

# Report Summary

## Report of the NITI Aayog on Reviewing the Impact of Social Service Obligations by Indian Railways

- The NITI Aayog released a report on reviewing the impact of social service obligations by Indian Railways in September 2016. Key observations and recommendations of the report include:
  - **Social service obligations:** Indian Railways carries out various activities in national interest which are not driven strictly by commercial principles. Several of these activities are uneconomic in nature and Railways (i) is either unable to recover the costs, or (ii) ends up foregoing revenues it should have captured otherwise. Railways divides these social cost obligations into four categories: (i) pricing essential commodities lower than cost, (ii) low fares and passenger concessions (such as cheaper tickets for senior citizens, army veterans), (iii) uneconomic branch lines, and (iv) new lines not yet profitable. In 2014-15, due to such social service obligations, Railways' passenger business incurred a loss of about Rs 33,000 crore.
  - **Passenger business:** In 2014-15, for every one Rupee earned in its passenger business, Indian Railways ended up spending Rs 1.67. Between 2011-12 and 2014-15, about 75% to 80% of the losses in passenger service business were contributed by non-suburban operations. Operating losses under suburban services contributed to 12% of the losses. Concessions to various categories of passengers contributed to about 4% of the total losses.
  - **Calculation of social cost obligations:** Railways computes the losses incurred by passenger business and attributes it towards social service obligations. The report noted that the data related to the cost of running passenger business is not scientific and accurate. Therefore, it is difficult to compute accurately the levels of under-recoveries. The calculation of social costs also does not factor the efficiency of the various expenditures (whether fuel consumption is optimal, whether maintenance practices and costs are reasonable, etc.). The calculation also does not factor in Railways' potential to leverage existing assets (such as stations, land banks) that could increase its revenue sources.
  - **Losses due to tariff:** The report noted that in 2014-15, about 73% of the total social service obligation costs were due to lower tariff levels in non-suburban services.
  - **Other reasons for losses:** The report noted that while lower tariffs and concessions contribute substantially to losses in passenger business, they are not the only factors. Inefficiency in Railways' cost structure also significantly contributes to the losses in passenger service business. For example, the report noted that while Railway fares for AC passenger services are higher than similar bus services, fares for second class services are lower than similar bus fares. Therefore, Railways can price tariff as per the prevalent market rates. However, it also noted that in a competitive market where the demand for transport is elastic, Railways can only increase fares up to a certain limit depending on competition. It recommended that tariff increase must not be the only mechanism to address such social costs.
  - **Freight business:** The report also noted that for 2014-15, while Railways' passenger business incurred a net loss of about Rs 33,000 crore, its freight business made a profit of about Rs 44,500 crore. Railways ends up using profits from its freight business to provide for losses of the passenger segment, and also to manage its overall financial situation. The higher cost of freight segment is eventually passed on to the common public in the form of increased costs of electricity, cement, steel, etc. It recommended that the measures to address social costs of passenger service business should also consider ways to rationalize goods tariff distortions.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.