Chapter 1 State of Finances

This chapter provides a broad perspective on the finances of the Indian Railways during 2018-19. 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). The Finance Accounts is compiled by IR 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 2018-19. IR is financed through (i) its own internal resources, (ii) budgetary support from Central Government and (iii) Extra Budgetary Resources.

1.1 Summary of Current Year's Fiscal Transactions

The following Table presents the summary of Indian Railways fiscal transactions during 2017-18 and 2018-19. The figures in brackets in the Table represent the increase/ decrease in percentage over previous year.

Table 1.1 – Summary of receipt and expenditure during 2018-19 *(₹ in crore)*

S. No.	Details	Actual 2017-18	Budget Estimates 2018-19	Revised Estimates 2018-19	Actual 2018-19
Summary of Capital and Revenue expenditure					
1.	Capital Expenditure[2]	1,01,985.47	1,46,500.00	1,38,857.52	1,33,376.66
2.	Revenue Expenditure	1,77,264.03	1,88,100.00	1,91,200.00	1,86,733.51
Summary of Revenue Receipts and Revenue Expenditure					
1	Passenger Earnings	48,643.14 (5.11)	52,000.00	52,000.00	51,066.65 (4.98)
2	Other Coaching Earnings[3]	4,314.43 (0.06)	6,000.00	5,000.00	4,474.46 (3.71)
3	Freight Earnings	1,17,055.40 (12.19)	1,21,950.00	1,29,750.00	1,27,432.72 (8.87)
4	Sundry Earnings[4]	8,688.18 (-16.20)	20,790.00	9,864.00	6,996.23 (-19.47)
5	**Total Traffic Earnings**	**1,78,701,15**	**2,00,740.00**	**1,96,614.00**	**1,89,970.06**
6	Clearance from Traffic Outstanding (Suspense)	24.16	100.00	100.00	(-) 63.48
7	**Gross Traffic Receipts[5] (Item No.5+6)**	**1,78,725.31** (8.13)	**2,00,840.00**	**1,96,714.00**	**1,89,906.58** (6.26)

[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.

Table 1.1 – Summary of receipt and expenditure during 2018-19 (*₹ in crore*)					
S. No.	**Details**	**Actual 2017-18**	**Budget Estimates 2018-19**	**Revised Estimates 2018-19**	**Actual 2018-19**
8	Miscellaneous Receipts[6]	204.33 (126.31)	250.00	500.00	600.79 (194.03)
9	**Total Receipts (Item No.7 + 8)**	**1,78,929.64** (8.19)	**2,01,090.00**	**1,97,214.00**	**1,90,507.37** (6.47)
10	Net Ordinary Working Expenses[7]	1,28,496.51 (8.14)	1,38,000.00	1,41,000.00	1,40,200.30 (9.11)
11	Appropriation to				
	Pension Fund	45,797.71 (30.85)	47,500.00	47,300.00	44,280.00 (-3.31)
	Depreciation Reserve Fund (DRF)	1,540.00 (-70.38)	500.00	500.00	300.00 (-80.52)
12	**Total Working Expenses[8] (Item No.10+ 11)**	**1,75,834.22** (10.57)	**1,86,000.00**	**1,88,800.00**	**1,84,780.30** (5.09)
13	Miscellaneous Expenditure[9]	1,429.81 (0.70)	2,100.00	2,400.00	1,953.21 (36.61)
14	**Total Expenditure** (Item No.12 + 13)	**1,77,264.03 (10.47)**	**1,88,100.00**	**1,91,200.00**	**1,86,733.51 (5.34)**
15	Net Surplus (Item No.9(-) 14)	1,665.61 (-66.10)	12,990.00	6,014.00	3,773.86 (126.58)
16	Surplus available for appropriation to				
	Development Fund (DF)	1,505.61 (59.87)	1,000.00	1,000.00	750.00 (50.19)
	Capital Fund (CF)	0	6,990.00	14.00	0
	Debt Service Fund (DSF)	0	0	0	0
	Rashtriya Rail Sanraksha Kosh (RRSK)	0	5,000.00	5,000.00	3,023.86
	Railway Safety Fund (RSF)	160.00	0	0	0

Source: Railway Budget for 2017-18 and 2018-19 and Accounts for 2018-19
Note: Figures in brackets represent the increase/decrease in percentage over previous year.

As can be seen from the Table 1.1

1. Total Receipts increased by 6.47 *per cent* during 2018-19 as compared to 8.19 *per cent* increase in 2017-18. The lower growth rate during 2018-19 was

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[6] ***Miscellaneous Receipts comprise of sale of tender documents, liquidated damages and receipts by Railway Recruitment Board etc.***
[7] ***Operating expenses of IR (Staff salary, repairs & maintenance of assets, fuel etc.).***
[8] ***Operating expenses and appropriation to DRF and Pension Fund***
[9] ***Miscellaneous Expenditure comprise of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit etc.***

mainly due to shortfall in Sundry Earnings and shortfall in growth rate of Freight Earnings as compared to 2017-18.

2. Net Ordinary Working Expenses increased by 9.11 *per cent* in 2018-19 as compared to growth rate of 8.14 *per cent* in 2017-18. However, 'Net Surplus' generated after meeting all revenue liabilities, was ₹ 3,773.86 crore in 2018-19 as compared to ₹ 1,665.61 crore in 2017-18. The Railways could show more surplus during the year 2018-19, by making less appropriation to DRF (by ₹ 1,240 crore) and to Pension Fund (by ₹ 1,518 crore) as compared to the previous year.

3. The 'Net Surplus' was lower than the Budget Estimates (BE) by ₹ 9,216.14 crore (70.95 *per cent*). This was due to shortfall in 'Sundry Earnings' by ₹ 13,793.77 crore, 'Other Coaching Earnings' by ₹ 1,525.54 crore and increase in 'Net Ordinary Working Expenses' by ₹ 2,200.30 crore as compared to the BE.

4. The Net Surplus of ₹ 3,773.86 crore was appropriated to Development Fund (₹ 750 crore) and Rashtriya Rail Sanraksha Kosh (RRSK) (₹ 3,023.86 crore). No funds were appropriated to Capital Fund though an amount of ₹ 6,990.00 crore and ₹ 14.00 crore were envisaged in the BE and RE respectively.

1.2 Resources of IR

The main sources of receipts of IR during the year 2018-19 are as follows:

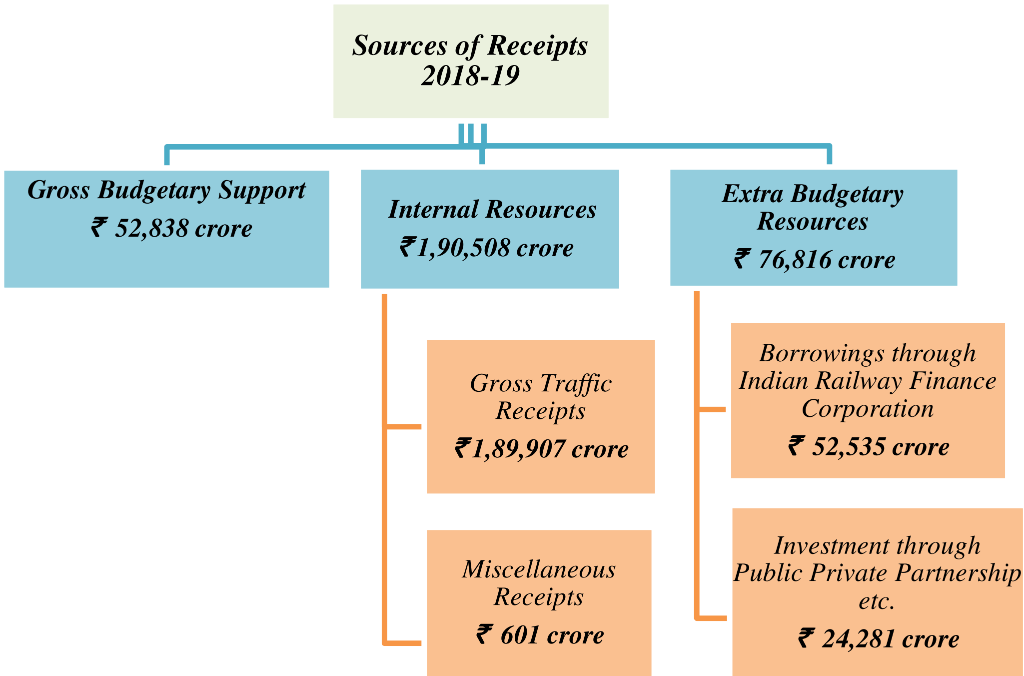

Figure 1.1: Sources of receipts

The share of various resources available for IR during the last five years is shown in the following Graph:

