EXECUTIVE SUMMARY

Background

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. It consists of 67,368 route kms* on which 22,550 trains ply, carrying about 22.24 million passengers and hauling nearly 3.04 million tonne of freight every day. Policy formulation and overall control of the Railways are vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are eight production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Till the year 2016-17 the Railway Budget was presented to the Parliament separately and figures relating to the receipts and expenditure of IR were shown in the General Budget, as Railway Budget formed part of the total budget of the Government of India. However, Government has decided to merge Railway Budget with the Union Budget from Budget Year 2017-18 onwards.

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2016 (Report No.37of 2016) highlighted that during 2015-16, total revenue receipts increased by 4.57 *per cent* which was significantly below the Compound Annual Growth Rate (CAGR) of 14.86 *per cent* during the period 2011-15. The growth of freight earnings was 3.23 *per cent* in 2015-16 which was below the CAGR of 15.01 *per cent* registered during 2011-15. The growth of passenger earnings was 4.96 *per cent* in 2015-16 which was also below the CAGR of 14.31 *per cent* registered during 2011-15. Net surplus after meeting dividend liability was ₹10,505.97 crore in 2015-16. The Operating Ratio improved to 90.49 *per cent* in 2015-16 from 91.25 *per cent* in 2014-15.

During 2016-17, the total revenue receipts of ₹ 1,65,382.49 crore decreased by 1.78 *per cent* as compared to total revenue receipts of ₹ 1,68,379.60 crore during 2015-16. This was significantly below CAGR of 10.09 *per cent* during the period 2012-16.

The freight earnings of ₹ 1,04,338.54 crore decreased by 4.46 *per cent* in 2016-17 as compared to ₹ 1,09,207.66 crore during 2015-16. The growth in freight earnings was negative as compared to previous years' growth of 3.23 *per cent.* This was

Route-kilometre-The distance between two points on the railway irrespective of the number of lines connecting them viz., single line, double line, etc. Statistical data of route kms., no. of trains, no. of passengers and freight loading mentioned above are provisional.

also below the CAGR of 8.60 *per cent* registered during 2012-16. The freight loading (in absolute terms) increased from 1008.09 Million Tonne (2012-13) to 1106.15 Million Tonne during 2016-17. Increase in freight loading by 0.42 *per cent* during 2016-17 as compared to freight loading of 2015-16 was less than the CAGR of 3.00 *per cent* achieved during 2012-16. The Net Tonne Kilometre (NTKM) in respect of revenue freight traffic of 620175 million NTKM in 2016-17 decreased by 5.24 *per cent* as compared to 654481 NTKM during 2015-16.

The passenger earnings of ₹ 46,280.46 crore increased by 4.51 *per cent* in 2016-17 as compared to ₹ 44,283.26 crore during 2015-16. This was below the CAGR of 12.23 *per cent* registered during 2012-16.

Total Working Expenditure during 2016-17 was ₹ 1,59,029.61 crore as compared to ₹ 1,47,835.93 crore during 2015-16.

Net surplus after meeting all revenue liabilities stood at ₹ 4,913.00 crore in 2016-17 as against ₹ 10,505.97 crore in 2015-16, even though no dividend was paid during 2016-17 as compared to ₹ 8,722.51 crore dividend paid during 2015-16. It was observed that in respect of Zonal Railways, the actual amount required to meet the expenditure on pension payments was ₹ 40,025.95 crore during the year. However, ₹ 35,000 crore (against the Budget Provision of ₹ 42,500 crore) was appropriated to Pension Fund. Thus, there was under provisioning of ₹ 5,025.95 crore under the Pension Fund, thereby understating the total working expenditure to that extent. Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments been appropriated, there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore) leaving no surplus available for appropriation to the funds (DF, CF and Debt Service Fund).

