

Chapter 1 State of Finances

This chapter provides a broad perspective on the finances of the Indian Railways (IR) during 2015-16 and analyses critical changes in the major financial indicators with reference to the previous year as well as the overall trend. The base data for this analysis is the Finance Accounts of the IR, which is a document that is compiled annually for incorporation in the Union Government Finance Accounts. In addition, data from authentic government reports¹ have also been used to analyse performance of IR during 2015-16.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 below presents the summary of IR's fiscal transactions during 2014-15 and 2015-16.

Table 1.1 Summary of Receipts and Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2014-15	Budget Estimates 2015-16	Revised Estimates 2015-16	Actual 2015-16
1	Passenger Earnings	42,189.61 (15.49)	50,175.00	45,376.15	44,283.26 (4.96)
2	Freight Earnings	1,05,791.34 (12.66)	1,21,423.00	1,11,852.72	1,09,207.66 (3.23)
3	Other Coaching Earnings ²	3,997.89 (8.67)	4,612.00	4,325.49	4,371.48 (9.34)
4	Sundry Earnings ³	5,092.74 (-10.99)	7,318.00	6,229.64	5,928.55 (16.41)
5	Suspense	-361.04	50.00	50.00	542.56
6	Gross Traffic Receipts ⁴ (Item No.1 to 5)	1,56,710.54 (12.29)	1,83,578.00	1,67,834.00	1,64,333.51 (4.86)
7	Net Ordinary Working Expenditure ⁵	1,05,995.88 (8.63)	1,19,410.00	1,10,690.00	1,07,735.93 (1.64)
8	Appropriation to				
	Depreciation Reserve Fund	7,775.00 (-1.58)	7,900.00	5,500.00	5,600.00 (-27.97)
	Pension Fund	29,225.00 (17.61)	34,900.00	34,500.00	34,500.00 (18.05)
9	Total Working Expenditure ⁶ (Item No.7 and Item No. 8)	1,42,995.88 (9.73)	1,62,210.00	1,50,690.00	1,47,835.93 (3.38)
10	Net Traffic Receipts (Item No.6 – Item No. 9)	13,714.66 (48.47)	21,368.00	17,144.00	16,497.58 (20.29)
11	Miscellaneous Receipts ⁷	4,306.72 (17.81)	4,978.70	3,970.97	4,046.09 (-6.05)
12	Miscellaneous Expenditure ⁸	1,182.89 (3.39)	1,270.25	1,217.13	1,315.20 (11.19)

¹ Budget documents, Annual Statistical Statements of Indian Railways.

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, 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.

⁶ Operating expenses and appropriation to Depreciation Reserve Fund and Pension Fund

⁷ Miscellaneous Receipts comprise of subsidy from Government of India (GoI) towards dividend relief and other concession, receipts by Railway Recruitment Board etc.

⁸ Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory Audit etc.

13	Net Miscellaneous Receipt (Item No. 11 – Item No. 12)	3,123.83 (24.37)	3,708.45	2,753.84	2,730.90 (-12.58)
14	Net Revenue (Item No.10 and Item No.13)	16,838.49 (43.32)	25,076.45	19,897.84	19,228.48 (14.19)
15	Dividend Payable to General Revenues	9,173.55 (14.55)	10,810.74	8,495.44	8,722.51 (-4.92)
16	Net Surplus (Item No. 14 – Item No.15)	7,664.94 (104.92)	14,265.71	11,402.40	10,505.97 (37.07)
17	Surplus available for appropriation to				
	Development Fund	1,374.94 (-55.29)	5,750.00	1,323.71	1,219.74 (-11.29)
	Capital Fund	6,233.36 (1,146.67)	7,615.71	6,293.00	5,798.24 (-6.98)
	Debt Service Fund	56.64 (-65.75)	900.00	3,785.69	3,487.98 (6,057.73)

Source: Explanatory Memorandum on Railway Budgets for 2015-16 and 2016-17 and Accounts for 2015-16

Note: Figures in brackets represent the increase/decrease in percentage over previous year.

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. During the current year, IR could not achieve the projected performance in passenger earnings, freight earnings, other coaching earnings and sundry earnings. Anticipated Gross Traffic Receipts (GTR) of 2015-16 was not achieved and overall shortfall of 10.48 *per cent* (₹ 19,244.49 crore) was recorded as compared to the Budget Estimates. There was shortfall in appropriation to Depreciation Reserve Fund (DRF) and Pension Fund by around 29.11 *per cent* (₹ 2,300 crore) and 1.15 *per cent* (₹ 400 crore) respectively when compared to Budget Estimates. The resultant net revenue was below the budget projections by 23.32 *per cent* (₹ 5,847.97 crore) mainly due to shortfall in Net Traffic Receipts by 22.79 *per cent* (₹ 4,870.42 crore) and Net Miscellaneous Receipts by 18.73 *per cent* (₹ 932.61 crore) respectively.

1.3 Fiscal Transactions in 2015-16-An overview

1.3.1 Gross Traffic Receipts (GTR)

GTR increased by 4.86 *per cent* during 2015-16 vis-à-vis 2014-15 as compared to 12.29 *per cent* growth achieved during 2014-15. This was mainly due to decrease in growth rate of passenger earnings and freight earnings. The growth rate of other coaching earnings (9.34 *per cent*) and sundry earnings (16.41 *per cent*) was, however, higher in comparison to previous year.

1.3.2 Net Ordinary Working Expenditure (OWE)

Net OWE increased by 1.64 *per cent* in current year as compared to growth rate of 8.63 *per cent* recorded during 2014-15.

1.3.3 *Miscellaneous Receipts and Miscellaneous Expenditure*

In the current year, Miscellaneous Receipts decreased by 6.05 *per cent* against the growth rate of 17.81 *per cent* recorded in 2014-15. Miscellaneous Expenditure increased by 11.19 *per cent* as compared to 3.39 *per cent* growth recorded in 2014-15. As a result, the Net Miscellaneous Receipts recorded a negative growth rate of 12.58 *per cent* in 2015-16.

1.3.4 *Net Revenue*

Net revenue in the current fiscal year increased by 14.19 *per cent* as compared to the previous year.

1.3.5 *Dividend Payment*

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge⁹ advanced through general budgetary support. The rate of dividend for 2015-16 was fixed at four *per cent* by the Railway Convention Committee (RCC) 2014. Payment of dividend to general revenues in the current year decreased by 4.92 *per cent* over the previous year. IR paid dividend of ₹ 8,722.51 crore in 2015-16.

1.3.6 *Net Surplus available for appropriation*

Generation of Net surplus after meeting all revenue liabilities including payment of dividend increased by 37.07 *per cent* in current year. Net Surplus increased to ₹ 10,505.97 crore in 2015-16 as compared to ₹ 7,664.94 crore in 2014-15. Net Surplus was, however, lower than the Budget Estimates (₹ 14,265.71 crore) by 26.36 *per cent*. The shortfall in the Net Surplus as envisaged in the Budget Estimate was due to shortfall in Net Traffic Receipt (excess of GTR over TWE) by 22.79 *per cent* (₹ 4,870.42 crore), shortfall in Net Miscellaneous Receipts (excess of Miscellaneous Receipts over Miscellaneous Expenditure) by 26.36 *per cent* (₹ 977.55 crore) and less payment of Dividend to General Revenues by 19.32 *per cent* (₹ 2,088.23 crore) against the Budget Estimates.

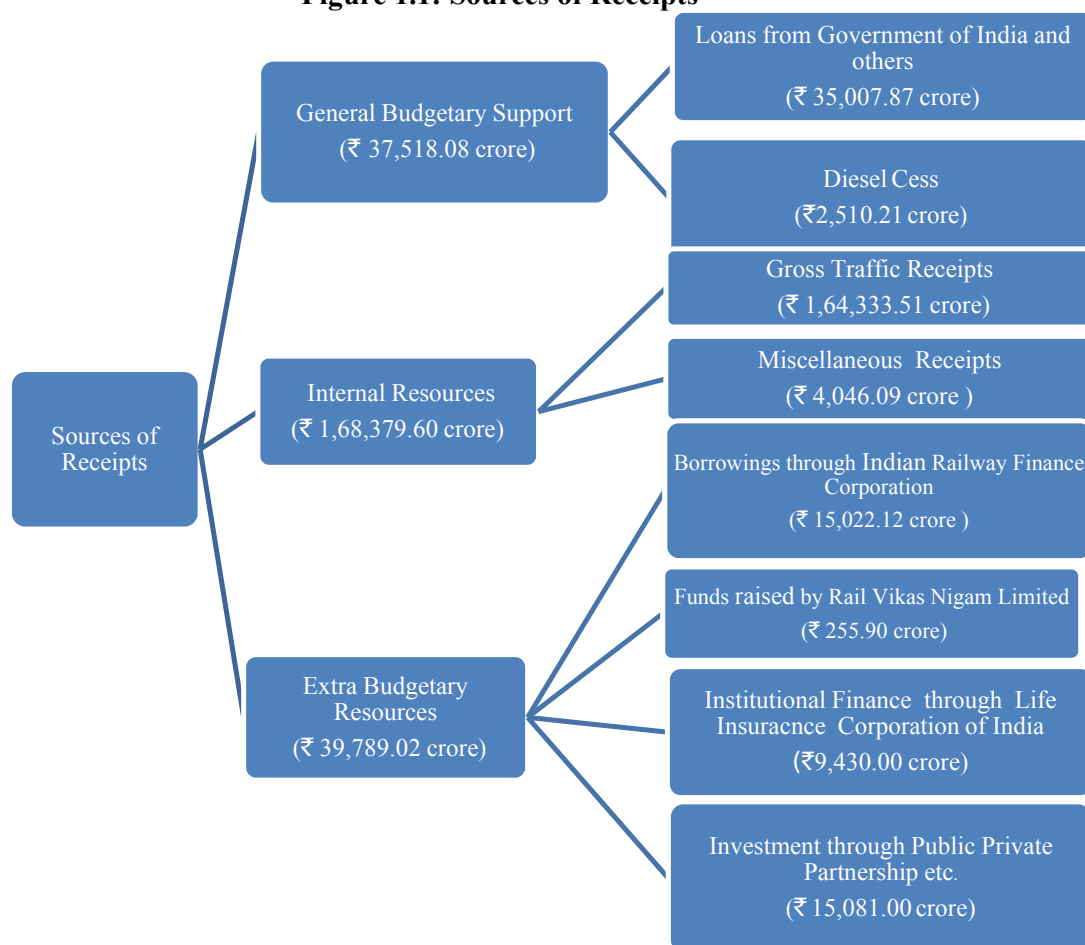
The Net Surplus of ₹ 1,219.74 crore, ₹ 5,798.24 crore and ₹ 3,487.98 crore was appropriated to Development Fund, Capital Fund and Debt Service Fund respectively in the current year.