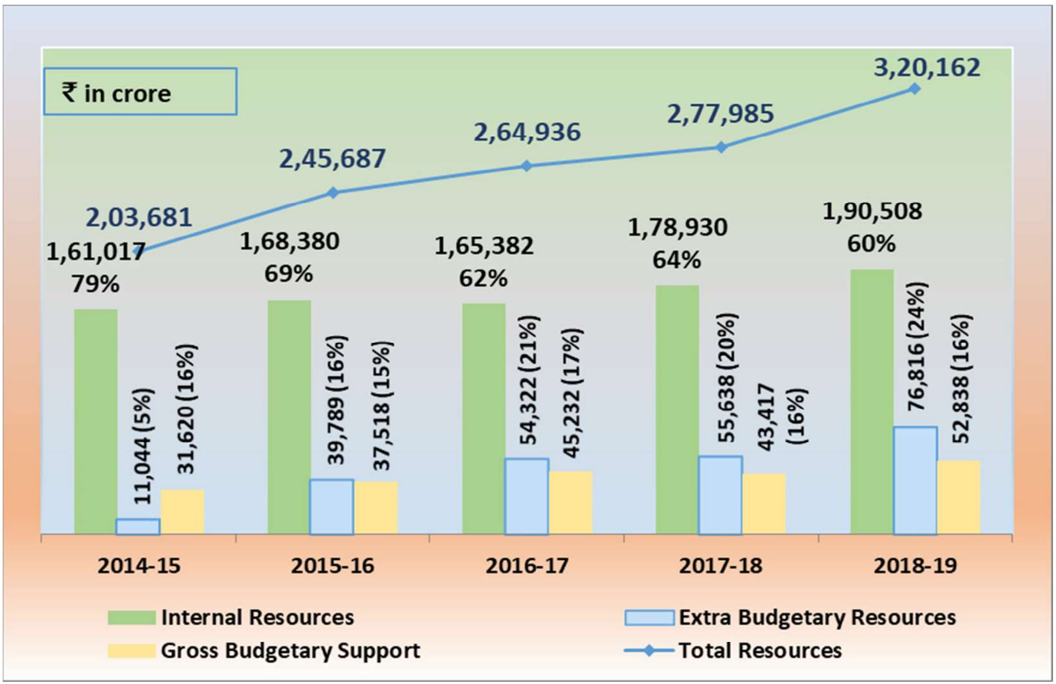

Figure 1.2: Share of various resources of IR during last five years.

The above shows that the largest resource of IR are the internal resources followed by extra budgetary resources (EBR) and GBS. The Railways have been raising EBR through Indian Railway Finance Corporation (IRFC), since its inception in 1987, for procurement of rolling stock. From 2015-16 onwards, MoR also resorted to EBR for project financing.

1.2.1 Extra Budgetary Resources

EBR includes funds raised through IRFC for procurement of rolling stock and for execution of projects of IR. Institutional Finance (EBR-IF) from Life Insurance Corporation of India (LIC) for funding capital projects and funds raised through implementing projects in PPP mode also form a part of EBR. During 2018-19, IR raised an amount of ₹ 76,816.32 crore through extra-budgetary resources against ₹ 55,638.25 crore raised during 2017-18 (increase of 38 *per cent*). This included ₹ 52,535.18 crore raised through IRFC for procurement of rolling stock and for execution of projects of IR through institutional finance/other market borrowings and ₹ 24,281.14 crore through PPP mode.

Efficiency in application of EBR funds assumes greater significance for Railways Finances due to interest liability. In view of greater dependence on EBR and rising debt burden of MoR a detailed analysis on financing of projects from EBR, has been carried out. The findings are given in Chapter 2 of the Report.

1.2.2 Gross Budgetary Support

During the year 2018-19, Railways received ₹ 52,837.67 crore as Gross Budgetary Support (GBS) from Government of India against ₹ 43,417.55 crore received during 2017-18. It was 21.70 *per cent* more than the amount of GBS received during the previous year. GBS also included ₹ 13,000 crore received from Central Road Fund (out of diesel cess) during the year 2018-19.

1.2.3 Internally generated resources of Indian Railways

Railways internal resources include earnings from freight and passenger business, sundry earnings, other coaching and miscellaneous earnings. During 2018-19, railways generated total internal resources of ₹ 1,90,507.37 crore against ₹ 2,01,090 crore envisaged in the BE. The Railways could not achieve even RE target of ₹ 1,97,214 crore.

The internal resources are utilized for revenue expenditure and expenditure on replacement and renewal of fixed assets through Depreciation Reserve Fund (DRF).

The trend of total revenue receipts for the last five years is shown in the following Graph:

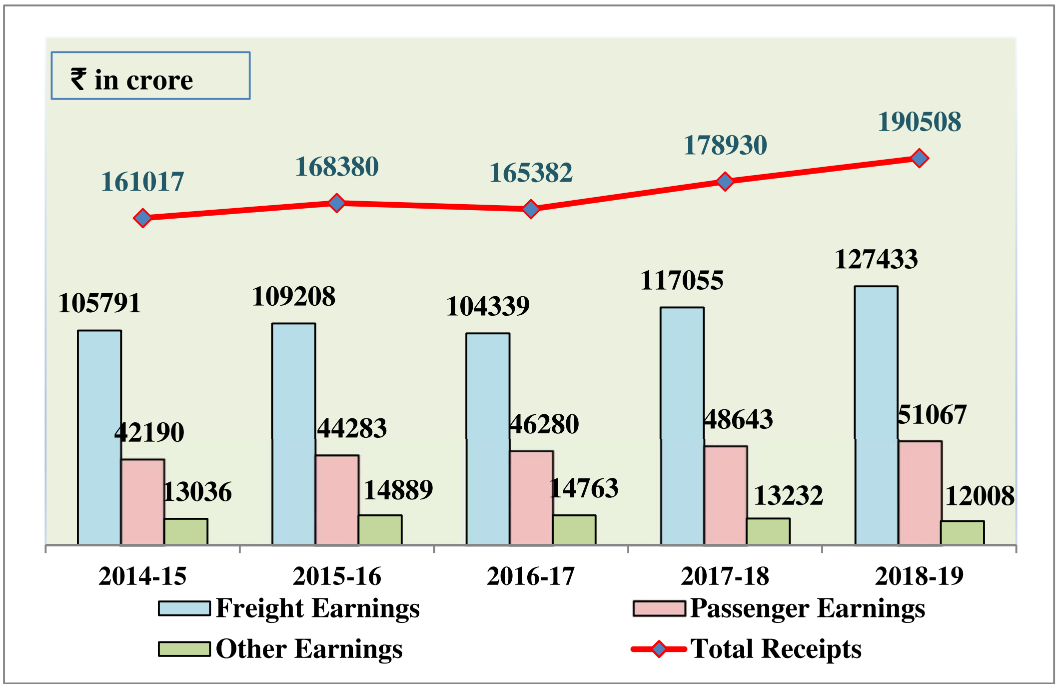

Figure 1.3: Revenue receipts during 2014-15 to 2018-19

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 are on declining trend during the last three years.

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 ₹1,21,950 crore during 2018-19, the actual freight earnings were ₹1,27,432.72 crore. 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[10] (in million) (Revenue Freight Traffic only)	Earnings (₹in crore)	Average lead in km (Average haul of a ton of freight)	Average earnings per tonne per km (in paise)
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)
2018-19	1221.48 (5.34)	738523 (6.58)	1,27,432.72 (8.87)	605	172.55 (2.14)

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

During 2018-19, freight loading was 1221.48 Million Tonnes (MT) as compared to the loading of 1159.55 MT during 2017-18. The freight loading increased by 5.34 *per cent* during 2018-19 over the previous year. This was the highest growth registered in the last six years. However, the growth in freight earnings was 8.87 *per cent* as compared to previous years' growth rate of 12.19 *per cent*. Shortfall in growth rate of freight earnings was due to reduction in growth rate of NTKM from 11.73 *per cent* in 2017-18 to 6.58 *per cent* in 2018-19.

