

Chapter 1 State of Finances

This chapter provides a broad perspective on the finances of the Indian Railways (IR) during 2016-17 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 2016-17.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 (a) below presents the summary of IR's fiscal transactions during 2015-16 and 2016-17.

Table 1.1 (a) Summary of Capital and Revenue Expenditure of IR
(₹ in crore)

Sl. No.	Details	Actual 2015-16	Budget Estimates 2016-17	Revised Estimates 2016-17	Actual 2016-17
1.	Capital Expenditure (Gross Budgetary Support, Internal Resources and Extra Budgetary Resources)	93,519.79	1,21,000	1,21,000	1,08,290.14*
2.	Revenue Expenditure	1,68,379.61	1,89,270.64	1,72,305	1,65,382.49#

*Details are given in Para 1.9. # Details are given in Para 2.1.

Table 1.1 (b) Summary of Revenue Receipts and Revenue Expenditure of IR
(₹ in crore)

Sl. No.	Details	Actual 2015-16	Budget Estimates 2016-17	Revised Estimates 2016-17	Actual 2016-17
1	Passenger Earnings	44,283.26 (4.96)	51,012.00	48,000.00	46,280.46 (4.51)
2	Freight Earnings	1,09,207.66 (3.23)	1,17,932.75	1,08,900.00	1,04,338.54 (-4.46)
3	Other Coaching Earnings ²	4,371.48 (9.34)	6,184.80	5,000.00	4,312.00 (-1.36)
4	Sundry Earnings ³	5,928.55 (16.41)	9,590.29	10,100.00	10,368.04 (74.88)
5	Suspense	542.56	100.00	155.00	-6.84
6	Gross Traffic Receipts ⁴ (Item No.1 to 5)	1,64,333.51 (4.86)	1,84,819.84	1,72,155.00	1,65,292.20 (0.58)
7	Net Ordinary Working Expenditure ⁵	1,07,735.93 (1.64)	1,23,560.00	1,22,760.00	1,18,829.61 (10.30)
8	Appropriation to				
	Depreciation Reserve Fund	5,600.00 (-27.97)	3,200.00	5,200.00	5,200.00 (-7.14)
	Pension Fund	34,500.00 (18.05)	42,500.00	35,000.00	35,000.00 (1.45)

¹Budget documents, Annual Statistical Statements of Indian Railways.

²Other coaching earnings from transportation of parcels, luggage and post office mail etc.

³Sundry Earnings from renting, leasing of building, catering services, advertisements, maintenance of sidings and level crossing, re-imbursement of loss on strategic lines etc.

⁴Gross Traffic Receipts-Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR.

⁵Operating expenses of IR.

Sl. No.	Details	Actual 2015-16	Budget Estimates 2016-17	Revised Estimates 2016-17	Actual 2016-17
9	Total Working Expenditure ⁶ (Item No.7 and Item No. 8)	1,47,835.93 (3.38)	1,69,260.00	1,62,960.00	1,59,029.61 (7.57)
10	Net Traffic Receipts (Item No.6 – Item No. 9)	16,497.58 (20.29)	15,559.84	9,195.00	6,262.59 (-62.04)
11	Miscellaneous Receipts ⁷	4,046.09 (-6.05)	4,450.80	150.00	90.29 (-97.77)
12	Miscellaneous Expenditure ⁸	1,315.20 (11.19)	1,800.00	1,650.00	1,439.88 (9.48)
13	Net Miscellaneous Receipt (Item No. 11 – Item No. 12)	2,730.90	2,650.80	-1,500.00	-1,349.59
14	Net Revenue (Item No.10 and Item No.13)	19,228.48 (14.19)	18,210.64	7,695.00	4,913.00 (-74.45)
15	Dividend Payable to General Revenues	8,722.51 (-4.92)	9,731.29	-	-
16	Net Surplus (Item No. 14 – Item No.15)	10,505.97 (37.07)	8,479.35	7,695.00	4,913.00 (-53.24)
17	Surplus available for appropriation to				
	Development Fund	1,219.74 (-11.29)	2,515.00	2,515.00	2,515.00 (106.19)
	Capital Fund	5,798.24 (-6.98)	5,750.00	5,180.00	2,398.00 (-58.64)
	Debt Service Fund	3,487.98 (6,057.73)	214.35	0	0

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

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

1.2 Fiscal Transactions in 2016-17-An overview

1.2.1 Gross Traffic Receipts (GTR)

GTR increased marginally by 0.58 *per cent* during 2016-17 vis-à-vis 2015-16 as compared to 4.86 *per cent* growth achieved during 2015-16. The muted growth in GTR was mainly due to shortfall in freight earnings as compared to the previous year. The growth rate of sundry earnings (74.88 *per cent*) was, however, higher in comparison to previous year.

1.2.2 Net Ordinary Working Expenditure (OWE)

Net OWE increased by 10.30 *per cent* in current year as compared to growth rate of 1.64 *per cent* recorded during 2015-16. Seventh Pay Commission could be one of the reasons for growth in Net OWE.

1.2.3 Total Working Expenditure (TWE)

The TWE during the year was ₹ 1, 59, 029.61 crore. It was observed that in respect of Zonal Railways (excluding Production Units and Miscellaneous Establishments), the actual expenditure on pension payments as incurred from Pension Fund was ₹ 40,025.95 crore during the year. However, only ₹ 35,000 crore

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

⁷Miscellaneous Receipts comprise of sale of tender documents, liquidated damages and receipts by Railway Recruitment Board etc.

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

(against the Budget Provision of ₹ 42,500 crore) was appropriated to Pension Fund. Thus, there was under provisioning of ₹ 5,025.95 crore under the Pension Fund, thereby understating the TWE to that extent. Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments been appropriated, there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore).

1.2.4 Net Revenue

Net revenue in the current fiscal year decreased by 74.45 *per cent* as compared to the previous year.

1.2.5 Dividend Payment

Dividend payable to the Government of India (GoI) is based on the Capital-at-charge advanced through gross budgetary support. Railway Convention Committee (RCC) while discussing the rate of dividend for the year 2016-17 recommended that the Rate of Dividend payable by Railways to the General Revenues for the year 2016-17 be waived off purely as a one-time move. However, after merger of Railway Budget with General Budget from 2017-18, the GoI has decided the Railways will get exemption from payment of Dividend to General Revenues and its Capital-at-charge would stand wiped off with effect from 2017-18. Hence, no dividend was paid during 2016-17.

1.2.6 Net Surplus available for appropriation

Generation of Net surplus after meeting all revenue liabilities decreased by 53.24 *per cent* in the current year. Net Surplus decreased to ₹ 4,913.00 crore in 2016-17 as compared to ₹ 10,505.97 crore in 2015-16. The Net Surplus was also lower than the Budget Estimates (₹ 8,479.35 crore) by 42.06 *per cent*.

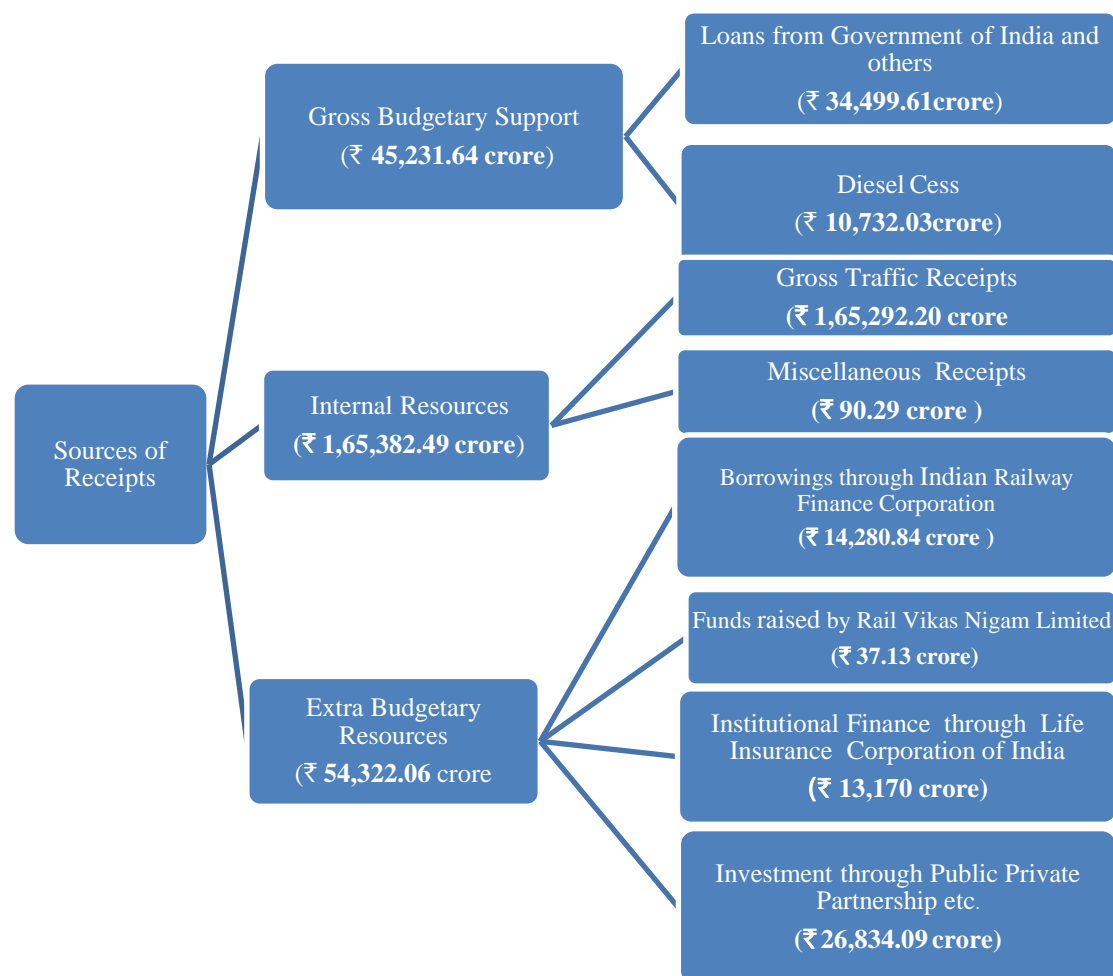
The Net Surplus of ₹ 4,913.00 crore was appropriated to Development Fund (₹ 2,515.00 crore) and Capital Fund (₹ 2,398.00 crore) in the year 2016-17. No funds were appropriated to Debt Service Fund during the current year though an amount of ₹ 214.35 crore was envisaged in the Budget Estimates.

Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments of Zonal Railways been appropriated to the Pension Fund (instead of ₹ 35,000 crore), there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore) leaving no surplus available for appropriation to the funds (DF, CF and Debt Service Fund).

