

CAG Report Summary

Finances of Indian Railways

- The Comptroller and Auditor General of India (CAG) released its audit report on finances of the Indian Railways in December 2021. The report provides an evaluation of the financial performance of Railways in the year 2019-20. It presents findings on the finances of Railways and Railways Public Sector Undertakings (PSUs), and the Integrated Pay Roll Accounting System (IPAS) of Indian Railways. Key observations and recommendations of CAG include:
 - **Trends in receipts:** Sources of receipts for Railways in 2019-20 were: (i) internal resources (53%), (ii) extra-budgetary resources (EBR) such as borrowings and investment through public-private partnership (26%), and (iii) budgetary support provided by the central government (21%). Earnings from internal resources comprise of: (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 2019-20, freight earnings and passenger earnings contributed 35% and 16% of the total receipts, respectively.
 - Receipts from internal resources in 2019-20 were Rs 1.74 lakh crore, a decrease of 8.3% over the previous year. During this period, the freight earnings, passenger earnings, and sundry earnings decreased by 11%, 1%, and 16%, respectively. In 2019-20, receipts from internal resources were 14% less than the budget estimates. CAG observed that freight earnings was heavily dependent on the transportation of coal (48.9% of total freight earnings). It recommended diversifying the freight basket to enhance freight earnings.
 - **Trends in expenditure:** In 2019-20, total expenditure of Railways was Rs 3.21 lakh crore, a marginal increase of 0.3% over 2018-19. This comprises revenue expenditure of Rs 1.73 lakh crore (53%) and capital expenditure of Rs 1.48 lakh crore (47%). In 2019-20, revenue expenditure decreased by 7%, whereas capital expenditure increased by 11% over the previous year. Revenue and capital expenditure were 17% and 8% less than budget estimates, respectively. Operating expenses (salaries, maintenance) formed the bulk of working expenses of Railways (88%).
 - **Financing of capital expenditure:** In 2019-20, capital expenditure was financed by internal resources (1%), budgetary support (46%), and EBR (53%). Share of internal resources in financing capital expenditure was 18% in 2015-16 which decreased to 1% in 2019-20. Inadequate generation of internal resources resulted in greater dependence on budgetary support and EBR.
 - **Revenue surplus:** In 2019-20, net revenue surplus of Railways was Rs 1,590 crore. This is a decrease of 58% over the revenue surplus in 2018-19 (Rs 3,774 crore). CAG observed that Railways would have ended up with a revenue deficit of Rs 26,328 crore in 2019-20. It appropriated lesser amount in the pension fund, Rs 20,708 crore instead of the required Rs 48,626 crore, thereby reducing the actual deficit.
 - **Increase in Operating Ratio:** Operating ratio is the percentage of working expenses to traffic earnings. In 2019-20, Operating Ratio was 98.36%, higher than Operating Ratio of 97.29% in 2018-19. This implies that the operational performance has deteriorated. CAG noted that the operating ratio of 98.36% does not reflect the true financial performance of Railways. The ratio would have been 114.4% if the required expense on pension payments had been taken into account.
 - **Cross subsidisation of passenger services:** In 2019-20, passenger and other coaching services incurred losses of Rs 63,364 crore, whereas freight operations made a profit of Rs 28,746 crore. Losses incurred in passenger services has been steadily increasing over the years. In 2019-20, entire profit from freight operations was utilised to compensate for the loss from passenger and other coaching services.
 - **Finances of Railway PSUs:** As of March 2020, there are 40 Railway PSUs in India, and the total investment in these was Rs 3.16 lakh crore. Out of these 40, 30 PSUs earned profits after tax during 2019-20. Long term financial loans made up 85% of the total investment (Rs 2.68 lakh crore). Overall profits of PSUs increased from Rs 4,999 crore in 2017-18 to Rs 6,536 crore in 2019-20. Profitability has increased in financing, catering, tourism, and hospitality. However, it has declined in construction, communication, and logistics. Return on equity of these PSUs has steadily decreased from 9.17% in 2017-18 to 7.53% in 2019-20.
 - **IPAS:** IPAS was developed by the Railways in 2008 and was implemented across all zones during 2011-16. It is a web-based application to get real time access to financial transaction data and automation of payroll, financing, and budgeting. CAG noted Zonal Railways had to migrate data into IPAS, but that has not been completed, leading to inconsistencies. Further, it observed that partial integration of IPAS with other systems has affected the flow of data. CAG recommended: (i) introducing business rules for all modules of IPAS, (ii) expediting sanitisation of database, and (iii) fixing responsibility for improper management of IPAS.

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