

RAILWAYS FINANCES

**MINISTRY OF RAILWAYS
(RAILWAY BOARD)**

**PUBLIC ACCOUNTS
COMMITTEE
2014-2015**

FIFTEENTH REPORT

SIXTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

FIFTEENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(2014-2015)

(SIXTEENTH LOK SABHA)

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MINISTRY OF RAILWAYS
(RAILWAY BOARD)

*Presented to Lok Sabha on 27-04-2015
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LOK SABHA SECRETARIAT
NEW DELHI
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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2014-15)

Prof. K.V. Thomas — *Chairperson*

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3. Shri A.K. Yadav — *Under Secretary*

¹Elected *w.e.f.* 3rd December, 2014 *vice* Shri Rajiv Pratap Rudy who has been appointed as Minister *w.e.f.* 9th November, 2014.

²Elected *w.e.f.* 3rd December, 2014 *vice* Shri Jayant Sinha who has been appointed as Minister *w.e.f.* 9th November, 2014.

³Elected *w.e.f.* 3rd December, 2014 *vice* Dr. M. Thambidurai who has been chosen as Hon'ble Deputy Speaker, Lok Sabha and has since resigned from the membership of the Committee.

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2014-15) having been authorised by the Committee, do present this Fifteenth Report (Sixteenth Lok Sabha) on **'Railways Finances'** based on C&AG Report No. 12 of 2013 Union Government for the year ended March 2012 related to the Ministry of Railways.

2. The above-mentioned Report of the Comptroller and Auditor General of India was laid on the Table of the House on 13th August, 2013.

3. The Public Accounts Committee (2014-15) took up the subject for detailed examination and report. The Committee took evidence of the representatives of the Ministry of Railways (Railway Board) on the subject at their sitting held on 22nd September, 2014. Accordingly, a Draft Report was prepared and placed before the Committee for their consideration. The Committee considered and adopted this Draft Report at their sitting held on 3rd March, 2015. The Minutes of the Sittings are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part- II of the Report.

5. The Committee would like to express their thanks to the representatives of the Ministry of Railways (Railway Board) for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
22 April, 2015

02 Vaisakha, 1937 (Saka)

PROF. K.V. THOMAS,
Chairperson,
Public Accounts Committee.

REPORT

PART I

I. Introductory

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. It consists of 64,600 route kms on which more than 19,710 trains ply, carrying about 23 million passengers and hauling nearly 2.67 million tonne of freight everyday. Policy formulation and overall control of the Railways is vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are six production units engaged in manufacturing of rolling stock and other related items. From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Though the Railway Budget is presented to Parliament separately, the figures relating to the receipts and expenditure of IR are also shown in the General Budget, as Railway Budget forms part of the total budget of the Government of India.

2. This Report is based on Audit Report No. 12 of 2013 for the year ended March 2012. Based on the audited accounts for the said year, the report made an assessment of the fiscal status of IR and analysed various indicators of its financial management including budget preparation and internal controls.

3. The Audit has observed that IR was unable to meet its operational cost of passenger and other coaching services. During 2010-11, there was a loss on passenger and other coaching services of ₹ 20,948.35 crore, which is IR's core activity, though freight services earned a profit of ₹ 20,563.59 crore. IR incurred ₹ 1,048.14 crore more than the authorization given by Parliament in two revenue grants and two appropriations despite obtaining supplementary provisions in all these grants and appropriations. In seven revenue grants and one capital grant (three segments), there were savings of more than ₹ 100 crore. In one revenue grant, the savings was more than the supplementary grant obtained. Thus, it has been observed that the existing internal controls in IR were not adequate in ensuring compliance to the rules and regulation for effective budgeting. Measures suggested by the Ministry of Finance were not addressed while formulating budget and non-observance of extant provisions led to adopting defective budgeting procedures.

4. Against this backdrop, the Public Accounts Committee (2013-14) and (2014- 15) selected the subject for detailed examination and report. In the process of examination of the subject, the Committee obtained background note and detailed written replies from the Ministry of Railways (Railway Board). They also took oral evidence of the representatives of the Ministry and obtained post-evidence replies. Based on written and oral depositions by the Ministry, the Committee examined the subject in detail and discussed some important issues as enumerated in the succeeding paragraphs.

II. State of Finance

5. The Summary of Indian Railways fiscal transactions during 2011-12 *vis-à-vis* previous year and budget estimates for 2011-12 which provides perspective of the finances of the IR during the year 2011-12 along with its comparison with actual of the previous year are given below:—

Summary of Receipts and Expenditure of IR

(₹ in crore)

Sl. No.	Details	Actual 2010-11	Budget Estimates 2011-12	Revised Estimates 2011-12	Actual 2011-12
1	2	3	4	5	6
1.	Passenger Earnings	25,792.63 (9.81)	30,456.00	28,800.00	28,246.10 (9.51)
2.	Freight Earnings	62,844.72 (7.42)	68,620.00	68,620.00	69,547.59 (10.67)
3.	Other coaching Earnings ¹	2,469.84 (10.50)	2,903.00	2,750.00	2,716.85 (10.00)
4.	Sundry Earnings ²	3,418.27 (18.70)	4,060.00	3,700.00	3,643.00 (6.57)
5.	Suspense	10.17 (-107.23)	200.00	47.00	-- 43.19 (524.68)
6.	Gross Traffic Receipts ³ (Item No. 1 to 5)	94,535.63 (8.71)	106,239.00	103,917.00	104,110.35 (0.13)
7.	Ordinary Working Expenditure ⁴	68,139.22 (3.54)	73,650.00	75,650.00	74,537.41 (9.39)
8.	Appropriation to Depreciation Reserve Fund Pension Fund	5,515.00 (152.17) 15,820.00 (6.05)	7,000.00 15,800.00	6,160.00 16,800.00	6,520.00 (18.22) 17,610.00 (11.31)
9.	Total Working Expenditure (Item No. 7 and 8)	89,474.22 (7.91)	96,450.00	98,610.00	98,667.41 (10.27)
10.	Net Traffic Receipts (Item No. 6-9)	5,061.41 (25.02)	9,789.00	5,307.00	5,442.94 (7.54)
11.	Miscellaneous Receipts ⁵	2,145.39 (-5.30)	3,154.13	2,729.78	2,134.92 (-0.49)
12.	Miscellaneous Expenditure ⁶	860.66 (11.80)	950.00	892.39	796.26 (-7.48)
13.	Net Miscellaneous Receipt (Item No. 11-12)	1,284.73 (-14.09)	2,204.13	1,837.39	1,338.66 (4.20)
14.	Net Revenue (Item No. 10 and 13)	6,346.14 (14.47)	11,993.13	7,144.39	6,781.60 (6.86)

1	2	3	4	5	6
15.	Dividend Payable to General Revenues				
	Current year	4,941.25	6,734.72	5,652.24	5,656.03
		(-10.86)			(14.47)
	Deferred Dividend of previous year	0.00			0.00
	Total Dividend Payment	4,941.25	6,374.72	5,652.24	5,656.03
		(-10.86)			(14.47)
16.	Net Surplus (Item No. 14-15)	1,404.89	5,258.41	1,492.15	1,125.57
		(187220)			(-19.88)
17.	Surplus available for appropriation				
	Development Fund	1,404.89	2,400.00	550.00	610.00
					(-56.58)
	Capital fund		2,858.41	942.15	515.57

1. Other Coaching earnings from transportation of parcels, luggage and post office mail, etc.
2. Sundry Earnings from renting, leasing of building, catering services, advertisements, interest, maintenance of sidings and level crossing, re-imburement of loss on strategic lines, etc.
3. Gross Traffic Receipts—Operational receipts from freight, passenger, other coaching traffic and sundry earnings of IR
4. Operating expenses of IR
5. Miscellaneous Receipts comprise of subsidy from Government of India (GoI) towards dividend receipt and other concession, receipts by Railway Recruitment Board, etc.
6. Miscellaneous Expenditure comprised of expenditure on Railway Board, Surveys, Research, Designs and Standards Organization, Other Miscellaneous Establishments of IR, Statutory audit, expenditure on Open Line Works (Revenue), etc.

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

(i) Reliability of Budget Estimates

6. Ordinary working expenditure of IR increased by around one per cent (₹ 887.41 crore) and total working expenditure by two per cent (₹ 2,217.41 crore) over the budgeted estimates. Appropriation to Depreciation Reserve Fund (DRF) was less by 7 per cent (₹ 480 crore). The resultant net revenue was below the budget projections by 43.45 per cent (₹ 5,211.53 crore). Net surplus after meeting all revenue liabilities including dividend was also less by 78.59 per cent (₹ 4,132.84 crore). The Committee desired to be apprised of the reasons for the increase in ordinary and total working expenditure as compared to its estimate. The Ministry in their reply stated as under:—

“Ordinary Working Expenses (OWE) that were fixed at ₹ 73,650 crore in BE 2011-12, finally increased by ₹ 887 crore in the actual mainly due to higher fuel cost. The Net Surplus also fell short of the budget estimates primarily because of lower earnings of ₹ 2,129 crore under passenger, other coaching and sundry segments, higher working expenses, increase in pension debits of ₹ 1,919 crore from the disbursing authorities.”

7. The Appropriation to Depreciation Reserve Fund (DRF) is a part of total working expenditure. The Committee desired to know whether the 'Appropriation to DRF' was made in accordance with a laid down procedure/policy and the reasons for a reduction of seven per cent to the 'Appropriation to DRF', alongwith the impact of a reduction by a lesser amount than envisaged in Budget estimates on the safety aspect of IR's operation. They were informed as under:—

“Despite Railways' commitment to appropriate higher amounts to Depreciation Reserve Fund, the actual appropriation to DRF is governed by the available resources and this has also been regularly reported to and accepted by the Railway Convention Committee. Since there was a reduction in the availability of internal resources during 2011-12, the appropriation to DRF had to be reduced from ₹ 7,100 crore in BE 2011-12 to ₹ 6,720 crore in Actuals 2011-12. The objective of reducing appropriation to DRF is to regulate plan expenditure to achieve better fiscal discipline and resource management rather than having a higher surplus. However, it was ensured that reduction in appropriation did not affect important safety related expenditure relating to operations of trains.”

8. However, during evidence a representative of the Ministry stated as under:—

"It means track renewal do not go at the pace at which we want."

9. He further elaborated on this issue as under:—

“Essentially, there are two components of it. One is the fixed assets. That would be the track, the bridges and the signalling. Now, if you say safety is getting compromised, then the answer is a categorical no. It is because we do not allow the asset to deteriorate to that level and in case there is any problem anywhere, then we impose restricted speed on that particular location and that asset is brought back and we give it a priority as far as the renewal is concerned. But keeping in view the demand for more traffic, higher axle load and more trains, yes, we are not ideally situated, but what we would like to do, that much money is not there.”

10. The IR created a special purpose vehicle namely Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL) to undertake planning and development, mobilization of financial resources, construction, maintenance and operation of Dedicated Freight Corridor. DFCCIL was registered as a company on 30th October, 2006. It undertook one of the largest ever infrastructure projects of Railways which will substantially reduce the travel time of freight trains and bring down the transportation cost. The construction work has already started on Eastern and Western corridor of length of about 1839 Kms. and 1534 Kms. respectively, from April, 2009 over a length of 300 Kms. The cumulative expenditure on Project execution was ₹ 657.12 crore as on 31-03-2012.

