16

STANDING COMMITTEE ON RAILWAYS (2004)

THIRTEENTH LOK SABHA

**MINISTRY OF RAILWAYS
(RAILWAY BOARD)**

RESOURCE MOBILISATION

SIXTEENTH REPORT

सत्यमेव जयते

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**LOK SABHA SECRETARIAT
NEW DELHI**

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REPORT

CHAPTER-I

I N T R O D U C T O R Y

The Indian Railways, over the years, have acquired the status of largest Railway system in the world under a single management contributing towards national economic and social growth by promoting national integration. As compared to road sector the Railways enjoy a number of intrinsic advantages. Apart from being eco friendly, they are five to six times more energy efficient and four times more efficient in land use, ideally suited for movement of bulk commodities and for long distance travel.

1.2 The Indian Railways have achieved a phenomenal growth in carrying freight and passenger traffic in absolute terms. From 73 million tonnes of revenue earnings freight traffic in 1950-51, they have reached a target of 492.5 million tonnes in 2001-2002 and from 1,284 million passengers in 1950-51 to 5,169 million passengers in 2001-02. However, they lacked behind in the augmentation of their capacity i.e. only 18% growth has taken place in their network from 53,596 route kms. in 1951 to 63,028 route kms. in 2000-01.

1.3 The management and formulation of policy are entrusted with the Railway Board which comprises of the Chairman, Financial Commissioner and the functional Members. Wide powers are vested in the Board to supervise effectively and control the Zonal Railways, Metro Railway, Kolkata, the Production Units, Construction Organisations and other Railway establishments. These are generally headed by General Managers. The Zones are further divided into 67 operating Divisions under Divisional Railway Managers for better management.

1.4 Railways' revenues, which are primarily traffic earnings, are estimated at the budget stage based on the assessment of traffic output of Passenger, Freight and Parcel traffic and also the anticipation of Sundry earnings. Earnings from utilization of railway land are included in Sundry Earnings. The traffic earnings thus arrived at are modified with the tariff adjustments proposed for the year, if any. The passenger earnings are based on observed growth of number of originating passenger and its lead.

The general break up of the various constituent of earnings from 1998-99 to 2002-03 is as below:-

(Rs. in crore)

	1998-99	1999-2000	2000-01	2001-02	2002-03 (BE)
Passengers	8550	9581	10515	11196	13450
Other Coaching	649	825	764	872	920
Goods	19960	22061	23305	24845	26118
Sundry Other Earnings	666	658	703	945	1000
Total	**29825**	**33125**	**35287**	**37858**	**41488**

1.5 As per the Separation Convention, 1924, the Railway Budget is presented separately to the Parliament ahead of the General Budget. Though the Railway budget is separately presented to the Parliament, the figures relating to the receipt and expenditure of the Railways are also shown in the General Budget, since the receipts and expenditure of the Railways are a part and parcel of the total receipts and expenditure of the Government of India.

1.6 About 95% of the earnings of the Railways comes from freight and passenger traffic. Out of this, 66% approximately comes from freight and 29% from passenger earnings. The rest of the earnings i.e. about 5% of the total receipts come from three heads (2% from each head) viz. parcel revenue, luggage revenue, postal earnings, etc. sundry earnings such as interest and maintenance charges at sidings, advertisement, rents, etc. and miscellaneous items such as dividend subsidy, diesel cess, safety surcharge etc.

1.7 Railways are also having the dues outstanding from various State Electricity Boards /Power houses amounting Rs. 1753.87 crores as on 31st March, 2003..

1.8 Regarding the innovative schemes/efforts of the Ministry of Railways to mobilize resources for the year 2003-04, the Ministry submitted that there are projects worth Rs. 40,000 crore in their shelf including a national project - Udhampur-Baramulla-Srinagar. The General Exchequer has given Rs. 4,000 crore for this National Project as extra budgetary support. The Ministry of Railways are to get Rs. 306 crore from the Ministry of Defence for strategic lines. A number of States like Andhra Pradesh, Jharkhand, Karnataka, Maharashtra, Tamil Nadu, West

Bengal etc. have come forward together to contribute the railway kitty to the tune of Rs. 1,534 crore. The public/private joint participation with Railways is also going to mobilize Rs. 435 crore. The National Rail Vikas Yojna, announced by the Prime Minister in August, 2002, meant for capacity augmentation of the Railways facilitating port connectivity and construction of mega bridges will also contribute to the order of Rs. 6330 crore as extra budgetary support from the General Exchequer. Thus the total resource mobilization would be Rs. 12,605 crore.

