Legislative Brief

The Railways (Amendment) Bill, 2024

The Bill was introduced in Lok Sabha on August 9, 2024.

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Highlights of the Bill

- Under the Indian Railway Board Act, 1905, the central government may invest its powers and functions with respect to railways in the Railway Board. The Bill repeals the 1905 Act and incorporates these provisions into the Railways Act, 1989.

Key Issues and Analysis

- The Bill retains the current organisational structure of the Indian Railways. Experts have proposed various measures to improve the functioning of Railways such as corporatisation of Railways, setting up an independent regulator, and giving more autonomy to zones. Suggestions to improve Railways' finances include changing accounting methods, rationalising passenger fares, improving freight basket, and raising revenue through private partnerships.

PART A: HIGHLIGHTS OF THE BILL

Context

The Railways Act, 1989 regulates various aspects of the functioning and administration of the Indian Railways.[1] It provides for the organisation of Railways into zones for administrative ease.[1] The Indian Railway Board Act, 1905 constituted the Railway Board as the central authority to administer the Indian Railways.[2] The central government may invest its powers and functions with respect to Railways in the Board.

The Railways (Amendment) Bill, 2024 was introduced in Lok Sabha on August 9, 2024. It repeals the 1905 Act, and incorporates provisions related to the Railway Board into the 1989 Act. As per the Statement of Objects and Reasons of the Bill, this will simplify the legal framework and reduce the need to refer to two laws. While examining the Railways Bill, 1986 (that became the 1989 Act), the Joint Parliamentary Committee had recommended that the 1905 Act be incorporated into the 1986 Bill.[3]

Key Features

- **Constitution of Railway Board:** The Indian Railway Board Act, 1905 provides that the central government may invest its powers and functions with respect to railways in the Railway Board. This may be done through a notification. The Bill repeals the 1905 Act and incorporates these provisions into the Railways Act, 1989. The Bill adds that the central government will prescribe: (i) the number of members of the Board, and (ii) the qualifications, experience, terms and conditions of service, and manner of appointment for the Chairman and members of the Board.

PART B: KEY ISSUES AND ANALYSIS

Improving Functioning of Railways

Bill:
Clause 3

Indian Railways is a departmental undertaking of the central government and a government monopoly. The Railway Board has the powers of policy making, operations, and regulation regarding Railways.[4] Decision making is largely centralised with the Board and zones have limited autonomy with regards to budgetary control, sanction of infrastructure works, and recruitment of personnel.[5,6] The Bill retains the current structure for administration of Railways. Over the years, several Expert Committees have suggested measures to improve the functioning of Railways which include changing the organisational structure.[6,7,8,9,10,11,12,13]

Indian Railways was envisioned as a commercial undertaking of the government, with an additional social responsibility to make transport services accessible and affordable to the public.[14] Over the years, Railways has faced persistent challenges such as: (i) high operating costs due to significant salary and pension expenditure, (ii) continued losses from its passenger business due to under-pricing, (iii) under-investment in capacity augmentation (infrastructure development) due to poor surplus generation and limited private participation, and (iv) network congestion and cross-subsidy for passenger services reducing its freight competitiveness. Table 1 lists key measures suggested by Expert Committees to address these issues.

Table 1: Recommendations of various Committees on reforming the Railways

Parameter	Recommendations
Regulatory Structure for Railway Sector	▪ Set up independent regulator to fix tariffs, promote competition, and protect consumer interests[6,7,9]
Organisational structure of Indian Railways	▪ Corporatisation of Indian Railways[6,9] ▪ Reorganise Railway Board to reflect a corporate business structure[7,9] ▪ Envision the Railway Board as a policymaker alone[6,9] ▪ Provide zones with full financial autonomy[6,7,9,10]
Operations	▪ Separate core and non-core business (hospitals, schools, catering and security) of the Railways[6,9] ▪ Permit private participation in some railway operations[6,7,8,9,10,13]
Finances	▪ Clearly define social obligations and commercial business roles[6,9,12] ▪ Restructure accounting procedure to reflect zone and route-wise profit and loss statements[6,7,9] ▪ Develop PPP models to attract private participation in: (i) developing and maintaining stations/ terminals, (ii) leasing of wagons, (iii) freight train operations, (iv) manufacturing of rolling stock, and (v) running non-core business operations[6,9,10,13] ▪ Monetise railway assets[9,10] ▪ Rationalise passenger tariffs[6,9,11]

Sources: India Railway Report, 2001 (Chair: Dr. Rakesh Mohan); Expert group on Modernisation of Railways, 2012 (Chair: Mr. Sam Pitroda); India Transport Report, National Transport Development Policy Committee (2014); Committee for Mobilisation of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board, 2015 (Chair: Mr. Bibek Debroy); Committee on Creative Financing of Railways, 2014 (Chair: Mr. Montek Singh Ahluwalia); PRS.

