Chapter 1 State of Finances

This chapter provides a broad perspective on the finances of the Indian Railways during 2017-18. It analyses critical changes in the major financial indicators with reference to the previous year, as well as the overall trends. The base data for this analysis is the Finance Accounts of the Indian Railways (IR). This document is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from government documents and reports[1] have also been used to analyse performance of Indian Railways during 2017-18.

1.1 Summary of Current Year's Fiscal Transactions

The following Tables present the summary of Indian Railways fiscal transactions during 2016-17 and 2017-18.

Table 1.1 – Summary of receipt and expenditure during 2017-18 *(₹ in crore)*

S. No	Details	Actual 2016-17	Budget Estimates 2017-18	Revised Estimates 2017-18	Actual 2017-18
Summary of Capital and Revenue expenditure					
1.	Capital Expenditure[2]	1,08,290.14	1,31,000.00	1,20,100.00	1,01,985.47
2.	Revenue Expenditure	1,60,469.48	1,80,550.00	1,81,000.00	1,77,264.03
Summary of Revenue Receipts and Revenue Expenditure					
1	Passenger Earnings	46,280.46 (4.51)	50,125.00	50,125.00	48,643.14 (5.11)
2	Freight Earnings	1,04,338.54 (-4.46)	1,18,156.50	1,17,500.00	1,17,055.40 (12.19)
3	Other Coaching Earnings[3]	4,312.00 (-1.36)	6,494.04	5,500.00	4,314.43 (0.06)
4	Sundry Earnings[4]	10,368.04 (74.88)	14,122.83	14,000.00	8,688.18 (-16.20)
5	Suspense	-6.84	100.00	100.00	24.16
6	Gross Traffic Receipts[5] (Item No.1 to 5)	1,65,292.20 (0.58)	1,88,998.37	1,87,225.00	1,78,725.31 (8.13)
7	Net Ordinary Working Expenditure[6]	1,18,829.61 (10.30)	1,29,750.00	1,30,200.00	1,28,496.51 (8.14)
8	Appropriation to				
	Depreciation Reserve Fund (DRF)	5,200.00 (-7.14)	5,000.00	5,000.00	1,540.00 (-70.38)
	Pension Fund	35,000.00 (1.45)	43,600.00	44,100.00	45,797.71 (30.85)

[1] Budget documents, Annual Statistical Statements of Indian Railways
[2] Gross Budgetary Support, Internal Resources and Extra Budgetary Resources
[3] Earnings from transportation of parcels, luggage and post office mail etc.
[4] Earnings from renting, leasing of building, catering services, advertisements, maintenance of sidings and level crossing, re-imbursement of loss on strategic lines etc.
[5] Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR.
[6] Operating expenses of IR.

Table 1.1 – Summary of receipt and expenditure during 2017-18 (*₹ in crore*)					
S. No	**Details**	**Actual 2016-17**	**Budget Estimates 2017-18**	**Revised Estimates 2017-18**	**Actual 2017-18**
9	Total Working Expenditure [7] (Item No.7 and Item No. 8)	1,59,029.61 (7.57)	1,78,350.00	1,79,300.00	1,75,834.22 (10.57)
10	Net Traffic Receipts (Item No.6 – Item No. 9)	6,262.59 (-62.04)	10,648.37	7,925.00	2,891.09 (-53.84)
11	Miscellaneous Receipts[8]	90.29 (-97.77)	500.00	200.00	204.33 (126.31)
12	Miscellaneous Expenditure[9]	1,439.88 (9.48)	2,200.00	1,700.00	1,429.81 (0.70)
13	Net Miscellaneous Receipt (Item No. 11 – Item No. 12)	-1,349.59	-1,700.00	-1,500.00	-1,225.48 (27.91)
14	Net Surplus (Item No.10 and Item No.13)	4,913.00 (-53.24)	8,948.37	6,425.00	1,665.61 (-66.10)
15	Surplus available for appropriation to				
	Development Fund (DF)	2,515.00 (106.19)	2,000.00	1,500.00	1,505.61 (59.87)
	Capital Fund (CF)	2,398.00 (-58.64)	5948.37	4,925.00	0
	Debt Service Fund (DSF)	0	0	0	0
	Rashtriya Rail Sanraksha Kosh (RRSK)	0	1000.00	0	0
	Railway Safety Fund (RSF)	0	0	0	160.00

Source: Railway Budget for 2016-17 and 2017-18 and Accounts for 2017-18
Note: Figures in brackets represent the increase/decrease in percentage over previous year.

As can be seen from the Table 1.1

1. Gross Traffic Receipts increased by 8.13 *per cent* during 2017-18 vis-à-vis 2016-17 as compared to 0.58 *per cent* growth in 2016-17. This was mainly due to increase in growth rate of freight earnings (by 12.19 *per cent*) and passenger earnings (by 5.11 *per cent*) as compared to the previous year. There was, however, shortfall in sundry earnings (by 16.20 *per cent*) as compared to previous year.

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[7]Operating expenses and appropriation to DRF and Pension Fund
[8]Miscellaneous Receipts comprise of sale of tender documents, liquidated damages and receipts by Railway Recruitment Board etc.
[9]Miscellaneous Expenditure comprise of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit etc.

2. Net Ordinary Working Expenses increased by 8.14 *per cent* in 2017-18 as compared to growth rate of 10.30 *per cent* in 2016-17.
3. 'Net Surplus' generated after meeting all revenue liabilities, decreased by 66.10 *per cent* in the current year, even though no dividend was required to be paid by the Railways. Net Surplus which was ₹ 4,913.00 crore in 2016-17, decreased to ₹ 1,665.61 crore in 2017-18. It was also lower than the Budget Estimates (BE) by ₹ 8,948.37 crore (81.39 *per cent*). This was due to shortfall in Net Traffic Receipt[10] (72.85 *per cent*) and 'Net Miscellaneous Receipt'[11] (27.91 *per cent*) as compared to the BE.
4. The Net Surplus of ₹ 1,665.61 crore was appropriated to Development Fund (₹ 1,505.61 crore) and Railway Safety Fund (₹ 160.00 crore). No funds were appropriated to Rashtriya Rail Sanraksha Kosh (RRSK) though an amount of ₹ 1,000.00 crore was envisaged in the BE.

1.2 Resources of IR

The main sources of receipts of IR are as follows:

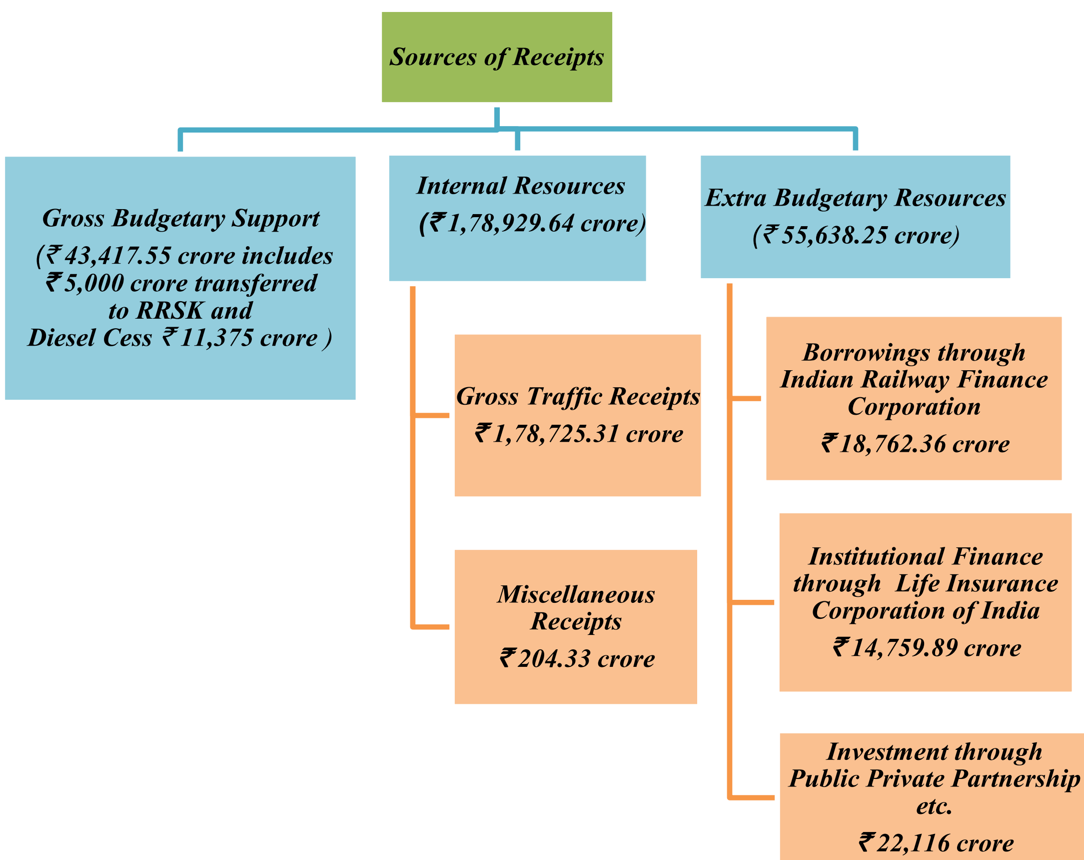
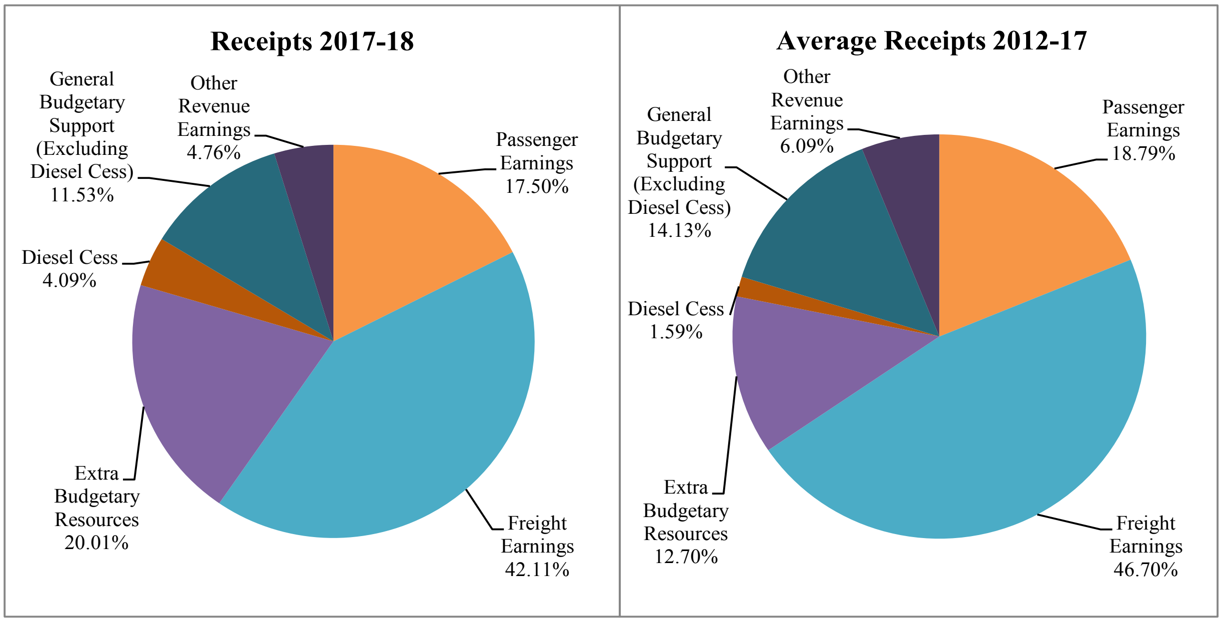


