25*	*-3,998.08*	*-4237.60*	*-5167.53*	*-7134.42*
Ordinary (All Class)	*-7,763.36*	*-7,437.00*	*-8893.12*	*-9783.80*	*-11105.24*
EMU suburban services	*-2,214.06*	*-2,320.23*	*-2813.95*	*-3365.47*	*-4027.14*

Source-Summary of the End Results Coaching Services Profitability/Unit Costs
Note- Negative figures denote losses and positive figures denote profits on passenger services

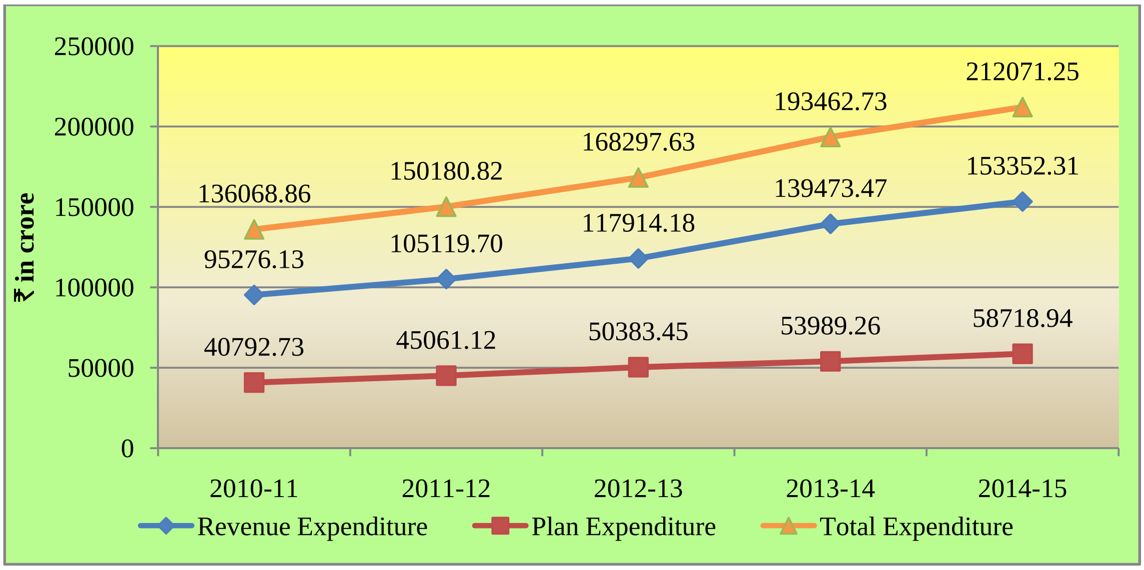
It is clear from the Table 1.5 that, except AC-3-Tier, all classes of train services have incurred losses during 2013-14 which means that AC-3-Tier segment only has recovered its operational cost.

The subsidy provided to both ordinary class and suburban services increased almost continuously in the last five years with subsidy on Ordinary Class being the maximum. The percentage of loss[15] to the earning of the various classes of passenger services ranged from 8.16 *per cent* (AC 1st Class) to 313.56 *per cent* (1st Class) with 170.14 *per cent* on EMU Suburban train services.

1.7 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Plan Expenditure'. Revenue expenditure includes ordinary working expenditure, miscellaneous expenditure and dividend payout. The Total Expenditure grew from ₹ 193462.73 crore in 2013-14 to ₹ 212071.25 crore in 2014-15, registering an increase of 9.62 *per cent*. The Revenue Expenditure has increased by 9.95 *per cent* from ₹ 139473.47 crore to ₹ 153352.31 crore during the same period.

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

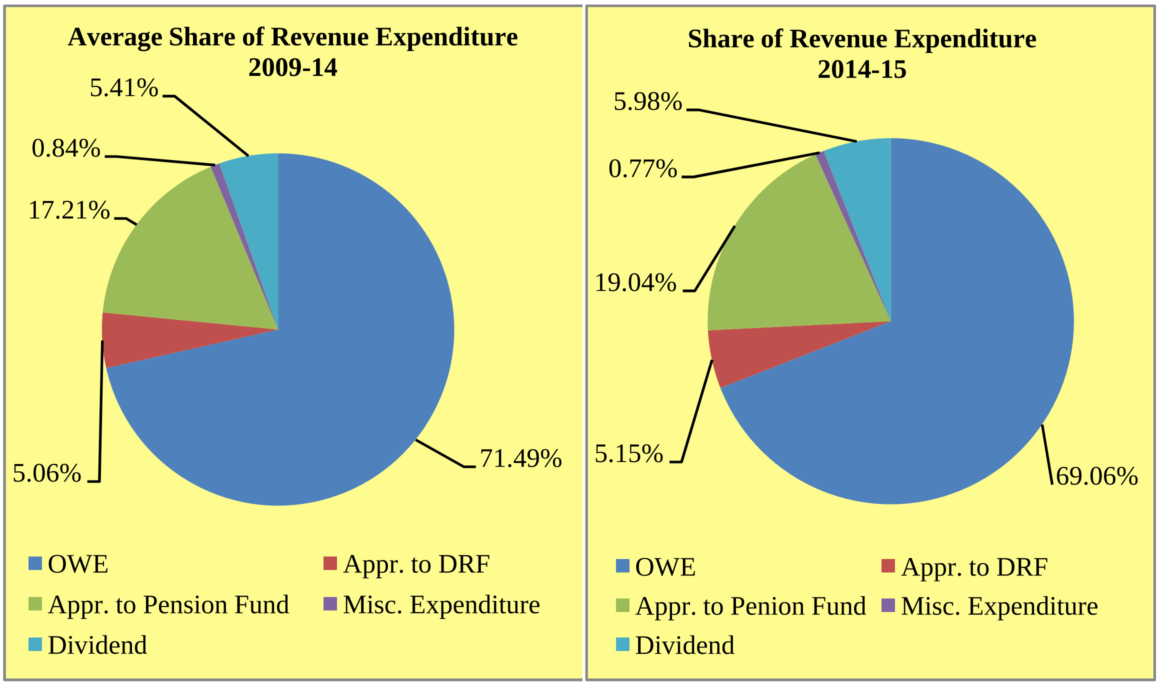


During last five years, the share of revenue expenditure and plan expenditure to total expenditure remained almost static within the range of 70 *per cent* to 72 *per cent* and 30 *per cent* to 28 *per cent* respectively. A detailed analysis of plan expenditure is discussed in paragraph 1.10.