11. To enhance the pace of passenger trains, the Railway proposed 534 Kms. Mumbai-Ahmedabad high speed link which will be India's maiden high speed rail project for which feasibility study was taken in September, 2013. This project is part of the 650 Kms. Pune-Mumbai-Ahmedabad line, one of the six high speed corridors identified for implementation in India. The ₹ 630 billion project is expected to be

implemented through a Public Private Partnership (PPP). The pre-feasibility study of other identified corridors were at various stages of completion by the beginning of 2013. IR has formed High Speed Rail Corporation of India (HRSC) in July, 2012 to handle the high speed projects from tendering to execution. National High Speed Rail Authority is also planned to be setup as a dedicated central agency for implementing the HSR corridor projects.

(ii) Freight Earnings

12. The increase in freight loading by 5.13 per cent in 2011-12 over the previous year was marginally higher than the CAGR (Compound Annual Growth Rate) of 5.10 per cent achieved in 2007-11. Further, freight earnings increased by 10.67 per cent over the previous year was higher than the CAGR of 9.83 per cent achieved during 2007-11. The Committee desired to know the short-term and long-term plans of the Ministry of Railways to increase infrastructure for freight services. The Ministry in their reply stated as under:—

“For increasing infrastructure for freight services, following initiatives are planned in the 12th Five Year Plan (2012-17) of Railways:—

- (i) Prioritising investment in construction of Western and Eastern Dedicated Freight Corridors. The DFC project comprises 1499 kms. Western Corridor from Jawahar Lal Nehru port to Dadri near Delhi and 1839 kms. Eastern Corridor from Dankuni in Kolkata to Ludhiana in Punjab. Western Corridors will largely cater to container traffic from upcoming ports in Western India to the Northern hinterland and the Eastern Corridor will mainly cater to transportation of coal from Eastern India to power houses in Northern India. Construction work has commenced on both the Corridors. Four new freight Corridors *viz.* North-South, East-West, East-South and Southern Corridors have also been identified and preliminary engineering-cum-traffic survey (PETS) is being carried out for these Corridors.
- (ii) 7000 kms. of iron ore route has been identified for upgradation to 25 tonne axle load. Out of this, 5425 kms. has been upgraded in the 11th Plan. Balance 1575 kms. would be upgraded in the 12th Plan.
- (iii) Several other measures being planned to improve freight movement include developing last mile rail linkages and port connectivity, containerisation, induction of high capacity locomotives and wagons, expansion of long haul operations of trains and use of GPS and RFID technology for tracking purposes.”

13. When asked to elaborate the plan of Ministry to increase freight loading specially for bulk commodities category, the Ministry submitted as under:—

“The demand for freight loading on Indian Railways is a derived demand and is dependent on the growth in the economy, especially in the core sector since Railways is primarily a bulk carrier of freight.

Coal constitutes 48% of the freight loading of IR. The work of connecting new major coal production areas to the railway network is in progress. These new

projects would add substantially to the freight being carried by IR. Steps have also been taken to improve connectivity to ports. Imports of bulk cargo such as Coal, Iron ore and fertilizers are expected to maintain an upward trend in the future. The improved connectivity would thus increase freight volumes on IR. All new industrial projects requiring rail transportation are being assured of transportation support to boost investor confidence. Network capacity augmentation works are being undertaken. Procurement of additional locomotives and wagons has also been planned.

The Railways is always in close liaison with its major customers like CIL, Ministry of Fertilizers, Cement Manufacturers Association, FCI, etc. to increase loading. On the infrastructure side, the Railways are inducting higher capacity wagons and higher capacity locomotives to meet the demand. In the current year there has been an induction of 13162 additional wagons to meet demand. A total of 755 wagons have been inducted into the IR System upto June, 2014.

Commissioning of the Dedicated Freight Corridor, which is under construction at present, would add substantially to Indian Railway's ability to carry freight traffic.

Initiatives undertaken to increase freight loading and earnings are as under:—

1. Increase in the permissible carrying capacity

For optimization of carrying capacity of wagons, permissible carrying capacities of some open and flat wagons were increased by one tonne with corresponding reduction of one tonne in the loading tolerance.

2. Freight Incentive Schemes

A slew of freight incentive schemes have been introduced with the objective of generating additional traffic volume and additional revenue for the Railways. These Schemes which are in operation since 2006, have since been meaningfully moderated and suitably modified based on experience gained in the interregnum. These schemes have been re-introduced as "The Freight Incentive Schemes and Transportation Products, 2009" w.e.f. 1st January, 2010 as under:—

- (i) Incentive Schemes for Loading Bagged Consignments in Open and Flat wagons: For encouraging loading of bagged commodities in open & flat wagons, special freight incentive ranging from 20% to 30% is extended for different commodities on tariff rates.
- (ii) Incentive Schemes for Traditional Empty Flow Direction: To encourage and popularize loading in the empty return direction, graded freight concession of 10% to 40% is offered on Net Tariff Rate for different distance slabs subject to certain conditions.
- (iii) Incentive Schemes for Freight Forwarders: Freight forwarders are levied concessional train load class rate or composite class rate for aggregating and dispatching goods instead of charging at dearer wagon load rates subject to certain conditions.

- (iv) Incentive Schemes for Incremental Traffic: In order to further boost up dispatches from our regular customers, graded freight concession is afforded for incremental loading beyond prescribed benchmark plus 10% under certain conditions.

3. Liberalised Wagon Investment Scheme (LWIS)

The objective of the scheme is to invite end-users to invest in High Capacity and Special Purpose Wagons for their commodities to move between their terminals. 21 rakes have been inducted in this scheme and NOC for induction of 33 rakes has been given.

4. Wagon Leasing Scheme (WLS)

This scheme is to develop a strong wagon leasing market by encouraging third party by leasing the wagons particularly with a view to bring in wagons of better design. Two Wagon Leasing Companies have been registered with IR.

5. Private Freight Terminals (PFTs)

The objective of the policy is to enable a rapid development of network of freight handling terminals with the prospective of private sector by offering integrated admission and cost effective logistics and warehousing solutions to users. 19 PFTs are already in operation. In principle approval has been given to 27 PFTs. Proposal for 11 PFTs is awaiting approval from Zonal Railways.

6. Special Freight Train Operators (SFTOs)

The objective of the policy is to increase railway share in transportation of non-conventional traffic in High Capacity or Special Purpose Wagons thereby increasing commodity based railway traffic. This provides an opportunity to logistics service providers to invest in wagons for transportation of selected commodities. Approval has been given for movement of caustic soda. One proposal for movement of alumina is awaiting clearance.

7. Automobile Freight Train Operators (AFTOs)

This policy provides an opportunity to logistics service providers and road transporters to invest in wagons for transportation of automobiles. Two operators have registered as AFTO. Two rakes of M/S Maruti Udyog Limited are running since March, 2014 and one of M/S APL Vascor has also been inducted in August, 2014.

8. Kissan Vision Yojana (KVY)

This scheme provides for investment in transportation of perishable traffic. CWC and CONCOR are building cold storage at Singur, Nasik (Ojhar), Jalpaiguri, Naya Azadpur, Dankuni and Murshidabad.”

14. During oral evidence, the issues of theft of Coal and other material from the open wagons of the Railways were raised. Asked by the Committee to explain steps taken to

prevent the same, the representatives of the Ministry *inter-alia* stated as under:

“...Different models of wagons were tried and we could not succeed. We had to stop using those wagons. Presently, a new wagon is under trial which will unload from the bottom, is called bottom discharge. It is open from upside. If we close it then uploading cannot be done because loading is done by shoot loading system. All over the world research is going on this type of wagon which can be opened from up side....”

(iii) Passenger Earnings and Subsidy towards Passenger and other Coaching Services

15. As per the Audit report, the percentage increase in earnings from passenger traffic in 2011-12 over the previous year was 9.51 per cent which was above the CAGR of 9.13 per cent for the period 2007-11. The percentage increase in passengers originating in 2011-12 over the previous year was 5.31 per cent, which was below the CAGR of 6.12 per cent during 2007-11. There was cross subsidisation from freight earnings to passenger and other coaching earnings. Loss incurred by passenger and other coaching services increased from ₹ 7,309.26 crore in 2006-07 to ₹ 20,948.35 crore in 2010-11. As IR is incurring losses in its total earnings from its core activities *i.e.* passenger and freight services, the Committee desired to know the short term/long term plans of IR to increase earnings from passenger services. The Ministry informed as follows:—

“Following short term/long term measures are taken by Indian Railways to increase earnings from passenger services:—

- Introduction of new trains to cater to requirement of different segments of passengers.
- Enhancement of load of more popular trains.
- Extension/increase in frequency of existing trains.
- Changing timings of trains to suit passengers' convenience.
- Running of special trains.
- Attachment of extra coaches in the existing trains.
- Regular analysis/review of quota utilisation to ensure optimum utilisation of available accommodation in order to maximise earnings.
- Stepping up of ticket checking drives on massive scale by inducting staff from all departments.
- Special focus on manning and collection of tickets at the gates to avoid leakage of revenue.
- Commercial publicity.”

16. However, when the Committee enquired about the expected and actual earnings from the increase in the passenger fare the next year *i.e.* 2012-13, the Ministry informed that against the targeted mobilization of ₹ 4,538 crore through revision of passenger fares in the Budget Estimates (2012-13), the actual additional earnings were about ₹ 300 crore only. This was a result of substantial roll back of increase in fares initially announced in the Budget.

17. A comparative study of the bus and rail fare structures on sub-urban routes in Delhi, Mumbai and Chennai has indicated that the rail fares are lower than the bus fares (Government controlled).

18. On being asked about the plan to increase the sub-urban rail fares to reduce the revenue deficit, the Committee were informed that sub-urban passenger fares, which had not witnessed any increase since 2002-03, have recently been revised upwards with effect from 22.01.2013. Recently, Fuel Adjustment Component (FAC)— linked tariff revision in passenger fares has been done with effect from 07.10.2013. Evaluation of various alternatives relating to rationalization of the passenger fare structures is an ongoing process.

19. It is learnt that the number of employees working under the Indian Railways were 13,06,000 as of 31-03-2012 which was 13,32,000 as of 31-03-2011. However, the wage bills including pension etc. were ₹ 58,680 crore as of 31-03-2012 which indicated an increase of 13.33 percent *i.e.* ₹ 6904 crore over the previous year.

(iv) Sundry Earnings and Other Coaching Earnings

20. Audit analysis found that there was considerable scope to increase revenue from these components of sundry earnings provided bills for realization of rent of buildings, license fee were raised and realized in a timely manner with proper revision wherever due. It grew at around eight per cent in 2011-12 as against 15 per cent in the year 2010-11. The Committee asked the Ministry about monitoring system in place for revision of the license fee, rent of building etc. and how its effectiveness is ensured. The Ministry informed as under:—

“The notional land value including covered areas (*i.e.* building, etc.,) are increased by 7% over the previous year's land value, the license fee automatically go up by 7% over the previous year's fee from the 1st of April every year. There is built in mechanism in the agreement for the same. The whole license fee is taken in advance.”