Figure 1.1: Sources of receipts

[10]*Excess of Gross Traffic Receipt over Total Working Expenses.*
[11]*Excess of Miscellaneous Receipts and Miscellaneous Expenditure.*

The relative share of various resources available for IR during the past five years and in 2017-18 in particular can be seen from the following Graph:

Figure 1.2: Relative share of various resources of Indian Railways



The above data shows that the largest resource of IR are the freight earnings followed by extra budgetary resources and passenger earnings. The share of extra budgetary resources and diesel cess increased in 2017-18. Share of freight earnings, passenger earnings, GBS and other revenue earnings decreased in the current year vis-à-vis average receipts during 2012-17.

1.2.1 Gross Budgetary Support

Railways received ₹ 32,042.55 crore as Gross Budgetary Support (GBS) from GoI. GBS included ₹ 5,000 crore received as transfer to RRSK. With the merger of Railway Budget with Union Budget, Railways have been exempted from payment of dividend to general revenues from 2016-17 onwards, which reduces their revenue expenditure. Railways also received ₹ 11,375 crore from Central Road Fund (out of diesel cess) during the year, as a part of GBS.

1.2.2 Internally generated resources of Indian Railways

Railways internal resources include earnings from freight and passenger business. Sundry and other coaching earnings include earnings from luggage and parcel, renting, leasing of buildings, catering services, advertisements, maintenance of sidings and level crossings, re-imbursement of loss on strategic lines etc. During 2017-18, railways generated total internal resources of ₹ 1,78,929.64 crore. The internal resources are utilized for revenue expenditure and expenditure on replacement and renewal of fixed assets through Depreciation Reserve Fund (DRF) and RRSK.

The trend of total revenue receipts for the last five years showed that while there has been an increase in passenger and freight earnings, other earnings decreased marginally during 2017-18. Overall the total earnings of IR increased by 8.19 *per cent* during 2017-18 as against negative growth rate of 1.78 *per cent* in 2016-17.

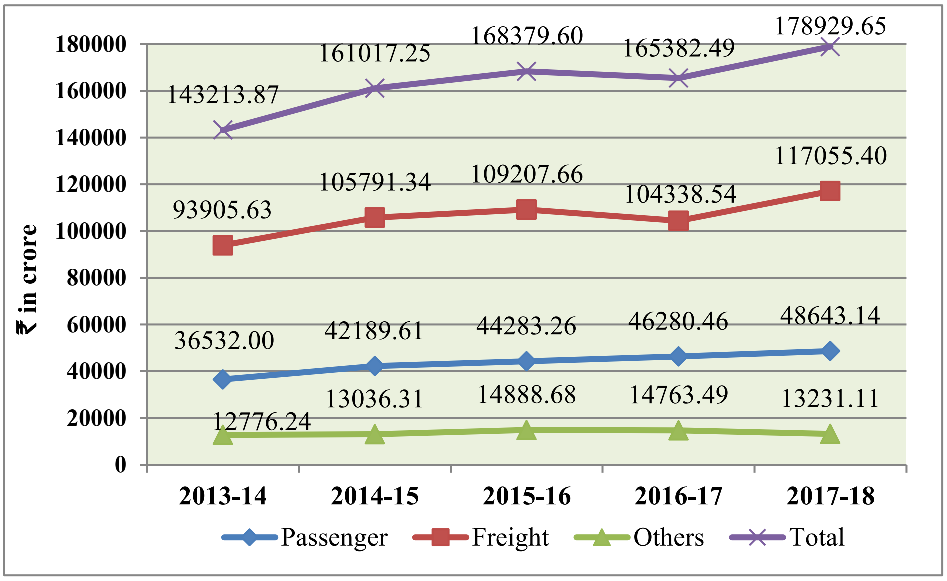


Figure 1.3: Revenue receipts during 2013-14 to 2017-18

The trend of growth rates of different segments of revenue receipts are discussed in the succeeding paragraphs.

a) Freight Earnings

As against the budget estimates of ₹ 1, 18,156.50 crore for freight earnings during 2017-18, the actual freight earnings were ₹ 1, 17,055.40 crore, short by one *per cent*. Rate of growth of freight loading, freight earnings, NTKM and rate per tonne per km of IR for the last five years ended 31 March 2018 are shown in Graph. As can be seen that there was an increase in freight loading by 4.83 *per cent* during 2017-18. This was the highest growth registered in the last five years. The growth in freight earnings has increased to 12.19 *per cent* as compared to previous years' negative growth rate of 4.46 *per cent*. The average lead (average haul of a ton of freight) which was 561 in 2016-17, as compared to 633 in 2013-14, increased marginally to 598 in 2017-18.

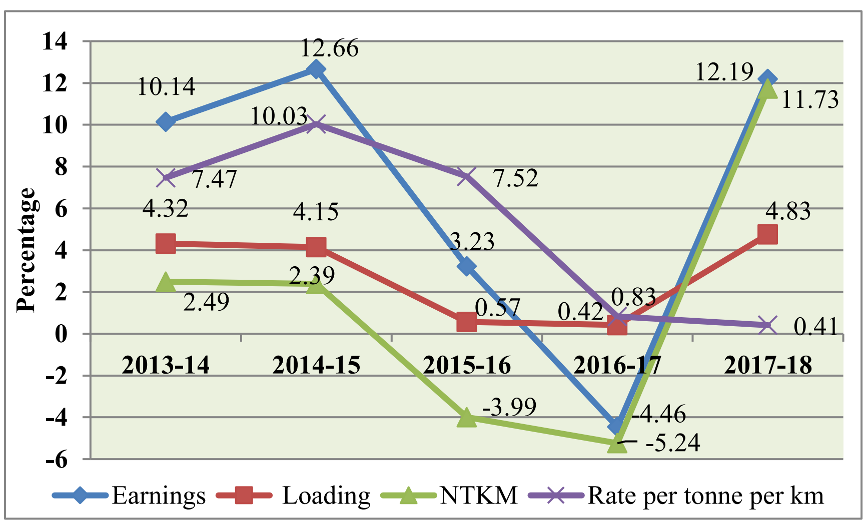


Figure 1.4: Annual Rate of Growth of Freight Earnings and Freight Loading

The statistics regarding various parameters of freight services during the past five years were as follows:

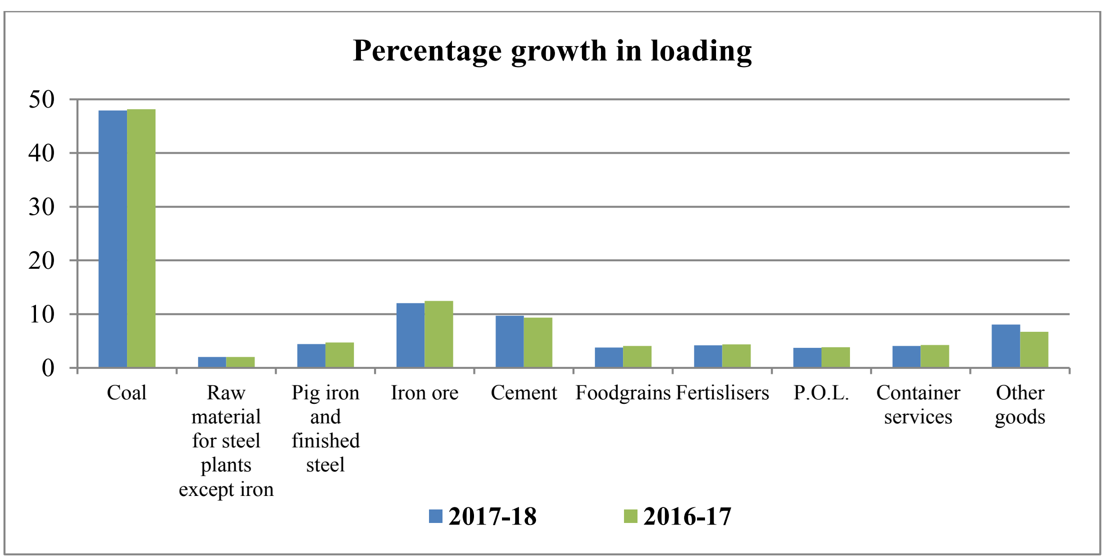
Table 1.2 - Freight Services Statistics

Year	Loading (Million Tonne)	NTKM[12] (in million) (Revenue Freight Traffic only)	Earnings (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2013-14	1051.64 (4.32)	665810 (2.49)	93,905.63 (10.14)	633	141.04 (7.46)
2014-15	1095.26 (4.15)	681696 (2.39)	1,05,791.34 (12.66)	622	155.19 (10.03)
2015-16	1101.51 (0.57)	654481 (-3.99)	1,09,207.66 (3.23)	594	166.86 (7.52)
2016-17	1106.15 (0.42)	620175 (-5.24)	1,04,338.54 (-4.46)	561	168.24 (0.83)
2017-18	1159.55 (4.83)	692916 (11.73)	1,17,055.40 (12.19)	598	168.93 (0.41)

Note: (i) Figures in bracket represent percentage increase over previous year.
(ii) Figures of 2017-18 (except Earnings) are provisional.

