PREFACE

This Report has been prepared for submission to the President of India under Article 151 of Constitution of India.

In the past, Reports of the Comptroller and Auditor General of India had been commenting upon the Indian Railways (IR) finances as a part of the Railway Audit Report on Compliance Issues. In recognition of the need to sharpen focus on finances, a stand-alone report has been attempted this year.

Based on the audited accounts for the year ended 31 March 2010, this report provides an analytical review of the Accounts and Finances of the IR. The report is structured in four chapters.

Chapter 1 covers the audit findings on the finances of IR and makes an assessment of the fiscal status of IR as on 31 March 2010. Various indicators on earnings, expenditure, reserves, operational efficiency etc are analyzed.

Chapter 2 covers the audit findings on the Appropriation Accounts of IR and analysis of management of allocated resources. This chapter also analyzed the reasons for savings/excesses against the authorization given by Parliament.

Chapter 3 covers limitation of IR accounts in financial reporting and audit comments on financial transactions impacting the accounts of IR.

Chapter 4 deals with the performance of Railway Public Sector Undertakings, Joints Ventures and Special Purpose Vehicles as these have bearing on overall IR finances.

EXECUTIVE SUMMARY

Background

IR is a departmental commercial undertaking of the Government of India. It consists of 63,974 route kms[1] on which about 18,820 trains ply, carrying more than 20 million passengers and hauling about 2.4 million tonne of freight everyday. Policy formulation and overall control of the railways is vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 16 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are six production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Though the Railway Budget is presented to Parliament separately, the figures relating to the receipts and expenditure of IR are also shown in the General Budget, as Railway Budget forms part of the total budget of the Government of India.

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2009 (Report No. CA-11 of 2009-10) highlighted that during 2008-09, the gross traffic receipts fell short of budgetary projections by 2 *per cent* (by ₹2,039 crore). On the other hand, total working expenditure over shot the budgetary provisions by eight *per cent* (by ₹5,249 crore), an increase of 32 *per cent* over the previous year. The net revenue surplus after meeting dividend liability declined in 2008-09 by 67 *per cent* (by ₹8,974 crore) over the previous year. Consequently, the operating ratio of IR declined from 75.94 *per cent* in 2007-08 to 90.46 *per cent* in 2008-09. The Report also highlighted the declining balances in reserve funds of IR. Total reserve balances, declined by 30 *per cent* (by ₹6,624 crore) by the end of 2008-09 as compared to 2007-08. This declining trend in the financial performance of IR continued in 2009-10.

With the slow down of the economy and impact of the 6th Central Pay Commission (CPC) recommendations, IR finances were severally affected during 2008-10. Actual growth of freight receipts of IR was much below the

---

[1] ***Route-kilometre- The distance between two points on the railway irrespective of the number of lines connecting them viz- single line, double line, etc.***

potential growth based on expected railway elasticity of 1.25. During 2008-10, gross traffic receipts, on an average increased annually by 10 *per cent* as against average annual increase of 24 *per cent* in total working expenses during the same period. Committed expenditure in 2009-10, due to the impact of 6th CPC recommendations, accounted for 70 *per cent* of the total revenue expenditure. This put a strain on the finances of IR and they were forced to curtail the growth in working expenses. The payouts of 6th CPC included arrears relating to the previous years.

In order to keep its working expenses within the available resources in 2009-10, IR reduced the appropriation to Depreciation Reserve Fund by ₹2,313 crore in June 2010 while closing the accounts of 2009-10. This will have an adverse fall out on IR's renewal programme of capital assets and ultimately affect its earning capacity and safety performance.

Net revenue surplus, mainly due to the impact of 6th CPC, (which approximately worked out to ₹37,472 crore during 2008-10) had sharply declined from ₹13,431 crore in 2007-08 to ₹4,457 crore in 2008-09 and ₹75 lakh in 2009-10. Balances in the reserve funds at close of the year 2009-10, declined by 68 *per cent* (₹10,623 crore) over the previous year. While closing the accounts of 2009-10, IR transferred ₹725 crore from Capital Fund to Development Fund to wipe out the negative balance under it. Depreciation Reserve Fund, Development Fund and Pension Fund were closed in 2009-10 with negligible balances of ₹4.98 crore, ₹5.41 crore and ₹1.24 crore respectively. This will adversely affect future expansion of IR's existing services and consequently its market share in the transport sector.

IR was unable to meet its operational cost of passenger and other coaching services. During 2008-09, there was a loss on passenger and other coaching services of ₹15,268 crore. This loss is likely to be much higher in 2009-10. All financial and operating indicators except for staff productivity deteriorated during 2008-10. The above issues had been regularly highlighted in the preceding Reports of Comptroller and Auditor General of India- Union Government (Railways).

IR incurred ₹1,907.17 crore more than the authorization given by Parliament in eight revenue grants, despite obtaining supplementary provisions in seven of these grants. Besides this, excess expenditure of ₹22.44 crore was also incurred in four charged appropriations.

IR being a Government commercial undertaking prepares balance sheet and profit and loss account but did not follow a system of disclosing the significant accounting policies on revenue recognition, fixed assets, depreciation, provisioning for liabilities for pension etc. Accounting reforms project for implementation of practices in line with commercial accounting and reporting, taken up by IR in February 2006, had been delayed by over 29 months.

IR created Public Sector Undertakings to support its need of finances for acquisition of rolling stock, augmentation of network, operation of train services, manufacturing of wagons and running of non-core activities. Audit observed that in many instances IR was not receiving its due share of revenues and operational cost. IR was dependent totally upon the Public Sector Undertakings for documentation relating to transactions with them leading to consequent risk to IR financial interests. It was, further seen that RailTel Corporation of India Limited and Indian Railway Finance Corporation Limited did not declare a minimum dividend of 20 *per cent* on equity/post tax profit resulting in short fall of ₹167 crore on this account.

Major Recommendations

Recommendations on various aspects of Railway finances are given in the relevant chapters of this report; some of the major recommendations are summarized below:

- It is unlikely that major cost cutting can be resorted to in the medium term, IR needs to consider rationalization of freight and passenger tariff through some form of pre-determined non-discretionary inflation indexing.
- IR may review all the capital works in progress and take expeditious decision with regard to closure of projects where there is road connectivity (especially un-remunerative lines), where the progress over the years has been negligible and the need for going ahead with the project is no longer as valid. There is need to focus more on viable projects.
- IR may strengthen monitoring of expenditure to contain it within the authorization approved by Parliament.
- Standards based financial reporting for improved accountability ought to be adopted to ensure transparency in reporting and proper presentation of financial statements. IR may prepare a road map to pace up the process of transition towards a system of accrual based general purpose financial reporting.
- IR needs to strengthen its system of controls to watch realization of its due share of revenues and other charges from Public Sector Undertakings.

Chapter 1 State of Finances

This chapter provides a broad perspective of the finances of the Indian Railways (IR) during 2009-10 and analyses critical changes in the major financial indicators relative to the previous year as well as the overall trend. The base data for this analysis is the Finance Accounts of IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports[1] have been used to compare actual performance of IR in 2009-10 vis-à-vis targets set by it.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of IR fiscal transactions during 2009-10 vis-à-vis the previous years and budget estimates for 2009-10. IR finances had been adversely affected since 2008-09 on account of the combined effect of the slowdown of the economy as well as rise in expenses on salaries and pensions on account of the 6th Central Pay Commission (CPC) recommendations.

Table 1.1 Summary of Receipts and Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2007-08	Actual 2008-09	Budget Estimates 2009-10 (Feb. 2009)	Budget Estimates 2009-10 (July 2009)	Revised Estimates 2009-10	Actual 2009-10
1	*Passenger Earnings*	*19,844.17*	*21,931.32* (10.52)	*25,000.00*	*24,309.00*	*24,057.03*	*23488.17* (7.10)
2	*Freight Earnings*	*47,434.90*	*53,433.42* (12.65)	*59,059.00*	*58,525.00*	*58,715.66*	*58,501.68* (9.49)
3	*Other Coaching Earnings[2]*	*1,800.30*	*1,971.67* (9.52)	*3,000.00*	*2,750.00*	*2,526.23*	*2,235.12* (13.36)
4	*Sundry Earnings[3]*	*2,565.29*	*2,500.66* (-2.52)	*6,000.00*	*2,760.00*	*2,981.99*	*2,879.68* (15.16)
5	*Suspense*	*75.40*	*24.78*	*100.00*	*75.00*	*75.00*	*-140.68*
6	*Gross Traffic Receipts [4] (Item no.1 to 5)*	*71,720.06*	*79,861.85* (11.35)	*93,159.00*	*88,419.00*	*88,355.91*	*86,963.97* (8.89)
7	*Ordinary Working Expenditure[5]*	*41,033.17*	*54,349.30* (32.45)	*62,900.00*	*62,900.00*	*65,500.00*	*65,810.35* (21.09)

[1] *Budget documents, Eleventh Plan Working Group on Railway Programmes, Annual Statistical Statements of Indian Railways and Indian Railways Year Books etc.*
[2] *Other coaching earnings from transportation of parcels, luggage and post office mail etc*
[3] *Sundry Earnings from renting, leasing of building, catering services, advertisements, interest, maintenance of sidings and level crossing, re-imbursement of loss on strategic lines etc*
[4] *Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR*
[5] *Operating Expenses of IR.*

Sl. No.	Details	Actual 2007-08	Actual 2008-09	Budget Estimates 2009-10 (Feb. 2009)	Budget Estimates 2009-10 (July 2009)	Revised Estimates 2009-10	Actual 2009-10
8	*Appropriation to*						
	Depreciation Reserve Fund	***5,450.00***	***7,000.00*** (28.44)	***7,000.00***	***5,325.00***	***4,500.00***	*2,187.00* (-68.76)
	Pension Fund	***7,979.00***	***10,490.00*** (31.47)	***13,690.00***	***13,440.00***	***13,440.00***	*14,918.00* (42.21)
9	***Total Working Expenditure (Item no.7 and 8)***	***54,462.17***	***71,839.30*** (31.91)	***83,590.00***	***81,665.00***	***83,440.00***	*82,915.35* (15.42)
10	***Net Traffic Receipts (Item no.6 – 9)***	***17,257.89***	***8,022.55*** (-53.51)	***9,569.00***	***6,754.00***	***4,915.91***	*4,048.62* (-49.53)
11	***Miscellaneous Receipts***[6]	***1,556.51***	***1,797.13*** (15.46)	***2,147.22***	***2,207.22***	***2,357.16***	*2,265.33* (26.05)
12	***Miscellaneous Expenditure***[7]	***480.38***	***645.23*** (34.32)	***839.74***	***839.74***	***783.21***	*769.85* (19.31)
13	***Net Miscellaneous Receipt (Item no. 11 – 12)***	***1,.076.13***	***1,151.90*** (7.04)	***1,307.48***	***1,367.48***	***1,573.95***	*1,495.48* (29.83)
14	***Net Revenue (Item No.10 and 13)***	***18,334.02***	***9,174.45*** (49.96)	***10,876.48***	***8,121.48***	***6,489.86***	*5,544.10* (-39.57)
15	***Dividend Payable to General Revenues***						
	Current year	***4,238.93***	***4,717.67***	***5,304.22***	***5,479.22***	***5,538.83***	*5,543.35*
	Deferred Dividend of previous year	***664.00***	***0.00***	***0.00***	***0.00***	***0.00***	*0.00*
	Total Dividend Payment	***4,902.93***	***4,717.67*** (-3.78)	***5,304.22***	***5,479.22***	***5,538.83***	*5,543.35* *(17.50)*
16	***Net Surplus (Item no. 14 – 15)***	***13,431.09***	***4,456.78*** (-66.82)	***5,572.26***	***2,642.26***	***951.03***	*0.75* *(-99.98)*
17	***Surplus available for appropriation***						
	Development Fund	***2,359.00***	***1,391.00*** (-41.03)	***5,572.26***	***2,000.00***	***951.03***	*0.75* (-99.95)
	Capital Fund	*11.072.09*	*3,065.78* (-72.31)	*0.00*	*642.26*	*0.00*	*0.00* (-100.00)

Source: Explanatory Memorandum on Railway Budgets and Accounts for 2009-10
Note : Figures in brackets represents the increase/decrease in percentage over previous year

6 Miscellaneous Receipts comprise of subsidy from GoI towards dividend receipt and other concession, receipts by Railway Recruitment Board etc.
7 Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit, Expenditure on Open Line Works (Revenue) etc.

1.2 Reliability of Budget Estimates

Accurate forecast of budget is critical to an organization's financial and operational performance. Assessment of how well the financial targets are met depends on how realistic the financial estimates were from the outset.

The Interim Budget presented in Parliament in February 2009 was optimistic as it projected a 16.65 *per cent* increase in gross traffic receipts (GTR) over 2008-09. Net revenue surplus after meeting all revenue liabilities including dividend was estimated to be 25 *per cent* more than the surplus achieved in 2008-09.

However, when the full budget was presented in July 2009, the estimates were moderated - increase in GTR was kept at around 11 *per cent* more than that of 2008-09. The major reduction was under sundry earnings, which were estimated at 54 *per cent* lower than the projections made in the interim budget of February 2009 (lower realization was estimated from Rail Land Development Authority). Net surplus in the budget estimates of July 2009 was estimated to be about 41 *per cent* less than the actual surplus of 2008-09.

Despite the moderated estimates, IR could not achieve the projected performance. Anticipated GTR of 2009-10, in all the segments except for sundry earnings was not achieved and overall decline of around 2 *per cent* (₹1,455 crore) was recorded when compared to the budget estimates of 2009-10 (July 2009). Total working expenditure increased by around 2 *per cent* (₹1,250 crore) despite a reduction in appropriation to Depreciation Reserve Fund (DRF) by around 59 *per cent* (₹3,138 crore) in June 2010, after close of the year. The resultant net surplus also recorded a decline of almost 100 *per cent* against the budget estimates of 2009-10 presented in Parliament in July 2009.

1.3 Fiscal Transactions in 2009 10 An overview

1.3.1. Gross Traffic Receipts (GTR)

GTR grew in the current year (2009-10) by 8.89 *per cent*, which was significantly lower than the 11.35 *per cent* growth achieved in 2008-09. This was due to a decline in growth rate of freight and passenger earnings. The growth rates of other coaching earnings and sundry earnings were higher in the current year compared to the rate at which they grew in the previous year. However, these earnings form only around six *per cent* of GTR. Hence, their compensating effect was minimal on the overall GTR. The lower growth of passenger and freight earnings impacted the growth of GTR in the current year. The above growth rates have to be seen in the context of a rate of inflation above five *per cent* per annum on an average.

1.3.2 Ordinary Working Expenditure (OWE)

Ordinary working expenditure grew by a substantial 32.45 *per cent* in 2008-09 over the previous year. This was primarily due to the impact of 6th CPC's recommendations, which involved payment of arrears as well as increased salaries and pension. The impact continued in 2009-10 due to balance payment of pay arrears (60 *per cent*) and OWE increased by 21.09 *per cent* over the previous year. The total impact of 6th CPC recommendations (both arrears and salary/pension) during 2009-10 was ₹24,794 crore[8], which accounted for about 37.67 *per cent* of OWE.

1.3.3 Miscellaneous Receipts and Expenditure

In the current year (2009-10), miscellaneous receipts grew by 26.05 *per cent* largely on account of receipt of subsidy on dividend payment and other concessions. The growth of miscellaneous expenditure was contained at 19.31 *per cent* (mainly because the expenditure on this head was very high in the previous year and hence the base was high). As a result, net miscellaneous receipts grew by 29.83 *per cent*, in the current year (2009-10). As it formed less than one *per cent* of the GTR, its impact on total revenue collection is marginal.

1.3.4 Net Revenue

Net revenue in the current year fell by 39.57 *per cent* compared to the previous year primarily because of increase in working expenses as already indicated. This was an alarming signal since the net revenue in 2008-09 was already 49.96 *per cent* lower than what it was in 2007-08.

1.3.5 Dividend Payment

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge advanced through general budgetary support. Since the deferred dividend liability[9] was extinguished in 2007-08, payment of dividend to general revenues was lower in 2008-09 as compared to 2007-08. However, dividend payout in 2009-10 was 17.50 *per cent* more than the previous year. IR, in 2009-10, paid dividend at the rate of 2008-09 i.e. seven *per cent* as report of Railway Convention Committee (RCC) on the rate of dividend for 2009-10 was not finalized till closure of the year. The report of RCC on rate of

8 *Figures of 2009-10 are provisional.*
9 *In 2000-01 and 2001-02, IR could not pay the entire dividend to general revenues and ₹2,823.30 crore was deferred.*

dividend on 2009-10, presented to Parliament in December 2010, recommended a lower rate of six *per cent* for the year 2009-10. Adjustment due to reduction in dividend rate would be carried in 2010-11.

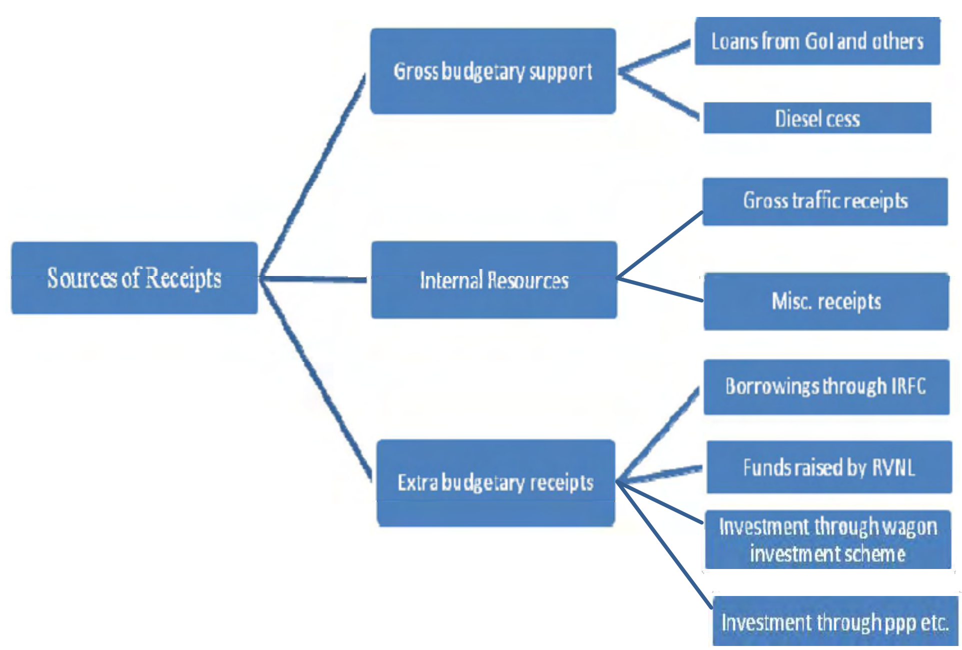
1.3.6 Net Surplus Available for Appropriation

Due to the reasons cited above, generation of net surplus after meeting all revenue liabilities including payment of dividend had fallen by a massive 99.98 *per cent* during the current year compared to the previous year. IR could generate only ₹75 lakh in 2009-10 which was appropriated to Development Fund, as against ₹1,391 crore and ₹3,066 crore appropriated to Development Fund and Capital Fund respectively in 2008-09. Over the period 2008-10, while GTR increased by 21 *per cent*, the total expenditure rose by 52 *per cent*. Thus, the net revenue surplus fell by ₹13,430 crore - a *cent per cent* erosion in two years from a figure of ₹13,431 crore at the end of 2007-08.

1.4 Resources of IR

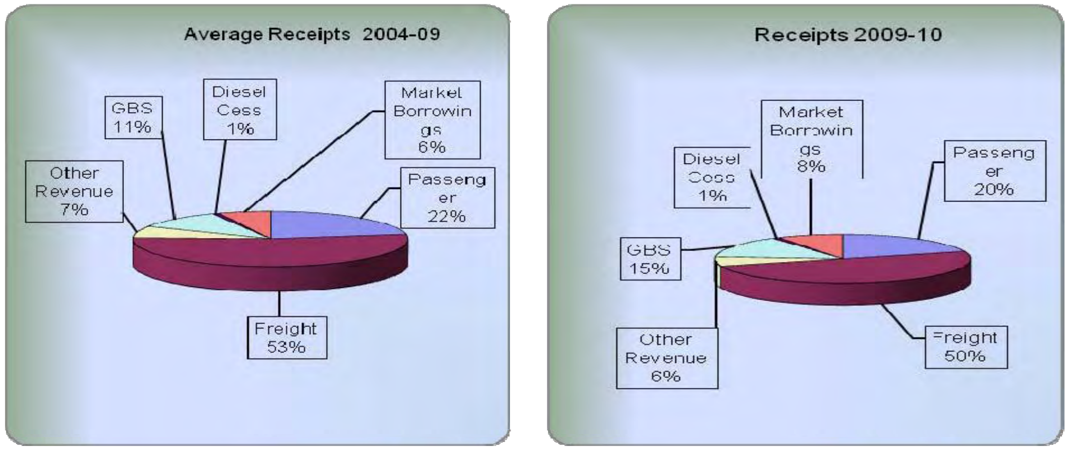
The main sources of IR receipts were as follows:

Figure 1.1 : Sources of Receipts



During the past decade 2000-10, the compound annual growth rate (CAGR) of revenue receipts was only around 10.61 *per cent*, while general budgetary support grew by 20.03 *per cent* and extra budgetary support (market borrowings) by 14.40 *per cent* annually. The share of each of these sources of funds during the current year as well as over the past five years average (2004-09) is given below:

Figure 1.2 : Relative Share of various Resources of IR



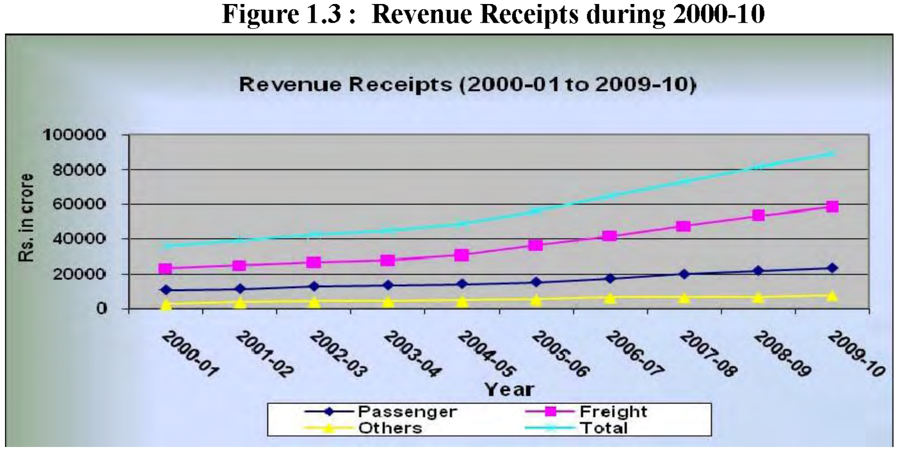
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings and Miscellaneous Receipts; GBS- General Budgetary Support

Figure 1.2 indicates that on an average, the largest resource of IR was earnings on goods, followed by passenger earnings. While these two resources continued to be the largest sources of IR receipts for the current year also, their relative share reduced in the current year and had to be compensated for by a significant increase in the share of budgetary support.

1.4.1 Revenue Receipts

The trend of total revenue receipts during the past ten years is given in the graph below:

Figure 1.3 : Revenue Receipts during 2000-10



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

Total Revenue Receipts increased at a CAGR of 10.61 *per cent* during the period 2000-10. The annual inflation during this period was around five *per cent*.[10] This meant that the real increase in revenue receipts (after discounting for inflation) was only around six *per cent*. The trend of increase in annual growth rate of receipts started in 2004-05 and continued till 2006-07, thereafter it started declining. The increased trend was primarily due to rationalization of freight.

The increase of 9.27 *per cent* in total revenue receipts in 2009-10 over the previous year was lower than the CAGR of 10.77 *per cent* achieved during 2000-09. The trend of growth rates of different segments of revenue receipts are discussed in the succeeding paragraphs.

1.4.1.1 Freight Earnings

Trend of freight loading and earnings of IR as a whole during the last decade (2000-10) is shown in the graph below:

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

The annual growth rate of loading in the last decade consistently showed an upward trend till 2005-06 after which, there was a decline. The annual increase in loading (in absolute terms) ranged between 17.08 MT (2000-01) to 66.14 MT (2007-08) during the decade. There was a continuous increase of over 66 MT during 2005-06 to 2007-08 which was mainly due to gradual increase in permissible carrying capacity of wagons. The increase in freight

10 *Wholesale Price Index rose from 155.7 in 2000-01 to 242.9 in 2009-10 (Source -0/o The Economic Adviser, Ministry of Industry and Commerce)*

loading by 6.53 *per cent* in 2009-10 over the previous year was below the CAGR of 7.32 per cent achieved during 2000-09.

Growth of freight earnings was on an average higher than the growth of loading[11]. In 2009-10, freight earnings increased by 9.49 *per cent* over the previous year, though it was below the CAGR of 10.93 *per cent* achieved during 2000-09.

Box-1 Factors that affected freight earnings during the last decade

Annual growth rate of over 10 per cent in freight earnings since 2004-05 was possible partly on account of higher growth rate of the Indian economic and partly on account of rationalization of freight structure by IR in 2002-03 and continued thereafter. Rationalization inter-alia includes.