1.9 The Tenth Plan projection of the Railways, as tentatively finalized by the Planning Commission show a Plan size of Rs. 60,600 crore. With a Budgetary Support of Rs. 27,600 crore which includes the Government contribution to the Special Railways Safety Fund (SRSF) and transfer from Central Road Fund to the Railways. This Budgetary Support works out to 46% of the total Tenth Plan projections. The Annual Plan outlay of Rs. 12,918 crore for the year 2003-04 comprises internal generation of resources of Rs.2,630 crore (20.36%), Market borrowings of Rs. 3,000 crore (23.22%) and Capital from General Exchequer of Rs. 7288 crore (56.42%) including Safety Fund from Diesel Cess and expected to be provided for within Special Railway Safety Fund, of which the support from the Ministry of Finance shall be Rs. 1,600 crore. The Annual Plan 2003-04 constitutes an increase of about 4.8% over the revised plan outlay (Rs.12,315 crore) of the year 2002-03.

1.10 The Ordinary Working Expenses (OWE) of the Railways had increased sharply due to steep hike in staff costs consequent upon implementation of recommendations of Fifth Central Pay Commission during the period from 1996-97 to 2000-01. Where as the earnings did not keep pace due to recessionary factors prevalent in the economy. However, in last 2 years, that is 2001-02 and 2002-03 the increase in OWE is limited to 4.2% and 3.4% respectively mainly by following the policy of right sizing its staff strength apart from conservation of energy and fuel costs, lower tariff for electricity. The Gross traffic receipts have increased by 8.5% in both the years.

1.11 Regarding Operating Ratio, the Ministry of Railways submitted that the Operating Ratio for 2001-02 and 2002-03 are 96% and 92.3% respectively as against 98.3% in 2000-01.

CHAPTER-II

REVENUE RECEIPTS

Railways' earnings are from passenger traffic, goods traffic, other coaching traffic, sundry other earnings, realization of outstandings dues and miscellaneous receipts. The Budgeted target vis-à-vis actuals for the last six years under each category of railway receipts are as below:

(Rs. in Crores)

		Traffic Earnings					**Traffic Suspense (Freight outstanding)**	**Gross Traffic Receipts**	**Mis. Receipts**	**Total Receipts**
		Pass.	**Other Coaching**	**Goods**	**Sundry**	**Total**				
1997-98	B.E.	7106.00	592.00	19322.00	500.00	27520.00	335.00	278.55.00	543.23	28398.23
	Actuals	7573.18	586.17	19866.38	540.45	28566.18	22.85	28589.03	545.20	29134.23
	Variation	467.18	-5.83	544.38	40.45	1046.18	-312.15	734.03	1.97	736.00
1998-99	B.E.	8368.00	638.00	21686.00	520.00	31212.00	260.00	31472.00	636.31	32108.31
	Actuals	8549.96	649.00	19960.39	665.51	29824.86	-205.40	29619.46	614.49	30233.95
	Variation	181.96	11.00	-1725.61	145.51	-1387.14	-465.40	-1852.54	-21.82	-1874.36
1999-2000	B.E.	9449.00	691.00	22341.00	630.00	33111.00	200.00	33311.00	719.53	34030.53
	Actuals	9581.07	825.31	22060.00	657.34	33124.71	-185.90	32938.81	916.87	33855.68
	Variation	132.07	134.31	-280.01	27.34	13.71	-385.90	-372.19	197.34	-174.85
2000-01	B.E.	10148.00	856.00	23608.00	1417.00	36029.00	500.00	36529.00	1104.65	37633.65
	Actuals	10515.07	764.16	23305.10	703.25	35287.58	-407.10	34880.48	1130.47	36010.95
	Variation	367.07	-91.84	-302.90	-713.75	-741.42	-907.10	-1648.52	25.82	-1622.70
2001-02	B.E.	11387.00	850.00	25235.00	1717.00	39189.00	750.00	39939.00	1225.20	41164.20
	Actuals	11196.44	872.25	24845.40	944.45	37858.54	-20.95	37837.59	1520.35	39357.94
	Variation	-190.56	22.25	-389.60	-772.55	-1330.46	-770.95	-2101.41	295.15	-1806.26
2002-03	BE	13450	920	26118	1000					41538
	RE	12730	950	26658	946	-	-	-	-	40867
	Variation	-720	30	540	-54					-671