During 2017-18 the annual growth rate of NTKM was 11.73 *per cent.* The growth rate of 'Rate per tonne per kilometre' was 0.41 *per cent* against the growth rate of 0.83 *per cent* in 2016-17. Due to higher growth rate of loading and NTKM, the average lead improved from 561 km in 2016-17 to 598 km in 2017-18.

Major commodity wise growth in loading and earnings are given in the bar chart (Figure 1.5).



[12]***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 kilometre.***

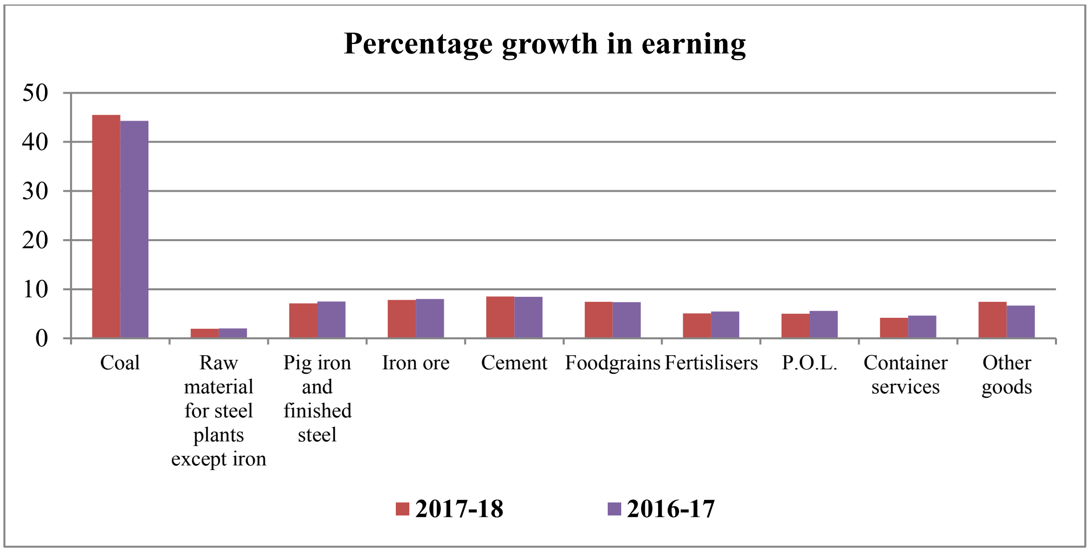


Figure 1.5: Major Commodity wise share of loading and earnings

The above major commodities (excluding Miscellaneous Goods Earnings) contributed to 93 *per cent* of the total freight earnings. Coal was the major component both in loading (47.88 per cent) and earnings (45.84 per cent). The loading in MT decreased in 2017-18 for Food Grains. However, the earnings had increased, which indicated that the NTKM as well as lead for this traffic had increased. Further, commodity-wise analysis shows that lead of all the commodities carried by the railways had increased in 2017-18 as compared to previous year.

i) Freight advance received from National Thermal Power Corporation (NTPC)

Audit further observed that IR had received freight advance of ₹ 5,000 crore (inclusive of GST of ₹ 238.10 crore) in March 2018 from NTPC. This was towards transport of coal during the financial year 2018-19. IR treated it as goods earning for the year 2017-18. The inclusion of the advance freight in the goods earning for the financial year 2017-18 was justified on the ground that Government Accounts are prepared on cash basis.

Indian Railways had received this freight advance for the services to be provided in the next financial year (2018-19). As already pointed out in Para 1.1 (4) of this report, the Net Surplus after meeting all revenue liabilities dipped to ₹ 1,665.61 crore in 2017-18 as against ₹ 4,913 crore in 2016-17. This was despite the Railways being exempted from the payment of dividend from 2016-17 onwards. In fact, the Railways would have ended up with a negative balance instead of surplus but for this arrangement of advance freight of ₹ 4,761.90 crore[13] taken after signing of MoU with NTPC in March 2018.

[13] ***Total Freight advance ₹ 5,000 crore less GST ₹ 238.10 crore***

ii) Unrealized Earnings

Unrealized earnings on account of movement of traffic is classified as 'Traffic Suspense'. Outstanding amount towards rent/lease of building/land and maintenance charges of sidings etc. is 'Demand Recoverable'. Against the target for recovery of ₹ 100 crore under unrealized earnings, IR realized only ₹ 24.16 crore during 2017-18. The outstanding under unrealized earnings reduced from ₹ 1,672.26 crore in 2016-17 to ₹ 1,664.59 crore at the end of 2017-18. Of this, an amount of ₹ 1,345.63 crore was outstanding under Traffic Suspense and ₹ 318.96 crore under 'Demand Recoverable'. The major portion of outstanding under Traffic Suspense was on account of un-recovered freight and other charges from Power Houses and State Electricity Boards (SEBs). This amounted to ₹ 663.93[14] crore, and constituted 49.34 *per cent* of the total Traffic Suspense. The Ministry of Railways needs to enhance its efforts to realize the old outstanding dues from SEB's.

b) Passenger Earnings

As against the budget estimates of ₹ 50,125 crore for passenger earnings during 2017-18, the actual passenger earnings were ₹ 48,643.14 crore. The growth rate for number of passengers, earnings, average lead and average earnings per passenger during the past five years were as follows:

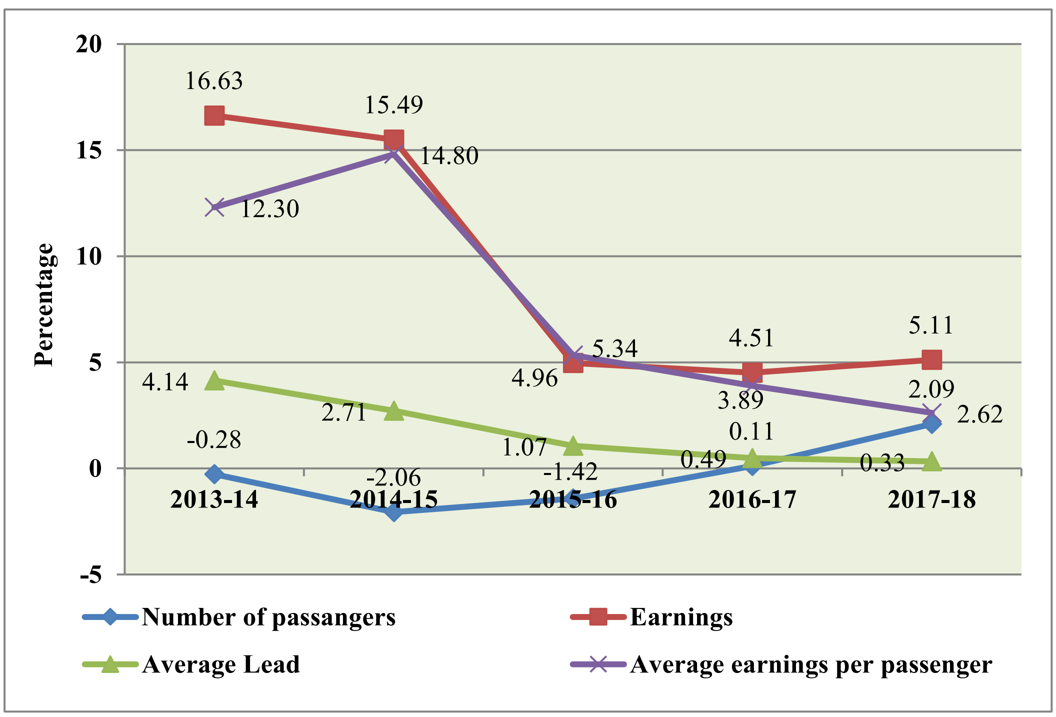


Figure 1.6: Growth rate for number of passengers, earnings, average lead and average earnings per passenger

[14] **Major defaulters are *Punjab State Electricity Board ₹ 446.95 crore, Delhi Vidyut Board ₹ 114.28 crore, Rajasthan State Electricity Board ₹ 40.18 crore, Maharashtra State Electricity Board ₹ 32.97 crore, Uttar Pradesh State Electricity Board ₹ 18.69 crore and West Bengal State Electricity Board ₹ 5.77 crore*.**

During 2017-18, the annual growth rate of passenger originating improved by 2.09 *per cent* over the previous year. The growth was 2.17 *per cent* for Suburban segment and 1.99 *per cent* for Non Suburban segment. Despite such small increase in number of passengers in Non Suburban segment, the passenger earnings increased over 5 *per cent*.