⁹Capital -at-charge during the last five years – 2011-12 (₹ 1,22,772.04 crore), 2012-13 (₹ 1,44,812.15 crore), 2013-14 (₹ 1,70,168.35 crore), 2014-15 (₹ 1,97,991.76 crore), 2015-16 (₹ 2,24,685.33 crore)

1.4 Resources of IR

The main sources of receipts of IR were as follows:

Figure 1.1: Sources of Receipts

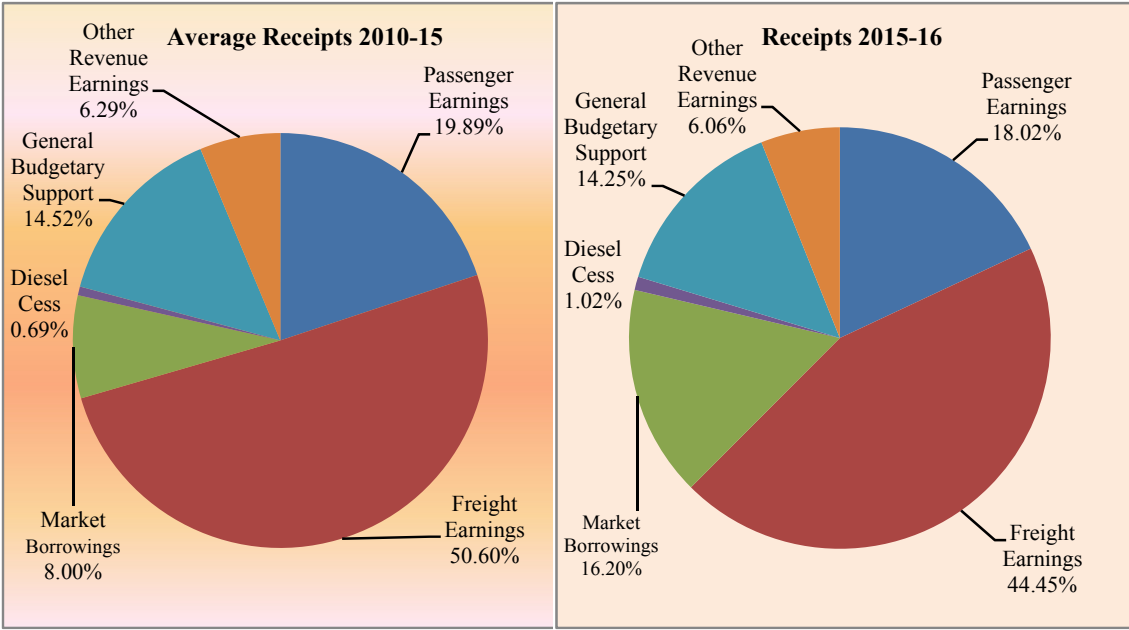


The Total Revenue Receipts (GTR and Miscellaneous Receipts) from internal resources increased by 4.57 *per cent* during 2015-16 (Refer Figure 1.3) against the Compound Annual Growth Rate (CAGR)¹⁰ of 14.86 *per cent* during 2011-15. The General Budgetary Support (GBS)¹¹ increased by 16.22 *percent* during 2015-16 against CAGR of 14.60 *per cent* during 2011-15, while Extra Budgetary Resources (EBR) increased by 260.27 *per cent* during 2015-16 against the negative CAGR of 9.28 *per cent* during 2011-15.

¹⁰Rate of growth over a period of years taking into account the effect of annual compounding.

¹¹General Budgetary Support (GBS) represents amount advanced by the GoI to Ministry of Railways (MoR) to finance capital expenditure.

Figure 1.2: Relative Share of various Resources of IR



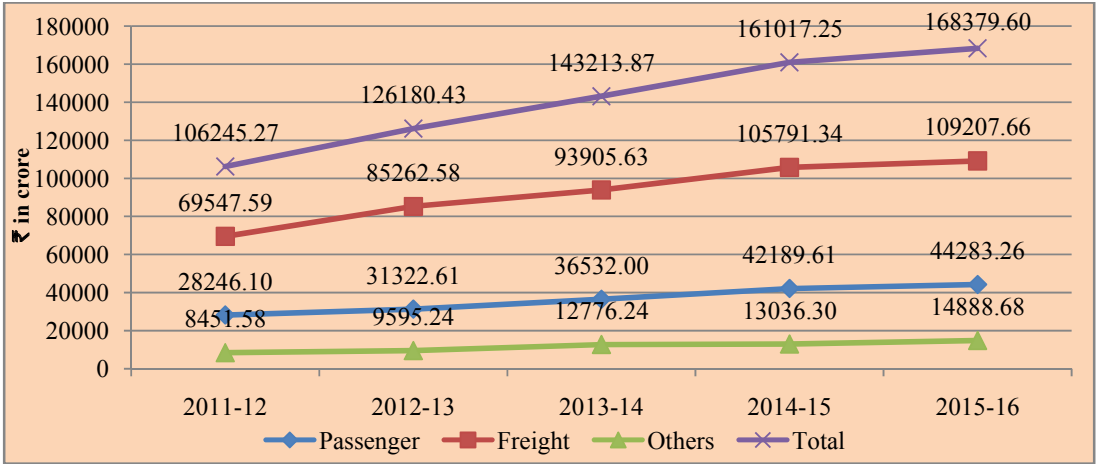
Note: Other Revenue Earnings include Other Coaching Earnings, Sundry Other Earnings, Suspense and Miscellaneous Receipts

Diagram at 1.2 shows that the largest resource earnings of IR was from freight sector, followed by passenger earnings. These two factors continued to be the largest sources of IR receipts for the current year also. The share of market borrowings and diesel cess increased whereas share of freight earnings, passenger earnings, GBS and other revenue earnings decreased in the current year as compared to average figures of receipts during 2010-15.

1.4.1 Revenue Receipts

The trend of total revenue receipts for the last five years is given in the Figure 1.3.

Figure 1.3: Revenue Receipts during 2011-12 to 2015-16



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

Total Revenue Receipts increased at a CAGR of 14.86 *per cent* during 2011-15, however, the increase in the Total Revenue Receipts during year 2015-16 was 4.57 *per cent*. The annual inflation of all commodities on an average during 2015-16 was 7.56 *per cent*¹², which implies that there was a decrease in total revenue receipts by 2.99 *per cent* during 2015-16 (after discounting for inflation).

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 freight earnings of IR for the last five years ended 31 March 2016 are shown in the Figure 1.4.

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

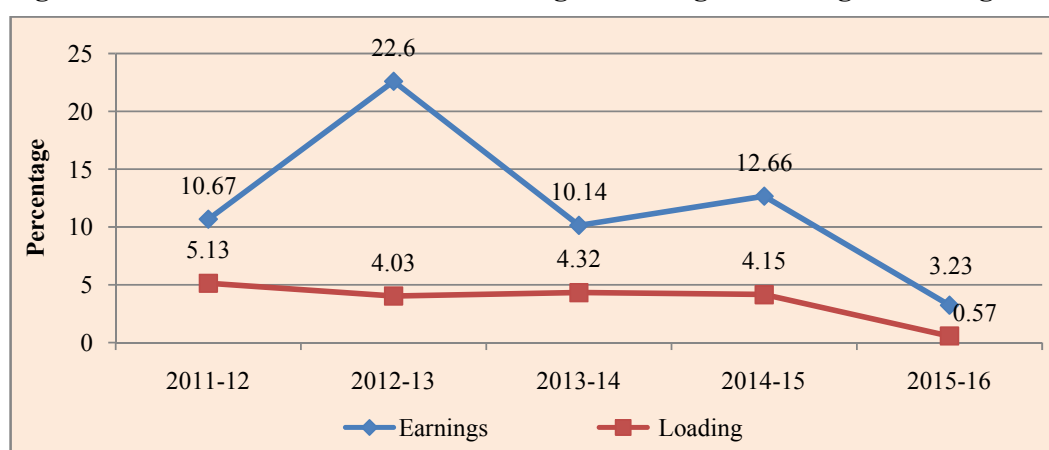


Figure 1.4 indicates a decrease in the annual growth of freight loading in the current year. The annual incremental increase in loading (in absolute terms) dropped from 47.32 Million Tonne (2011-12) to 6.25 Million Tonne (2015-16) during the last five years. Increase in freight loading by 0.57 *per cent* during 2015-16 was less than the CAGR of 4.17 *per cent* achieved during 2011-15. The growth in freight earnings has decreased to 3.23 *per cent* as compared to previous years' growth of 12.66 *per cent*. The growth rate of Net Tonne Kilometre (NTKM) was negative (i.e.-3.99 *per cent*) in current year (Table No.1.2).

In 2015-16, freight earnings increased by 3.23 *per cent* over the previous year against the CAGR of 15.01 *per cent* achieved during 2011-15. The status of freight services statistics are given in the Table No. 1.2:

¹²Source-Economic Survey, Ministry of Commerce and Industry

Table 1.2 Freight Services Statistics

Year	Loading (Million Tonne)	NTKM ¹³ (in million) (Revenue Freight Traffic only)	Earnings (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
2011-12	969.05 (5.13)	667607 (6.69)	69,547.59 (10.67)	689	104.17 (3.72)
2012-13	1008.09 (4.03)	649645 (-2.69)	85,262.58 (22.60)	644	131.24 (25.99)
2013-14	1051.64 (4.32)	665810 (2.49)	93,905.63 (10.14)	633	141.04 (7.46)
2014-15	1095.26 (4.15)	681696 (2.39)	1,05,791.34 (12.66)	622	155.19 (10.03)
2015-16	1101.51 (0.57)	654481 (-3.99)	109207.66 (3.23)	594	166.86 (7.52)

Source-Indian Railways Annual Statistical Statements (Statement No.13-Goods Revenue Statistics)

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

(ii) Figures of NTKM, Average Lead and Rate per tonne per km for 2014-15 are revised figures and based on actual.

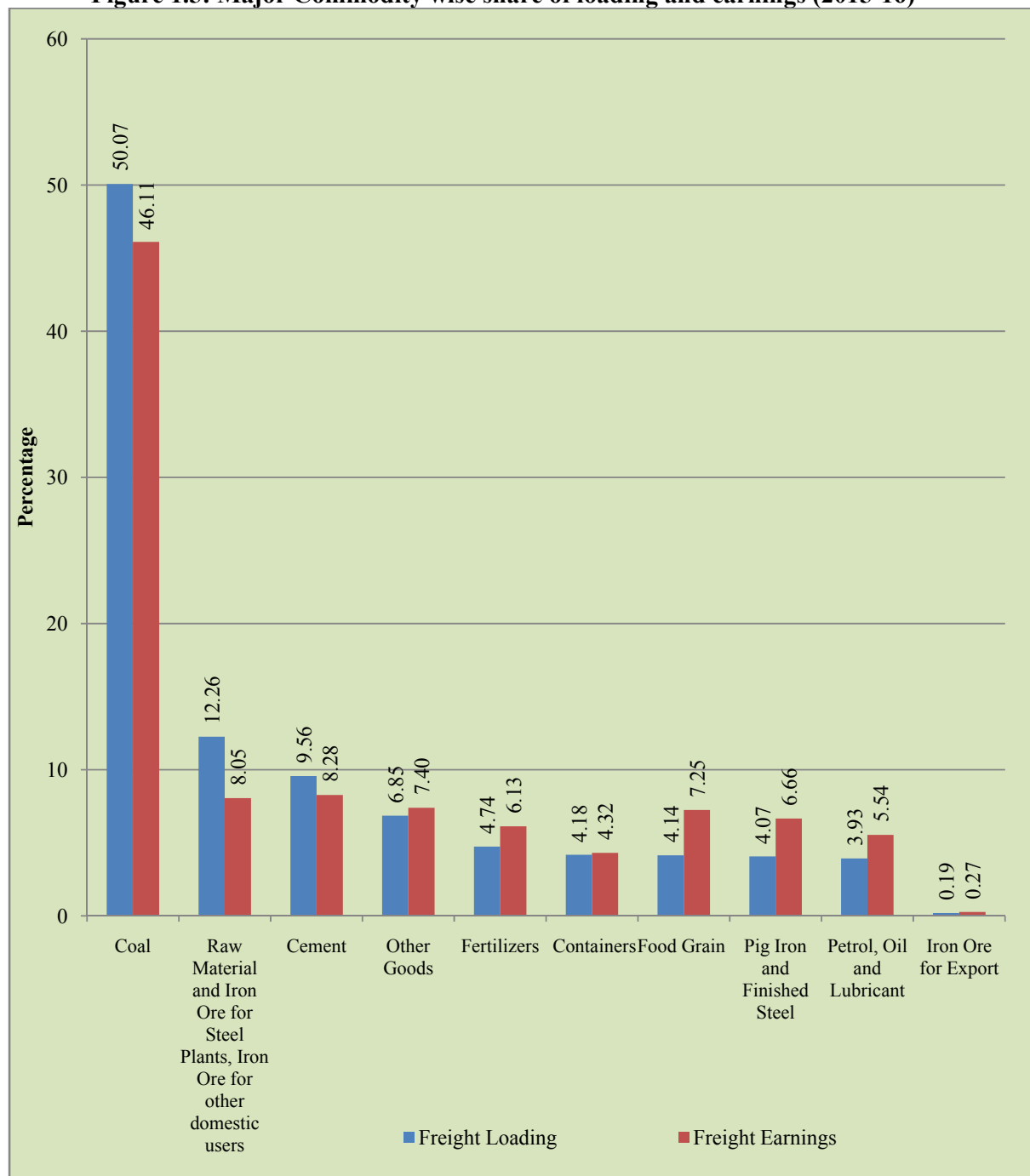
(iii) Figures of 2015-16 (except Earnings) are provisional.