2.2 Railway Receipts since 1998-99 have been adversely affected mainly due to shortfall in freight earnings and continuous accretion to the freight outstandings because of non-clearance of Railway's dues by the Power Houses/State Electricity Boards. According to the Ministry of Railways, freight earnings have fallen short of the target due to recessionary trend prevailing in the economy which resulted in lower freight loading both from core and non-core sectors. Passenger earnings have been generally buoyant and have fallen short of the target only in 2001-02 and 2002-03 mainly due to disturbed law & order situation on account of Ayodhya in U.P. and Gujarat. Suspension of Leave Travel Concession to the Government employees has also adversely affected the passenger earnings of the Railways. Non-materialisation of parcel traffic up to the anticipated level contributed the shortfall in Other Coaching earnings in 1997-98 and in 2000-01. Sundry earnings in 2000-01 and 2001-02 are short of the target due to non-materialisation of earnings anticipated from RailTel Corporation. Miscellaneous receipts of the Railways are primarily the 'Subsidy' received from the General Exchequer as relief towards dividend payment on account of investment made on strategic lines, certain new lines projects and un-remunerative branch lines, welfare buildings etc. which is based on actuals.

(a) <u>Passenger Earnings</u>

2.3 Indian Railways have achieved a sustained growth in passenger business since 1997 as given below. It has generally exceeded the financial targets.

(figures in Crores of Rs.)

YEAR	BUDGET ESTIMATE	ACTUALS	VARIATION	% VARIATION
1997-1998	7106.00	7573.18	+467.18	+6.57%
1998-1999	8368.00	8549.96	+181.96	+2.17%
1999-2000	9449.00	9581.07	+132.07	+1.39%
2000-2001	10148.00	10515.07	+367.07	+3.61%
2001-2002	11387.00	11196.45	-190.55	-1.67%

2.4 It can be seen from the above table that during 1997-98 to 2001-02, the Railways have been able to generate an additional earning of Rs. 957.73 crore over the Budget estimate. The only exception was in 2001-2002 when the actual earnings felt short by 1.67%. The shortfall in actuals for the year 2001-02 by Rs. 204 crore compared to RE of Rs.11,400 crore marginally higher than BE of Rs.11,387 crore was stated to be due to multiple reasons. For about 25 days there was a considerable disruption of traffic on account of Ayodhya. Subsequently development in Gujarat also contributed to reduced passenger movement. The suspension of the LTC facility was an added factor.

2.5 The Budget estimate for earnings from passenger traffic in 2001-02 was fixed at Rs. 11,387 crore. However, a safety surcharge was imposed on 1st October, 2001. The collection of the safety surcharge during October 2002-March 2003 was Rs. 304 Crore. Therefore, the total earnings from passenger traffic during 2001-2002, including safety surcharge, was approx. Rs. 11,500 crore, which was Rs. 113 crore higher than the Budget estimate of Rs. 11,387 crore. Safety Surcharge has to be taken into account as the burden of fare hike falls on the passenger and affects the growth of passenger traffic.

2.6 In the year 2002-03, the BE was Rs. 13,450 crore. In the first 5 months of the year, earnings from passenger traffic was higher by approximately 13.9% as compared to the previous year.

2.7 The factors primarily responsible for the increase in passenger traffic and revenue over the last five years are increase in population and increase in mobility due to growth of the economy. Railways have also introduced a large number of trains and attached additional coaches to carry more passengers. There has been a growth in domestic tourism also. The number of passengers booked and corresponding earnings during 1998-99 to 2001-02 (including Metro Railway, Kolkata) are as below:-

Year	Number of passengers originating	% increase over the previous year	Passenger earnings (Rs. in crore)	% Increase over the previous year
1998-99	4469	1.15	8550	12.90
1999-2000	4641	3.85	9581	12.06
2000-2001	4840	4.29	10515	9.75
2001-2002	5169	6.81	11196	6.48

2.8 While enumerating a number of initiatives taken for enhancing Passenger Earnings Ministry of Railways have submitted as under:-

> "In the Railways Budget 2002-03, the fare structure of Mail/Express, Ordinary Passenger Trains and Monthly Season Tickets (MST) were rationalized. In the Railway Budget 2003-04, there was no proposal to increase passenger fares. Continuing the process of rationalization, the fares of Shatabadi and Rajdhani Express trains have been rationalized linking their fares to the rationalized fares of Mail/Express Superfast trains. As a result, the basic fares of different classes of Rajdhani and Shatabdi Express trains are lower for most of the pairs of stations. The basic fare of Jan Shatabdi Express trains have also been reduced by reducing their mark up over Superfast Mail/Express fares from 10% to 5%. The catering services on Jan Shatabdi Express trains have also been made optional, which further reduces the total chargeable fare.
>
> Further, the concept of reduced fares for the non-peak period has been introduced. As an experimental measure, the basic fares of AC First Class and AC 2-Tier in all Rajdhani Express trains have been reduced by 10% for the journeys performed during the period from 15th July, 2003 to 15th September, 2003.