Key performance indicators of passenger services are as follows:

Table 1.3 – Key passenger indicators

Year	Number of Passenger (in millions)	Passenger Kilometre (in million)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger per kilometre (in paise)
Suburban Passenger Traffic					
2013-14	4552.18 (1.69)	150259 (3.16)	2,260.66 (12.45)	33.01	15.05 (9.00)
2014-15	4505.03 (-1.04)	151775 (1.01)	2,493.22 (10.29)	33.69	16.43 (9.19)
2015-16	4458.86 (-1.02)	145253 (-4.30)	2,575.22 (3.29)	32.58	17.73 (7.93)
2016-17	4566.43 (2.41)	145417 (0.11)	2,689.44 (4.44)	31.84	18.49 (4.32)
2017-18	4665.34 (2.17)	149464 (2.78)	2,803.79 (4.25)	32.04	18.76 (1.43)
Non Suburban Passenger Traffic					
2013-14	3844.88 (-2.52)	990153 (3.96)	34,271.59 (16.92)	257.53	34.61 (12.47)
2014-15	3719.09 (-3.27)	995415 (0.53)	39,696.39 (15.83)	267.65	39.88 (15.22)
2015-16	3648.47 (-1.90)	997786 (0.24)	41,708.04 (5.07)	273.48	41.80 (4.82)
2016-17	3549.67 (-2.71)	1004418 (0.66)	43,591.02 (4.51)	282.96	43.40 (3.82)
2017-18	3620.43 (1.99)	1028235 (2.37)	45,839.35 (5.16)	284.01	44.58 (2.72)

Source-Indian Railways Annual Statistical Statements (Statement No.12-Passenger Revenue Statistics

Note: ***(i) Figures in bracket represent percentage increase over previous year.***
(ii)Figures for 2017-18 (except Earnings) are provisional.

As can be seen from the above data, the average earnings per passenger per kilometre increased only marginally by 1.43 *per cent* from i.e. 18.49 paise in 2016-17 to 18.76 paise in 2017-18 in Suburban sections. For Non Suburban sections the increase was only 2.72 *per cent* i.e. from 43.40 paise in 2016-17 to 44.58 paise in 2017-18.

c) Sundry Earnings and Other Coaching Earnings

As against the budget estimates of ₹ 20,616.87 crore for ‘Sundry and other coaching earnings’ during 2017-18, the actual earnings were only ₹ 13,002.61 crore. Sundry and other coaching earnings constituted 7.28 *per cent* of the Gross Traffic Receipts in the current year. It decreased by 11.43[15] *per cent* in 2017-18 against the growth rate of 42.52 *per cent* recorded in 2016-17.

Audit analysis showed that the decrease was due to decrease in earnings from right of way leave facility, rent/leasing of land, interest and maintenance charges of saloons & level crossings, earnings from advertisements, receipt from catering department, other sundry receipts etc. Till 2016-17 the Railway PSUs were paying dividends to IR on the equity invested by the Railways. From 2017-18, it was decided that dividend payable by the Railway PSUs would flow into General Finances[16]. Receipts from reimbursement of operating loss on strategic lines ₹ 1,733.80 crore was also less than the previous year’s receipts of ₹ 3,512.03 crore.

The ‘Sundry Earnings’ also included an amount of ₹ 2,580 crore received from IRCON just before the end of financial year 2017-18, towards land sales/leasing which IRCON would undertake in future. The amount will be adjusted against the dues to the Railways, once IRCON raises funds through planned land sales/leasing out. The overall ‘Sundry Earnings’ have decreased as compared to previous years, despite receipt of this significant amount from IRCON.

1.2.3 Extra Budgetary Resources

In addition to GBS and their internally generated resources, IR also obtains funds through extra budgetary resources. This includes funds raised through Indian Railway Finance Corporation (IRFC) for procurement of rolling stock and for execution of projects of IR by Rail Vikas Nigam Limited (RVNL). Institutional Finance (EBR-IF) from LIC of India for funding capital projects and funds raised through implementing projects in PPP mode also form a part of EBR. During 2017-18, IR raised an amount of ₹ 55,638.25 crore through extra-budgetary resources.

Railways have been raising funds from market since inception of IRFC in 1987. The funds through institutional finance from Life Insurance Corporation of India are being raised only from 2015-16 onwards. A Memorandum of Understanding was signed between MoR and LIC of India in March 2015. LIC committed funding assistance for identified projects of ₹ 1.5 lakh crore over a five-year period starting from 2015-16. LIC funds are drawn initially by IRFC by issuing bonds, which is subscribed to LIC. The amount raised by IRFC through these bonds is provided to Indian Railways as pre-lease disbursement towards execution of identified

[15] ***₹ 10,300.03 crore in 2015-16, ₹ 14,680.04 crore in 2016-17, ₹ 13,002.61 crore in 2017-18.***

[16] ***Ministry of Finance, Department of Economic Affairs, Budget Division letter no.F.7(2)-B(AC)/2016 dated 29 September 2017***

projects. In the past three years an amount of ₹ 37,359.89 crore has been raised through this mode, against which an expenditure of ₹ 35,927.41 crore has been incurred.

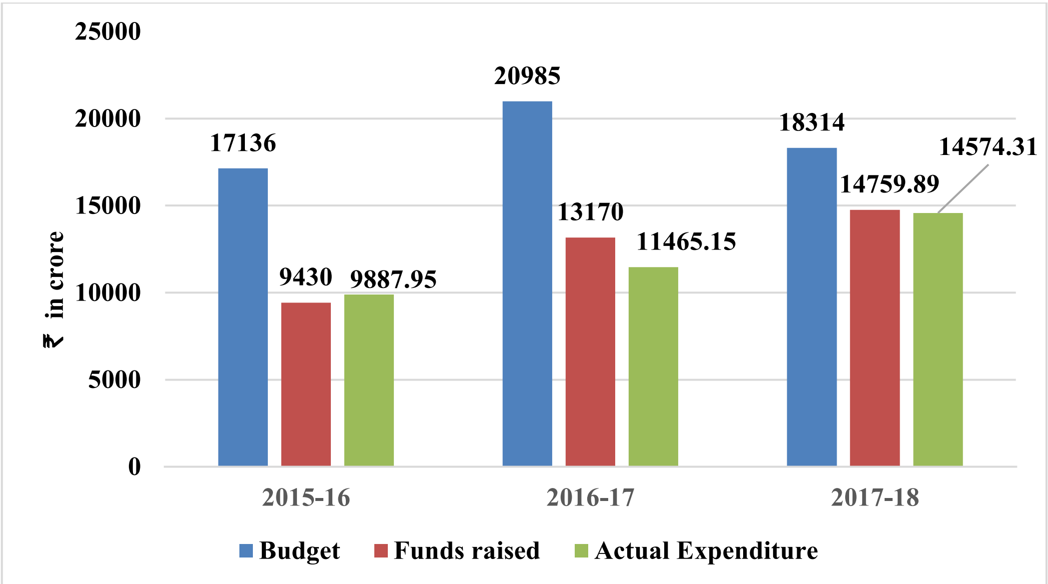


Figure 1.7: EBR-IF Budget estimates, funds raised and actual expenditure

Thus, against the financial assistance of ₹ 1.5 lakh crore targeted for the five-year period from 2015-2020, only ₹ 37,359.89 crore has been raised during the first three years (2015 to 2018). Audit observed that the amount raised has been less than the amount estimated in all the three years since 2015-16. Railways could not spend this amount fully during the past two years.

1.3 Cross-Subsidization of Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. The latest available Report[17] 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 ₹ 26,025.46 crore in 2012-13 to ₹ 37,936.84 crore[18] in 2016-17. This loss has been steadily increasing over the years. On the other hand, the profit earned on freight operations during 2016-17 was ₹ 39,956.10 crore. Almost 95 *per cent* of this profit from freight traffic was utilized to compensate the loss of ₹ 37,936.84 crore on operation of passenger and other coaching services of IR. Railways have been able to retain only five *per cent* of the profit on freight earnings after subsidizing the loss on passenger services in 2016-17. Whereas such retention was 14.47 *per cent* in 2015-16, indicating deterioration in the operational profit.

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[17] ***Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2016-17***

[18]***In respect of Broad Gauge and Metre Gauge Sections.***

The operational losses of various classes of passenger services during 2012-13 to 2016-17 are given in table below:

Table 1.4 Operational losses of various Classes of Passenger Services (₹ in crore)

Class of Passenger services	2012-13	2013-14	2014-15	2015-16	2016-17
AC-Ist class	(-) 40.86 (7.48)	(-) 47.39 (7.54)	(-) 127.49 (17.68)	(-) 175.79 (23.05)	(-) 139.39 (17.68)
Ist class	(-) 61.36 (61.26)	(-) 92.06 (75.82)	(-) 69.50 (74.71)	(-) 58.00 (81.03)	(-) 53.31 (80.27)
AC 2 Tier	(-) 348.09 (12.53)	(-) 497.28 (15.26)	(-) 495.59 (13.32)	(-) 463.11 (12.01)	(-) 559.27 (13.60)
AC 3 Tier	494.99 (10.29)	410.67 (6.84)	881.52 (12.57)	898.06 (11.69)	**1,040.52 (12.43)**
AC Chair car	(-) 38.12 (4.00)	(-) 148.47 (11.32)	(-) 142.26 (9.90)	(-) 5.58 (0.40)	**117.83 (8.13)**
Sleeper Class	(-) 6,852.72 (45.00)	(-) 8,407.85 (44.57)	(-) 8,510.06 (41.50)	(-) 8,301.15 (38.65)	(-) 9,313.27 (40.80)
Second class	(-) 5,167.53 (38.90)	(-) 7,134.42 (44.75)	(-) 7,642.13 (43.19)	(-) 8,569.77 (45.37)	(-) 10,024.88 (49.17)
Ordinary (All Class)	(-) 9,783.80 (67.78)	(-) 11,105.24 (67.08)	(-) 11,673.80 (65.58)	(-) 13,237.74 (69.14)	(-) 14,647.64 (70.19)
EMU suburban services	(-) 3,365.47 (61.70)	(-) 4,027.14 (62.98)	(-) 4,679.11 (63.98)	(-) 5,124.74 (65.19)	(-) 5,323.62 (64.74)

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

Note: 1. Negative figures denote losses and positive figures denote profits on passenger services.
2. Figures in bracket represent percentage loss/profit.