- ***Reduction in number of classes of commodities and reducing the ratio between the highest and the lowest class***
- ***Gradual increase in permissible loading capacity of wagons from November 2004 onwards***
- ***Abolishment of minimum weight condition i.e. wagon charged with reference to its capacity irrespective of nature of goods loaded in it.***
- ***Levy/revision of supplementary surcharge and upward revision of classes of certain commodities***

Key performance indicators of freight traffic are tabulated below:

Table 1.2 Freight Services Statistics

Year	Loading (MT)	NTKM (in billion)	Earning (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2005-06	666.51	439596	36286.97	660	80.83
2006-07	727.75	480993	41716.50	661	85.39
2007-08	793.89	521372	47434.90	657	89.04
2008-09	833.39	551448	53433.42	662	93.84
2009-10	887.79	600548	58501.68	676	94.77

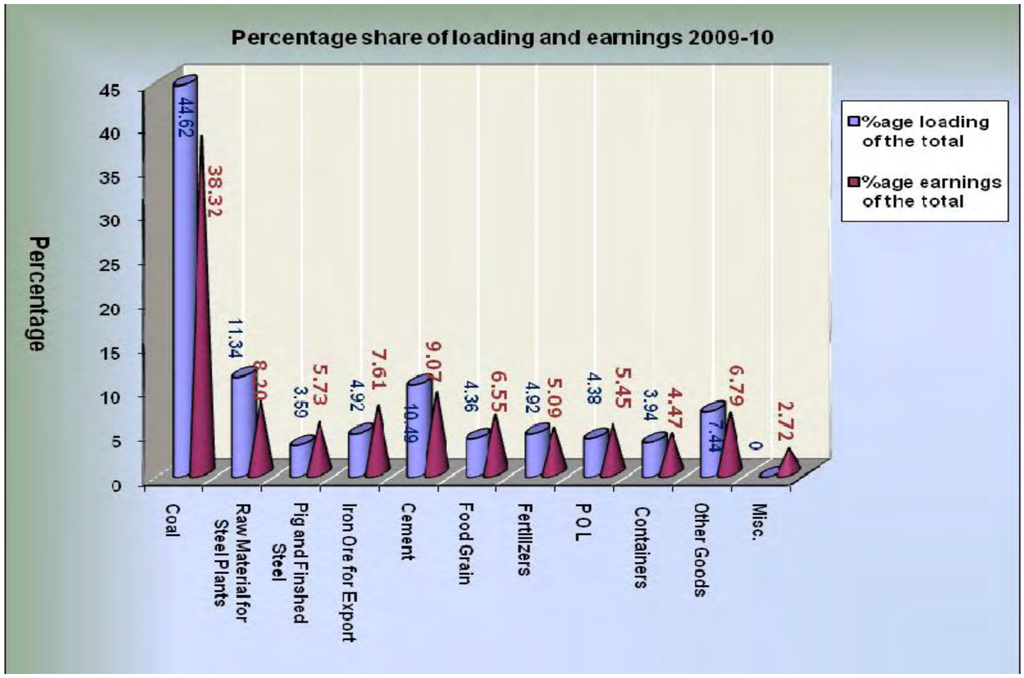
In 2009-10, it was seen that despite increase in loading and NTKM, the rate per tonne per km increased by less than one paise over the previous year. Average lead of 676 km in 2009-10, though more than the previous years, was still less than the average lead of 677 km achieved in 2004-05.

---

11 *In 2003-04, percentage growth of earnings was lower than the growth of loading as classification of commodities such as petroleum products, iron & steel, cement, clinker, soda ash etc was reduced thereby reducing the freight rates. Further, graded concessions for all traffic up to 100 kilometer and reduction in the highest class from 300 to 250 also impacted the earnings of IR.*

Share of major commodities in loading and earnings are given in the bar chart below:

Figure 1.5: Major Commodity wise share of loading and earnings (2009-10)



Note: Raw material for steel plants includes iron ore for steel plants & for other users.

Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding 'Other Goods' and miscellaneous earnings) contributed about 90 *per cent* of the total freight earnings of IR. Iron ore for export constituted five *per cent* of the total loading and earned eight *per cent* of the total freight earnings due to levy of high supplementary charges.

In 2009-10, IR lost more than ₹900 crore due to less loading of iron ore for export. Further, haulage charges recovered from container operators for the traffic hauled were at suboptimal rates resulting in short-recovery of operational cost. A comment in this regard is made in paragraph 2.1 of Report (No. 34 of 2010-11) of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010. As far as zonal performance was concerned, nine zones[12] fell short of their freight earning targets for the current year (2009-10), as compared to the budgeted estimates of 2009-10 (July 2009). North Eastern, South Western and Southern Railways

12 ***East Central, North Eastern, Northeast Frontier, Southern, South Central, South Eastern, Southeast Central, South Western and Western Railways***

fell short of their goods earning target by 25 *per cent*, 18 *per cent* and 17 *per cent* respectively.

1.4.1.2 Market Share of IR in Freight Transportation

White Paper on working of IR, presented to Parliament in December 2009, had brought out that growth of IR Gross Domestic Product (GDP) was not commensurate with the national GDP growth. It remained below the expected railway elasticity of 1.25 over national GDP. White Paper also highlighted issues of falling market share, decline in high rated non-bulk traffic, non-availability of time-tabled freight services, absence of multi-modal logistics parks, high pricing of freight transport and subsidy for passenger transport.

Figure below shows the percentage of total output (production and import) of major items carried by IR during 2000-10[13].

Figure 1.6 : Major Commodity wise IR Share of Freight Traffic

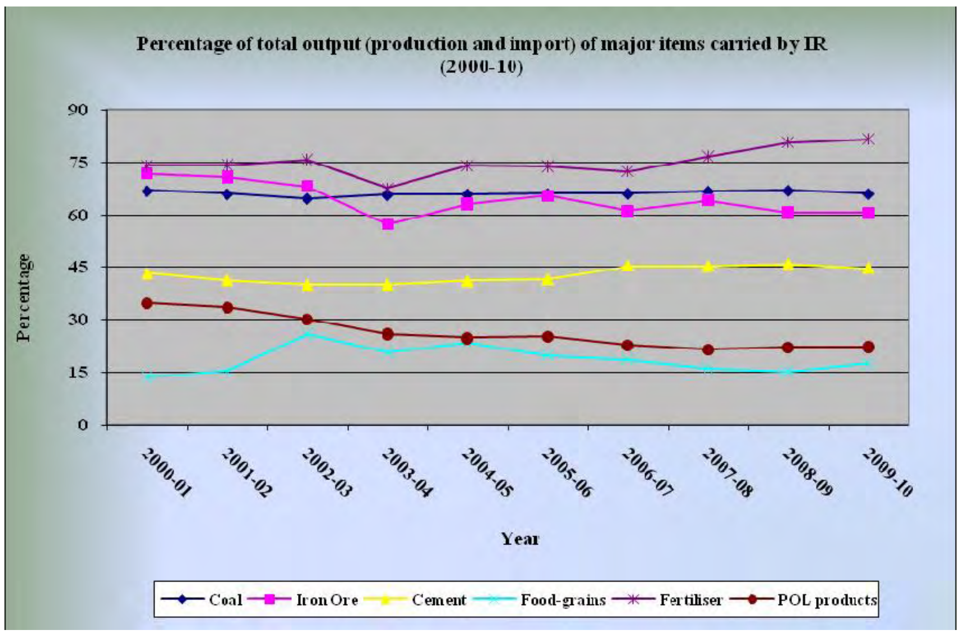


Figure above indicates that share of coal carried by IR remained almost static during the last ten years (2000-10). However, IR lost its share of food grains by 42 *per cent* over 2002-03, iron ore by 15 *per cent* and POL by 36 *per cent* over 2000-01. Share of loading of fertiliser and cement, however, increased in 2009-10.

Performance audit of Freight Services in IR conducted by Audit for Report (No. 8 of 2010-11) of Comptroller and Auditor General of India –Union Government (Railways) for the year ended 31 March 2009 had brought out

---

13 ***Source- Year Book of Indian Railways.***

that incentive schemes introduced and modified in the 10th Five Year Plan (FYP) (2002-07) were only operating sporadically in some zones. These schemes at best contributed to retain the market share and were not successful in improving market share. IR, in September 2010, in response to the audit observation, stated that schemes were yet to be popularised. It was for the rail users to avail the schemes as per their demands.

In the 11th FYP period industrial growth in the country has been projected at 10-11 *per cent*. Report of the Working Group on Railway Programme for the 11th FYP plan (2007-12) envisaged CAGR of 8.80 *per cent* for originating loading of freight traffic. However, in the first three year, IR could achieve a CAGR of only 6.85 *per cent*. Subsequently, in the mid-term appraisal of the plan, IR reduced its target for the entire plan period from 1110 MT to 1020 MT.

To improve receipts IR should focus on (i) maintaining and increasing the market share of bulk traffic where it has an inherent competitive advantage, (ii) increasing rates to cover operating costs (inflation indexing is an option) as well as to generate a sufficient surplus for maintenance and augmentation of infrastructure and (iii) capacity enhancement to sustain the enhanced loading strategy in the long run.

1.4.1.3 Passenger Earnings

The growth in earnings from Passenger traffic and in Passengers Originating in the last decade (2000-10) is given in the graph given below:

Figure 1.7: Growth Rate of Passenger Originating and Passenger Earnings

In the last decade both the growth rate of earnings from passenger traffic and number of passengers originating fluctuated erratically. The percentage increase in earnings from passenger traffic in 2009-10 over the previous year was 7.10 *per cent* which was much below the CAGR of 9.62 *per cent* for the period 2000-09. The percentage increase in passengers originating in 2009-10 over the previous year was 4.77 *per cent* which was below the CAGR of 4.81 *per cent* during 2000-09.

In 2009-10, passenger earnings fell short of budget estimates in the case of 10[14] out of the 16 zones. The shortfall in passenger earning targets was more pronounced in Southern Railway and South Central Railway where the shortfall was 13 and 10 *per cent* respectively, compared to what was estimated in the budget of 2009-10 (July 2009).

Box-2 Factors that affected passenger earnings during the last decade

- ***Steep increase in growth rate of passenger earnings in 2002-03, despite decline in passenger originating, was due to rationalization of passenger fare structure wherein the base class for all passenger services and relativity index for the fares of different classes was increased***
- ***In 2006-07, there was another spurt in earnings due to***
  - ✓ ***Introduction of new trains with new fare structure (Garib Rath)***
  - ✓ ***Increase in number of coaches in passenger trains***
  - ✓ ***Increase in reservation fee, cancellation and tatkal charges***
  - ✓ ***Conversion of mail/express trains into super-fast trains which attracts super-fast charges.***
- ***Subsuming of safety surcharge into passenger fare from April 2007***

Key performance indicators of passenger services are tabulated below:

Table : 1.3 Passenger Services Statistics

Year	No. of Passenger (in millions)	Passenger Kilometre (in million)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger Per kilometre (in paise)
2005-06	*5832.39*	*616632* (7.13)	*15126.00*	*105.73*	*24.53* (0.04)
2006-07	*6333.73*	*695821* (12.84)	*17224.56*	*109.86*	*24.75* (0.90)
2007-08	*6536.44*	*771070* (10.81)	*19844.18*	*117.96*	*25.74* (4.00)
2008-09	*7046.91*	*839203* (8.84)	*21931.32*	*119.09*	*26.13* (1.52)
2009-10	*7382.77*	*904761* (7.81)	*23488.17*	*122.55*	*25.96* (-0.65)

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

Both growth rate of passengers originating and passenger earnings declined in 2009-10 over the previous year. In 2009-10, it was seen that average earnings per passenger per kilometre declined to 25.96 paise from 26.13 paise in 2008-09. IR had been incurring a loss every year on passenger and other coaching

14 ***Central, Eastern, East Central, Northern, North Central, North Eastern, Southern, South Central, South Western and Western Railways.***

services. This loss almost doubled in 2008-09 and crossed ₹15,000 crore. During 2009-10[15], this loss was likely to be much higher.

1.4.1.4 Sundry Earnings and Other Coaching Earnings

Sundry and other coaching earnings constituted six *per cent* of the Gross Traffic Receipts in the current year (2009-10). It grew at around 14 *per cent* in the current year (2009-10) over the previous year.

Analysis in audit revealed that earnings from rent, license fee and advertisements increased in the current year when compared to the previous year. There was considerable scope to increase revenue from these components of sundry earnings provided bills for realization of rent of buildings, license fee were raised and realised in a timely manner with proper revision wherever due. A comment on non-recovery of license fee from RailTel Corporation of India Limited is made in paragraph 7.1 of the Report (No. 34 of 2010-11) of Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010.

1.5 Unrealized Earnings[16]

Against the target for recovery of ₹75 crore during 2009-10 from un-realised earnings, IR went on to accumulate ₹140.68 crore more and the year closed at ₹1,368.01 crore as unrealised earnings. This consisted of ₹1,151.11 crore under Traffic Suspense and ₹216.90 crore under Demand Recoverable. South Eastern Railway was the major contributor to the accumulation of unrealised earnings with ₹205.60 crore (₹183.55 crore on account of freight charges and ₹22.05 crore for demands recoverable during 2009-10. This was followed by Northern Railway where ₹24.42 crore was accumulated under Demands Recoverable.

The major portion of outstanding under Traffic Suspense was on account of un-recovered freight charges from Power Houses and State Electricity Boards as ₹687.25 crore freight and other charges (constituting 59.70 *per cent* of the total Traffic Suspense) was yet to be recovered. Major defaulters are tabulated on next page:

---

15 ***Profitability/unit cost of coaching services for 2009-10 was still not compiled (January 2011)***.

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

Table 1.4- Outstanding dues against State Electricity Board

(₹ in crore)

Sl. No	State Electricity Board/ Power House	Outstanding dues as of 31 March 2009	Outstanding dues as of 31 March 2010	Increase (+)/ decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	456.11	444.05	(-) 12.06
2.	Delhi Vidyut Board (DVB) @	177.20	177.15	(-) 0.05
3.	Rajasthan State Electricity Board (RSEB) @	38.14	37.10	(-) 1.04

@ Now unbundled into Companies as a result of Power Sector Reforms

1.6 Social burden of IR

IR has been bearing the burden of expanding its network and operating its facilities in uneconomic routes to cater to the socio-economic development of the concerned area. The social obligations of IR had impacted its revenues in an adverse manner as discussed below:

1.6.1 Operation of uneconomic branch lines

IR sustained losses of ₹3,228 crore in operation of un-economic branch lines during 2005-10. A comment on inadequate monitoring, cost reduction measures and initiatives for closure of uneconomic branch lines was made in paragraph 2.5.1 of Report of the Comptroller and Auditor General of India for the year ended 31 March 2008 (CA No. 19 of 2008-09)-Union Government (Railways). In response, IR stated that there was reluctance on the part of the State Governments to close down such lines. Meanwhile measures were being taken to reduce the working expenses on such lines. However, the loss on operation of such lines increased to ₹ 1,198 crore in 2009-10.

1.6.2 New lines opened for traffic

A periodic review by IR, in 2008-09, of 6 New Lines (including 5 lines constructed as a part of social service obligation for development of backward areas) revealed that four lines had negative returns[17]. Further, in its Vision 2020 document, IR stated that there were 109 ongoing New Line projects covering a route length of 11,985 kms., of which, only 12 were financially viable, 8 were national projects with assured funding and the remaining were unviable but sanctioned on socio-economic considerations.

IR needs to review all the projects taken up on socio-economic grounds and pursue adequately with the concerned State Governments for firm commitments regarding provision of the requisite land and funds.

17 Reference Year-Books of Indian Railways for 2008-09

1.6.3 Essential Commodities Carried Below Cost

As part of IR's social service obligation, commodities of mass consumption like sugarcane, food and vegetables, edible oil, live-stock, paper, bamboo etc were carried below the cost of operation in order to contain their market prices. The total loss on the movement of such commodities was ₹305.81 crore during 2005-10[18]. The financial loss to IR on this account could be considered an economic gain to the country as it was a conscious policy taken by the Government to reduce transaction costs of essential commodities.

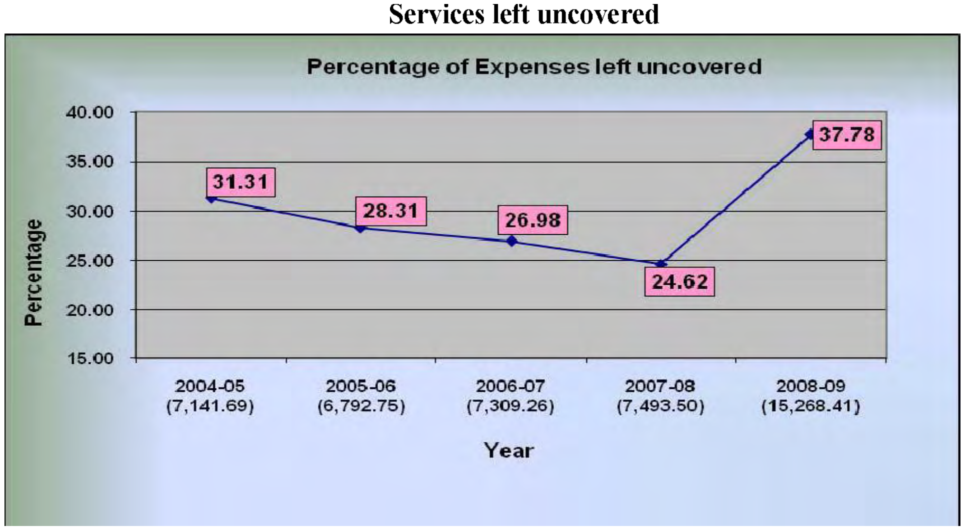
1.6.4 Cross Subsidization

1.6.4.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. Revenue from passengers had increased by 60 *per cent* [19] during the last five years (2004-09), but expenditure on this head increased by 77 *per cent* during the same period.

The Summary of End Results- Freight Services Unit Costs and Coaching Services Profitability/Unit Costs published by IR indicate that there was cross subsidisation from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹7,141.69 crore in 2004-05 to ₹15,268.41 crore in 2008-09. The gap in percentage of expenditure on passengers and other coaching services left uncovered during the last five years is shown in Figure 1.8 below:

Figure 1.8 : Percentage of expenditure on Passenger and Other Coaching Services left uncovered



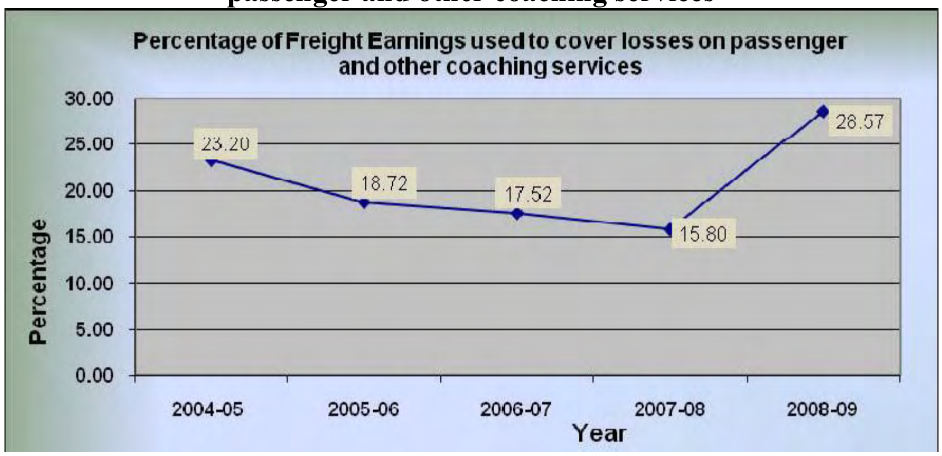
Note: Figures in brackets depict expenses left uncovered in crore of ₹

18 Figures of 2009-10 are of estimates
19 *Excluding Narrow Gauge and Metro Railway/ Kolkata*

The steep increase in cross subsidy during 2008-09 was a result of increase in cost of operations due to implementation of the 6th CPC's recommendations.

Figure below depicts the percentage of freight earnings utilized to make up the loss on passenger and other coaching services:

Figure 1.9 : Percentage of freight earnings used to subsidize the passenger and other coaching services



It would be seen that around 29 *per cent* of the earnings (2008-09) from freight traffic were utilized to compensate the loss on operation of passenger and other coaching services of IR.

1.6.4.2 Operational losses of various Classes of Passenger Services

Table below gives the operational losses of various classes of passenger services during 2004-05 to 2008-09:

Table 1.5 Operational losses of various Classes of Passenger Services

(₹ in crore)

Class of Passenger	2004-05	2005-06	2006-07	2007-08	2008-09
AC-Ist class	-19.11	-32.55	-19.76	-14.77	-59.37
Ist class	-4.28	14.14	-13.84	-6.30	-69.67
AC sleeper	22.40	79.12	72.92	123.09	-176.91
AC 3 Tier	43.56	94.95	423.99	547.60	540.57
AC Chair car	60.43	89.32	-4.94	114.68	5.45
Sleeper Class	-1,862.36	-1,926.59	-1,888.27	-2,384.08	-3,175.24
Second class	-923.81	-762.98	-1,215.61	-993.22	-2,933.09
Ordinary (All Class)	-2,751.39	-2,770.96	-2,912.58	-3,541.28	-6,381.77
EMU suburban services	-724.85	-807.11	-891.13	-922.39	-1,651.19

As can be seen from the above table, only two classes' viz-AC-3-tier and AC chair car (except 2006-07) covered their operational cost. The subsidy provided to both Ordinary Class and suburban services increased continuously in the last five years with subsidy on Ordinary Class being the maximum.

Further, analysis of cross subsidization of sub-urban and 2nd class ordinary trains during 2005-09 revealed the following:

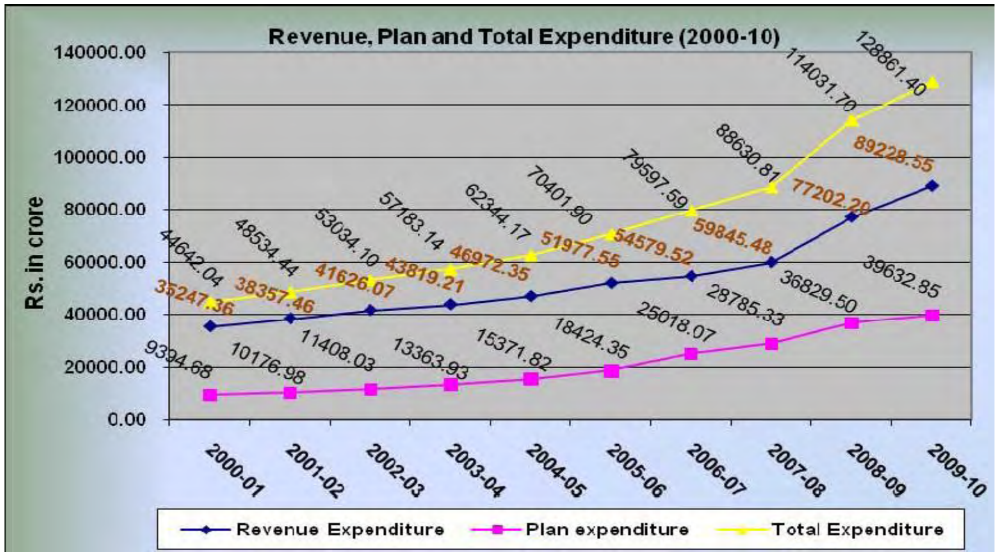
- The number of passengers travelling in 2nd class suburban trains constituted more than 50 *per cent* of the total passengers on IR whereas the earnings from this segment declined to six *per cent* in 2008-09 from eight *per cent* in 2005-06. The fares for second class suburban passengers, which (for distances up to 55 kms) ranged from ₹4 to ₹12 in 2006-07 decreased to a range of ₹3 to ₹11 in 2008-09.
- Together, the number of passengers in second class ordinary suburban and non-suburban class segments on an average during 2005-09 constituted around 84 *per cent* of the total passengers while the earnings from this segment declined from 14.08 paise per passenger per kilometer (2005-06) to 13.88 paise per passenger per kilometer (2008-09) despite inflation.

The Railway Fare and Freight Committee Report of 1993 recognized the need for IR to function as a commercial enterprise and the social burden imposed by cross subsidization within IR resources should make way for explicit grants from general exchequer. While pointing out that scope for mobilizing huge internal surpluses through revision of tariffs might be limited, the Report underscored the need to adopt an optimum pricing policy for both passengers and freight customers having regard to the productivity of IR assets, quality of service and other allied matters. ***There is a need to review the passenger fare structure to ensure that the pricing does not result in a below the cost return. Inflation indexing may be factored in to make the costing realistic.***

1.7 Application of Resources

The two main components of expenditure in IR are 'Ordinary Working Expenses' (OWE) and 'Plan Expenditure'. The total expenditure of IR and its composition under revenue and plan for the past ten years is given on next page

Figure 1.10 : Plan and Revenue Expenditure in the last decade

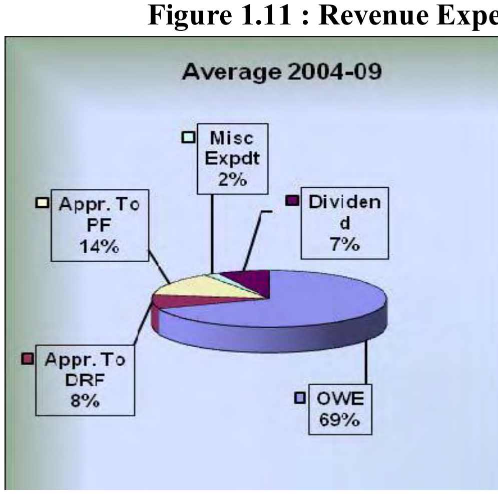


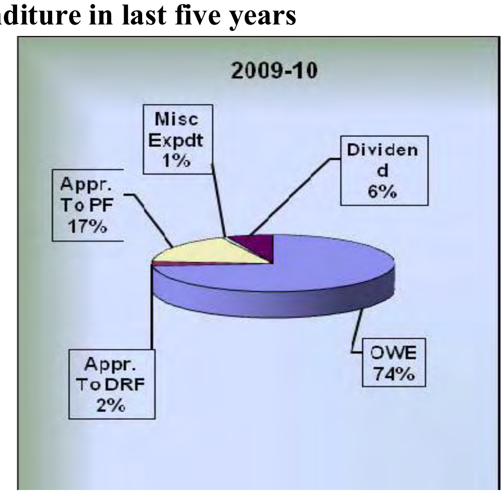
In the last decade, the share of revenue expenditure to total expenditure came down from 79 *per cent* (2000-01) to 69 *per cent* in 2009-10 whereas the share of plan expenditure increased from 21 *per cent* (2000-01) to 31 *per cent* in 2009-10, indicating a more productive shift in expenditure. The major shift towards plan expenditure occurred in 2006-07 as IR generated 135 *per cent* more revenue surplus (compared to the previous year) for appropriating to reserve funds. A detailed analysis of plan expenditure is discussed in paragraph 1.10.