[15] *Loss worked out on the basis of figures of Expenses and Earnings given in Summary of the End Results-Coaching Services Profitability/Unit Costs (2013-14).*

1.7.1 Revenue Expenditure

Figure 1.10: Share of Revenue Expenditure in last five years



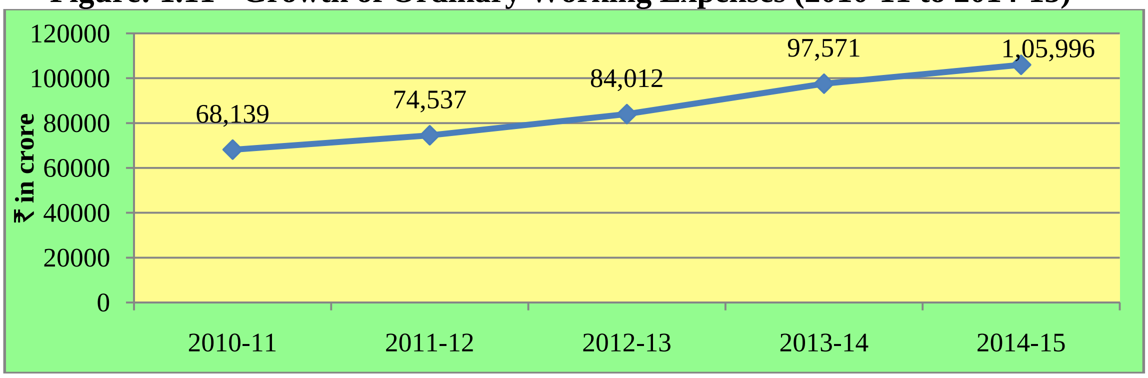
OWE-Ordinary Working Expenditure, DRF-Depreciation Reserve Fund

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 main component of total revenue expenditure was Ordinary Working Expenditure (OWE) which constituted 71.49 *per cent* of the total revenue expenditure on an average during 2009-14 and 69.06 *per cent* during 2014-15. Appropriation to Depreciation Reserve Fund (DRF) was 5.15 *per cent* in 2014-15 as compared to 5.06 *per cent* on an average during 2009-14. Appropriation to Pension Fund increased to 19.04 *per cent* in 2014-15 as compared to 17.21 *per cent* on an average during 2009-14 to meet the increased pension liabilities.

The trend in OWE over the last five years is shown in Figure 1.11:

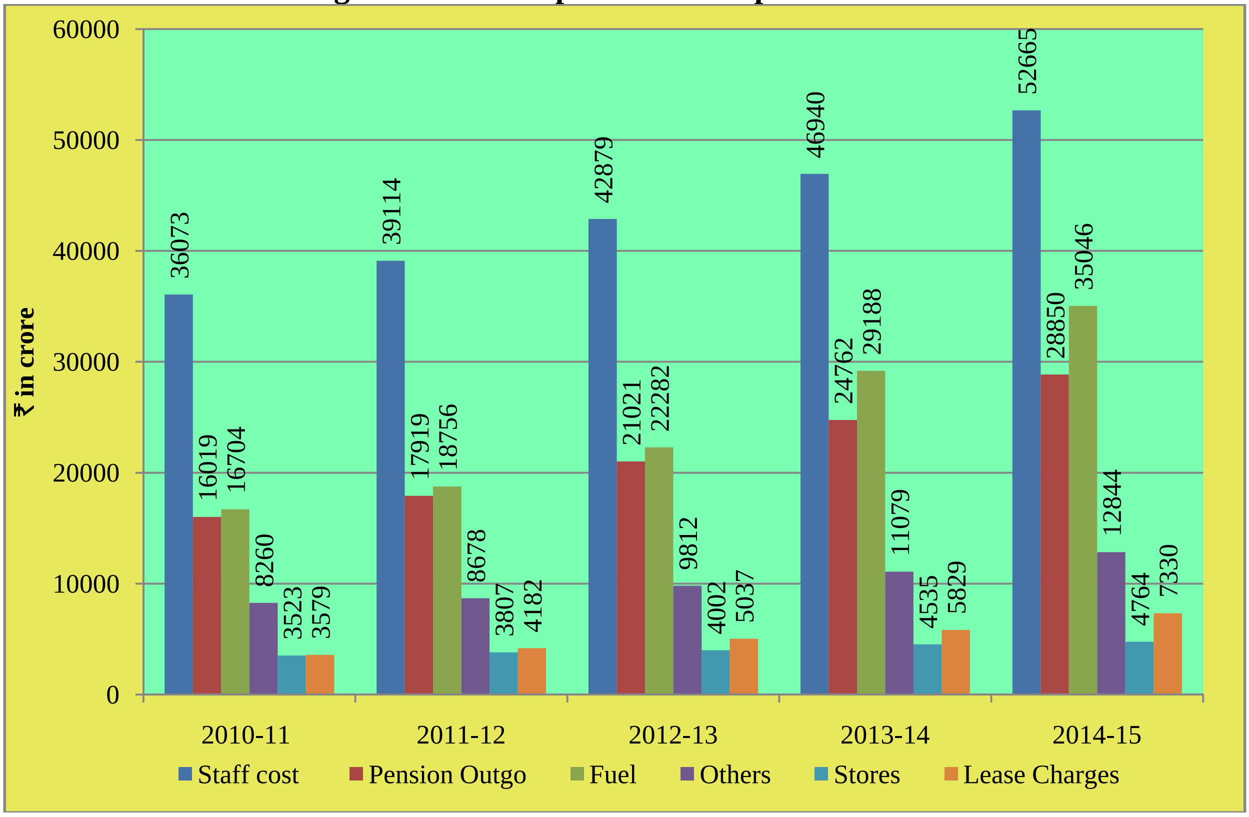
Figure: 1.11 - Growth of Ordinary Working Expenses (2010-11 to 2014-15)



OWE increased at a rate of 8.63 *per cent* during 2014-15 over the previous year as compared to growth rate of 16.14 *per cent* in the previous year.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, others and pension outgo for the last five years is shown in the Figure 1.12.