As can be seen from the data above, all classes of train services have incurred losses during 2016-17 except AC 3 Tier and AC Chair Car which could recover its operational cost and made profit. 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 in various classes of passenger services ranged from 13.60 *per cent* (AC 2) to 80.27 *per cent* (First Class). The loss on EMU Suburban train services was 64.74 *per cent.*

One of the contributing factors for non-recovering full cost from these classes is free and concessional fare passes/tickets to various beneficiaries in good numbers. During the past three years, 11.45 *per cent* of the reserved passengers travelling by railways have availed various types of concessions. IR had forgone about 8.42 *per cent* of reserved passenger earnings towards various concessions during the last three years. While 52.5 *per cent* of the amount of concession pertained to concession to senior citizens, 37.2 *per cent* was on account of concession to Privilege Pass/PTO holders. A detailed analysis on concessions given by the railways is given in Chapter 2 of this report.

1.4 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Capital Expenditure'. Revenue expenditure includes ordinary working expenditure and miscellaneous expenditure.

The total expenditure of IR grew from ₹ 2,68,759.62 crore in 2016-17 to ₹ 2,79,249.50 crore in 2017-18, registering an increase of 3.90 *per cent*. While capital expenditure decreased by 5.82 *per cent*, revenue[19] expenditure increased by 10.47 *per cent* during the same period. The share of revenue expenditure to total expenditure increased from 60 per cent in 2016-17 to 63.5 *per cent* in 2017-18. Capital expenditure decreased from 40 *per cent* in 2016-17 to 36.5 *per cent* in 2017-18.

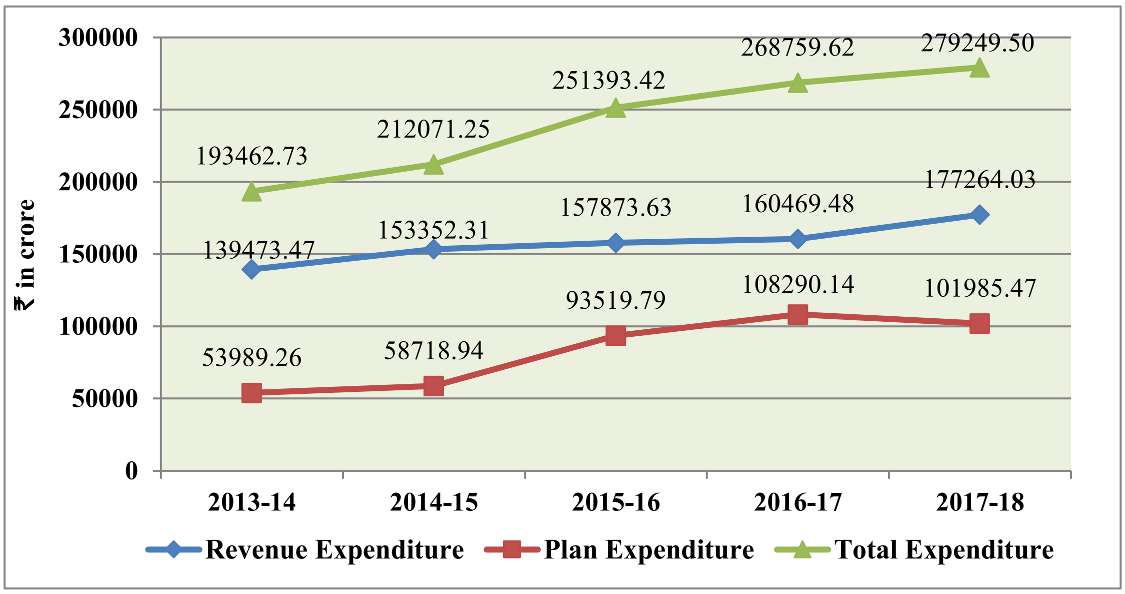
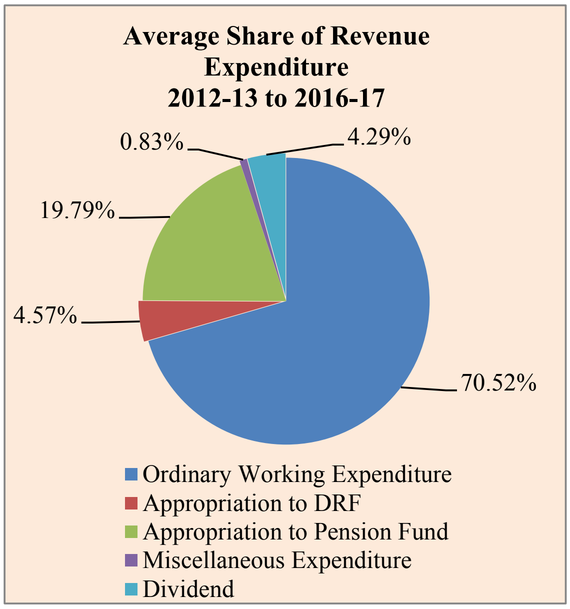


Figure 1.8: Plan and Revenue Expenditure in the last five years

[19] ***Excluding amount of surplus appropriated to DF, CF, DSF and RRSK (2013-14 - ₹ 3,740.40 crore, 2014-15 – ₹ 7,664.94 crore, 2015-16 – ₹ 10,505.97 crore, 2016-17 ₹ 4,913.00 crore and 2017-18 ₹ 1,665.61 crore).***

1.4.1 Revenue Expenditure



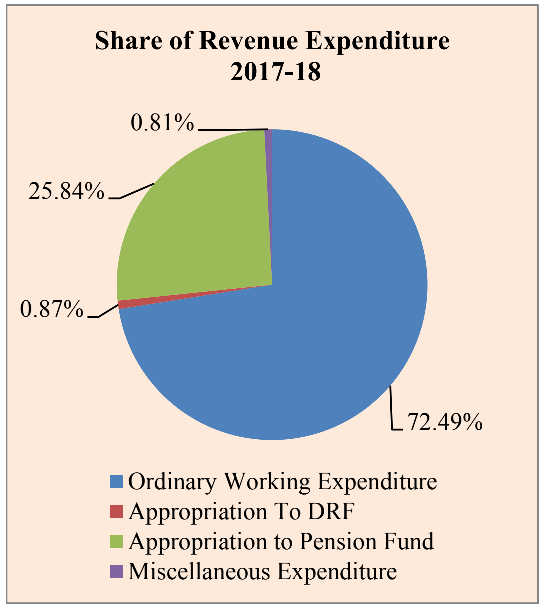


Figure 1.9: Share of Revenue Expenditure in last five years

Ordinary Working Expenditure (OWE) comprises expenditure on day-to-day maintenance and operations of IR. This includes 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[20] etc. During 2017-18, OWE increased to 72.49 *per cent* of the total revenue expenditure as compared to the average of 70.52 *per cent* during the past five years.

a) Appropriation to Depreciation Reserve Fund

Appropriation to DRF decreased significantly in 2017-18 as compared to the average appropriation during 2012-17. Against the budgeted amount of ₹ 5,000 crore for 2017-18, only ₹ 1,540 crore was appropriated to DRF. Of this, ₹ 1,100 crore was transferred to RRSK for undertaking critical safety works. As pointed out last year by Audit, under provisioning for depreciation is resulting in piling up of 'throw forward' of works relating to renewal of over aged assets.

b) Appropriation to Pension Fund

Appropriation to Pension Fund is the second largest component of revenue expenditure. It was 25.84 *per cent* of the total revenue expenditure in 2017-18, significantly higher than the average of 19.79 *per cent* during the past five years. Railways appropriated ₹ 45,797.71 crore to the Pension Fund in 2017-18, while

[20] ***Excluding pension payments in respect of Railway Production Units and Miscellaneous Organisations***

only ₹ 35,000 crore was appropriated last year. The actual expenditure on pension was ₹ 44,757.15 crore (for Zonal Railways) against this appropriated amount in 2017-18.

Para No 339 of Indian Railway Financial Code Volume-I, interalia provides that estimate amount of appropriation to the Pension Fund is based on actuarial calculations to provide for liability arising from pensionable service rendered by railway employees for varying periods. Where such actuarial calculations are not completed, the appropriation is made on an adhoc basis to be suitably re-assessed subsequently.

Audit observed that neither the estimation of pension liability was based on actuarial calculations nor was it re-assessed subsequently. An audit comment in this regard was made in the Para No.3.3.4.2 of Report No.12 of 2013. MoR in their ATN stated that the appropriation to this fund was being made on need-cum-availability basis. The contention of MoR was not in line with the existing guidelines of estimation on actuarial basis.

c) Component-wise Revenue Expenditure

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 Graph below:

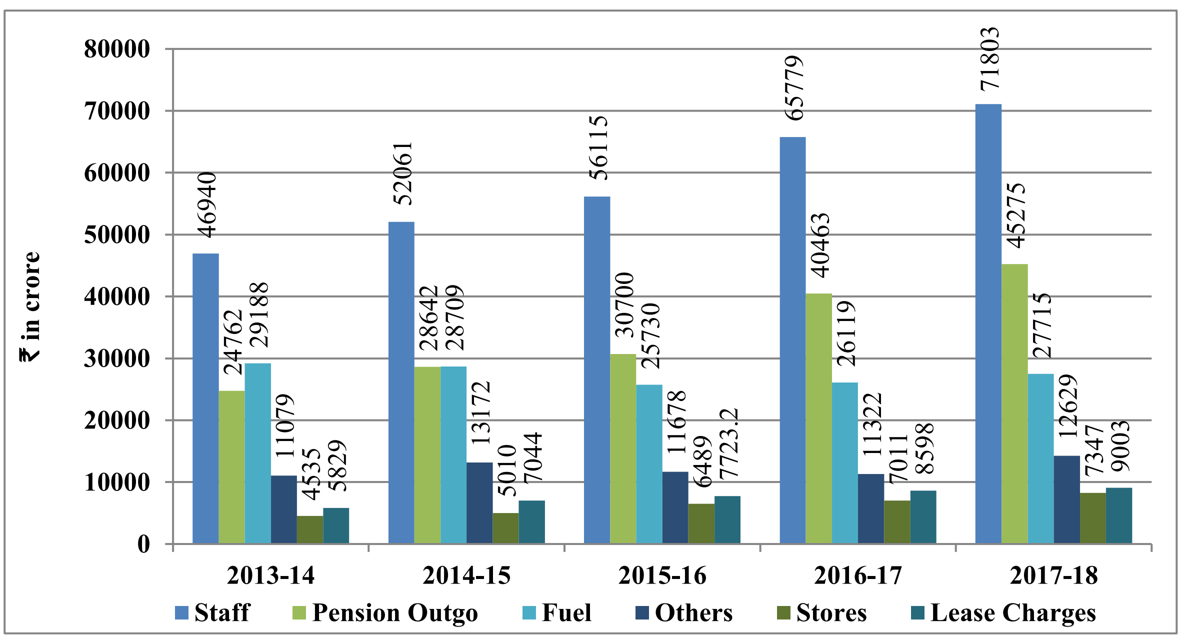


Figure 1.10: Component wise expenditure

Note-(i) Figures for 2016-17 are revised figures (based on actuals).