[10] ***NTKM-Net TonneKilometre-Unit of measure of freight traffic which represent the transport of one tonne goods over a distance of one kilometre.***

The Railways freight basket is limited to certain bulk commodities. The commodity wise share in loading and earnings are given in the following Graph:

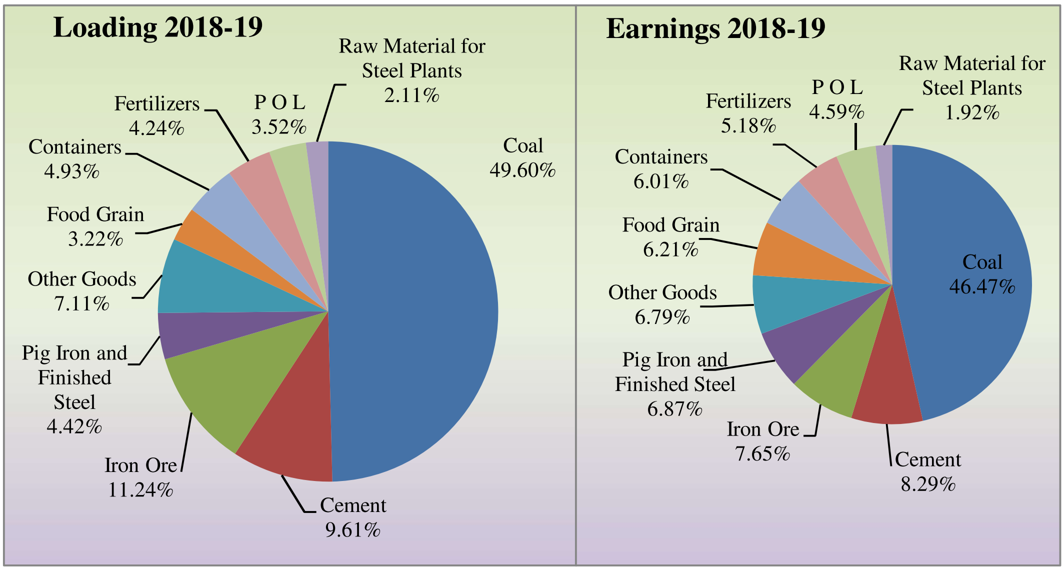

Figure 1.4: Major Commodity- wise share of loading and earnings

The above major commodities contributed to 96 *per cent* of the total freight earnings (excluding Miscellaneous Goods Earnings). Coal was the major component both in loading (49.60 *per cent*) and earnings (46.47 *per cent*), followed by Cement and Iron Ore. The highest growth in loading was in Coal and Containers which are on an increasing trend over the last four years.

As compared to 2017-18, the major shortfall in freight loading during 2018-19 was in commodities: Food grains (by 4.48 MT), Iron Ore (by 2.46 MT), Pig Iron and Finished Steel (by 0.38 MT) and POL (by 0.10 MT). There was a declining trend in loading of Food grains during the last five years.

As can be seen from the above, there is heavy dependence on Coal transportation. Any shift in the bulk commodities transport pattern could affect the Railways freight earnings significantly. Railways have not been able to diversify their freight basket despite running various incentive schemes for long time.

Freight advance received from National Thermal Power Corporation (NTPC) and CONCOR

Audit observed that IR had received freight advance of ₹ 10,000 crore during the financial year 2018-19 from NTPC in three installments of ₹ 2,000 crore, ₹ 2,000 crore and ₹ 6,000 crore in October 2018, January 2019 and March 2019 respectively. Further, freight advance of ₹ 3,000 crore was also received from CONCOR in March 2019. Out of total freight advance of ₹ 13,000 crore, ₹ 8,351 crore (excluding GST) was towards transportation of goods to be carried in the ensuing financial year 2019-20.

IR treated the freight advance of ₹ 8,351 crore pertaining to 2019-20 as freight earnings for the year 2018-19, thereby increasing the earnings to that extent.

During 2017-18 also, IR had received freight advance of ₹ 4,761.90 crore (March 2018) from NTPC. This was towards transport of coal during the financial year 2018-19. IR treated it as freight earnings for the year 2017-18.

The raising of freight advance in a financial year towards traffic of ensuing year enables IR to project better operating ratio. This will result in booking of working expenses without corresponding earnings in subsequent years. This may become a vicious cycle to keep seeking increasing advances so as to maintain the operating ratio at a desired level.

From 2017-18 onwards, Ministry of Railways resorted to taking freight advance from customers offering bulk traffic. Audit had already highlighted the issue of advance freight in Report No. 10 of 2019. MoR needs to address this issue so as to stop its recurrence.

b) Passenger Earnings

As against the budget estimates of ₹ 52,000 crore for passenger earnings during 2018-19, the actual passenger earnings were ₹ 51,066.65 crore. The growth rate for number of passengers originating and passenger earnings during the past five years is shown below:

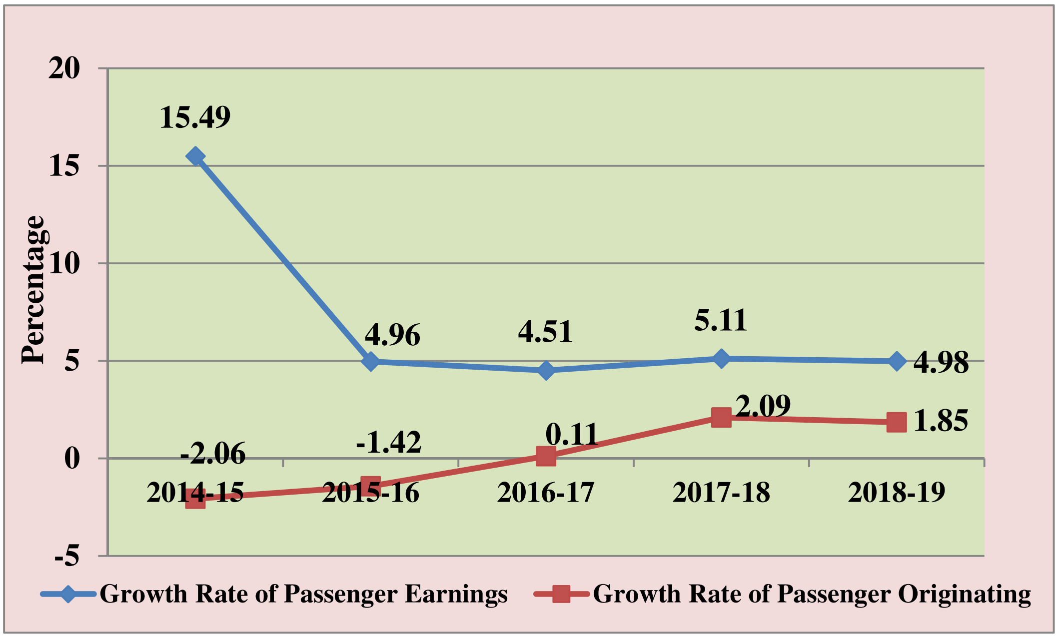

Figure 1.5: Growth rate of number of passengers and earnings

During 2018-19, the growth rate of passenger originating was 1.85 *per cent* as compared to 2.09 *per cent* during the previous year. 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					
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)
2018-19	4784.31 (2.55)	146678 (-1.86)	2,812.75 (0.32)	30.66	19.18 (2.23)
Non Suburban Passenger Traffic					
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)
2018-19	3654.75 (0.95)	1010496 (-1.73)	48,253.90 (5.27)	276.49	47.75 (7.12)

Source-Indian Railways Annual Statistical Statements

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

Passenger traffic is broadly classified into two categories: Suburban and Non Suburban traffic. Suburban trains are passenger trains that cover short distances of up to 150 km, and help move passengers within cities and suburbs. Majority of the passenger revenue (94 *per cent*) comes from Non Suburban traffic (long-distance trains). As compared to the previous year, the growth rate of passengers originating was 2.55 *per cent* for Suburban segment and 0.95 *per cent* for Non Suburban segment. Despite such small increase in number of passengers in Non Suburban segment, the passenger earnings increased by 5.27 *per cent*. The average earnings per passenger per kilometre increased by 2.23 *per cent* from i.e. 18.76 paise in 2017-18 to 19.18 paise in 2018-19 in Suburban sections. For Non Suburban sections the increase was 7.12 *per cent* i.e. from 44.58 paise in 2017-18 to 47.75 paise in 2018-19.

c) Sundry Earnings and Other Coaching Earnings

As against the budget estimates of ₹ 26,790 crore for 'Sundry and other coaching earnings' during 2018-19, the actual earnings were only ₹ 11,470.69 crore. Sundry and other coaching earnings constituted only 6.04 *per cent* of the Gross Traffic Receipts in the current year. It decreased by 11.78 *per cent,* from ₹ 13,002.61 crore in 2017-18 to ₹ 11,470.69 crore in 2018-19.