21. IR owns about 4.59 lakh hectares of land. About 90% (3.61 hectare) of the land is under Railways' operational and allied usages such as laying of new lines, doubling, gauge conversions, tracks, stations, workshops, colonies, etc. Besides, railways' land is also used for forestation and licensed to Government/semi-Government establishments on long term basis. A Special Purpose Vehicle (SPV) under the Indian Companies Act 1956, a joint venture company of IRCON and RLDA has been formed with 51:49 partnership, with an authorized share capital of ₹ 100 crore for development of Railway stations.

22. The Rail Land Development Authority (RLDA) was created in 2005 to exploit commercial licensing of railway land through an amendment of the Indian Railways Act, 1989 for generating revenue by non-tariff measures for Indian Railways. It started functioning in January 2007. The Committee desired to know the achievement of RLDA in its assigned role and the progress of the site/land entrusted to Rail Land Development

Authority for commercial development. The Ministry informed the Committee as under:—

“RLDA has been successful in its role of fulfilling the objective of commercial development of land for revenue generation. So far, 140 sites measuring 1494 hectares of railway land have been entrusted to Rail Land Development Authority for commercial development. Out of these, 57 sites measuring 509.33 ha. have been identified as commercially amenable. Since its inception, RLDA has earned revenue of ₹ 1210 crore.”

23. During evidence a representative of the Ministry of Railways informed that RLDA was created in 2007. However, when it was to reach at full steam, the Government in March 2011 banned all licensing and leasing. Hence, for two years all the work was held up. Now, through a Cabinet note IR have taken approval to energise it. They hope that RLDA's performance will improve in the coming years.

24. Some Members expressed their concern over encroachment on Railway land. In this regard, the Committee were informed during evidence as under:—

“If we consider in percentage, it is point something only. Unfortunately, it is in nearby areas of the big cities. We have received a suggestion just now as to how State Government interest can be developed. We will give a serious thought about it, we will work out something so that we can improve our performance as far as this item is concerned.”

(v) Plan Expenditure

25. IR's plan expenditure was financed from the general exchequer extended as general budgetary support, internal resources and extra budgetary support *i.e.* market borrowing through Indian Railway Finance Corporation for rolling stock and new network links by Rail Vikas Nigam Limited. The share of plan expenditure on track related works declined from a high of 51 per cent in the 10th Five Year Plan period to an average of 40 per cent in 11th Five Year Plan period and there was a commensurate increase in share of Rolling stock, Workshop and Production Units, Plant and Machinery during the same period. The Committee desired to know about the plans of the Ministry of Railways to finance the increase in network capacity, capacity augmentation works and rolling stock in view of reduction in generation of internal resources and limitation of general budgetary support. In reply, the Ministry submitted as under:—

“It is very big challenge for Ministry of Railways to fund projects due to meagre internal generation, limited GBS and high cost of borrowing. However, Ministry of Railways have undertaken a critical review of previously sanctioned projects and prioritized them in order to enhance and augment capacity. Ministry of Railways have further prioritized projects within this priority list so that focused attention can be given to the most desired and critical projects across the network. This shall control thin spread of funds and help in timely completion of projects.

As far as procurement of rolling stock is concerned, MoR intend to procure majority of the same through borrowings from Indian Railways' Finance Corporation.”

(vi) Railway Funds

26. Railway reserve funds were either financed through revenues or surplus except Railway Safety Fund, which received a share of the Diesel Cess. The balance available

in the funds increased from ₹ 342.51 crore in 2010-11 to ₹ 1,770.91 crore at the end of the year 2011-12 which was after obtaining a loan of ₹ 3,000 crore from Ministry of Finance under Development Fund. The Development Fund and Capital Fund, funded from the railway 'Excess' available after payment of dividend, closed with balances of ₹ 4.73 crore and negative balances of ₹ 401.53 crore, respectively. Depreciation Reserve Fund (DRF) and Pension Fund closed at a negligible balance of ₹ 5.05 crore and ₹ 6.52 crore respectively. This may adversely affect future expansion of IR's existing services and consequently its market share in the transport sector. Contribution to DRF was not being made on the basis of historical cost, expected life/residual life of assets but on the basis of amount working expenditure could bear. Therefore, the Committee enquired about the plans of the IR to improve its reserve fund balances to meet the future requirements. The Ministry of Railways, in their reply, submitted as under:—

“Indian Railways is aiming to build balances in various funds such as Development Fund, Capital Fund and newly set up Debt Service Fund. While it is difficult to forecast precisely the actual accumulation in fund balances in the near future, the approach would be to appropriate much higher amount than the requirement so as to build up a corpus to meet urgent expenditure relating to safety and debt servicing in future years. Various measures have been taken to augment earnings and control expenditure so as to increase the generation of internal resources. The measures taken, *inter-alia*, include implementation of Fuel Adjustment Component (FAG) in fare and freight, levy of higher busy season surcharge, revision of fares of Kolkata Metro Railway, revision of parcel rates, catering charges amongst others. Austerity measures mandated by Ministry of Finance have also been circulated to all spending units for strict compliance. As a result of several measures taken to enforce fiscal discipline, the funds balances have improved from ₹ (-)385 crore in 2011-12 to ₹ 2,390 crore in 2012-13. Further accretion is expected during the current year.”

27. As the contribution to the Depreciation Reserve Fund is not made on the basis of residual life of the assets but is dependent on the amount which the working expenses could bear, the Committee enquired about the shortfall in the contribution to Depreciation Reserve Fund. The Ministry in their post evidence reply furnished as under:—

“As per Indian Railway Financial Code Volume-1 (para 218) 'Depreciation provision in respect to an asset will be equal to the annual payment to a Sinking Fund which together with the interest thereon at such rates when compounded annually will provide the amount required for the replacement of the asset at the end of the normal life'. However, as per Para 340F I, Budget estimate for DRF is based on the replacement programme including arrears of depreciation, if any, to be made good during the following year. This exercise is part of overall resource planning of Railways determined for five year plan period in consultation with the Planning Commission.

Thus while DRF do not carry heavy fund balances at its credit, the yearly need for replacement and renewal of Railway assets in the annual plan is well taken care of by the Railways.”

28. IR has taken assets on Lease from Indian Railway Finance Corporation (IRFC), for which it has to repay lease charges in the form of principal and interest. The principal component is repaid back to IRFC from the Capital Fund. During year 2011-12, IR made payment of ₹ 3,454.33 crore to IRFC from Capital towards principal component of lease charges. The Committee desired to know if payment of principal component of lease charges to IRFC from Capital has got the approval from the Railway Convention Committee. The Ministry of Railways informed the Committee as under:—

“Capital Fund was created with the express purpose of financing part of expenditure of 'Capital' nature. Since rules of allocation for 'Capital' and 'Capital Fund' are similar, the activities that can be financed from 'Capital Fund' can also be financed from 'Capital'. The Railways' internal generation fell short of the budgeted expectation in 2011-12 necessitating the Capital Component of lease charges being paid from Capital. If this had not been done plan expenditure under DRF and DF would have suffered seriously. In view of the rules of allocation permitting the expenditure of similar nature being booked/provided both to 'Capital' and 'Capital Fund', the RCC's approval thereto is not necessary.”

29. The Committee then enquired about the strategy of the Ministry to recoup its 'Reserve funds' which have been depleted considerably. The Committee was informed as under:—

“Indian Railways is aiming to build balances in various funds such as Development Fund, Capital Fund and newly set up Debt Service Fund. The measures taken, *inter-alia* include implementation of Fuel Adjustment Component (FAC) in fare and freight, levy of higher busy season surcharge, revision of fares of Kolkata Metro Railway, revision of parcel rates, catering charges etc. amongst others. Austerity measures mandated by Ministry of Finance have also been circulated to all spending units for strict compliance. As a result the fund balances have improved from ₹ (-) 385 crore in 2011-12 to ₹ 2,390 crore in 2012-13. However, Railways' effort to build balances is closely linked to the growth in the national economy.”

30. The Audit scrutiny has found that Depreciation Reserve Fund closed at ₹ 5.05 crore in 2011-12 from a balance of ₹ 3,336 crore in 2008-09. The reduction in the fund balance is due to the fact that IR has not been able to make the appropriation to the Fund as required. The Committee enquired from the Ministry whether this arrangement has serious implications on the future sustainability of IR's operations as well as their plans to finance their asset renewals and replacement. The Ministry in a written submission stated as under:—

“The balance in the DRF reduced in the recent years owing to overdrawal as railways were unable to generate adequate resources during these years to sustain plan expenditure. Efforts are already afoot to generate higher internal resources to meet yearly urgent and mandatory requirements through DRF. As a result, appropriation to this Fund has increased from ₹ 2,287 crore in 2009-10 to ₹ 7,050 crore in 2012-13 and is estimated at ₹ 7,700 crore in 2013- 14. With increased appropriation, Railways' have been addressing urgent replacement and renewal needs. Several measures taken recently including rationalization of

fare and freight rates structure, implementation of Fuel Adjustment Component (FAC) to neutralize the rise in cost of fuel, levy of higher busy season surcharge, revision of fares of Kolkata Metro Railway, revision of parcel rates catering charges etc. would be helpful in generating higher internal resources.”

III. Appropriation Accounts

31. IR authorized its expenditure through operation of 16 Grants comprising of 15 Revenue Grants (Grants number 1 to 15) and one Capital Grant (Grant No. 16). Revenue grants were financed through the internal resources generated by the IR through its earnings during the year, the Capital grant was funded mainly through the budget, internal resources and share of diesel cess from Central Road Fund. Appropriation Accounts (Railways) for the sums expended during the year ended 31 March 2012, compared with the sums authorized in the Original and Supplementary Demands for Grants for expenditure and passed under Articles 114 and 115 of the Constitution of India are summarized as under:—

	(₹ in crore)				
	Original Grant/ Appropriation	Supplementary Grant	Total Sanctioned Grant	Actual Expenditure	Saving (-)/ Excess (+)
Voted					
Revenue	1,26,582.63	3,926.94	1,30,509.57	1,26,100.20	(-)4,409.37
Capital	70,697.27	3,714.11	74,411.38	68,636.12	(-)5,775.26
Total Voted	1,97,279.90	7,641.05	2,04,920.95	1,94,736.32	(-)10,184.63
Charged					
Revenue	161.78	3.19	164.96	155.12	(-)9.84
Capital	60.00	67.07	127.07	105.64	(-)21.43
Total	221.78	70.26	292.03	260.76	(-)31.27
Charged					
Grand Total	1,97,501.67	7,711.31	2,05,212.98	1,94,997.08	(-)10,215.90

32. The excess expenditure incurred by the Ministry of Railways over and above the Original Grants/Appropriations sanctioned by Parliament has become recurring phenomenon in the budgetary exercise over the years as can be seen in the figures of four years given below:—

(₹ in crore)		
Year	Number of excess registering Grants/Appropriations	Excess Expenditure incurred
2008-2009	8	532.12
2009-2010	9	1922.84
2010-2011	10	3056.86
2011-2012	4	1048.14

(i) Financial Accountability and Budget Management and Supplementary Provisions

33. Total voted grants and sanctioned appropriation for 2011-12 in respect of Ministry of Railways was ₹ 2,04,920.95 crore and ₹ 292.03 crore respectively. There was aggregate excess of ₹ 1,048.14 crore under two revenue grants (₹ 1,047.83 crore) and two revenue appropriations (₹ 0.31 crore) despite obtaining supplementary provisions. In eight revenue grants and three segments of capital grants, savings exceeded more than ₹ 100 crore. One revenue grant and three segments of capital grant were also accounted for persistent savings of over ₹ 100 crore each during last five years.