(b) Freight Earnings

2.9 Railway transportation is a derived demand and, therefore, revenue earning freight loading of the Indian Railway is dependent on the economic growth of the country, in general, and performance of six infrastructure industries viz. electricity, coal, steel, crude petroleum, petroleum refinery products and cement, in particular. Railways fix their target of freight loading for each year based on projection given by the user Ministries and bulk users of rail transportation. Evidently, if these users are not able to offer traffic for any reason whatsoever, there is inevitable shortfall in freight loading and earning of the Indian Railways. During last five years, supply of wagons was arranged as per demand in full. Year-wise comments are as under:-

Indian Railways exceeded the estimated freight earning in 1997-98. There was economic recession during 1998-99 as a result of which there was negative growth in production of coal which accounts for about 48% of revenue earning freight loading of Indian Railways. The production of finished steel, cement, fertilizer and thermal power generation was also below the target. Average growth of six infrastructure industries during 1998-99 was barely 2.9% as compared to 5.6% achieved during 1997-98. Although Railways took a number of marketing initiatives, the freight loading and earning was far below the target on account of economic recession.

During 1999-2000, Railways exceeded the target of revenue earning freight loading by 6.4 million tonnes and recorded the highest incremental loading of 35.50 million tonnes. Despite this, Railways could not achieve the target of freight earnings due to variations in the mix of commodities and lead vis-à-vis the targets of individual commodities. For example, the average lead of high rated commodities like Petroleum products was significantly less than the target. Loading and average lead of coal which gives the maximum revenue to Railways was also substantially less than the target. On the other hand, commodities like foodgrains and fertilizer whose contribution to revenue is proportionately much lower, registered a sharp increase in loading. All these factors resulted in freight earning being less than the Budget Estimates despite freight loading exceeding the target.

During 2000-01, freight earning was Rs. 302.90 crore less as compared to the Budget Estimate, due to less offering of the traffic and drop in average lead of certain commodities. Loading as well as the average lead of high rated commodities like pig iron and finished steel was below the target. Loading of raw materials to steel plants and foodgrains was also below the target. The loading was affected due to economic slow down particularly in second half of the year. One of the adverse feature during the year was negative growth in cement production and performance of steel, fertilizer and petroleum sectors being below the target.

In anticipation of the economic revival, a challenging target of 500 million tonnes of originating freight traffic was fixed for 2001-02. However, the economic slow down, which had started in the second half of 2000-01, continued unabated during 2001-02 adversely affecting freight loading which resulted in shortfall of Rs. 389.61 crore in freight earning as compared to the Budget Estimate. The combined growth rate of six infrastructure industries was only 3.0% during 2001-02, as against 5.6% growth achieved during 2000-01. However, Railways were able to register a growth of 40% with an incremental loading of 19.8 Million Tonnes.

2.10 Based on the requirements of rail transportation for the core sector as decided by the Planning Commission in consultation with the user Ministries, Railways made substantial investment to strengthen their capacity in the routes identified to carry the additional volume of traffic and procured rolling stock – wagons and locomotives. As a result, there are no capacity constraints on the part of the Railways to carry the required volume of traffic of core as well as non-core sector.

2.11 It will be seen from the table given below that there was no increase in the freight rates in the year 1998-99 and in the subsequent years the increase has been kept marginal i.e. at a level between 3% to 5% as compared to a higher level of increase in the range of 7% to 12% in the preceding years. A decision has been taken in the year 2002-03 budget to rationalize the freight and fare structure in stead of increasing the freight and fare rates across the board. This helps in making the freight rates more competitive and reducing the large freight differential between different commodities.

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
%age increase in freight rates	7%	10%	12%	0%	4%	5%	3%
Average Lead in Kms.	692	679	662	669	669	660	674

2.12 It would also be seen from the above table that there has been a drop in the lead from a level of 692 kms. in 1995-96 to 660 kms. in 2000-01. There has been a welcome sign in increase of average lead in 2001-02 to 674 kms.

2.13 For past two years viz. 2002-03 and 2003-04 the Ministry of Railways have taken following steps to enhance their freight earnings:-

<u>Rationalization of freight structure</u>

2.14 In the Railway Budget 2002-03, the total number of Classes was reduced from 59 to 32 with Class-90 as the lowest Class and Class-300 as the highest Class. The ratio between the highest and the lowest freight rate was reduced from 8.0 to 3.3. Continuing the process of rationalization, the band of freight rates has been further reduced by lowering the highest Class from Class-300 to Class-250 in the Railway Budget 2003-04. The total number of Classes have been further reduced from 32 to 27 and the ratio between the highest and lowest freight rates stands reduced to 2.8.