Figure: 1.12 -Component wise expenditure



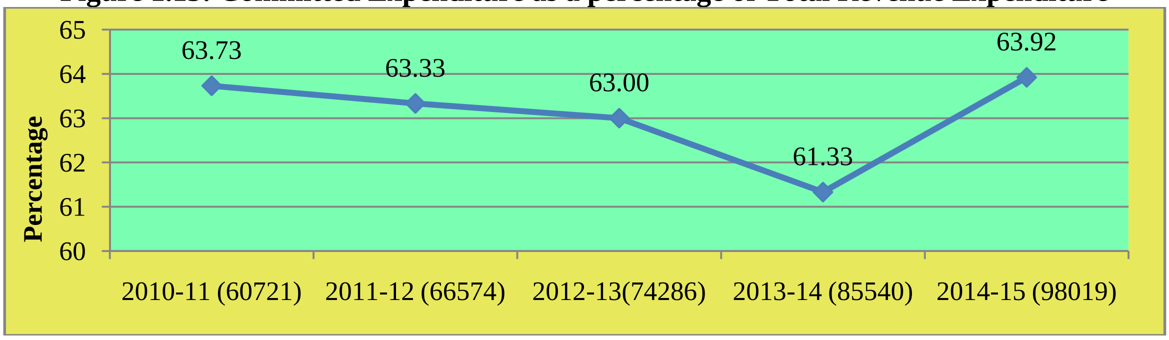
Note-(i) Figures for 2014-15 are as per budget estimate.
(ii)Figures for 2013-14 are revised figures (based on actuals).

Staff cost (including pension outgo) constituted around 58 *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: Committed Expenditure as a percentage of Total Revenue Expenditure



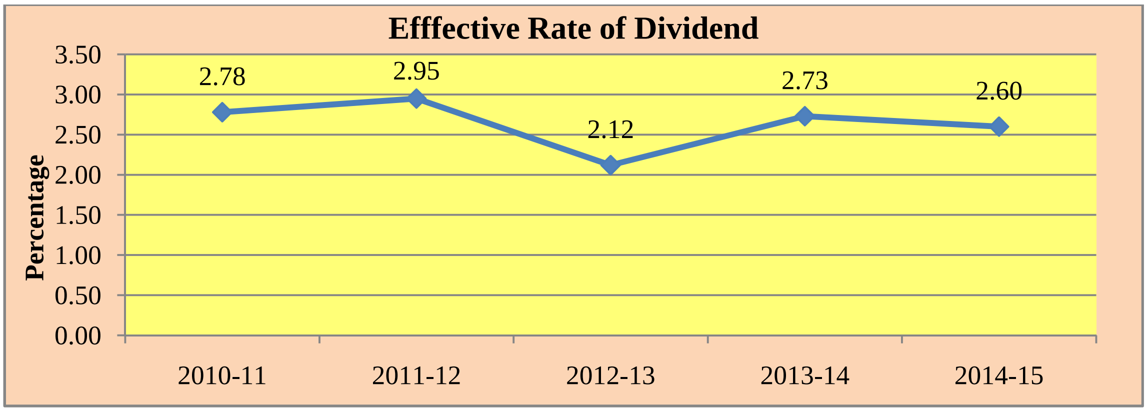
Note-(i) Figures shown in bracket indicate total committed expenditure in crore of rupees. (ii)Figures for 2014-15 are as per budget estimate. (iii)Figures of 2013-14 are revised figures (based on actuals).

Percentage of committed expenditure to total revenue expenditure was 63.92 *per cent* in 2014-15. IR was left with 36.08 *per cent* of the total revenue expenditure to run their operations (Figure1.13).

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 GoI at a rate determined periodically by RCC. The rate of dividend fixed by the RCC for 2013-14 was also applied for 2014-15 as RCC had not fixed the rate of dividend for 2014-15. Further, in terms of the recommendations of the RCC, IR is given concessions towards payment of dividend in respect of capital invested in the larger national interest[16]. Dividend paid on such capital is received back as subsidy by IR. The subsidy increased from ₹ 3,370.56 crore in 2013-14 to ₹ 4,024.46 crore in 2014-15. The net effective rate of dividend after adjusting the subsidy received, decreased from 2.73 *per cent* in the 2013-14 to 2.60 *per cent* in 2014-15.

Figure: 1.14 Effective Rate of Dividend



1.7.4 Un-discharged Liability

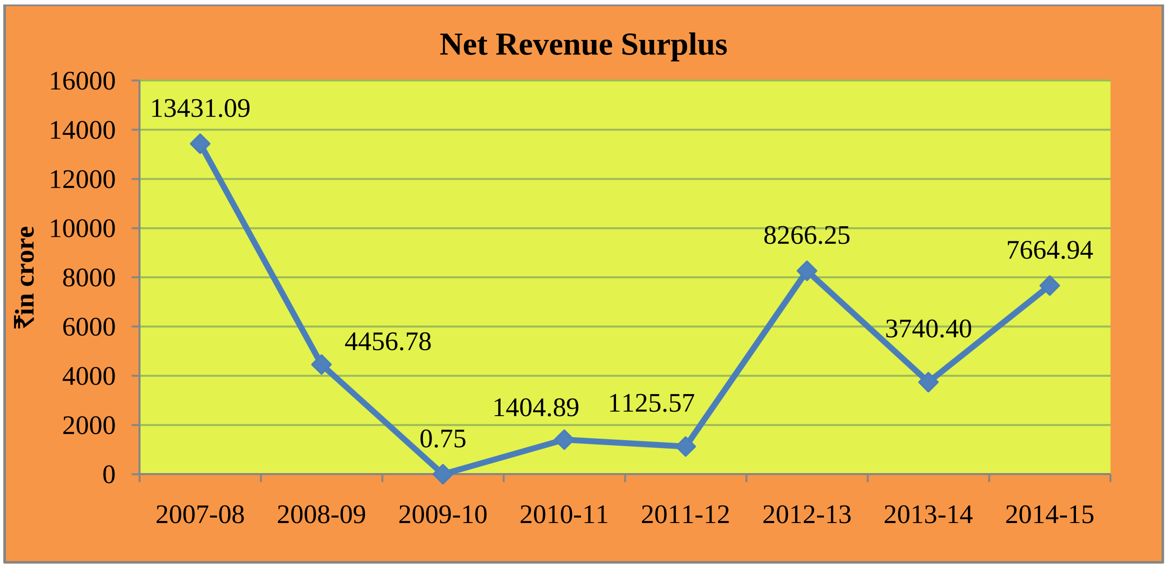
The RCC allowed a moratorium on payment of dividend on investments in New Lines during the period of construction and the first five years after opening of the line for traffic. Cumulative dividend was payable when the line showed surplus after discharging current liability. The account of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability. The liability on this account which was ₹ 11,231.45 crore at the close of 2013-14 increased to ₹ 12,254.90 crore as of March 2015.