34. In reply to the query of the Committee regarding reasons for excess expenditure under voted grants and sanctioned appropriation and also the inability of the Ministry to foresee these at the time of preparing budget estimates or taking supplementary provisions, the Ministry submitted as under:—

“During 2011-12 the excess expenditure occurred in Grants 12 & 13 and Appropriations 3 & 13. The 'Excess' under Grant 12 was mainly under the 'Suspense' head due to clearance of heavy outstanding liabilities than anticipated which represented culmination of concerted efforts made in this regard. The 'Excess' under Grant 13 occurred due to receipt of more debits from various pension disbursing authorities in the last quarter of the year mainly on account of revision of pensionary benefits consequent to implementation of MACP and a higher than anticipated rates in DA. Budget provisions are made under assumptions of time usually taken by pension disbursing authorities to implement orders and any variation therein results in corresponding charge in quantum of actual cash outgo. The amounts of excess involved under Charged Appropriation in Demands 3 & 13 are relatively small, though in percentage terms they appear high.

It may be worth mentioning here that the above Grants/Appropriations are part of the Ordinary Working Expenses (OWE) covered by Grants/Appropriations from 3 to 13. Against the total net Final Grant of ₹ 94,827 crore in OWE in 2011-12, the actual expenditure worked out to ₹ 94,422 crore, registering in fact an overall savings of ₹ 405 crore. The reasons that resulted in excess in certain grants could not be foreseen at the time of budget estimates.”

35. Further, the Committee desired to know the reasons for the instances of excess expenditure despite obtaining supplementary provisions by the Ministry. The Committee were informed as under:—

“It is a fact that excess expenditure under Voted Grants 12 & 13 and Charged Appropriation 13 was unfortunately incurred in 2011-12 even after obtaining the Supplementary Grants. The Supplementary Demands under these cases were obtained on the projections made by the zonal railways. The assessment of some railways was not accurate to the extent of excess expenditure incurred. The Railways have been cautioned to avoid such instances in future by containing the expenditure within the sanctioned allotment and in no case excess expenditure should go 5% beyond the sanctioned allotment.”

36. In this context, the Committee sought from the Ministry details of the mechanism in place, both in the Ministry and at the Zonal railways, for monitoring the progress of expenditure against voted grant and sanctioned appropriation and asked whether the existing mechanism was sufficient to curb the instances of excess expenditure. Further, the Ministry was asked to specify any additional measures that have been taken/proposed to curb the chronic problem of incurring excess expenditure persistently. The Ministry in their reply submitted as under:—

“Considering the pan-India spread of Indian Railways, both in size and number of accounting/budgeting units involved as also the number of daily transactions, the incidence of excess expenditure in a few Grants becomes somewhat difficult to eliminate. Railways do have a time tested mechanism of accounting and budgetary control in place that is being continuously strengthened. In view of the excess expenditure being incurred consistently in certain Grants, particularly pension related Grant No. 13, the concern is being regularly shared with the zonal railways. The Pension Master is being computerized expeditiously in order to concurrently better assess the pension debits. Stricter monitoring is being resorted to with a view to improving the position.”

37. Though persistent savings occurred during last five years, the Indian Railways failed to accurately assess the funds required. The Committee asked the Ministry to explain the reasons for the failure in near accurate assessment. The Committee were informed as under:—

“Like 2010-11, major savings in 2011-12 have been registered under Grant No.14, 15 and 16. The savings of ₹ 2,803 crore under Grant No.14 are due to lesser appropriation to Railway Funds because of lower internal resource generation. As such, the savings under this Grant is technical in nature, targeted at ensuring better matching of available resources with expenditure.

In Grant No.15, savings of ₹ 1,079 crore occurred as Dividend Payable was reduced due to lowering of rate of dividend from 6% to 5% as recommended during the year by the Railway Convention Committee (RCC) for the year 2011-12.

Under Capital segment of Grant No.16, it is stated that the saving is mainly due to drop in credits realization and there has been no saving on net basis. Substantial savings under Railway Funds occurred mainly due to the decision to pay capital component of Lease Charges from Capital instead of from Capital Fund as shortfall in Railways' internal generation did not allow matching appropriation to this fund. Also due to lesser internal generation, the plan expenditure financed through Railway Funds was also regulated for better fiscal discipline.

Under Railway Safety Fund, slower progress of works due to delay in General Arrangements and Drawings (GAD), less/non-materialization of tenders and slow action on the part of participating State Governments resulted in savings. However, the spending under this allocation has been improving over the years *i.e.* from ₹ 360 crore in 2006-07 to ₹ 1,323 crore in 2011-12.”

(ii) Withdrawal/utilization of Railway funds

38. Appropriation to funds was not made as per the budget projections due to lower availability of funds during the last three years (2009-10 to 2011-12). The Depreciation Reserve Fund which was created to meet the requirement of funds needed for renewal/replacement of existing over-aged assets is not being appropriated as per the life of the assets but the appropriation in the fund was made to the extent working expenses could bear. Withdrawal from the funds in almost all the three years was more than the amount appropriated to the funds. According to the Ministry of Railways, as the available resources were lower than budgeted, the appropriation as well as expenditure under DRF was reduced.

39. In view of the fact that withdrawals from the funds were more than the appropriation made to the funds, the Committee desired to know the plan of the IR to mobilize their resources to finance the renewal and maintenance for Tracks and rolling stock to ensure safety in IR operations, meet expenditure required for capacity enhancement and Repayments of capital component of IRFC lease payments (for procurement of rolling stock). The Ministry informed as under:—

“While the higher expenditure was met partly through a bridge loan from the Government during 2011-12, Railways has also taken several measures to improve its internal resource generation in the subsequent years. These measures, *inter-alia* include, rationalization of fare and freight rate structure; levy of higher busy season surcharge, revision of fare structure of Kolkata Metro Railway, revision of parcel rates, catering charges. As a result, the fund balances have improved from ₹ (-) 385 crore in 2011-12 to ₹ 2,390 crore in 2012-13 and are estimated to improve further in the current year. The payment of Capital component of lease charges to IRFC has been budgeted to be partly met in 2013-14 through Gross Budgetary Support, as the expenditure is of capital nature. As regards Capacity enhancement works these are primarily met through Budgetary Support provided by the Government and hence not linked to appropriation to the Railway Funds.”

(iii) Re-appropriation within Grant No. 16

40. Investment decision which form the budget estimates for construction, acquisition and replacement of assets (Works Budget) were processed through the annual "Work, Machinery and Rolling Stock Programme" prepared on the basis of advance and continuous planning process. Despite detailed exercise in formulation of Works Budget of capital grant, non-utilization of sanctioned grant, besides large scale re-appropriation of original allocated funds from one plan head to another and from one railway to another had been noticed by Audit. These transfers were indicative of the lack of reliability in preparation of budgetary estimates for assets acquisition, construction and replacement/renewal. This not only had affected the long term advance planning of construction and acquisition of assets but also schedules of completion of works/projects. The Ministry made large scale re- appropriation despite the well laid

down procedure for estimating Works Budget. When the Committee enquired about the reasons for the same, the Ministry submitted as under:—

"At Budgetary stage, funds are allotted to various projects/plan heads keeping in view the physical targets, physical progress and residual requirement. Later, during the course of the year, certain post budgetary developments like delay in land acquisition, failure of contractors, adverse law & order situation, unfavourable climatic condition and natural calamity etc. necessitate reassessment of fund requirement of various projects/plan heads and funds that are likely to remain unutilized due to slower progress in certain projects/plan heads are transferred to other projects/plan heads showing considerable better progress than anticipated. The purpose of this exercise is to transfer funds that are likely to remain unutilized to projects/plan heads in need of additional money due to speedier progress. Such an approach has proved useful in the context of limited allocation of GBS over the years. If this exercise is not carried out, Railways will end up surrendering funds allotted to certain projects/plan heads at the end of the year while other projects/plan heads showing considerable progress would be stalled for want of additional funds. Thus this mechanism enables the Railways to optimally utilize scarce and precious funds received through Budgetary Support from Ministry of Finance and internally generated by the Railways. However, such transfer of funds within/across plan heads/Railways is not resorted to very frequently.

In the year 2011-12, shortfall in internal generation and also inadequate budgetary support also resulted in more than usual incidence of re-appropriations within Grant No. 16. Another factor that created the need for such level of re-appropriation of funds was non-availability of remunerative projects eligible for funding through market borrowings. In order to sustain progress under sanctioned works, re-appropriation of funds under Gross Budgetary Support was carried out."

(iv) Misclassification of Expenditure

41. Audit had found that expenditure had been misclassified from one Revenue grant to another and also from Revenue grant to Capital grant and *vice-versa*. Cases of mis-classification of expenditure from Capital to Deposit heads of accounts were also identified in audit. Mis-classification of expenditure from Revenue to Capital head of accounts or Capital to Deposit heads understated the Revenue and Capital expenditure in the accounts. The Committee desired to know about the existing system with the Ministry of Railways to check the instances of misclassification of expenditure and its effectiveness in ensuring internal control mechanism. The Ministry replied as under:—

"The existing mechanism is well established and effective. However, due to voluminous transactions, a few cases of misclassification remain undetected during the internal check which get corrected subsequently at the instance of audit. Detailed Codal provisions and other instructions exist for guidance of staff. Necessary directives have been issued to the Railways from time to time to scrupulously follow the existing guidelines and to further strengthen/tighten their internal check mechanism. Most of the cases of misclassification get detected and rectified before closure of the annual accounts of the year."

42. The Railways further informed that computerization of accounting activities is done in-house, keeping in view the specific working requirement in consultation with the user departments. Sufficient validations, audit trails and standard security features have been provided in these applications.

43. In reply to a query of the Committee regarding computerization of accounting activities in Railways, the Ministry informed as under:—

“At present, the major functions of Accounts department on Railways are computerized with the following applications:

Advanced Finance Railway Earning and Expenditure System (AFRES) covers, Budget, Books, Internal Check, Accounts Inspection, Finance, Provident Fund, Pension, Costing, Fuel Accounting, Workshop Accounts, Catering Accounts, Suspense, Cash and Pay and Traffic Accounts of Zonal Railways.

Pay Roll and Integrated Modules of Establishment (PRIME) covers computerization of Pay Roll, Running Allowance, Arrear of Pay and Allowances, Leave Account, Loan & Advances, Quarter and Electricity Charges, Career Events and Service Records and Post/Cadre Check/Scale Check of sanctioned posts.

Apart from the above, IPAS (Integrated Payroll and Accounting System), EMS (Expenditure Management System) and various other programme for preparation of Budget and Works Programme of Indian Railways are also in place.

Indian Railways have also implemented Inter-Railway Online Reconciliation of Transfer Transactions (eRecon), which eliminates manual reconciliation of transfer transactions between the Railways and also its units.”

44. On being enquired by the Committee as to whether the Ministry of Railways has reviewed the existing budgetary mechanism to identify and overcome systemic lacunae/ loopholes for progressive elimination of cases of misclassification of expenditure, it was stated as under:—

“Necessary instructions already exist for close and concurrent review of the booking of expenditure at various levels; test check of allocations recorded on vouchers; prompt reconciliation of the subsidiary books with the General Books and fixing up of responsibility for clear lapses at suitable levels, with a view to ensure proper maintenance of accounts and more stringent scrutiny.