During 2015-16, it was seen that the annual growth rate of freight loading increased at the rate of 0.57 per cent. However, annual growth rate of NTKM was negative (i.e.-3.99 per cent). The growth rate of Rate per tonne per kilometer over the previous year was 7.52 per cent against the growth rate of 10.03 per cent achieved in 2014-15. The growth rate of freight earnings during the current year was 3.23 per cent which was lower than the growth rate of 12.66 per cent recorded in 2014-15. Due to lower growth rate of loading and negative growth rate of NTKM, the average lead (average haul of a tonne of freight) declined from 622 km in 2014-15 to 594 km in 2015-16.

During 2015-16, freight loading was 1,101.51 Million Tonnes (MT) against the projected loading of 1,186.25 MT in the Budget Estimate. Thus, the freight loading was short by 7.14 per cent over the Budget Estimate (2015-16). The major shortfall in the freight loading was in the commodities: Coal (33.48 MT-5.72 per cent of Budget Estimate), Food grain (16.37 MT-26.40 per cent of Budget Estimate), Cement (15.15 MT-12.57 per cent of Budget Estimate) and Iron Ore (8.06 MT-6.45 per cent of Budget Estimate).

Share of major commodities in loading and earnings are given in the bar chart (Figure 1.5).

¹³NTKM-Net Tonne Kilometre-Unit of measure of freight traffic which represent the transport of one tonne goods (including the weight of any packing but excluding the weight of the vehicle used for transport) over a distance of one kilometre.

Figure 1.5: Major Commodity wise share of loading and earnings (2015-16)

Note-Figures of Loading and Earnings (commodity wise) for 2015-16 are provisional.

Coal, being a captive commodity, was the major component both in loading and earnings for IR. The above major commodities (excluding Other Goods) contributed 92.6 per cent of the total freight earnings of IR. Iron ore for export constituted 0.19 per cent of the total loading and earned 0.27 per cent of the total freight earnings.

1.4.1.2 Passenger Earnings

Key performance indicators of passenger services are tabulated in Table 1.3.

Table 1.3 Passenger Services Statistics

Year	No. of Passenger (in millions)	Passenger Kilometre (in millions)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger per kilometre (in paise)
2011-12	8224.38 (7.49)	1046522 (6.95)	28,246.10 (9.51)	127.25	26.99 (2.40)
2012-13	8420.71 (2.39)	1098103 (4.93)	31,322.68 (10.89)	130.41	28.52 (5.68)
2013-14	8397.06 (-0.28)	1140412 (3.85)	36,532.00 (16.63)	135.81	32.03 (12.30)
2014-15	8224.12 (-2.06)	1147190 (0.59)	42,189.61 (15.49)	139.49	36.78 (14.80)
2015-16	8107.33 (-1.42)	1148818 (0.14)	44283.26 (4.96)	141.70	38.55 (4.81)

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

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

(ii) Figures for 2013-14(except No. of Passengers and Earnings) are revised figures.

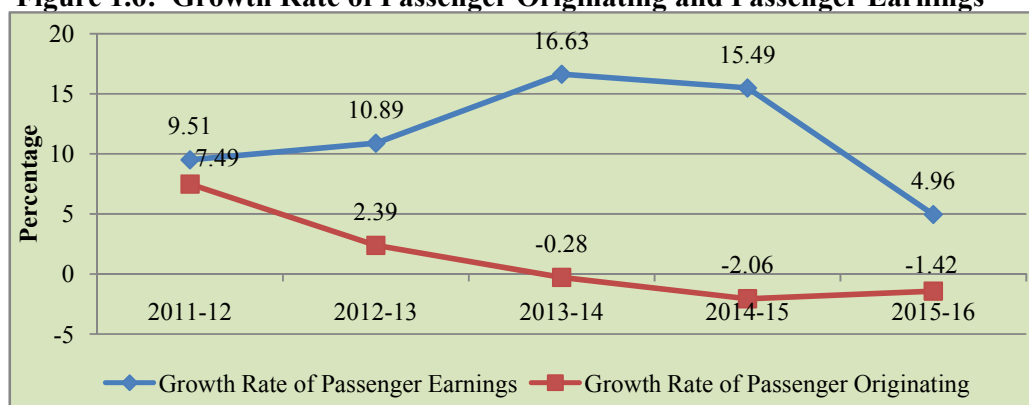
(iii) Figures for 2015-16(except Earnings) are provisional.

During 2015-16, it was seen that the annual growth rate of passenger originating was negative. The negative trend in passenger originating has been continuing since 2013-14. During 2015-16, passenger originating was 8,107.33 Millions against the projected passenger originating of 8,601 Millions in the Budget Estimate. Thus, no. of passengers was short by 5.74 per cent over the Budget Estimate (2015-16). The shortfall in passenger originating in suburban category was 4.48 per cent and 7.23 per cent in non suburban category.

It was seen that average earnings per passenger per kilometer increased from 36.78 paise in 2014-15 to 38.55 paise in 2015-16, which was mainly due to increase in passenger tariffs. However, the growth rate of average earnings per passenger per kilometer was lower than previous year's growth rate. Though, the passenger tariffs have been revised upwardly in the recent past, still IR is incurring losses¹⁴ every year on passenger and other coaching services.

The growth in earnings from Passenger traffic and in Passengers Originating during the last five years (2011-12 to 2015-16) is shown in Figure 1.6.

Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings



¹⁴ As per Summary of End Results Coaching Services Profitability/Unit Costs prepared by Ministry of Railways

The percentage increase in earnings from passenger traffic in 2015-16 over the previous year was 4.96 *per cent* which was significantly below the CAGR of 14.31 *per cent* for the period 2011-15. The growth in passengers originating in 2015-16 over the previous year was negative (-1.42 *per cent*).

1.4.1.3 Sundry Earnings and Other Coaching Earnings

Sundries and other coaching earnings constituted 6.27 *per cent* of the GTR in the current year. It increased by 13.30 *per cent* in 2015-16 against the negative growth rate of 3.29 *per cent* recorded in 2014-15. Analysis in audit revealed that earnings from catering departments, license fee from book stalls, interest and maintenance charges of sidings etc. decreased whereas earnings from rent/leasing of land and advertisements increased in the current year as compared to the previous year.

1.5 Unrealized Earnings¹⁵

Against the target for recovery of ₹ 50 crore during 2015-16 under unrealized earnings, IR realized ₹ 542.56 crore from unrealized earnings. The out standings under unrealized earnings reduced from ₹ 2,210.02 crore in 2014-15 to ₹ 1,665.42 crore at the end of financial year 2015-16. A sum of ₹ 1,429.30 crore and ₹ 236.12 crore was outstanding under Traffic Suspense and Demand Recoverable respectively. The major portion of outstanding under Traffic Suspense was on account of un-recovered freight and other charges from Power Houses and State Electricity Boards (SEBs) amounting to ₹ 726.57 crore which constituted 50.83 *per cent* of the total Traffic Suspense, yet to be recovered. Major defaulters are shown in the Table 1.4.

Table 1.4-Outstanding dues against State Electricity Board
(₹ in crore)

Sl. No.	State Electricity Board/Power House	Outstanding dues as of 31 March 2015	Outstanding dues as of 31 March 2016	Increase (+)/decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	447.08	447.00	(-) 0.08
2.	Delhi Vidyut Board (DVB)	114.28	114.28	-
3.	Rajasthan State Electricity Board (RSEB)	39.44	39.79	(+) 0.35
4.	Maharashtra State Electricity Board (MSEB)	90.14	59.67	(-) 30.47
5.	Uttar Pradesh State Electricity Board (UPSEB)	24.54	32.61	(+) 8.07
6.	West Bengal State Electricity Board (WBSEB)	15.08	19.29	(+) 4.21

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

The Ministry of Railways needs to enhance its efforts to realize the old outstanding dues from SEB's.

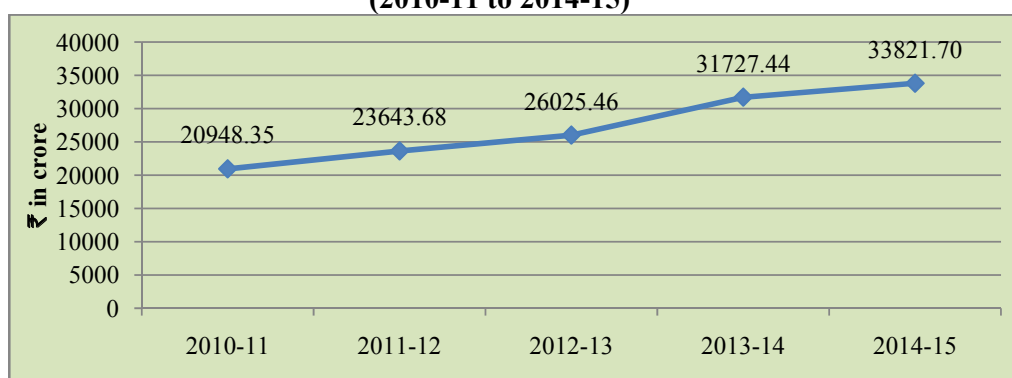
¹⁵Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land and maintenance charges of sidings etc as 'Demand Recoverable'.

1.6 Cross-Subsidization

1.6.1 Subsidy towards Passenger and other Coaching Services

IR was unable to meet its operational cost of passenger services and other coaching services. The Summary of End Results-Freight Services Unit Costs and Coaching Services Profitability/Unit Costs for the year 2014-15 published by the IR indicates that there was cross subsidization from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 20,948.35 crore in 2010-11 to ₹ 33,821.70 crore in 2014-15¹⁶. The losses on passenger and other coaching services during the 2010-11 to 2014-15 are shown in the Figure 1.7(a).

Figure 1.7 (a): Losses on Passenger and other Coaching Services (2010-11 to 2014-15)



Thus, due to increase in the loss on passenger and other coaching services from ₹ 31,727.44 crore in 2013-14 to ₹ 33,821.70 crore in 2014-15, the cross subsidy from freight earnings towards passenger and other coaching services has increased in 2014-15 as compared to previous year. The gap in percentage of expenditure on passengers and other coaching services left unrecovered during the period of five years as of 31 March 2015 are shown in Figure 1.7(b).

Figure 1.7(b): Percentage of expenditure on Passenger and Other Coaching Services left uncovered

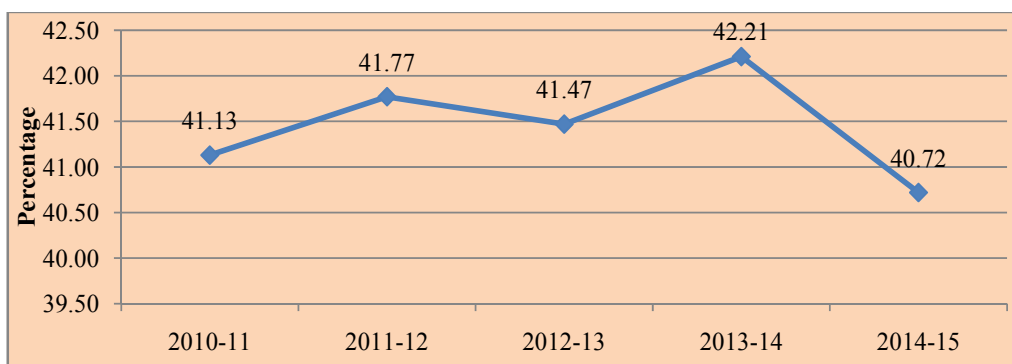
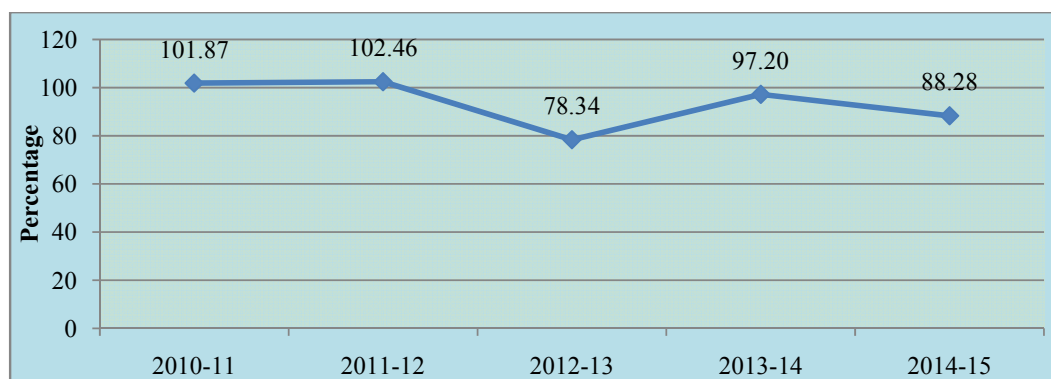


Figure 1.8 shows the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services.