1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the years 2007-08 to 2014-15 are shown in the Figure 1.15.

[16] *Strategic Lines, 28 New Lines taken up on other than financial consideration, non-strategic capital of Northeast Frontier Railway, Un-remunerative branch lines, Ore lines, 50 per cent of work-in-progress*

Figure: 1.15 Revenue Surplus



The net surplus increased from ₹ 3,740.40 crore in 2013-14 to ₹ 7,664.94 crore in 2014-15. The increase in net surplus was mainly due to higher growth rate of freight earning (12.66 *per cent*) in 2014-15 than the growth rate of 2013-14 (10.14 *per cent*) and lower growth rate of total working expenditure (9.73 *per cent*) in 2014-15 than the growth rate of 2012-13 (16.80 *per cent*).

During 2014-15, there was an increase of ₹ 1,601.20 crore in the net surplus as against the budget estimate of ₹ 6,063.74 crore. The increase in net surplus was mainly due to increase in net revenue by ₹ 1,639.75 crore offset by more dividend expenditure by ₹ 38.55 crore against the budget estimate.

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 (OR) represents the percentage of working expenses to traffic earnings. The OR which was 93.60 *per cent* in 2013-14, slightly improved to 91.25 *per cent* in 2014-15 for IR. This was primarily due to the reason that working expenditure grew at lower rate (9.51 *per cent*) as compared to previous year (17.13 *per cent*), while the total earnings grew at rate (12.32 *per cent*) marginally less than the previous year rate (12.86 *per cent*).

OR of zonal railways during the last five years ended on 31 March 2015 is shown in the Table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

S. No.	Zonal Railway	2010-11	2011-12	2012-13	2013-14	2014-15
1	Central	107.31	105.68	97.82	100.23	101.85
2	Eastern	178.52	182.10	178.86	176.76	177.27
3	East Central	109.06	103.58	92.19	99.58	95.24
4	East Coast	42.82	44.68	44.50	48.34	51.25
5	Northern	112.20	121.00	113.15	110.12	117.65
6	North Central	63.12	61.80	59.68	64.04	64.13
7	North Eastern	201.78	202.06	200.01	207.49	193.47
8	Northeast Frontier	167.25	166.40	178.39	193.08	187.08
9	North Western	106.41	99.99	88.97	98.58	90.18
10	Southern	135.55	122.58	130.59	132.18	128.98
11	South Central	85.76	85.90	79.63	84.13	76.03
12	South Eastern	66.98	72.74	70.50	72.54	73.62
13	South East Central	58.01	55.24	49.14	52.53	50.83
14	South Western	98.69	109.01	104.85	115.41	98.72
15	Western	97.96	94.61	89.84	91.74	86.51
16	West Central	74.93	70.13	68.18	71.06	63.56
17	Metro Railway/Kolkata	226.35	310.89	328.26	302.63	253.69
Overall IR		94.59	94.85	90.19	93.60	91.25

Source-Indian Railways Appropriation Accounts-Part-I Review

There was improvement in the OR of East Central, North Eastern, Northeast Frontier, North Western, Southern, South Central, South East Central, South Western, Western, West Central and Metro Railway/Kolkata whereas the same deteriorated in Central, Eastern, East Coast, Northern, North Central and South Eastern Railways during the current year as compared to the previous year. OR of Central, Eastern, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway/Kolkata was more than 100 *per cent* during 2014-15 implying that their working expenditure was more than their traffic earnings. OR of the zonal 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 (COR)

Capital Output Ratio (COR) indicates the amount of capital employed to produce one unit of output. Total Traffic in terms of NTKMs and Passenger Kilometres (PKMs) is considered as the output in the case of IR.

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 charge at (in Paise) per NTKM*
			Passenger Kilometres (in Millions)	*Million NTKMs*		
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*	*649,645*	*1,098,103*	*77,965*	*727,610*	*252*
31-Mar-14	*2,088,443*	*665,810*	*1,158,742*	*82,271*	*748,081*	*279*
31-Mar-15	*2,421,170*	*681,951*	*1,147,190*	*81,450*	*763,401*	*317*

Source-Indian Railways Annual Statistical Statements
Note: Figures for 2014-15 except capital including Investments from Capital Fund are provisional.
Figures of NTKM for 2012-13 are revised figures.

COR had increased from 206 paise (2010-11) to 317 paise (2014-15) indicating decrease in physical performance of the IR as compared to capital employed (Table 1.7). Higher cost overruns due to non-completion of projects in time coupled with investment in financially unviable projects contributed to higher COR.

1.9.3 Staff Productivity

Staff productivity[17] in case of IR is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It increased by 9.98 *per cent* during the period 2010-11 (561) to 2014-15 (617) of Open Line staff of all zonal railways (excluding Metro Railway/Kolkata). The improvement in staff productivity over the last five years was due to increase in freight carried in terms of tonnage and passenger originating in relation to total distances carried/travelled.