Audit analysis showed that the decrease was due to shortfall in earnings from property development of land/air space, less receipts on account of one-time recovery under retired Railway employees Liberalised Health Scheme, right of way for OFC laid by/for Rail Tel etc. However, there was increase in receipts from catering department, reimbursement of operating loss on strategic lines, right of way leave facilities for others, residential building/rest houses, interest and maintenance charges of saloons & level crossings, advertisements, other sundry receipts etc. The 'Sundry Earnings' also included an amount of ₹ 1,940 crore on account of reimbursement of operating loss on strategic lines. Increase/decrease of various components of Sundry Earnings in 2018-19 as compared to the previous year 2017-18 is shown in ***Annexure-I***.

d) Unrealized Earnings

Unrealized earnings on account of movement of traffic is classified as 'Traffic Suspense'.Unrealized earnings on account of rent/lease of building/land and maintenance charges of sidings etc. is 'Demand Recoverable'. The outstanding under unrealized earnings increased from ₹ 1,664.59 crore in 2017-18 to ₹ 1,728.08 crore at the end of 2018-19. Of this, an amount of ₹ 1,389.72 crore was outstanding under Traffic Suspense and ₹338.36 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 ₹ 616.01 crore, and constituted 44.33 *per cent* of the total Traffic Suspense. Major defaulters are as follows:

Table 1.4-Outstanding dues against State Electricity Board

(₹ in crore)

Sl. No.	State Electricity Board/Power House	Outstanding dues as of 31 March 2019
1.	Punjab State Electricity Board (PSEB)	444.62
2.	Delhi Vidyut Board (DVB)	114.28
3.	Rajasthan State Electricity Board (RSEB)	31.86
4.	Maharashtra State Electricity Board (MSEB)	7.29
5.	Uttar Pradesh State Electricity Board (UPSEB)	12.84
6.	West Bengal State Electricity Board (WBSEB)	1.11
7.	NTPC	2.24

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

The outstanding dues in respect of PSEB, DVB and RSEB are continuing over ten years. The Ministry of Railways needs to enhance its efforts to realize the old outstanding dues from SEB's.

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 data available in the latest Report[11]published by the IR has been analysed. It 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 ₹ 31,727.44 crore in 2013-14 to ₹ 46,024.74 crore in 2017-18. The losses on passenger and other coaching services vis-à-vis the profit on freight services during 2013-14 to 2017-18 is shown in the following Graph:

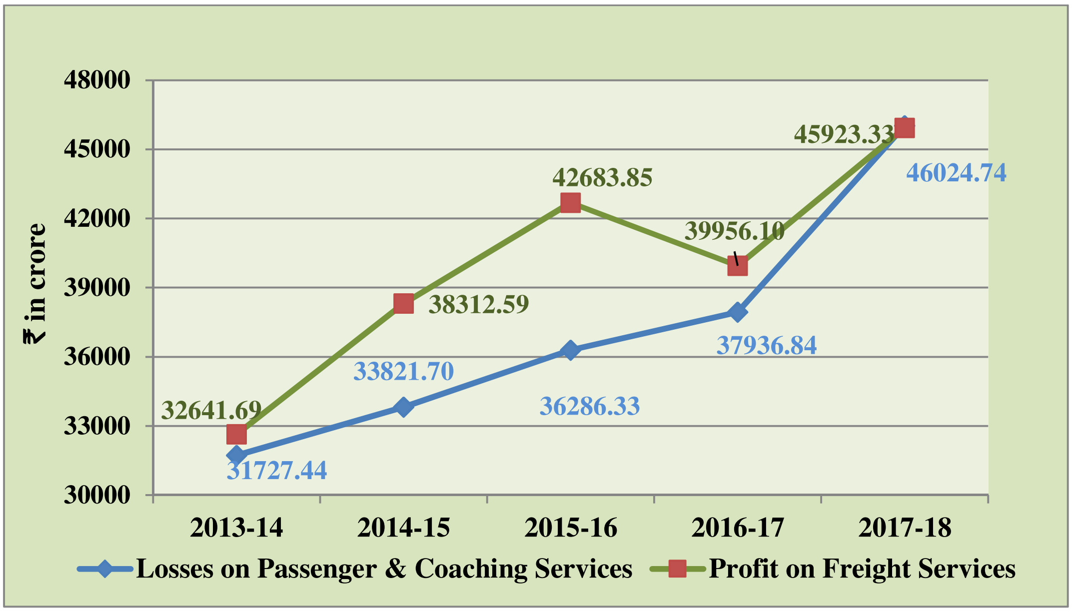

Figure 1.6: Losses on Passenger and Other Coaching Services vis-à-vis Profit on Freight Services

As can be seen from the above, the loss on passenger and other coaching services has been steadily increasing over the years. On the other hand, the profit earned on freight operations during 2017-18 was ₹ 45,923.33 crore. The entire profit from freight traffic was utilized to compensate the loss on operation of passenger and other coaching services of IR. The loss of ₹ 101.41 crore from Passenger operations was left uncovered during 2017-18. During the year 2016-17 the Railways were able to retain five *per cent* of the profit on freight earnings after subsidizing the loss on passenger services.

The operational losses of various classes of passenger services during 2013-14 to 2017-18 are given in the following table:

[11] *Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2017-18*

Table 1.5 Operational losses of various Classes of Passenger Services *(₹ in crore)*					
Class	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
AC-Ist class	(-) 47.39	(-) 127.49	(-) 175.79	(-) 139.39	(-) 164.95
Ist class	(-) 92.06	(-) 69.50	(-) 58.00	(-) 53.31	(-) 34.67
AC 2 Tier	(-) 497.28	(-) 495.59	(-) 463.11	(-) 559.27	(-) 604.49
AC 3 Tier	**410.67**	**881.52**	**898.06**	**1,040.52**	**738.75**
AC Chair car	(-) 148.47	(-) 142.26	(-) 5.58	**117.83**	**98.39**
Sleeper Class	(-) 8,407.85	(-) 8,510.06	(-) 8,301.15	(-) 9,313.27	(-) 11,003.06
Second class	(-) 7,134.42	(-) 7,642.13	(-) 8,569.77	(-) 10,024.88	(-) 11,523.87
Ordinary Class	(-) 11,105.24	(-) 11,673.80	(-) 13,237.74	(-) 14,647.64	(-) 16,568.07
EMU suburban services	(-) 4,027.14	(-) 4,679.11	(-) 5,124.74	(-) 5,323.62	(-) 6,184.46

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

As can be seen from the data above, all classes of train services have incurred losses during 2017-18 except AC 3 Tier and AC Chair Car which could recover its operational cost and made profit. The cross-subsidisation in respect of both ordinary class and suburban services increased almost continuously in the last five years with subsidy on Ordinary Class being the maximum. The loss in various classes of passenger services ranged from ₹ 16,568.07 crore (Ordinary Class) to ₹ 34.67 crore (First Class).

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. The revenue forgone in passenger earnings due to concessions to various categories of passengers (viz. physically challenged persons, patients, senior citizens, Izzat monthly season tickets, press correspondents, sport persons, war widows, etc.) was ₹ 1,670.05 crore during 2016-17 and ₹ 1,809.64 crore in 2017-18. A detailed analysis on concessions given by the Railways was done in CAG's Report on Union Government (Railways) – Railways Finances - No.10 of 2019.

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 ₹ 2,79,249.50 crore in 2017-18 to ₹ 3,20,110.17 crore in 2018-19, registering an increase of 14.63 *per cent*. While capital expenditure increased by 30.78 *per cent*, revenue[12] expenditure increased by 5.34 *per cent* during the same period. The share of Capital expenditure to total

[12] ***Excluding amount of surplus appropriated to DF, CF, DSF and RRSK (2014-15 ₹ 7,664.94 crore, 2015-16 ₹ 10,505.97 crore, 2016-17 ₹ 4,913.00 crore, 2017-18 ₹ 1,665.61 crore and 2018-19 ₹ 3,773.86 crore).***

expenditure increased from 36.5 *per cent* in 2017-18 to 41.7 *per cent* in 2018-19. The share of Revenue expenditure decreased from 63.5 *per cent* in 2017-18 to 58.3 *per cent* in 2018-19. The details of Revenue and Capital Expenditure during the last five years are shown in the following Graph:

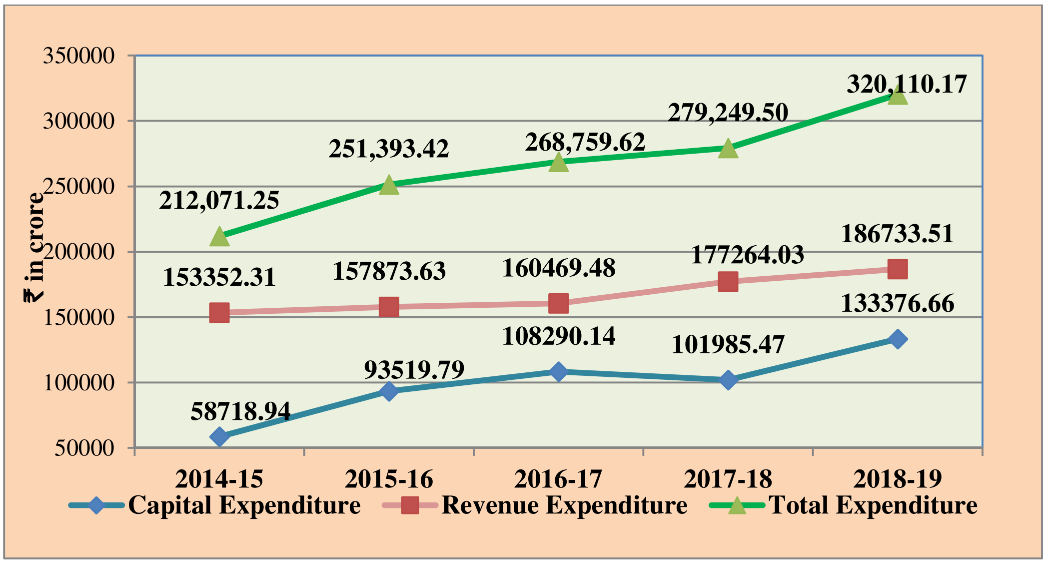

Figure 1.7: Capital and Revenue Expenditure in the last five years

1.4.1 Revenue Expenditure

Comparison of Share of Revenue Expenditure during 2018-19 against the Average Share of Revenue Expenditure during 2013-14 to 2017-18 is shown below:

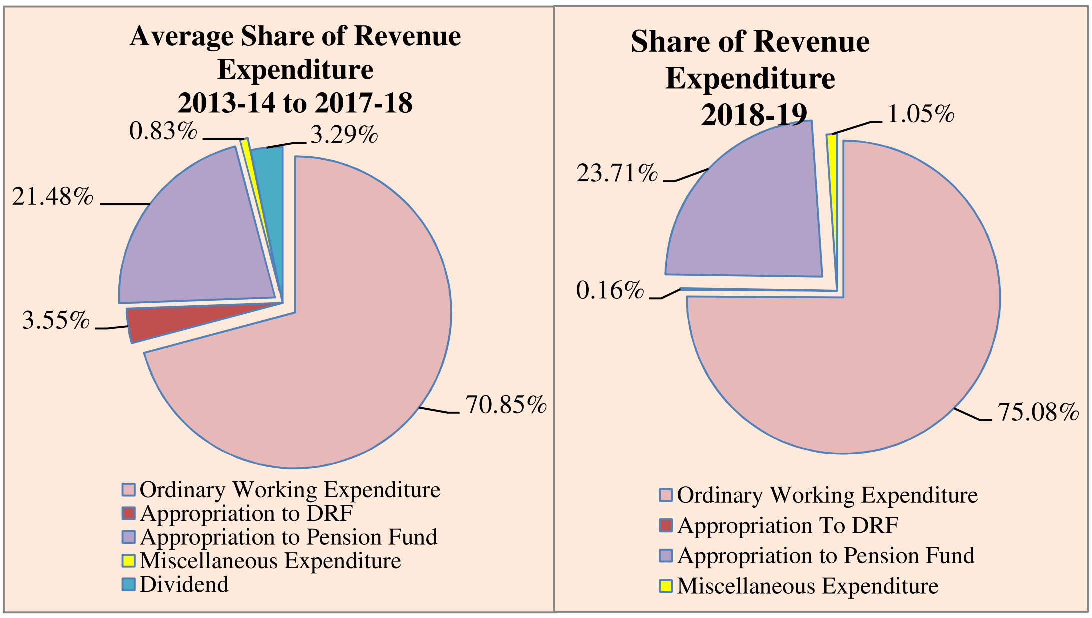

Figure 1.8: Share of Revenue Expenditure in the last five years

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, payment of interest component of lease charges, pension liabilities[13] etc. During 2018-19, OWE increased to 75.08 *per cent* of the total revenue expenditure as compared to the average of 70.85 *per cent* during the past five years.

Component-wise Revenue Expenditure

The break-up of working expenditure of IR under staff, fuel, lease charges, stores, others and pension outgo for the last five years is shown in Graph below:

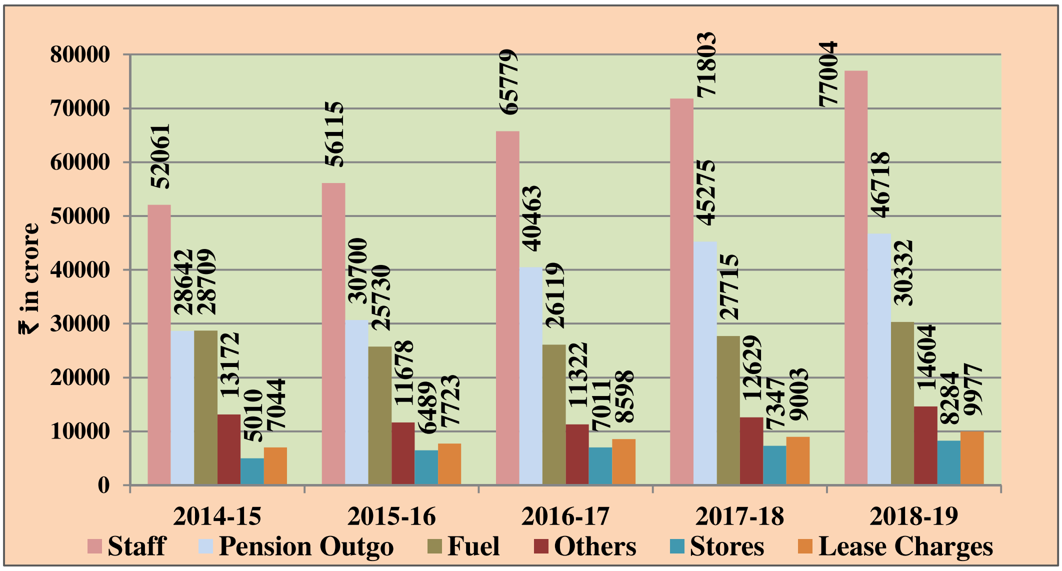

Figure 1.9: Component wise expenditure

As can be seen from the above, Staff cost (including pension outgo) constituted about 66 *per cent* of the working expenses during the current year. It increased by 5.67 *per cent* during 2018-19 as compared to the previous year.

The committed expenditure of the IR consisting of staff cost, pension payments and lease hire charges on rolling stock, was 71.5 *per cent* of the total working expenditure in 2018-19.

a) Appropriation to Pension Fund

Appropriation to Pension Fund is the second largest component of revenue expenditure. Railways appropriated ₹ 44,280.00 crore to the Pension Fund in 2018-19, against ₹ 45,797.71 crore appropriated last year. The actual expenditure on pension was ₹ 46,194.81 crore (for Zonal Railways) against this appropriated amount in 2018-19. The actual expenditure during 2018-19 was more by ₹ 1,437.66 crore than the previous year.

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.

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

Audit observed that neither the estimation of pension liability was based on actuarial calculations nor was it re-assessed subsequently.

b) Appropriation to Depreciation Reserve Fund

Appropriation to DRF decreased significantly in 2018-19 as compared to the average appropriation during 2013-18. Against the budgeted amount of ₹ 500 crore for 2018-19, only ₹ 300 crore was appropriated to DRF. 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.

Detailed analysis of various Railways Funds is given in Paragraph 1.7.

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[14] and extra budgetary resources[15]. During the past five years, the contribution from various sources towards capital expenditure can be seen from the following table:

Table 1.6 – Source-wise Capital Expenditure for Indian Railways (₹ in crore)

Source	2014-15	2015-16	2016-17	2017-18	2018-19	
	Actual	Actual	Actual	Actual	Budget Estimates	Actual
Gross Budgetary Support[16]	**32,327.60 (55.05)**	**37,608.47 (40.22)**	**45,231.64 (41.77)**	**43,417.55 (42.57)**	**53,060 (36.22)**	**52,837.67 (39.61)**
Internal Resources (From Railways Funds)	**15,347.24 (26.14)**	**16,845.31 (18.01)**	**10,479.84 (9.68)**	**3,069.77 (3.01)**	**11,500 (7.85)**	**4,663.18 (3.50)**
Total (GBS and Internal Resources)	***47,674.84 (81.19)***	***54,453.78 (58.23)***	***55,711.48 (51.45)***	***46487.32 (45.58)***	***64,560 (44.07)***	***57,500.85 (43.11)***
Extra Budgetary Resources(IRFC and PPP)	**11,044.10 (18.81)**	**39,066.01 (41.77)**	**52,578.66 (48.55)**	**55,498.15 (54.42)**	**81,940 (55.93)**	**75,875.81 (56.89)**
Grand Total	**58,718.94**	**93,519.79**	**1,08,290.14**	**1,01,985.47**	**146,500**	**1,33,376.66**

Note: Figures in brackets represent percentage share of overall expenditure

During the year 2018-19, the overall Capital expenditure of IR increased substantially by 31 *per cent* as compared to the previous year. The share of GBS

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14 Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

15 Market borrowing through IRFC Limited and PPP

16 Includes expenditure from Railway Safety Fund

to the total capital expenditure decreased from 42.57 *per cent* in 2017-18 to 39.62 *per cent* in 2018-19. However, the share of internal resources in total capital expenditure, which was as high as 26.14 *per cent* in 2014-15, decreased to 3.50 *per cent* in 2018-19. Inadequate generation of internal resources resulted in greater dependence on GBS and EBR.