¹⁶ Summary of End Results-Coaching Services-Profitability/Unit Costs for 2015-16 not compiled (September 2016).

Figure 1.8: Percentage of profit on freight earnings used to subsidize the passenger and other coaching services



It would be seen that the 88.28 *per cent* profit from freight traffic during 2014-15 (profit from freight traffic in 2014-15: ₹ 38,312.59 crore) was utilized to compensate the loss of ₹ 33,821.70 crore on operation of passenger and other coaching services of IR. IR has been able to retain only 11.72 *per cent* of the profit on freight earnings after subsidizing the loss on passenger services in 2014-15 as compared to 2.80 *per cent* in the previous year showing an improvement in the operational profit.

1.6.2 Operational losses of various Classes of Passenger Services

Table 1.5 gives the operational losses of various classes of passenger services during 2010-11 to 2014-15:

Table 1.5 Operational losses of various Classes of Passenger Services

(₹ in crore)

Class of Passenger services	2010-11	2011-12	2012-13	2013-14	2014-15
AC-Ist class	(-)46.61 (11.60)	(-)38.78 (8.12)	(-)40.86 (7.48)	(-)47.39 (7.54)	(-) 127.49 (17.68)
Ist class	16.47 (14.53)	(-)39.13 (32.14)	(-)61.36 (61.26)	(-)92.06 (75.82)	(-) 69.50 (74.71)
AC 2 Tier	(-)407.93 (18.80)	(-)438.83 (17.76)	(-)348.09 (12.53)	(-)497.28 (15.26)	(-) 495.59 (13.32)
AC 3 Tier	266.31 (7.53)	499.33 (12.19)	494.99 (10.29)	410.67 (6.84)	881.52 (12.57)
AC Chair car	33.62 (5.39)	(-)13.29 (1.65)	(-)38.12 (4.00)	(-)148.47 (11.32)	(-) 142.26 (9.90)
Sleeper Class	(-)6,070.58 (47.69)	(-)6,531.75 (47.16)	(-)6,852.72 (45.00)	(-)8,407.85 (44.57)	(-) 8,510.06 (41.50)
Second class	(-)3,998.08 (38.21)	(-)4,237.60 (36.06)	(-)5,167.53 (38.90)	(-)7,134.42 (44.75)	(-)7,642.13 (43.19)
Ordinary (All Class)	(-)7,437.00 (60.46)	(-)8,893.12 (66.97)	(-)9,783.80 (67.78)	(-)11,105.24 (67.08)	(-) 11,673.80 (65.58)
EMU suburban services	(-)2,320.23 (55.56)	(-)2,813.95 (58.21)	(-)3,365.47 (61.70)	(-)4,027.14 (62.98)	(-)4,679.11 (63.98)

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

Note-1. Negative figures denote losses and positive figures denote profits on passenger services.

2. Figures in bracket represent percentage loss/profit.

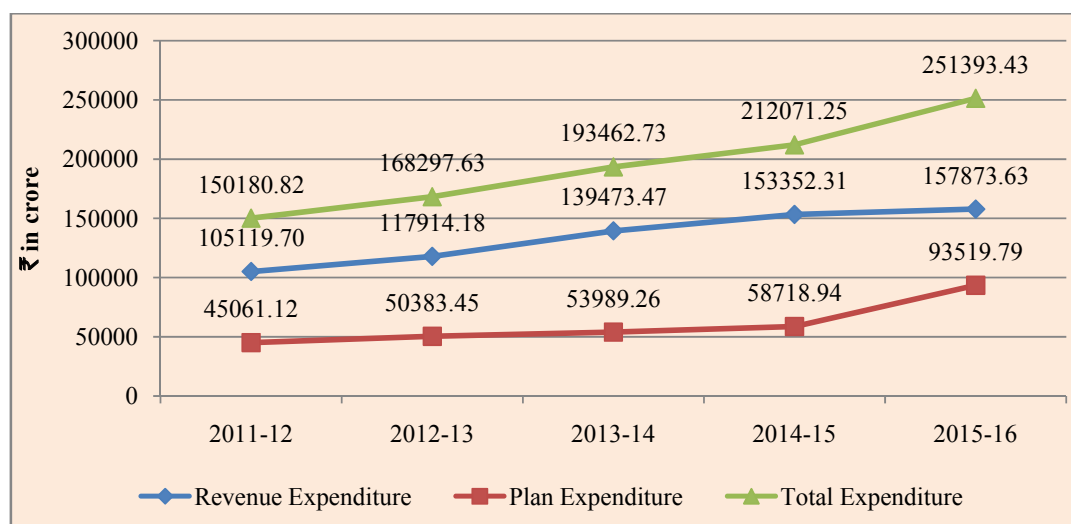
It is clear from the Table 1.5 that, except AC-3-Tier, all classes of train services have incurred losses during 2014-15 which means that AC-3-Tier segment only has recovered its operational cost.

The subsidy provided to both ordinary class and suburban services increased almost continuously in the last five years with subsidy on Ordinary Class being the maximum. The percentage of loss¹⁷ in various classes of passenger services ranged from 9.90 per cent (AC Chair Car) to 74.71 per cent (1st Class) with 63.98 per cent on EMU Suburban train services.

1.7 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Plan Expenditure'. Revenue expenditure includes ordinary working expenditure, miscellaneous expenditure and dividend payout. The Total Expenditure grew from ₹ 2,12,071.25 crore in 2014-15 to ₹ 2,51,393.43 crore in 2015-16, registering an increase of 18.54 per cent. The Revenue Expenditure has increased by 2.95 per cent from ₹ 1,53,352.31 crore to ₹ 1,57,873.63 crore during the same period.

Figure 1.9: Plan and Revenue Expenditure in the last five years

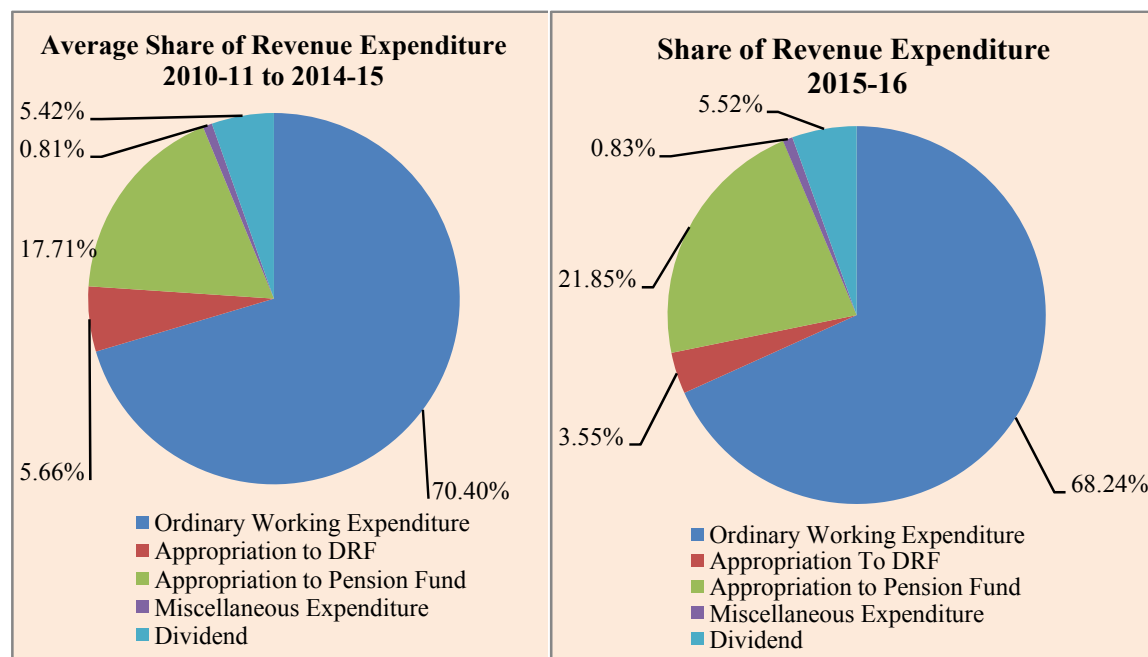


During 2015-16, the share of revenue expenditure to total expenditure decreased from 72 per cent (2014-15) to 63 per cent (2015-16) whereas plan expenditure increased from 28 per cent (2014-15) to 37 per cent (2015-16). A detailed analysis of plan expenditure is discussed in paragraph 1.10.

¹⁷ Loss worked out on the basis of figures of Expenses and Earnings given in Summary of the End Results-Coaching Services Profitability/Unit Costs (2014-15).

1.7.1 Revenue Expenditure

Figure 1.10: Share of Revenue Expenditure in last five years

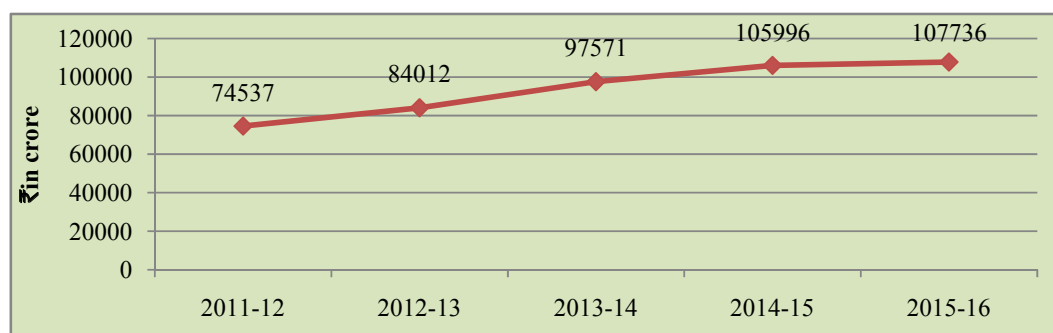


Ordinary Working Expenditure (OWE) comprises expenditure on day-to-day maintenance and operation of the IR i.e. expenditure on office administration, repairs and maintenance of track and bridges, locomotives, carriage and wagons, plant and equipment, operating expenses on crew, fuel, miscellaneous expenditure, pension liabilities etc.

The main component of total revenue expenditure was OWE which constituted 70.40 per cent of the total revenue expenditure on an average during 2010-15 and 68.24 per cent during 2015-16. Appropriation to DRF was decreased to 3.55 per cent in 2015-16 as compared to 5.66 per cent on an average during 2010-15. Appropriation to Pension Fund increased to 21.85 per cent in 2015-16 as compared to 17.71 per cent on an average during 2010-15 to meet the increased pension liabilities.