Zone wise analysis of staff productivity revealed that during 2014-15, highest Staff Productivity of 1,360.04 Million NTKM was achieved by East Coast Railway whereas Staff Productivity of 206.28 Million NTKM 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 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 GBS, internal resources[18] 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).

[17] *Annual Statistical Statements of Indian Railways*
[18] *Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund*

The Table 1.8 gives the sources of funds for the plan expenditure during first three years of the 12th Five year Plan (2012-13 to 2016-17):

Table 1.8 Sources of Plan Expenditure

(₹ in crore)

Source of Plan Expenditure	12th Five Year Plan			
	2012-13	2013-14	2014-15	
	Actual	Actual	Budget Estimates	Actual
General Budgetary Support[19]	25,710.21 (51.03)	29,055.38 (53.82)	31,596 (48.28)	32,327.60 (55.05)
Internal Resources	9,531.31 (18.92)	9,709.00 (17.98)	16,054 (24.53)	15,347.24 (26.14)
Extra Budgetary Resources	15,141.93 (30.05)	15,224.88 (28.20)	17,795 (27.19)	11,044.10 (18.81)
Total	50,383.45	53,989.26	65,445	58,718.94

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

Due to non-availability of sufficient internal resources, the dependency of Plan Expenditure on GBS increased substantially in 2014-15. The share of GBS to the total plan expenditure increased from 53.82 *per cent* in 2013-14 to 55.05 *per cent* in 2014-15. The share of internal resources to total plan expenditure increased from 17.98 *per cent* in 2013-14 to 26.14 *per cent* in 2014-15 owing to making payment of principal component of lease charges to IRFC from Capital Fund. Share of Extra Budgetary Resources (market borrowings) reduced from 28.20 *per cent* in 2013-14 to 18.81 *per cent* in current year and was short by around 38 *per cent* of the Budget Estimate. During 2014-15, Ministry of Railways obtained extra budgetary support of ₹ 11,044.10 crore from IRFC for rolling stock and doubling projects being executed by RVNL.

Plan expenditure is broadly categorized under various Plan Heads as shown in the Table 1.9.

[19] *Includes expenditure from Railway Safety Fund*

Table 1.9 Category-wise Plan Expenditure

(₹ in crore)

Plan Heads	12th Five Year Plan		
	2012-13	2013-14	2014-15
New Lines, Gauge Conversion, Doubling, Yard Remodelling, Traffic Facilities, Track Renewal, Bridge Work, Signalling and Telecommunication	16,721.19	18,532.34	21,984.62
	(33.19)	(34.33)	(37.44)
Rolling Stock and Payment of Capital Component of Lease charges	22,403.29	22,267.49	21,723.98
	(44.47)	(41.24)	(37.00)
Workshop and Production Units and Plant & Machinery	1,917.00	2,264.42	2,129.02
	(3.80)	(4.19)	(3.63)
Investments in Government Undertaking	3,372.74	4,289.58	4,865.31
	(6.69)	(7.95)	(8.29)
Others	5,969.23	6,635.43	8,016.01
	(11.85)	(12.29)	(13.65)
Total	50,383.45	53,989.26	58,718.94

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, 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, Gauge Conversion, Doubling, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) slightly increased from 34.33 *per cent* in 2013-14 to 37.44 *per cent* in 2014-15. The share of Plan Expenditure on 'Rolling Stock and Payment of Capital Component of Lease charges' decreased from 41.24 *per cent* in 2013-14 to *37 per cent* in 2014-15.

1.11 Railway Funds

The status of various Funds during 2014-15 is shown in the Table 1.10 below:

Table 1.10 Fund Balances

(₹ in crore)

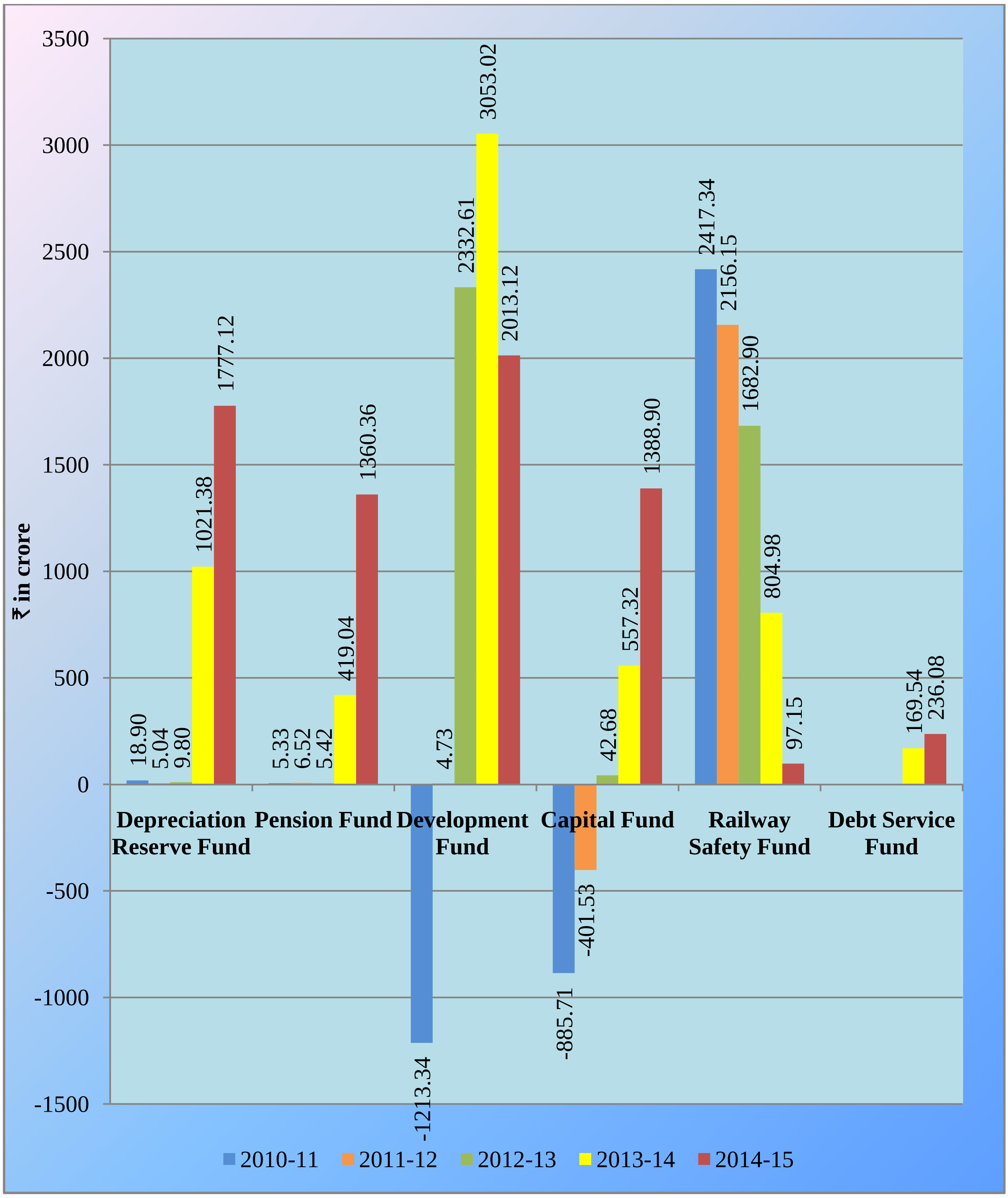
Name of Fund	Opening Balance	Accretion during the year	Withdrawal during the year	Closing Balance
DRF	1020.81	8043.24	7286.93	1777.12
Pension Fund	419.04	29583.40	28642.08	1360.36
Development Fund	3053.02	1571.18	2611.08	2013.12
Capital Fund	557.32	6280.82	5449.24	1388.90
Railway Safety Fund	804.98	1498.61	2206.44	97.15
Debt Service Fund	169.54	66.54	-	236.08