<u>Reduction of freight rates</u>

(a) The Classification of certain commodities where Railways are facing competition due to high freight rates has been reduced in stages. The reduction in freight rates varies from 3.7% to 10.7% for commodities like Clinker, Cement, Iron & Steel and Petroleum products.

(b) Railways have also offered to consider long-term agreements with individual oil-companies for further reduction in freight rates on sector-to-sector basis, if guaranteed volumes of additional traffic are committed for rail movement.

Trainload benefit for all block rakes and commodities

(a) With a view to help in reduction of the inventory carrying cost to the rail users, booking of traffic in block rakes is being permitted from one originating station to a combination of two destination points and vice-versa. The number of combinations of booking of 2 point rakes have been increased to over 100 for steel traffic and to around 300 for other commodities.

(b) At present, 2-point block rakes enjoy the benefit of lower trainload rates only upto the common point of movement. It has been decided that 2-point block rakes will now be granted the benefit of trainload rate for the entire distance of transportation on end-to-end basis.

(c) It has also been decided that any commodity which has only a wagon load Class, will be assigned a trainload Class one stage lower than its wagon load Class. As a result, the freight will get reduced by around 4.00% to 5.26% if such a commodity is now offered for trainload booking.

Flexible Rating Policy

2.15 With a view to face competition in specific sectors, the General Managers of Zonal Railways have been delegated powers to quote concessional rates between specific pairs of stations to retain and attract additional traffic to rail. These powers have been enhanced and the revised delegation under the liberalized Station-to-Station rates Scheme envisages a maximum concession of 10% to 24%, depending inter-alia on the Classification of the commodity and the offer of traffic.

Incentives to Premier Customers

2.16 An incentive scheme is being introduced for the Premier Customers, generating freight earnings of more than Rs. 25 crore per annum for traffic originating from the sidings, to help them increase rail share of transport. Under the Scheme, a freight rebate of 2% for every Rs.5 crore of net additional originating freight earnings would be granted in addition to any other freight concession availed by them for commodities placed in Class-135 and above.

Policy to attract short lead traffic

(a) Mini Rake Scheme

2.17 In order to attract traffic transported on short distances from road to rail a "Mini Rake" Scheme has been formulated. The scheme envisages booking of consignments at trainload rates even for smaller rakes consisting of 20 bogies wagons carrying appx. 1100 tonnes for short leads up to 300 kms.

(b) Freight Concession

2.18 The charging of freight for all traffic booked upto 100 kms. has also been rationalized through a scheme of graded concessions. Under this Scheme, effective from April 1, 2003, freight concession of 50% have been allowed for traffic booked upto 50 kms. followed by 20% from 51 to 75 kms. and 10% concession from 76 kms. to 90 kms.

Port Connectivity and Inter-modal transport

2.19 In view of the increase in international trade, the cargo arriving at the ports is one of the major focus areas of Indian Railways. Concrete steps have been taken for strengthening of rail connectivity of ports and the development of inter-modal corridors to the hinterland to increase the share of Railways in transport. The port of Mundra has already been connected to the Indian Railways network. Similarly, a Special Purpose Vehicle (SPV) has been created to provide rail connectivity to the Port of Pipavav so that the traffic handled at this port is also transported by Railways to generate additional loading and freight earnings.

In the year 2002 consequent to the revision of the policy and positive signs in the growth of the economy the freight loading has shown an upsurge in loading and earnings. The loading has increased by 7.7% as compared to last year and 1.8% as compared to the budget proportion. The corresponding earnings are higher by 9.5% as compared to previous year and accounts 1% higher than the budget estimates for this period.

(c) Non Traditional Resources

2.20 The non-traditional areas being tapped by Railways for additional resource generation are commercial use of land and airspace, commercial publicity on trains and at railway premises, use of Right of Way for development of an Optic Fibre Cable network with surplus bandwidth having commercial potential and other innovative financing alternatives including joint ventures and formation of SPVs (Special purpose vehicles) with private organizations. To realize the same the efforts made by Railways on each of these areas are as under:-

2.21 In regard to utilization of funds the Ministry of Railways furnished in their written reply that a major portion of the vacant lands are in the form of longitudinal strips along the railway track which is necessarily to be kept vacant keeping in view of the safety of train operation, stability of embankment and non interference with track side signals & telecommunication installation. Vacant lands along the track and in yards are often utilised for stocking of ballast and other materials and for borrowing earth in connection with routine maintenance work. Railway lands other than those under track and structures and those required for immediate use of the Railways are temporarily utilised for licensing of railway land for commercial and non-commercial purposes.

