

CAG Report Summary

State of finances of Indian Railways

- The Comptroller and Auditor General of India (CAG) submitted its audit report on finances of the Indian Railways in December 2019. The report provides an evaluation of the financial performance of Railways in the year 2017-18. It analyses the impact of concessions allowed to passengers on earnings and effectiveness of the mechanism in place to check the misuse of concessions. CAG made the following observations and recommendations:
- **Trends in expenditure:** In 2017-18, the total expenditure by Railways was Rs 2.8 lakh crore, an increase of 4% over the previous year. This comprises revenue expenditure of Rs 1.8 lakh crore (64%) and capital expenditure of Rs one lakh crore (36%). While revenue expenditure increased by 10%, capital expenditure decreased by 6% between 2016-17 and 2017-18. Salaries and pensions of staffs formed the bulk of working expenses of Railways (67%).
- **Trends in receipts:** Major sources of receipts for Railways in 2017-18 were: (i) internal resources (64%), (ii) extra-budgetary resources such as borrowings and investment through public-private partnership (20%), and (iii) budgetary support provided by the central government (16%). Earnings from internal resources comprise: (i) earnings from transportation of goods, (ii) earnings from traffic of passengers, and (iii) sundry earnings which includes renting and leasing of buildings, catering services, advertisement, and reimbursement of losses on strategic lines. In 2017-18, freight earnings and passenger earnings contributed 42% and 18% of the total receipts, respectively.
- Receipts from internal resources in 2017-18 was Rs 1,78,930 crore, an increase of 8.1% over the previous year. During this period, the freight earnings and passenger earnings increased by 12% and 5%, respectively. However, sundry earnings decreased by 16% during the same period.
- **Decline in revenue surplus:** In 2017-18, net revenue surplus of Railways was Rs 1,666 crore. This is a decrease of 66% over the revenue surplus in 2016-17 (Rs 4,913 crore). CAG observed that Railways would have ended up with a revenue deficit of Rs 5,676 crore in 2017-18. However, it received advances worth Rs 7,342 crore for the financial year 2018-19 which was accounted as income in 2017-18, thereby reducing the actual deficit.
- **Increase in Operating Ratio:** Operating ratio is the percentage of working expenses to traffic earnings. The Operating Ratio was 98.44% in 2017-18, the highest in the last 10 years. This implies that the operational performance of Railways has deteriorated. If advances for 2018-19 were not included in receipts, the operating ratio for 2017-18 would have been 102.66%.
- **Financing of capital expenditure:** In 2017-18, capital expenditure was financed by internal resources (3%), budgetary support (43%), and extra-budgetary resources (54%). Share of internal resources in financing capital expenditure was 26% in 2014-15 which decreased to 3% in 2017-18. Railways set a target to raise extra-budgetary resources worth Rs 1.5 lakh crore in five years (2015-20). Of this, Railways could raise Rs 37,360 crore (25%) as of 2017-18. The amount raised has been less than the amount estimated in all the three years since 2015-16. Further, Railways could not spend the funds raised from extra-budgetary resources fully in 2016-17 and 2017-18.
- **Cross subsidisation of passenger services:** In 2016-17, passenger and other coaching services incurred losses of Rs 37,937 crore, whereas freight operations made a profit of Rs 39,956 crore. Almost 95% of profit earned from freight operations was utilised to compensate for the loss from passenger and other coaching services.
- **Appropriation to Railways Funds:** The decline in revenue surplus led to a decline in appropriation to the various funds managed by Railways from its internal resources. In 2017-18, of the estimated allocation of Rs 5,000 crore for the Depreciation Reserve Fund, Rs 1,540 crore was allocated (31%). The value of over-aged assets pending for replacement using this fund was estimated at Rs 1,01,194 crore at the end of 2017-18. In the same year, of the estimated allocation of Rs 5,000 crore for the safety fund, the Rashtriya Rail Sanraksha Kosh, Rs 1,100 crore was allocated (22%).
- **Impact of concessions on receipts:** Between 2015-18, 11% of the passengers availed various types of concessions (concessions to senior citizens and privilege pass given to employees). Such concessions amounted to 8% of reserved passenger earnings. CAG observed that Railways has not taken adequate steps to contain the burden of concession. It recommended that Railways should rationalise concessions and make procedural improvements to check their misuse.

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