Note- 1.Accretion includes Appropriation to fund and interest received on fund balances. Railway Safety Fund is an interest free fund.

2. Opening Balance of DRF includes financial adjustments of ₹(-) 0.57crore.

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 ₹ 2,013.12 crore, ₹ 1,388.90 crore and ₹ 236.08 crore respectively. ***(Appendix-1)***

Figure 1.16-Fund Balances at the close of the years (2010-11 to 2014-15)

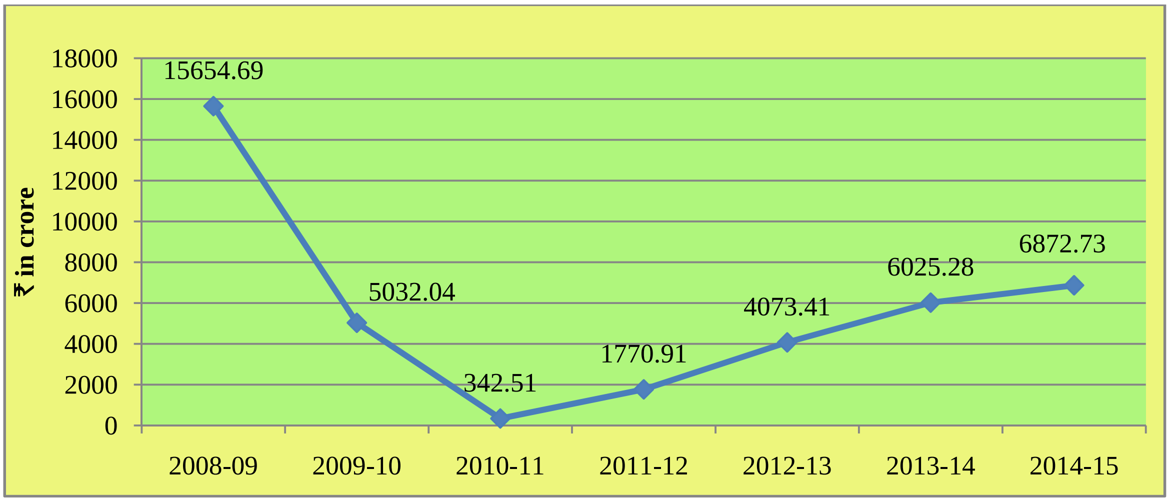


Source-Indian Railways Appropriation Accounts Part-II-Detailed Appropriation Accounts

The balance available in the railway funds increased from ₹ 6,025.28 crore in 2013-14 to ₹ 6,872.73 crore at the end of the year 2014-15. However, it was seen (Figure 1.17) that the fund balances had sharply declined from ₹ 15,654.68 crore in 2008-09 to

₹ 342.51 crore in 2010-11. Thereafter, from 2011-12, the fund balances improved each year.

Figure 1.17- Trend of Fund Balances (2008-09 to 2014-15)



The improvement in fund balances was mainly due to not making payment of capital component of lease charges to IRFC[20] amounting to ₹ 12,629.49 crore during the period 2011-14, from Capital Fund. IR started payment of capital component of lease charges to IRFC from Capital Fund from 2014-15 and made payment of ₹ 5,449.24 crore during 2014-15.

DRF and Capital Fund closed with balance of ₹ 1,777.12 crore and ₹ 1,388.90 crore respectively. However, contribution to DRF was not made as per requirement.

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

1. Indian Railways borrows money through the 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 OWE (Revenue Grant No.9-Operating Expenses-Traffic). However, from the year 2005-06 the Accounting policy in respect of accountal of lease charges payable to IRFC was modified. As per new accounting system, principal (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'[21] 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. Audit comments on violation of accounting policy by the Ministry

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

[21] *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.*

of Railways towards payment of capital component of lease charges was made in the Audit Reports on Railways Finances for the year ended March 2012 to March 2014.

Ministry of Railways in its Action Taken Note on Para 1.11 of the Audit Report on Railways Finances (No.19 of 2014) stated (14-5-2015) that from 2014-15, the payment of capital component of lease charges to IRFC will be made from Capital Fund. During 2014-15, an amount of ₹ 5,449.24 crore was paid from Capital Fund towards payment of capital component of lease charges to IRFC.