The trend in OWE over the last five years is shown in Figure 1.11:

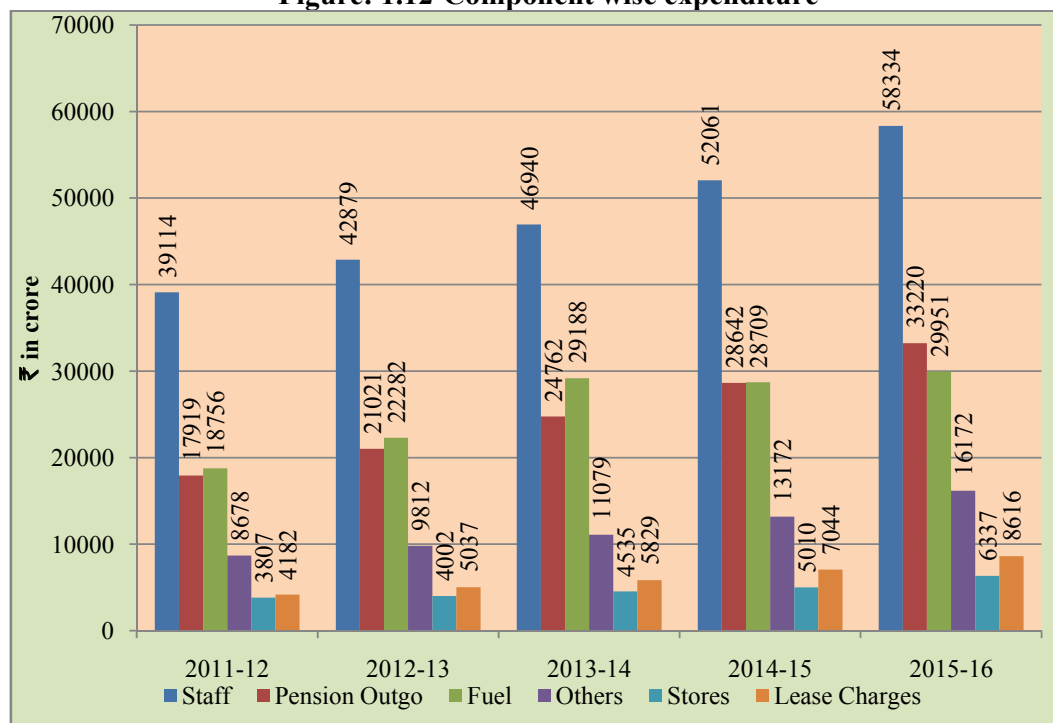
Figure: 1.11 - Growth of Ordinary Working Expenses (2011-12 to 2015-16)



OWE increased at a rate of 1.64 *per cent* during 2015-16 over the previous year as compared to growth rate of 8.63 *per cent* in the previous year.

The break-up of working expenditure on IR under staff, fuel, lease charges, stores, others and pension outgo for the last five years is shown in the Figure 1.12.

Figure: 1.12-Component wise expenditure



Note-(i) Figures for 2015-16 are as per Budget Estimate.

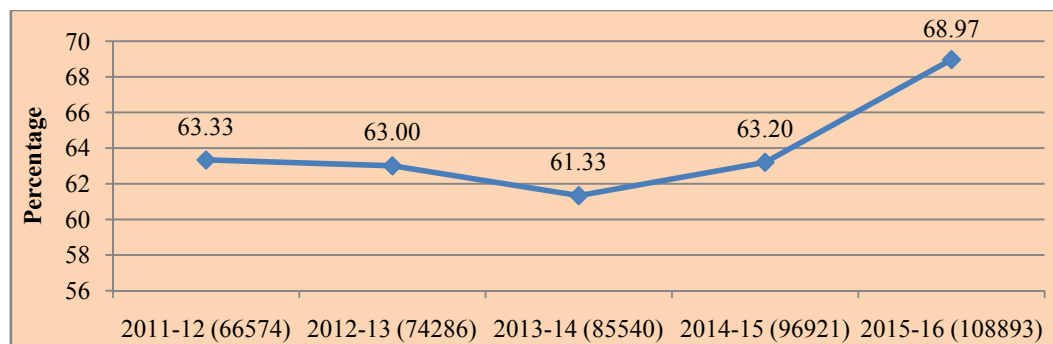
(ii) Figures for 2014-15 are revised figures (based on actuals).

Staff cost (including pension outgo) constituted around 60 *per cent* of the working expenses of the IR during the current year.

1.7.2 Committed Expenditure

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

Figure 1.13: Committed Expenditure as a percentage of Total Revenue Expenditure



Note-(i) Figures shown in bracket indicate Total Committed Expenditure in crore of rupees.

(ii) Figures for 2015-16 are as per Budget Estimate.

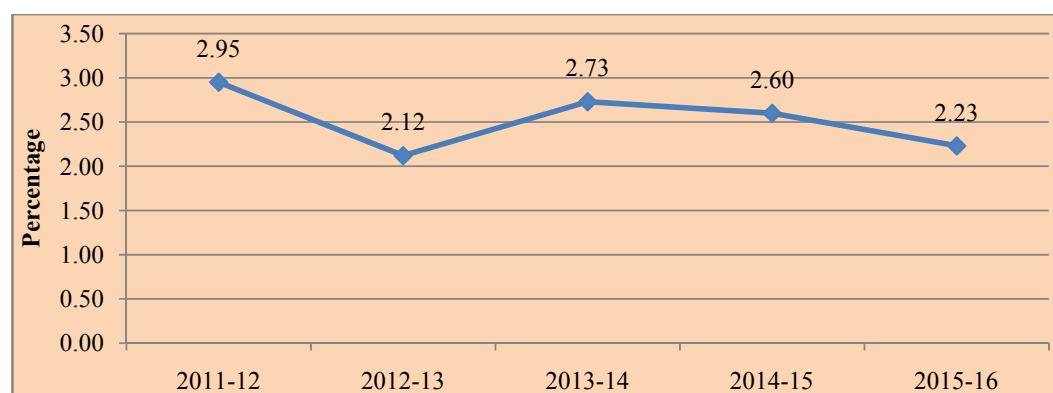
(iii) Figures of 2014-15 are revised figures (based on actuals).

Percentage of committed expenditure to total revenue expenditure was 68.97 *per cent* in 2015-16. IR was left with 31.03 *per cent* of the total revenue expenditure to run their operations (Figure 1.13).

1.7.3 Dividend and Subsidy

Under the 'Separation Convention' the IR is required to pay dividend to the general revenues on the capital advanced by the GoI at a rate determined periodically by RCC. The rate of dividend fixed by the RCC for 2015-16 was four *per cent*. 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 interest¹⁸. Dividend paid on such capital is received back as subsidy by IR. Subsidy received during 2015-16 was ₹ 3,722.68 crore. The net effective rate of dividend after adjusting the subsidy received, decreased from 2.60 *per cent* in the 2014-15 to 2.23 *per cent* in 2015-16.

Figure: 1.14 Effective Rate of Dividend



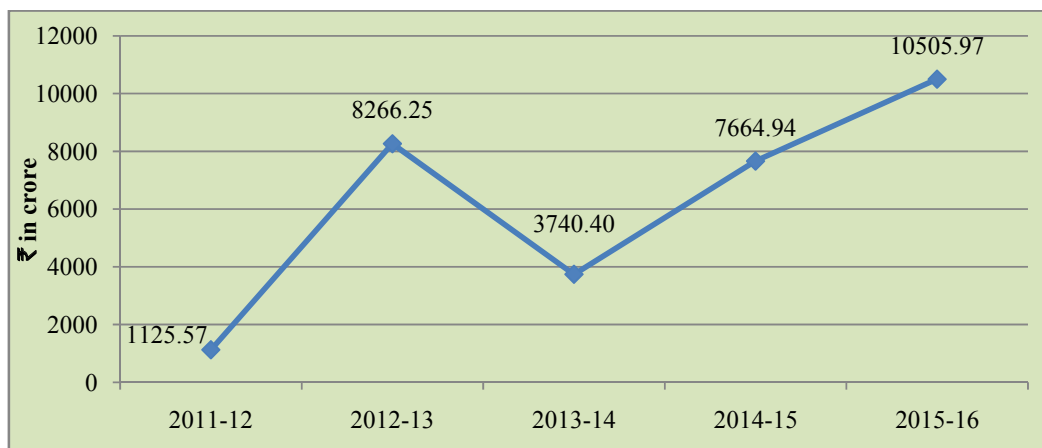
1.7.4 Un-discharged Liability

The RCC allowed 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 was payable when the line showed surplus after discharging 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 ₹ 12,254.90 crore at the close of 2014-15 increased to ₹ 13,643.89 crore as of March 2016.

1.8 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure including payment of dividend, during the years 2011-12 to 2015-16 are shown in the Figure 1.15.

¹⁸Strategic 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 Revenue Surplus

The net surplus increased from ₹ 7,664.94 crore in 2014-15 to ₹ 10,505.97 crore in 2015-16. The increase in net surplus was mainly due to negative growth rate of 4.92 *per cent* of dividend paid to general revenues in 2015-16 against 14.55 *per cent* growth rate of 2014-15 and decrease in growth rate of TWE (3.38 *per cent*) in 2015-16 against the growth rate of 2014-15 (9.73 *per cent*).

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 (OR) represents the percentage of working expenses to traffic earnings. The OR which was 91.25 *per cent* in 2014-15, slightly improved to 90.49 *per cent* in 2015-16 for IR. This was primarily due to the reason that working expenses grew at lower rate (3.40 *per cent*) as compared to previous year (9.51 *per cent*), while the traffic earnings grew at rate (4.28 *per cent*) less than the previous year rate (12.32 *per cent*).

OR of zonal railways during the last five years ended on 31 March 2016 is shown in the Table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

S. No.	Zonal Railway	2011-12	2012-13	2013-14	2014-15	2015-16
1	Central	105.68	97.82	100.23	101.85	98.13
2	Eastern	182.10	178.86	176.76	177.27	180.56
3	East Central	103.58	92.19	99.58	95.24	90.28
4	East Coast	44.68	44.50	48.34	51.25	50.56
5	Northern	121.00	113.15	110.12	117.65	114.97
6	North Central	61.80	59.68	64.04	64.13	61.98
7	North Eastern	202.06	200.01	207.49	193.47	196.52
8	Northeast Frontier	166.40	178.39	193.08	187.08	185.71

9	North Western	99.99	88.97	98.58	90.18	91.15
10	Southern	122.58	130.59	132.18	128.98	134.89
11	South Central	85.90	79.63	84.13	76.03	78.71
12	South Eastern	72.74	70.50	72.54	73.62	71.15
13	South East Central	55.24	49.14	52.53	50.83	50.52
14	South Western	109.01	104.85	115.41	98.72	102.60
15	Western	94.61	89.84	91.74	86.51	88.72
16	West Central	70.13	68.18	71.06	63.56	64.38
17	Metro Railway/Kolkata	310.89	328.26	302.63	253.69	237.80
Overall IR		94.85	90.19	93.60	91.25	90.49

Source-Indian Railways Appropriation Accounts-Part-I Review

There was improvement in the OR of Central, East Central, East Coast, Northern, North Central, Northeast Frontier, South Eastern, South East Central Railways and Metro Railway/Kolkata whereas the same deteriorated in Eastern, North Eastern, North Western, Southern, South Central, South Western, Western and West Central Railways during the current year as compared to the previous year. OR of Eastern, Northern, North Eastern, Northeast Frontier, Southern, South Western Railways and Metro Railway/Kolkata was more than 100 *per cent* during 2015-16 implying that their working expenditure was more than their traffic earnings. OR of the zonal railways namely Eastern, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway/Kolkata was more than 100 *per cent* in the last five years.

1.9.2 Capital Output Ratio (COR)

Capital Output Ratio (COR) indicates the amount of capital employed to produce one unit of output. Total Traffic in terms of NTKMs and Passenger Kilometers (PKMs) is considered as the output in the case of IR.

COR of IR during the last five years ended on 31 March 2016 is shown in the Table 1.7.

Table 1.7 Capital Output Ratio of IR

As on	Total Capital including investment from Capital Fund (₹ in Million)	Goods Traffic (NTKM) (in Million) (Revenue Freight Traffic only)	Passenger Traffic		Total Traffic (in Million NTKMs)	Capital at charge (in Paise) per NTKM
			Passenger Kilometres (in Millions)	Million NTKMs		
31-March-12	1,614,480	667,607	1,046,522	74,303	741,910	218
31-March-13	1,834,880	649,645	1,098,103	77,965	727,610	252
31-March-14	2,088,443	665,810	1,140,412	80,969	746,779	280
31-March-15	2,421,170	681,696	1,147,190	81,450	763,146	317
31-March-16	2,751,353	654,481	1,148,818	81,566	736,047	374

Source-Indian Railways Annual Statistical Statements

Note: Figures for the period as on 31 March 2014 and 31 March 2015 are revised figures. Figures for 2015-16 except Capital including Investments from Capital Fund are provisional.