The share of EBR increased from 54.42 *per cent* in 2017-18 to 56.89 *per cent* in current year. During 2018-19, Ministry of Railways spent ₹ 23,735.88 crore on procurement of Rolling Stock from funds raised through market borrowings by IRFC. An amount of ₹ 27,858.79 crore was incurred on projects funded through EBR on New Lines (Construction), Gauge Conversion, Doubling, Railway Electrification Projects and Traffic Facilities. Further, ₹ 24,281.14 crore through Public Private Partnership (PPP) mainly for expenditure on New Line Projects, Traffic Facilities and Road Safety Works etc.

b) Expenditure under various Plan Heads

Indian Railways undertakes capital expenditure under the following Plan heads:

Table 1.7 - Category-wise Capital Expenditure (₹ in crore)

Plan Heads	2014-15	2015-16	2016-17	2017-18	2018-19
Doubling	4,132.32	10,472.35	9,093.23	11,240.34	15,168.33
New Lines (Construction)	8,401.45	15,789.74	15,969.89	9,183.82	11,275.40
Track Renewal	3,734.39	4,367.59	5,076.33	7,727.71	8,241.66
Gauge Conversion	3,520.12	3,615.65	3,769.92	2880.11	4,055.00
Signaling and Telecommunication	1,002.49	892.89	951.56	1,255.64	1,537.02
Traffic Facilities & Yard Remodelling	780.74	983.00	910.67	1,224.84	1,146.70
Bridge Work	413.11	517.20	474.52	448.73	528.27
Rolling Stock and Payment of Capital Component of Lease charges	21,723.98	24,240.71	26,610.98	28,119.11	37,219.68
Investment in PSUs, JVs, SPVs,	4,865.31	7,349.71	7,184.13	4,887.99	12,678.36
Workshop and Production Units and Plant & Machinery	2,129.02	1,921.14	1,965.00	1,753.57	2,442.94
Others	8,016.01	8,288.81	9,449.82	11,147.61	14,802.16
Total[17]	**58,718.94**	**78,438.79**	**81,456.05**	**79,869.47**	**109,095.52**

Source-Indian Railways Appropriation Accounts-Grant No.80 and Statement No.10-Statement of Expenditure on Capital Account.

Note 1: '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.

Doubling, New Lines (Construction), Track Renewal and Gauge Conversion are the major components of Capital Expenditure. IR also undertook new line, traffic facility works, Rolling stock, Road Safety Works (Road Over/Under Bridge) etc. through PPP mode.

[17] ***Excludes expenditure on PPP***

As compared to the previous year, the expenditure on Gauge Conversion, New Lines, Doubling, Track Renewal, Bridge Work, Signalling and Telecommunication works increased during 2018-19 in the range of 6 *per cent* to 41 *per cent*. The expenditure on 'Rolling Stock and Capital Component of Lease charges' increased by 33 *per cent* in 2018-19 as compared the previous year.

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 2009-10 to 2018-19 can be seen in the Graph below:

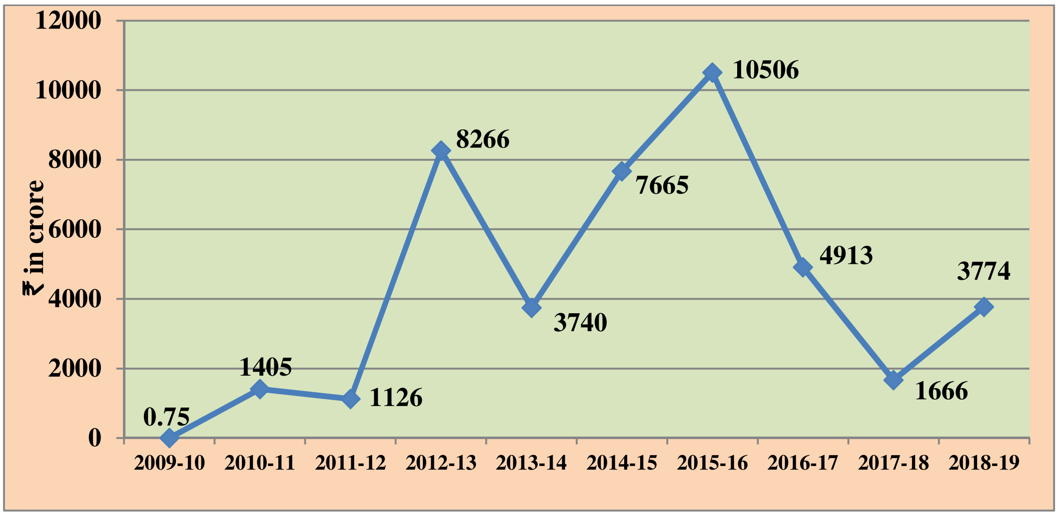

Figure 1.10 Revenue Surplus

Against the BE of ₹12,990 crore, the 'Net Surplus' was ₹ 3,773.86 crore in 2018-19. It was lower than the BE by ₹ 9,216.14 crore (70.95 *per cent*). However, the net surplus increased from ₹ 1,665.61 crore in 2017-18 to ₹ 3,773.86 crore in 2018-19. Audit analysis revealed that the Railways could show more surplus during 2018-19 by appropriating lesser amount to Pension Fund and DRF by ₹ 1,517.71 crore and ₹ 1,240 crore respectively as compared to the previous year. The actual surplus during the year 2018-19 would have been ₹ 1,016.15 crore had the Railways appropriated similar amount like last year. Further, IR would have ended with a negative balance of ₹ 7,334.85 crore but for receipt of advance freight of ₹ 8,351 crore and less appropriation to DRF and Pension Fund.

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 are 'Operating Ratio', 'Capital-Output Ratio' and 'Staff Productivity', which are discussed below:

1.6.1 Operating Ratio – Window Dressing

Operating Ratio (OR) represents the ratio of working expenses to traffic earnings. A higher ratio indicates poorer ability to generate surplus. Against the target of 92.8 *per cent* in the BE, the OR of Railways was 97.29 *per cent* in 2018-19. This meant that railways spent ₹ 97.29 to earn ₹ 100. As compared to the OR of 98.44 per cent during the previous year, there was marginal improvement in 2018-19. This was primarily due to the reason that working expenses grew at lower rate (5.09 *per cent*) as compared to previous year (10.57 *per cent*). The OR of IR during the past ten years is as follows:

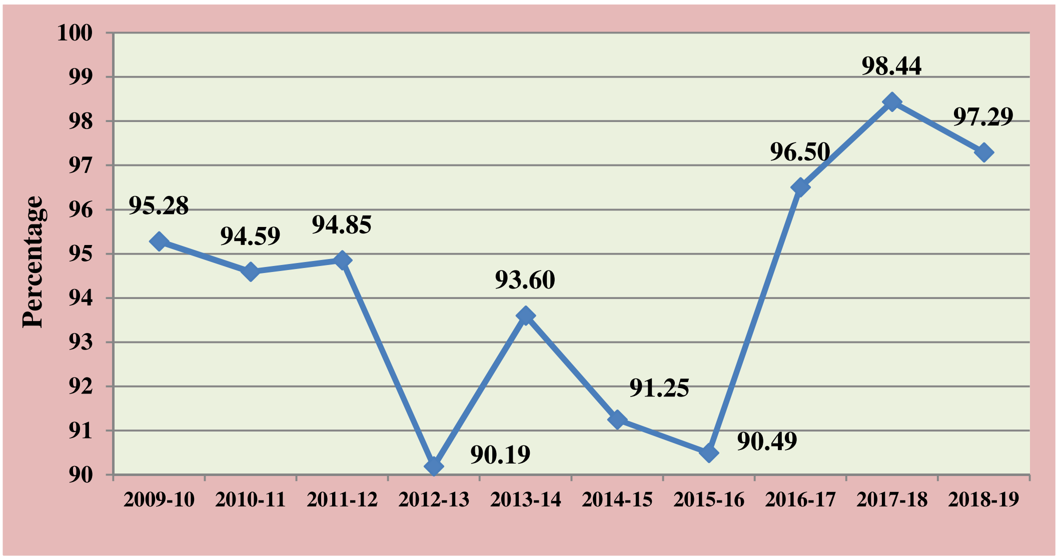

Figure 1.11 Operating Ratio of Indian Railways

As can be seen from the Graph above, the OR of Indian Railways reached an all-time high of 98.4 in 2017-18, which marginally came down to 97.29 *per cent* in 2018-19. Further, if advance freight of ₹ 8,351 crore (pertaining to 2019-20) from NTPC and CONCOR was not included in the earnings of 2018-19, the OR would have been 101.77 *per cent* instead of 97.29 *per cent*. IR resorted to window dressing in order to project better operating ratio.