As can be seen from the above, Staff cost (including pension outgo) constituted around 67 *per cent* of the working expenses during the current year. There was spurt in the expenditure under staff and pension outgo due to implementation of Seventh Pay Commission.

The committed expenditure of the IR consisting of staff cost, pension payments and lease hire charges on rolling stock, was almost 72 *per cent* of the total working expenditure in 2017-18.

1.4.2 Capital Expenditure

IR is required to augment 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 etc. are carried out through capital expenditure.

a) Source-wise Capital Expenditure

The capital expenditure of IR is financed from three sources viz. GBS, internal resources[21] and extra budgetary resources[22]. During the past five years, the contribution from various sources towards capital expenditure can be seen from the following table:

Table 1.5 – Source-wise Capital Expenditure for Indian Railways (₹ in crore)

Source	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18	
					Budget Estimates	Actual
Gross Budgetary Support[23]	29,055.38 (53.82)	32,327.60 (55.05)	37,608.47 (40.21)	45,231.64 (41.77)	55,000.00 (41.98)	43,417.55 (42.57)
Internal Resources	9,709.00 (17.98)	15,347.24 (26.14)	16,845.31 (18.01)	10,479.84 (9.68)	14,000.00 (10.69)	3,069.77 (3.01)
Total (GBS and Internal Resources)	*38,764.38 (71.80)*	*47,674.84 (81.19)*	*54,453.78 (58.23)*	*55,711.48 (51.45)*	*69,000.00 (52.67)*	*46487.32 (45.58)*
Extra Budgetary Resources (IRFC,RVNL, EBR-IF, PPP)	15,224.88 (28.20)	11,044.10 (18.81)	39,066.01 (41.77)	52,578.66 (48.55)	62,000.00 (47.33)	55,498.15 (54.42)
Grand Total	**53,989.26**	**58,718.94**	**93,519.79**	**1,08,290.14**	**131,000.00**	**1,01,985.47**

The share of GBS to the total capital expenditure increased marginally from 41.77 *per cent* in 2016-17 to 42.57 *per cent* in 2017-18. Share of EBR increased from 48.55 *per cent* in 2016-17 to 54.42 *per cent* in current year. However, the share of internal resources in total capital expenditure, which was as high as 26.14 *per cent* in 2014-15, decreased to 3.01 *per cent* in 2017-18. Decline in generation of internal resources resulted in greater dependence on GBS and EBR. During 2017-18, Ministry of Railways obtained ₹ 18,669.86 crore from IRFC for Rolling Stock and ₹ 92.50 crore for Doubling projects being executed by RVNL. An amount of

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[21] ***Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund***
[22] ***Market borrowing through IRFC Limited for rolling stock and new network links by RVNL***
[23] ***Includes expenditure from Railway Safety Fund***

₹ 14,759.89 crore was obtained through EBR-IF for New Lines (Construction), Gauge Conversion, Doubling, Railway Electrification Projects and Traffic Facilities and ₹ 22,116 crore through Public Private Partnership (PPP) mainly for expenditure on New Line Projects, Traffic Facilities and Road Safety Works etc. The actual expenditure through EBR-IF during 2017-18 was ₹ 14,574.31 crore. Thus, there was an unspent amount of ₹ 185.58 crore under EBR-IF.

b) Expenditure under various Plan Heads

Indian Railways undertakes capital expenditure under the following Plan heads:

Table 1.6 - Category-wise Capital Expenditure (₹ in crore)

Plan Heads	2013-14	2014-15	2015-16	2016-17	2017-18
New Lines (Construction)	6,659.86 (12.34)	8,401.45 (14.31)	15,789.74 (20.13)	15,969.89 (19.61)	9,183.82 (11.50)
Gauge Conversion	2,873.71 (5.32)	3,520.12 (5.99)	3,615.65 (4.61	3,769.92 (4.63)	2880.11 (3.61)
Doubling	3,400.99 (6.30)	4,132.32 (7.04)	10,472.35 (13.35	9,093.23 (11.16)	11,240.34 (14.07)
Traffic Facilities & Yard Remodelling	655.50 (1.21)	780.74 (1.33)	983.00 (1.25	910.67 (1.12)	12,24.84 (1.53)
Track Renewal	3,665.33 (6.79)	3,734.39 (6.36)	4,367.59 (5.57	5,076.33 (6.23)	7,727.71 (9.68)
Bridge Work	377.48 (0.70)	413.11 (0.70)	517.20 (0.66	474.52 (0.58)	448.73 (0.56)
Signalling and Telecommunication	899.47 (1.67)	1,002.49 (1.71)	892.89 (1.14	951.56 (1.17)	1,255.64 (1.57)
Rolling Stock and Payment of Capital Component of Lease charges	22,267.49 (41.24)	21,723.98 (37.00)	24,240.71 (30.90)	26,610.98 (32.67)	28,119.11 (35.21)
Workshop and Production Units and Plant & Machinery	2,264.42 (4.19)	2,129.02 (3.63)	1,921.14 (2.45)	1,965.00 (2.41)	1,753.57 (2.20)
Investment in Government Undertakings	4,289.58 (7.95)	4,865.31 (8.29)	7,349.71 (9.37)	7,184.13 (8.82)	4,887.99 (6.12)
Others	6,635.43 (12.29)	8,016.01 (13.65)	8,288.81 (10.57)	9,449.82 (11.60)	11,147.61 (13.96)
Total	**53,989.26**	**58,718.94**	**78,438.79**	**81,456.05**	**79,869.47**

Source-Indian Railways Appropriation Accounts-Grant No.80 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.

In addition to the above, IR also undertook new line, traffic facility works, Rolling stock, Road Safety Works (Road Over/Under Bridge) etc. through PPP mode. The share of expenditure on track related works decreased from 44.50 *per cent* in 2016-17 to 42.52 *per cent* in 2017-18. Share of expenditure on 'Rolling Stock and Capital

Component of Lease charges increased from 32.67 *per cent* in 2016-17 to 35.21 *per cent* in 2017-18.

1.5 Revenue surplus

The 'Net revenue surplus' is the surplus available with the railways after meeting all expenditure of revenue nature such as staff cost including pension, operational expenses, repair and maintenance cost and appropriation to DRF and Pension Fund. This surplus is further allocated to various Railway Funds such as DF, CF, DSF, RSF and RRSK. The net revenue surplus during the years 2008-09 to 2017-18 can be seen in the Graph below:

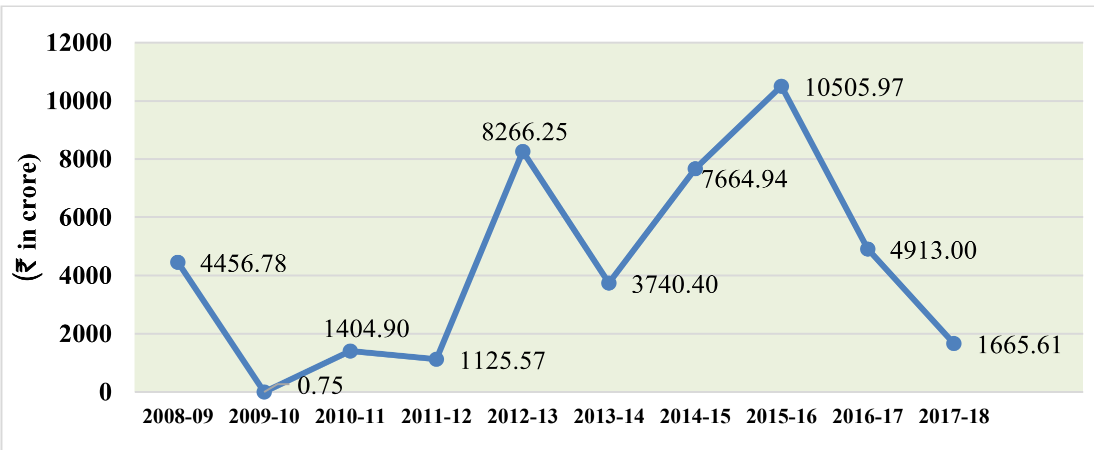

Figure 1.11 Revenue Surplus

The net surplus declined from ₹ 4,913.00 crore in 2016-17 to ₹ 1,665.61 crore in 2017-18. The decline during 2017-18 was mainly due to negative growth rate of sundry earnings (16.20 *per cent*) and increase in Total Working Expenses (10.57 *per cent*). Continuous decline of net surplus is indicative of failing financial health of IR. In fact IR would have ended with a negative balance of ₹ 5,676.29 crore but for receipt of advance of ₹ 4,761.90 crore from NTPC and ₹ 2,580 crore from IRCON.