1.7.1 Revenue Expenditure

Composition of revenue expenditure during the current year and an average of the past five years are given below:

Figure 1.11 : Revenue Expenditure in last five years



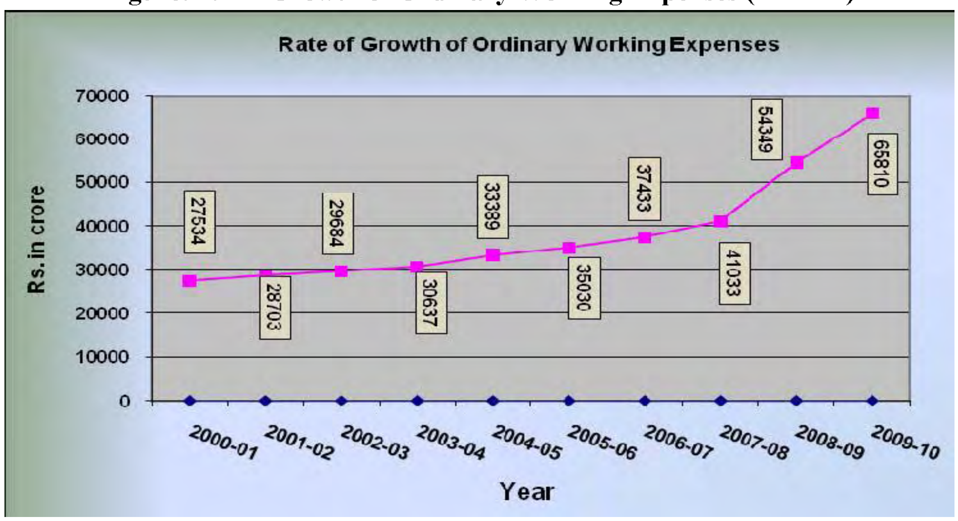


The main components of expenditure was OWE which constituted about 69 *per cent* of the total revenue expenditure on an average during 2004-09. This had increased to 74 *per cent* in 2009-10.

Appropriation to DRF was reduced to 2 *per cent* in 2009-10 as compared to 8 *per cent* on an average during the last five years (2004-09). Due to implementation of the 6th CPC recommendations, appropriation to Pension Fund increased to 17 *per cent* in 2009-10 as compared to 14 *per cent* on an average during 2004-09 to meet the increased pension liabilities.

OWE comprised expenditure on day-to-day maintenance and operation of IR i.e. expenditure on office administration, repairs and maintenance of track and bridges, locomotives, carriage and wagons, plant and equipment, operating expenses on crew, fuel, miscellaneous expenditure, pension liabilities etc. The trend in OWE over the last ten years is depicted below:

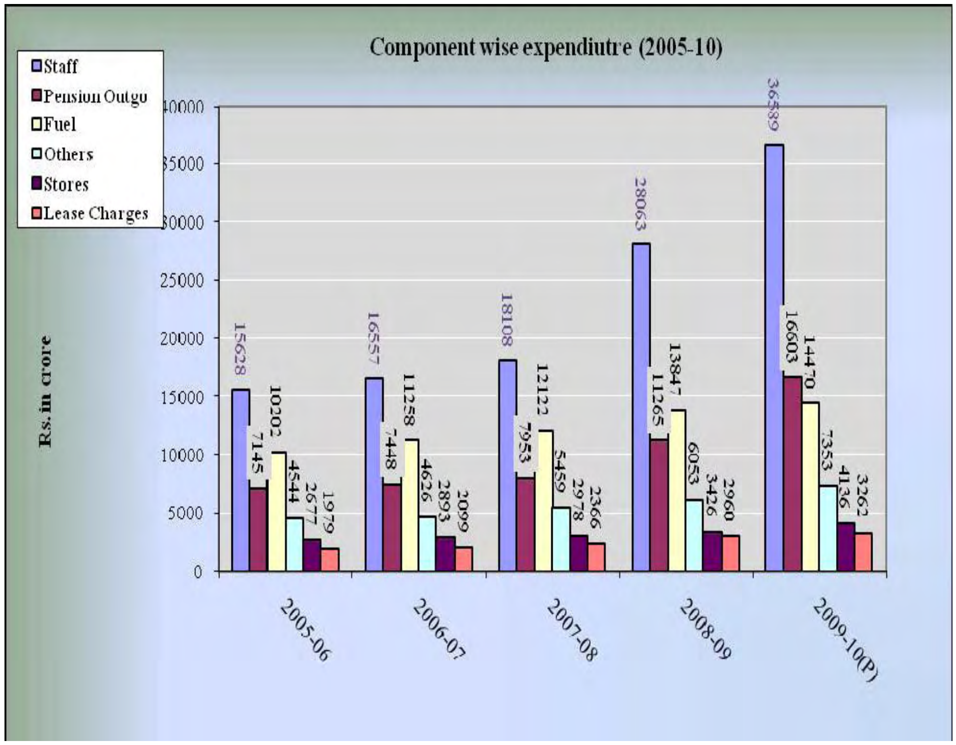
Figure: 1.12 - Growth of Ordinary Working Expenses (2000-10)



The steep increase in OWE during 2008-10 was on account of implementation of 6th CPC's recommendations. OWE increased at a rate of 21 *per cent* during 2009-10 over the previous year against a CAGR of nine *per cent* during 2000-09.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, other and pension outgo is shown in the figure on next page:

Figure: 1.13 - Component wise expenditure



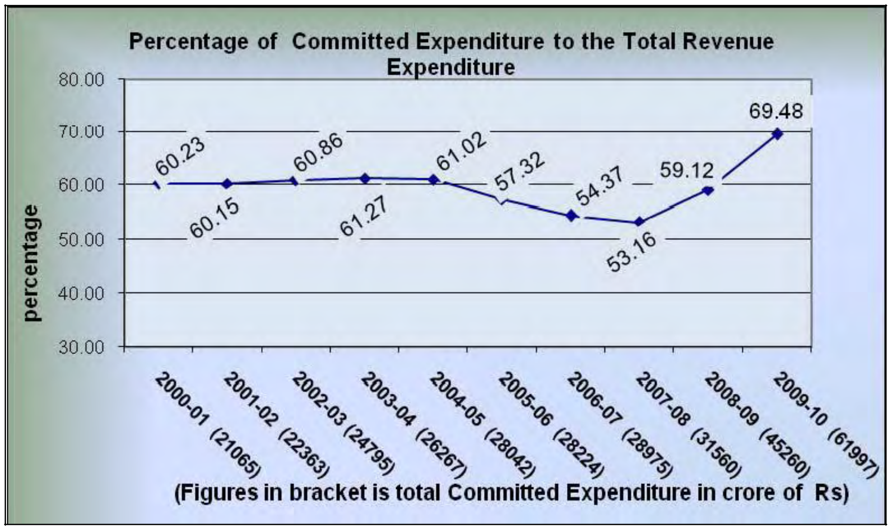
Staff cost constituted on an average 58 *per cent* of the working expenses of IR during the last five years (2005-10). There was, however, a steep increase in staff cost during 2008-10 due to implementation of 6th CPC recommendations.

1.7.2 Committed Expenditure

The committed expenditure of IR consisted of dividend payment to general revenues, staff cost, pension payments and lease hire charges on rolling stock.

Figure 1.14 shows the percentage of committed expenditure to the total revenue expenditure of IR during the last decade (2000-10)

Figure 1.14 : Committed Expenditure as a percentage of total Revenue Expenditure



Committed expenditure to the total expenditure declined till 2007-08 as the growth rate of total revenue expenditure was much more than the growth rate of committed expenditure. In 2009-10, committed expenditure increased to 70 *per cent* due to impact of the recommendations of the 6th CPC. With the increase in percentage of committed expenditure, in proportion to the total revenue expenditure, IR was left with only 30 *per cent* of the total revenue expenditure to run their operations. Of this, fuel alone comprised 53 *per cent*. This impacted IR's contribution to DRF.

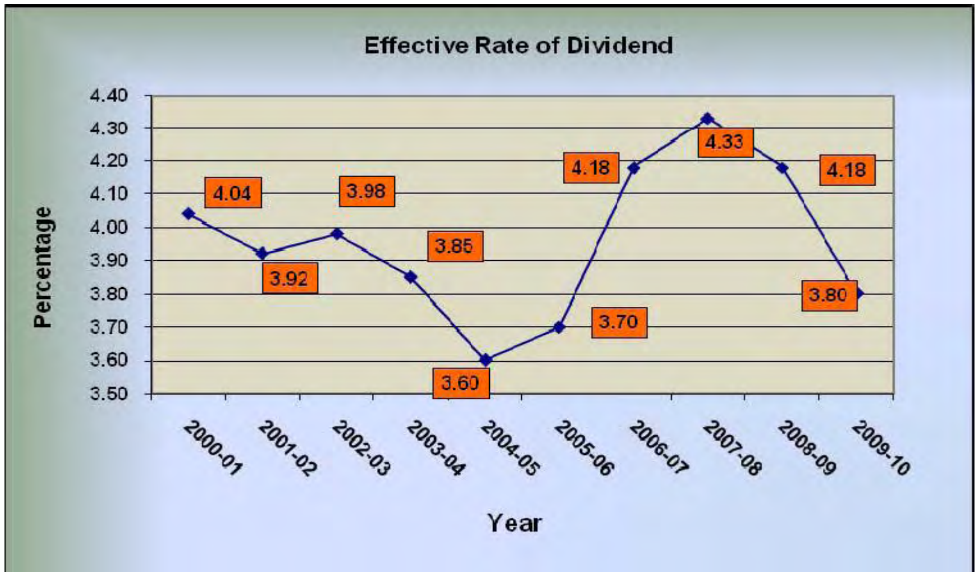
1.7.3 Dividend and Subsidy

Under the 'Separation Convention' IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by RCC. Further, in terms of the recommendations of the RCC, IR is given concessions towards payment of dividend in respect of capital invested in the larger national interest[20]. Dividend paid on such capital is received back as subsidy to IR. This subsidy had increased from ₹812.26 crore (2000-01) to ₹2,155.87 crore (2009-10) over the last ten years (an increase of 165 *per cent*). Taking into account the subsidy received, the net effective rate of dividend in the last ten years was around four *per cent*.

---

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

Figure: 1.15 Effective Rate of Dividend (2000-10)



Note: Dividend liability was taken on accrual basis without referring to deferring dividend liability (2000-01 to 2001-02) and payment of deferred dividend liability (2002-03 to 2007-08)

1.7.4 Un-discharged Liability

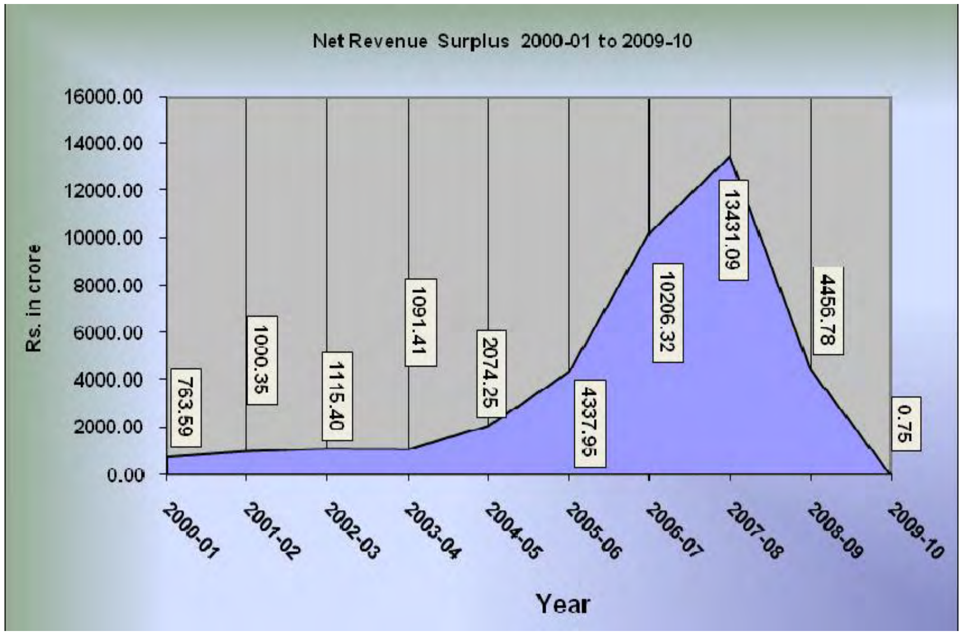
The RCC allows a moratorium on payment of dividend on investments in New Lines during the period of construction and the first five years after opening of the line for traffic. Cumulative dividend is payable when the line shows surplus after meeting current liability. The account of dividend liability is closed after 20 years, extinguishing all such un-liquidated liability. The liability on this account which was ₹6,667.69 crore at the close of 2008-09, had increased to ₹7,511.79 crore as of March 2010.

1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the last decade is shown in the graph on the next page

:

Figure: 1.16 Revenue Surplus (2000-10)



The upward trend in net revenue surplus from 2004-05 onwards up to 2007-08 was due to a higher growth rate of revenue receipts (from 9.21 *per cent* to 13.11 *per cent*) as compared to the growth rate of revenue expenditure (from 7.20 *per cent* to 9.65 *per cent*) as discussed in the preceding paragraphs. Thereafter in 2008-09 and 2009-10, there was a steep decline in generation of net revenue surplus due to decline in the growth rate of traffic receipts and increase in committed liabilities.

IR generated ₹13,431 crore as net revenue surplus in 2007-08. Thereafter generation of net revenue surplus sharply declined to ₹ 4,457 crore in 2008-09 and ₹75 lakh in 2009-10. Besides decline in rate of growth of GTR, recommendations of the 6th CPC had severely impacted the generation of net revenue surplus during 2008-10. The total impact of 6th CPC, during these two years was ₹37,472 crore which included ₹22,244 crore as permanent increase in staff cost and pension. IR had borne the impact of the 6th CPC from its own resources.

1.8.1 Change in presentation of Financial Performance

In 2007-08, a new statement titled 'Statement of Cash and Investible surplus' was introduced in the Explanatory Memorandum[21] on IR budget. This was not an accounting change but more in the nature of presentation of financial projections from a different perspective. The cash surplus before dividend

21 ***Explanatory Memorandum is one of the document on the railways budget presented along with the railways budget to the Parliament***

indicated the cash generated by IR from operations and other activities including interest on fund balances, reflecting the cash available for making payment to dividend, appropriation to DRF and other funds for investment purposes. The investible surplus was expected to indicate resources generated annually for capital expenditure purposes after fulfilling the dividend liability. These aspects were also discussed in the 'White Paper' presented to Parliament in December 2009.

The White paper brought out that cash surplus before dividend had increased from ₹11,051 crore (2004-05) to ₹25,006 crore (2007-08). A cumulative amount of ₹88,669 crore of cash and investible surplus before dividend accrued during the period 2004-05 to 2008-09. After adjusting ₹21,308 crore as gross dividend to general exchequer, IR's investible surplus worked out to ₹66,804 crore.

As mentioned above, presentation of financial projections in such a manner was not an accounting change. The net revenue surplus, as per the accounts of IR, after meeting all revenue expenditure including payment of dividend and appropriation to DRF worked out to ₹34,506 crore for the same period of 2004-05 to 2008-09. Presentation of Statement of Cash and Investible Surplus was discontinued from the budget year 2010-11.

1.9 *Efficiency Indices*

The financial performance and efficiency in operations of an enterprise can best be measured from its financial and performance ratios. The relevant ratios in this regard for IR were 'Operating Ratio', 'Capital-Output Ratio' and 'Staff Productivity', which are discussed below:

1.9.1 *Operating Ratio*

Operating ratio represents the percentage of working expenses to traffic earnings. The operating ratio, which was 75.94 *per cent* in 2007-08, deteriorated to 90.46 *per cent* in 2008-09 for IR as a whole and was 95.28 *per cent* during the current year (2009-10). This was primarily because of increase in total working expenses from ₹71,839 crore in 2008-09 to ₹82,915 crore in 2009-10, i.e., an increase of 15.42 *per cent*. By contrast, the gross earnings increased only by 8.89 *per cent* from ₹79,862 crore in 2008-09 to ₹ 86,964 crore in 2009-10.

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

Table 1.6 Operating Ratio of Zonal Railways

S.No	Zonal Railway	2007-08	2008-09	2009-10
1	*Central*	*75.92*	*97.64*	*106.47*
2	*Eastern*	*143.61*	*173.45*	*186.25*
3	*East Central*	*87.46*	*99.48*	*107.94*
4	*East Coast*	*48.22*	*49.3*	*48.25*
5	*Northern*	*92.53*	*115.26*	*112.74*
6	*North Central*	*53.44*	*60.59*	*61.55*
7	*North Eastern*	*131.74*	*197.32*	*216.19*
8	*Northeast Frontier*	*108.35*	*148.69*	*161.28*
9	*North Western*	*88.91*	*120.23*	*110.29*
10	*Southern*	*105.07*	*126.06*	*137.47*
11	*South Central*	*66.99*	*77.23*	*80.66*
12	*South Eastern*	*53.84*	*62.24*	*69.18*
13	*South East Central*	*45.74*	*53.23*	*60.43*
14	*South Western*	*69.24*	*77.11*	*88.43*
15	*Western*	*76.92*	*93.25*	*97.88*
16	*West Central*	*66.33*	*73.95*	*74.07*
17	*Metro Railway Kolkata*	*196.33*	*252.96*	*248.00*
Overall IR		*75.94*	*90.46*	*95.28*

Operating Ratio of all the zonal railways, except three[22], had deteriorated during the current year compared to the previous year. Operating Ratio of Central, Eastern, East Central, Northern, North Eastern, Northeast Frontier, North Western, Southern Railways and Metro Railway, Kolkata was more than 100 *per cent* during 2009-10, implying that their working expenditure was more than their traffic earnings.

1.9.2 Capital Output Ratio

Capital Output Ratio indicates the amount of capital employed to produce one unit of output (Total Traffic in NTKMs could be seen as the output in the case of IR). The table on the next page shows the Capital-output ratio for total traffic (in NTKMs), carried by IR during 2005-06 to 2009-10.

22 *East Coast, Northern and North Western Railways*

Table 1.7 Capital Output Ratio of IR (2005-10)

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKMS)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in millions)	*Million NTKMs*		
31-Mar-06	***658,783***	***441,762***	***615,614***	***43,709***	***485,471***	***136***
31-Mar-07	***760,307***	***483,422***	***694,764***	***49,328***	***532,750***	***143***
31-Mar-08	***885,211***	***523,196***	***769,956***	***54,667***	***577,863***	***153***
31-Mar-09	***1,043,012***	***552,002***	***838,032***	***59,500***	***611,502***	***171***
31-Mar-10	***1,230,007***	***601,290***	***903,463***	***64,146***	***665,436***	***185***

Capital Output ratio had increased from 136 paise (2005-06) to 185 paise (2009-10) indicating deteriorating physical performance of IR compared to capital employed. Higher cost overruns due to non-completion of projects in time and investment in financially unviable projects were some of the reasons contributing to higher Capital Output ratio.

1.9.3 Staff Productivity

Staff productivity on IR is measured in terms of volume of traffic handled (in terms of NTKM) per thousand employees. It had increased over the years for IR as a whole by over 42 *per cent* during the period 2005-06 (369) to 2009-10 (523).

The improvement in staff productivity over the last five years was a result of two distinct factors:

- Increase in freight carried in terms of tonnage and passenger originating in relation to total distances carried/travelled.
- Decline in workforce from 13.24 lakh (2005-06) to 12.68 lakh (2009-10).

Zone wise analysis of staff productivity revealed that on an average during 2005-10, highest staff productivity of 1109 NTKM per thousand employees was achieved by East Coast Railway. Staff productivity of 148 NTKM per thousand employees of Eastern Railway was the lowest during the same period.

1.10 Plan Expenditure

IR plays a crucial role in augmenting infrastructure for sustainable economic growth. To keep pace with the transport sector in general and to respond to the pressures of a buoyant economy, it is essential that its plan resources are used effectively. Creation of new assets, timely replacement and renewal of depleted assets which had outlived its usage, augmentation of network capacity were the activities carried out by IR through its plan expenditure.

IR plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources[23] and extra budgetary support i.e market borrowing through IRFC for rolling stock and new network links by RVNL.

The table below gives the sources of funds for the plan expenditure during 10th FYP period and first three years of 11th FYP period

Table 1.8 Source-wise Plan Expenditure

(₹ in crore)

Source of Plan Expenditure	10th FYP	11th FYP			
	(2002-07)	*2007-08*	*2008-09*	*2009-10*	
	Actual	*Actual*	*Actual*	*Budget Estimates*	*Actual*
General Budgetary Support[24] (%age to the total)	***37516.06*** *(44.88)*	***8667.90*** *(29.82)*	***10110.43*** *(27.45)*	***16300.00*** *(40.00)*	***17716.09*** *(44.70)*
Internal Resources (%age to the total)	***29567.99*** *(35.37)*	***14948.00*** *(51.43)*	***18941.23*** *(51.43)*	***15175.00*** *(37.24)*	***12195.68*** *(30.77)*
Extra Budgetary Support (%age to the total)	***16502.15*** *(19.75)*	***5169.43*** *(18.75)*	***7777.84*** *(21.12)*	***9270.00*** *(22.76)*	***9720.79*** *(24.53)*

Note: Figures in brackets represent percentage to the total

Due to generation of more internal resources, dependency of plan expenditure on general budget support decreased substantially in the first two years of the 11th FYP period. In the third year of the 11th FYP period, non-availability of sufficient internal resources, dependency on general budget again increased with corresponding decrease in plan expenditure from internal resources.

Plan expenditure is broadly categorized under various plan heads. Table 1.9 gives the share of expenditure grouped under various categories of Plan Heads during the 10th FYP Period and first three years of the 11th - FYP period:

Table 1.9 Category-wise Plan Expenditure

(₹ in crore)

Plan Heads	***10th FYP (2002-07)***	***2007-08***	***2008-09***	***2009-10***
New Lines, Gauge Conversion, Doubling, Traffic Facilities, Track Renewal, Bridge Work, S & T	***42391.07***	***13056.99***	***15094.45***	***15386.09***

23 ***Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund***
24 ***Includes expenditure from RSF***

Plan Heads	*10th FYP (2002-07)*	*2007-08*	*2008-09*	*2009-10*
Rolling Stock and Payment of Capital Component of Lease charges	***26556.21*** (31.77)	***9611.16*** (33.39)	***13043.34*** (35.42)	***15141.94*** (38.21)
Workshop and Production Units and Plant and Machinery	***1962.67*** (2.35)	***686.82*** (2.39)	***1343.45*** (3.65)	***1682.5*** (4.25)
Investments in Government Undertaking	***2886.59*** (3.45)	***1581.74*** (5.49)	***2095*** (5.69)	***2041.99*** (5.15)
Others	***9789.65*** (11.71)	***3848.66*** (13.37)	***5253.27*** (14.26)	***5380.33*** (13.57)
Total	***83586.19***	***28785.37***	***36829.51***	***39632.85***

Note : 1 ***Figures in brackets represent percentage to the total***

Note : 2 ***Others include Road Safety Works, Electrification Projects, Computerization, Other Electric Works, Railway Research, Other Specified Works, Stores Suspense, Manufacturing Suspense and Miscellaneous Advance, Staff Quarters, Passenger Amenities, Metropolitan Projects.***

Note : 3 ***Since IRFC, WIS and RVNL are also contributing to Plan Expenditure (i.e. Extra Budgetary Support), these were also including under Rolling Stock- (₹16,052 crore for 10th -FYP and ₹21,765 crore for first three year of 11th FYP and Investments- ₹450 crore in 10th -FYP and ₹1,183 crore for first three years of 11th -FYP)***

The above table reveals increase in expenditure on rolling stock. There was, however, a decline in the share of plan expenditure on track related works (construction of New Lines, Doubling, Gauge Conversion, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) which contributes towards expansion and renewal of existing track structure.

Performance audit of Freight Services in IR conducted by Audit for the Report (No. 8 of 2010-11) of Comptroller and Auditor General of India- Union Government (Railways) for the year ended 31 March 2009 had commented that the current infrastructure was overstretched and capacity enhancement was essential to sustain the enhanced loading strategy in the long run. Augmentation of rolling stock and network was not commensurate with the projected growth.

Table on next page gives the throw forward (both physical and financial) for 11th Five Year Plan (2007-12), requirements laid down for the 11th plan period and actuals under New Lines construction, Gauge Conversion and Doubling.

Table 1.10 : Status of Network Augmentation Works

Activity	Throw forward for 11th FYP		11th FYP		Targets fixed for (2007-10)	Achievements (2007-10)	
	Physical (in kms)	*Financial (₹ in crore)*	*Physical Targets (in kms)*	*Financial Requirements (₹ in crore)*	*Physical (proportionate) (in kms)*	*Physical (in kms)*	*Financial (₹ in crore)*
New Lines Construction	8,300	27,200	2,000	9,000	1,200	771	7,949
Gauge Conversion	6,700	11,500	10,000	18,000	6,000	4,128	9,331
Doubling	2,800	6,000	6,000	19,000	3,600	1,237	5,874

Keeping in view the trend of progress, IR, in mid-term review of the Plan, reduced the target of New Lines to 1,500 kms, Gauge Conversion to 6,000 kms and Doubling to 3,000 kms.

IR, in its Action Taken Note to the audit comment made in paragraph no. 1.9 of the Report of Comptroller and Auditor General of India-Union Government (Railways) Report no.CA-11 of 2009-10 for year ended 31 March 2009, on the slow progress of works in the first two years of the 11th FYP period, stated that targets of New Lines would be fully met. However, there would be a shortfall in Doubling and Gauge Conversion works due to abnormal increase in price of cement and steel and adverse law and order conditions, unprecedented floods in various areas and constraints of funds etc.

A special audit of new line projects costing over ₹. 100 crore which had been pending completion for over 10 years, conducted across IR revealed enormous time and cost overruns. Audit reviewed 50 out of the 109 new line projects listed by the Vision 2020 document of IR and found that in most of these projects, clear timelines were not set for completion, and where timelines were set, these were not adhered to. Preliminary works required to be completed before commencing the projects were not completed, designs/drawings and detailed estimates were not prepared/provided on time, timely action was not taken to acquire the land and to obtain clearances from various authorities for taking up the projects and a number of contracts were foreclosed/terminated. Further details in this regard are given in paragraph no. 3.1 of the Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2010 (Report no. 34 of 2010-11).