The Operating Ratio represents the percentage of working expenses to traffic earnings and is an indicator of the efficiency in operations of IR. The Operating Ratio was 90.49 *per cent* in 2015-16, it deteriorated to 96.50 *per cent* in 2016-17. The Operating Ratio during the current year had deteriorated to an all-time low since 2000-01 when it was 98.34 *per cent*. Had the actual amount ₹ 40,025.95 crore required to meet the expenditure on pension payments of Zonal Railways been appropriated to the Pension Fund (instead of ₹ 35,000 crore), the total gross working expenditure of IR would have increased (by ₹ 5,025.95) crore to ₹ 1,64,537.93 crore and the Operating Ratio would work out to 99.54 *per cent.* Thus Operating Ratio of 96.50 *per cent* does not reflect the true financial performance of the Railways.

Total Capital Expenditure (including expenditure under PPP) during 2016-17 was ₹ 1,08,290.14 crore as compared to ₹ 93,519.79 crore during 2015-16.

Railway funds closed at ₹ 2,576.81 crore at the end of 2016-17 (Railway Safety Fund ₹ 23.26 crore, Development Fund ₹ 402.63 crore, Pension Fund ₹ 594.76 crore, Debt Service Fund ₹ 800.23, Depreciation Reserve Fund ₹ 450.50 crore and Capital Fund ₹ 305.43 crore) against the fund balance of ₹ 10,806.68 crore in 2015-16 registering a decrease of ₹ 8229.87 crore. The decrease in fund balances was mainly due to more expenditure from Pension Fund, Capital Fund and Debt Service Fund in comparison to amount credited in the funds during the year. Non-crediting of interest was also one of the reasons for decrease in funds balances. Further, the contribution to the DRF was not made as per requirement despite there being a huge backlog of over aged assets amounting to ₹ 47,679 crore in the railway system required to be replaced for safe running of trains.

Indian Railways was unable to meet its operational cost of passenger and other coaching services. During 2015-16, there was a loss of ₹ 36,286.33 crore on passenger and other coaching services. The freight services earned a profit of ₹ 42,426.63 crore which indicated that 85.53 *per cent* of the profit from freight traffic was utilized to compensate the loss on operation of passenger and other coaching services. The above issues have regularly been highlighted in the preceding Reports of Comptroller and Auditor General of India - Union Government (Railways) - Railways Finances.

IR is authorized for expenditure through operation of 16 Grants comprising of 15 Revenue Grants (Grants number 1 to 15) and one Capital Grant (Grant No. 16). There were savings of 13.15 *per cent* (₹ 31,927.91 crore) under revenue grants and savings of 4.97 *per cent* (₹ 5,926.31 crore) under capital grant against the sanctioned provisions available in 2016-17. However, the savings of ₹ 31,927.91 crore under revenue grants were only notional and reflect over provisioning disregarding the realistic flow of revenue.

Railways incurred excess expenditure of ₹ 33.13 crore (Voted ₹ 22.42 crore and Charged ₹ 10.71 crore) during the year 2016-17. The excess expenditure does not augur well for fiscal prudence besides undermining Parliamentary control. The excesses over the budgetary sanction require regularization by Parliament under Article 115 (1) of the Constitution of India.

Misclassification of expenditure from one revenue grant to another and also from revenue to capital grant and vice-versa and cases of misclassification of expenditure from Voted and Charged were also identified in audit. Some instances of such misclassification of expenditure have been given in the report. The Public Accounts Committee in its various reports has expressed serious concern over large number of misclassification occurring in the Accounts of Railways and despite repeated assurances given by the Ministry of Railways in their Action Taken Notes that necessary remedial measures have been taken to ensure that misclassification is curbed, numerous instances of misclassification are still being noticed by Audit.

Indian Railways, as a departmental commercial undertaking, though prepares Balance Sheet and Profit and Loss Account besides Block Account, does not disclose the significant accounting policies which form the basis of preparation of financial statements like accounting of fixed assets, depreciation, valuation of investments etc. The key information viz. capital works-in-progress, depreciated value of assets, investments in property, plant and machinery etc. are either absent or cannot be recognized easily from the financial statements.