1.3 Resources of IR

The main sources of receipts of IR were as follows:

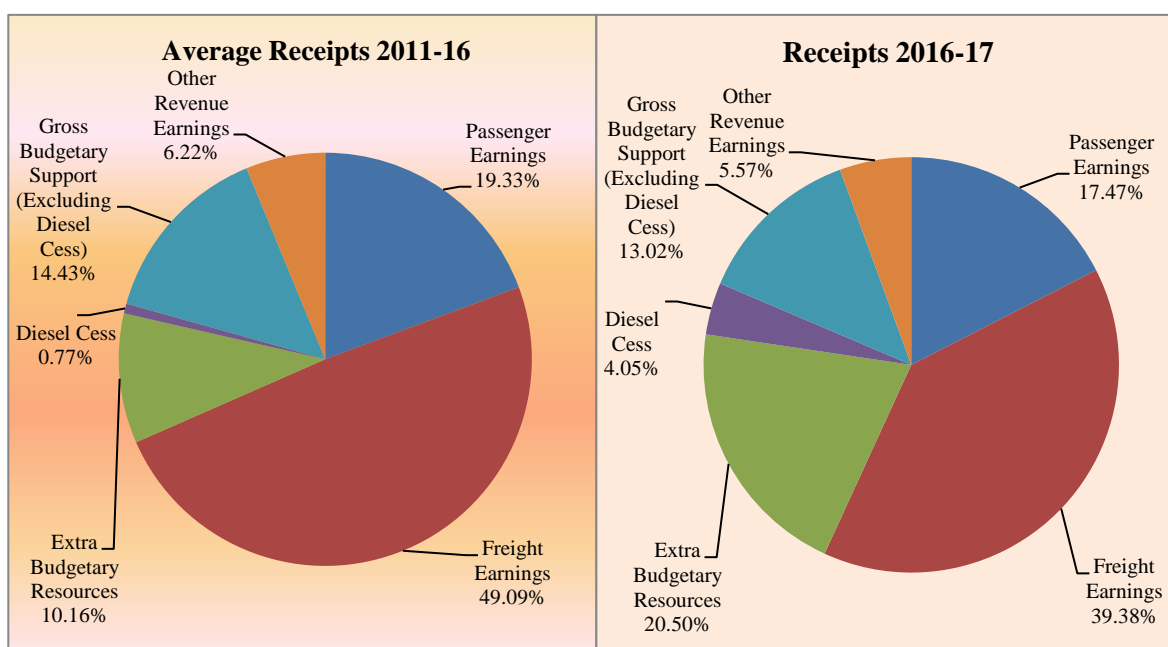
Figure 1.1: Sources of Receipts



The Total Revenue Receipts (GTR and Miscellaneous Receipts) from internal resources decreased by 1.78 *per cent* during 2016-17 (Refer Figure 1.3) against the Compound Annual Growth Rate (CAGR)⁹ of 10.09 *per cent* during 2012-16. The Gross Budgetary Support (GBS)¹⁰ also decreased by 1.45 *per cent* during 2016-17 against CAGR of 13.20 *per cent* during 2012-16, while Extra Budgetary Resources (EBR) increased by 36.53 *per cent* during 2016-17 against CAGR of 37.99 *per cent* during 2012-16.

⁹Rate of growth over a period of years taking into account the effect of annual compounding.

¹⁰Gross Budgetary Support (GBS) represents amount advanced by the GoI to Ministry of Railways (MoR) to finance capital expenditure.

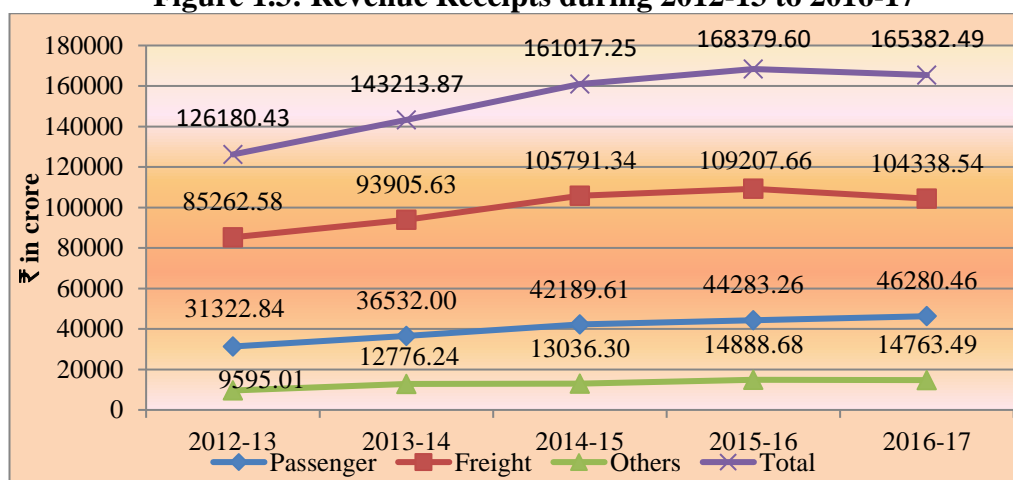
Figure 1.2: Relative Share of various Resources of IR

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

Diagram at 1.2 shows that the largest resource of IR was freight sector, followed by extra budgetary resources. The share of extra budgetary resources 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 2011-16.

1.3.1 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 2012-13 to 2016-17

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

Total Revenue Receipts increased at a CAGR of 10.09 per cent during 2012-16, however, there was shortfall of 1.78 per cent in the Total Revenue Receipts during year 2016-17.

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

1.3.1.1 Freight Earnings

Trend of freight loading and freight earnings of IR for the last five years ended 31 March 2017 are shown in the Figure 1.4.

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

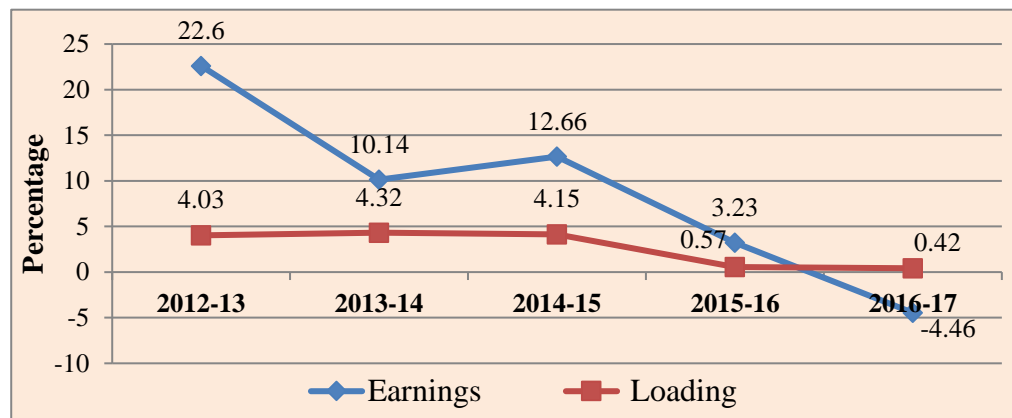


Figure 1.4 indicates a decrease in the annual growth of freight loading in the current year. The annual incremental increase in loading (in absolute terms) dropped from 39.04 Million Tonne (2012-13) to 4.64 Million Tonne (2016-17) during the last five years. Increase in freight loading by 0.42 *per cent* during 2016-17 was less than the CAGR of 3.00 *per cent* achieved during 2012-16. The growth in freight earnings was negative (i.e. -4.46 *per cent*) as compared to previous years' growth of 3.23 *per cent*. The growth rate of Net Tonne Kilometre (NTKM) was negative (i.e. -5.24 *per cent*) in current year (Table No.1.2).

In 2016-17, freight earnings decreased by 4.46 *per cent* over the previous year against the CAGR of 8.60 *per cent* achieved during 2012-16. The status of freight services statistics are given in the Table No. 1.2:

Table 1.2 Freight Services Statistics

Year	Loading (Million Tonne)	NTKM ¹¹ (in million) (Revenue Freight Traffic only)	Earnings (₹ in crore)	Average lead (in kilometre)	Rate per tonne per km (in paise)
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)	1,09,207.66 (3.23)	594	166.86 (7.52)
2016-17	1106.15 (0.42)	620175 (-5.24)	1,04,338.54 (-4.46)	561	168.24 (0.83)

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

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

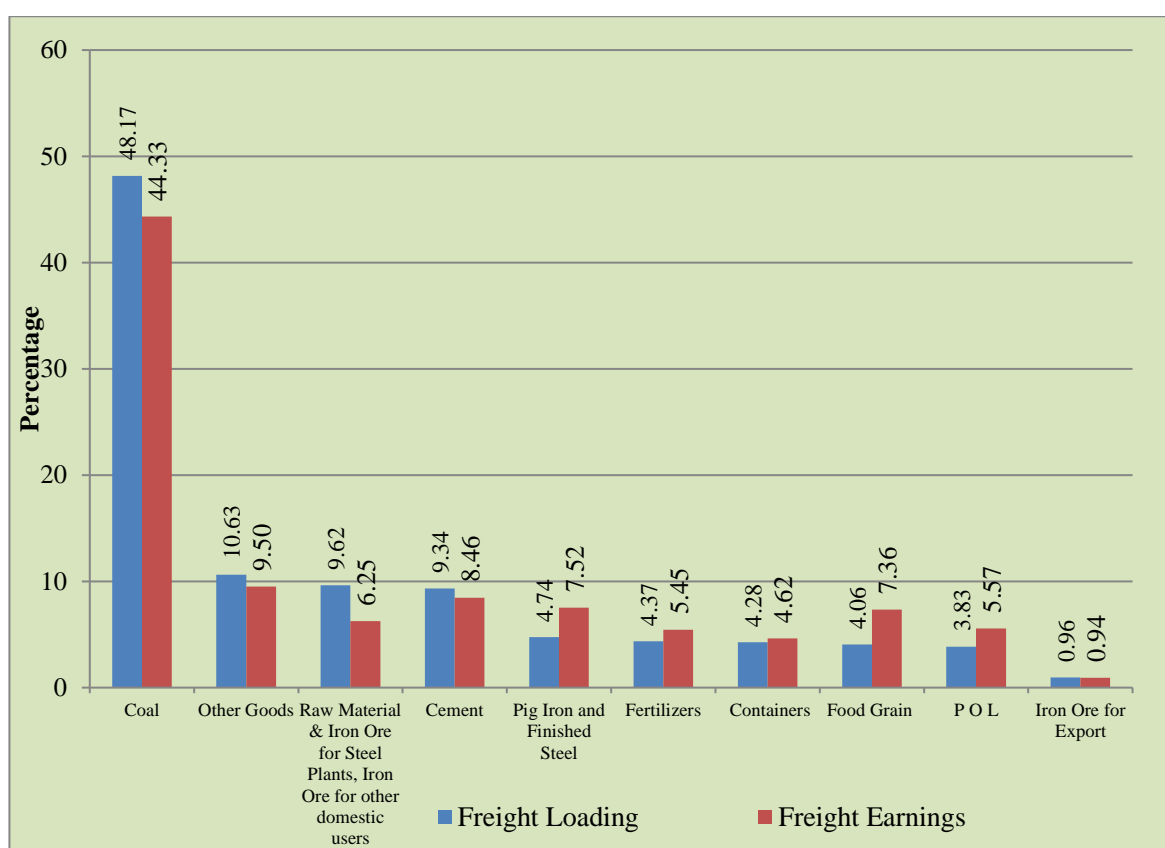
(ii) Figures of 2016-17 (except Earnings) are provisional.