2. It is seen that the contribution to 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. This issue was repeatedly highlighted in the previous Audit Reports on Railways Finances.

   Ministry of Railways in its Action Taken Note on Para 1.11 of the Audit Report of Railways Finances (No. 19 of 2014) stated (14-5-2015) that it agrees that that appropriation to DRF should be made in a well founded manner. Railway have a very large asset base, whereas the financial position of the Railways has not remained stable most of the time as so as to permit appropriation to this fund as per a set formula. However, all along, endeavour has been to ensure maximum appropriation to DRF permissible by Railways' financial position in a year.

   During 2014-15, an amount of ₹ 7,975 crore was appropriated to DRF against the Budget Estimate of ₹ 7,050 crore. Ministry of Railways had spent ₹ 7,286.93 crore on renewal and replacement of the assets from DRF during 2014-15 whereas the throw forward value of assets to be replaced from DRF (up to 2014-15) was ₹ 47,678.65 crore. 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.

1.12 Comments on Accounts

- **Re-imbursement 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 Para Nos. 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 (November 2012) that necessary action was being taken to get the specific notifications issued for these sections as Strategic lines. This issue was again mentioned in the Para No. 1.12 of the Report No. 15 of 2015. In January 2015 IR had stated that the matter has been taken up with the Ministry of Defence for its notification. However, the required notification has not been issued till the end of 2014-15.

During audit of accounts of IR for the year 2014-15, it was observed that the notifications of these lines as Strategic Lines is still pending and reimbursement of losses on these strategic lines is still being claimed from Ministry of Finance considering these lines as Strategic lines.

- **Mismatch in fund balances shown in the Railways' Debt Head Report (Review of Balances)/Detailed Appropriation Accounts (Part-II) for 2013-14 and Railways' fund balances appearing in Statement No. 13 of Union Government Finance Accounts (2013-14)**

  Fund Balances of the Railways are depicted in the Railway's Debt Head Report (Review of Balances) and Part-II-Detailed Appropriation Accounts. The Debt Head Report for the year is sent to the Controller General of Accounts (CGA) for inclusion in the Statement No.13 of Union Government Finance Accounts. It was observed that the fund balances appearing in the Statement No.13 of Union Government Finance Accounts (2013-14) were not matching with the fund balances shown in the Debt Head Report (2013-14). Status of the fund balances appearing in the two Statements are tabulated below:

(₹ in thousands)

Head	Name of Fund	Balance as per Debt Head Report (2013-14)	Balance as per Statement No. 13 of Union Government Finance Accounts (2013-14)
8115-101	*DRF (Commercial Lines)*	*(-)1303,88,67 (Cr)*	*1851,82,33 (Dr)*
8115-102	*DRF (Strategic Lines)*	*2325,26,30 (Cr)*	*2325,26,28 (Cr)*
8117-101	*Development Fund (Commercial Lines)*	*3053,00,68 (Cr)*	*2268,42,17 (Cr)*
8117-102	*Development Fund (Strategic Lines)*	*1,21 (Cr)*	*1,15 (Cr)*
8118-106	*Capital Fund*	*557,16,18 (Cr)*	*189,39,92 (Cr)*
8121-103	*Pension Fund (Commercial Lines)*	*(-)1789,85,81 (Cr)*	*1790,90,01 (Dr)*
8115-102	*Pension Fund (Strategic Lines)*	*2209,04,87 (Cr)*	*1895,39,82 (Cr)*
8231-101	*Railway Safety Fund (Commercial Lines)*	*804,97,79 (Cr)*	*865,35,43 (Cr)*
8231-102	*Railway Safety Fund (Strategic Lines)*	*0*	*01 (Dr)*

It was also observed that Special Railway Safety Fund (SRSF) ceased to exist w.e.f. 01-04-2008 and the balance lying in this fund was transferred to DRF by the Railways. However, the balance under this fund was not transferred to DRF by the CGA and the fund (SRSF) is still appearing in the Statement No. 13 of Union Government Finance Accounts.

The issue of mismatch in the figures of Railways' fund balances appearing in the Statement No.13 of Union Government Finance Accounts was taken up with the Ministry of Railways for pursuing the same with the CGA in August 2015. However, no reply was received from the Ministry of Railways in this regard (as of October 2015).

- **Apportionment of expenditure in Commercial and Strategic Lines**

  Para 212 of the Indian Railways Code for Accounts Department (Part-I) provides that the actual working expenses should be charged to the Commercial and Strategic sections where these can be ascertained. The remaining expenses are to be apportioned between them on the following basis:

  a) Engineering expenses in proportion to track kilometrage
  b) Locomotive expenses in proportion to engine kilometrage
  c) Carriage and wagon expenses in proportion to vehicle kilometrage
  d) Traffic expenses in proportion to train kilometrage

  Electrical, Signal and Telecommunication expenses on the basis prescribed for the department to which the service is rendered vide clauses (a) to (d) above. For electric and signal workshop, half of the expenditure is to be apportioned on the basis of engine kilometres and the half in proportion to wagon/vehicle kilometres. Expenses of other department are to be distributed in proportion to gross tonne kilometre.

  It was observed that in Northeast Frontier and North Western Railways, the apportionment of expenditure between Commercial Lines and Strategic Lines was not being done as per codal provision. Since the losses on Strategic Lines are reimbursed by the Ministry of Finance, it is imperative that the figures of expenditure on Commercial Lines and Strategic Lines may be apportioned correctly as per the codal provisions and actual losses on operation of Strategic Lines be reimbursed by Ministry of Finance.

- **Non-transfer of amount of New Pension Scheme (NPS) to Trustee Bank**

  Railway Board vide its instructions (No. 54/2009 dated 23-12-2009) had directed all the Zonal Railways that there should be no balance under the Head “0071-Contribution and Recoveries towards Pension and other retirement benefits-500-Receipts awaiting transfer to other minor heads”. The NPS contribution will not be accounted for under the head of account “8342-Other Deposits-117-Defined Contributory Pension Scheme (DCPS)” even as a temporary measure for making payment to the Trustee Bank.

