

EXECUTIVE SUMMARY

Background

IR is a departmental commercial undertaking of the Government of India. It consists of 63,974 route kms¹ 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.