The major source of assets creation in Indian Railways was Gross Budgetary Support (59.07 *per cent*) followed by Deprecation Reserve Fund (14.15 *per cent*) and Capital Fund (11.69 *per cent*) of the total assets created.

Fixed Assets such as buildings, track structures etc. are not separately depicted in the Block Account. For maintaining transparency in the Accounts and disclosing the correct picture of all the fixed assets, the existing format of Block Account needs revision. The formats of Block Account and Balance Sheet have not been revised to distinctly exhibit the capital works-in-progress in Block Account, exhibition of the investments in the Balance Sheet etc.

Audit observed that no disclosure for the assets (rolling stocks) acquired through funding from Indian Railway Finance Corporation and projects executed under Extra Budgetary Resources (Institutional Finance) were made in the Block Accounts and Balance Sheets of the Zonal Railways and IR as well. Assets Registers, Land and Building Registers etc. were either not maintained in the Zonal Railways and Production Units or maintained but not updated to reflect the true value of assets created.

IR does not follow the system of disclosing the significant accounting policies which should form the basis of preparation of any Financial Statement such as Accounting of Fixed assets, Depreciation and provision of liability for pension etc. Balance Sheet of IR depicts Block Assets at their original cost and not at depreciated value. It is, however, reduced from its account at the time of replacement/renewal or condemnation without replacement. Thus, the value of block assets as depicted in the Balance Sheet did not represent the true written down value of the assets.

The system in vogue in IR is to set apart an adhoc sum towards contribution to DRF by charging off to the working expenses. The present policy results in under provisioning of depreciation and inadequate maintenance/replacement of assets. Existing policy of depreciation gives leverage to IR to manage Net revenue surplus at a desired level.

Recommendations

Recommendations on various aspects of Railways Finances are given below:

- ***The Operating Ratio during 2016-17 had deteriorated to the lowest level of 96.50 per cent since 2000-01 when it was 98.34 per cent. When actual expenditure on pension payments is taken into account, the Operating Ratio works out to 99.54 per cent. Since, Operating Ratio is a direct indicator of the working of Railways; the Ministry of Railways should also look into the various innovative ways for revenue generation and closely monitor the expenditure.***
- ***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. The fixation of passenger fare and freight charges should be based on the cost involved so that it brings both***

rationality and flexibility in pricing considering the financial health of Railways and the current market scenario. There is hardly any justification for not fully recovering the cost of passenger services in case of AC 1st Class, First Class and AC 2-Tier. However, since one of the factors for non-recovering full cost from these classes could be issue of free and concessional fare passes/ tickets to various beneficiaries in good numbers, this practice needs to be scaled down.

- ***Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over aged assets is indicative of weak financial health of Indian Railways. The huge backlog of renewal and replacement of over aged assets in railway system needs to be addressed for safe running of trains.***
- ***Total Capital grew from ₹ 1,83,488 crore as on 31 March 2013 to ₹ 3,12,635 crore as on 31 March 2017, total traffic handled declined from 7,27,610 million Net Tonne Kilometres to 7,01,813 million Net Tonne Kilometres respectively. Railways need to take measures to improve competitiveness of its services vis-à-vis Road and Air travel.***
- ***Allocation should be realistic and on conservative side keeping in view the realistic assessment of revenue streams.***
- ***Ministry of Railways should impress upon the budget controlling authorities for regular monitoring of expenditure.***
- ***Internal control mechanism should be strengthened to reduce the instances of misclassification of expenditure.***
- ***The unsanctioned expenditure should be controlled; administration should ensure all unsanctioned expenditure is regularised on priority.***
- ***Indian Railways needs to ensure that Block Accounts and Balance Sheets of Zonal Railways and Production Units reflect the true value of the assets duly supported by Assets Registers. Preparation of Assets Registers should be made mandatory for each Zonal Railways and Production Units.***
- ***Indian Railways should follow the system of disclosing the significant accounting policies forming the basis of preparation of financial statements such as accounting of fixed assets, depreciation, investments etc.***
- ***Ministry of Railways needs to make provision for depreciation in a more scientific method by adopting relevant accounting policies.***