  During check of Account Current for the month of March 2015 of South Western Railway (SWR), it was observed that a sum of ₹ 50.73 crore (₹ 7.79 crore of 2014-15 and ₹ 42.94 crore for the period up to 2013-14), which was lying under head 8342-Other Deposits-117-DCPS, was transferred under head 8445-101-Indian Railways Deposits. The SWR Administration stated that this was due to amount recovered under wrong PRAN number, excess recovery of NPS amount, non-availability of PRAN particulars etc. without which NSDL would not accept the amount and the concerted efforts were being made to obtain the relevant particulars and transfer of recovered amount to NSDL. As the Head 8342 even as a temporary measure for making payment to Trustee Bank was not allowed to be operated by the Zonal Railways, parking of the amount of NPS under this head and subsequently transferring it into Head 8445 was irregular. Early action need to be taken by SWR administration to transfer the NPS amount to Trustee Bank each and every month.

  In North Western and North Central Railways, amount of NPS of ₹ 0.05 crore and ₹ 2.20 crore respectively was kept under Head 8445-Other Deposits NPS at the end of 2014-15 and was not transferred to Trustee Bank.

  Ministry of Railways needs to streamline the system of transferring of NPS amount to Trustee Bank by the Zonal Railways without parking it under the other heads of Accounts.

- **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 North Central Railway (NCR), 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. This issue was mentioned in Para 1.12 of the Audit Report No. 15 of 2015 (Railways Finances). The irregularity still persists.

    Further, in NCR, in respect of two other New Lines namely Guna-Etawah-Shivpuri (opened before 2003-04) and Mahoba-Khajuraho (opened in December 2008), the dividend is being deferred even after five years of opening to traffic.
  - In East Coast Railway, deferred dividend amounting to ₹ 257 crore in respect of Daitari-Banaspani New Line which was due for payment in 2014-15 was not paid and the same postponed for payment in 2015-16.

- **Accounting Reforms in IR**

  IR had taken up a project (in February 2006) on Accounting Reforms for implementation of practises which are in line with commercial accounting and reporting. This project (with estimated cost of ₹ 18.31 crore) was funded by the Asian Development Bank for completing in thirty months. An audit comment on delay in submission of the Report by the Consultant and its acceptance by the IR was mentioned in the Para 3.5 of the Audit Report No. 33 of 2010-11(Railways Finances).

  Ministry of Railways in its Action Taken Note had stated (April 2012) that the report is under consideration and decision will be taken keeping consistency with the recommendations of the Government Accounting Standards Advisory Board (GASAB). IR had further stated (May 2015) that the road map of implementing the Accounting Reforms project, pan-India, is being chalked out for its implementation in the next two-three years in conjunction with the approved recommendations of GASAB for introduction of accrual accounting in Government departments (as and when notified by the Ministry of Finance for implementation).

  A reference was made to the Ministry of Railways to furnish the present status of the Accounting Reforms project (September 2015); no reply was furnished to audit (October 2015). It was, however, observed that the Accounting Reforms project taken up in February 2006 for implementation of practices in line with the commercial accounting and reporting has not yet been completed. Accounting Research Foundation of the Institute of Chartered Accountants of India had also been engaged by the MoR (December 2014) to validate the Accounting Reforms Report of the consultant and conducting pilot study and compile a detailed accrual accounting manual for the purpose of implementation of accrual based commercial accounting.

IR needs to prepare its accounts so as to reflect all the financial transactions in a transparent way and disclosing all the assets and liabilities etc. to give a better view of the affairs of the IR.

1.13 Conclusions

During 2014-15, TWE increased by 9.73 *per cent (*₹ 12,675.12 crore) as compared to 16.80 *per cent* growth rate of previous year. GTR increased by 12.29 *per cent* as compared to 12.79 *per cent rate* of previous year and also it was below the budget projections by 2.16 *per cent*. The Net Surplus increased by 104.92 *per cent* over the previous year.

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 ₹ 32,641.69 crore from freight traffic on one hand and incurred loss of ₹ 31,727.44 crore on operation of passenger and other coaching services on the other hand during 2013-14. The percentage of cross subsidization from freight earnings to passenger and coaching services has increased in 2013-14, thereby showing a shortfall in operational profit. Though there is an improvement in recovering the cost of passenger services in 2014-15, Ministry of Railways needs to revisit its methodology of fixing the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in these core activities.

At the end of the year 2014-15, railway funds closed with balance of ₹ 6,872.73 crore. The fund balances improved by ₹ 847.45 crore over the previous year balance of ₹ 6,025.28 crore. Development Fund closed at ₹ 2,013.12 crore and the Capital Fund at ₹ 1,388.90 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 of principal component of lease charges to IRFC during 2011-14 was made from the Capital advanced by the GoI as GBS which attracts payment of dividend to GoI. However, IR again started payment of capital component of lease charges to IRFC from Capital Fund from 2014-15 and made payment of ₹ 5,449.24 crore during 2014-15.

Ministry of Railways had spent ₹ 7,286.93 crore on renewal and replacement of the assets from DRF during 2014-15 whereas the throw forward value of assets to be replaced from DRF (up to 2014-15) was ₹ 47,678.65 crore. 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 OR improved from 93.60 *per cent* in 2013-14 to 91.25 *per cent* in 2014-15. The COR also increased from 279 paise in 2013-14 to 317 paise in 2014-15 indicating decrease in the physical performance of the IR.

The Accounting Reforms project taken up in February 2006 for implementation of practices in line with the commercial accounting and reporting has not yet been completed despite a lapse of about nine years.

1.14 Recommendations

- ***Ministry of Railways needs to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities.***
- ***Non-availability of sufficient funds in Depreciation Reserve Fund to replace the overaged assets is indicative of poor financial health of Indian Railways. Ministry of Railways should explore suitable means to improve their fund balances.***
- ***IR needs to speed up Accounting Reforms to reflect true and fair financial transactions by disclosing all assets and liabilities etc. in accordance with laid down standards and best practices.***