COR had increased from 218 paise (2011-12) to 374 paise (2015-16) indicating decrease in physical performance of the IR as compared to capital employed (Table 1.7). It continuously increased during last five years. Higher cost overruns due to non-completion of projects in time coupled with investment in financially unviable projects contributed to higher COR.

1.9.3 Staff Productivity

Staff productivity¹⁹ in case of IR is measured in terms of volume of traffic handled (in terms of NTKM in Million) per thousand employees. It decreased by 3.11 *per cent* from 2011-12 (611) to 2015-16 (592) of Open Line staff of all zonal railways (excluding Metro Railway/Kolkata). The deterioration in staff productivity over the last five years was due to decrease in NTKM (i.e. transportation of one tonne goods excluding weight of vehicle over a distance of one kilometer).

Zone wise analysis of staff productivity revealed that during 2015-16, highest Staff Productivity of 1405 Million NTKM was achieved by East Coast Railway whereas Staff Productivity of 195.04 Million NTKM 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 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 the IR through their plan expenditure.

IR's plan expenditure was financed from the GBS, internal resources²⁰ and extra budgetary support i.e. market borrowing through Indian Railway Finance Corporation Limited (IRFC) for rolling stock and new network links by Rail Vikas Nigam Limited (RVNL).

IR had been suffering from consistent under-investments in its capital works. Consequently, a large shelf of sanctioned projects could not be completed due to non-availability of sufficient resources. In the Budget (2015-16), MoR decided to borrow funds from institutional sources so as to ensure availability of funds for the next five years for completion of the projects critical for Railways for generation of revenues. A new source of funding i.e. Extra Budgetary Resources (Institutional Finance)-EBR (IF) was introduced in Railways in 2015-16. During 2015-16, EBR-IF funds amounting to ₹ 9,430 crore was received from IRFC (funds drawn initially by IRFC by issuing bonds to Life Insurance Corporation of India).

The Table 1.8 gives the sources of funds for the plan expenditure during first four years of the 12th Five year Plan (2012-13 to 2016-17):

¹⁹ Annual Statistical Statements of Indian Railways

²⁰ Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

Table 1.8 Sources of Plan Expenditure**(₹ in crore)**

Source of Plan Expenditure	12 th Five Year Plan				
	2012-13	2013-14	2014-15	2015-16	
	Actual	Actual	Actual	Budget Estimates	Actual
General Budgetary Support ²¹	25,710.21 (51.03)	29,055.38 (53.82)	32,327.60 (55.05)	41,646 (41.64)	37,608.47 (40.21)
Internal Resources	9,531.31 (18.92)	9,709.00 (17.98)	15,347.24 (26.14)	17,793 (17.79)	16,845.31 (18.01)
Extra Budgetary Resources (IRFC, RVNL, EBR-IF, PPP)	15,141.93 (30.05)	15,224.88 (28.20)	11,044.10 (18.81)	40,572 (40.57)	39,066.01 (41.77)
Total	50,383.45	53,989.26	58,718.94	1,00,011	93,519.79

Note: Figures in brackets represent percentage to the total Plan expenditure

Source-Explanatory Memorandum on Railway Budgets and Appropriation Accounts

The share of GBS to the total plan expenditure decreased from 55.05 per cent in 2014-15 to 40.21 per cent in 2015-16. The share of internal resources to total plan expenditure also decreased from 26.14 per cent in 2014-15 to 18.01 per cent in 2015-16. Share of EBR increased from 18.81 per cent in 2014-15 to 41.77 per cent in current year. Decline in generation of internal resources resulted in greater dependence on GBS and market borrowings (EBR). During 2015-16, MoR obtained ₹ 13,841.16 crore from IRFC for rolling stock, ₹ 255.90 crore for doubling projects being executed by RVNL, ₹ 9,430 crore through EBR-IF for gauge conversion, doubling and railway electrification projects and ₹ 15,081 crore through Public Private Partnership (PPP) mainly for expenditure on new line projects, traffic facilities and road safety works etc. The actual expenditure through EBR-IF incurred during 2015-16 was ₹ 9,887.95 crore.

Plan expenditure is broadly categorized under various Plan Heads as shown in the Table 1.9.

Table 1.9 Category-wise Plan Expenditure**(₹ in crore)**

Plan Heads	12 th Five Year Plan			
	2012-13	2013-14	2014-15	2015-16
New Lines, Gauge Conversion, Doubling, Yard Remodelling, Traffic Facilities, Track Renewal, Bridge Work, Signalling and Telecommunication	16,721.19 (33.19)	18,532.34 (34.33)	21,984.62 (37.44)	36,638.42 (46.71)
Rolling Stock and Payment of Capital Component of Lease charges	22,403.29 (44.47)	22,267.49 (41.24)	21,723.98 (37.00)	24,240.71 (30.90)
Workshop and Production Units and Plant & Machinery	1,917.00 (3.80)	2,264.42 (4.19)	2,129.02 (3.63)	1,921.14 (2.45)
Investment in Government Undertakings	3,372.74 (6.69)	4,289.58 (7.95)	4,865.31 (8.29)	7,349.71 (9.37)
Others	5,969.23 (11.85)	6,635.43 (12.29)	8,016.01 (13.65)	8,288.81 (10.57)
Total	50,383.45	53,989.26	58,718.94	78,438.79*

*Excluding expenditure of ₹ 15,081 crore under PPP.

Source-Indian Railways Appropriation Accounts-Grant No.16 and Statement No.10-Statement of Expenditure on Capital Account.

²¹Includes expenditure from Railway Safety Fund

- Note: 1** Figures in brackets represent percentage to the total plan expenditure.
- Note: 2** Others include Road Safety Works, Electrification Projects, Computerization, other Electric Works, Railway Research, Other Specified Works, Stores Suspense, Manufacturing Suspense, Miscellaneous Advance, Staff Quarters, Passenger Amenities, Metropolitan Projects.
- Note: 3** The above Plan expenditure excludes an amount of ₹ 15,081 crore under PPP mode under Plan Heads viz New Lines-₹ 7,433.58 crore, Traffic facilities-₹ 334.75 crore, Rolling stock-₹ 1,466.74 crore, Road Safety Works (Road Over/Under Bridge)-₹ 2,065.21 crore and Others-₹ 3,780.72 crore.

Table 1.9 shows that the share of Plan Expenditure on track related works (Construction of New Lines, Gauge Conversion, Doubling, Yard Remodelling and Traffic Facilities, Bridge Works and Signal and Telecommunication Works) increased from 37.44 per cent in 2014-15 to 46.71 per cent in 2015-16. Share of Plan Expenditure on 'Rolling Stock and Payment of Capital Component of Lease charges' decreased from 37 per cent in 2014-15 to 30.90 per cent in 2015-16.

1.11 Railway Funds

The status of various Funds during 2015-16 is shown in the Table 1.10.

Table 1.10 Fund Balances

(₹ in crore)				
Name of Fund	Opening Balance	Accretion during the year	Withdrawal during the year	Closing Balance
DRF	1,777.12	5,844.61	7,588.95	32.78
Pension Fund	1,360.36	34,997.60	30,700.66	5,657.30
Development Fund	2,013.12	1,308.89	2,931.62	390.39
Capital Fund	1,388.90	5,843.27	6,324.74	907.43
Railway Safety Fund	97.15	2,518.97	2,600.60	15.52
Debt Service Fund	236.08	3,567.18	0	3,803.26
Total	6,872.73	54,080.52	50,146.57	10,806.68

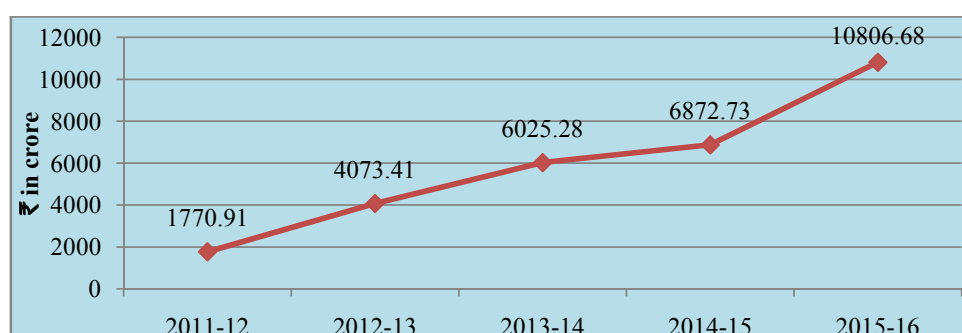
Note- 1. Accretion includes financial adjustments, appropriation to fund and interest received on fund balances during the year. Railway Safety Fund is an interest free fund. **2.** Accretion under DRF, Development Fund and Railway Safety Fund includes financial adjustments of ₹ 8.95 crore, ₹ (-) 4.75 crore and ₹ 8.76 crore respectively.

The funds shown in Table No. 1.10 were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. The Development Fund, Capital Fund and Debt Service Fund were closed with balances of ₹ 390.39 crore, ₹ 907.43 crore and ₹ 3,803.26 crore respectively.

(Appendix-1)

The fund balances were on increasing trend during 2011-12 to 2015-16 as shown in the Figure 1.16.

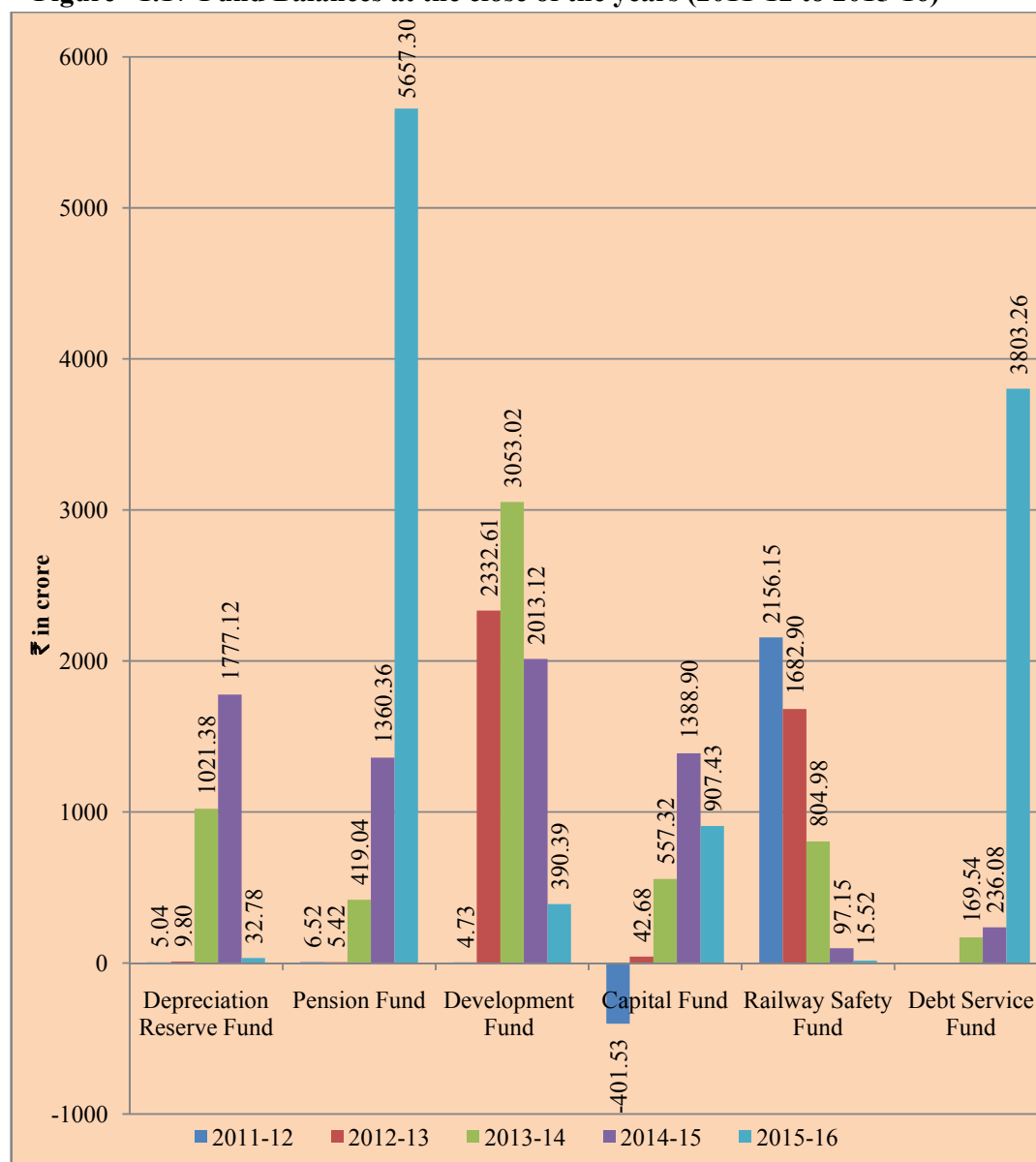
Figure 1.16-Trend of Fund Balances (2011-12 to 2015-16)



The improvement in fund balances was mainly due to not making payment of capital component of lease charges to IRFC²² amounting to ₹ 12,629.49 crore during the period 2011-14, from Capital Fund. However, IR restarted payment of capital component of lease charges to IRFC from Capital Fund from 2014-15 and made payment of ₹ 5,449.24 crore and ₹ 6,324.74 crore during 2014-15 and 2015-16 respectively.