Review of the internal checking mechanism is a continuous process. As a result of the concurrent monitoring system and computerization of activities, the number of misclassification of items has come down below 0.004% when compared to the total number of accounting transactions handled over Indian Railways. These mainly arise due to voluminous transactions and new activities being introduced in Railways from time to time due to technological changes and administrative requirements. The Railways have been requested to further streamline the review mechanism, strengthen internal checks for avoiding cases of misclassification.

Railways are taking up with the defaulting staff and duly counselling them for lapses besides issuing instructions/organizing workshops for guidance of staff, so that such instances are avoided in future.”

(v) Unsanctioned Expenditure

45. All items of irregular expenditure incurred by Indian Railways, such as expenditure incurred in excess of sanctioned estimates, expenditure incurred without detailed estimates and miscellaneous overpayments etc. are treated as unsanctioned expenditure. Expenditure held under objection revealed an increasing trend from ₹ 5,297 crore as of March, 2009 to ₹ 6,205 crore as of March, 2010, ₹ 6,272 crore as of March, 2011 and ₹ 7,354 crore as of March, 2012. Unsanctioned expenditure as of 31 March, 2012, included ₹ 6,205 crore (84 per cent) related to items which were more than two years old.

46. The Ministry explained the reasons for non-regularization of unsanctioned expenditure within the year of their incurrence, as under:

“Unsanctioned expenditure is mainly due to excess expenditure over sanctioned estimated cost, pending sanction of higher authorities. Normally the works are executed after proper sanction and revisions are also made concurrently as and when required. However, completion estimates take time for accounting for all residual liabilities and assets. Railways have been strictly instructed to revise estimates as expeditiously as possible so that these items kept under objection for want of sanction of completion estimates get cleared early.”

47. On regularization of the unsanctioned expenditure the Ministry stated that the items lying under unsanctioned expenditure are reviewed on a monthly basis and concerned executive officers are advised to regularize the same with the sanction of competent authorities. The older items of unsanctioned expenditure take longer time to regularize because of problem of linking the relevant records etc.

48. The Committee then enquired about the reasons of an item of unsanctioned expenditure pending for regularization to the tune of ₹ 1,326 crore in the year 2011-12, despite monthly reviews. Replying to the query, a representative of the Ministry during evidence stated as under:—

“As we have said, the excess expenditure is for estimates where the works had started, but either the estimate is not sanctioned and the contract is executed and there are contractual liabilities, which cannot be avoided. So, normally the estimate is revised and corrected so that once the contract is awarded we can show that it is sanctioned against a suitable estimate. So, that kind of formality, at times, takes time. That is initiated by the concerned pending units, our executive units; and from accounts, we keep on insisting and we do remind; it takes time; we will go through it in greater details and get back to you.”

49. Accordingly, the Ministry of Railways furnished the cost-wise and age-wise break up of the unsanctioned expenditure for the last two years as given below:—

Year-wise break up of Unsanctioned Expenditure

(₹ In Crore)

Year	As per Appropriation Accounts (2010-11)		As per Appropriation Accounts (2011-12)		As on 30.09.2014	
	No. of items	Amount	No. of items	Amount	No. of items	Amount
Before March 1960	159	17.14	159	26.28	146	17.00
1980-81	7	18.41	6	18.40	5	18.30
1981-82	7	5.98	5	7.02	4	5.36
1982-83	10	6.82	8	6.52	8	6.52
1983-84	81	7.28	8	8.06	8	7.06
1984-85	52	4.68	52	12.04	11	4.60
1985-86	40	3.66	40	20.30	4	3.68
1986-87	8	21.45	7	21.11	5	20.43
1987-88	23	47.04	16	67.36	15	46.39
1988-89	25	53.78	16	14.33	16	14.33
1989-90	19	18.04	19	8.43	12	6.43
1990-91	21	48.81	18	52.38	14	43.35
1991-92	25	32.13	25	38.31	11	9.22
1992-93	18	46.61	18	138.49	8	49.67
1993-94	61	76.15	56	78.82	28	76.40
1994-95	30	19.01	28	19.49	25	15.55
1995-96	30	36.32	30	177.58	21	38.69
1996-97	38	42.22	32	35.71	28	26.24
1997-98	20	37.38	18	34.21	18	34.21
1998-99	72	17.24	41	49.89	25	12.32
1999-2000	45	152.2	45	153.69	27	136.67
2000-01	615	209.43	600	183.98	30	95.98
2001-02	73	94.68	42	59.09	41	59.00
2002-03	73	255.83	61	419.19	61	419.19
2003-04	70	108.77	31	114.50	25	89.06
2004-05	141	223.56	89	151.77	89	151.77
2005-06	105	103.57	40	152.76	38	116.19
2006-07	123	429.15	55	493.83	50	323.89
2007-08	160	646.75	123	765.86	86	241.60
2008-09	209	1337.53	154	952.90	102	911.90
2009-10	716	1270.24	352	862.64	174	562.64
2010-11	1231	880.34	441	883.36	285	779.08
2011-12	0	0	614	1325.00	564	1248.75
Total	4307	6272.18	3249	7354.27	1984	5591.45

50. The Committee desired to know whether works registers are properly maintained and timely completion reports drawn. The Ministry submitted as under:—

“The works registers are being maintained properly and completion reports are also drawn on completion of the work. However, in some cases, where liabilities are not settled due to various unavoidable circumstances, drawal of completion report gets delayed. Railways have standing instructions to review all such cases periodically and ensure expeditious finalization of completion report.”

51. On the issue of expenditure remaining unsanctioned for a long period, the Committee were informed as under:—

“The occurrence of unsanctioned expenditure and its regularization is a continuous process and to the extent feasible the revised estimates are made for regularization of additional expenditure. However, the final sanction of excesses generally depends on completion of the work and finalization of the Accounts. The expenditure remains unsanctioned till preparation of Revised Estimates. In some cases, inadequacy of funds/budget allotment is also contributing to non-completion of work and consequent delay in sanction of excess expenditure.”

52. During evidence a representative of the Ministry further elaborated on this issue as follows:—

“I would like to clarify that all the expenditure pertain to works which have been duly sanctioned. They are sanctioned works appearing in the pink book which we present to the Parliament. On the basis of whatever cost is appearing in the book, detailed estimates are processed. Over a period of time the work gets executed. Some of the time it happens that the actual cost of work may come slightly more than the sanctioned cost. Ideally the revised estimates should be sanctioned before we reach that stage but practically there is a delay. So, whenever I spend anything which is in excess of the sanctioned estimate for the sanctioned work we bring that in this particular category of unsanctioned expenditure. Once a work gets completed, the completion estimate or the completion report which will finally sanction all the excess estimate does take time because most of the time the delay is on account of things like court cases on land and arbitration cases and court cases against contracts. That is the reason that delay takes place. Some of the time it can be two years though it has been mentioned, we do try to keep it down. Review is definitely done every month.”

IV. Budget Formulation and Financial Management in IR

53. The process of preparation of Budget commences at the field unit level where estimated Revenue and Capital Expenditure under different heads are prepared which forms the base for forecasting the requirement of funds for the current year (Revised Estimate) and ensuing year (Budget Estimate). The estimates are then compiled and scrutinized at the Zonal Headquarters level for consideration and final allotment by the Railway Board. The Audit study covered the period 2009—12.

(i) Non-compliance to Ministry of Finance Observations

54. The Ministry of Finance (MoF) while commenting on the budget proposal (2009-12) of the Ministry of Railways, *inter-alia*, advised that the IR should ensure that bulk of Gross Budgetary Support (GBS) be utilized towards the priority projects and implement credible plans for increasing Internal and Extra Budgetary Resources (IEBR) in their total plan where IR could generate only ₹ 23,988 crore against projection of ₹ 35,735 crore leaving a gap of ₹ 11,747 crore. The MoF also advised the MoR to gear up and guard against further slippages on the revenue front. Against the projected Gross Traffic Receipt of ₹ 88,356 crore, IR could garner only ₹ 86,964 crore (2009-10). Audit observed that there was shortfall in Gross Traffic Receipts and generation of IEBR.

55. The Committee desired to know from MoR the reasons for not complying with the observations of the Ministry of Finance on the budget proposals of Indian Railways and also about the specific action taken to adhere to the Ministry of Finance's advice to gear up and guard against slippages on the Revenue front. The Ministry in their submission stated as under:—

“It has been the constant endeavour of Ministry of Railways to adhere to the guidelines of the Ministry of Finance. These guidelines/notes recorded by Ministry of Finance on the Railway's Budget proposals are more in the nature of suggestions which may or may not be implementable at the time of budget for that year or during the year. However, efforts are made to adopt these in while formulating subsequent Budget's in case they could not be adopted instantly. Since Ministry of Finance's suggestions on rationalization on fare and freight were received late, they could be made applicable later during the fiscal 2011-12 and also in the ensuing budget of 2012-13 and 2013-14. Some of the measures taken to boost earnings of Railways and ensure better fiscal discipline, *inter-alia*, include:—

- (i) Rationalization of fare and freight structure;
- (ii) Prioritization of projects undertaken for judicious utilization of plan resources;
- (iii) Introduction of Fuel Adjustment Component (FAC) to neutralize the increase in cost of fuel, both diesel and electricity;
- (iv) Restrictions on the powers of Zonal Railways on re-appropriation of funds both for plan and non-plan expenditure; and
- (v) Setting up of a Debt Service Fund to ensure smooth debt servicing of future committed liabilities.

Accordingly, the financial position of Railways has shown signs of improvement in subsequent years. As a result, the loan of ₹ 3,000 crore taken from Ministry of Finance in 2011-12 was fully repaid in 2012-13. Railways' fund balances also improved from ₹ (-) 385 crore in 2011-12 to ₹ 2,390 crore in 2012-13 and are estimated to improve to ₹ 12,140 crore in 2013-14.”

56. The Audit observed that the Ministry of Railway's initiative to augment their freight revenues by increasing the fares failed to generate adequate Gross Traffic

receipts. The Committee asked the Ministry to give details of additional measures proposed in this regard. The Ministry of Railways in their reply submitted as under:—

"Freight earnings during 2011-12 increased by 10.67 per cent over the previous year was higher than the CAGR of 9.83 per cent achieved during 2007-11. Therefore, the presumption that adequate gross traffic receipts were not generated does not appear to be correct. Evaluation of various initiatives to augment the freight revenue is a continuous process. Railways have been constantly monitoring the situation prevailing in the market and depending upon the dynamic scenario and request from rail users, Railways have granted concessions under various incentive schemes to boost traffic and increase rail share of commodities. The slew of freight incentives schemes that are in place for attracting traffic include (i) Incentive scheme for traditional empty flow directions, (ii) Incentive scheme for loading bagged consignments in open & flat wagons, (iii) Incentive scheme for freight forwarders, and (iv) Incentive scheme for incremental traffic. Recently, Railways have launched a very attractive freight incentive scheme whereby automatic rebate in freight rate through FOIS is given to customers who are loading wagons in directions in which they traditionally use to move empty. The scheme will be initially limited to covered wagons and is expected to divert traffic from road to rail as the freight rates are lower than breakeven levels.

Initiatives to invite private investments for procurement of wagons

- (1) Liberalized Wagon Investment Scheme (LWIS): LWIS allows investment by End users (*viz.*, producers, manufacturers and consumers of goods) in Special Purpose Wagons (SPW) and High Capacity Wagons (HCW). The policy was issued on 15.04.2008.