1.11 Railway Funds

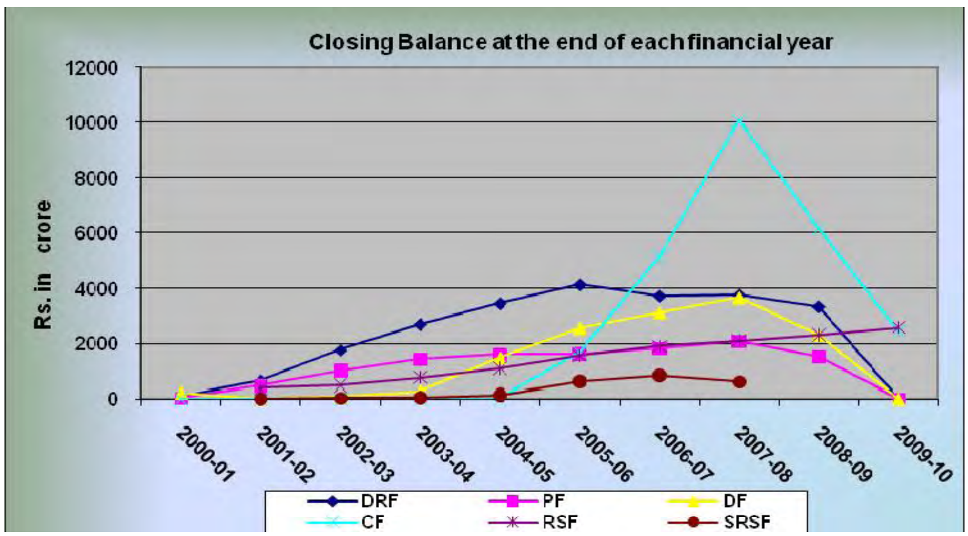
Table 1.11 Status of Railway Funds

Fund	Description
Depreciation Reserve Fund	*This is meant for replacement and renewal of over-aged assets. This fund receives interest at the rate of dividend payable to general revenues. During 2009-10, the rate of interest was seven* per cent *per annum. It was seen that withdrawal from the fund in the last four years (2006-10) was much more than the amount appropriated to it (excluding interest earned) leading to a decrease in the Fund balance at the end of the year. The fund closed at ₹4.98 crore at the end of 2009-10.*
Development Fund	*Due to decrease in revenue surplus after 2007-08, there was a substantial decline in net balances under the fund at the end of each year and in 2009-10, IR could manage a surplus of ₹75 lakh only which was appropriated to it. Against the available fund of ₹2,361.07 crore, IR withdrew ₹3,141.48 crore for works chargeable to DF resulting in a negative balance of ₹780.13 crore at the end of the year 2009-10. IR transferred ₹725 crore from Capital Fund to Development Fund while closing the annual accounts for the year 2009-10 to wipe out this negative balance under the fund. A comment in this regard is made in paragraph 3.6.1 of Chapter-3. With this transfer, Development Fund closed at ₹5.41 crore.*
Capital Fund	*With the increase in generation of revenue surplus since 2005-06, appropriation to this fund increased from ₹4,033.03 crore (2005-06) to ₹11,072.09 crore in 2007-08. Thereafter, net revenue surplus declined steeply reducing appropriation to this fund. IR could not appropriate any amount to this fund in 2009-10. The available balance at the end of the year 2009-10 was reduced to ₹3,213.95 crore, a reduction of 48* per cent *as compared to the previous year (2008-09). Due to lower availability of resources under Capital Fund, dependency of IR on the general budgetary support increased and thereby increasing liability of dividend payment to general revenues. The available balance under fund at the close of the year was further reduced to ₹2,438.20 crore as a sum of ₹725 crore was transferred to Development Fund to wipe out the negative balance under it. This transfer of fund was against the principle of creating Capital Fund which was aimed at financing Capital works only.*
Railway Safety Fund	*Utilization of resources from this fund was poor as withdrawals were always lower than the fund credited to it. The actual utilization of fund, during the last nine years (2001-10), ranged between 36 per cent and 55 per cent of the budget estimates. The shortfall in utilization was mainly due to slow progress of works, slow finalization of tenders/proposals etc. The balance under the fund at the end of the year 2009-10 was ₹2,582.20 crore.*
Pension Fund	*The appropriation to this fund is met out of the revenues earned by IR. The fund receives interest at the rate of dividend payable to general revenues. Appropriation to the fund during 2001-08 was slightly more than the*

Fund	Description
	withdrawals. However, during 2008-09 and 2009-10, IR withdrew more from fund to meet the increased liability of pension on account of implementation of 6th CPC recommendations. This led to decline in the available balance under the fund at the close of the year which stood at a meagre amount of ₹1.24 crore on 31 March 2010.

The five funds[25] shown above were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. Balance available in the funds at the beginning of the year 2009-10, declined by 68 *per cent* from ₹15,655 crore to ₹5,032 crore at the end of the year as the withdrawals in funds were more than the funds appropriated to them.

Figure 1.17- Fund Balances at the close of the years (2000-10)



There was a steady increase in available balance under DRF till 2005-06 and PF till 2007-08 and thereafter there was a sharp decline.

The contribution to DRF was not made on the basis of historical cost, expected useful life and expected residual life of the asset but was dependent on the amount which the working expenses could bear. Since renewal/replacement of assets should be a high priority item, it is imperative that contribution to DRF should be made in a well-founded and transparent manner.

The annual contribution to DRF is distributed zone-wise in proportion to the Block Account (value of assets held) of each zonal railway. This

25 *Till 2007-08, IR also operated Special Railway Safety Fund which was created in 2001-02 to wipe out the arrears in renewal/replacement. The fund was closed at the end of 2007-08 and balance remained in the fund was transferred to Depreciation Reserve Fund.*

apportionment is charged to the working expenses of the zone. It was seen that at the zonal level there was no relation between the amount appropriated to DRF and amount expended on replacement and renewal of the assets. There was negative balance at the end of 2009-10 in respect of Central, Eastern, North Central, North Eastern, North Western, South Eastern, Southeast Central, South Western, Western, West Central Railways, Integral Coach Factory (ICF), Central Organization for Railway Electrification (CORE) and Metro Railway, Kolkata and MTP/Chennai.

1.12 *Corporate Social Responsibility*

Besides bearing a social burden of running un-economic lines, carrying essential commodities below cost and subsidizing passenger fare, IR provided welfare schemes covering a wide spectrum of activities in areas of education, medicare, housing, sports, recreation and catering. IR was running schools for wards of staff and providing medical facilities through hospitals and primary health centres to its staff and family members. Besides this, capital grant of IR also had a provision for capital works on staff amenities and staff quarters. IR had also signed a Memorandum of Understanding with the Ministry of Human Resource Development and Ministry of Health and Family Welfare (February 2010) for setting up of educational institutions and hospitals respectively on surplus lands. The idea was to provide education facilities and health care institutions for the wards of IR employees and also for common citizens in and around major hubs of IR activities. These facilities would be created on the surplus land identified by IR through PPP mode or creation of SPVs or any other suitable models as suggested by the High Power Working Group. The proposals were at a very preliminary stage. In July/August 2010, Kendriya Vidyalaya Sangathan had approved opening of six Kendriya Vidyalayas in Civil Sector on the sites identified by IR.

1.13 Conclusions and Recommendations

There was a significant gap between the actual growth of IR and the potential growth of IR based on GDP elasticity of 1.25 for railways. Although IR achieved a turnaround in its financial performance during the years 2005-08, the position deteriorated in 2008-10 with the implementation of the 6th CPC recommendations. IR could not achieve the projected performance as outlined in the budget for both the years. GTR, in 2009-10 grew by 21 *per cent* over 2007-08, at the same time total working expenses grew by 52 *per cent* over 2007-08 primarily on account of rising salaries and pensions consequent to the 6th CPC recommendations.

IR had not been able to meet their operational cost of passenger and other coaching services. There was heavy cross-subsidization from freight services to passenger services. Percentage of freight earnings used to subsidize the losses on passenger and other coaching services ranged between 16 *per cent* and 29 *per cent* during 2004-05 to 2008-09.

The financial and operational efficiency indicators except staff productivity of IR were not encouraging during the year 2008-10.The overall operating ratio deteriorated from 75.94 *per cent* in 2007-08 to 90.46 *per cent* in 2008-09 and further to 95.28 *per cent* in 2009-10. Capital-output ratio had also increased significantly in the last five years (2005-10), indicating deterioration in the physical performance of IR compared to capital employed. Current Infrastructure of IR was overstretched and capacity augmentation of network and rolling stock was not commensurate with the projected growth.

The surplus of just ₹75 lakh during the current financial year (2009-10) reflected an impending financial crisis in IR finances unless it took measures to augment earnings on one hand and control expenditure on the other hand. Funds balances had substantially decreased and would ultimately adversely affect the long term sustainability of IR operations, since IR would be unable to replace old worn out assets and augment network.

Recommendations

- ***As it is unlikely that major cost cutting can be resorted to in the medium term, the way forward for IR to improve its finances is to rationalize both freight and passenger tariffs through some form of pre-determined non-discretionary inflation indexing. Increasing the market share in bulk freight where IR has an inherent competitive advantage is also necessary. Efforts are required to enhance capacity in such a way that the growing demands are satisfactorily met.***
- ***IR may consider approaching GoI for crediting dividend paid by IR to a non-lapsable fund to be used for financing network augmentation projects.***
- ***Other income sources under sundry earnings, especially license fee on land and advertisements need to be targeted. IR needs to review all cases of licensing/renting of its assets for timely revision/raising of bills and realization of dues including arrears.***
- ***It is important for IR to review all the capital works in progress and take expeditious decision with regard to closure of projects where there is road connectivity (especially un-remunerative lines), where the progress over the years is absolutely negligible and the need for going ahead with the project is no longer as valid. There is a need to focus more on viable projects.***

Chapter 2 Appropriation Accounts

This Chapter outlines IR financial accountability and budgetary practices through audit of Appropriation Accounts.

Railway Budget is an instrument of Parliamentary Financial Control and at the same time, an important management tool. Parliamentary Financial Control is secured not only by the fact that all 'voted' expenditure receives Parliament's prior approval, but also by the system of reporting back to it, the actual expenditure incurred against the Grants/Appropriations voted/approved by Parliament. The statements, which are prepared for presentation to Parliament, comparing the amount of actual expenditure with the amount of Grants voted by Parliament and, Appropriations sanctioned by the President, are called the **"Appropriation Accounts".**

The Appropriation Accounts are signed both by the Chairman, Railway Board and by the Financial Commissioner, Railways and transmitted to the Comptroller and Auditor General of India for audit. Audit by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and also whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

Appropriation Accounts detail the accounts related to expenditure of IR for a particular year as compared to the appropriations for different purposes as specified in the schedules appended to the Appropriation Act passed by Parliament. These Accounts list the original budget allocation, supplementary grants, surrenders and re-appropriations distinctly and indicate the actual capital and revenue expenditure on various specified services vis-à-vis those authorized by the Appropriation Act in respect of both charged and voted items of budget. Appropriation Accounts thus facilitate management of finances and monitoring of budgetary provisions and are therefore complementary to Finance Accounts.

2.1 Summary of Appropriation Accounts

IR authorized its expenditure through operation of 16 Grants comprised of 15 Revenue Grants[26] (Grants number 1 to 15) and 1 Capital Grant[27] (Grant No. 16). Revenue grants were financed through internal resources generated by IR through its earnings, the Capital grant was funded from general budgetary support, internal resources and share of diesel cess from Central Road Fund.

26 ***Grants detailing working expenses and other revenue expenditure as voted by Parliament..***

27 ***Grant detailing expenditure on Assets Acquisition, Construction and Replacement voted by Parliament***

Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2010, compared with the sums authorized in the Original and Supplementary Demands for Grants for expenditure and passed under Article 114 and 115 of the Constitution of India are summarized below:

Table 2.1- Summary of Appropriation Accounts 2009-10

(₹ in crore)

	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-) / Excess (+)
Voted					
Revenue	***1,05,483.62***	***4,100.23***	***1,09,583.85***	***1,06,913.57***	***(-)2,670.28***
Capital	***61,702.76***	***1,899.00***	***63,601.76***	***58,096.07***	***(-)5,505.69***
Total Voted	***1,67,186.38***	***5,999.23***	***1,73,185.61***	***1,65,009.64***	***(-)8,175.97***
Charged					
Revenue	**84.42**	**27.20**	**111.62**	**127.40**	**15.78**
Capital	**55.08**	**15.50**	**70.58**	**65.13**	**-5.45**
Total Charged	**139.50**	**42.70**	**182.20**	**192.53**	**10.33**
Grand Total	***1,67,325.88***	***6,041.93***	***1,73,367.81***	***1,65,202.17***	***(-)8,165.64***

The above table indicates that out of the total expenditure of IR at ₹1,65,202.17 crore during the financial year 2009-10, nearly 65 *per cent* was spent on revenue grants which constituted working expenses on administrative, operational and maintenance activities and 35 *per cent* was spent on capital grant dealing with creation and augmentation of infrastructure facilities through Assets Acquisition, Construction and their Replacement/Renewal. Table also indicates savings of 2.42 *per cent* (₹2,654.50 crore) in revenue grants and 8.65 *per cent* (₹5,511.14 crore) in capital grant against the sanctioned provisions available in 2009-10.

An analysis of grant wise expenditure revealed that the net saving of ₹8,165.64 crore was a result of savings of ₹10,095.25 crore under seven revenue grants, four segments of capital grant and eight revenue appropriation[28] and three segments of capital appropriation, adjusted by an excess of ₹1,929.61 crore in eight revenue grants, three revenue appropriations and one segment of capital appropriation.

2.1.1 Revenue Grants

IR operated 15 Revenue Grants. These are functionally clubbed under six distinct groups as listed on the next page:

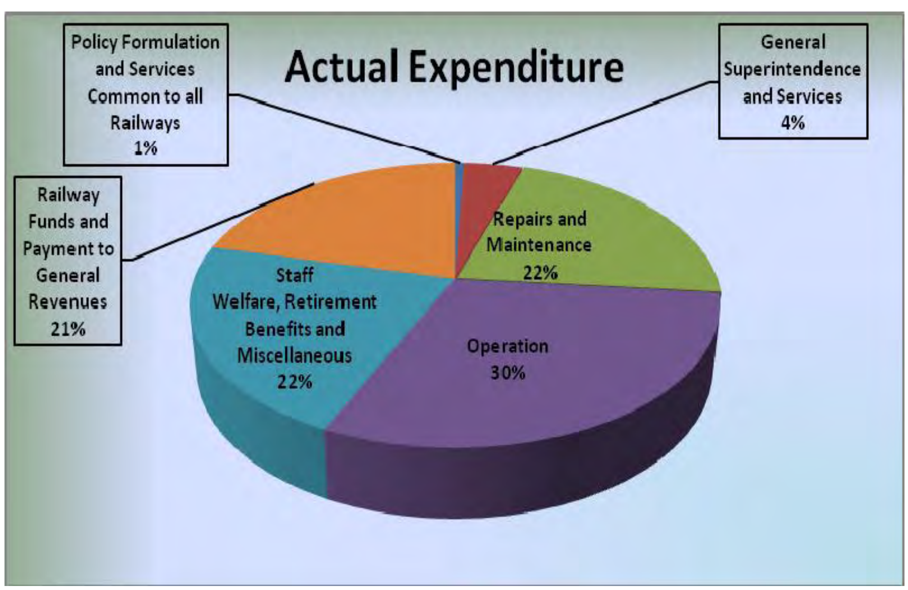
28 ***Appropriation refer to expenditure charged on Consolidated Fund of India***

Table 2.2- Grants operated by Railways

No.	*Particulars*	*Group*
1	Railway Board	Policy Formulation and Services Common to all Railways
2	Miscellaneous Expenditure	
3	General Superintendence and Service on Railways	General Superintendence and Service on Railways
4	Repairs and Maintenance of Permanent Way and Works	Repairs and Maintenance
5	Repairs and Maintenance of Motive Power	
6	Repairs and Maintenance of Carriages and Wagons	
7	Repairs and Maintenance of Plant and Equipment	
8	Operating Expenses-Rolling Stock and Equipment	Operation
9	Operating Expenses-Traffic	
10	Operating Expenses-Fuel	
11	Staff Welfare and Amenities	Staff Welfare, Retirement Benefits and Miscellaneous
12	Miscellaneous Working Expenditure	
13	Provident Fund, Pension and Other Retirement Benefits	
14	Appropriation to Fund	Railway Funds and Payment to General Revenues
15	Dividend to General Revenues, Repayment of loans taken from General Revenues and Amortization of over Capitalization	

The weightage of group-wise expenditure, in 2009-10, is shown in the Chart given below

Chart-2.1 Group wise Revenue Expenditure (2009-10)



Group-wise estimates, expenditure and variation under revenue grants are tabulated below:

Table- 2.3 Group wise Estimates, expenditure and Variation (2009-10)

(₹ in crore)

Particulars	Original Grant/ Appropriation	Supplementary Provision	Total Sanctioned Grant	Actual Expenditure	Variation w.r.t. Sanctioned Grant	Percentage variation
Policy Formulation and Services Common to all Railways	769.74	0.00	769.74	721.23	-48.51	-6.3
General Superintendence and Service on Railways	4,405.83	195.94	4,601.77	4,560.67	-41.10	-0.89
Repairs and Maintenance	21,651.44	1,193.40	22,844.84	23,140.40	295.56	1.29
Operation	31,157.62	1,325.66	32,483.28	32,411.18	-72.10	-0.22
Staff Welfare, Retirement Benefits and Miscellaneous	20,686.93	1,352.82	2,2039.75	23,548.40	1,508.65	6.85
Railway Funds and Payment to General Revenues	26,896.48	59.61	26,956.09	2,2659.09	-4,297.00	-15.94

Broad reasons for variations with reference to sanctioned provisions were as under:

- **Indian Railways Policy Formulation:**

  Savings were due to lower expenditure towards staff cost, conducting lesser number of examinations by Railway Recruitment Board, lower expenditure under International Union of Railways, etc.

- **General Superintendence and Service on Railways**

  Savings were due to incorrect estimation of impact of 6th Central Pay Commission (CPC) recommendations and non-filling up of vacant posts.

- **Repairs and Maintenance**

  Excesses were due to underestimation of impact of 6th CPC recommendations, more drawal of material from stock on account of Periodical Overhaul etc.

- **Operation**

  Under this group, there was excess under Grant no. 8 and 9 mainly due to incorrect estimation of staff cost on account of 6th CPC recommendations. Savings in grant no.10 were mainly due to lower consumption of diesel oil, lower expenditure towards freight and handling charges etc.

- **Staff Welfare, Retirement Benefits and Miscellaneous**

  There was excess of over ₹1,500 crore despite obtaining a supplementary grant. This was attributed to under estimation of pensionery liabilities on account of 6th CPC recommendations.

- **Railway Funds and Payment to General Revenues**

  Savings of ₹4,301.51 crore in grant no. 14 – Appropriation to Funds was primarily due to much lower appropriation to the Depreciation Reserve Fund and Development Fund on account of substantially lower generation of revenue surplus.

Grant wise authorisation and expenditure under the revenue and capital grants and appropriations are detailed in ***Appendix-2.1*** .

Analysis of capital grant is discussed in paragraph 2.7

2.2 Financial Accountability and Budget Management

2.2.1 Excess over Budget Provision

The table below gives the grants and appropriations where expenditure was incurred in excess of authorization:

Table 2.4 Excess Expenditure

(₹ in crore)

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
Revenue- Voted					
1	*Grant No. 4- Repairs and Maintenance – Permanent Ways and Works*	*6,908.95*	*531.81*	*7,496.26*	55.50
2	*Grant No. 5- Repairs and Maintenance of Motive Power*	*3,306.67*	*81.66*	*3,479.20*	90.87
3	*Grant No.6 – Repairs and Maintenance of Carriage and Wagons*	*7,425.46*	*267.03*	*7,857.06*	164.57
4	*Grant No. 8 – Operating Expenses – Rolling Stock and Equipment*	*5,262.59*	*684.69*	*5,983.59*	36.31
5	*Grant No. 9 – Operating Expenses – Traffic*	*11,181.66*	*638.25*	*11,843.34*	23.43
6	*Grant No. 12 – Miscellaneous Working Expenses*	*3,157.65*	*0.00*	*3,177.24*	19.59

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Excess
7	*Grant No. 13- Provident Fund, Pension and other Retirement Benefits*	*14,265.30*	*1,133.52*	*16,911.21*	*1,512.39*
8	*Grant No. 15 – Dividend to General Revenues, Repayment of Loans taken from General Revenues and Amortization of Over-Capitalization*	*5,479.22*	*59.61*	*5,543.34*	*4.51*
Revenue- Charged					
9	*Appropriation No. 3 General Superintendence and Services*	*0.02*	*0.09*	*0.35*	*0.24*
10	*Appropriation No. 5 – Repairs and Maintenance – Motive Power*	*0.00*	*0.00*	*0.02*	*0.02*
11	*Appropriation No. 10- Operating Expenses-Fuel*	*0.00*	*2.25*	*21.07*	*18.82*
Capital- Charged					
12	*Appropriation No. 16 – Assets, Acquisition, Construction and Replacement*	*45.52*	*15.50*	*64.38*	*3.36*
	Total				***1,929.61***

Of the eight grants and four appropriations where excess occurred, supplementary provisions were obtained in all except one grant and one appropriation. Incurrence of excess expenditure despite obtaining supplementary grants indicated poor budgetary forecasting.

Reasons for excess expenditure had been discussed in Paragraph 2.1.1 above.

Public Accounts Committee (PAC) in its Twenty Second Report (15th Lok Sabha) on ‘Excess over Voted Grants and Charged Appropriations (2008-09) observed that incurring huge amounts of excess expenditure over and above the budgetary provisions sanctioned by Parliament at different stages of budget did not augur well for ensuring proper and judicious utilisation of public funds besides undermining Parliamentary financial control. In response to PAC observations, IR stated that implementation of 6th CPC recommendations started from the latter part of 2008-09 in a piece-meal manner and an accurate assessment of the impact was quite difficult resulting in excess expenditure.

Audit, however, observed that the situation had not improved even in 2009-10, as the excess expenditure was again attributed to the impact of implementation of 6th CPC recommendations.

The excesses over the budgetary sanctions require regularization by Parliament under Article 115(1) (b) of the Constitution of India.

2.2.2 Persistent Excess

There had been persistent excess during 2008-09 and 2009-10 in the grants dealing with repairs and maintenance and operating expenses-Rolling Stock and Equipments as tabulated below:

Table 2.5 Persistent Excess Expenditure

(₹ in crore)

S.No.	Particulars	2008-09	2009-10
1	*Grant No. 4- Repairs and Maintenance – Permanent Ways and Works*	*104.45*	*55.50*
2	*Grant No. 5- Repairs and Maintenance of Motive Power*	*95.24*	*90.87*
3	*Grant No.6 – Repairs and Maintenance of Carriage and Wagons*	*149.69*	*164.57*
4	*Grant No. 8 – Operating Expenses – Rolling Stock and Equipment*	*131.06*	*36.31*

IR attributed the excess mainly to implementation of 6th CPC recommendations, additional drawal of stores, materialization of more contractual obligations, higher direct purchases than anticipated, more expenditure on wages and materials on Periodical Over-Hauling etc.

The persistent excess in the last two years indicated the failure of IR to properly estimate budgetary requirements and enforce fiscal discipline.

2.2.3 Savings

There were an aggregate savings of ₹10,095.25 crore. In five cases, as detailed below, the savings exceeded ₹100 crore:

Table 2.6: Savings over ₹100 crore

(₹ in crore)

S.No.	Particulars	Original Provision	Supplementary provision	Actual Expenditure	Saving
1	*Grant No. 10 – Operating Expenses – Fuel*	*14,713.18*	*0.00*	*14,562.93*	*150.25*
2	*Grant No. 14 – Appropriation to Funds*	*21,417.26*	*0.00*	*17,115.75*	*4,301.51*
3	*Grant No. 16 – Capital*	*43,202.76*	*1,899.00*	*43,081.05*	*2,020.71*
4	*Grant No. 16 – Railway Funds*	*16,983.14*	*0.00*	*14,167.55*	*2,815.59*
5	*Grant No. 16 – Railway Safety Fund*	*1,456.88*	*0.00*	*806.90*	*649.98*

Reasons for these savings were attributed to lower drawal of diesel oil for train operations than anticipated (grant no.10), lower generation of net revenue surplus (grant no.14), slow progress of works, lesser activities in Production Units, lower investment in Public Sector Undertakings than anticipated (grant no.16- Capital, Railway Funds and Railway Safety Fund).

2.2.4 Persistent Savings

There had been persistent savings of over ₹100 crore in each of the five grants as tabulated below**:**

Table 2.7 Persistent Savings

(₹ in crore)

S.No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1	***Grant No. 10 – Operating Expenses – Fuel***			***102.20***	***301.30***	***150.25***
2	***Grant No. 14 – Appropriation to Funds***		***556.55***	***373.99***	***6,429.96***	***4,301.51***
3	***Grant No. 16 – Capital***		***997.99***	***789.47***	***537.20***	***2,020.71***
4	***Grant No. 16 – Railway Funds***			***1,634.35***	***1,723.38***	***2,815.59***
5	***Grant No. 16 – Railway Safety Fund***	***447.89***	***350.66***	***517.44***	***734.56***	***649.98***

- Persistent savings in grant no. 10 was attributed to lower drawal of diesel oil for train operations and less adjustments of debits.
- Savings, during 2006-08, in grant no.14 had occurred because appropriation to DRF and/or Pension Fund had been reduced due to lower requirement of funds. However, in 2008-10, saving in this grant was attributed to lower generation of internal resources. In 2008-09, savings occurred due to reduction in contribution to CF by ₹7,773.96 crore. In 2009-10, contribution to DRF and DF was curtailed by ₹5,137 crore and no contribution to CF was made as internal generations of resources had decreased substantially.
- Savings in grant no.16-Capital and Railway Funds were mainly attributed to slow progress of planned works, lower expenditure in acquisition of rolling stock, less activity in Workshops, lesser expenditure towards procurement under Store Suspense head etc.
- Slow progress of works, delay in acquisition of land, less contractual activities were the main reasons for persistent savings under RSF.

Instances of huge persistent savings were indicative of poor budgetary estimation by IR.

2.3 Supplementary Provisions

Supplementary provisions amounting to ₹5,999.23 crore were taken during 2009-10 in ten revenue voted grants. These were obtained mainly for payment of staff cost on account of 6th CPC recommendations. Under capital grant supplementary provisions were obtained as additional support from Central

Government for National Projects in Northern and Northeast Frontier Railways. However, budgeting of supplementary provisions proved deficient as expenditure in seven revenue grants still exceeded the sanctioned allocation (Table 2.4 above). In grant no. 3 and 11, supplementary provisions of 21 *per cent* and 11 *per cent* remained unutilized.