2.22 Railway are earning revenue from licensing of land to Container Corporation of India Ltd. (CONCOR) for their depots, to oil companies for their bulk oil depots, to SAIL/TISCO for steel yards, to a number of private sidings and from commercial plots in railway goods sheds for stocking of material as it helps Railways in attracting and retaining traffic, for shops/tehbazari given prior to 1984; for car, scooter, cycle parking at Railway stations, to employees for growing crops/vegetables etc. under Grow More Food Scheme. Railways also earn some revenue from way leave facilities provided as pathways, track crossings for pipelines/cables through railway land, from long term lease of surplus land to the Government departments etc.

2.23. Land of abandoned Railway alignment and sidings which are surplus to Railways' requirements and needed in Central Government Departments/State Government/PSUs is leased to them on long term basis taking money upfront.

2.24 Railway are also making efforts to put some of its land/air space to commercial, use where such a potential exists. Market studies to determine best financial returns have been taken up and further progress will involve invitation of development rights through open bidding process.

2.25 So far, 65 large sites (more than 1000 sqm plan area) have been identified as having commercial potential. In 41 cases feasibility studies have been completed. Out of these, in 6 cases biddings process has been initiated or completed and in 9 cases it is under finalisation.

Earnings from use of land commercially during the last five years is as under:-

Year	**Earnings (Rs. in Crore)**
1997-1998	16.71
1998-1999	16.30
1999-2000	30.37
2000-2001	94.49
2001-2002	223.53*

*This quantum increase is due to the successful realization of old dues from the oil companies.

A target of Rs.200 crore had been kept for the year 2002-03.

2.26 Highlighting the steps taken for the development of land for commercial use, the Member Engineering, Railway Board stated as under:-

> "We are also considering setting up a separate Land Management Authority for development of commercial property at railway stations and, in fact, we have identified 65 sites of which we have already finalized 5 and we had some earnings from them last year. After identifying 65 sites, we invite consultants who does market studies indicating what potential these sites have got, whether a hotel can be built or some shopping complex can be built etc. Thereafter, we invite financial bids and we have been able to finalise some financial bids. It is a continuous process. Since it is a new area, it will take some time before it taken off. Last year, we realized Rs. 0.5 crore from commercial properties and this year we hope to realize Rs. 20 crore. The total earnings

from other usages of our land and licensing our land to oil companies was Rs. 223 crore last year and this year's target is Rs. 200 crore."

2.27 Member Engineering, Railway Board apprised the Committee during the oral evidence:-

> "In the last 5 years, the earnings from land had been going up progressively. We earned Rs. 16 crore in 1997-98, then Rs. 30 crore in 1999-2000, Rs. 94 crore in 2000-01, and in 2001-02, Rs. 220 crore. Earnings in 2001-2002 were essentially more because we realized some arrears of land from IOC and other Corporations. Normally the earning would have been somewhat less but the property development had taken off. It started last year….. We should be earning Rs. 20 crore from property development his year. We are also getting earnings not only from property development but we are also getting earnings from Grow More Food campaign and plantation on account of afforestation and the licensing of plots at the stations…. We would be earning Rs. 200 crore per year in the next 5 years. These will include the property development as well as earnings from other sources."

(d) <u>Encroachment of Land</u>

2.28 Railways policy on land management has evolved over a long period of time and Railway has endeavoured to continuously improve it in accordance with changing time and environment. With regard to methods and strategies to deal with encroachments, among other measures, Zonal Railways have been directed to launch a drive for compilation of land plans and their authentication by Revenue authorities. 98% of the land plans are available, and 82% of these have already been authenticated by the Revenue authorities. The position is being closely monitored in Board's office. Railways have also been directed to undertake work of digitization/computerisation of the land plans.

2.29 Details of encroachments Division and Zone-wise have been collected, and are attached as Annexure. No useful purpose would be served by further classifying the data State-wise because Railway's functional unit is a Division, and it is the divisional authorities who handle the entire field work require to be done in connection with removal of encroachments and allied activities.

2.30 Out of about 4.23 lac hectares of land which is mainly used for locating service and operational infrastructure 2218 hectares of land is still under illegal encroachment causing a great delay in the development of real estate for commercial use and a continued threat to security of passengers and goods.