With a view to make the scheme more liberal and customer-friendly, the Liberalized Wagon Investment Scheme (LWIS) has been reviewed and policy guidelines on Revised Liberalized Wagon Investment Scheme (LWIS) have been issued on 02.01.2012.

Response: So far, approval for procurement of 54 rakes by 13 firms, has been accorded to various customers by Ministry of Railways. Out of which, 21 rakes have been procured/inducted and are running on the system.

- (2) Wagon Leasing Scheme (WLS): This Scheme has been launched to introduce the concept of leasing of railway wagons on IR. The scheme aims at induction of rakes through PPP route with the private sector for High Capacity Wagons and Special Purpose Wagons and wagons for container movement. WLS can lease wagons to Automobile Freight Train Operators, Liberalized Wagon Investment Scheme, Special Freight Train Operators and Container Train Operators. The policy has been issued on 15.04.2008.

Response: M/s. GATX. have been registered as Wagon Leasing Company under the policy on 18.05.2012 after signing the agreement with Northern Railway. They have an agreement with Arishiya International to lease

10 rakes of BLCA/BLCB (container flats) and 2 rakes of BLC wagons to M/s. India Infrastructure and Logistics Private Limited. Two rakes have been supplied to Arishiya International. M/s. Touax Texmaco Railcar Leasing Pvt. have also registered as Wagon Leasing Company under the policy on 20.09.2012.

- (3) Automobile Freight Train Operator Scheme (AFTO) : To increase IR's market share in transportation of automobile *i.e.* two/three-wheelers, cars and tractors etc. by inviting private participation, a new scheme namely Automobile Freight Train Operator Scheme AFTO has been issued on 19.07.2010. With a view to make the scheme more liberal and customer- friendly, the Automobile Freight Train Operators Scheme (AFTO) has been reviewed and policy guidelines on Revised AFTO have been issued on 22.02.2013.

Response: Approval has been given to M/s. Maruti Suzuki and M/s. APL Logistics Vascor Automotive Pvt. Ltd. as AFTO. M/s. Maruti started running first such rake between GGN to NDV since 05.03.2014 and is awaiting induction of 2 more rakes of BCACBM wagons. The design for these automobile wagons has been developed by RDSO.

The first rake of M/s. APL Logistics has also been inducted. The first rake will run from MLPM(SR) to Khatuwas (NWR).

- (4) Special Freight Train Operator Scheme (SFTO) : To increase Rail share in the commodities like fertilizers, molasses, edible oil, caustic soda, chemicals, petrochemicals, alumina, bulk cement and fly ash etc., a new scheme namely Special Freight Train Operator Scheme (SFTO) has been launched, to attract private investment in special purpose wagons required for transportation of these commodities. Policy that was issued on 31.05.2010 has been modified with a view to make the scheme more liberal and customer-friendly and policy guidelines on Revised SFTO have been issued on 24.06.2013.

Response: So far, proposals for procurement of 3 rakes (tank wagons) for Caustic Soda have been finalized. Agreement to be signed under the scheme has been finalized and issued *vide* Freight Marketing Circular No. 11 of 2012 dated 16.05.2012. East Coast Railway has to sign the Agreement on behalf of Indian Railway.

M/s. JSPL has also applied for procurement of Special steel wagons under Category — III of the scheme.”

57. The Committee further desired to know the specific reasons for shortfall in generation of internal and extra budgetary resources and measures taken/proposed to augment the generation of internal resources. The Committee were informed as under:—

“The Ordinary Working Expenses (OWE) that were fixed at ₹ 73,650 crore in BE 2011-12, increased by ₹ 887 crore in actual mainly due to higher fuel cost. In addition, the pension payment at ₹ 17,919 crore also exceeded the budget estimates by ₹ 1,919 crore due to unforeseen inflow of debits from the disbursing authorities. The traffic earnings on the other hand fell short of the budgeted

target by ₹ 2,129 crore in Passenger, Other Coaching and Sundry segments and net accretion in traffic outstandings. All these factors contributed to shortfall in internal generation.

As regards Extra Budgetary Resources while the target for market borrowings through Indian Railway Finance Corporation of ₹ 14,682 crore was fully met, the shortfall was mainly on account of lesser investment under the Public Private Partnership component. Railways have so far not been able to attract PPP investment on a significant scale as Railway projects are highly capital intensive and have a long gestation period. However continuous efforts are being made to customize PPP schemes to make them attractive to the private sector in order to attract higher investments.

Several measures have been taken to enhance the internal resource generation such as implementation of Fuel Adjustment Component (FAC) to neutralize increase in cost of fuel; levy of higher busy season surcharge, revision of fare of Kolkata Metro Railway, revision of parcel rates, catering charges amongst others. Austerity measures mandated by Ministry of Finance have also been circulated to all spending units for strict compliance. The success of these efforts is largely dependent on the state of the national economy and higher economic growth will support railways' efforts at generating higher revenues.”

58. In view of the reducing plan expenditure, the Committee desired to know about the extent by which the reduction of Plan Expenditure would adversely impact the Railways Plans and Projections and measures the Ministry propose to carry out the important works in the absence of plan expenditure and reduction in IEER. The Committee were informed as under:—

“Plan expenditure has been increasing consistently from year-to-year. This can be seen from the figures of five previous years before this fiscal, *i.e.* ₹ 39672 crore in 2009-10, ₹ 40793 crore in 2010-11, ₹ 45061 crore in 2011-12, ₹ 50383 crore in 2012-13, ₹ 53352 crore (provisionally finalized) in 2013-14, and a Budgetary estimate of Plan Expenditure of ₹ 65445 crore in 2014-15.

Despite the aforementioned enhanced inputs year-to-year, Indian Railways' network is facing acute congestion on busy routes. Indian Railway needs sufficient and sustained fund allocation for critical Doubling, Traffic Facilities, wagons' POH, selected new lines, Gauge Conversion, electrification works etc. In view of huge demands on the Ministry for taking up works for capacity augmentation in the face of acute resource mobilization issues, Ministry of Railways have started exploring innovative financing methods, including a heavy thrust on the Public Private Partnership mode of investment. A policy in this regard has been issued. Ministry of Railways also propose to attract funding through Foreign Direct Investment, which has recently been approved by the Cabinet.”

(ii) Defects in Budgeting

59. The efficiency of the Budgeting process *prima facie* depends on the realistic assessment of the expenditure and earnings so as to ensure optimum utilization of

funds. Audit observed that in 248 instances the actual expenditure incurred by the Zonal Railways exceeded the allotment made by the Railway Board and there were savings in 139 instances on account of lesser allotment of funds. In reply to the query of the Committee regarding causes of persistent variation between the budget *vis-a-vis* the actual expenditure and control of the Ministry over the various Zones in relation to the allotment of funds and their utilization, the Ministry submitted as under:—

"It may be appreciated that since the Budget projections of non-plan expenditure are essentially estimates based on growth in activities, rise in the price of materials, incremental impact of salaries, allowances and pension, cost of fuel etc., fluctuation in the actuals *vis-à-vis* the estimates can never be ruled out. In plan expenditure, except for the Capital (budgetary support) and Railway Safety Fund, the level of expenditure is impacted by the level of internal resources generated by Railways.

A well-set and time tested internal control mechanism exists in Indian Railways, which consists of a number of spending and accounting units. The Ministry, however, agrees that these units need to be strengthened. With a view towards this, while on the one hand periodic reviews are being conducted by Board with the GMs/FA&CAOs, strict exchequer control is also being enforced so as not to exceed the sanctioned Grants/Appropriation including restrictions on powers of reappropriation. Simultaneously, as an ongoing exercise, instructions have been reiterated to the Zonal Railways/PUs to further streamline the mechanism of estimating the budget and supplementary grants more realistically, to take steps towards better expenditure control and to ensure fiscal discipline so that instances of excess are minimized."

60. Regarding need to put in place an effective internal control mechanism to check unauthorized expenditure or utilization of funds, the Ministry informed as under:—

"Normally, expenditure is incurred against sanctioned estimates and revisions, if any, required are also made concurrently. The expenditure bills are subject to internal check which, *inter-alia* includes checking of sanctioned estimate, availability of funds, correct allocation of expenditure. The progressive expenditure is monitored *vis-à-vis* available funds under the sanctioned estimate on a monthly basis to avoid instances of utilization of funds against unsanctioned works. The Railways have been strictly instructed to revise estimate/finalize completion estimates, wherever required, expeditiously so that items of unsanctioned expenditure incurred pending sanction of competent authority, are cleared early."

(iii) Investment Planning

61. IR deviated from its own laid down guidelines for making investment decisions as cases of either under utilization/surrender of funds or excess expenditure in doubling, new line works and gauge conversion projects were noted. Audit had observed that works were taken up without inclusion in the Preliminary Works Programme. Works were included as Material Modification works to the existing works without observing the financial viability of the projects. The Committee enquired whether any exceptions

are there wherein the works are included without their inclusion in the Preliminary Works Programme. If so, the basis of doing so and the justifications for such deviation. They further questioned the justification for Material Modification to the existing works and whether these works were in tune with the provisions contained in the codal rules and regulations. The Ministry in their reply clarified as under:—

"Works programme is nomenclature given to the entire gamut of exercise of decision making for investment related to the creation, acquisition & replacement of assets on the Railways. Preparation of annual works programme is not an isolated exercise for the year but is a part of continuous planning process. After due consideration, new works which should be undertaken during the following year are decided. All new works are included in Budget document duly indicating the requirement of funds both for new investment/works and for works in progress in the form of "Demand for Grants" in the Works Machinery and Rolling stock programme which form the part of Budget Document. Hence no new work/Investment is undertaken without the approval of the Parliament. After approval of the Parliament, Detailed Estimates are prepared and sanctioned by the competent authority before embarking on its execution.

During the course of execution of these new line projects, it is realized that some addition and alteration would be desirable with a view to enlarging coverage and deriving full benefit for the using public, and to foster inclusive growth of the area served. These additions and alterations considered incidental to the already sanctioned works, and the act of such augmentation of the scope of the respective works is considered as material modification of a sanctioned project/works.

Indian Railways Engineering Code is a compilation of statutory Rules, which are in the form of subordinate legislation formulated to provide a working framework/guidelines to the Ministry/Departments. The Code provides for sanction of Material Modification to sanctioned works in a need based manner. Extension of the scope of the works is done through sanction of Material Modification as laid down for relevant provision of Engineering Code, after approval of competent authority.

After sanction of a Material Modification, during the course of the year, description of the relevant work and cost are suitably revised. This is then included in the Works Programme of the Ministry listing New Works and Works in Progress, which forms part of the documents placed before the Parliament. Expenditure incurred on the extended projects (incorporating material modification) conformed broadly to the Rules which lay down and it is the responsibility of the Railway Board to ensure that total expenditure against Grant voted by the Parliament or Appropriation sanctioned by the president does not exceed the amount of the Grant (including Supplementary Grants) or of the Appropriations (including supplementary appropriations). Thus, it is broadly ensured that expenditure on works including material modification remain within the Grants authorized by the Parliament, and the money is not utilized for expenditure on New Service not contemplated in the Budget."

62. Audit found that funds allocated for the projects could not be optimally utilized defeating the objective of judicious allocation of available resources to priority projects while preparing budget at the zonal level.