Supplementary provisions of ₹42.70 crore were obtained under charged appropriations to meet higher decretal payments than anticipated. However, the assessment of supplementary provisions under charged appropriations no. 3, 9, 10 and 11 were either inadequate or excessive by more than 100 *per cent*. The reasons of such huge variation were explained due to more/less materialization of decretal payment than anticipated.

The above instances of inadequate/excessive supplementary provisions indicated that requirement of funds was not assessed realistically at the time of seeking supplementary provisions. Incurring of excess expenditure despite obtaining supplementary grants was indicative of ineffective budgeting.

2.4 Surrenders

Savings in a grant or appropriation are required to be surrendered as soon as these are foreseen without waiting for the end of financial year. However, it was seen that the capital segment of grant no. 16 had savings of ₹2,020.71 crore in 2009-10 (4 *per cent* of total budgetary support received), out of which ₹809.03 crore was surrendered on 31 March 2010, depriving Government of India of the opportunity of utilising these funds for other departments by correspondingly reducing gross budgetary support for IR. In three grants (2, 10, and 16-Railway Funds) and one appropriation (no.16-Railway Funds) the amounts surrendered exceeded the savings.

IR, in December 2010, in response to the audit observations stated that savings under Demand no.16 was notional and IR utilised the gross budgetary support fully on net basis and thus there had been no surrender of funds. The contention of IR that there had been no surrender of funds was not correct as savings in the Appropriation Accounts had been worked out with reference to the authorisation obtained for incurring expenditure on gross basis (i.e. sanctioned grant) through Demands for Grants. In fact a surrender of ₹809.03 crore had been depicted in the Appropriation Accounts of grant no.16-Captial.

2.5 Budgetary Control by Spending Units

Budget estimates are usually calculated by IR after taking into account zonal railways requirements which are analyzed and moderated. Rules provide[29] that any fund, during the course of the fiscal year, unlikely to be utilized for a particular purpose for which it was obtained could be re-appropriated, within the provisions of the rules, for some other purpose, or for other spending units (zonal railways). Re-appropriation of funds is done through Final Modification Statement[30] (FMS). Summary of railway-wise grant accounts (grant no.3 to 13) is given in ***Appendix-2.2.***

Audit review of the grant accounts of grant no. 3 to 13 of zonal railways revealed the following:

- In 39 cases, funds were surrendered through FMS by zonal railways in excess of availability.
- In 13 cases, zonal railways surrendered funds through FMS despite expenditure exceeding the sanctioned allocations.
- In 14 cases, zonal railways, through FMS, surrendered 50 *per cent* or more of the supplementary provisions allocated to them. It included nine cases, where 100 *per cent* of the supplementary provisions allocated to them were surrendered.
- In 15 cases, zonal railways received additional funds through re-appropriation at the fag end of the year despite expenditure already incurred was less than the sanctioned grant.

Such instances indicated defective budgetary control and resulted in consequent issue of injudicious re-appropriation orders.

2.6 In-depth Study of one Grant - Grant no.16 - Assets, Acquisition, Construction and Replacement

IR operates one grant for capital expenditure. Grant no. 16 i.e. Works Grant is the largest grant in terms of allocation and area of activities in the field. It deals with expenditure on construction, acquisition and replacement of assets of IR. Entire Plan expenditure was formulated, budgeted and incurred through this grant. This grant has four segments and draws its funding from four distinct sources:

- **Capital**-budgetary support advanced by general budget of GoI,

---

***29** Paragraph 376 of Indian Railways Finance Code enumerates the powers of re-appropriation of funds*

***30** Final Modification Statement referred to final re-appropriation of fund from one unit to other or from one work to other within the frame work of rules. It is usually done at the fag end of the year.*

- **Railway Funds**-internal resources kept under three different reserves[31],
- **Railway Safety Fund**-financed by Railways' share of diesel cess from Central Road Fund and
- **Open Line Works (Revenue) -** new or additional improvement/ replacement works costing less than ₹1 lakh financed from revenue.

Re-appropriation of funds from one segment to another is not permissible.

2.6.1 Macro Analysis

Segment wise allocation and expenditure is given below:

Table 2.8 Segment wise Expenditure under Grant No. 16

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted Portion					
Capital	***43,202.76***	***1,899.00***	***45,101.76***	***43,081.05***	*(-) 2,020.71*
Railway Fund	***16,983.14***	***0.00***	***16,983.14***	***14,167.55***	*(-) 2,815.59*
Railway Safety Fund	***1,456.88***	***0.00***	***1,456.88***	***806.90***	*(-) 649.98*
Open Line Works – Revenue	***59.98***	***0.00***	***59.98***	***40.57***	*(-) 19.41*
Total Voted	*61,702.76*	*1,899.00*	*63,601.76*	*58,096.07*	*(-) 5,505.69*
Charged Portion					
Capital	***45.52***	***15.50***	***61.02***	***64.38***	***(+) 3.36***
Railway Fund	***8.06***	***0.00***	***8.06***	***0.47***	***(-) 7.59***
Railway Safety Fund	***1.48***	***0.00***	***1.48***	***0.27***	***(-) 1.21***
Open Line Works – Revenue	***0.02***	***0.00***	***0.02***	***0.01***	***(-) 0.01***
Total Charged	*55.08*	*15.50*	*70.58*	*65.13*	*(-) 5.45*

- **Capital**

In 2009-10, provision of ₹43,202.76 crore was made for acquisition and construction of assets. Additional budgetary support of ₹1,899 crore was received through supplementary grant for execution of National Projects in Northern and Northeast Frontier Railways. The entire supplementary provision except ₹86 lakh was utilized on National Projects.

There was a net savings of ₹2,020.71 crore, against the sanctioned provision, in this segment of the grant. Savings were attributed to slow progress of works, less procurement of stores, lower expenditure in setting up of Wheel Plant at Chhapra and decline in production of Diesel Multiple Units and passenger coaches, lower investments in Government Undertakings etc.

31 ***Reserve Funds were Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).***

- ## Railway Funds

Appropriation Accounts for 'Railway Funds' under grant no. 16, is financed through three sources of funds viz Depreciation Reserve Fund (DRF), Development Fund (DF) and Capital Fund (CF).

- DRF - for replacement/renewal of existing assets
- DF - for all passenger and other users, works including addition and replacement, labour welfare works not exceeding ₹1 lakh each and Safety Works
- CF - for meeting requirement of capital expenditure on construction and acquisition of new assets.

All these funds are financed from the internal resources of IR either by charging to 'Working Expenses' (DRF) or from 'Net Revenue Surplus' (DF and CF). Thus, performance of IR and availability of balances in the fund accounts impacts planning of expenditure under this segment of the grant. Though appropriation between these sources of funds is not permissible, a combined Appropriation Accounts for these funds is prepared. Source-wise break-up of sanctioned allocation and expenditure under Railway Funds is tabulated below:

Table- 2.9- Component of Railway Funds

(₹ in crore)

Particulars	Original Provision	Supplementary provision	Total sanctioned provisions	Actual Expenditure	Saving (-)/ Excess (+)
Voted Portion					
Depreciation Reserve Fund	***9,668.92***	***0.00***	***9,668.92***	***7,742.09***	*(-) 1926.83*
Development Fund	***3,313.72***	***0.00***	***3,313.72***	***3,142.58***	*(-) 171.14*
Capital Fund	***4,000.50***	***0.00***	***4,000.50***	***3,282.88***	*(-) 717.62*
Total Voted	***16,983.14***	***0.00***	***16,983.14***	***14,167.55***	*(-) 2.815.59*
Charged Portion					
Depreciation Reserve Fund	*4.98*	*0.00*	*4.98*	*0.09*	*(-) 4.89*
Development Fund	*2.58*	*0.00*	*2.58*	*0.32*	*(-) 2.26*
Capital Fund	*0.50*	*0.00*	*0.50*	*0.06*	*(-) 0.44*
Total Charged	*8.06*	*0.00*	*8.06*	*0.47*	*(-)7.59*
Total Voted and Charged	*16,991.20*	*0.00*	*16,991.20*	*14,168.02*	*(-) 2,823.18*

Analysis of this segment of grant revealed there were net savings of ₹2,816 crore (17 *per cent* of the sanctioned grant). Against this savings, account of this segment of grant depicted surrender of ₹3,782 crore.

Further examination of source wise allocation and expenditure revealed the following:

- **DRF-** Savings of ₹1,927 crore (20 *per cent*) occurred against the sanctioned provisions of ₹9,669 crore. This indicated that IR did not carry out renewal/replacement expenditure as planned.

Expenditure on renewal/replacement is met from the fund balance available under DRF. Audit observed that against the proposed appropriation of ₹7,000 crore in 2009-10, actual appropriation of ₹2,187 crore only was made to the DRF, a reduction of 69 *per cent*. Orders for reduced appropriation were issued in June 2010 i.e. after closure of the financial year.

To keep the expenditure within the reduced balance available in the fund account, IR transferred expenditure incurred on Rolling Stock (Bulk Orders) initially booked under DRF to Capital and Deposits. A test check in audit revealed that expenditure of ₹171.54 crore financed through DRF on replacement of rolling stock was transferred to Capital or Deposit head of Account (IRFC Deposit). Transferring of expenditure to Capital and Deposit Head of Account resulted in extra annual recurring expenditure in the shape of payment of dividend to general revenues and lease charges to IRFC. Besides this, expenditure (Paragraph 2.8) of ₹218.24 crore was misclassified from DRF to other heads of account which had also reduced expenditure under DRF.

Had above expenditure of ₹389.78 crore remained classified under DRF, the balance at the close of the year under fund account of DRF would have been negative.

- **DF**- Expenditure of ₹3,143 crore was incurred against the provision of ₹3,314 crore resulting in savings of ₹171 crore. However, above expenditure had resulted in negative balance under the fund account. This negative balance was made up by transferring funds of ₹725 crore from CF account. A comment in this regard is made in paragraph 3.6.1 of Chapter 3 of this Report.

- **CF**- There was a saving of ₹717 crore (18 *per cent*) of the sanctioned grant of ₹4,000.50 crore. Savings occurred as proposed investment in Dedicated Freight Corridor Corporation of India Limited (DFCCIL) was not made.

- ***Railway Safety Fund***

This source of capital expenditure is funded by IR's share of diesel cess in Central Road Fund. Available fund is utilized for road safety works like manning of un-manned railway crossing and construction of road over/under bridges. It was seen that proposed allocations had never been fully utilized in the last five years as there were continuous savings in this segment of the grant as discussed in Paragraph 2.2.4 above. Despite availability of funds there were delays in execution of road safety works.

- ***Open Line Works (Revenue)***

This segment of the grant was financed from the revenue of IR. Cost of all works (other than passenger amenities works) whether new or additional improvement/replacement, where cost is less than ₹1 lakh, is chargeable to this segment of grant. Thirty two *per cent* of the originally allocated funds of ₹59.98 crore were not utilized. The savings were attributed to slow progress of works, non/less finalization of contracts, less materialization of contractual payment etc.

2.6.2 Micro Analysis

Works/activities under each segment of the grant were grouped under 33 Plan Heads (Minor Heads of Account) like Construction of New Lines, Doubling, Gauge Conversion, Rolling Stock etc. Investment decisions which form the budget estimates for construction, acquisition and replacement of assets (Works Budget) were processed through the annual "Work, Machinery and Rolling Stock Programme" prepared on the basis of advance and continuous planning process.

Despite detailed exercise in formulation of Works Budget of capital grant, non-utilization of sanctioned grant besides large scale re-appropriation of original allocated funds as mentioned below, had been noticed

- In Capital segment of the grant, the following was observed:
    - Estimates for requirement of funds proved incorrect as additional funds from other plan heads were provided through re-appropriation for New Lines Construction (₹265 crore- 17 *per cent*[32]), Gauge Conversion works (₹931 crore-38 *per cent*), Doubling projects (₹470 crore-25 *per cent*) and Rolling Stock acquisition (₹1,060 crore- 106 *per cent*).
    - Substantial non-utilization and surrender of funds were noticed in the plan heads Signal and Telecommunication (₹151 crore- 75 *per cent*), Other Electric Works (₹118 crore-78 *per cent*), Construction of Staff Quarters (₹122 crore-66 *per cent*) and Investments in Government Commercial Undertakings (₹1,930 crore- 100 *per cent*).

---

32 *Percentage was with reference to sanctioned grant.*

- In Railway Funds segment of the grant, the following was observed
  - Under-estimation of the requirement of funds resulted in provision of additional funds for Gauge Conversion works (` 31 crore -63 *per cent*).
  - Heavy surrenders and non-utilization of funds were noticed in plan heads dealing with Computerization (₹133 crore- 50 *per cent*), Rolling Stock (₹918 crore – 38 *per cent*), Track Renewal (₹1,028 crore-20 *per cent*), Bridge works (₹ 127 crore-26 *per cent*), Passenger and other Railway User Amenities (₹193 crore-17 *per cent*) and Investments in Government Commercial Undertakings (₹785 crore-48 *per cent*).

Further, in 16 plan heads[33] injudicious surrender/re-appropriation of unutilized funds to activities under other plan heads was much more than the net savings resulting in excess expenditure with reference to final grants. In two plan heads under Railway Funds segment, funds were surrendered/re-appropriated to other plan heads despite expenditure already exceeded the sanctioned grant.

Large scale changes in priorities and re-appropriation of originally allocated resources from one plan head to another or from one railway to another were indicative of the lack of reliability in preparation of budgetary estimates for assets acquisition, construction and replacement/renewal. This not only had affected the long term advance planning of construction and acquisition of assets but also schedules of completion of works/projects.

To sum up the analysis of the capital grant revealed

- **Poor planning**
- **Weak links between policy making, planning and budgeting**
- **Inadequate relationship between budget as formulated and budget as executed**

2.7 Defects in Budgeting

A large number of instances of defective budgeting (414 cases) involving excess/savings beyond the prescribed limits[34] were noticed. These are detailed in the "Appropriation Accounts of IR 2009-10 – Part-I Review). Northern (83 cases), North Central (57 cases), South Central (49 cases) and Eastern (30 cases) were the railways with most number of cases on defective budgeting.

33 *6 under Capital segment, 8 under Railway Funds segment and 2 under Open Line Works (Revenue) segment,*

34 *Paragraph 409 & 410 of Indian Railways Finance Code prescribed limit for permissible variations which is 5 per cent or ` 50 lakh whichever is less and for grant no.16- it is 10 per cent or ` 100 lakh whichever is less.*

IR need to take a comprehensive relook at its budgeting process and make the projections more realistic, so as to ensure that funds are fully utilised for the purposes sanctioned by Parliament.

2.8 Misclassification of Expenditure

Instances of misclassification of expenditure and other accounting mistakes had been noticed while verifying the Accounts of the zonal railways. Cases of misclassification of expenditure and important accounting mistakes have been listed in the "Appropriation Accounts of IR 2009-10 – Detailed Accounts – Part II. These cases included misclassification of expenditure from one revenue grant to another and also from revenue to capital grant and vice-versa. Cases on misclassification of expenditure from capital to deposit heads of accounts were also identified in audit. Misclassification of expenditure from revenue to capital head of accounts or capital to deposit heads understated the revenue and capital expenditure in the accounts. A few of such misclassifications are listed in ***Appendix - 2.3***.

Test audit revealed that expenditure of ₹27.12 crore pertaining to revenue heads of account was misclassified to capital heads of account and ₹10.04 crore from capital heads of account of revenue heads of account thereby understating the revenue expenditure to the extent of ₹17.08 crore. Further, expenditure under grant number 16-Railway Funds was understated by ₹218.24 crore as it was misclassified to grant no.16-Capital.

Despite being pointed out by Audit and the Public Accounts Committee repeatedly, adequate attention was not paid at various levels to eliminate/minimise cases of misclassification of expenditure.

2.9 Unsanctioned Expenditure

All items of irregular expenditure incurred by IR, such as expenditure incurred in excess of sanctioned estimates, expenditure incurred without detailed estimates and miscellaneous overpayments etc. are noted in objection books by the zonal railways administration and treated as unsanctioned expenditure.

A review of such expenditure held under objection disclosed an increasing trend from ₹3,820 crore as of March 2008 to ₹5,297 crore as of March 2009 and ₹6,205 crore as of March 2010. Unsanctioned expenditure as of 31 March 2010, included ₹2,845 (54 *per cent*) related to items which were more than two years old.

Increasing trend of unsanctioned expenditure indicated the inaction on the part of the administration to get the unsanctioned expenditure regularised besides poor internal check mechanism.

2.10 Conclusion and Recommendations

IR had continuously been incurring expenditure over and above the budgetary provisions sanctioned by Parliament. Instances of misclassification of expenditure continued to occur regularly in the railways accounting system. Public Accounts Committee (PAC) had time and again expressed its displeasure over incurring expenditure in excess of the sanctioned grants which was a clear indication of poor budgeting by IR. The Committee had also repeatedly taken a serious view of the recurring instances of misclassification of expenditure.

Recommendations

- ***IR should strengthen its budgetary mechanism and system of expenditure control so that instances of huge savings, expenditure over and above authorization are minimized.***
- ***IR should also explore a mechanism of estimating supplementary grants more realistically so that fiscal discipline is maintained.***
- ***IR should fortify its internal controls to effectively reduce the instances of misclassification of expenditure. Deterrent sanctions should be put in place to foster greater responsibility at the level of key controlling officers.***

Chapter 3 Limitations of Indian Railways Accounts and Comments on Accounts

Provisions of Rule 18 of Government Accounting Rules, 1990 stipulate that financial results of Government Undertakings should be expressed in normal commercial form so that the cost of the service or undertaking may be accurately known. Rule 36 provide that department or departmental undertakings of Government functioning on commercial lines should observe the essential formalities of commercial accounts to the extent prescribed by the Government. In such cases separate commercial account of the department or undertakings should be kept outside the regular Government accounts. IR being a departmental commercial undertaking of the Government of India prepares Capital and Revenue Accounts at Zonal Railways level to facilitate a review of the finances of the Railways as a commercial undertaking. However, these accounts are not being regularly prepared by all the Zonal Railways.

IR, in support of Appropriation Accounts, also prepares financial statements such as profit and loss accounts and balance sheets for financial transactions carried out by it. Audit review revealed certain weaknesses, and limitations apart from errors and omissions in preparation of these statements. These are discussed in succeeding paragraphs.

3.1 Non-disclosure of significant accounting polices

Financial Statements are a structured representation of the financial position and financial performance of an organization. The objective of financial statements is to provide information about the financial position, financial performance and cash flow of an organization that is useful to a wide range of users in making economic decisions. Thus, a complete set of financial statements consist of balance sheet, an income statement, a cash flow statement and notes comprising a summary of significant accounting policies and other explanatory notes.

The significant accounting policies lay down the basis for recognition, measurement and disclosure of specific transactions and other events in presenting the financial statements. It also ensures the comparability both with the organization's financial statements of previous periods and with the financial statements of other organizations.

IR being a Government Commercial Undertaking prepared a balance sheet and a profit and loss account but did not follow a system of disclosing the significant accounting policies which form the basis of preparation of financial statements, like accounting of fixed assets, depreciation, provisioning for liabilities for pension, revenue recognition etc. Further, a cash flow statement, which records the amount of cash/cash equivalent entering and leaving the organization and complements the balance sheet and profit and loss account in analyzing the financial health of the organization, was also not being prepared by IR as a part of the financial statements.

3.2 Non-disclosure of schedules and notes to the financial statements

Financial Statements prepared on commercial basis include the schedules and notes to the balance sheet and profit and loss accounts which form part of the Final Accounts. The schedules give the break up for the major items appearing in the balance sheet and profit and loss accounts. The notes attached to the financial statements explain the accounting treatments and estimates to give adequate information to the readers in understanding the accounts. IR did not prepare any schedule and notes to the major items of its assets, liabilities, revenue and expenditure except the Statement of Block Assets (including capital advanced from general budget).

3.3 Limitations and Weaknesses of Balance Sheet of IR

A balance sheet is a statement of financial position of the organization indicating its assets, liabilities and owner's capital at a specific point of time.

Liabilities as depicted in the balance sheet of IR comprised of Investments financed from loan capital (advanced from general budget) and other funds (either financed from internal resources or special contribution from general budget or share of Diesel Cess), balances under Reserve and other funds/deposits lying in the Public Accounts of India and sundry creditors (Demand Payable and outstanding dues).

Assets of IR comprised of block assets (land, structures, equipment, moveable assets, inventory and investments) created out of loan capital and other reserve funds, balances of the reserve funds/deposits lying with Government of India, other assets such as cash in hand, unrealized revenues and sundry debtors.

However, limitations and weakness affecting individual line items in the balance sheet of IR are given below:

3.3.1 Block Assets (Plant, Property and Equipment)

Financial statements prepared on commercial lines included plant, property and equipment (Fixed Assets) as the major item on the asset side with a detailed schedule indicating the original cost (gross block), cumulative depreciation (depreciation block) and net book value (net block) with additions and deletions in the respective years. This schedule is prepared based on the Fixed Assets Register which describes the details of each of the asset like date of purchase/installation, original cost, location etc. The capital work in progress (expenditure incurred on on-going capital projects) though a part of the total block assets is also distinctly shown in the financial statement.

The balance sheet of IR depicted block assets at their original cost and not at their depreciated value. IR, as per the practice followed in Government Accounting did not depreciate its assets in its financial statement every year. However, it depreciated the assets in the accounts at the time of replacement/renewal or condemnation without replacement. Thus, the value of block assets as depicted in the balance sheet did not represent the true written down value. The capital works-in-progress was also included in the block assets and not distinctly shown.

3.3.2 Investments

Investments made by the Organization need to be distinctly shown in the financial statements at fair value and tested for impairment (diminution in the value of the carrying cost as against the realisable value) at the end of every financial period as per the generally accepted accounting principles.

The Investments of IR as presented in its balance sheet represented the investment from IR Conference Association Employee Provident Fund and Staff Benefit Fund. However, the Investment in the Government commercial undertakings, Special Purpose Vehicles and Joint Ventures etc were not depicted under the head ‘Investment’. These were included in the block assets at its original cost. Thus the value of block assets as presented in the balance sheet remained overstated to the extent of the value of these investments. The investments were also not tested for impairment at the end of each financial year so as to reflect the fair value.

3.3.3 Inventory

As per the commercial system of accounting, the inventory of raw material, work-in-progress, finished products and stores and spares, represent the currents assets which needs to be valued, in the financial statements, at cost or net realisable value, whichever is less.

The block assets of IR as stated in its balance sheet included the floating assets such as stores, balance in manufacturing accounts and miscellaneous advances. As per the system in vogue in IR, all items procured whether for capital projects or regular operation and maintenance were accounted through the Stores Suspense Account operated under the capital head of account. The balance in the Stores Suspense at the end of the year was included in the block assets (fixed assets). Thus there was no separation of all its floating assets from fixed assets and the block assets at the end of the year stands overstated. As the value of the Stores Suspense in the block assets at the end of the year was included in the capital-at-charge, this has a bearing on the dividend payable by IR to the Government.

3.3.4 Sundry Debtors and other receivables

Prudent commercial accounting practices provide that the sundry debtors and receivables are stated at the realisable values with a suitable disclosure of the accounting policy on provision for bad and doubtful debts. In other words, necessary provision towards bad and doubtful debts needs to be provided for against the outstanding debts.

IR balance sheet depicted sundry debtors and other receivables at its book value. Sundry debtors mainly included the dues receivable from Power Houses, railway siding owners, other receivables from customers and staff. No aging analysis of the outstanding dues was being done so as to decide about their realisability. These dues were depicted at book value in the financial statements without making any provision for bad and doubtful debts. In the absence of aging analysis and a policy for provision for bad and doubtful debts, the realisability of the stated dues could not be ascertained from the financial statement.

3.3.5 Clear Liabilities

Rules (Para 220 of IR Accounts Code Vol.-I) provide that revenue liability which remains un-discharged should be brought to the account as working expenses by debiting the service heads and contra credit to the Suspense head called 'Demand Payable'. However, several clear liabilities such as settlement dues, supply of sundry materials, payment of compensation under Workmen's Compensation Act etc, as listed in the note to paragraph 220 of IR Code for Accounts Department Vol-I, were kept outside the purview of this provision. Besides, it was also observed by Audit that clear liabilities on account of payment of deferred dividend and Government Railway Police (GRP) engaged for maintaining law and order in railway premises were also not accounted for as expenditure of the respective financial year. Non accounting of the clear liabilities resulted in understatement of expenses and current liabilities and overstatement of net profit of the respective years.

3.3.6 Contingent Liabilities

Organizations preparing accounts on commercial basis are required to disclose present obligations arising from past events where it is not probable that there will be an outflow of resources to settle the obligation and a possible obligation where the probability of outflow of resources is remote. This would enable the users of the financial statements to assess the possible liabilities that may arise in future. However, IR had not been disclosing contingent liabilities like guarantees issued to Public Sector Undertakings/Special Purpose

Vehicles/Joint Ventures pending Court and Arbitration cases, disputed claims pending settlements, etc in its financial statements.

3.4 Limitations and Weaknesses of Profit and Loss Accounts

The profit and loss account depicts the working results of an organization by presenting the income, expenditure and net operating profit/loss for an accounting period. Appropriation from profit to any reserves or other funds and the dividend payments are depicted distinctly from the working results by recording these under the head ‘Appropriation’.

Income as depicted in the profit and loss account of IR mainly included the passenger fare and freight charges, subsidy received from general revenues towards dividend relief and other concessions. The expenditure mainly consisted of working expenses, appropriation to various funds and dividends. The profit and loss account of IR did not distinctly depict the operational results for the year as the dividend to the general revenues was charged to the profit and loss account.

Further limitations and weakness affecting individual line items in the profit and loss account of IR are given below:

3.4.1 Depreciation

As per the commercial system of accounting, depreciation representing the reduction in value of asset on account of wear and tear and usage over the estimated economic life, obsolescence is charged to the income statement every year.

The system in vogue in IR is to set apart an adhoc sum, towards contribution to the Depreciation Reserve Fund by charging off to the working expenses, as decided by Railway Convention Committee constituted by Parliament. This appropriation was done based on need-cum-availability basis instead of in a scientific manner taking into account the historical cost, expected useful life and expected residual value of the asset. This gave leverage to IR to manage the net revenue surplus at the desired level. Further, due to adhoc provisioning for depreciation, profit and loss account did not give a fair view of the working results of IR.