¹¹NTKM-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.

During 2016-17, freight loading was 1,106.15 Million Tonnes (MT) as compared to the loading of 1,101.51 MT during 2015-16. It was seen that the growth rate of freight loading during 2016-17 increased at the rate of 0.42 *per cent*. However, growth rate of NTKM during 2016-17 was negative (i.e. -5.24 *per cent*). The growth rate of Rate per tonne per kilometre over the previous year was 0.83 *per cent* against the growth rate of 7.52 *per cent* achieved in 2015-16. The growth rate of freight earnings during the current year was negative (i.e. -4.46 *per cent*) against the growth rate of 3.23 *per cent* recorded in 2015-16. 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 594 km in 2015-16 to 561 km in 2016-17.

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

Figure 1.5: Major Commodity wise share of loading and earnings (2016-17)



Note-Figures of Loading and Earnings (commodity wise) for 2016-17 are provisional.

As compared to 2015-16, the major shortfall in the freight loading during 2016-17 was in commodities: Coal (declined from 551.52 MT in 2015-16 to 532.83 MT in 2016-17 – a decline of 3.39 *per cent*), Cement (declined from 105.35 MT in 2015-16 to 103.29 MT in 2016-17 – a decline of 1.96 *per cent*), Fertilizers (declined from 52.23 MT in 2015-16 to 48.34 MT in 2016-17 – a decline of 7.45 *per cent*), Food Grains (declined from 45.63 MT in 2015-16 to 44.86 MT in 2016-17 – a

decline of 1.69 *per cent*) and POL (declined from 43.24 MT in 2015-16 to 42.42 MT in 2016-17 – a decline of 1.90 *per cent*).

Coal constituted 45 *per cent* of Railways total loading. The freight earnings of coal declined from ₹ 49,305.85 crores during 2015-16 to ₹ 45,228.57 crore during 2016-17 registering a decline of 8.27 *per cent*.

MoR has stated that the bulk of the coal is used for power generation in thermal power plants and coal transportation by railways is closely linked to the demand from the power sector. The main reasons for decline in loading of coal was due to over capacities in power sector and operation of new power plants near coal mines, reduction in imports of coal by hinterland based power plants and reduced imports of coking coal in 2016-17 by steel sector due to higher international prices.

MoR had admitted that the freight rates are very high (average cost of service was ₹ 0.99 per ten kilometres whereas Railways were charging ₹ 1.60 per ten kilometres) which is used for cross-subsidising the passenger traffic where Railway is charging around 50 *per cent* of the cost of services. Thus, due to high rates the freight traffic is moving to road.

1.3.1.2 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 million)	Earnings (₹ in crore)	Average lead (in kilometre)	Average earnings per passenger per kilometre (in paise)
	Non- suburban	Suburban	Total				
2012-13	3944.15 (2.53)	4476.56 (2.26)	8420.71 (2.39)	1098103 (4.93)	31,322.84 (10.89)	130.41	28.52 (5.68)
2013-14	3844.88 (-2.52)	4552.18 (1.69)	8397.06 (-0.28)	1140412 (3.85)	36,532.00 (16.63)	135.81	32.03 (12.30)
2014-15	3719.09 (-3.27)	4505.03 (-1.04)	8224.12 (-2.06)	1147190 (0.59)	42,189.61 (15.49)	139.49	36.78 (14.80)
2015-16	3648.47 (-1.90)	4458.86 (-1.02)	8107.33 (-1.42)	1143039 (-0.36)	44,283.26 (4.96)	140.99	38.74 (5.34)
2016-17	3549.67 (-2.71)	4566.43 (2.41)	8116.10 (0.11)	1149834 (0.59)	46,280.46 (4.51)	141.67	40.25 (3.89)

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 2015-16 (except No. of Passengers and Earnings) are revised figures.

(iii) Figures for 2016-17 (except Earnings) are provisional.

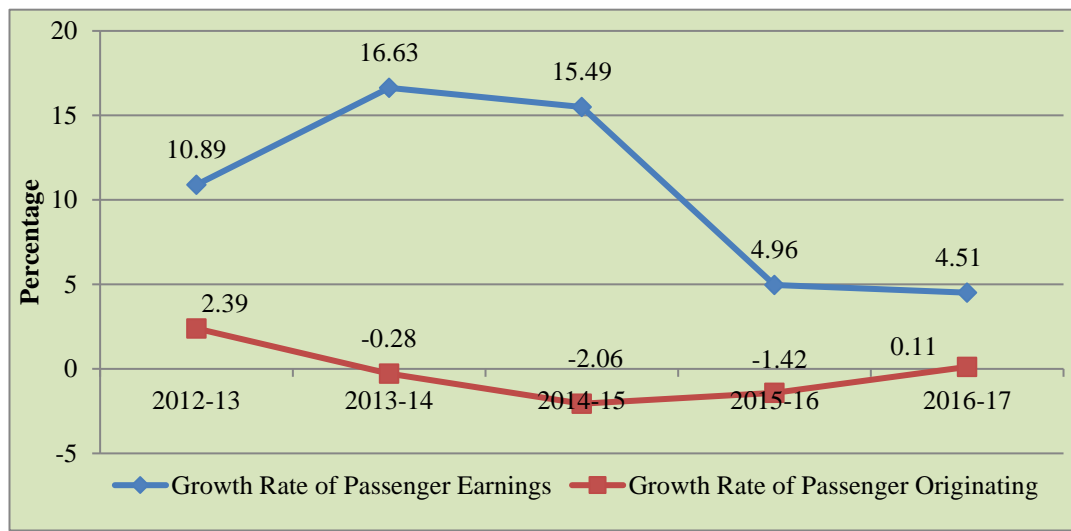
During 2016-17, the annual growth rate of passenger originating improved by 0.11 *per cent* over the previous year. During 2016-17, passenger originating was 8,116.10 Millions against the projected passenger originating of 8,182 Millions in the Budget Estimate. Thus, number of passengers was short by 0.81 *per cent* over the Budget Estimate (2016-17). There was shortfall of 4.86 *per cent* in non-suburban category and growth of 2.59 *per cent* in suburban category in passenger originating.

It was seen that average earnings per passenger per kilometre increased from 38.74 paise in 2015-16 to 40.25 paise in 2016-17. The growth rate of average earnings per

passenger per kilometre was 3.89 *per cent* as compared to previous year's growth rate of 5.34 *per cent*. Though, the passenger tariffs have been revised upwardly in the recent past, still IR is incurring losses¹² every year on passenger and other coaching services.

The growth in earnings from Passenger traffic and in Passengers Originating during the last five years (2012-13 to 2016-17) is shown in Figure 1.6.

Figure 1.6: Growth Rate of Passenger Originating and Passenger Earnings



In 2016-17, the earnings from passenger traffic increased by 4.51 *per cent* over the previous year (increase of 4.96 *per cent*) against the CAGR of 12.23 *per cent* during 2012-16. There was marginal growth of 0.11 *per cent* in passengers originating in 2016-17 over the previous year. However, there has been declining trend in the number of passenger originating during last five years. As compared to 2012-13, (8420.71 million passengers originating) there was decline of 3.62 *per cent* in the passengers originating during 2016-17.

1.3.1.3 Sundry Earnings and Other Coaching Earnings

Sundries and other coaching earnings constituted 8.88 *per cent* of the GTR in the current year. It increased by 42.52 *per cent* in 2016-17 against the growth rate of 13.30 *per cent* recorded in 2015-16. Analysis in audit revealed that earnings from catering departments, reimbursement of operating loss on strategic lines, rent/leasing of land, dividend etc. from PSUs, interest and maintenance charges of sidings etc. increased whereas earnings from right of way leave facility for others, advertisements, overhead charges and profit recovered on work done for outside parties, receipt from recruitment cell etc. decreased in the current year as compared to the previous year.

¹²As per Summary of End Results Coaching Services Profitability/Unit Costs prepared by Ministry of Railways

1.4 Unrealized Earnings¹³

Against the target for recovery of ₹ 100 crore during 2016-17 under unrealized earnings, IR accumulated ₹ 6.84 crore as unrealized earnings. The unrealized earnings rose from ₹ 1,665.42 crore in 2015-16 to ₹ 1,672.26 crore at the end of financial year 2016-17. A sum of ₹ 1,394.68 crore and ₹ 277.58 crore was outstanding under Traffic Suspense and Demand Recoverable respectively. The major portion of outstanding under Traffic Suspense was on account of unrecovered freight and other charges from Power Houses and State Electricity Boards (SEBs) amounting to ₹ 688.60 crore which constituted 49.37 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 2016	Outstanding dues as of 31 March 2017	Increase (+)/decrease (-) during the year
1.	Punjab State Electricity Board (PSEB)	447.00	446.95	(-) 0.05
2.	Delhi Vidyut Board (DVB)	114.28	114.28	-
3.	Maharashtra State Electricity Board (MSEB)	59.67	39.81	(-) 19.86
4.	Rajasthan State Electricity Board (RSEB)	39.79	39.55	(-) 0.24
5.	Uttar Pradesh State Electricity Board (UPSEB)	32.61	31.35	(-) 1.26
6.	West Bengal State Electricity Board (WBSEB)	19.29	3.40	(-) 15.89

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.

1.5 Cross-Subsidization

1.5.1 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 2015-16 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 ₹ 23,643.68 crore in 2011-12 to ₹ 36,286.33 crore in 2015-16¹⁴.