OR of zonal railways during the last five years ended on 31 March 2019 is shown in the following Table:

Table 1.8 Operating Ratio of Zonal Railways

(In per cent)

S. No.	Zonal Railway	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Metro Railway/Kolkata	253.69	237.80	260.06	278.29	247.94
2.	North Eastern	193.47	196.52	197.01	201.78	204.54
3.	Eastern	177.27	180.56	165.27	181.15	185.98
4.	Northeast Frontier	187.08	185.71	130.45	169.29	160.58
5.	Southern	128.98	134.89	147.83	161.14	152.61
6.	South Western	98.72	102.60	119.56	129.49	132.64
7.	Northern	117.65	114.97	118.85	117.09	131.95
8.	North Western	90.18	91.15	95.17	107.90	105.75
9.	Central	101.85	98.13	105.00	111.12	105.44
10.	Western	86.51	88.72	103.00	107.86	102.11
11.	East Central	95.24	90.28	101.83	97.50	98.46
12.	South Central	76.03	78.71	86.24	82.94	79.53
13.	South Eastern	73.62	71.15	73.46	75.90	73.08
14.	North Central	64.13	61.98	70.50	66.89	68.39
15.	West Central	63.56	64.38	73.90	74.91	67.83
16.	South East Central	50.83	50.52	56.24	55.82	56.24
17.	East Coast	51.25	50.56	53.78	51.98	52.39
Overall IR		**90.19**	**91.25**	**90.49**	**98.44**	**97.29**

Source-Indian Railways Appropriation Accounts 2018-19

OR of seven Zonal Railways (East Central, South Central, South Eastern, North Central, West Central, South East Central and East Coast Railways) ranged between 99 *per cent* and 52 *per cent*. OR of ten Zonal Railways (Metro Railway/Kolkata, North Eastern, Eastern, Northeast Frontier, Southern, South Western, Northern, North Western, Central and Western Railways) was more than 100 *per cent* during 2018-19 implying that their working expenditure was more than their traffic earnings. OR of six Zonal Railways (East, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway/Kolkata) had continued to be more than 100 *per cent* in the last five years.

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 (for both Goods and Passenger Traffic) is considered as the output in the case of IR. Higher COR indicates lower performance. COR of IR during the last five years ended on 31 March 2019 was as follows:

Table 1.9: Capital Output Ratio of IR					
As on	**Total Capital including investment from Capital Fund (₹ in Million)**	**Goods Traffic (Million NTKM)** *(Revenue Traffic only)*	**Passenger Traffic (Million NTKMs)**	**Total Traffic (in Million NTKMs)** [Col. (3) + Col. (4)]	**Capital at charge (in Paise) per NTKM (COR)** [Col. (2)/ Col. (5) x100]
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
31.03.2015	2,421,170	681,696	81,450	763,146	**317**
31.03.2016	2,751,353	654,481	81,566	736,047	374
31.03.2017	**3,024,578**	**620,175**	**81,638**	**701,813**	**431**
31.03.2018	3,247,256	692,916	83,617	776,533	418
31.03.2019	**3,482,121**	**738,523**	**82,159**	**820,682**	**424**

Source-Indian Railways Annual Statistical Statements

COR had increased from 317 paise in 2014-15 to 424 paise in 2018-19 indicating decrease in physical performance of the IR as compared to capital employed. Higher cost overruns due to non-completion of projects in time coupled with investment in financially unviable projects contributed to higher COR.

1.6.3 Staff Productivity

In IR, the Staff productivity[18]is measured in terms of volume of traffic handled per thousand employees. A higher ratio indicates efficient transport of freight/passenger. The staff productivity increased by 16 *per cent* from 2014-15 (617) to 2018-19 (714) 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 2018-19, highest Staff Productivity of 1790.71 Million NTKM was achieved by East Coast Railway. Staff Productivity of 252.51 Million NTKM of Eastern Railway was the lowest during the same period.

1.7 Railway Funds

The following funds are operated by Indian Railways 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 in the following table:

[18] *Annual Statistical Statements of Indian Railways*

Table 1.10: Fund Balances (*₹in crore*)

Name of Fund	Opening Balance as on 01 April 2018	Accretion during the year	Withdrawal during the year	Closing Balance as on 31 March 2019
Depreciation Reserve Fund (DRF)	712.09	539.97	534.03	718.03
Pension Fund	1973.69	44940.64	46718.22	196.11
Development Fund (DF)	583.09	773.27	1108.00	248.36
Capital Fund (CF)	359.87	20.69	0.00	380.56
Railway Safety Fund (RSF)	146.83	12999.98	13005.82	140.99
Debt Service Fund (DSF)	193.01	11.10	0.00	204.11
RRSK	9.25	18023.86	18015.33	17.78
Total	**3977.83**	**77309.51**	**79381.40**	**1905.94**

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

2. Accretion under DF and RSF includes financial adjustments of ₹ 0.04 crore and ₹(-) 0.02 crore respectively.

The overall fund balances which showed an increasing trend up to 2015-16 has decreased significantly in 2018-19 as can be seen from the following Graph:

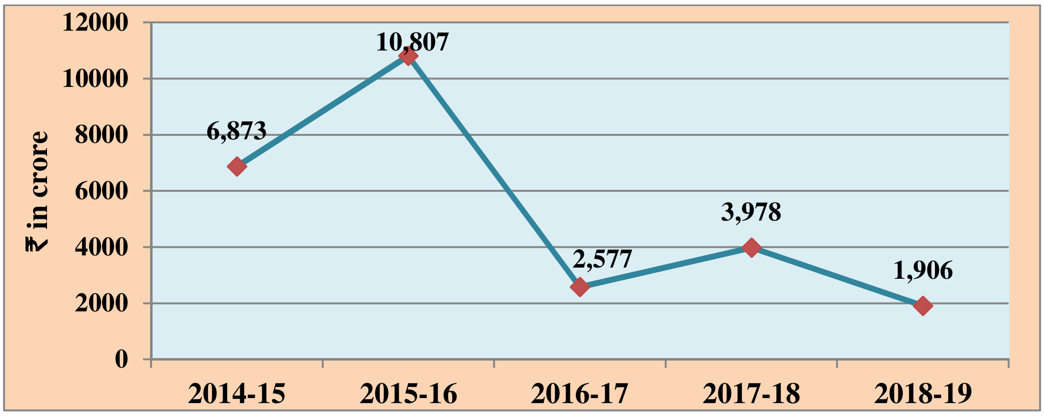

Figure 1.12: Trend of Railways Fund Balances (2014-15 to 2018-19)

1.7.1 Depreciation Reserve Fund

For replacement and renewal of assets, the Railways maintain DRF. During 2018-19, ₹ 500 crore[19] was appropriated against the BE of ₹ 700 crore and ₹ 534.03 crore spent from the fund. The amount is insignificant as compared to the 'throw forward' for works to be done under DRF.

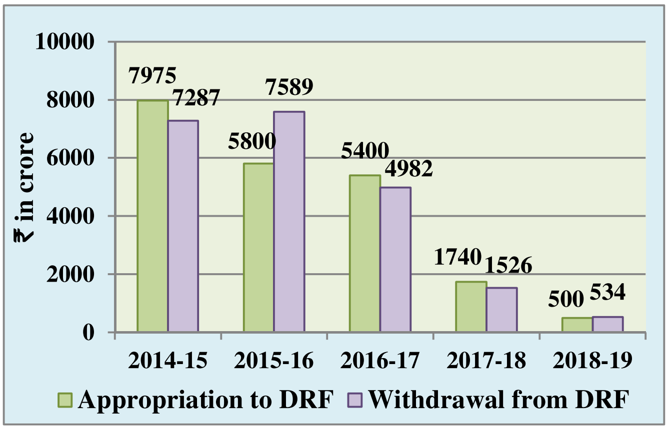

Figure 1.13: Appropriation to and withdrawal from DRF

[19] *₹300 crore from revenue and ₹200 crore from Capital*

The 'throw forward' value of assets to be replaced from DRF (up to 2018-19) was estimated at ₹ 96,403 crore. This mainly included ₹ 61,245 crore on track renewals, ₹ 27,892 crore on rolling stock, ₹ 1,733 crore on signaling and telecommunication works, ₹ 1,211 crore on bridge works and ₹ 678 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.