2.31 Enumerating the steps taken by the Railways to deal with the encroached land, the Member Engineering submitted before the Committee as under:-

> "Regarding the encroachments, we have continuous dialogues with the State Governments and we also seek their assistance for removal of encroachments because the encroachments, sometimes, affect the safety of the railway track. Many times, the slums are coming very close to the railway tracks and we have to keep adequate space for the development and future expansion of railway tracks."

(e) Commercial publicity on trains and in railway premises

2.32 Broad policy guidelines have been issued by the Ministry of Railways to all the Zonal Railways for generating revenues through commercial publicity. These guidelines cover use of railway stations, rolling stock, level crossing gates, etc. The Railways have adopted a pro active approach by advertising in newspapers, publishing information brochures, conducting meeting with advertising companies etc. In addition, steps have been taken for reassessment of value of sites, revision of rates and identification of new locations. Senior Officers have also been nominated on respective Zonal Railways to coordinate with commercial publicity for maximizing the revenue.

2.33 During the year 2001-02 the earnings from commercial publicity was Rs. 24.74 crore. Increase beyond this level could not be achieved on account of various recessionary factors, which plagued trade and industry during the year.

2.34 The earnings from commercial publicity for Indian Railways in the previous years have been as under:-

Year	Target (Rs. in crore)	Earnings (Rs. in crore)
1997-1998	-	21.70
1998-1999	-	21.54
1999-2000	-	22.17
2000-2001	100	27.36
2001-2002	100	24.74

2.35 There are certain factors which are coming in the way of enhancing earnings and these include restrictions being imposed by a number of local bodies in cities like Delhi, Chennai and other Metros. A number of new areas have been identified which still have not yielded the desired response. These include advertisement on freight wagons, level crossings etc. According to Ministry of Railways it may take some time for prospective advertisers to get convinced about the utility of such new types of media for publicity.

(f) Exploitation of Railways' Right of Way (ROW)

2.36 Indian Railways have set up a separate Corporation viz. RailTel Corporation of India Limited (RailTel) for laying Optical Fibre Cable (OFC) along the railway track by utilizing Railways' Right-of-Way and thereby building a nationwide broadband and multi-media network. Besides meeting the Railways' communication needs, surplus capacity in the network will be commercially exploited to generate revenues. In September, 2001 Rail Tel was given permission to use Railways' right of way for laying OFC market surplus capacity in OFC and Digital Microwave links which enabled Rail Tel to utilize the existing assets of OFC and microwave links for earning revenues. The Business Plan of the Corporation has already been approved and action initiated to put the network in place. A Memorandum of Understanding (MOU) between the Ministry of Railways and RailTel has been signed on 7th December, 2001.

2.37 As per Business Plan, RailTel is to provide 33000 Route Kms. of Optic Fibre Cable along the Railway track. In the first phase, around 10,000 Route Kms. of OFC connecting four metros namely Delhi, Mumbai, Kolkata, Chennai and four other important cities namely Ahmedabad, Bangalore, Pune and Secunderabad are planned to be laid by December, 2002. Out of this, OFC has already been laid on 5000 Route Kms. till 30.05.2002 and the balance was to be laid by December, 2002.

2.38 Railways had earlier planned to lease/sell right-of-way to raise Rs. 700 crore as upfront charges in the financial year 2001-02. However, considering the need for modernization of Railways' communication network from safety and operational points of view, it has since been decided that right-of-way will be leased to RailTel on annual lease basis for 30 years. The value of the right-of-way has been assessed at Rs. 378 crore. RailTel will pay lease charges at the rate of 7% per annum on this assessed value (about Rs. 26.5 crore). Prior to setting up of RailTel, Railways were leasing spare bandwidth and space of microwave towers. The earnings from the above are as under:-

Year	**Earnings** (Rs. in lakh)
1998-99	16.69
1999-2000	10.42
2000-01	113.54
2001-02	27.47

2.39 When asked about the future viability of Rail Tel Corporation and accruals of revenues thereof to the Railway, the Ministry in their post evidence written replies stated that they had appointed a consultant to develop business plans for Rail Tel in October, 2000. Detailed project report (DPR) was prepared based on the business plan which was approved by the Railway Board. However, during last few years, there has been significant increase in the competition in telecom market in all telecom sectors. Rapid technological changes, unexpected growth of certain services and steep reduction in telecom tariff have resulted in change in telecom industry structure. Besides, ILD services were opened for competition in April, 2002 as against April, 2004, stipulated earlier. Considering above, another Consultant was appointed to review RailTel's business plan. The consultant has submitted this draft report in May, 2003.