The revenue forgone in passenger earnings due to concessions to various categories of passengers (viz. physically challenged persons, patients, senior citizens, Izzat MST, press correspondents, sport persons, war widows, etc.) was ₹ 1,602.94 crore during 2015-16 and ₹ 1,670.05 crore during 2016-17. In respect of Railway Passes

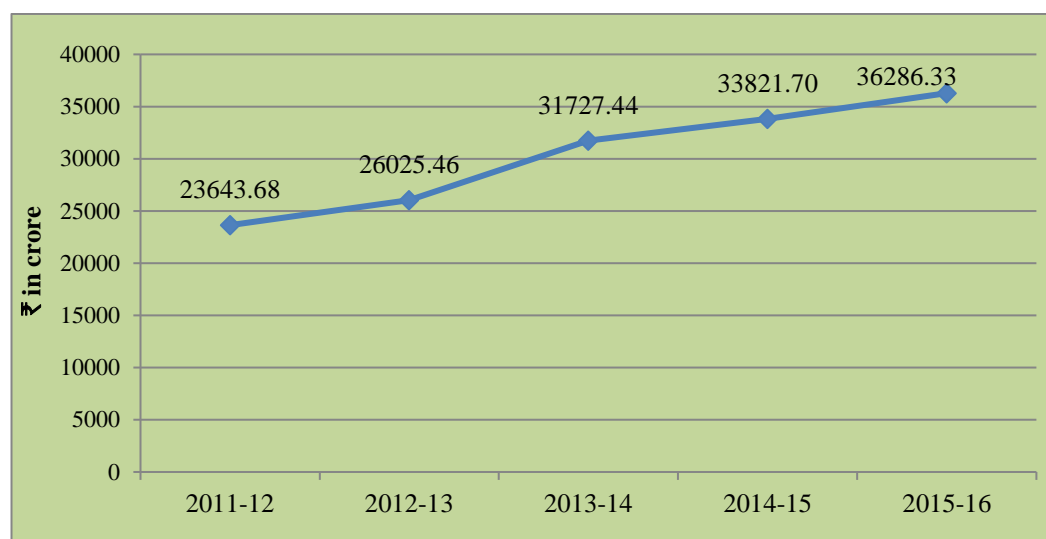
¹³Unrealized earnings on account of movement of traffic was classified as 'Traffic Suspense' whereas on account of rent/lease of building/land and maintenance charges of sidings etc. as 'Demand Recoverable'.

¹⁴Summary of End Results-Coaching Services-Profitability/Unit Costs for 2016-17 not compiled (December 2017).

to their serving/retired employees, neither the cost is computed nor any data of revenue foregone is maintained by the Railways.

The losses on passenger and other coaching services during the 2011-12 to 2015-16 are shown in the Figure 1.7(a).

Figure 1.7 (a): Losses on Passenger and other Coaching Services (2011-12 to 2015-16)



Thus, due to increase in the loss on passenger and other coaching services from ₹ 33,821.70 crore in 2014-15 to ₹ 36,286.33 crore in 2015-16, the cross subsidy from freight earnings towards passenger and other coaching services has increased in 2015-16 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 2016 are shown in Figure 1.7(b).

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

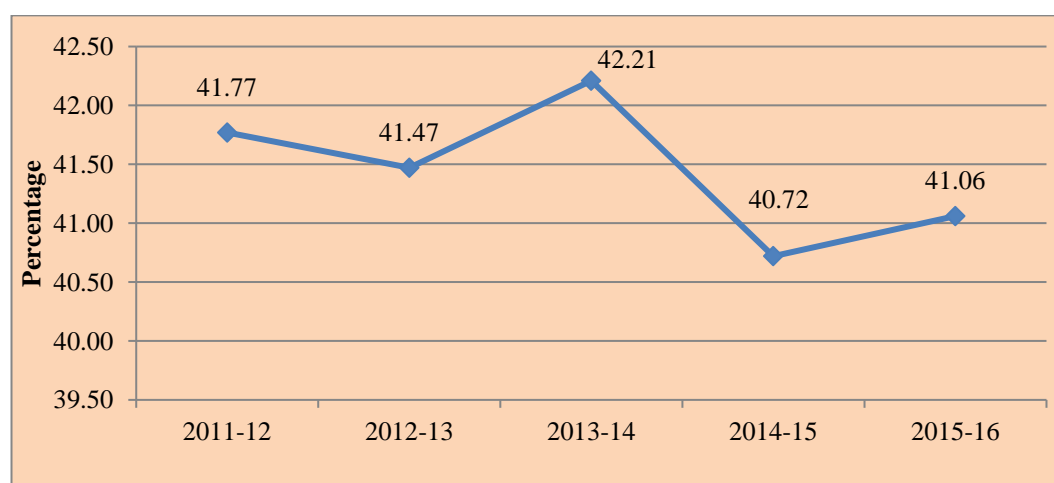
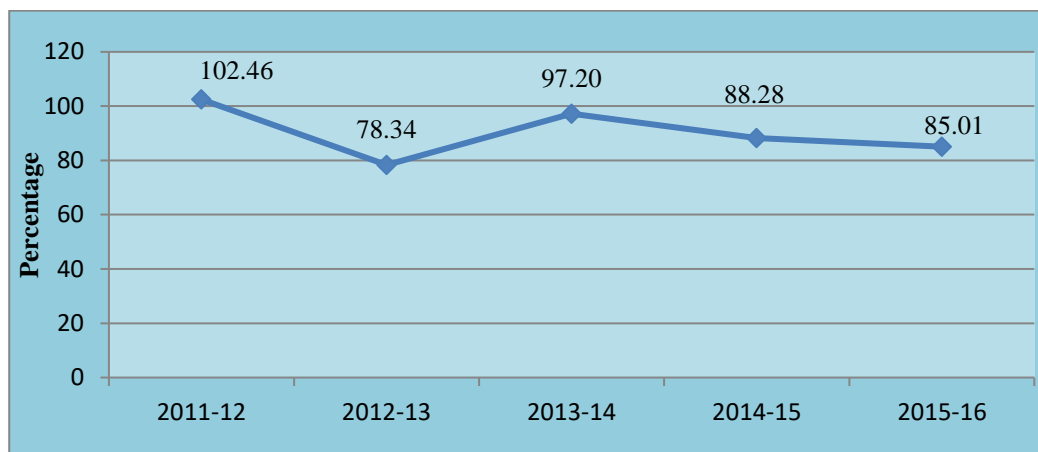


Figure 1.8 shows the percentage of profit on freight services, utilized to make up the loss on passenger and other coaching services.

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

It would be seen that the 85.53 *per cent* profit from freight traffic during 2015-16 (profit from freight traffic in 2015-16: ₹ 42,426.63 crore) was utilized to compensate the loss of ₹ 36,286.33 crore on operation of passenger and other coaching services of IR. IR has been able to retain only 14.47 *per cent* of the profit on freight earnings after subsidizing the loss on passenger services in 2015-16 as compared to 11.72 *per cent* in the previous year showing an improvement in the operational profit.

1.5.2 Operational losses of various Classes of Passenger Services

Table 1.5 gives the operational losses of various classes of passenger services during 2011-12 to 2015-16:

Table 1.5 Operational losses of various Classes of Passenger Services

(₹ in crore)

Class of Passenger services	2011-12	2012-13	2013-14	2014-15	2015-16
AC-Ist class	(-)38.78 (8.12)	(-)40.86 (7.48)	(-)47.39 (7.54)	(-) 127.49 (17.68)	(-) 175.79 (23.05)
Ist class	(-) 39.13 (32.14)	(-)61.36 (61.26)	(-)92.06 (75.82)	(-) 69.50 (74.71)	(-) 58.00 (81.03)
AC 2 Tier	(-) 438.83 (17.76)	(-)348.09 (12.53)	(-) 497.28 (15.26)	(-) 495.59 (13.32)	(-) 463.11 (12.01)
AC 3 Tier	499.33 (12.19)	494.99 (10.29)	410.67 (6.84)	881.52 (12.57)	898.06 (11.69)
AC Chair car	(-)13.29 (1.65)	(-)38.12 (4.00)	(-)148.47 (11.32)	(-) 142.26 (9.90)	(-) 5.58 (0.40)
Sleeper Class	(-) 6,531.75 (47.16)	(-)6,852.72 (45.00)	(-) 8,407.85 (44.57)	(-) 8,510.06 (41.50)	(-) 8,301.15 (38.65)
Second class	(-) 4,237.60 (36.06)	(-)5,167.53 (38.90)	(-)7,134.42 (44.75)	(-)7,642.13 (43.19)	(-) 8,569.77 (45.37)
Ordinary (All Class)	(-)8,893.12 (66.97)	(-)9,783.80 (67.78)	(-)11,105.24 (67.08)	(-) 11,673.80 (65.58)	(-) 13,237.74 (69.14)
EMU suburban services	(-) 2,813.95 (58.21)	(-) 3,365.47 (61.70)	(-) 4,027.14 (62.98)	(-) 4,679.11 (63.98)	(-) 5,124.74 (65.19)

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.

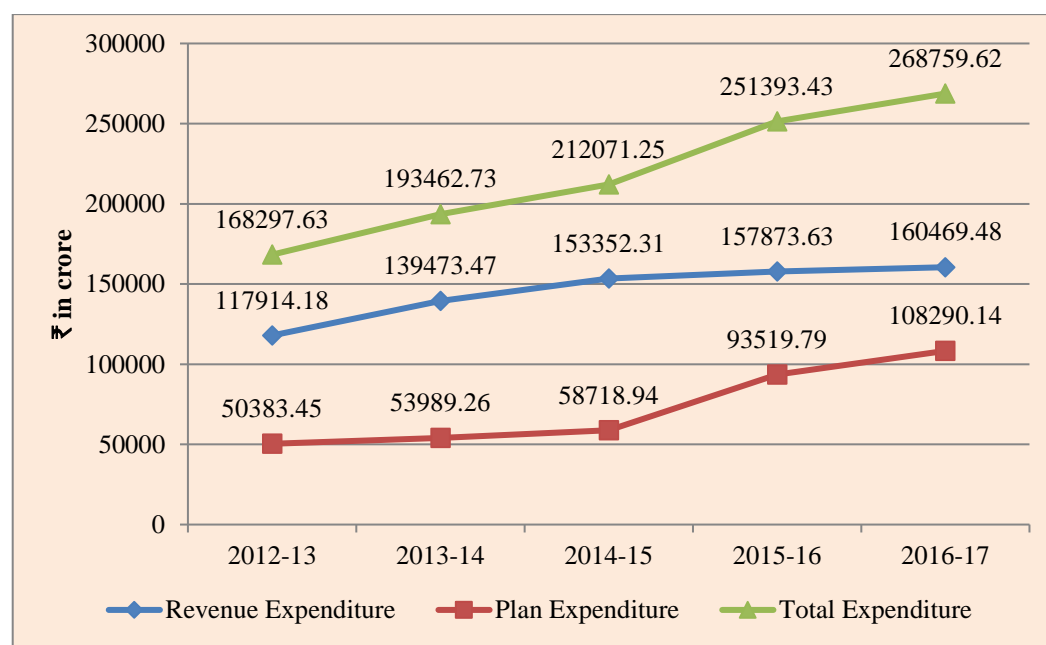
It is clear from the Table 1.5 that, except AC-3-Tier, all classes of train services have incurred losses during 2015-16 which means that AC-3-Tier segment only has recovered its operational cost.