The status of fund balances at the close of 2015-16 is shown in the Figure 1.17.

Figure 1.17-Fund Balances at the close of the years (2011-12 to 2015-16)



Source-Indian Railways Appropriation Accounts Part-II-Detailed Appropriation Accounts

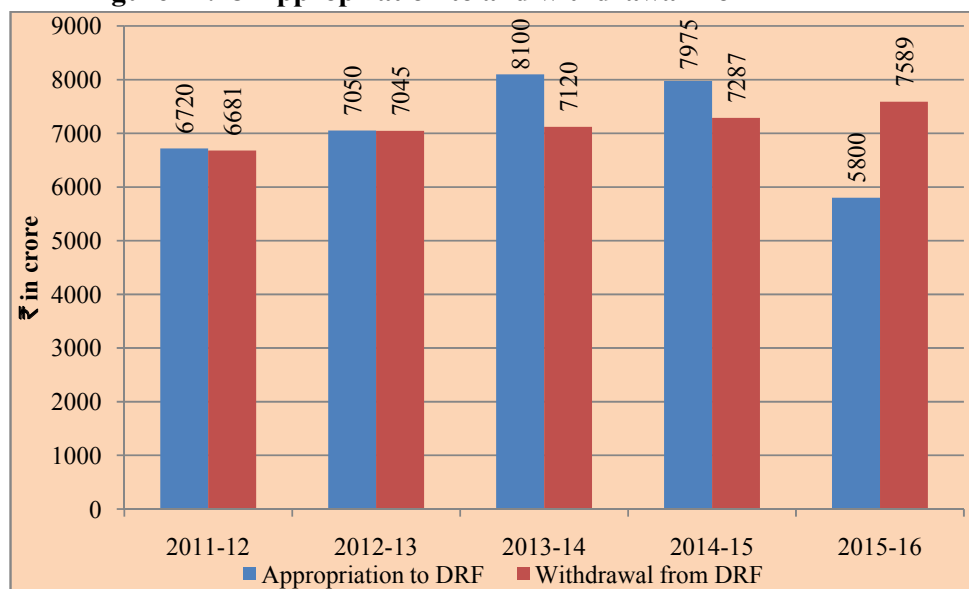
The balance available in the railway funds increased from ₹ 6,872.73 crore in 2014-15 to ₹ 10,806.68 crore at the end of the year 2015-16. DRF and Capital

²²Payment of Principal component of lease charges to IRFC is being paid from Capital Fund from 2005-06 onwards.

Fund closed with balance of ₹ 32.78 crore and ₹ 907.43 crore respectively. Analysis by Audit of the fund balances available in Capital Fund and DRF revealed the following:

1. IR borrows money through the IRFC for acquiring rolling stock by the financial lease route. These lease payment have two components, viz principal components and interest. Prior to 2005-06, these payments were fully met through the OWE (Revenue Grant No.9-Operating Expenses-Traffic). However, from the year 2005-06, the Accounting policy in respect of accountal of lease charges payable to IRFC was modified. As per new accounting system, principal (Capital) component was to be charged to Capital Fund (Grant No. 16) and interest component was to be charged to Revenue Grant No. 9. Audit observed that MoR made payment of principal component of lease charges to IRFC from 2005-06 to 2010-11 from Capital Fund. However, thereafter due to negative balance/insufficient balance under the Capital Fund, this payment was made from 'Capital'²³ by the MoR. This was in violation of their accounting policy. MoR made payment of ₹ 12,629.49 crore to IRFC from Capital instead of Capital Fund during 2011-12 to 2013-14. During 2014-15 and 2015-16, capital component of lease charges amounting to ₹ 5,449.24 crore and ₹ 6,324.74 crore was paid to IRFC from Capital Fund. During 2015-16, against budget provision of ₹ 7,615.71 crore, MoR appropriated only ₹ 5,798.24 crore which was less by ₹ 1,817.47 crore (23.86 per cent) than the budgeted provision. Capital Fund closed with a meagre balance of ₹ 907.43 crore at the end of 2015-16. There will be a committed liability of ₹ 7,000 crore approx. of MoR in the next year for which at least a matching appropriation is mandatory to be made under this fund.
2. It is seen that 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. MoR in its Action Taken Note on Para 1.11 of the Audit Report of Railways Finances (No. 53 of 2015) stated (September 2016) that it agrees that that appropriation to DRF should be made in a well founded manner. Railway have a very large asset base, whereas the financial position of the Railways has not remained stable most of the time as so as to permit appropriation to this fund as per a set formula. However, all along, endeavour has been to ensure maximum appropriation to DRF permissible by Railways' financial position in a year. Appropriation to DRF and withdrawal from DRF during 2011-12 to 2015-16 is shown in the Figure 1.18.

²³Capital represents the amount advanced by the GoI to MOR as GBS to finance Capital Expenditure and MOR pays dividend thereon at the rate fixed by the RCC.

Figure 1.18-Appropriation to and withdrawal from DRF

During 2015-16, against budget provision of ₹ 8,100 crore, MoR appropriated only ₹ 5,800 crore which was less by ₹ 2,300 crore (i.e. 28.40 *per cent*) than the budgeted provision. MoR had spent ₹ 7,588.95 crore on renewal and replacement of the assets from DRF during 2015-16 leaving a meager balance of ₹ 32.78 crore at the end of 2015-16. Audit further observed that there were negative balances under DRF in nine Zonal Railways namely Central, Eastern, North Central, South Central, South Eastern, South East Central, South Western, Western, West Central Railways and Integral Coach Factory, Central Organization for Railway Electrification (CORE) and Metropolitan Transport Project-Chennai. Further, under provisioning for depreciation is resulting in piling up of throw forward of works concerning renewal of over aged assets. The throw forward value of assets to be replaced from DRF (up to 2015-16) was estimated at ₹ 41,274.49 crore which mainly includes ₹ 24,756 crore on rolling stock, ₹ 10,574 crore on track renewals, ₹ 1,897 crore on bridge works, ₹ 1,354 crore on signalling and telecommunication works and ₹ 989 crore on machinery and plants. Thus, there is huge backlog of renewal and replacement of over aged assets in railway system which needs to be replaced timely for safe running of trains.

1.12 Comments on Accounts

➤ **Mismatch in fund balances shown in the Railways' Debt Head Report (Review of Balances)/Detailed Appropriation Accounts (Part-II) and Railways' fund balances appearing in Statement No. 13 of Union Government Finance Accounts**

Fund Balances of the Railways are depicted in the Railway's Debt Head Report (Review of Balances) and Part-II-Detailed Appropriation Accounts. The Debt Head Report for the year is sent to the Controller General of Accounts (CGA) for inclusion in the Statement No.13 of Union Government Finance Accounts. It was observed that the Railways' Fund balances appearing in the Statement No.13 of Union Government

Finance Accounts were not matching with the Fund balances shown by the MoR in its Statement/Appropriation Accounts. Status of the Fund balances appearing in the two Statements is given in Table 1.11.

Table 1.11 Fund balances appearing in Debt Head Report and Statement No. 13 of Union Government Finance Accounts

(₹ in thousands)

Head	Name of Fund	Year	Balance as per Debt Head Report	Balance as per Statement No. 13 of Union Government Finance Accounts
8115-101	DRF (Commercial Lines)	2013-14	(-)1303,88,67(Cr)	1851,82,33 (Dr)
		2014-15	(-)682,72,78(Cr)	1230,09,32 (Dr)
		2015-16	(-)2543,54,62(Cr)	3099,85,79 (Dr)
8115-102	DRF (Strategic Lines)	2013-14	2325,26,30 (Cr)	2325,26,28 (Cr)
		2014-15	2459,84,61 (Cr)	2459,84,59 (Cr)
		2015-16	2576,32,24 (Cr)	2576,32,22 (Cr)
8117-101	Development Fund (Commercial Lines)	2013-14	3053,00,68 (Cr)	2268,42,17 (Cr)
		2014-15	2013,10,68 (Cr)	1228,52,17 (Cr)
		2015-16	390,38,28 (Cr)	389,44,97(Cr)
8117-102	Development Fund (Strategic Lines)	2013-14	1,21 (Cr)	1,15 (Cr)
		2014-15	1,31 (Cr)	1,25 (Cr)
		2015-16	1,42 (Cr)	1,36 (Cr)
8118-106	Capital Fund	2013-14	557,16,18 (Cr)	189,39,92 (Cr)
		2014-15	1388,90,30 (Cr)	1020,98,66 (Cr)
		2015-16	907,43,26 (Cr)	539,51,62 (Cr)
8121-103	Pension Fund (Commercial Lines)	2013-14	(-)1789,85,81 (Cr)	1790,90,01 (Dr)
		2014-15	(-)1273,61,66 (Cr)	1274,50,48 (Dr)
		2015-16	2538,42,78 (Cr)	2537,53,97 (Dr)
8121-104	Pension Fund (Strategic Lines)	2013-14	2209,04,87 (Cr)	1895,39,82 (Cr)
		2014-15	2633,97,35 (Cr)	2633,97,37 (Cr)
		2015-16	3118,86,74 (Cr)	3118,86,77 (Cr)
8231-101	Railway Safety Fund (Commercial Lines)	2013-14	804,97,79 (Cr)	865,35,43(Cr)
		2014-15	97,14,86 (Cr)	157,52,49(Cr)
		2015-16	1,55,247 (Cr)	67,13,66(Cr)
8231-102	Railway Safety Fund (Strategic Lines)	2013-14	0	01 (Dr)
		2014-15	0	01 (Dr)
		2015-16	0	01 (Dr)
8230-101	Special Railway Safety Fund (Commercial Lines)	2013-14	0	581,12,02(Cr)
		2014-15	0	581,12,02(Cr)
		2015-16	0	581,12,02(Cr)
8230-102	Special Railway Safety Fund (Strategic Lines)	2013-14	0	16,66,24(Cr)
		2014-15	0	16,66,24(Cr)
		2015-16	0	16,66,24(Cr)

Note-Balances for 2015-16 are based on the figures appearing in the Statement No.13 of Union Government Finance Accounts provided by the O/o Director General of Audit/Central Expenditure.

It was also observed that Special Railway Safety Fund (SRSF) ceased to exist w.e.f. 01-04-2008 and the balance lying in this fund was transferred to DRF by the Railways. However, the balance under this fund was not transferred to DRF by the CGA and the fund (SRSF) is still appearing in the Statement No. 13 of Union Government Finance Accounts.

The issue of mismatch in the figures of Railways' fund balances appearing in the Statement No.13 of Union Government Finance Accounts was taken up with the Ministry of Railways in August 2015 and also commented upon in the Para 1.11 of the Audit Report No.53 of 2015-Railways Finances for the year ended March 2015. The discrepancy still persists and MoR's reply as well as ATN on this Para was not received (as of September 2016).