The provision made to the fund for replacement and renewal of assets 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[20]. There is every possibility and especially in the background of depleting surplus, that replacement and renewal of over aged assets could become a burden 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 transfer from Workshop Manufacture Suspense (WMS) in case of Production Units. During 2018-19, ₹ 44,880 crore was appropriated and ₹ 46,718.22 crore spent. The gap between the appropriation to the fund and expenditure was met from the balance available in the Pension Fund Account. Thus the balance in the Pension Fund has come down from ₹ 1,974 crore as on 31 March 2018 to ₹ 196 crore at the end of 31 March 2019. The expenditure of Railways on account of Pension payments during the last five years is shown in the following Graph:

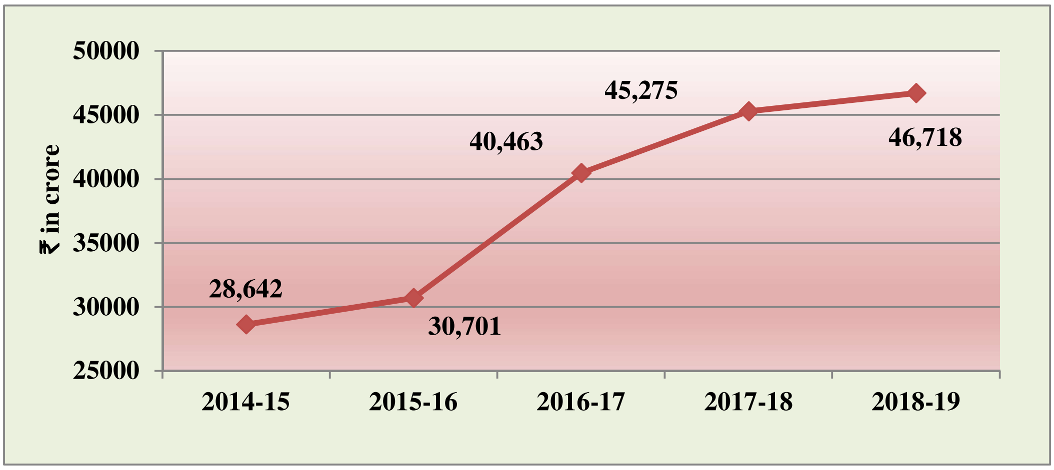

Figure 1.14: Expenditure on Pension Payments of Railways

[20] *Audit Report of Railways Finances (No 10 of 2019)*

As can be seen from the Graph, the expenditure on pension which was ₹ 28,642.88 crore in 2014-15, has increased to ₹ 46,718.22 crore in 2018-19 (63 *per cent* increase). The expenditure on pension constituted 25 *per cent* of the total working expenses.

1.7.3 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, Railways were not able to generate enough revenue surplus 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.

During 2018-19 no appropriation was made to the fund though an amount of ₹ 6,990.00 crore and ₹ 14.00 crore were envisaged in the BE and RE respectively. Audit has been pointing out about defective budgeting in IR and had observed in Report No.12 of 2013 that, the basis adopted for projecting growth and variation in earnings as well as expenditure were not adequately assessed and documented.

Accurate forecast of budget is of paramount importance for efficient financial and operational performance of an organization. It assumes greater significance in view of COVID 19 pandemic. MoR needs to take timely steps towards realistic assessment of estimates in order to have prudent financial management of its receipts and expenditure.

During 2018-19, IR spent ₹ 9,111.51 crore towards capital component of IRFC lease charges from GBS, as no appropriation was made to CF. Audit observed that for the last two years, the entire lease charges (Principal component) were being paid from the Budgetary Support. Ideally the repayment of lease charges to IRFC should have been made from Capital Fund (which is sourced from revenue surplus). However, due to inadequate surplus and insufficient funds available in CF, the repayment of lease charges to IRFC was made from GBS. This arrangement of repayment to IRFC from 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. Audit had commented in Report No.10 of 2019 that, 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.

1.7.4 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 labour welfare works. During 2018-19, 750 crore was appropriated against the BE of ₹ 1,000 crore and ₹ 1,108 crore spent.

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 the requirement of CF and DF. In 2018-19, neither any amount was budgeted nor appropriated in DSF. 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 by MoR under Major Head 8116-101 pertaining to Railway Revenue Reserve Fund which ceased to exist with effect from 01.04.1993. 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 2018-19, Railways received ₹ 13,000 crore as transfer from CRF. An amount of ₹ 3,005.82 crore spent on works under RSF and ₹ 10,000 crore was transferred from RSF to RRSK for financing critical safety works.

1.7.7 Rashtriya Rail Sanraksha Kosh

This fund was 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 ₹ 3,023.86 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 ₹ 18,015.33 crore was incurred. Audit observed that this Fund has been created by simply transferring funds from three existing sources. 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. Audit 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.

1.8 Conclusion

The total expenditure of Indian Railways grew from ₹ 2,79,249.50 crore in 2017-18 to ₹3,20,110.17 crore in 2018-19, registering an increase of 14.63 *per cent*. While the capital expenditure increased by 30.78 *per cent*, the revenue expenditure increased by 5.34 *per cent* during the year. The committed expenditure of staff cost, pension payments and lease hire charges on rolling stock, was 71.5 *per cent* of the total working expenditure in 2018-19.

During 2018-19, the Total Receipts increased by 6.47 *per cent* as compared to 8.19 *per cent* increase in 2017-18. The lower growth rate during 2018-19 was mainly on account of shortfall in Sundry Earnings and shortfall in growth rate of Freight Earnings as compared to 2017-18. There was heavy dependence on transportation of Coal which constituted 46.47 per cent of Freight Earnings. Any shift in bulk commodities transport pattern could affect the freight earnings significantly.

Net surplus was ₹ 3,773.86 crore in 2018-19, as compared to ₹ 1,665.61 crore in 2017-18. Railways would in fact, have ended up with a negative balance of ₹ 7,334.85 crore instead of surplus of ₹ 3,773.86 crore but for accounting of advance received from NTPC and CONCOR and less appropriation to DRF and Pension Fund.

The Net Surplus of ₹ 3,773.86 crore was appropriated to Development Fund (₹750 crore) and Rashtriya Rail Sanraksha Kosh (RRSK) (₹ 3,023.86 crore); no appropriation was made to Capital Fund though budgeted.

As per the Summary of End Results prepared by IR for 2017-18. The profit from freight traffic (₹ 45,923.33 crore) was utilized to compensate the loss of ₹ 46,024.74 crore on operation of passenger and other coaching services. The loss of ₹ 101.41 crore in Passenger operations was left uncovered during 2017-18.

The overall fund balances which showed an increasing trend up to 2015-16 (₹ 10,806.68 crore) had decreased significantly to ₹ 1905.94 crore at the end of the year 2018-19.

During the year, IR spent ₹ 9,111.51 crore towards capital component of IRFC lease charges from GBS. Audit observed that for the last two years, the entire lease charges (Principal component) were being paid from the Budgetary Support. Ideally the repayment of lease charges to IRFC should have been made from Capital Fund (which is sourced from revenue surplus). However, due to inadequate surplus and insufficient funds available in CF, the repayment of lease charges to IRFC was made from GBS. This arrangement of repayment to IRFC from GBS is not a healthy trend and would deprive the railways of additional investments that could have been made on capital works.

During 2018-19, appropriation to DRF decreased significantly as compared to the previous years (from ₹ 7,975 crore in 2014-15 to ₹ 500 crore in 2018-19 crore). Under provisioning for depreciation resulted in piling up of 'throw forward' works estimated at ₹ 96,403 crore (up to 2018-19).

During the year 2018-19, Railways appropriated an amount of ₹ 3,023.86 crore from its internal resources to RRSK. Further, ₹10,000 crore was transferred from RSF and ₹ 5,000 crore from GBS to RRSK. There was an expenditure of ₹ 18,015.33 crore from the fund. By funding replacement and renewal of assets through this Fund instead of DRF, railways have reduced the appropriation to DRF. MoR thus resorted to window dressing for presenting the working expenses and operating ratio in a better light.

1.9 Recommendations

1. ***Ministry of Railways needs to take steps to diversify their freight basket to enhance their freight earnings.***
2. ***In order to present realistic picture of surplus and operating ratio, Ministry of Railways needs to take steps for pragmatic treatment of freight advance.***
3. ***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.***
4. ***The huge backlog of renewal and replacement of over aged assets in railways needs to be addressed for safe running of trains.***
5. ***Ministry of Railways needs to take steps to augment their internal revenues.***