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 loss¹⁵ in various classes of passenger services ranged from 0.40 *per cent* (AC Chair Car) to 81.03 *per cent* (1stClass) with 65.19 *per cent* on EMU Suburban train services. One of the factors for non-recovering full cost from these classes could be issue of free and concessional fare passes/tickets to various beneficiaries in good numbers.

1.6 Application of Resources

The two main components of expenditure in IR are 'Revenue Expenditure' and 'Plan Expenditure'. Revenue expenditure includes ordinary working expenditure, and miscellaneous expenditure. The Total Expenditure grew from ₹ 2,51,393.43 crore in 2015-16 to ₹ 2,68,759.62 crore in 2016-17, registering an increase of 6.91 *per cent*. The Revenue expenditure* has increased by 1.64 *per cent* from ₹ 1,57,873.63 crore to ₹ 1,60,469.48 crore during the same period.

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



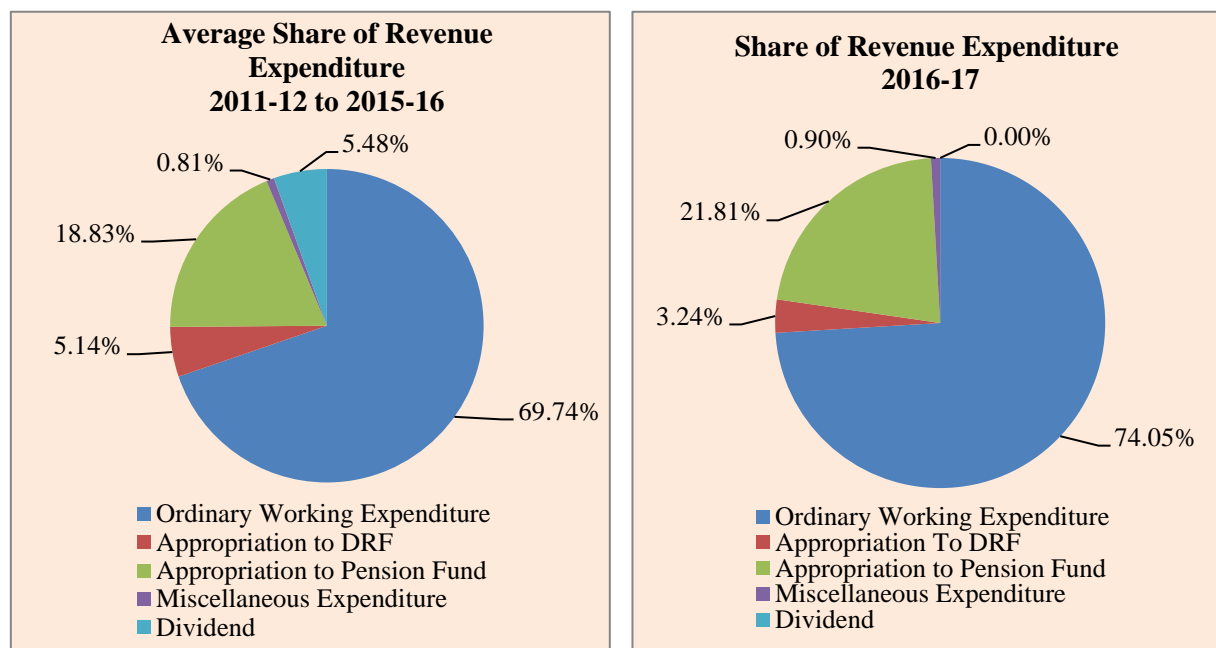
*Excluding amount of surplus appropriated to Development Fund, Capital Fund and Debt Service Fund (2012-13 - ₹8,266.25 crore, 2013-14 - ₹3,740.40 crore, 2014-15 - ₹7,664.94 crore, 2015-16 - ₹10,505.97 crore and 2016-17 ₹4,913.00 crore).

During 2016-17, the share of revenue expenditure to total expenditure decreased from 63 *per cent* (2015-16) to 60 *per cent* (2016-17) whereas plan expenditure increased from 37 *per cent* (2015-16) to 40 *per cent* (2016-17). A detailed analysis of plan expenditure is discussed in paragraph 1.10.

¹⁵Loss worked out on the basis of figures of Expenses and Earnings given in Summary of the End Results-Coaching Services Profitability/Unit Costs (2015-16).

1.6.1 Revenue Expenditure

Figure 1.10: Share of Revenue Expenditure in last five years

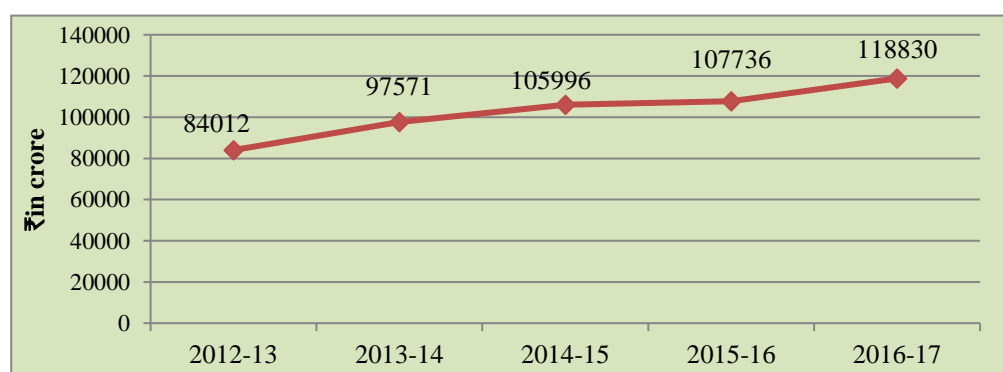


Ordinary Working Expenditure (OWE) comprises expenditure on day-to-day maintenance and operation of the IR i.e. expenditure on office administration, repairs and maintenance of track and bridges, locomotives, carriage and wagons, plant and equipment, operating expenses on crew, fuel, miscellaneous expenditure,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

The main component of total revenue expenditure was OWE which constituted 69.74 *per cent* of the total revenue expenditure on an average during 2011-16 and 74.05 *per cent* during 2015-16. Appropriation to DRF was decreased to 3.24 *per cent* in 2016-17 as compared to 5.14 *per cent* on an average during 2011-16. Appropriation to Pension Fund increased to 21.81 *per cent* in 2016-17 as compared to 18.83 *per cent* on an average during 2011-16 to meet the increased pension liabilities.

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

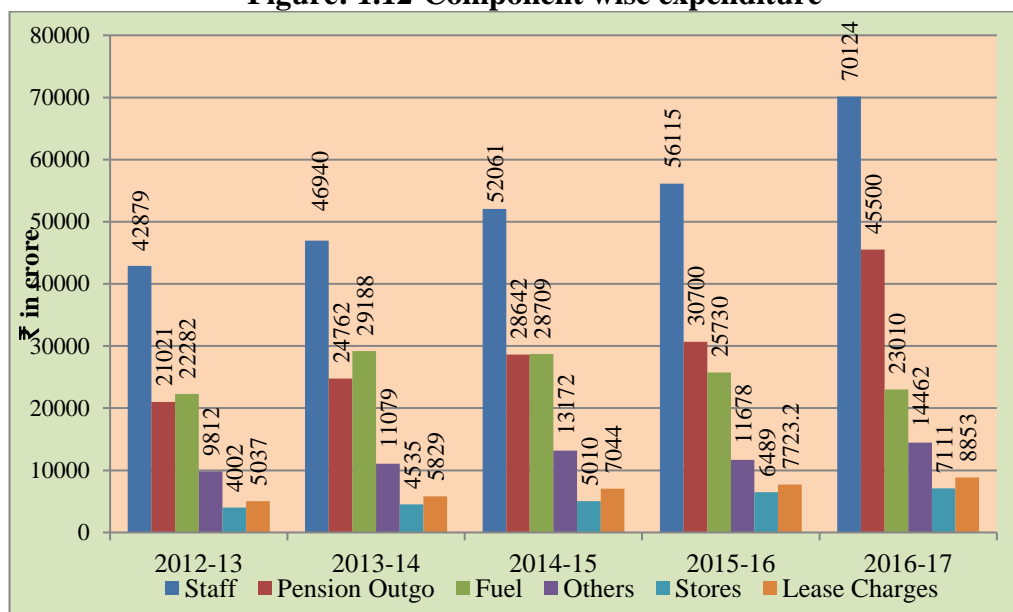
Figure: 1.11 – Growth of Ordinary Working Expenses (2012-13 to 2016-17)



OWE increased at a rate of 10.30 *per cent* during 2016-17 as compared to growth rate of 1.64 *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 2016-17 are as per Budget Estimate.

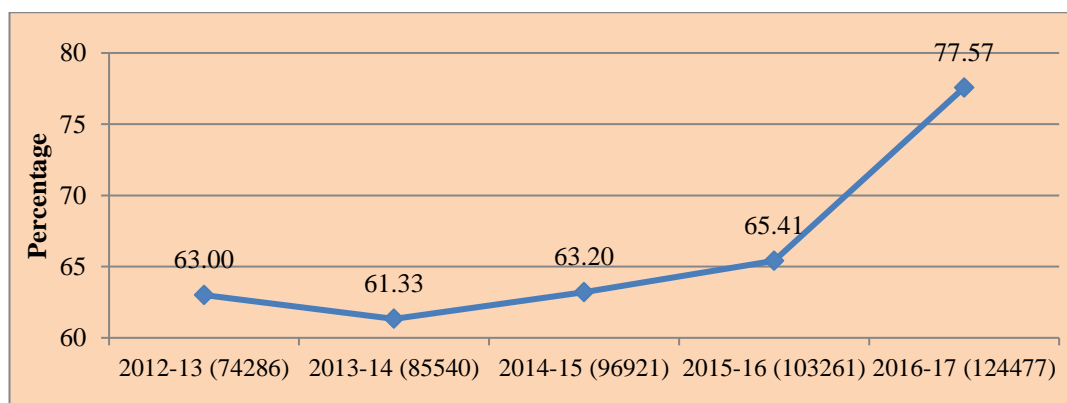
(ii) Figures for 2015-16 are revised figures (based on actuals).

Staff cost (including pension outgo) constituted around 68 per cent of the working expenses of the IR during the current year. There was spurt in the expenditure under staff and pension outgo presumably due to impact of Seventh Pay Commission.

1.6.2 Committed Expenditure

The committed expenditure of the IR consisted of 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 2016-17 are as per Budget Estimate.

(iii) Figures of 2015-16 are revised figures (based on actuals).