1.6 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:

1.6.1 Operating Ratio

Operating Ratio (OR) represents the percentage of working expenses to traffic earnings. OR Ratio of IR has deteriorated steadily in the last two years and stood at 98.44 *per cent* in 2017-18, which meant that railways spent ₹ 98.44 to earn

₹ 100. This was primarily due to higher growth rate of working expenses (10.29 per cent) as compared to previous year (7.63 *per cent*). The OR of IR during the past ten years was as follows:

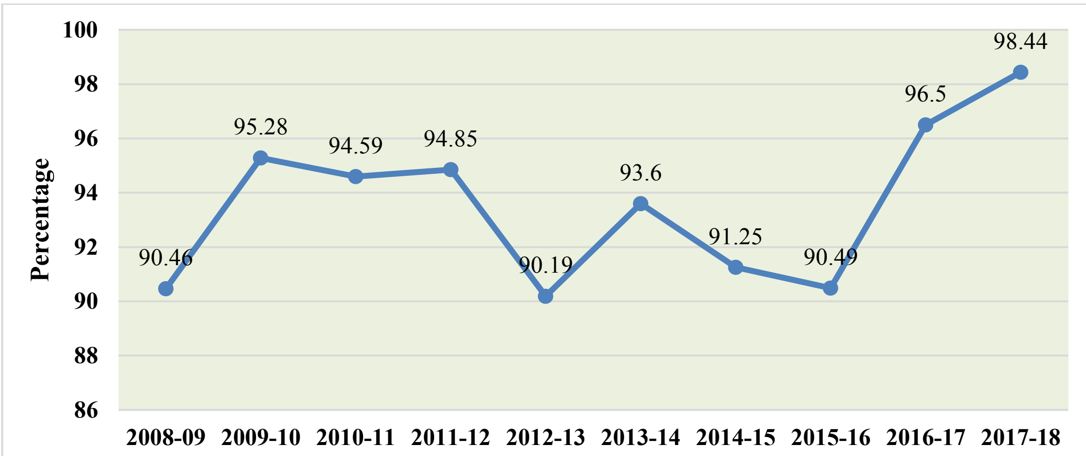

Figure 1.12: Operating Ratio of Indian Railways

As can be seen from the Graph above operating performance has been the worst in 2017-18. Further, if advance freight of ₹ 4,761.90 crore from NTPC (excluding GST of ₹ 238.10 crore) and advance of ₹ 2,580 crore from IRCON was not included in the earnings of 2017-18, OR would have been 102.66 *per ce*nt instead of 98.44 *per cent*.

1.6.2 Capital Output Ratio

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. COR of IR during the last five years ended on 31 March 2018 was as follows:

Table 1.7: Capital Output Ratio of IR

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKM) (in Million) (Revenue Freight Traffic only)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in Millions)	Million NTKMs		
31.03.2014	2,088,443	665,810	1,140,412	80,969	746,779	280
31.03.2015	2,421,170	681,696	1,147,190	81,450	763,146	317
31.03.2016	2,751,353	654,481	1,143,039	81,566	736,047	374
31.03.2017	3,024,578	620,175	1,149,835	81,638	701,813	431
31.03.2018	3,247,256	692,916	1,177,699	83,617	776,533	418

Source-Indian Railways Annual Statistical Statements
Note: Figures for the period as on 31 March 2017 are revised figures. Figures for 2017-18 except Capital including Investments from Capital Fund are provisional.

COR had increased from 280 paise in 2013-14 to 431 paise in 2016-17 indicating decrease in physical performance of the IR as compared to capital employed. COR, however, improved during 2017-18 as compared to the previous year.

1.6.3 Staff Productivity

In IR, the Staff productivity[24] is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It increased by 9.18 *per cent* from 2013-14 (599) to 2017-18 (654) of Open Line staff of all Zonal Railways. Improvement in staff productivity in the last five years was due to increase in freight carried (tonnage) and passenger originating (total distance carried/ travelled).

During 2017-18, highest Staff Productivity of 1704 Million NTKM was achieved by East Coast Railway. Staff Productivity of 234.40 Million NTKM of Eastern Railway was the lowest during the same period.

1.7 Railway Funds

The following funds are operated by Indian Railways, appropriation of which are made for specific purposes. These funds (except RSF and RRSK) also accrue interest at the rate fixed by the Ministry of Finance. The details of the funds are given below:

Table 1.8 Fund Balances (₹ *in crore)*

Name of Fund	Opening Balance	Accretion during the year	Withdrawal during the year	Closing Balance
Depreciation Reserve Fund (DRF)	450.50	1787.41	1525.82	712.09
Pension Fund	594.76	46654.26	45275.33	1973.69
Development Fund (DF)	402.63	1560.97	1380.51	583.09
Capital Fund (CF)	305.43	54.44	0.00	359.87
Railway Safety Fund (RSF)	23.26	11671.27	11547.70	146.83
Debt Service Fund (DSF)	800.23	163.80	771.02	193.01
RRSK	0	16100.00	16090.75	9.25
Total	**2,576.81**	**77992.15**	**76591.13**	**3977.83**

Note- ***1.*** ***Accretion includes financial adjustments, appropriation to fund and interest received on fund balances during the year.***

2. ***Accretion under DRF, DF and RSF includes financial adjustments of ₹ 0.63 crore, ₹ 4.42 crore and ₹ 136.27 crore respectively.***

[24] ***Annual Statistical Statements of Indian Railways***

1.7.1 Depreciation Reserve Fund

For replacement and renewal of assets, the Railways maintain DRF financed by transfer from revenue for Zonal Railways and by transfer from Workshop Manufacture Suspense (WMS) for Production Units. During 2017-18, ₹ 1,740 crore was appropriated against the BE of ₹ 5,200 crore[25] and ₹ 1,525.82 crore spent. The amount is insignificant as compared to the 'throw forward' for works to be done under DRF. The 'throw forward' value of assets to be replaced from DRF (up to 2017-18) was estimated at ₹ 1,01,194 crore. This mainly included ₹ 32,975 crore on rolling stock, ₹ 61,551 crore on track renewals, ₹ 1,288 crore on bridge works, ₹ 1,758 crore on signaling and telecommunication works and ₹ 659 crore on machinery and plant. Thus, there is huge backlog of renewal and replacement of over aged assets, which needs to be replaced timely, for safe running of trains.

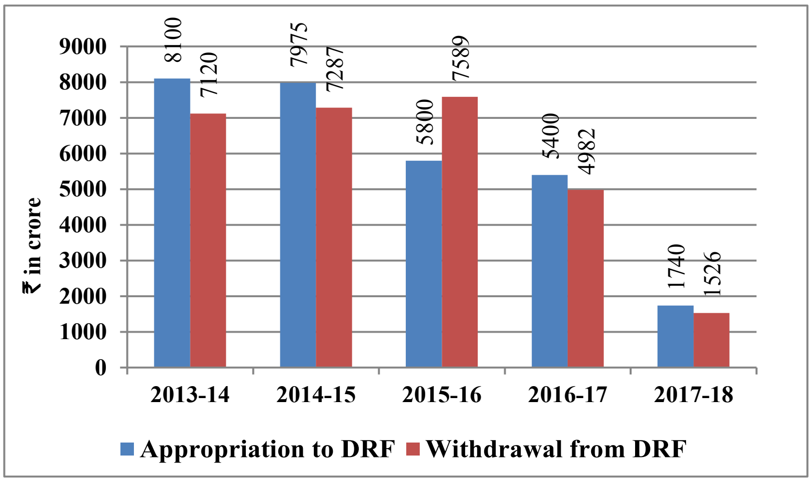

Figure 1.13: Appropriation to and withdrawal from DRF

The IR is not following the formula as laid down in their Manual or any recognized formula for computation of depreciation. The contribution to DRF is not being made on the basis of historical cost, expected useful life and expected residual life of the asset. The Railways have their own methodology for computing the cost of renewal and replacement of assets. But even the provision based on this methodology is inadequate. It is dependent on the amount which the working expenses can bear, as is seen from the appropriation to DRF during the past five years. This has steadily decreased during this time and was insufficient to meet the requirements. Audit had flagged this issue in its earlier Report[26]. There is every possibility and especially in the background of depleting surplus, that this could become a liability for the Government of India.

1.7.2 Pension Fund

The fund was created to cover the current pension payments as also to meet the accumulated liability on account of pension benefits earned in each year of service. The fund is financed by transfer from revenue in case of Zonal Railways and by

[25] ***₹ 5000 crore from revenue and ₹ 200 crore from Capital***
[26] ***Audit Report of Railways Finances (No. 37 of 2016)***

transfer from WMS in case of Production Units. During 2017-18, ₹ 46,397.71 crore was appropriated and ₹ 45,275.33 crore spent.

1.7.3 Development Fund

The fund is financed by appropriation from 'Revenue Surplus'. It is utilised to meet expenditure for works relating to amenities for users of railway transport, labour welfare works, unremunerative operational improvement works and safety works. During 2017-18, ₹ 1,505.61 crore was appropriated against the BE of ₹ 2,000 crore and ₹ 1,380.51 crore spent.

1.7.4 Capital Fund

The fund has been created (from 1992-93) with the express purpose of financing part of the requirement for works of capital nature. The fund remained operative till 2001-02. Thereafter, due to the implementation of the Fifth Pay Commission's recommendations, Railways were not able to generate enough internal resources for being appropriated to this fund. Hence, the fund was not operative from 2002-03 to 2004-05 and was made operative from 2005-06. In 2017-18, though an amount of ₹ 5,948.37 crore was budgeted, no appropriation was made. In July 2017, Railway Board decided to charge the principal/capital component on IRFC lease charges to Capital (GBS), if adequate funds were not available in CF. However, CF shall remain the first charge for capital component of the lease charges. During 2017-18, IR spent ₹ 7,979.82 crore towards capital component of IRFC lease charges from GBS, as no appropriation was made to CF. This arrangement of repayment to IRFC from Capital (GBS) is not a healthy trend and would deprive the railways of additional investments that could have been made on capital works. Thus GBS was ultimately being used to repay the loan. In fact, if IRFC obligations have to be met by GoI, then the Government might as well borrow directly from the market, as the cost of borrowings would be lower.