Need for independent regulator for the Railway sector

Railways has sought to increase private participation in several segments.[15,16] These include: (i) wagon investment, (ii) station and terminal operations, and (iii) running of freight trains including container trains.[6,15,16] These measures aim to attract investment, increase efficiency in operations, and improve service standards.[9] The Committee on Restructuring of Railways (2015) had noted that participation from the private sector has been limited.[6] It had observed that Railways' monopoly over operations discouraged private participation. In July 2020, Railways had invited private participation in the operation of 151 passenger trains across 12 clusters.[17] However, no bids were received for nine clusters.[17]

To protect the interests of stakeholders and promote competition, the Committee on Restructuring of Railways (2015) had recommended setting up an independent regulator. It would have powers to regulate aspects such as: (i) tariffs, (ii) safety, (iii) access to railway infrastructure for private operators, and (iv) technical and service standards.[6] Independent regulators have been set up by law for sectors such as telecom, electricity, insurance, and airports which have had private sector participation since 1991.[18,19,20,21]

In May 2017, the Union Cabinet had approved the constitution of the Rail Development Authority (RDA).[22] RDA would provide expert advice to the Ministry on: (i) pricing of services, (ii) measures for enhancement of non-fare revenue, (iii) encouraging market development and participation of stakeholders in the rail sector, and ensuring a fair deal to them, (iv) protecting consumer interests, and (v) benchmarking service standards against international norms.[22] The Authority is yet to be set up.

Autonomy to zones

Under the Railways Act, railway zones are responsible for operation, scheduling, and maintenance of railways under their jurisdiction.[1] Distribution of the powers between the Railway Board and the zones is such that the zones possess limited autonomy over budgeting, sanctioning of funds for infrastructure works, and recruitment of personnel.[5,6] Several Committees have proposed devolving more powers to the level of zones.[6,7,10]

The Sreedharan Committee (2014) had recommended that financial powers need to be devolved to the zonal level.[6] This would grant them autonomy to make decisions on project tenders without approaching the Board.[6] The Committee on Restructuring Railways (2015) also observed that zones should be allowed to make decisions independently. It noted that this would ensure healthy competition between zones and make them accountable for their own transport output and profitability.[6] Once the zones are awarded autonomy, the Railway Board could function like a corporate board of a company that decides policy.[6]

Improving finances

Pricing for passenger segment: The passenger segment of Railways has been registering consistent losses over the last several years.[23] This is primarily due to Railways operating its passenger segment below cost.[6,12] These losses are classified as social service obligations.[12] The Committee on Restructuring Railways (2015) had observed that the methods of calculating the cost of running passenger business were not scientific or accurate.[6] The NITI Aayog (2016) had recommended that the Railways price fares according to prevalent market rates to recover costs.[12] The Rakesh Mohan Committee (2001) and Anil Kakodkar Committee (2012) had also suggested that passenger fares be rationalised.[9,11]

Improving share in freight transport: The Railway freight basket is dominated by bulk commodities such as coal, iron, and steel. Experts have highlighted that there is an untapped potential for Railways in transporting retail and fast-moving consumer goods (FMCGs).[24] Yet the freight mix of the Railways has remained largely unchanged, and FMCGs are mainly transported over road.[24] Tariffs for railway freight are not competitive as they cross-subsidise losses in the passenger segment.[24] Freight trains also run at lower average speeds, as the key rail routes register over 100% capacity utilisation, implying significant network congestion.[25] Goods trains are typically expected to travel at an average speed of 75 kmph.[24] The average speed of goods trains in 2020 and 2021 was 40.6 and 36.5 kmph respectively.[26]

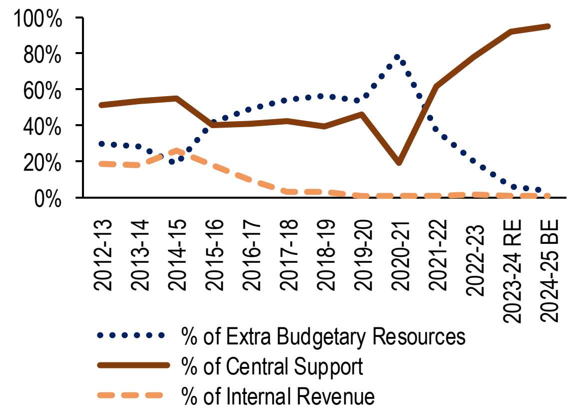
To improve the efficiency of freight transportation, the National Rail Plan (2020) provided several measures such as the creation of dedicated freight corridors, multi-laning of railway lines, and the development of integrated freight terminals.[27] As per the Plan, Railways would be able to improve the average speed of freight trains to 50 kmph by 2026.[25] The Plan noted that the internal revenue surplus of Railways will be inadequate to fund the initiative, and that it would require funding from channels such as budgetary support from the central government, market borrowings, and public-private partnerships.[25]

Laws in other sectors such as electricity seek to limit cross-subsidy across segments. The Electricity Act, 2003 requires the regulators to gradually reduce cross-subsidy and make tariff reflective of the cost of supply.[28]

Financing of capital expenditure: Railways' internal revenue has funded less than 5% of its total capital expenditure since 2017-18. A key reason could be a high level of committed expenditure. About 70% of Railways' own revenue is spent on salaries and pensions.

Over the years, Railways has been able to increase investments through extra budgetary resources which include borrowings and investment through public-private partnerships.[23] However, dependence on borrowings has created an increasing interest burden (about 8% of revenue receipts in 2024-25). In recent years, increase in budgetary support from the government has helped reduce the dependence on extra budgetary resources (Figure 2).

Figure 1: Financing of Railway capital expenditure



Note: BE: Budget Estimates; RE: Revised Estimates.
Sources: Expenditure Profile, Railway Statements, Union Budget documents, 2014-15 to 2024-25; PRS.

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