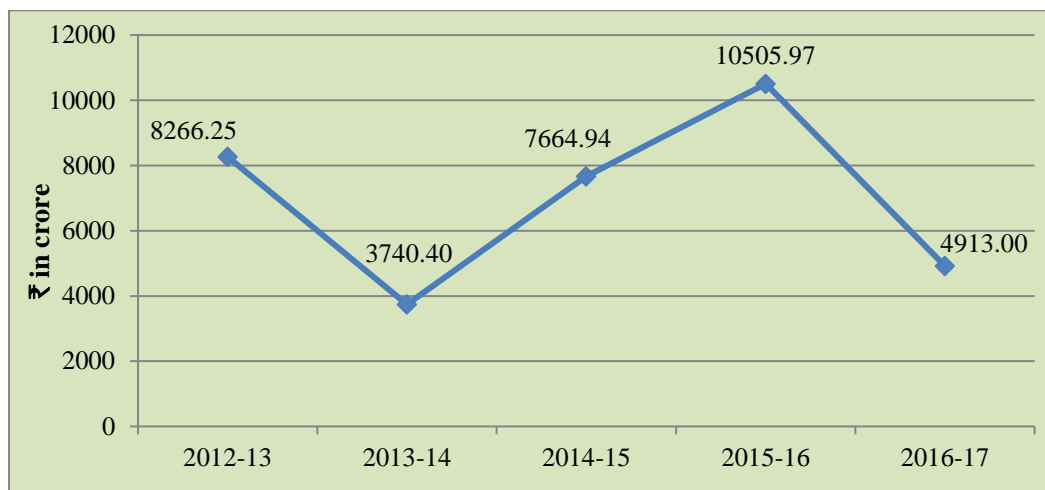
(iv) Committed Expenditure included dividend payment to general revenue for the year upto 2015-16

Percentage of committed expenditure to total revenue expenditure was 77.57 per cent in 2016-17. IR was left with 22.43 per cent of the total revenue expenditure to run their operations (Figure 1.13).

1.7 Revenue Surplus

Trend of net revenue surplus after meeting all revenue expenditure during the years 2012-13 to 2016-17 are shown in the Figure 1.14.

Figure: 1.14 Revenue Surplus



The net surplus which increased to ₹ 10,505.97 crore in 2015-16 declined to ₹ 4,913.00 crore in 2016-17. The decline in net surplus during 2016-17 was mainly due to negative growth rate of 4.46 *per cent* of freight earnings against 3.23 *per cent* growth rate in 2015-16, negative growth rate of 97.77 *per cent* of Miscellaneous Receipts as compared to the previous year and growth rate of TWE (7.57 *per cent*) being more than that of 2015-16 (3.38 *per cent*).

1.8 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:

1.8.1 Operating Ratio

Operating Ratio (OR) represents the percentage of working expenses to traffic earnings. The OR which was 90.49 *per cent* in 2015-16, deteriorated to 96.50 *per cent* in 2016-17 for IR. This was primarily due to the reason that working expenses grew at higher rate (7.63 *per cent*) as compared to previous year (3.40 *per cent*), while the traffic earnings grew at rate (0.92 *per cent*) less than the previous year rate (4.28 *per cent*). Audit observed that the Operating Ratio during the current year had deteriorated to the lowest level of 96.50 *per cent* since 2000-01 when it was 98.34 *per cent*.

OR of zonal railways during the last five years ended on 31 March 2017 is shown in the Table 1.6.

Table 1.6 Operating Ratio of Zonal Railways

(In percent)

S. No.	Zonal Railway	2012-13	2013-14	2014-15	2015-16	2016-17
1	Central	97.82	100.23	101.85	98.13	105.00
2	Eastern	178.86	176.76	177.27	180.56	165.27
3	East Central	92.19	99.58	95.24	90.28	101.83
4	East Coast	44.50	48.34	51.25	50.56	53.78
5	Northern	113.15	110.12	117.65	114.97	118.85
6	North Central	59.68	64.04	64.13	61.98	70.50
7	North Eastern	200.01	207.49	193.47	196.52	197.01
8	Northeast Frontier	178.39	193.08	187.08	185.71	130.45
9	North Western	88.97	98.58	90.18	91.15	95.17
10	Southern	130.59	132.18	128.98	134.89	147.83
11	South Central	79.63	84.13	76.03	78.71	86.24
12	South Eastern	70.50	72.54	73.62	71.15	73.46
13	South East Central	49.14	52.53	50.83	50.52	56.24
14	South Western	104.85	115.41	98.72	102.60	119.56
15	Western	89.84	91.74	86.51	88.72	103.00
16	West Central	68.18	71.06	63.56	64.38	73.90
17	Metro Railway/Kolkata	328.26	302.63	253.69	237.80	260.06
Overall IR		90.19	93.60	91.25	90.49	96.50

Source-Indian Railways Appropriation Accounts-Part-I Review

There was improvement in the OR of Eastern and Northeast Frontier Railways whereas the same deteriorated in other zonal railways during the current year as compared to the previous year. OR of East Coast, North Central, North Western, South Central, South Eastern, South East Central and West Central Railways was less than 100 per cent during 2016-17. OR of Central, Eastern, East Central, Northern, North Eastern, Northeast Frontier, Southern, South Western, Western Railways and Metro Railway/Kolkata was more than 100 per cent during 2016-17 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 continuously in the last five years.

Taking into account the actual amount of ₹ 40,025.95 crore required to be appropriated to the Pension Fund (instead of ₹ 35,000 crore), the working expenses of IR would have increased by ₹ 5,025.95 crore to ₹ 1, 64,537.93 crore instead of ₹ 1,59,511.98¹⁶ crore. Hence, OR of IR would have been at 99.54 per cent instead of 96.50 per cent as mentioned above. Thus, the OR of 96.50 per cent does not reflect the true financial performance of the Railways.*

* Operating Ratio = Total Gross Working Expenses/ Total Gross Earnings x 100
i.e. ₹ 1,64,537.93 crore/ ₹ 1,65,299.04¹⁷ crore x 100 = 99.54 per cent.

¹⁶ Total Working Expenditure (₹ 1,59,029.61 crore) less Suspense (₹ -482.37 crore) = Total Gross Working Expenses (₹ 1,59,511.98 crore)

¹⁷ Gross Traffic Receipts (₹ 1,65,292.20 crore) less Traffic Suspense (₹ - 6.84 crore) = Total Gross Earnings (₹ 1,65,299.04 crore).

1.8.2 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 Kilometres (PKMs) is considered as the output in the case of IR.

COR of IR during the last five years ended on 31 March 2017 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-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	1,143,039	81,566	736,047	374
31-March-17	3,126,349	620,175	1,149,835	81,638	701,813	445

Source-Indian Railways Annual Statistical Statements

Note: Figures for the period as on 31 March 2016 are revised figures. Figures for 2016-17 except Capital including Investments from Capital Fund are provisional.

COR had increased from 252 paise (2012-13) to 445 paise (2016-17) indicating decrease in physical performance of the IR as compared to capital employed (Table 1.7). It continuously increased during last five years.

1.8.3 Staff Productivity

Staff productivity¹⁸ 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 4.02 per cent from 2012-13 (596) to 2016-17 (572) of Open Line staff of all zonal railways. The deterioration in staff productivity over the last five years was due to decrease in NTKM (one NTKM is equivalent to transportation of one tonne goods excluding weight of vehicle over a distance of one kilometer).

Zone wise analysis of staff productivity revealed that during 2016-17, highest Staff Productivity of 1491 Million NTKM was achieved by East Coast Railway whereas Staff Productivity of 202.02 Million NTKM of Eastern Railway was the lowest during the same period.

1.9 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.

¹⁸Annual Statistical Statements of Indian Railways

IR's plan expenditure was financed from the GBS, internal resources¹⁹ 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).

During 2016-17, Extra Budgetary Resources (Institutional Finance)-EBR (IF)²⁰ funds amounting to ₹ 13,170 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 the 12th Five year Plan (2012-13 to 2016-17):

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	2016-17	
	Actual	Actual	Actual	Actual	Budget Estimates	Actual*
Gross Budgetary Support ²¹	25,710.21 (51.03)	29,055.38 (53.82)	32,327.60 (55.05)	37,608.47 (40.21)	45,000.00 (37.19)	45,231.64 (41.77)
Internal Resources	9,531.31 (18.92)	9,709.00 (17.98)	15,347.24 (26.14)	16,845.31 (18.01)	16,675.00 (13.78)	10,479.84 (9.68)
Total (GBS and Internal Resources)	35,241.52 (69.95)	38,764.38 (71.80)	47,674.84 (81.19)	54,453.78 (58.23)	61,675.00 (50.97)	55,711.48 (51.45)
Extra Budgetary Resources (IRFC, RVNL, EBR-IF, PPP)	15,141.93 (30.05)	15,224.88 (28.20)	11,044.10 (18.81)	39,066.01 (41.77)	59,325.00 (49.03)	52,578.66 (48.55)
Grand Total	50,383.45	53,989.26	58,718.94	93,519.79	121,000.00	1,08,290.14

*Details are given in Para 1.1 (a) and in Para 2.1.

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 increased from 40.21 *per cent* in 2015-16 to 41.77 *per cent* in 2016-17. The share of internal resources to total plan expenditure decreased from 18.01 *per cent* in 2015-16 to 9.68 *per cent* in 2016-17. Share of EBR increased from 41.77 *per cent* in 2015-16 to 48.55 *per cent* in current year. Decline in generation of internal resources resulted in greater dependence on GBS and EBR. During 2016-17, MoR obtained ₹ 14,280.84 crore from IRFC for rolling stock, ₹ 37.13 crore for doubling projects being executed by RVNL, ₹ 13,170 crore through EBR-IF for gauge conversion, doubling and railway electrification projects and ₹ 26,834.09 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 2016-17 was ₹ 11,465.15 crore. Thus there was an unspent amount of ₹ 1,704.85 crore under EBR-IF.

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

¹⁹Reserve Funds such as Depreciation Reserve Fund, Capital Fund, Development Fund

²⁰Extra Budgetary Resources (Institutional Finance)-EBR (IF) was introduced in Railways in 2015-16

²¹Includes expenditure from Railway Safety Fund

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

Plan Heads	12 th Five Year Plan				
	2012-13	2013-14	2014-15	2015-16	2016-17
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)	36,246.12 (44.50)
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)	26,610.98 (32.67)
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)	1,965.00 (2.41)
Investment in Government Undertakings	3,372.74 (6.69)	4,289.58 (7.95)	4,865.31 (8.29)	7,349.71 (9.37)	7,184.13 (8.82)
Others	5,969.23 (11.85)	6,635.43 (12.29)	8,016.01 (13.65)	8,288.81 (10.57)	9,449.82 (11.60)
Total	50,383.45	53,989.26	58,718.94	78,438.79	81,456.05*

*Excluding expenditure of ₹26,834.09 crore under PPP.