1.7.5 Debt Service Fund

The fund has been created (from 2013-14) for future debt service obligations in respect of loans taken from Japan International Cooperation Agency (JICA), World Bank and for future implementation of Pay Commissions. The fund is financed by appropriation from 'Surplus' after meeting mandatory requirement of CF and DF. In 2017-18, neither any amount was budgeted nor appropriated in DSF. An amount of ₹ 771.02 crore has been paid towards part of staff cost on account of impact of 7th pay Commission. The Fund is being operated since 2013-14, but opening of head of account is yet to be done.

Audit observed that the fund account is being operated under Major Head 8116 by MoR. However, no formal concurrence for opening of Major Head and methodology for operating the head has yet been obtained.

1.7.6 Railway Safety Fund

This fund has been created (from April 2001) for financing works relating to conversion of unmanned level crossings and for construction of road over/under bridges. However, the scope of this fund has been enlarged in 2016-17 to include New Lines, Gauge Conversion, Electrification and Safety works. The fund is financed through transfer of fund by the Central Government from the Central Road Fund (CRF) (out of diesel cess). Apart from this, amount can also be appropriated out of revenue surplus. During 2017-18, Railways received ₹ 11,375 crore as transfer from CRF and ₹ 160 crore was appropriated to RSF from railways revenue surplus without any budget provision. From RSF, ₹ 10,000 crore was transferred to RRSK for financing critical safety works and ₹ 1,547.70 crore spent on works under RSF.

1.7.7 Rashtriya Rail Sanraksha Kosh

This is a new fund created with effect from 2017-18 for financing critical safety related works. This included Track Renewals, Bridge Works, Signalling and Telecommunication Works, Road Safety Works of Level Crossings and Road Over/Under Bridges, Rolling Stock, Traffic Facilities, Electrical Works, Machinery and Plant, Workshops, Passenger Amenities and Training/HRD. The fund would receive credits from GBS, RSF, DRF and Revenue Surplus. The Fund has a corpus of ₹ 1 lakh crore over a period of five years. The assured annual outlay is ₹ 20,000 crore with ₹ 15,000 crore as contribution from GBS and ₹ 5,000 crore from internal resources of Railways.

As against an amount of ₹ 5,000 crore, railways could appropriate only ₹ 1,100 crore from its internal resources to RRSK due to inadequate revenue surplus. An amount of ₹ 10,000 crore was transferred from RSF and ₹ 5,000 crore from GBS and an expenditure of ₹ 16,090.75 crore was incurred. Audit noticed that this is not actually a new Fund, but has been created by simply transferring funds from three existing sources. Audit further observed that Major Head 8230 which was allocated for SRSF under list of Major and Minor Head was used for accounting of RRSK.

MoR, however, stated (February 2019) that due to paucity of funds, not much appropriation to DRF was being made resulting in piling up of the overaged assets due for replacement. MoR further stated that the Government had decided to create the RRSK for addressing the issue in a time bound manner. In this context, it is pertinent to mention that the works of renewal, replacement and upgradation of critical safety assets are already being undertaken through the existing Funds namely DRF and RSF. Ministry's response did not address the audit observation regarding the rationale for creating a new fund, as expenditure for the same purpose, could have been met from GBS/RSF. Audit further observed that by funding replacement and renewal of assets through RRSK instead of DRF, railways have reduced the appropriation to DRF, thereby presenting the working expenses and operating ratio in a better light.

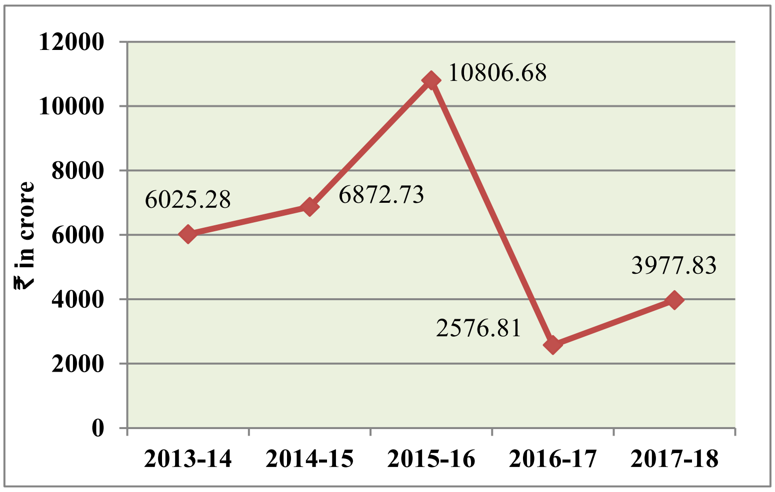

Figure 1.14: Trend of Fund Balances (2013-14 to 2017-18)

The fund balances which showed an increasing trend up to 2015-16 sharply decreased in 2016-17, but improved marginally during the current year as can be seen from the Graph.

1.8 Conclusion

The total expenditure of Indian Railways grew from ₹ 2,68,759.62 crore in 2016-17 to ₹ 2,79,249.50 crore in 2017-18, registering an increase of 3.90 *per cent*. While the capital expenditure decreased by 5.82 *per cent*, the revenue expenditure increased by 10.47 *per cent* during the year. The committed expenditure of staff cost, pension payments and lease hire charges on rolling stock, was almost 72 *per cent* of the total working expenditure in 2017-18. The Net Ordinary Working Expenses increased by 8.14 *per cent* from ₹ 1,18,829.61 crore in 2016-17 to ₹ 1,28,496.51 crore in 2017-18.

Net surplus decreased by 66.10 *per cent* and was ₹ 1,665.61 crore in 2017-18, as compared to ₹ 4,913.00 crore in 2016-17. The OR of 98.44 *per cent* was the worst in the last ten years. Railways would in fact, have ended up with a negative balance of ₹ 5,676.29 crore instead of surplus of ₹ 1,665.61 crore and higher OR of 102.66 *per cent* but for accounting of advance received from NTPC and IRCON.

During 2017-18, the Gross Traffic Receipts increased by 8.13 *per cent* as compared to 2016-17. This was mainly due to increase in growth rate of freight earnings and passenger earnings. Passenger earnings increased by 5 *per cent* primarily due to flexi fare scheme in the premier trains. There was, however, a shortfall in growth rate of sundry earnings.

As per the Summary of End Results prepared by IR for 2016-17, the percentage of loss in various classes of passenger services ranged from 13.60 per cent in AC 2 Tier to 80.27 *per cent* in First Class. The loss on EMU Suburban train services was 64.74 *per cent*. Almost 95 *per cent* of profit from freight traffic was utilized to compensate the loss of ₹ 37,936.84 crore on operation of passenger and other coaching services. One of the contributing factors for non-recovering full cost from these classes is free and concessional fare passes/tickets to various beneficiaries.

The largest resource of IR are the freight earnings followed by extra budgetary resources and passenger earnings. The share of extra budgetary resources and diesel cess increased in 2017-18. However, share of freight earnings, passenger earnings, GBS and other revenue earnings decreased in 2017-18 as compared to average figures of receipts during 2012-17.

The share of GBS to the total capital expenditure increased marginally in 2017-18. Share of EBR increased from 48.55 *per cent* in 2016-17 to 54.42 *per cent* in 2017-18. However, the share of internal resources in total capital expenditure which was as high as 26.14 *per cent* in 2014-15 decreased to 3.01 *per cent* in 2017-18. Decline in generation of internal resources resulted in greater dependence on GBS and EBR.

Against the financial assistance of ₹ 1.5 lakh crore targeted for the five-year period from 2015-2020, only ₹ 37,359.89 crore has been raised during the first three years (2015 to 2018). The amount raised has been less than the amount estimated in all the three years since 2015-16. Railways could not spend this amount fully during the past two years.

The Net Surplus of ₹ 1,665.61 crore was appropriated to Development Fund (₹ 1,505.61 crore) and Railway Safety Fund (₹ 160.00 crore). Appropriation to DRF decreased significantly in 2017-18 as compared to the average appropriation during the past five years. The 'throw forward' value of assets to be replaced from DRF (up to 2017-18) was estimated at ₹ 1,01,194 crore.

Rashtriya Rail Sanraksha Kosh (RRSK), is a new fund created in 2017-18 by simply transferring funds from three existing sources to this fund. As against an amount of ₹ 5,000 crore to be appropriated from internal resources, railways could appropriate only ₹ 1,100 crore to RRSK, due to inadequate revenue surplus. ₹ 10,000 crore was transferred from RSF and ₹ 5,000 crore from GBS and an expenditure of ₹ 16,090.75 crore was incurred. By funding replacement and renewal of assets through this Fund instead of DRF, railways have reduced the appropriation to DRF, thereby presenting the working expenses and operating ratio in a better light.

During the year, IR spent ₹ 7,979.82 crore towards capital component of IRFC lease charges from GBS, as no appropriation was made to CF. This arrangement of repayment to IRFC from Capital (GBS) is not a healthy trend and would deprive the railways of additional investments that could have been made on capital works.

1.9 Recommendations

1. ***Railways need to take steps to augment their internal revenues, so that dependence on gross and extra budgetary resources is contained.***
2. ***Railways may ensure that surplus and Operating Ratio represent a true picture of its financial performance.***
3. ***Under provisioning for depreciation is resulting in piling up of 'throw forward' of works concerning renewal of over aged assets. There is an urgent need to address this backlog and ensure timely replacement and renewal of old assets.***
4. ***There has been a reduction in capital expenditure incurred by Indian Railways during the current year. Railways also could not spend the funds raised under EBR-IF fully in the last two years. Railways may ensure that funds raised from the market are fully utilised.***
5. ***Creating new funds without any justifiable reason and thereby projecting working expenses and surplus in a better light is not desirable and may be avoided.***