➤ **Accountal of Tax Deducted at Source (TDS) by the Railways**

As per provisions under section 194 (c) of the Income Tax Act, 1961, the tax deductions from payment to contractors and sub-contractors are to be accounted for under Major Head 0021-Taxes on Income other than Corporation Tax. The Act also provides that tax deduction from Companies be accounted for under Major had 0020-Corporation Tax. The List of Major and Minor Heads of Accounts also classifies the similar accounting heads for accountal of tax deductions from payments to contractors and sub-contractors.

In Railways, accountal of tax deducted from payments made to contractors (including Companies working as contractor) is being made under Major Head 0021-Taxes on Income other than Corporation Tax which is in violation of the provisions of Income Tax Act, 1961. Audit raised (January 2013) the issue of incorrect accountal of tax deducted by the Railways from Companies under Major Head 0021-Taxes on Income other than Corporation Tax instead of Major had 0020-Corporation Tax.

MoR, in its reply, stated (April 2013) that Major Head 0020-Corporation Tax is for corporate profits and the TDS deducted by the government departments to their contractors (body corporation/others) should be booked under Major Head 0021-Taxes on Income other than Corporation Tax and matter is referred to Controller General of Accounts (CGA) for confirming the correctness of the procedure being followed by the Railways. However, no reply from CGA was received (as of September 2016) despite reminders issued by MoR in July 2013 and November 2014.

The irregularity still persists in Railways. In NWR, during audit of Income Tax Statement for 2015-16, it was observed that TDS amounting to ₹ 7,89,59,045 recovered from Companies was credited under Major Head 0021-Taxes on Income other than Corporation Tax.

➤ **Recovery of Education cess**

As per extant instructions, Primary Education Cess @ 2 per cent and Higher Education Cess @ 1 per cent are to be levied on Total Income Tax (including Surcharge) and transferred to Central Government. For correct accountal of recovery of education cess, separate accountal is necessary.

During check of March Account Current/Income tax Statement of CR, ECR, ECoR, NEFR, SER, SECR, Metro Railway/Kolkata and CLW, the recovery of Higher Education Cess was not shown separately. Hence, the figures of Education Cess shown under Heads 504 and 505 of the Income Tax Statement of MoR for 2015-16 do not reflect the correct amount collected under Primary and Higher Education Cess. Secondly, the amount of Total Education cess collected was shown as ₹ 54.86 crore in the Income Tax Statement whereas 3 per cent of the Total Income Tax including Surcharge (₹ 2,572.65 crore) works out to ₹ 77.18 crore. Thus, as a whole, there was a short recovery of Education cess to the tune of ₹ 22.32 crore during 2015-16. The issue was raised with the MoR in August, 2016. MoR, in its reply, stated (September 2016) that the Statement has been revised exhibiting the education cess correctly. However, the reply was silent on short recovery of Education cess of ₹ 22.32 crore.

➤ **Accountal of Right to Information (RTI) fee**

The fee collected under RTI Act, 2005 is to be credited under Major Head 0070-Administrative Services-Sub-Major Head: 60-Other Services-Minor Head: 118-Receipts under RTI Act, 2005. An audit comment on incorrect crediting of RTI fee in Railways' earnings instead of crediting it under the assigned Major Head 0070 was made in Para 1.12 of the Audit Report No.19 of 2014-Railways Finances for the year ended March 2013.

MoR, in its ATN, stated (May 2015) that since the expenditure on RTI activities pertaining to Railways are borne by the Railways, receipt from RTI fee should also be accounted for in its revenue heads. However, the matter had been referred to CGA in April 2012, July 2013 and December 2014 for decision in this regard. However, the issue has not been resolved as yet.

In NWR, RTI fee amounting ₹ 1,03,838 collected under RTI Act, 2005 during 2015-16 was credited to Railways' earnings (Abstract-Z-Sundry Earnings-Subhead-650) instead of crediting it under Major Head 0070. The matter was again taken up with the MoR in August 2016. MoR, in its reply (September 2016) stated that in its opinion the procedure of accountal of RTI fee being followed in Railways is correct. MoR's reply is not tenable as crediting of RTI fee in Railways' earnings is against the instructions issued by the Ministry of Finance.

➤ **Levy of Swachh Bharat Cess by the Zonal Railways**

As per GoI Notification No.21/2015-Servcie Tax dated 6-11-2015, Swachh Bharat Cess at the rate of 0.5 per cent on all taxable services was to be levied with effect from 15-11-2015. During review of Statement of

Central Transactions (SCT) for 2015-16 and Zonal Railways' Account Current for and to the end of March 2016, it was observed that Swachh Bharat Cess was not levied by the Zonal Railways namely SECR, ECR, NER, NEFR, NWR, SR, SECR and Metro Railway/Kolkata. Thus, the GoI's instructions for levy of Swachh Bharat Cess were not fully implemented in the Railways resulting in short collection of Swachh Bharat Cess.

The issue was taken up with the MoR in August 2016. MoR, in its reply, stated (September 2016) that the matter has been referred to the concerned Zonal Railways to set right the discrepancy pointed out by Audit. Since monthly Account Current of all the Zonal Railways are received in the Railway Board, non-levy of Swachh Bharat Cess by the defaulting Zonal Railways could have been indentified and corrective action immediately taken in this regard.

➤ **Utilisation of funds under Extra Budgetary Resources (Institutional Finance)**

IR has been suffering from consistent under-investments in its capital works. Consequently, a large shelf of sanctioned projects could not be completed due to non-availability of sufficient resources. In the Rail Budget (2015-16), MoR decided to borrow funds from institutional sources so as to ensure availability of funds for the next five years for completion of the projects critical for Railways for generation of revenues. The new source of funding was termed as Extra Budgetary Resources (Institutional Finance) EBR-IF.

A Memorandum of Understanding (MoU) between MoR and Life Insurance Corporation of India (LIC) was signed on 11 March 2015. LIC had committed funding assistance for identified projects to the tune of ₹ 1.5 lakh crore over a five year period starting from financial year 2015-16. LIC funds shall be drawn initially by IRFC by issuing bonds to which LIC will subscribe. The amount raised by IRFC through these bonds will be provided to IR as pre-lease disbursements (project advance /deposit) towards execution of indentified projects (New Lines, Gauge Conversion, Doubling, Traffic Facilities, Railway Electrification, Signaling and Telecommunication etc.).

As per the Procedure Order on drawal and accountal of funds under allocation EBR-IF (issued vide Railway Board's letter No. 2015/FS Cell/1/2 dated 23-10-2015), lease charges shall be payable by IR to IRFC which will enable IRFC to redeem the bonds issued to LIC. During the initial five years for the lease period, the interest component of the lease charges will be capitalized. Subsequently from 6th year onwards, the interest component shall be booked to revenue grant (No.9-Operating Expenses-Traffic). The lease charges in the initial 10 years for the lease period will not have any capital component. The capital repayment component of lease charges during 11th-30th year shall be charged under Plan Head 2200.

Railway Board had issued instructions (March 2015) to all the Zonal Railways and CORE not to book expenditure under EBR (IF) unless the

funds are especially available against the works/projects. Audit observed that during 2015-16, EBR-IF funds amounting to ₹ 9,430 crore were received from IRFC. However, the actual expenditure under EBR-IF incurred by the Zonal Railways and CORE during 2015-16 was ₹ 9,887.95 crore i.e. excess expenditure of ₹ 457.95 crore. Thus, incurring of expenditure in excess to the availability of funds under EBR (IF) by the Zonal Railways/CORE was against the Railway Board's instructions.

Railway Board has stipulated (October 2015) that Utilisation Certificate for the amounts of Deposit IF funds spent may be furnished by 30th April of the following financial year to Resource Mobilisation Directorate/Railway Board for onward transmission to IRFC. It was observed that Utilisation Certificate from Zonal Railways and CORE have not been received so far (October 2016).

Further, as the market borrowings (EBR-IF) have financial liabilities attached in the form of payment of huge interest and return of principal amount in stipulated time periods, MoR needs to be more cautious not to get into a debt-trap and ensure that funds are utilized in those projects which have internal rate of return of more than 12 *per cent* and completed in a time bound manner so that they can start generating revenue.

1.13 Conclusions

During 2015-16, TWE increased by 3.38 *per cent* (₹ 4,840.05 crore) as compared to 9.73 *per cent* growth rate of previous year. GTR increased by 4.86 *per cent* as compared to 12.29 *per cent* rate of previous year and also was below the budget projections by 10.48 *per cent*. The Net Surplus increased by 37.07 *per cent* over the previous year.

During 2015-16, the growth rate of passenger originating (no. of passengers) was negative. The negative trend in passenger originating was continued since 2013-14. IR has not been able to meet their operational cost of passenger and other coaching services. There was cross-subsidization from freight services to passenger services. IR earned profit of ₹ 38,312.59 crore from freight traffic on one hand and incurred loss of ₹ 33,821.70 crore on operation of passenger and other coaching services on the other hand during 2014-15. There was an improvement in recovering the cost of passenger services in 2015-16. In 2015-16, the freight loading witnessed a insignificant rate of 0.57 *per cent*. However, due to decline of 3.99 *per cent* in Net Tonne Kilometers in revenue freight traffic, the average lead (average haul of a tonne of freight) declined from 622 Kilometers to 594 Kilometers in 2015-16.

At the end of the year 2015-16, Railway Funds closed with balance of ₹ 10,806.68 crore. The fund balances improved by ₹ 3,933.95 crore over the previous year balance of ₹ 6,872.73 crore. Development Fund closed at ₹ 390.39 crore and the Capital Fund at ₹ 907.43 crore. DRF closed a meager balance of ₹ 32.78 crore at the end of 2015-16. A positive balance in the 'Railway Funds' was due to not making the payment of ₹ 12,629.49 crore to IRFC (towards principal component of lease charges) during the period from 2011-2014 from Capital Fund. However, IR restarted payment of capital component of lease

charges to IRFC from Capital Fund from 2014-15 and made payment of ₹ 5,449.24 crore and ₹ 6,324.74 crore during 2014-15 and 2015-16.

MoR had spent ₹ 7,588.95 crore on renewal and replacement of the assets from DRF during 2015-16 whereas the throw forward value of assets to be replaced from DRF (up to 2015-16) was ₹ 41,274.49 crore. Thus, there is huge backlog of renewal and replacement of over aged assets in railway system which needs to be replaced timely for safe running of trains. As there was a meager balance of ₹ 32.78 crore in DRF at the end of 2015-16, MoR needs to make sufficient appropriation to DRF for meeting the expenditure on renewal and replacement of over aged assets.

The Operating Ratio (OR) improved marginally from 91.25 *per cent* in 2014-15 to 90.49 *per cent* in 2015-16. The COR increased from 317 paise in 2014-15 to 374 paise in 2015-16 indicating decrease in the physical performance of the IR.

The market borrowings have financial liabilities attached in the form of payment of huge interest and return of principal amount in stipulated time periods. MoR needs to be more cautious not to get into a debt-trap and ensure that funds are utilized in those projects which have internal rate of return (IRR) of more than 12 *per cent* and completed in a time bound manner so that they can start generating revenue.

1.14 Recommendations

- *Ministry of Railways needs to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities. Operational losses on running of sub-urban train services and on account of facility of free/concessional/ Complimentary passes to various classes of passengers need to be curtailed.*
- *Railways need to improve staff productivity which has been deteriorating over the years.*
- *Operating Ratio of Eastern, Northern, North Eastern, Northeast Frontier, Southern Railways and Metro Railway Kolkata has been more than 100 per cent during the last five years. There is urgent need to analyse the reasons for their operational/financial inefficiency and remedial measures need to be taken.*
- *IR has tied up funding assistance from LIC of India {Extra Budgetary Resources– Institutional Finance (EBR-IF)}. It is important that funds so received are used judiciously and are not allowed to remain idle and incur interest liability.*
- *Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over aged assets is indicative of weak financial health of Indian Railways. Ministry of Railways should explore suitable means to improve its fund balances.*