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

Note: 1 Figures in brackets represent percentage to the total plan expenditure.

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

Note: 3 The above Plan expenditure excludes an amount of ₹26,834.09 crore under PPP mode under Plan Heads viz New Lines, Traffic facilities, Rolling stock, Road Safety Works (Road Over/Under Bridge), Investment in PSUs etc.

Table 1.9 shows that the 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) had shown healthy spurt during 2015-16 as compared to earlier years and was sustained at that level during 2016-17. Plan Expenditure on 'Rolling Stock and Payment of Capital Component of Lease charges also maintained positive growth during 2015-16 and 2016-17.

1.10 Railway Funds

Depreciation Reserve Fund (DRF) - For replacement and renewal of assets, the Railways maintain DRF financed by transfer from revenue in case of Zonal Railways and by transfer from Workshop Manufacture Suspense in case of Production Units.

Pension Fund - The fund is created to cover the current pension payments as also to meet the accumulated liability on account of pension benefits earned in each year of service. The fund is financed by transfer from revenue in case of Zonal Railways and by transfer from Workshop Manufacture Suspense in case of Production Units.

Development Fund (DF) - The fund is financed by appropriation from 'Surplus'. The fund is utilised to meet expenditure for works relating to amenities for users of railway transport, labour welfare works, unremunerative operational improvement works and safety works.

Capital Fund (CF) - The fund has been created (from 1992-93) with the express purpose of financing part of the requirement for works of capital nature. After providing for appropriation to DF, the balance of 'Surplus' is appropriated to CF. The fund remained operative till 2001-02. Thereafter, as a result of the implementation of the Fifth Pay Commission's recommendations, Railways were not able to generate enough internal resources for being appropriated to this fund. Hence, the fund was kept in operative from 2002-03 to 2004-05 and made operative from 2005-06.

Debt Service Fund (DSF) - The fund has been created (from 2013-14) with the sole purpose of providing for future debt service obligations in respect of loans taken from Japan International Cooperation Agency (JICA), World Bank and for future implementation of Pay Commissions. The fund is financed by appropriation from 'Surplus' after meeting the dividend liability and meeting mandatory requirement of CF and DF.

Railway Safety Fund (RSF) - This fund has been created (from 1 April 2001) for financing works relating to conversion of unmanned level crossings and for construction of road over/under bridges at busy level crossings. However, the scope of this fund has been enlarged in 2016-17 to also cover New Lines, Gauge Conversion, Electrification and Safety works. The fund is financed through transfer of fund by the central government from the Central Road Fund (out of diesel cess) as well as the contribution that was being made to the Railway Safety Works Fund out of the dividend being paid by the MoR to the General Revenues. Apart from this, amount can also be appropriated out of railway revenues i.e. out of the 'Surplus' left after payment of dividend to General Revenues.

The status of various Funds during 2016-17 is shown in Table 1.10.

Table 1.10 Fund Balances

(₹ in crore)

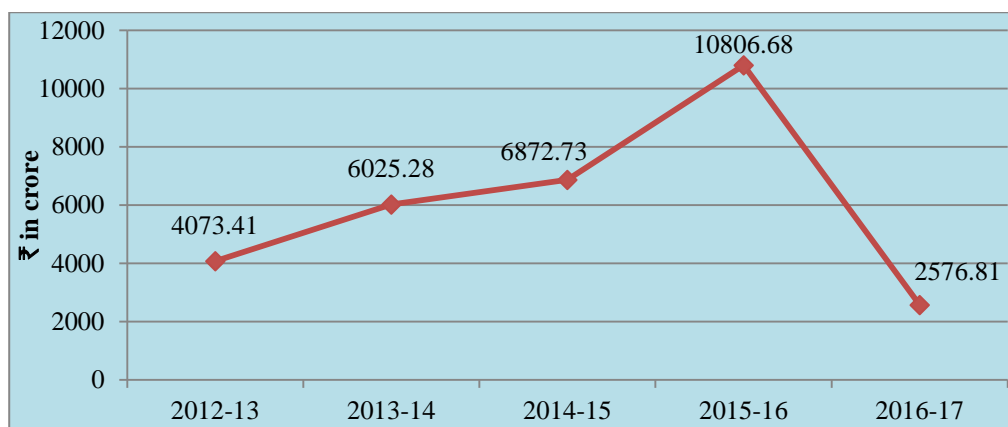
Name of Fund	Opening Balance	Accretion during the year	Withdrawal during the year	Closing Balance
DRF	32.78	5,399.73	4,982.01	450.50
Pension Fund	5,657.30	35,400.00	40,462.54	594.76
Development Fund	390.39	2,510.07	2,497.83	402.63
Capital Fund	907.43	2,398.00	3,000.00	305.43
Railway Safety Fund	15.52	10,739.77	10,732.03	23.26
Debt Service Fund	3,803.26	0.00	3,003.03	800.23
Total	10,806.68	56,447.57	64,677.44	2,576.81

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

2. Accretion under DRF, Development Fund and Railway Safety Fund includes financial adjustments of ₹ (-) 0.27 crore, ₹ (-) 4.93 crore and ₹ 7.74 crore respectively.

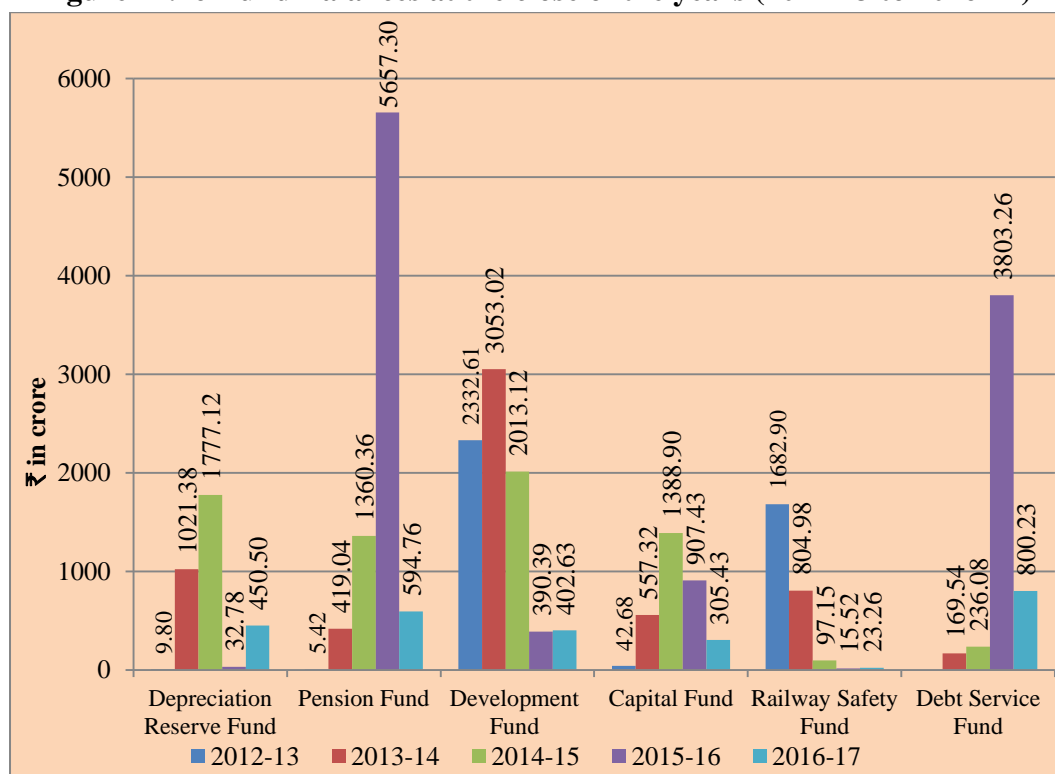
The funds shown in Table No. 1.10 were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. The Railway Safety Fund (RSF), Development Fund, Pension Fund and Debt Service Fund closed with balances of ₹ 23.26 crore, ₹ 402.63 crore, ₹ 594.76 crore and ₹ 800.23 crore respectively. (Appendix-1)

The fund balances which were on increasing trend during 2012-13 to 2015-16 sharply decreased in 2016-17 as shown in the Figure 1.15.

Figure 1.15-Trend of Fund Balances (2012-13 to 2016-17)

The balance in the funds decreased from ₹ 10,806.68 crore in 2015-16 to ₹ 2,576.81 crore in 2016-17 registering a decrease of ₹ 8,229.87 crore. The decrease in fund balances was mainly due to more expenditure from Pension Fund, Capital Fund and Debt Service Fund in comparison to amount credited in the funds during the year. No appropriation was made under Debt Service Fund during the year. The Railway Funds (except Railway Safety Fund) have been created under the interest bearing section in the Public Account. It was observed that no interest was credited to the Railway Funds (DRF, DF, PF, CF & DSF) during the year. This has been pointed out in audit; however no reply has been received from MoR.

The status of fund balances at the close of 2016-17 is shown in the Figure 1.16.

Figure 1.16-Fund Balances at the close of the years (2012-13 to 2016-17)

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

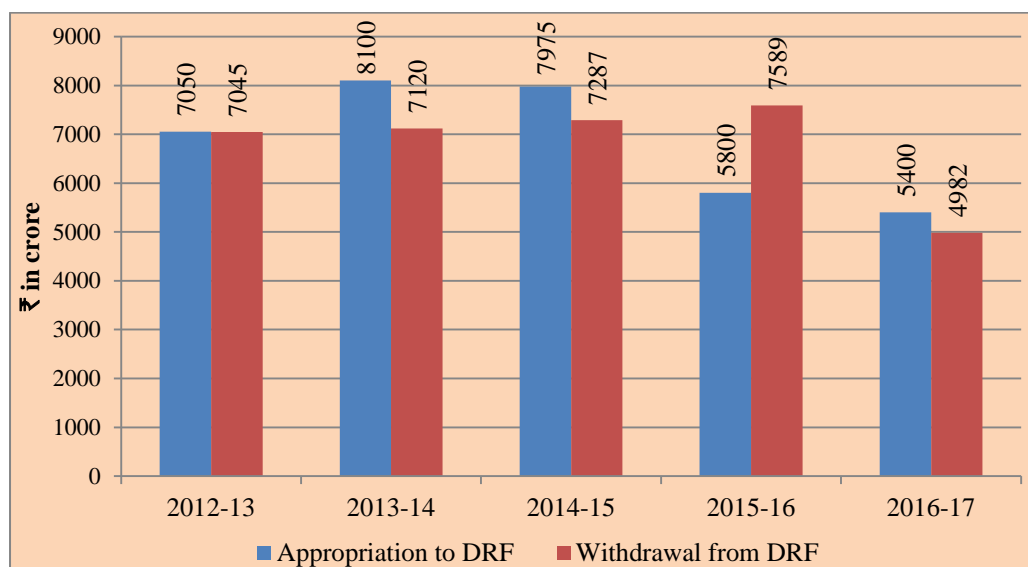
The balance available in the railway funds sharply decreased from ₹ 10,806.68 crore in 2015-16 to ₹ 2,576.81 crore at the end of the year 2016-17. DRF and Capital Fund closed with balance of ₹ 450.50 crore and ₹ 305.43 crore respectively. Analysis by Audit of the fund balances available in Capital Fund 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 account 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'²² 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 2016-17 MoR paid an amount of ₹ 3999.99 crore from Capital towards payment of principal component of lease charges to IRFC. Thus, again the MoR violated its accounting policy and made payment from Capital. The fund balance under Capital Fund would have been reduced by ₹ 3,999.99 crore resulting in negative balance of ₹ 3,694.56 crore. During 2016-17, against budget provision of ₹ 5,750 crore, MoR appropriated only ₹ 2,398 crore which was less by ₹ 3,552 crore (58.30 percent) than the budgeted provision. Capital Fund closed with a meagre balance of ₹ 305.43 crore at the end of 2016-17. There will be a committed liability of ₹ 8,000 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. 37 of 2016) stated (July 2017) that it agrees that appropriation to DRF should be made in accordance with the prescribed methodology. Railways have a very large asset base, whereas the financial position of the Railways has not been such so as to permit appropriation to