3.4.2 Provisions for Retirement Benefits

The financial statements prepared on commercial basis should provide for the entire retirement benefits including future liability towards pension, gratuity and leave encashment. Pension Fund was created by IR to cover the current pension payments as also to meet the accumulated liability. However, the contribution to the Pension Fund in IR is being made, as decided by the Railway Convention Committee, on the basis of actual requirement of pension outgo every year without making provisions for future liabilities. The practice of making provision on the basis of actuarial valuation was followed till 1974 and discontinued thereafter. The shift from the actuarial basis to requirement basis was not being disclosed in the financial statements.

3.4.3 Revenue recognition

Income is recognized as revenue whenever the organization delivers its product or performs service. A commercial organization needs to clearly spell out its revenue recognition policies followed in the preparation of financial statements.

Railway Rules provide for advance booking of passenger tickets for future journeys (as of now it is three months in advance) on rail network. In addition, carriages of goods also involve payment of freight charges in advance. IR recognized both the entire income earned and received during the year as well as the income earned but not received during the financial year. It also recognized revenues collected during the financial year for which services have not been provided during the year (advance fare and freight charges). This was contradictory as IR was accounting the unrealized income as revenue for the year and the income received in advance was also treated as revenue for that year. On account of this, the revenue for the year remained overstated and current liabilities stand understated as the services were yet to be rendered.

The matter was taken up with IR in December 2010. IR in its reply, in January 2011, stated that this chapter basically suggested the accounting requirements as per the Company's Act, which were not applicable to IR. The accounting policies, procedure and financial statements of IR are prescribed in IR Accounts Code, which were being followed /prepared accordingly. Thus, Audit evaluation of the financial statements should be done with reference to the rules/standards applicable thereto. IR, further, stated that GASAB was examining adoption of accrual based commercial accounting system in Government accounting. Therefore, till such time decision was taken by the Government for adoption of accrual concept in Government budgeting and accounting, it would not be possible for IR to deviate from the existing system.

The reply of IR is not acceptable. IR Accounts Code provide that the Government owned railways in India are a departmental Commercial Undertaking. IR accounts should, therefore, follow the essential requirements of commercial accounting besides conforming to the practices of Government accounting. Moreover, audit recommendations are on the *pro forma* accounts which are kept outside the normal Government accounts.

Thus, any change for greater transparency in reporting either by way of disclosures of significant accounting policies, notes and schedules or depiction of financial transactions in a manner which conforms to the generally accepted commercial practice would not affect the presentation of the cash based Government accounts of IR.

3.5 Accounting Reforms

IR had taken up a project on Accounting Reforms for implementation of practices which are in line with commercial accounting and reporting. In February 2006, a consultancy contract was awarded to a consortium headed by M/s S.F. Ahmed &Co., Bangladesh with M/s Ernst & Young lead partner to make recommendations on accounting reforms. The scope of the projects envisaged restructuring of existing budgets and accounting system to support existing management information systems, generate the data of revenue and cost to assess the profitability of different business operations of IR and to produce financial statements meeting all the commercial reporting requirements. The project with an estimated cost ₹ 18.31 crore was funded by Asian Development Bank (ADB) and was to be completed in 30 months. Consultants had submitted their Final Report in July 2010. The Report was still to be accepted by IR (January 2011). The project, on which ₹5.83 crore so far (November 2010) had been incurred was already delayed by over 29 months (January 2011).

IR in its reply of January 2011 stated that consultants had given their report and it was under consideration. However, fact remained that consultant delayed the submission of the report. IR was still to accept the said report (January 2011).

3.6 Comments on Accounts

Errors and omissions in the Accounts, affecting the balance sheet and profit and loss account of IR for the year 2009-10 are discussed on next page:

3.6.1 Transaction affecting the Balance Sheet

(a) Transfer of balance from Capital Fund to Development Fund

Based on the recommendations of the Railway Convention Committee, Development Fund (DF) was created on 1 April 1950 to meet the expenditure on passenger and users amenities, labour welfare works, safety works and un-remunerative operative improvements works. This fund was to be financed out of the “Excess of net revenue surplus” left after meeting the dividend liability. Railway Convention Committee also recommended that whenever, the ‘Excess’ is not sufficient, the railways may borrow money from the general revenues. The money borrowed, together with the interest thereon, has to be repaid in subsequent years.

Capital Fund (CF) was created in 1992-93 on the recommendations of the Railway Convention Committee (1991) to finance part of the requirement for work of a capital nature. The balance of the 'Excess', after providing for appropriation to DF, is appropriated to the CF. Transfer of balance from CF to DF and vice versa is not permissible.

The closure of the accounts for 2009-10, revealed a negative balance of ₹780 crore under DF. IR, on 22 July 2010, to get rid of this negative balance, transferred an amount of ₹725 crore from available balance under CF to DF through a correction in the accounts. The action of IR was against the mandate of the Railway Convention Committee as well as the principle for creation of these Funds. IR in response to audit observations, in September 2010, stated that both the DF and the CF received appropriation from "Excess". Taking loan from general exchequer for one fund when the other had sufficient balance was not financially prudent, as it meant an additional interest burden of about 1.5 *per cent* at the current rate. IR further stated that they had not anticipated this contingency and hence it was not specifically covered in the memorandum to Railway Convention Committee for creation of CF and would be included in the next Memorandum for 2010-11. The fact remained that transfer of balance from one Fund to another was against the laid down principle of maintaining and operating these Funds. Thus, the balances in the reserve funds as appearing in the balance sheet did not present a fair view as these were arrived against the laid down provisions. IR, instead of making a practice of transferring balances from one Fund to another, should be more realistic in its estimates so as to avoid such occurrence in future.

(b) Defined Contributory Pension Scheme

Instructions issued by Ministry of Finance, in March 2008, regarding transferring the accumulated amount of Defined Contributory Pension Scheme (DCPS) to Trustee Bank, inter-alia provide that no interest would be given by the Government on accumulation under DCPS after March 2008. In September 2008, Ministry of Finance instructed that contribution from employees and Government should not be parked under Major Head 8342 even as a temporary measure for making payment to Trustee Bank. It was, however, seen that IR, as on 31 March 2010, still kept an amount of ₹50.32 crore under Major Head 8342- awaiting transfer to Trustee Bank. In response to the audit observations, IR (November 2010 and January 2011) stated that in some cases delay was due to deficiencies in employee data. Necessary instructions had already been issued and system would be stabilised in 2010-11. Delay in transfer of the amount collected towards Defined Contributory

Pension Scheme to Trustee Bank would attract liability towards interest to the beneficiaries of the scheme. This clear liability had not been depicted in the balance sheet. The quantum of this liability could not be assessed for want of details.

(c) Non-transparency in Accounts

IR had also given loans and advances to PSUs/JVs apart from undertaking investments in equity. In 2009-10 following loans and advances had been given by IR to PSUs/JVs

- ₹297.38 crore given as loan to Konkan Railway Corporation Limited (KRCL)
- ₹564.86 crore to Rail Vikas Nigam Limited (RVNL) as project advance for construction of rail projects.
- Expenditure aggregating ₹141 crore incurred up to 31 March 2002 on gauge conversion of Hassan-Mangalore section was to be converted and treated as subordinate debt/unsecured debt payable by the Hassan-Mangalore Rail Development Corporation Limited (HMRDC) to IR.

However, these loan/advances had been depicted either under the head 'Miscellaneous Advance (Capital)'which was meant for temporary booking of expenditure (KRCL) or 'Investment in Government PSUs' meant for investments in equity (RVNL) or Plan-head 'Gauge Conversion' meant for recording expenditure incurred by IR in Gauge Conversion projects (HMRDC).

Though these transactions were included in the total block assets of IR, their categorisations as mentioned above was not correct. These transactions should have been distinctly depicted as 'Loans and Advances' in the accounts and balance sheet of IR.

IR in response to audit observation stated (January 2011) that different sub headings under block account, bifurcating debtors, inventories, investments etc as required by audit could be introduced in the balance sheet. Transactions like advances, loans and investments etc should be depicted under the proper headings in block accounts and balance sheet for better presentation and understanding of financial statements.

3.6.2 Transactions affecting the Profit and Loss Accounts

(a) Reimbursement of operating losses on Strategic Lines

Working losses on Strategic Lines, up to 2005-06, were deducted from the dividend payable to general revenues. This accounting practice was discontinued thereafter and these losses are now being reimbursed by Ministry of Finance and accounted for as 'Sundry Receipts' in the books of IR. In Northeast Frontier Railway (NEFR) five sections[35] were also considered as Strategic Lines without any notification and operational losses on these strategic lines were also being reimbursed by Ministry of Finance. IR could not justify the inclusion of these five additional sections under Strategic Lines. The issue was taken up with IR in August 2008, August 2009 and again in August 2010. The incorrect receipt of reimbursement of losses on these five sections under strategic lines could not be worked out for want of details. Thus, the earnings as reflected in the profit and loss accounts had been overstated to that extent.

IR in response to audit observations stated (January 2011) that necessary action was being taken to get the specific notification issued for these sections as strategic lines. Though IR accepted the audit view, the required notification was still to be issued (January 2011).

(b) Subsidy claim on New Lines

Railway Convention Committee 1954 and subsequent Committees recommended that a moratorium should be granted in respect of the dividend payable on the capital invested on the New Lines during the period of construction and up to the end the fifth year of their opening for traffic. The dividend due on capital-at-charge should be paid in full and exemption from dividend should be recorded as "Subsidy Received from General Revenues" under 'Miscellaneous Receipts' in the accounts of IR. Thus, any unjustified deferring of dividend on New Lines would result in unjustified claim and receipt of subsidy of the equivalent amount in the books of IR.

Contrary to these provisions, zonal railways had deferred the dividend on New Lines in 2009-10[36] despite their opening to traffic for more than five years. Hence claim and receipt of subsidy of ₹133.45 crore in 2009-10 was incorrect.

Besides, dividend on the part sections of four New Lines though opened to traffic more than five years ago was also being deferred[37]. The amount of deferred dividend and subsequent receipts of subsidy on these part sections could not be worked out for want of proportionate capital cost.

IR in response to audit observations, in October 2010 and again in January 2011 stated that matter was referred to the concerned zonal railways, adjustments of subsidy, if any, would be carried out in the account for 2010-11. However, despite assurance given for adjustment of incorrect claim of subsidy of ₹ 68.47

---

35 Rangapara-Tezpur; Balipara-Bhlukpong; Samuktala-New Baongaigaon (Double Line); New Jalpaiguri-Ambari Falakata (Double Line) and Siliguri Jn.–New Jalpaiguri

36 South Western Rly (2 New Lines-Rs` 14.61 crore), North Central Railway (2 New Lines-` 38.57 crore), East Coast Railway (4 New Lines-` 68.95 crore) and Western Railway (2 New Lines –` 11.32 crore)

37 South Central Railway (one), Northern Railway (two) and Eastern Railway (one).

crore in 2008-09 by East Coast Railway, no adjustment was done in 2009-10. Thus, accounting of subsidy of ₹133.45 crore in the Account of 2009-10 (excluding the subsidy on the part sections of New Lines opened to traffic for more than five years) had overstated the earnings of IR to that extent.

Accounts for 2010-11 are still to be closed. IR needs to adjust the excess receipt of subsidy in 2008-09 and 2009-10 in the accounts of 2010-11.

(c) Claim of Subsidy on Un-economic Branch Lines

In accordance with the recommendations of the Uneconomic Branch Lines Committee appointed in 1969, following type of lines, for the purpose of examination of viability should be treated as Branch Lines:

- Broad Gauge and Metre Gauge lines joined to the main system at one end only, and
- All Narrow Gauge Lines

It was also recommended that chord lines or parts of chord lines other than Narrow Gauge lines need not be considered as Branch Line from the point of view of economic viability.

As per recommendations of the Railway Convention Committee, capital-at-charge of un-economic branch lines is qualified for relief from payment of dividend. Thus, the amount equivalent to the dividend paid on such branch lines is received back as 'Subsidy' and recorded as 'Miscellaneous Receipts' in the accounts of IR. A check of subsidy received by IR on un-economic branch lines in 2009-10 revealed that the Zonal Railways[38] claimed and received subsidy of ₹2.24 crore on the lines which neither fall under the category of a branch line nor incurring losses. This also overstated the earnings of IR for 2009-10 by ₹2.24 crore.

IR in response stated (January 2011) that the matter was referred to concerned zonal railways and necessary adjustment, if any, would be carried out in the account in hand. Accounts for 2010-11 are still to be closed. IR needs to adjust the excess receipt of subsidy in 2008-09 and 2009-10 in the accounts of 2010-11.

3.6.3 Other Miscellaneous Transactions

(a) Railway Safety Fund (RSF) was specially created in 1 April 2001 for financing works relating to conversion of unmanned level crossings and for construction of Railway Over/Under bridges at busy level crossings. This Fund is financed through transfer of funds by Central Government from the

38 South Western Railway (one line – ₹0.45 crore), North Western Railway (4 branch lines- ₹1.05 crore), Northern Railway (2 branch lines – ₹ 0.06 crore), and East Coast Railway (one branch line –₹ 0.68 crore)

Central Road Fund (out of diesel cess). Despite availability of an exclusive fund under RSF, IR, in 2009-10, had provided budget of ₹241.64 crore and incurred an expenditure of ₹92.90 crore on road safety works from capital, i.e. dividend bearing capital financed from general budget. Execution of Road Safety works from dividend bearing capital had resulted in avoidable payment of ₹3.25 crore as dividend to general revenues in 2009-10. Payment of avoidable dividend on this capitalized expenditure would be an annual recurring feature.

IR, in response to audit observation, in September 2010 and January 2011, stated that an amount of ₹241.64 crore was provided by Ministry of Finance from general exchequer as additional budgetary support for works relating to road safety in addition to ₹958.36 crore as IR's share from cess on Motor Spirit and diesel. The fact, however, remained that incurrence of expenditure on Road Safety Works from dividend bearing capital despite availability of fund under RSF resulted in recurring burden on IR in the shape of payment of dividend to general revenues.

(b) IR is levying a number of surcharges/charges like Development Surcharge, Terminal Charge, Busy Season Surcharge and Congestion Charge on the base passenger fare and freight charges for goods, parcel and/or luggage. Audit in paragraph no.1.3 of Report on Union Government (Railways) No. 19 CA of 2008-09 had commented that accounting of these surcharges/charges was not transparent as these charges were recorded as the normal fare and freight in the accounts of IR. In response, IR stated (August 2010) that there was no need for separate accounting of Development charge on passenger fare as it was subsumed with passenger fare. So far as goods traffic is concerned IR stated that with the completion of ongoing computerisation of freight traffic {Freight Operation Information System (FOIS)}, all such information would be available for record and reference. IR also stated (January 2011) that capturing of data of these charges for booking and refunds separately, in the present scenario where all activities were not fully computerised would be enormous and efforts and costs thereof would not be commensurate with the results achieved. IR further stated that audit suggestion would be implemented after complete computerisation. Till such time data available on computerised bookings would be available for Management Information System (MIS) purpose.

Information provided by IR revealed that ₹3,412 crore in 2007-08, ₹4,013 crore in 2008-09 and ₹4,972 crore in 2009-10 were collected as supplementary charges on passenger and freight traffic. The information given by IR was sourced from Passenger Reservation System and computerised freight booking where FOIS had been implemented. It did not cover the entire traffic of passenger and freight service. Even after completion of computerisation for recording these supplementary charges, the availability of information would be restricted only to the management and not to the readers of the financial statements. Since substantial amount is being collected over and above the base fare and freight, IR needs to depict these charges separately in the Accounts in the interest of transparency for which necessary action needs to be taken.

3.7 Conclusion and Recommendations

IR is a Government Commercial Undertaking. However, its proforma accounts (Balance Sheet and Profit and Loss Account) did not disclose significant accounting policies used for preparation of these proforma accounts. Its balance sheet had not followed the generally accepted principles of commercial accounting in presenting fixed assets, investments, inventories, clear and contingent liabilities. Its profit and loss accounts recognized revenue collected during the financial year for which services had not been provided during that year. Accounting Reforms project taken up by IR had been delayed by 29 months.

Recommendations

- ***IR should disclose the significant accounting policies that are being followed in the preparation of the financial statements. The schedules and explanatory notes on all major items of the balance sheet and profit and loss account should be incorporated for better presentation and understanding of proforma accounts.***
- ***Generally accepted commercial accounting principles in respect of accounting of fixed assets, investments, inventories, sundry debtors and clear liabilities need to be followed. Disclosure of contingent liabilities should also be made.***
- ***Profit and loss account should depict income earned and expenditure incurred pertaining to the financial year. IR should clearly disclose its policy on provision for depreciation and pension.***
- ***Standards based financial reporting is essential for improved public accountability and, in fact, for the efficient and effective functioning of the system. To ensure transparency in reporting and proper presentation of financial statements, IR should prepare a road map to pace up the process of transition towards a system of accrual based general purpose financial reporting.***

Chapter 4 - Performance of Railway PSUs, SPVs and JVs

This Chapter takes a look at the performance of Public Sector Undertakings (PSUs), Special Purpose Vehicles (SPVs) and Joint Ventures (JVs) under IR. The performance of these has a bearing on overall IR finances, since IR apart from an equity share in these organizations also has income sharing agreements with some of the PSUs.

4.1 Introduction

IR created/taken over 13 PSUs with the objective of raising finance for its rolling stock, manufacture of wagons, manage catering and tourism potential, specialize in construction projects and consultancies, operate container traffic, etc. Out of these, two PSUs (IRCON International Ltd. and CONCOR Ltd.) are listed on the stock exchange. As of 31 March 2010, IR had invested ₹11,854.98 crore in these units in the shape of equity (₹4,596.18 crore), non-cumulative preferential shares (₹3,771.34 crore) and project advance (₹3,487.46 crore). The overall financial position of the 13 PSUs as of 31 March 2010 is given below.

Table 4.1 Financial Status PSUs/JVs

(₹ in crore)

Company	Paid up Capital	Net Block	Capital Employed	Net worth	Turn Over	Profit before tax and interest	Net profit/ Loss as after tax and interest
Konkan Railway Corporation Limited (KRCL)	*4,577.80*	*3,014.36*	*3,306.63*	*1,246.87*	*733.25*	*175.45*	*11.63*
Container Corporation of India Limited (CONCOR)	*129.98*	*2163.86*	*4107.76*	*4336.40*	*3705.68*	*1006.71*	*786.69*
IRCTC	*20.00*	*80.70*	*147.37*	*162.76*	*694.94*	*124.73*	*92.99*
Rail Vikas Nigam Limited (RVNL)	*2,085.02*	*2.72*	*7,083.40*	*2,191.78*	*1,749.08*	*121.05*	*105.46*
Railtel Corporation of India Limited (RailTel)	*320.94*	*684.38*	*660.36*	*552.62*	*399.70*	*132.47*	*112.29*
Dedicated Freight Corridor Corporation of India Limited (DFCCIL)	*559.13*	*12.37*	*399.56*	*559.13*	*0.00*	*-30.44*	*-33.04*

Company	Paid up Capital	Net Block	Capital Employed	Net worth	Turn Over	Profit before tax and interest	Net profit/ Loss as after tax and interest
Mumbai Railway Vikas Corporation Limited (MRVCL)	25.00	2.62	338.80	132.27	14.28	25.80	25.80
IRCON International Limited.	9.90	227.39	978.52	1199.28	3152.16	257.55	175.73
RITES Ltd	40.00	127.79	538.00	694.84	602.36	165.65	111.95
IRFC	1,091.00	13.69	39,477.90	3,404.30	34,44.86	3,349.25	442.69
Bharat Wagon and Engineering Company Limited (BWECL) ₤	9.07	5.30	7.37	2.81	12.43	-7.99	-8.63
Braithwaite and Company Limited (BCL) Ω	18.60	18.55	33.88	10.61	127.61	5.00	1.75
Burn Standard Company Limited (BSCL) Ω	137.20	34.88	-1,146.09	-1,636.76	222.77	-0.30	-136.36

₤-Figures pertain to 2008-09. Accounts of 2009-10 are not ready (Dec. 2010). Taken over by IR in August 2008.
Ω- Taken over by IR in August/ September 2010

Table above indicates that the net profit after tax as of 31 March 2010 was negative in respect of three companies *viz* BWECL, BSCL and DFCCIL.

In addition to the above mentioned PSUs, IR also set up three SPVs/JVs to develop railway related infrastructure in various parts of the country. These are (i) Kutch Railway Company Ltd., (ii) Pipavav Railway Corporation Limited (PRCL) and (iii) Hassan Mangalore Rail Development Company Limited (HMRDCL).

Table 4.2 Financial Status of JVs/SPVs

(₹ in crore)

Company	*Paid up Capital*	*Net Assets*	*Capital Employed*	*Net worth*	*Turn Over*	*Profit before tax and interest*	Net profit/ Loss as after tax and interest
Kutch Railway Company Limited	*200.00*	*439.05*	*551.96*	*280.26*	*291.18*	*116.73*	*88.60*
Pipavav Railway Corporation Ltd. (PRCL)	*196.00*	*240.76*	*209.42*	*115.55*	*76.62*	*-18.03*	*-18.03*
Hassan Mangalore Rail Development Company Ltd. (HMRDC)	*112.00*	*216.34*	*423.70*	*241.49*	*1,856.01*	*274.58*	*175.28*

Besides this, IR had also invested ₹158.97 crore in Bharat Bijli Company Limited (BBCL), a subsidiary of NTPC, engaged in the development of thermal power earmarked for railway. IR also hold 26 *per cent* equity (₹1.30 crore) in Karnataka Rail Infrastructure Development Corporation (K-RIDE), a Company set up with the objective of developing and implementing rail infrastructure projects in Karnataka with private sector participation.

IR had also set up two autonomous bodies, namely Centre for Railway Information System (CRIS) for development of all computer activities on IR and Rail Land Development Authority for developing vacant land for commercial use for the purpose of generating revenue by non-tariff measures.

Based on the objective some of these PSUs/SPVs/JVs were involved in core railway operations; some were specialized in consultancies, some in construction, engineering and infrastructure development and others in support services. The details of the PSUs operating in each of these areas are discussed below:

4.2 PSUs in Railway Operations

Two out of the 13 PSUs, *viz*. KRCL and CONCOR were involved in railway operations. The details of operations of these PSUs are given below:

4.2.1 Konkan Railway Corporation Ltd.

KRCL was incorporated as a public limited company under the Companies Act, 1956 in 1990 to connect Mumbai and Mangalore. The 760-kilometre line connects Maharashtra, Goa and Karnataka States and all three States, along with Kerala, are partners in it. The first train on the completed track was flagged off in January 1998.

IR had been providing financial assistance to KRCL, which was subsequently converted into non-cumulative preferential shares. As of 31 March 2010, an amount of ₹3,771.34 crore given by IR as financial assistance to KRCL had been converted into non-cumulative 15/20 year redeemable preference shares. The Corporation, in March 2010, still had debt liabilities of ₹ 2,118.50 crore to meet its redemption and interest obligations.

KRCL had also been entrusted with engineering projects by IR and State Governments including Anti-collision device for IR. KRCL besides IRCON was the major partner of IR in construction of Katra-Dhampur section of Udhampur-Srinagar-Baramulla Rail Link. This project is substantially delayed.

Total revenue of the Corporation in 2009-10 was ₹766.27 crore, of which train operations yielded ₹588.28 crore. The operating surplus for 2009-10 stood at ₹246.94 crore. Cumulative loss of the Corporation had come down from ₹3,342.55 crore at the end of 2008-09 to ₹3,330.93 crore at close of the year 2009-10.

4.2.2 Container Corporation of India Ltd.

CONCOR was set up in 1988, to provide high- quality, cost-effective logistics services. It is a Multimodal Logistics Organization moving the general cargo through sea and land in the containers and provides door-to-door service to its customers. In addition to providing inland transport by rail for containers, it is also involved in management of ports, air cargo complexes and establishing cold-chain. Shares of CONCOR are listed with both National Stock Exchange and Bombay Stock Exchange.

IR adopted a policy of transporting only bulk traffic/ full rake load traffic and diverting all other piece-meal container traffic to CONCOR and other Private Container Operators. This had a salutary effect on the traffic handled by CONCOR and its revenues had increased substantially from freight over the last few years. IR earned freight revenue of ₹2,255.93 crore in 2008-09 and ₹2,772.43 crore in 2009-10 as haulage charges from CONCOR.

Audit studies revealed that IR had suffered loss of revenue, as the haulage charges recovered from the container operators for the traffic handled were at suboptimal rates resulting in short-recovery of operational costs. Audit studies, further, revealed that container operators including CONCOR were allowed to carry bulk traffic in view of the shortage of covered wagons in IR. Further details in this regard are given in the paragraph no.2.1 of the Report of (No. 34 of 2010-11)the Comptroller and Auditor General of India – Union Government (Railways) for the year ended 31 March 2010.

4.3 PSUs in Support Services

4.3.1 Indian Railway Catering and Tourism Corporation Ltd.

IRCTC Ltd. was incorporated in 1999 as an extended arm of IR to upgrade, professionalize and manage the catering and hospitality services at stations, on trains and other locations and to promote domestic and international tourism through development of budget hotels, special tour packages, information and commercial publicity and global reservation systems.

During 2009-10, the Corporation earned a total income of ₹721.97 crore (a growth of 17 *per cent* over the previous year). IR had a revenue sharing agreement with IRCTC. It made a contribution of ₹82.28 crore to IR revenues in 2009-10, an increase of 8 *per cent* over the previous year. In addition tickets worth ₹6,011 crore were also booked through IRCTC.

Review of revenue sharing arrangement of IR with IRCTC included in the Report of the Comptroller and Auditor General of India – Union Government (Railways) for the year ended 31 March 2008 (No.PA-26 of 2008-09) highlighted that rationale behind the revenue sharing ratio was neither properly documented nor in the best interest of IR. The monitoring mechanism in the zones was weak both in maintenance of records relating to area and market value of land transferred and in monitoring the receipts of railways shares of revenue and recovery of cost of essential services provided.

4.4. PSUs/SPVs/JVs in Infrastructure Services

There were four PSUs and three SPVs in infrastructure sector *viz*. RVNL, RailTel, DFCCIL, MRVCL, Kutch Railway Company Ltd (KCL), PRCL and HMRDCL.