(iv) Appropriation of Pension Fund

63. Audit have observed that neither the estimation of pension liability was based on actuarial calculations nor was it re-assessed subsequently. Ministry of Railways contended that the appropriation to Pension Fund was being made on need-cum-availability basis. The contention of the Railway Administration was, however, not in line with the existing guidelines of estimation on actuarial basis. The Committee asked the Ministry if they assessed its Pension liability and the process of calculation of liabilities for Pension Fund and also the reasons for deviation from extant provisions in the calculation of Pension liabilities, if any. The Ministry informed as under:—

"Assessment of pension liabilities is made by the zonal railways each year. Based on their projections, the budget estimates are formulated. However, the assessment of pension liabilities has not been too accurate in the past few years owing largely to varied pace of implementation across zonal railways of various orders of the Government relating to pensioners and also due to unforeseen inflow of debits from the disbursing agencies after implementation of the recommendations of the 6th Central Pay Commission. With gradual computerization of Pension Master by the zonal railways and computerization of debit raising mechanism by banks/other disbursing agencies, the accuracy of pension liabilities assessment will gradually improve."

64. During evidence, a representative of the Ministry, *inter-alia* informed that earlier the projections were made by different zones but now they have made common Pension Master portal for the country called 'ARPAN'. It is online and IR are trying to bridge the gap.

65. However, in a written reply furnished subsequently, the Ministry submitted as under:—

"The actuarial study conducted in 2005 revealed that an arrear provision of ₹ 452639.63 crore is required as on 31.03.2005 for pension payment of existing staff and payment of 18% of salary per annum thereafter. Further, apart from above an additional provision of ₹ 89308.36 crore is required for existing pensioner/family pensioner.

Provisioning of such magnitude is not found feasible/practical by the Railways given the financial position of IR. Hence, the Railways continues with the existing system of appropriation to Pension Fund based on trend of withdrawals *i.e.* need-cum-availability basis."

(v) Internal Control Update

66. The Audit reviewed the effectiveness of the internal control system in place for efficient management of finances of the IR and found several deficiencies occurred due to deviation from the existing rules and regulations of the Railways. These include

negative balance due to non-reconciliation of Cheques and Bills and under remittances into bank, balance under Miscellaneous Advance Revenue resulting in non-booking of revenue expenditure to Final Head of Account, non finalization of Completion Report for the projects completed as long as three years back and irregular booking of expenditure. They have observed that weak internal control resulted in improper accounting of expenditure/earnings and accumulation of inefficient balances under suspense head. Non-observance of rules and regulations due to absence of effective internal control defeated the objectives of authenticity and transparency in accounting and budgeting.

67. The Committee asked the Ministry to explain in brief about the action taken to review the internal control mechanism both at the Headquarters and at the Zonal level to make it more effective so as to ensure proper accounting and budgeting practices. The Ministry in their written reply submitted that Railways are instructed to put in place an effective monitoring mechanism to ensure all current works are regularly reviewed for any excess over sanctioned estimates and initiate corrective action for ensuring concurrent revision of estimates wherever needed and contain the expenditure within the sanctioned budget allotments.

PART II

OBSERVATIONS AND RECOMMENDATIONS

1. Need to address deficiencies in Budgeting: The Indian Railways (IR), despite being the biggest and oldest Government commercial undertaking having a separate budget, does not have sound financial management in place which results in defective budgeting year after year. Despite incurring of excess expenditure, the IR was unable to meet its operational cost of passenger and other coaching services, during 2011-12. The Committee also note that during 2011-12, though the Gross Traffic Receipts of IR increased by 10.13 per cent over the previous year, yet it was below the Budget projections by 2 per cent (₹ 2128.65 crore). The total working expenditure increased by 2.29 per cent (₹ 2217.41 crore) as compared to budget projections. Thus the Net Revenue was below the budget projections by 43.45 per cent (₹ 5211.53 crore). The Committee deplore the fact that excess expenditure over and above the original grants/appropriation by the IR has become a recurring phenomenon. During 2008-09, excess expenditure was ₹ 532.12 crore, in 2009-10 it rose to ₹ 1922.84 crore and in 2010- 11, the excess expenditure reached a huge sum of ₹ 3056.86 crore. During 2011-12, the IR incurred an expenditure of ₹ 1048.14 crore more than the authorized provisions in two revenue grants and two appropriations, as well as supplementary provisions. Also, savings of more than ₹ 100 crore were noticed in seven revenue grants and one capital grant. The Committee are surprised that despite the availability of latest IT tools to collect and analyse data, the IR was not able to assess its fund requirements properly. In addition, the financial position of IR did not improve despite incurring of excess expenditure of more than ₹ 1000 crore, as was evident from the negligible negative balances with which IR's Depreciation Reserve Fund, Pension Fund, Development Fund and Capital Fund closed in 2011-12. Instances of misclassification of expenditure continued to occur regularly in the accounting system. The Committee urge the Government to make optimal utilization of E-Governance and fix responsibility on the internal financial planners and advisors to document and assess the earnings and expenditure of IR properly while formulating its budget.

2. The Public Accounts Committee had time and again expressed its concern and displeasure over excess expenditure and inadequate exercise in budget preparation by IR. Though Ministry have tried to justify the excess expenditure incurred in 2011-12 by stating that due to heavy liabilities in 'Suspense' head and more debit in 'Pension' head under Grant No. 12 & 13 the excess expenditure could not be foreseen. Reportedly they also have given directions to authorities to avoid such instances in future and excess in any case should not go beyond 5 per cent of the sanctioned allotment. Earlier also the Committee had made recommendations on these issues *i.e.* excess expenditure over sanctioned provisions, savings of more than ₹ 100 crore despite supplementary provisions, inaccurate budget estimation, and misclassification of expenditure in their 64th Report (15th Lok Sabha). Further not satisfied with the

Action Taken Notes of the Ministry of Railways on their observations and recommendations, the Committee in their 9th Action Taken Report (16th Lok Sabha) presented to Parliament on 09.12.2014, have reiterated their earlier recommendations too. The Committee fail to understand the justification for incurring excess expenditure even on committed liabilities like pensions which can be easily estimated provided all related records are computerized and maintained properly. The Committee expect that MoR make sincere efforts for implementation of their recommendations and avoid any excess expenditure in future. The Committee also desire the IR to fortify its internal control mechanism further to effectively reduce the instances of misclassification of expenditure and take stringent punitive action against those officials, particularly the key controlling officers to deter others so that misclassification of expenditure is avoided in future. The aforesaid position should be brought to the notice of the Government in the Ministry of Railways and the Finance Ministry for taking exemplary action against the concerned Chief Accounting Authority and the Financial Adviser.

3. Need to rationalize tariffs and manpower: The Committee are concerned that the losses incurred by the core activity of passenger and other coaching services increased from ₹ 7309.26 crore in 2006-07 to a huge ₹ 20,948.35 crore in 2010-11. The rail fare is comparatively lower to Government controlled bus fares in the country. The IR has since increased its fare on freight as well as passengers including the suburban one and the Committee were assured that loss incurred previously is likely to be overcome in the current year. The Committee expect that the steps taken by IR to increase on their earnings through their core activities *i.e.* freight and passenger traffic, would improve their financial position. On the other side, the Committee note that since IR has about 13 lakh employees and it has incurred expenditure of 58,680 crore as on 31-03-2012 towards their salary and pensions etc. there is a need to review their contribution towards enhancing IR's financial health too. The Committee, therefore, desire the Railways not only to continue rationalizing both freight and passenger tariffs, which should commensurate with the facilities provided but also to ensure optimum utilization of its manpower. They also desire the Indian Railways to continue exploring new avenues to recover the cost from its services to generate surplus to meet its future requirements. The Committee also concur with the view that the rollback of increase in fares, once decided upon and implemented, upsets the estimation and thus should be avoided. They would like to be apprised of the tangible impact these measures had on the railway earnings in the next fiscals, *i.e.*, 2012-13 and 2013-14, at the action taken stage.

4. Prioritising projects to increase earnings: The Committee note that as the earnings of the IR were decreasing, its contribution to various reserve funds and dividend to Government also decreased. Reserve funds are required for the upkeep and replacement of old lines and operation of projects/capital works. During oral evidence, the Ministry admitted that reduction in reserve funds means slow pace of track renewals. In the present circumstances it is important for IR to review all the existing projects and take urgent decisions with regard to continuation of projects which are less or non-remunerative. The Committee therefore, recommend that IR should focus first on those selected/prioritised projects like the Dedicated Freight

Corridors, High Speed Rail Links, last mile rail connectivity etc. which are likely to be completed in the near future and prove financially viable as well as beneficial for the public at large. Further they feel that IR should review those projects, which are long delayed and yet have not achieved even 5% progress, and consider dropping the same. The Committee are of the view that this will lead to more judicious and effective use of available funds and financially help IR in their operation and earnings.

5. Commercial Exploitation of Rail land/space and other assets: The Committee are of the view that there is considerable scope to increase revenue earned by IR through efficient utilization of its huge land bank and other assets. They note from the audit review that sundry earnings of IR can be augmented if bills from realisation of rent of buildings, license fee are raised and realized in a timely manner with proper revision wherever due. A drop in such earnings was noticed in 2011-12 when it grew at around 8 per cent only as against 15 per cent in 2010-11. The Committee, therefore, recommend Railways to conduct an assessment of all the cases of licensing/renting of its assets for timely revision/raising of bills and realization of dues including arrears, if any. They also like the Railway to effectively pursue the cases of unrealized earnings pending under traffic suspense mainly on account of traffic and demand recoverable. In addition, the Committee are of the view that the Railways can generate good revenue by selling space for advertising in its coaches, stations, tickets, information booklets etc. They urge the Ministry of Railways to urgently assess their potential in this direction and prepare a suitable plan for early implementation.

6. The Committee note that IR has about 4.59 lakh hectare of land of which about 90 percent is under operational and allied usages. The Committee also note that Rail Land Development Authority (RLDA) was created to exploit commercial potential of Railway land. Though due to a decision of the Government to ban all licensing and leasing in 2011, the RLDA's activities were held up. The Committee learn that now the Railways have approval of the Cabinet to energise the activity of RLDA. The Committee recommend IR to help RLDA accelerate its efforts and commercially exploit maximum land by leasing out to Government/Private organizations to increase Railways earnings as well as help in infrastructural development around Railway Land. However, appropriate mechanism should be put in place so that corruption and misuse of Railway land is avoided at all costs. The Committee also desire that the slum dwellers, settled on Railways land, particularly in metropolitan cities, need to be rehabilitated under the existing schemes of Central/State Government, before the encroached Railways land is reclaimed. The Committee understood that a Special Purpose Vehicle (SPV) under the Indian Companies Act 1956, a joint venture company of IRCON and RLDA has been formed with 51:49 partnership, with an authorized share capital of ₹ 100 crore for development of Railway stations. The Committee would like to be informed about the works undertaken so far by the SPV.