²²Capital 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.

this fund as per a set formula. However, all along, endeavour has been to ensure maximum appropriation to DRF on need cum availability basis. Appropriation to DRF and withdrawal from DRF during 2012-13 to 2016-17 is shown in the Figure 1.17.

Figure 1.17-Appropriation to and withdrawal from DRF



During 2016-17, against budget provision of ₹ 3,400 crore, MoR appropriated ₹ 5,400 crore²³ which was more by ₹ 2,000 crore (i.e. 58.82 *per cent*) than the budgeted provision. MoR had spent ₹ 4,982.01 crore on renewal and replacement of the assets from DRF during 2016-17 leaving a balance of ₹ 450.50 crore at the end of 2016-17. Audit further observed that there were negative balances under DRF in eleven Zonal Railways namely Central, Eastern, North Central, North Eastern, North Western, 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 2016-17) was estimated at ₹ 47,679 crore which mainly includes ₹ 27,437 crore on rolling stock, ₹ 13,642 crore on track renewals, ₹ 2,019 crore on bridge works, ₹ 1,728 crore on signalling and telecommunication works and ₹ 961 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.

1.11 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**

²³ Includes ₹ 200 crore towards appropriation under DRF for Production Units.

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' Funds balances appearing in the Statement No.13 of Union Government Finance Accounts were not matching with the Funds balances shown by the MoR in its Statement/Appropriation Accounts.

A reference was made in the Audit Report No.53 of 2015-Railways Finances for the year ended March 2015. MoR in its ATN stated (May 2017) that the differences pointed out by audit are age old. However, efforts are being made to locate the differences and set right the mismatch. The differences in fund balances at the end of 2016-17 still continued. The matter was taken up again with the MoR in June 2017. MoR in its reply (October 2017) stated that Prior Period Adjustments (PPAs) have been proposed and sent to CGA for corrective action. However, in spite of these PPAs, there is difference in the funds balances shown in Statement No.13 of Union Government Finance Accounts 2016-17. The discrepancies in funds balances in the Statement No.13 still exist and need to be rectified by MoR.

➤ **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 Head 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 Head 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.

A reference was made in the Audit Report No.37 of 2016-Railways Finances for the year ended March 2016. However, no ATN on this para

has been submitted by MoR. In absence of any instructions or clarifications by the MoR to the Zones/Railway Production Units, this irregularity still persists in 2016-17 as detailed below:

- In North Central Railway a sum of ₹ 10.80 crore deducted from Companies during 2016-17 has been shown under Major Head 0021 instead of Major Head 0020 - Corporation Tax.
- In Central Organisation for Railway Electrification (CORE) a sum of ₹ 0.11 crore deducted from Companies during 2016-17 has been shown under Major Head 0021 instead of Major Head 0020 - Corporation Tax.
- In North Western Railway a sum of ₹ 8.83 crore deducted from Companies during 2016-17 has been shown under Major Head 0021 instead of Major Head 0020 - Corporation Tax.

Krishi Kalyan Cess: As per Government of India Notification No.31/2016-Servcie Tax dated 26-05-2016, Krishi Kalyan Cess at the rate of 0.5 *per cent* on all taxable services was to be levied with effect from June 01, 2016. It was observed that no deductions under Krishi Kalyan Cess were made by the East Central Railway and Northern Railway during the year 2016-17. The issue of non-levy of Krishi Kalyan Cess by East Central Railway and Northern Railway was taken up with the MoR in August 2017. However, no reply was received from MoR in this regard.

Swachh Bharat Cess: As per Government of India Notification No.21/2015-Service 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. It was observed that no deductions under Swachh Bharat Cess were made by the East Central Railway during the year 2016-17. The issue of non-levy of Swachh Bharat Cess by East Central Railway was taken up with the MoR in August 2017. However, no reply was received from MoR 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.

Audit observed that during 2016-17, EBR-IF funds amounting to ₹ 13,170 crore were received from IRFC and the actual expenditure under EBR-IF incurred by the Zonal Railways and CORE during 2016-17 was ₹ 11,465.15 crore.

1.12 Conclusion

Total Working Expenditure during 2016-17 increased to ₹ 1, 59,029.61 crore (by 7.57 *per cent*) from ₹ 1,47,835.93 crore in 2015-16. Gross Traffic Receipts increased to ₹ 1,65,292.20 crore (by 0.58 *per cent*) from ₹ 1,64,333.51 crore in 2015-16. Net surplus after meeting all revenue liabilities stood at ₹ 4,913.00 crore in 2016-17 as against ₹ 10,505.97 crore in 2015-16, even though no dividend was paid during 2016-17 as compared to ₹ 8,722.51 crore dividend paid during 2015-16. The actual amount required to meet the expenditure on pension payments was ₹ 40,025.95 crore during the year. However, ₹ 35,000 crore (against the Budget Provision of ₹ 42,500 crore) was appropriated to Pension Fund. Thus, there was under provisioning of ₹ 5,025.95 crore under the Pension Fund, thereby understating the total working expenditure to that extent. Had the actual amount (₹ 40,025.95 crore) required to meet the expenditure on pension payments been appropriated, there would have been a negative balance of ₹ 112.95 crore (instead of surplus of ₹ 4,913 crore) leaving no surplus available for appropriation to the funds (DF, CF and Debt Service Fund).

During 2016-17, the growth rate of passenger originating (no. of passengers) improved by 0.11 *per cent*. 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 ₹ 42,426.63 crore from freight traffic on one hand and incurred loss of ₹ 36,286.33 crore on operation of passenger and other coaching services on the other hand during 2015-16. There was an improvement in recovering the cost of passenger services in 2016-17. In 2016-17, the freight loading of 1,106.15 Million Tonne witnessed a meagre increase of 0.41 *per cent*. However, due to decline of 5.24 *per cent* in Net Tonne Kilometres in revenue freight traffic, the average lead (average haul of a tonne of freight) declined from 594 Kilometres in 2015-16 to 561 Kilometres in 2016-17.

The balance available in the railway funds sharply decreased from ₹ 10,806.68 crore in 2015-16 to ₹ 2,576.81 crore at the end of the year 2016-17. Pension Fund, DRF, Development Fund and Capital Fund closed with balance of ₹ 594.76 crore, ₹ 450.50 crore, ₹ 402.63 crore and ₹ 305.43 crore respectively. The decrease in fund balances was mainly due to more expenditure from Pension Fund, Capital Fund and Debt Service Fund in comparison to amount credited in the funds during the year and no interest was credited to the interest bearing funds during the year. During 2016-17 MoR paid an amount of ₹ 3,999.99 crore from Capital towards payment of principal component of lease charges to IRFC. Thus, again the MoR violated its accounting policy and made payment from Capital. The fund balance under Capital Fund would have been reduced by ₹ 3999.99 crore resulting in negative balance of ₹ 3,694.56 crore.

MoR had spent ₹ 4,982.01 crore on renewal and replacement of the assets from DRF during 2016-17 whereas the throw forward value of assets to be replaced from DRF (up to 2016-17) was ₹ 47,679 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 meagre balance of ₹ 450.50 crore in DRF at the end of 2016-17, MoR needs to make sufficient appropriation to DRF for meeting the expenditure on renewal and replacement of over aged assets.

The Operating Ratio which was 90.49 *per cent* in 2015-16, deteriorated to 96.50 *per cent* in 2016-17 for IR. The Operating Ratio during the current year had deteriorated to an all-time low since 2000-01 when it was 98.34 *per cent*. Taking into account the actual amount of ₹ 40,025.95 crore required to be appropriated to the Pension Fund (instead of ₹ 35,000 crore), the OR of IR would have been at 99.54 *per cent* instead of 96.50 *per cent*. Thus, the OR of 96.50 *per cent* does not reflect the true financial performance of the Railways. The COR increased from 374 paise in 2015-16 to 445 paise in 2016-17 indicating decrease in the physical performance of the IR.

1.13 Recommendations

- *The Operating Ratio during 2016-17 had deteriorated to the lowest level of 96.50 per cent since 2000-01 when it was 98.34 per cent. When actual expenditure on pension payments is taken into account, the OR works out to 99.54 per cent. Since, Operating Ratio is a direct indicator of the working of Railways; the Ministry of Railways should also look into the various innovative ways for revenue generation and closely monitor the expenditure.*
- *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. The fixation of passenger fare and freight charges should be based on the cost involved so that it brings both rationality and flexibility in pricing considering the financial health of Railways and the current market scenario. There is hardly any justification for not fully recovering the cost of passenger services in case of AC 1st Class, First Class and AC 2-Tier. However, since one of the factors for non-recovering full cost from these classes could be issue of free and concessional fare passes/ tickets to various beneficiaries in good numbers, this practice needs to be scaled down.*
- *Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over aged assets is indicative of weak financial health of Indian Railways. The huge backlog of renewal and replacement of over aged assets in railway system needs to be addressed for safe running of trains.*
- *Total Capital grew from ₹ 1,83,488 crore as on 31 March 2013 to ₹ 3,12,635 crore as on 31 March 2017, total traffic handled declined from 7,27,610 million Net Tonne Kilometres to 7,01,813 million Net Tonne Kilometres respectively. Railways need to take measures to improve competitiveness of its services vis-à-vis Road and Air travel.*