The main operations of each of PSUs/SPVs involved in infrastructure services are discussed below:

4.4.1 Rail Vikas Nigam Ltd.

Rail Vikas Nigam Limited (RVNL) was established in 2003 to undertake capacity augmentation works and port connectivity projects by establishing SPVs, mobilize financial resources and develop corridors to hinterland including multi-modal corridors for movement of containers. RVNL's role is that of a developer, who develops the project through non-budgetary funding, mobilizes financial resources and executes the project by adopting various models for implementation of the projects including formation of project specific SPVs. The project is offered to IR for train operation and maintenance under the specific financial arrangement. The major source of profit is realized as management fee for execution of IR projects, which is levied at one to two *per cent* of project cost.

Audit observed that RVNL, even after seven years since its inception, continued to be largely dependent on the resources of IR. Failure to generate resources necessitated diversion of IR's scarce resources to RVNL at the cost of other important projects of IR. Till March 2010, IR had already given ₹3,487.46 crore to RVNL as interest free Project Advance. Further details on working of RVNL are given in paragraph no.7.2 in the Report (No. 34 of 2010-11) of the Comptroller and Auditor General of India–Union Government (Railways) for the year ended March 2010.

4.4.2 Railtel Corporation of India Ltd.

RailTel Corporation of India Limited was formed in September 2000 as a Telecom Service Provider. It provides communication requirements of IR for administration, passenger information system, ticketing, train operations and control. It further aims to plan, build, develop, operate and maintain a nationwide broadband telecom and multimedia network to supplement national telecom infrastructure to spur growth of telecom, broadband and Information Technology (IT) enabled value added services in all parts of country specially rural, remote and backward areas. In the process, it generates revenue through commercial exploitation of its telecom network. IR had a revenue sharing agreement with RCIL and received ₹13.79 crore in 2009-10.

Audit review of the arrangement of IR with RCIL with regard to revenue sharing and recovery of IR dues revealed that there was inadequate internal control within IR in respect of transaction with RCIL leading to receipt of lower revenue share than actually agreed upon. IR was totally dependent upon RCIL for documentation relating to transactions with it, leading to inadequacy of data and consequent risk to IR's financial interests. Further details in this regard are given in paragraph no.7.1 in the Report (No. 34 of 2010-11) of the Comptroller and Auditor General of India–Union Government (Railways) for the year ended March 2010.

4.4.3 Dedicated Freight Corridor Corporation of India Ltd.

Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL) was set up in November 2006 under the Companies Act 1956 under the administrative control of IR to undertake planning and development, mobilization of financial resources and construction, maintenance and operation of dedicated freight corridors to provide high speed connectivity to transport freight through IR network. To start with, DFCCIL has been tasked with the construction of two corridors – the Western DFC and Eastern DFC- spanning a total length of about 3236 route km. The work is at a rudimentary stage.

4.4.4 Mumbai Railway Vikas Corporation Ltd.

Mumbai Railway Vikas Corporation Ltd. (MRVCL) was incorporated in 1999 with the objective of developing world-class infrastructure for an efficient, safe and sustainable railway system in Mumbai suburban section to provide comfortable train services to the commuters. It is also entrusted with the task of commercially developing IR land and airspace in Mumbai area to raise funds for suburban railway development.

The financing model of MRVC was Public-Private-Participation. The cost of the project was being shared equally by IR and Government of Maharashtra. Approximately 50 *per cent* of the project cost had been raised through World Bank loan. The repayment of the loan to World Bank was done by IR and Government of Maharashtra in equal ratio by levying surcharge on the exiting passenger fares on suburban traffic.

According to the agreement entered by MRVC with IR in September 2002, all operating assets of Rail Component under MUTP would be the property of IR only and hence does not from part of the Fixed Assets of the Company. Audit noticed that fixed assets created by MRVC were not being included in the block assets of IR.

4.4.5 Kutch Railway Company Ltd.

Kutch Railway Company Ltd. (KRC) is an SPV promoted by RVNL with the objective of improving connectivity to Mundra and Kandla Ports. According to the Memorandum of Understanding, the Company would finance, construct, maintain and manage the Palanpur - Gandhidham project (301 kms Broad Gauge section) for a period of 32 years. This project cut short the rail transportation distance between Gujarat ports and the northern hinterland by about 28 *per cent*.

KRC is a public-private partnership venture, owned by Rail Vikas Nigam Ltd (50 *per cent*), the Kandla Port Trust (26 *per cent*), Gujarat Adani port (20 *per cent*) and the Gujarat Government (4 *per cent*).

Commercial operations on KRC section started from July 2006. KRC, in 2009-10, generated operational revenues of ₹2,621 crore which included IR share of ₹2,330 crore.

4.4.6 Pipavav Railway Corporation Ltd.

Pipavav Railway Corporation Ltd. (PRCL) is a JV of IR and Gujarat Pipavav Port Limited with both holding equity on a 50:50 basis. It was set up to construct, maintain and operate 271 kilometer long broad gauge railway line connecting the Port of Pipavav to Surendranagar Junction of Western Railway, in Gujarat. The Company had assured commitments from its key shareholders *viz* Gujarat Pipavav Port Limited for guaranteed cargo throughput and IR for guaranteed supply of rolling stock and evacuation of the cargo.

PRCL, through private sector participation, had concessionaire rights for this project line for 33 years. PRCL carried food grain, gypsum, cement, fertilizers, coal, steel, etc. The Company, in 2009-10, had earned revenue of ₹76.61 crore from operations as against ₹68.38 crore in the previous year, an increase of 12 *per cent*.

4.4.7 Hassan Mangalore Rail Development Company Ltd.

Hassan Mangalore Rail Development Company Ltd. is a JV of IR, Karnataka government and Rail Infrastructure Development Company (Karnataka) Ltd. (K-RIDE). It was set up for development, establishment, financing, construction, operations, maintenance and management of Hassan- Mangalore railway link for a period of 32 years. The Company had an unsecured loan of ₹140.78 crore as Subordinate Debt from IR. The Shareholder agreement between IR and the Company did not provide for any specific rate of interest to service the debt and also the schedule of repayment of the same.

In 2009-10, the fourth year of commencement of its business, the net profit after tax dropped by 54 *per cent* from ₹77.64 crore in 2008-09 to ₹35.90 crore in 2009-10. The decline in profit was attributed to less loading of Iron Ore, increase in Operating Cost (mainly staff cost), more expenditure on new works and reduction in freight structure in 2009-10 by 11.7 *per cent*.

4.5 PSUs in Engineering and Consultancy Services

There are two PSUs involved in Engineering and Consultancy services viz. RITES Ltd. and IRCON International Ltd. The details of operations of these PSUs are discussed below:

4.5.1 RITES Ltd.

RITES was set up in 1974 to provide comprehensive engineering, consultancy and project management services in the transport infrastructure sector under single roof. The company carried out several studies/consultancies for IR and had diversified into new areas of business like export/leasing, maintenance and rehabilitation of IR rolling stock, operation and maintenance of IR systems under various PPP projects. It has international consultancy assignments in various countries in Africa, South East Asia, Middle East and Latin America.

4.5.2 IRCON International Ltd.

IRCON was incorporated under the Companies Act, 1956 in 1976 originally under the name Indian Railways Construction Company Limited. It is a specialized construction organization covering the entire spectrum of construction activities and services in the infrastructure sector. It has a visible global presence, having done about 90 projects in various countries.

4.6 PSUs in Financial Services

4.6.1 Indian Railway Finance Corporation Ltd.

Indian Railway Finance Corporation Limited (IRFC) was set up in 1986 as a dedicated financing arm of IR. Its sole objective was to raise money from the market to part finance the plan outlay of IR for acquisition of rolling stock assets and for meeting other developmental needs. The borrowing programme of IRFC was guided by the requirements projected by IR and raised funds through issue of both taxable and tax-free bonds, term loans from banks/financial institutions and through off shore borrowings.

Till 31 March 2010, Rolling Stock assets – Locomotives, Coaches and Wagons – valued at ₹60,163 crore had been added to the asset base of IR with funding assistance from IRFC. The Company had brought down the cost of incremental borrowings to IR from 14.97 *per cent* per annum in 1996-97 to 8.21 *per cent* in 2009-10. It had now diversified its activities selectively through funding financially viable and remunerative railway projects involving port connectivity or specific industry based new lines/gauge conversion projects. So far a sum of ₹2,294 crore had also been financed to other IR entities such as Rail Vikas Nigam Limited, Rail Tel Corporation of Indian Limited for creation of productive infrastructure for IR.

4.7 PSUs in Rolling Stock Manufacturing

IR hass taken over administrative control of three wagon manufacturing units from Department of Heavy Industry, Ministry of Heavy Industries and Public Enterprises as given below:

- Bharat Wagon & Engineering Company Ltd - Administrative control transferred in August, 2008. The Company recorded a net loss of ₹8.63 crore in 2008-09. Accounts of 2009-10 were still to be finalized (December 2010).
- Braithwaite & Company Limited (BCL) - Administrative control transferred in August 2010 (2010-11).
- Burn Standard Company Limited (BSCL) – Administrative control of BSCL transferred in September 2010 (2010-11).

4.8 Other Autonomous Bodies and Authorities

4.8.1 Rail Land Development Authority

Rail Land Development Authority (RLDA) was set-up in 2006 for development of vacant IR land for commercial use for the purpose of generating revenue by non-tariff measures. IR had approximately 43,000 hectares of vacant land. Land not required for operational purposes in the foreseeable future was identified by the zonal railways and entrusted to RLDA in phases for commercial development.

RLDA, up to 31 March 2010, was entrusted with commercial development of 132 sites. Of these, only two sites were successfully handed over to the developers for development of commercial complexes. An amount of ₹33.61 crore received in 2009-10 as upfront payments was transferred to IR.

RLDA had also been assigned the responsibility of developing Multi Functional Complexes[39]. Out of the initial 67 sites sanctioned by IR, in 2009-10, 54 MFCs were to be executed by RLDA. Development of these MFCs was yet to take off (December 2010).

4.8.2 Centre for Railway Information System

IR, in 1986, established the Centre for Railway Information System (CRIS) as an umbrella organization for all computer activities of IR. It started functioning from July 1987 as a registered society having an autonomous status. CRIS was mainly a project oriented organization engaged in development of major computer systems on IR.

4.8.3 Railways Investment in Other Organizations

In addition to above IR had also invested ₹158.97 crore in Bhartiya Rail Bijlee Company Limited (BRBCL), a JV with National Thermal Power Corporation for setting up of Thermal Power Plants for availing direct power supply at a comparatively lower cost for rail network. IR had also invested ₹1.30 crore in Karnataka Rail Infrastructure Development Corporation (K-RIDE) set-up with an objective of developing and implementing rail infrastructure projects in Karnataka with private sector participation wherever found feasible / viable. IR did not receive return on these investments though it paid seven *per cent* dividend (₹11 crore) annually to general revenues.

***39** Multi Functional Complexes provide multiple facilities like shopping, food stalls, book-stalls, PCOs booth, ATMs, medicine and verities stores, budget hotels, parking space and other amenities for rail users.*

4.9 Accumulated Losses

Of the above PSUs and SPVs/JVs[40], KRCL, BWECL and PRCL were incurring losses. The total accumulated losses of these units as on 31 March 2010 was ₹3,435.67 crore. Of this KRCL alone accounted for loss of ₹3,330.93 crore. Accumulated losses of BWEL and PRCL were ₹6.25 crore and ₹98.49 crore respectively.

4.10 Dividend

Details of dividend received by IR from its PSUs/SPVs/JVs during the last three years are given in Appendix- 4.1

Only seven out of the 12 PSUs/SPVs/JVs had paid dividend to IR despite ten of them making profits (Appendix-4.1). KRCL, MRVC and HMRDC did not pay dividend despite making profit in 2009-10. Reasons for non-payment of dividend by the profit making PSUs/JVs were not available.

Of the total investments of ₹4,535.67 crore (excluding investment in BRBCL and K-RIDE and Project advance given to RVNL), investment of ₹3,576.90 crore was made from Capital on which IR paid seven *per cent* dividend to general revenues. IR, however, earned an average dividend of nearly eight *per cent* on the investments during 2009-10

The guidelines issued by Ministry of Finance in 1995 and 1996 envisaged that all profit making companies that were essentially commercial enterprises would declare a minimum divided of 20 per cent either on equity or on post-tax profit, whichever was higher. However IRFC and RailTel did not comply with the above directives while declaring the dividend. The total shortfall on this account was ₹167.39 crore.

Table- 4.3 Shortfall in dividend declared

(₹ in crore)

Name of Entity	*Total Paid up Equity*	*Profit after tax*	*Dividend Declared*	*20 per cent of the paid up equity*	*20 per cent of the post tax profit*	*Minimum dividend to be declared*	*Short Fall*
RailTel Corporation of India Limited (RCIL)	*320.94*	*112.29*	*15.00*	*64.19*	*22.46*	*64.19*	*-49.19*
Indian Railways Finance Corporation Limited (IRFC)	*1,091.00*	*442.69*	*100.00*	*218.20*	*88.54*	*218.20*	*-118.20*

40 *Excludes Braithwaite and Company Limited and Burn Standard Company Limited as these units were taken over in August/September 2010 (2010-11).*

4.11 Conclusion and Recommendations

PSUs/JVs/SPVs are strategic partners of IR in its growth and development. Off-loading of non-core activities to these enterprises enabled IR to utilize available resources in more productive ways. In the scenario where IR was facing resource crunch due to lower internal resources and reducing general budget support from Government of India, market borrowing through PSU (IRFC) and network expansion through JVs/SPVs had helped development, expansion and operation of railway system. In many instances audit observed that IR was not receiving its due share of revenues and operational cost, and depended totally upon these units for documentation relating to transactions with them.

Recommendations

- ***IR needs to strengthen its system of controls as these units are receiving substantial concessions and financial support from IR.***
- ***IR needs to encourage its PSUs to be more independent in raising resources instead of depending upon IR to fund their operations.***

(ARVIND K. AWASTHI)

New Delhi **Deputy Comptroller and Auditor General**

Dated:

Countersigned

(VINOD RAI)

New Delhi **Comptroller and Auditor General of India**

Dated:

Glossary of Terms

Terms	Description
16- Zones of Indian Railways	Central Railway (CR), Eastern Railway (ER), East Central Railway (ECR), East Coast Railway (ECoR), Northern Railway (NR), North Central Railway (NCR), North Eastern Railway (NER), Northeast Frontier Railway (NEFR), North Western Railway (NWR), Southern Railway (SR), South Central Railway (SCR), South Eastern Railway (SER), Southeast Central Railway (SECR), South Western Railway (SWR), Western Railway (WR), West Central Railway (WCR)
6-Railway Production Units	Chittaranjan Locomotive Works (CLW), Chittaranjan; Diesel Locomotive Works (DLW), Varanasi; Integral Coach Factory (ICF), Chennai; Rail Coach Factory (RCF), Kapurthala; Rail Wheel Factory (RWF), Yelahanka; Diesel Loco Modernisation Works (DMW), Patiala
Average lead	Average haul of a passenger or a tonne of freight
Branch lines	Broad Gauge and Metre Gauge lines joined to the main lines at one end only and all metre gauge lines
Broad Gauge	It is a rail gauge (1,676 mm) commonly used in India of movement of rail traffic
Capital-at-charge	Book value of the capital assets of Railways
Compounded Annual Growth Rate	Rate of growth over a period of years, taking into account the effect of annual compounding.
Demand Recoverable	Unrealized earnings recoverable on account of rent/lease of land and buildings, interest and maintenance charges of sidings etc.
Dividend	Under the 'Separation Convention' IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by RCC.
Extra Budgetary Resources	Resources of IR other than general budget support and internally generated resources
Gross Domestic Product	The total market value of all final goods and services produced in a country in a given year,
Gross Traffic Receipts	Receipts of railways through its operations
Indian Railways Vision 2020	Document presented in Parliament in December 2009 addressing Indian Railways Vision of 2020.

Terms	Description
Meter Gauge	*It is a rail gauge (1,000 mm) still used in some parts of India of movement of rail traffic*
Minor Heads	*Classification structure to record receipts and expenditure of the government*
Narrow Gauge	*It is a rail gauge (762 or 610 mm) still used in some parts of India of movement of rail traffic*
National Projects	*Projects of national importance being executed through additional budgetary support from GoI.*
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*
New lines	*Construction/laying of new railway links/lines not existed earlier*
Operating Ratio	*The ratio of working expenses (excluding suspense but including apprpriation to Depreciation Reserve Fund and Pension Fund) to gross earnings.*
Ordinary Working Expenses	*Expenditure on administration, operation, maintenance and repairs, contribution to Depreciation Reserve Fund and Pension Fund*
Plan Expenditure	*Expenditure incurred for creation, acquisition, construction and replacement of assets*
Revenue Expenditure	*Expenditure incurred for day to day operations, maintenance of railways including dividend payment*
Strategic lines	*Railway lines of strategic importance constructed at the request of Defence*
Traffic Suspense	*Unrealised opeartional earnings of the railways*
Un-economic Branch Lines	*Branch lines where revenue generated is less than the operational cost*
White Paper	*Document presented in Parliament in December 2009 on the Railway's organizational, operational and financial status based on its performance in the last 5 years*
Works Budget	*Estimates prepared for construction, acquisition and replacement of assets*
Route Kilometre	*The distance between two points on the railways irrespective of the number of lines connecting them, viz single line, double line etc.*

Terms	Description
Total Working Expenditure	*Ordinary working expenditure and appropriation to Depreciation Reserve Fund and Pension Fund*
Staff Productivity	*It is measured in terms of volume of traffic handled (in terms of NTKM) per thousand employees.*
Capital Out put Ratio	*The amount of capital employed to produce one unit of output (Total Traffic in NTKMs)*
Net Revenue Surplus	*Difference between the gross earnings and the working expenses after the payment of dividend to general revenues*
Other Coaching Earnings	*Earnings from transportation of parcels, luggage and post office mail and catering etc.,*
Passenger Earnings	*Earnings from carrying passengers on rail*
Freight Earnings	*Earnings from carrying goods on rail*

Acronym & Abbreviations

Acronyms	Description
ADB	Asian Development Bank
BBUNL	Bharat Bhari Udyog Nigam Limited
BCL	Braithwaite & Company Limited
BRBCL	Bhartiya Rail Bijlee Company Limited
BSCL	Burn Statndard Company Limited
BWECL	Bharat Wagon and Engineering Company Limited
CA	Compliance Audit
CAG	Comptroller and Auditor General of India
CAGR	Compound Annual Growth Rate
CF	Capital Fund
CONCOR	Container Corporation of India Limited
CORE	Central Organisation for Railway Electrification
CPC	Central Pay Commission
CRIS	Centre for Railway Information System
DCPS	Defined Contributory Pension Scheme
DF	Development Fund
DFCCIL	Dedicated Freight Corridor Corporation of India Limited
DMU	Diesel Multiple Unit
DRF	Depreciation Reserve Fund
FMS	Final Modification Statement
FOIS	Freight Operations Information System
FYP	Five Year Plan
GASAB	Government Accounting Standards Advisory Board
GDP	Gross Domestic Product
GoI	Government of India
GRP	Government Railway Police
GTR	Gross Traffic Receipts
HMRDCL	Hassan Mangalore Rail Development Company Limited
ICD	Inland Containers Depot

Acronyms	Description
ICF	Intergarl Coach Factory
IR	Indian Railways
IRCON	IRCON International Limited
IRCTC	Indian Railway Catering and Tourism Corporation Limited
IRFC	Indian Railway Finance Corporation
JVs	Joint Ventures
KRC	Kutch Railway Company Limited
KRCL	Konkan Railway Corporation Limited
K-RIDE	Karnataka-Rail Infrastructure Development Company
MRVC	Mumbai Rail Vikas Corporation
MRVCL	Mumbai Rail Vikas Corporation Limited
MT	Million Tonne
MTP	Metropolitan Transport Project
MUTP	Mumbai Urban Transport Project
NTKM	Net Tonne Kilometre
OWE	Ordinary Working Expenses
PA	Performance Audit
PAC	Public Accounts Committee
PPP	Public Private Partnership
PRCL	Pipavav Railway Corporation Limited
PSU	Public Sector Undertaking
RailTel	Railtel Corporation of India Limited
RCC	Railway Convention Committee
RCIL	Railtel Corporation of India Limited
RITES	Rail India Technical and Economic Services Limited
RLDA	Rail Land Development Authority
RSF	Railway Safety Fund
RVNL	Rail Vikas Nigam Limited
SPVs	Special Purpose Vehicles
WIS	Wagon Investment Scheme

Appendix-2.1- Appropriation Accounts 2009-10

(Reference Paragraph No.2.2)

(In units of ₹)

Number and name of the Grant/Appropriation		Original Grant/ Appropriation	Supplementary	Final Grant/ Appropriation	Actual Expenditure	Excess (+)/ Savings (-)
1	Revenue – Railway Board					
	Voted	1899,84,47,000	0	189,98,47,000	182,88,79,483	-7,09,67,517
2	Revenue – Miscellaneous Expenditure (General)					
	Voted	579,76,48,000		579,76,48,000	538,34,25,020	-41,42,22,980
3	Revenue – Working Expenses – General Superintendence and Services					
	Charged	148,000	148,000	148,000	148,000	1,48,000
	Voted	4405,81,10,000	4405,81,10,000	4405,81,10,000	4405,81,10,000	4405,81,10,000
4	Revenue – Working Expenses – Repairs and Maintenance of Permanent Way and Works					
	Charged	44,00,000	73,50,000	117,50,000	83,173,52	-34,32,648
	Voted	6908,95,44,000	6908,95,44,000	7440,75,58,000	7496,25,82,359	55,50,24,359
5	Revenue – Working Expenses – Repairs and Maintenance of Motive Power					
	Charged	0	0	0	1,74,024	1,74,024
	Voted	3306,66,63,000	3306,66,63,000	3388,32,41,000	3479,19,71,288	90,87,30,288
6	Revenue - Working Expenses – Repairs and Maintenance of Carriages and Wagons					
	Charged	60,00,00	6,000	6,06,000	7,009	-5,98,991
	Voted	7425,45,47,000	267,03,28,000	7692,48,75,000	7857,06,14,230	164,57,39,230
7	Revenue - Working Expenses – Repairs and Maintenance of Plant and Equipment					
	Charged	6,30,000	0	6,30,000	4,95,148	-1,34,852
	Voted	4009,80,20,000	312,16,44,000	4321,96,64,000	4306,97,32,737	-14,99,31,263
8	Revenue - Working Expenses – Operating Expenses – Rolling Stock and Equipment					
	Charged	87,000	36,40,000	37,270,00	20,70,346	-165,6,654
	Voted	5262,59,21,000	684,69,19,000	5947,28,40,000	5983,59,00,599	36,30,60,599
9	Revenue - Working Expenses – Operating Expenses – Traffic					
	Charged	18,05,000	9,71,000	27,76,000	3,56,022	-24,19,978
	Voted	11181,65,72,000	638,24,89,000	11819,90,61,000	11843,33,75,471	23,43,14,471
10	Revenue - Working Expenses – Operating Expenses - Fuel					
	Charged	0	22536000	22536000	210700000	18,81,64,000
	Voted	147131852000	0	147131852000	145629360825	-15,02,49,1175
11	Revenue – Working Expenses – Staff Welfare and Amenities					
	Charged	65,50,000	3,65,000	69,15,000	1,86,315	-67,28,612
	Voted	3180,32,92,000	195,64,33,000	3375,97,25,000	3355,13,34,189	-2083,90,811

12	Revenue - Working Expenses – Miscellaneous Working Expenses					
	Charged	82,30,28,000	23,47,48,000	105,77,76,000	104,03,93,493	-173,825,07
	Voted	3157,64,58,000	0	3157,64,58,000	3177,23,12,173	19,58,54,173
13	Revenue - Working Expenses – Provident Fund, Pension and Other Retirement Benefits					
	Charged	69,48,000	15,25,000	84,73,000	77,39,147	-7,33,853
	Voted	14265,29,41,000	1133,52,32,000	15398,81,73,000	16911,20,69,979	1512,38,96,979
14	Revenue - Appropriation to Funds – Depreciation Reserve Fund,					
	Development Fund, Pension Fund, Capital Fund					
	Voted	21417,26,00,000		21417,26,00,000	17115,75,11,358	-4301,50,88,642
15	Dividend to General Revenues, Repayment of Loans taken from					
	General Revenues and Amortisation of Over-Capitalisation					
	Voted	5479,22,00,000	59,61,00,000	553,883,0,0000	5543,34,03,762	4,51,03,762
16	Assets – Acquisition, Construction and Replacement - Open Ligne Works – Revenue					
	Charged	2,00,000		2,00,000	1,35,815	-64,185
	Voted	5998,00,000		5998,00,000	4056,86,555	-19,41,13,445
	Assets – Acquisition, Construction and Replacement - Other Expenditure – Capital					
	Charged	45,52,00,000	15,50,00,000	61,02,00,000	64,38,40,661	3,36,40,661
	Voted	43202,76,20,000	1899,00,13,000	45101,76,33,000	43081,05,32,149	-2020,71,00,851
	Assets – Acquisition, Construction and Replacement – Other Expenditure – Railway Safety Fund					
	Charged	1,48,00,000		148,00,000	27,31,041	-1,20,68,959
	Voted	1456,88,00,000	21,000	1456,88,21,000	806,90,33,299	-649,97,87,701
	Assets–Acquisition, Construction and Replacement–Other Expenditure–Special Railway Safety Fund					
	Charged	0	0	0	0	0
	Voted	0	0	0	0	0
	Assets – Acquisition, Construction and Replacement - Other Expenditure – Railway Funds					
	Charged	806,00,000		806,00,000	46,93,157	-759,06,843
	Voted	16983,14,00,000	26,000	16983,14,26,000	14167,55,20,416	-2815,59,05,584
	Grand Total					
	Charged	139,49,96,000	42,70,51,000	182,20,47,000	192,53,18,889	10,32,71,889
	Voted	167186,38,35,000	5999,22,84,000	173185,61,19,000	165009,64,21,020	-8175,96,97,980
Grand Total		167325,88,31,000	6041,93,35,000	173367,81,66,000	165202,17,39,909	-8165.64.26.091

Appendix 2.2 - Grant Wise- Railway Wise summary of Grant Account (Grant no.3 to 13)

(Reference Para 2.5)