7. Unsanctioned expenditure: The Committee note that such expenditure as incurred in excess of sanctioned estimates without detailed estimates and miscellaneous over payments etc. is treated as unsanctioned expenditure. An increasing trend has been noticed under this head from ₹ 5297 crore as of March 2009 to ₹ 6205 crore as of March 2010, ₹ 6272 crore in 2011 and ₹ 7354 crore in 2012. This was despite the Statement made by MoR that monthly review is conducted

and immediate action is taken for its regularization. Railways have also been reportedly advised by the MoR to expedite its regularization. However, the Committee find that cases for the last two years are still pending for regularization. They take serious view on the increasing trend of unsanctioned expenditure and desire the Ministry to take measures to control it effectively by directing their administration to ensure that all unsanctioned expenditures are regularized on priority basis so that pendency under this head is eliminated. At the same time, the Committee note that despite directions issued by MoR to field units/Zonal Railways for adopting realistic assessment of the expenditure, 248 instances of the actual expenditure incurred by Zonal Railways exceeded the allotment and in 139 instances, savings were noticed. They feel that variation between budget estimate and actual expenditure is indicative of inaccuracy of the data used for estimation at spending unit level. The Committee, therefore, desire the MoR to strengthen their system of documentation of the process of budget estimate preparation and verifying the authenticity of data used in projecting estimates particularly at the Zonal Railways level as their estimates form basis of the whole budget which is finalized and approved by the Railway Board. The Committee further desire that such repeated lapses may be brought to the notice of higher authorities in the Government for taking stringent punitive action against the concerned Chief Accounting Authorities. The aforesaid position should be brought to the notice of the Government in the Ministry of Railways and the Finance Ministry for taking exemplary action against the concerned Chief Accounting Authority and the Financial Adviser.

8. Compliance with advice of Ministry of Finance: The Committee note that while commenting on the budget proposals of MoR for 2009-12, the MoF advised IR to ensure that bulk of Gross Budgetary Support (GBS) was utilized towards the priority projects and credible plans were implemented for increasing Internal and Extra Budgetary Resources (IEBR) in their total plan. MoF had also advised the MoR to gear up and guard against further slippage on the revenue front as IR could garner only ₹ 86964 crore (2009-10) against the projected GTR of ₹ 88356 crore. The Audit had observed that there was shortfall in GTR and IEBR as MoR did not comply with the observations of the MoF. The Committee note that MoR does not agree with observation of Audit and have stated that the suggestion of MoF for rationalization of fare and freight were received late and could not be made applicable during 2009-10. MoR further stated that GTR increased by 10.67 per cent in 2011-12 through freight earnings as compared to previous year, which was higher than the CAGR of 9.83 per cent achieved during 2007-11 and due to increase in revenue, the loan of ₹ 3000 crore taken from MoF has been repaid by IR in 2012-13 and that the Railways Fund balance has also improved from ₹ (-)385 crore in 2011-12 to an estimated ₹ 12140 crore in 2013-14. However, the Committee note that on the other side, the Ordinary Working Expenses (OWE) of IR increased due to higher fuel cost and the Pension payment exceeded due to unforeseen inflow of debits from disbursing authorities. Further, traffic earnings from passenger, other coaching and sundry segments fell short. All these factors had a bearing on the internal revenue generation. The IR has reportedly launched several schemes to attract more freight traffic for revenue generation as well as private investment and FDI. The Committee would like to know the impact of these schemes at the action taken stage.

9. Need to improve decision making for investment: The Committee note that IR deviated from its own laid down guidelines for making investment decision as cases of excess/savings in doubling, new line and gauge conversion projects as well as inclusion of works as Material Modification Works to an existing work have been pointed out by the Audit. The Ministry, however have defended its decisions before the Committee by emphasizing that no new work/investment was undertaken without the approval of the Parliament and that modifications to existing work are undertaken as Material Modification to sanctioned work, which is in line with the Indian Railways Engineering Code rules. The Committee, however, find that despite taking approval of the competent authority by following laid down procedure, excess expenditure and savings/surrender of funds were noticed to a large extent which itself is indicative of the fact that funds allocated were not optimally utilized for the desired purpose thus defeating the objective of judicious allocation of available resources. The Committee, therefore, urge the IR to reduce the need for subsequent additions and alterations in sanctioned works to the minimum and improve its monitoring mechanism over utilization of funds and timely and realistic assessment of their requirement particularly at the Zonal Railway level.

10. Strengthening Internal Control mechanism: An effective internal control mechanism ensures compliance to the rules and regulations for financial management of activities and resources of the organization. It also ensures reliable financial reporting. However, the Committee note that several instances of avoidance of existing rules and regulations were noticed thus resulting in negative balance in banks, non- finalization of Completion Report of already completed projects and irregular booking of expenditure at various Zonal Railways. The Committee feel that it is the reflection of an ineffective internal control which defeats the very objective of authenticity and transparency in accounting and budgeting. The Committee, therefore, recommend MoR to review its existing internal control mechanism and strengthen it, if need be, for ensuring compliance with the extent rules and regulations for effective budgeting and proper fiscal reporting particularly at Zonal Railways level. They also desire that responsibility and accountability at each level needs to be clearly defined and it must be ensured that these are followed at all the levels. The Committee would await steps taken in this direction and hope that no lapses in IR's budgetary exercise would occur in future.

NEW DELHI;
22 April, 2015

02 Vaisakha, 1937 (Saka)

PROF. K.V. THOMAS,
Chairperson,
Public Accounts Committee.

APPENDIX I

MINUTES OF THE THIRD SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2014-15) HELD ON 22ND SEPTEMBER, 2014

The Committee sat from 1400 hrs. to 1540 hrs. on 22nd September, 2014 in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Prof. K. V. Thomas — *Chairperson*

MEMBERS

Lok Sabha

2. Shri Nishikant Dubey
3. Shri Gajanan Kirtikar
4. Shri Bhartruhari Mahtab
5. Shri Rajiv Pratap Rudy
6. Shri Janardan Singh Sigriwal
7. Shri Jayant Sinha

Rajya Sabha

8. Shri Vijay Goel
9. Dr. Satyanarayan Jatiya
10. Shri Bhubaneswar Kalita
11. Shri Shantaram Naik
12. Shri Sukhendu Sekhar Roy

SECRETARIAT

1. Shri A. K. Singh — *Joint Secretary*
2. Smt. Anita B. Panda — *Director*
3. Shri Jayakumar T. — *Additional Director*

Representatives of the Office of the Comptroller and Auditor General of India

1. Shri T. Theethan — *Director General (RBA)*
2. Shri Purushottam Tiwary — *Principal Director (PAC)*

Representatives of the Ministry of Railways (Railway Board)

1. Mrs. Rashmi Kapoor — *Financial Commissioner*
2. Shri V.K. Gupta — *Member Engineering*
3. Shri D.P. Pande — *Member (Traffic)*

2. At the outset, the Chairperson welcomed Members of the Committee and representatives of the Office of C&AG and the Ministry of Railways (Railway Board) to the sitting of the Committee convened to have briefing on 'Railways Finances' based on the C&AG Report No. 12 of 2013 (Performance Audit). He also drew the attention of the representatives to Direction 55(1) of Directions by the Speaker relating to confidentiality of the proceedings of the Committee till the report was presented to the House.

3. Representatives of the Ministry of Railways (Railway Board) then briefed the Committee on various issues relating to the subject which *inter-alia* included financial crunch in the Indian Railways and erosion of accumulated funds, factors which affected freight and passenger earnings, new lines/projects, cross-subsidization, operational losses on passenger service, excess expenditure over the authorization given by Parliament etc. Members further focused on the saving of more than ₹ 100 crore in certain grants, inadequate internal financial control in Indian Railways to ensure compliance to the rules and regulations for effective budgeting need for monthly financial review etc. The representatives of the Ministry responded to the queries raised by the Members. They were apprised that the case of misclassification pointed out by the Audit has since been rectified.

4. As the Committee pointed out the need for exploring commercial viability of railway land so as to make it attractive to private parties in order to reduce the erosion of the Railway reserve fund, representatives of Ministry of Railways apprised that the policy on land use needs to be changed. On the issue regarding augmentation of Railway's income on account of freight carried by them, it was apprised that the ongoing projects on dedicated freight corridors would greatly help in the same.

5. The Committee pointed out at the theft of coal due to open rakes. They were apprised about trials going on for a revised design and the limited success so far. The Committee further sought present status of Public Private Partnership projects in Railway projects, the Wagon Factory in Palakkad and the project to set up World Class Railway Stations in the country, particularly at Mangalore, Thiruvananthapuram, Kozhikode etc. The Committee desired the Ministry to furnish written replies and relevant data with regard to the queries on which information was not readily available.

6. The Chairperson thanked the representatives of the Ministry for deposing before the Committee and also thanked the representatives of the Office of the C&AG of India for providing assistance to the Committee in the examination of the subject.

The witnesses then withdrew.

A copy of the verbatim proceedings of the sitting has been kept on record.
The Committee, then, adjourned.

APPENDIX II

MINUTES OF THE EIGHTEENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2014-15) HELD ON 27TH MARCH, 2015

The Committee sat on Thursday, the 27th March, 2015 from 1130 hrs. to 1415 hr. in Room No. '53', Parliament House, New Delhi.

PRESENT

Prof. K.V. Thomas — *Chairperson*

MEMBERS

Lok Sabha

2. Shri S.S. Ahluwalia
3. Shri Nishikant Dubey
4. Shri Gajanan Kirtikar
5. Shri Bhartruhari Mahtab
6. Shri Dushyant Singh
7. Shri Janardan Singh Sigriwal
8. Shri Shiv Kumar Udasi
9. Dr. Kirit Somaiya
10. Dr. P. Venugopal

Rajya Sabha

11. Shri Vijay Goel
12. Shri Bhubaneswar Kalita
13. Shri Shantaram Naik
14. Shri Sukhendu Sekhar Roy

SECRETARIAT

1. Shri A.K Singh — *Joint Secretary*
2. Shri Jayakumar T. — *Additional Director*
3. Shri P. Haokip — *Deputy Secretary*

Representatives of the Office of the Comptroller and Auditor General of India

1. Shri A.K. Singh — Deputy C&AG (RC)
2. Shri Satish Loomba — Director-General (Central Expenditure)
3. Shri L.S. Singh — Principal Director (PAC)

4. Shri Atoorva Sinha — Director
 5. Shri K.Mani — Director (O/o DGCE)

Representatives of the Ministry of Culture

1. Shri Ravindra Singh — Secretary
 2. Shri K.K. Mittal — Additional Secretary

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2. The witnesses then withdrew.
3. The Committee thereafter took the following draft Reports for consideration:—
- (i) Draft Report on 'Integrated Child Development Services (ICDS) Scheme' based on C&AG Report No. 22 of 2012-13.
 - (ii) Draft Report on the subject 'Railways Finances' based on C&AG Report No. 12 of 2013.
 - (iii) Draft Report on action taken by the Government on the observations/ recommendations contained in the Ninety-Fifth Report (Fifteenth Lok Sabha) on 'Implementation of Agricultural Debt Waiver and Debt Relief Scheme, 2008'.

4. However, one of the members desired that he had certain suggestions for the draft report on Railways Finances which Hon'ble Chairperson may consider for inclusion. Hon'ble Chairperson asked the member to give his suggestion in writing and assured for giving due consideration to the same.

5. After discussions, the Committee adopted the three draft Reports with minor modifications as suggested by the Members. The Committee then authorized the Chairperson to finalize the reports in the light of factual verifications, if any, made by the Audit and present them to Parliament on a convenient date.

A copy of the verbatim proceedings was kept on record.

The Committee, then, adjourned.

**** Not related to this Report.