(₹ in thousands)

Grant No.	Rlys	Original	Supple	Residual	Final (3+4+5)	Actual Exp.	Variation (7-6)	Net Variation (7-4-3)
1	2	3	4	5	6	7	8	9
3	C.R.	3,441,300	137,843	153,357	3,732,500	3,757,359	24,859	178,216
3	E.R.	4,841,200	39,400	(600)	4,880,000	4,712,025	(167,975)	(168,575)
3	E.C.	3,180,400	0	(730,400)	2,450,000	2,442,533	(7,467)	(737,867)
3	E.CO.	1,389,691	25,000	(27,700)	1,386,991	1,379,646	(7,345)	(35,045)
3	N.R.	4,088,300	425,100	446,352	4,959,752	4,923,811	(35,941)	410,411
3	N.C.	1,799,950	215,164	(9,820)	2,005,294	1,853,085	(152,209)	(162,029)
3	N.E.	2,178,700	156,700	123,600	2,459,000	2,410,620	(48,380)	75,220
3	N.F.	2,497,400	144,800	31,800	2,674,000	2,631,433	(42,567)	(10,767)
3	N.W.	2,768,400	0	(568,425)	2,199,975	2,210,108	10,133	(558,292)
3	S.R.	3,415,200	233,275	362,488	4,010,963	4,022,042	11,079	373,567
3	S.C.	3,385,767	38,033	3,005	3,426,805	3,401,942	(24,863)	(21,858)
3	S.E.	3,360,200	163,700	73,200	3,597,100	3,634,744	37,644	110,844
3	S.E.C.	1,571,452	0	(201,452)	1,370,000	1,384,005	14,005	(187,447)
3	S.W.	1,251,500	118,100	(59,100)	1,310,500	1,257,008	(53,492)	(112,592)
3	W.R.	3,199,650	218,172	401,495	3,819,317	3,815,253	(4,064)	397,431
3	W.C.	1,580,200	23,800	3,400	1,607,400	1,642,777	35,377	38,777
3	METRO	108,800	19,400	(1,200)	127,000	124,782	(2,218)	(3,418)
4	C.R.	6,080,157	266,117	(20,598)	6,325,676	6,243,854	(81,822)	(102,420)
4	E.R.	4,015,663	97,295	(49,400)	4,063,558	4,037,830	(25,728)	(75,128)
4	E.C.	4,117,572	389,628	(247,200)	4,260,000	4,131,279	(128,721)	(375,921)
4	E.CO.	2,959,086	175,512	3,233	3,137,831	3,167,839	30,008	33,241
4	N.R.	8,000,088	508,693	(102,781)	8,406,000	8,504,809	98,809	(3,972)
4	N.C.	3,530,903	970,687	256,850	4,758,440	4,816,778	58,338	315,188
4	N.E.	2,605,665	130,112	(5,300)	2,730,477	2,921,111	190,634	185,334
4	N.F.	4,090,576	817,233	34,191	4,942,000	4,992,599	50,599	84,790
4	N.W.	3,737,219	263,467	(500,534)	3,500,152	3,509,395	9,243	(491,291)
4	S.R.	4,303,257	472,243	194,498	4,969,998	4,944,836	(25,162)	169,336
4	S.C.	8,408,589	0	(414,851)	7,993,738	8,101,522	107,784	(307,067)
4	S.E.	3,898,909	41,212	169,200	4,109,321	4,209,593	100,272	269,472
4	S.E.C.	1,886,709	214,291	241,444	2,342,444	2,407,217	64,773	306,217
4	S.W.	2,061,305	43,763	68,132	2,173,200	2,170,366	(2,834)	65,298
4	W.R.	5,675,743	437,919	101,400	6,215,062	6,331,586	116,524	217,924

Grant No.	Rlys	Original	Supple	Residual	Final (3+4+5)	Actual Exp.	Variation (7-6)	Net Variation (7-4-3)
1	2	3	4	5	6	7	8	9
4	W.C.	3,518,767	483,478	267,716	4,269,961	4,262,848	(7,113)	260,603
4	METRO	199,336	6,364	4,000	209,700	209,120	(580)	3,420
5	C.R.	2,679,530	93,670	251,957	3,025,157	2,932,176	(92,981)	158,976
5	E.R.	2,791,280	66,619	61,101	2,919,000	2,984,884	65,884	126,985
5	E.C.	1,904,750	0	(2,750)	1,902,000	1,922,977	20,977	18,227
5	E.CO.	1,408,926	90,862	41,900	1,541,688	1,528,900	(12,788)	29,112
5	N.R.	3,948,128	0	18,791	3,966,919	3,874,954	(91,965)	(73,174)
5	N.C.	1,345,854	297,350	11,113	1,654,317	1,698,351	44,034	55,147
5	N.E.	1,102,456	0	(128,700)	973,756	1,024,866	51,110	(77,590)
5	N.F.	1,053,800	38,100	(41,400)	1,050,500	1,169,828	119,328	77,928
5	N.W.	1,249,600	0	(205,470)	1,044,130	1,053,051	8,921	(196,549)
5	S.R.	2,726,900	38,000	(259,900)	2,505,000	2,643,779	138,779	(121,121)
5	S.C.	3,077,800	68,497	65,919	3,212,216	3,277,303	65,087	131,006
5	S.E.	2,237,100	74,000	111,400	2,422,500	2,465,104	42,604	154,004
5	S.E.C.	1,042,600	33,500	45,400	1,121,500	1,126,425	4,925	50,325
5	S.W.	1,131,066	15,980	64,515	1,211,561	1,397,920	186,359	250,874
5	W.R.	2,516,173	0	(245,504)	2,270,669	2,415,475	144,806	(100,698)
5	W.C.	2,850,700	0	211,628	3,062,328	3,275,978	213,650	425,278
5	METRO	0	0	0	0	0	0	0
6	C.R.	6,828,224	303,976	382,256	7,514,456	7,440,541	(73,915)	308,341
6	E.R.	10,125,700	0	(354,000)	9,771,700	9,706,658	(65,042)	(419,042)
6	E.C.	3,721,250	100,000	217,790	4,039,040	4,320,764	281,724	499,514
6	E.CO.	1,811,427	237,202	166,000	2,214,629	2,255,088	40,459	206,459
6	N.R.	9,795,170	0	(337,606)	9,457,564	9,517,927	60,363	(277,243)
6	N.C.	1,302,588	308,498	51,479	1,662,565	1,572,397	(90,168)	(38,689)
6	N.E.	2,931,269	0	(186,286)	2,744,983	2,759,197	14,214	(172,072)
6	N.F.	3,015,200	397,600	127,200	3,540,000	3,599,648	59,648	186,848
6	N.W.	3,138,428	0	(631,712)	2,506,716	2,615,376	108,660	(523,052)
6	S.R.	6,416,400	381,694	166,900	6,964,994	7,330,057	365,063	531,963
6	S.C.	5,961,447	0	(467,397)	5,494,050	5,466,877	(27,173)	(494,570)
6	S.E.	6,205,900	283,900	142,100	6,631,900	6,761,883	129,983	272,083
6	S.E.C.	1,506,900	85,160	482,500	2,074,560	2,225,602	151,042	633,542
6	S.W.	2,441,332	0	(145,086)	2,296,246	2,352,813	56,567	(88,519)
6	W.R.	7,233,012	512,488	485,000	8,230,500	8,216,196	(14,304)	470,696
6	W.C.	1,585,100	44,710	(122,638)	1,507,172	2,157,267	650,095	527,457
6	METRO	235,200	15,100	23,500	273,800	272,323	(1,477)	22,023

Grant No.	Rlys	Original	Supple	Residual	Final (3+4+5)	Actual Exp.	Variation (7-6)	Net Variation (7-4-3)
1	2	3	4	5	6	7	8	9
7	C.R.	3,562,119	466,058	168,507	4,196,684	4,067,979	(128,705)	39,802
7	E.R.	3,283,800	304,900	27,800	3,616,500	3,603,317	(13,183)	14,617
7	E.C.	3,462,815	0	(461,200)	3,001,615	3,056,126	54,511	(406,689)
7	E.CO.	1,684,621	0	(176,600)	1,508,021	1,493,651	(14,370)	(190,970)
7	N.R.	4,617,550	444,800	139,500	5,201,850	5,399,872	198,022	337,522
7	N.C.	2,343,567	468,833	188,052	3,000,452	2,943,976	(56,476)	131,576
7	N.E.	1,513,767	189,801	(7,367)	1,696,201	1,650,611	(45,590)	(52,957)
7	N.F.	1,496,800	209,000	77,200	1,783,000	1,753,543	(29,457)	47,743
7	N.W.	1,633,129	60,000	(33,971)	1,659,158	1,613,877	(45,281)	(79,252)
7	S.R.	2,800,900	223,300	15,000	3,039,200	2,900,156	(139,044)	(124,044)
7	S.C.	3,397,587	0	(200,234)	3,197,353	3,249,354	52,001	(148,233)
7	S.E.	2,304,900	132,900	93,234	2,531,034	2,600,226	69,192	162,426
7	S.E.C.	1,307,000	10,000	2,736	1,319,736	1,364,762	45,026	47,762
7	S.W.	779,030	100,000	(4,764)	874,266	897,961	23,695	18,931
7	W.R.	3,695,735	281,065	91,307	4,068,107	3,973,498	(94,609)	(3,302)
7	W.C.	1,908,500	223,787	80,800	2,213,087	2,188,240	(24,847)	55,953
7	METRO	306,200	7,200	0	313,400	312,582	(818)	(818)
8	C.R.	4,449,623	1,468,855	(91,478)	5,827,000	6,014,821	187,821	96,343
8	E.R.	5,108,459	418,504	31,537	5,558,500	5,499,845	(58,655)	(27,118)
8	E.C.	4,277,698	127,346	24,100	4,429,144	4,433,372	4,228	28,328
8	E.CO.	2,006,146	242,549	47,343	2,296,038	2,285,957	(10,081)	37,262
8	N.R.	6,956,830	843,611	(207,818)	7,592,623	7,309,526	(283,097)	(490,915)
8	N.C.	2,387,039	911,133	(133,900)	3,164,272	3,182,573	18,301	(115,599)
8	N.E.	1,786,125	90,000	(22,134)	1,853,991	1,870,809	16,818	(5,316)
8	N.F.	2,088,175	39,325	20,000	2,147,500	2,200,455	52,955	72,955
8	N.W.	2,386,871	41,810	(118,915)	2,309,766	2,281,006	(28,760)	(147,675)
8	S.R.	3,693,730	499,170	39,500	4,232,400	4,258,384	25,984	65,484
8	S.C.	3,890,384	94,159	(68,790)	3,915,753	3,887,697	(28,056)	(96,846)
8	S.E.	3,172,638	670,862	55,000	3,898,500	4,033,018	134,518	189,518
8	S.E.C.	2,165,555	133,126	169,319	2,468,000	2,735,417	267,417	436,736
8	S.W.	1,344,759	116,029	93,416	1,554,204	1,575,485	21,281	114,697
8	W.R.	4,225,612	687,288	60,700	4,973,600	4,973,771	171	60,871
8	W.C.	2,411,477	412,152	102,120	2,925,749	2,966,626	40,877	142,997
8	METRO	274,800	51,000	0	325,800	327,139	1,339	1,339
9	C.R.	10,563,344	0	(654,444)	9,908,900	9,472,601	(436,299)	(1,090,743)
9	E.R.	6,104,574	393,380	212,946	6,710,900	6,457,962	(252,938)	(39,992)

Grant No.	Rlys	Original	Supple	Residual	Final (3+4+5)	Actual Exp.	Variation (7-6)	Net Variation (7-4-3)
1	2	3	4	5	6	7	8	9
9	E.C.	9,000,121	778,679	871,200	10,650,000	10,656,242	6,242	877,442
9	E.CO.	7,276,024	0	(1,510,559)	5,765,465	5,845,845	80,380	(1,430,179)
9	N.R.	14,760,184	799,306	(272,318)	15,287,172	15,684,413	397,241	124,923
9	N.C.	7,278,804	886,938	734,512	8,900,254	9,144,806	244,552	979,064
9	N.E.	3,582,956	274,059	47,400	3,904,415	3,836,181	(68,234)	(20,834)
9	N.F.	4,594,703	0	(894,603)	3,700,100	3,992,328	292,228	(602,375)
9	N.W.	5,081,131	0	(427,901)	4,653,230	4,512,563	(140,667)	(568,568)
9	S.R.	7,602,949	462,449	158,601	8,223,999	8,390,435	166,436	325,037
9	S.C.	8,818,596	782,804	(579,600)	9,021,800	9,204,892	183,092	(396,508)
9	S.E.	4,613,812	0	(1,061,172)	3,552,640	3,682,147	129,507	(931,665)
9	S.E.C.	5,347,529	1,008,880	1,845,552	8,201,961	8,738,098	536,137	2,381,689
9	S.W.	4,084,657	135,682	(48,396)	4,171,943	4,052,299	(119,644)	(168,040)
9	W.R.	8,792,238	534,562	1,144,600	10,471,400	10,145,674	(325,726)	818,874
9	W.C.	4,129,412	291,588	423,482	4,844,482	4,387,599	(456,883)	(33,401)
9	METRO	185,538	34,162	10,700	230,400	229,289	(1,111)	9,589
10	C.R.	13,370,141	0	360,848	13,730,989	13,882,945	151,956	512,804
10	E.R.	7,574,712	0	(291,512)	7,283,200	7,291,434	8,234	(283,278)
10	E.C.	10,261,384	0	(1,261,384)	9,000,000	9,709,180	709,180	(552,204)
10	E.CO.	8,237,620	0	(45,111)	8,192,509	8,127,372	(65,137)	(110,248)
10	N.R.	13,763,088	0	88,950	13,852,038	14,458,219	606,181	695,131
10	N.C.	9,478,038	0	354,250	9,832,288	9,181,058	(651,230)	(296,980)
10	N.E.	4,874,569	0	(258,864)	4,615,705	4,679,891	64,186	(194,678)
10	N.F.	5,282,307	0	(182,306)	5,100,001	5,216,071	116,070	(66,236)
10	N.W.	7,261,005	0	(1,261,005)	6,000,000	5,713,877	(286,123)	(1,547,128)
10	S.R.	9,401,220	0	(46,220)	9,355,000	9,382,823	27,823	(18,397)
10	S.C.	15,326,811	0	(415,511)	14,911,300	15,133,613	222,313	(193,198)
10	S.E.	6,935,661	0	(133,161)	6,802,500	6,893,667	91,167	(41,994)
10	S.E.C.	5,416,485	0	(118,848)	5,297,637	5,380,774	83,137	(35,711)
10	S.W.	5,617,661	0	585,214	6,202,875	6,156,330	(46,545)	538,669
10	W.R.	13,485,829	0	622,371	14,108,200	14,302,286	194,086	816,457
10	W.C.	10,736,555	0	(386,555)	10,350,000	9,979,539	(370,461)	(757,016)
10	METRO	108,766	0	31,234	140,000	140,282	282	31,516
11	C.R.	2,643,782	196,461	159,757	3,000,000	2,998,563	(1,437)	158,320
11	E.R.	2,513,446	228,854	(32,200)	2,710,100	2,737,173	27,073	(5,127)
11	E.C.	1,487,998	0	(67,998)	1,420,000	1,423,835	3,835	(64,163)
11	E.CO.	1,672,236	0	(512,134)	1,160,102	1,127,904	(32,198)	(544,332)

Grant No.	Rlys	Original	Supple	Residual	Final	Actual Exp.	Variation	Net Variation
					(3+4+5)		(7-6)	(7-4-3)
1	2	3	4	5	6	7	8	9
11	N.R.	3,652,191	300,000	(202,191)	3,750,000	3,786,212	36,212	(165,979)
11	N.C.	1,029,524	133,289	184,730	1,347,543	1,214,248	(133,295)	51,435
11	N.E.	1,343,333	67,070	(8,500)	1,401,903	1,513,722	111,819	103,319
11	N.F.	2,433,919	122,131	(55,700)	2,500,350	2,457,263	(43,087)	(98,787)
11	N.W.	1,389,163	0	(49,962)	1,339,201	1,307,478	(31,723)	(81,685)
11	S.R.	2,585,834	153,866	(8,077)	2,731,623	2,745,816	14,193	6,116
11	S.C.	3,279,432	115,578	25,000	3,420,010	3,224,805	(195,205)	(170,205)
11	S.E.	2,298,683	116,449	126,168	2,541,300	2,597,163	55,863	182,031
11	S.E.C.	846,376	155,724	(8,600)	993,500	1,001,390	7,890	(710)
11	S.W.	898,370	108,030	10,032	1,016,432	990,271	(26,161)	(16,129)
11	W.R.	2,676,935	128,540	94,300	2,899,775	2,930,265	30,490	124,790
11	W.C.	997,445	130,441	352,200	1,480,086	1,448,272	(31,814)	320,386
11	METRO	54,625	0	(6,825)	47,800	46,953	(847)	(7,672)
12	C.R.	1,813,400	0	191,350	2,004,750	1,944,289	(60,461)	130,889
12	E.R.	3,143,400	0	447,500	3,590,900	3,521,552	(69,348)	378,152
12	E.C.	2,817,343	0	(220,873)	2,596,470	2,145,914	(450,556)	(671,429)
12	E.CO.	1,300,480	0	(252,754)	1,047,726	1,277,054	229,328	(23,426)
12	N.R.	4,907,198	0	536,364	5,443,562	4,993,727	(449,835)	86,529
12	N.C.	1,479,700	0	154,750	1,634,450	2,240,393	605,943	760,693
12	N.E.	1,741,480	0	(114,367)	1,627,113	1,249,228	(377,885)	(492,252)
12	N.F.	1,743,900	0	(328,008)	1,415,892	1,600,670	184,778	(143,230)
12	N.W.	1,088,390	0	(2,766)	1,085,624	967,723	(117,901)	(120,667)
12	S.R.	2,132,459	0	(65,659)	2,066,800	2,144,740	77,940	12,281
12	S.C.	2,335,794	0	(37,706)	2,298,088	2,557,332	259,244	221,538
12	S.E.	2,408,747	0	(231,257)	2,177,490	2,311,810	134,320	(96,937)
12	S.E.C.	711,755	0	(166,755)	545,000	604,273	59,273	(107,482)
12	S.W.	958,031	0	(31,529)	926,502	1,034,829	108,327	76,798
12	W.R.	2,234,174	0	53,943	2,288,117	2,192,973	(95,144)	(41,201)
12	W.C.	666,907	0	65,067	731,974	893,403	161,429	226,496
12	METRO	93,300	0	2,700	96,000	92,398	(3,602)	(902)
13	C.R.	18,443,680	1,448,805	(1,548,769)	18,343,716	17,889,490	(454,226)	(2,002,995)
13	E.R.	19,157,400	1,204,400	132,760	20,494,560	20,379,193	(115,367)	17,393
13	E.C.	6,687,000	142,000	0	6,829,000	7,065,313	236,313	236,313
13	E.CO.	2,560,560	793,490	130,724	3,484,774	3,989,946	505,172	635,896
13	N.R.	8,673,832	1,243,500	992,716	10,910,048	14,018,317	3,108,269	4,100,985
13	N.C.	19,796,750	0	144,155	19,940,905	20,962,784	1,021,879	1,166,034

Grant No.	Rlys	Original	Supple	Residual	Final (3+4+5)	Actual Exp.	Variation (7-6)	Net Variation (7-4-3)
1	2	3	4	5	6	7	8	9
13	N.E.	2,220,870	303,500	24,941	2,549,311	3,098,829	549,518	574,459
13	N.F.	3,395,900	799,400	9,064	4,204,364	6,349,059	2,144,695	2,153,759
13	N.W.	9,325,760	0	(1,366,449)	7,959,311	8,347,904	388,593	(977,856)
13	S.R.	12,343,300	1,661,700	658,523	14,663,523	17,866,590	3,203,067	3,861,590
13	S.C.	12,510,800	801,200	32,794	13,344,794	14,745,027	1,400,233	1,433,027
13	S.E.	6,139,335	0	64	6,139,399	7,352,581	1,213,182	1,213,246
13	S.E.C.	2,472,442	983,080	141,221	3,596,743	4,506,895	910,152	1,051,373
13	S.W.	4,085,512	383,044	96,177	4,564,733	4,592,211	27,478	123,655
13	W.R.	6,684,200	1,243,589	2,226,984	10,154,773	9,329,035	(825,738)	1,401,246
13	W.C.	6,871,300	0	(1,601,384)	5,269,916	7,105,816	1,835,900	234,516
13	METRO	60,600	0	6,300	66,900	68,341	1,441	7,741
13	CLW	290,000	327,524	(117,524)	500,000	495,574	(4426)	(121,950)
13	DLW	289,100	0	85,396	374,496	341,894	(32602)	52,794
13	ICF	496,300	0	(5,5362)	440,938	438,803	(2135)	(57,497)
13	RWF	19,800	0	18,338	38,138	34,543	(3595)	14,743
13	DMW	13,700	0	12,766	26,466	26,109	(357)	12,409
13	RCF	78,000	0	0	78,000	78,656	656	656
13	IRISET	34,700	0	(24,128)	10,572	24,508	13936	(10,192)
13	Staff College	2,100	0	693	2,793	4,650	1857	2550

Note: Figures in red in bracket denote surrender (column no. 5) /saving (column no. 8 & 9).

Appendix 2.3- Cases of Misclassification of Expenditure

(Reference Paragraph 2.8)

S.No.	Particulars	₹ in crore
	Expenditure Misclassified to Works Grant no.16 and Miscellaneous Deposit instead of Revenue Grants	
1	*Wrong booking of expenditure on pay & allowances of Open Line posts under work charged posts of Construction Department instead of revenue grants*	*7.51*
2	*Expenditure towards cost of Platform shelter, cost of material for Foot Over Bridge, cost of scrap/second hand material of P.Way, expenditure on day to day maintenance etc was booked to grant no.16 instead of grant no. 4*	*5.15*
3	*Expenditure towards cost of maintenance of saloons and cost of electricity consumed in C&W workshop wrongly booked to Grant No 16-Cap instead of Grant no. 6 and 8 respectively*	*0.92*
4	*Expenditure towards maintenance of signalling system and cost of signalling instruments wrongly booked to Grant No 16 DF instead of Grant No 7*	*0.79*
5	*Expenditure from grant no.10 transferred to Deposit Miscellaneous, expenditure towards Excise duty and freight was not transferred from grant no.16 to grant no.10 along with cost of diesel oil*	*12.75*
	Total	***27.12***
	Expenditure Misclassified to Revenue Grants instead of Works Grant no.16	
1	*Expenditure towards Pay and Allowances of Work Charged Posts and cost of spares for rolling stock wrongly booked to Grant No.3, 6 and 5 instead of Grant No.16 (DRF)*	*2.62*
2	*Expenditure on cost of stone ballast, freight charges on P-way material, Improvement of circulating area, provision of FOB and PF shelters, expenditure on CUG mobile phones, cost of CTR work, cost of manning unmanned level crossing, improvement in staff*	*6.02*
3	*Expenditure towards S&T works and staff wrongly booked to Grant No 7 instead of Grant No 16 DF and Grant No. 16-Capital*	*0.05*
4	*Freight charges on strore wrongly booked to grant no.12 instead of grant no.16-Cap and Crane charges and JMP Jacks wrongly booked to grant no.8 instead of 16-DRF*	*0.32*

S.No.	Particulars	₹in crore
5	The expenditure on obtaining irrevocable letter of credit for procurement of DVTCs wrongly allocated to Miscellaneous Advance (Revenue) instead of Capital	1.03
	Total	**10.04**
	Expenditure Misclassified to Grant No.16-Capital/Deposit Miscellaneous Head of Account instead of Grant No.-.16-Railway Fund (DRF)	
1	Pay and allowances booked to grant no.16-Cap (WMS) instead of grant no. 16-DRF	0.43
2	Incorrect transfer of expenditure from grant no. 16-Rly Fund (DRF) to grant no.16-Cap	98.31
3	Expeniture on fish plates, cost of P way material, fax machine, lead acid battery, AC package unit, jacks, refirgeration evaporation unit wrongly booked to Grant No.16- capital instead of Grant No.16- DRF or not transferred to Grant No.16-DRF	111.06
4	Cost of rails, booked to Misc Deposit instead of grant no.16-DRF- Track Renewal	8.44
	Total	**218.24**

Appendix- 4.1 Dividend received by the Railways from its PSUs/JVs during the last three years

(Reference- Paragraph no.4.10)

(₹in crore)

S.No.	Name of Entity	Equity held by MoR as of March 2010		Dividend received by MoR in 2009-10		Dividend received by MoR in 2008-09	Dividend received by MoR in 2007-08
		From Capital	From Capital Fund	Amount	Percentage of investment		
1	2	3	4	5	6	7	8
1	Konkan Railway Corporation Limited (KRCL) ▲	411.29	0.00	0.00	0.00		
2	Container Corporation of India Limited (CONCOR)	41.01	0.00	114.80	279.93	110.70	90.20
3	Indian Railways Catering and Tourism Corporation Limited (IRCTC)	20.00	0.00	9.31	46.55	4.15	3.00
4	Rail Vikas Nigam Limited (RVNL) ♣	2085.02	0.00	8.00	0.38	5.00	
5	RailTel Corporation of India Limited (RCIL)	15.00	0.00	15.00	100.00	10.00	3.00
6	Dedicated Freight Corridor Corporation of India Limited (DFCCIL)	607.90	99.77	0.00	0.00		
7	Mumbai Railway Vikas Corporation Limited (MRVC)	12.75	0.00	0.00	0.00		
8	Pipavav Rail Development Corporation Limited (PRCL)	98.00	0.00	0.00	0.00		
9	Hassan Mangalore Rail Development Company Limited (HMRDC)	45.00	0.00	0.00	0.00		
10	IRCON International Limited (IRCON Ltd.))	4.93	0.00	30.50	618.66	29.61	25.67
11	Rail India Technical and Economic Services Limited (RITES)	4.00	0.00	22.00	550.00	9.00	27.00
12	Indian Railways Finance Corporation Limited (IRFC)	232.00	859.00	100.00	9.17	100.00	100.00
	Total	3576.90	958.77	299.61	1604.69	268.46	248.87
	▲ does not include ₹3,771.34 crore as Non-Cumulative Redeemable 15/20 years Preference Shares						
	♣ does not include ₹3,487.46 crore given as Project Advance						