2.40 As per draft business plan submitted by this consultant Rail Tel can achieve revenues of Rs. 1,238 crores by 2008. Rail Tel's Earning Before Interest, Tax, Depreciation Amortisation (EBITDA) would become positive from the year 2004-05 and it would be an economically viable entity.

Since its inception, RailTel has earned the following revenues:-

Year	**Earnings by RailTel** (Rs. in lakhs)
2001-02	45 lakhs
2002-03	950 lakhs
2003-04	90 lakhs (upto May'03)

2.41 Initially, it was considered that RailTel will pay lease charges of Rs. 26.5 core per annum @7% of the assessed value of right of way i.e. Rs. 378 crore. However, it has now been decided that RailTel will be paying a fixed lease charge of Rs. 11.34 crore per annum @3% of the assessed value and 4% of the gross revenue as revenue sharing. Thus, Railways will be earnings following revenues from RailTel:-

(i) 3% of the assessed value of Right of way (Rs.378 crore as lease charges);

(ii) 4% revenue sharing;

(iii) Dividend on equity as and when the same is declared.

It has also been decided that the payment of lease charges shall be deferred for 5 years and would be paid by RailTel from 6th year onwards.

Licences

(i) RailTel has obtained Infrastructure Provider-I (IP-I), IP-II and Internet Service Provider (ISP) licenses in February/March 2002 and thereby has been authorized to lease telecom infrastructure, lease/sell bandwidth and provide Internet Services.

(ii) RailTel may take National Long Distance Operator's License (NLDO) after completing Phase-I of the optical fibre cable network including provision of electronics.

(iii) International Long Distance (ILD) has also been opened up for competition and RailTel is exploring ILD market and impact of providing ILD services and may thereafter apply for ILD licence.

Marketing

(i) RailTel has started marketing surplus band-width on existing optical fibre cable and digital microwave links and started leasing dark fibres (unlit-without electronics) and tower space for hoisting antennae.

(ii) RailTel has already earned Rs. 3.74 crore during the current financial year i.e. 2002-03 and further have revenue receipts commitments of Rs. 7.2 crore.

(iii) RailTel has projected an earning of Rs. 20 crore in the current financial year i.e. 2002-03.

(iv) RailTel has made plans to provide extensive Internet/STD/ISD kiosks at stations for passengers and other users. Initially, as a pilot project, RailTel will provide these on three sections namely Ludhiana-Amritsar. Vadodara-Ahmedabad and Chennai-Chengalpattu.

Induction of Joint Venture parter

Discussions are being held with Department of Telecom for inducting PSUs of DoT – Mahanagar Telephone Nigam Limited (MTNL) and Bharat Sanchar Nigam Limited (BSNL) as joint venture partners.

(g) <u>Revenue Leakage</u>

2.45 The Ministry of Railways have taken a number of steps to curb the revenue leakages in various areas such as passenger booking, goods, parcel and luggage booking, purchase of materials, recruitment, disposal of scrap, over-payment to staff and works executed through agencies etc. Deliberating upon plugging of areas of revenue leakages, the CRB during the oral evidence stated:-

> "We have taken a lot of initiatives recently for plugging the leakages. … We have identified three areas of leakages. One was under-charging. We are giving thrust and installing the weigh bridges. So, we are controlling this aspect. Similarly, on the scrap side, we are computerising all stores and scrap so that leakages will be plugged. Similarly, action is taken on the staff side. Earlier, auction was being done by auctioneers. And we found that there was some problem. The supervision of auction is done by a JA grade level. Earlier, it was done by assistant level. So, we are taking lot of steps in auction to control expenditure."

2.46. The Railways have taken result oriented measures as given below in the thrust areas in order to curb this menace:-

(i) Traffic Undercharges

In passenger booking, intensive preventive checks at important stations including booking/reservation, platforms and trains are being organized by Railway Vigilance in addition to the regular ticket checking done by the Commercial Department. In parcel and luggage booking, vigilance checks are being organized to detect and prevent cases of wrong classification or wrong rating. Checks are also being undertaken to prevent overloading of SLRs/VPs. To prevent overloading of goods rakes, 14 electronics in-motion weighbridges were planned out of which 11 have already been installed as on 1.4.2002. In addition, 18 weighbridges have been ordered which are under different stages of implementation. Close monitoring is done by Railway Board to ensure that various procedures/guidelines issued are strictly followed by the Railways. An earning of Rs. 17 crores has been realized during the year 2001 in the area of traffic undercharges.

(ii) Payment to Staff

A total of 1003 officials have been taken up for overpayments made to staff in the financial year 2001-2002. The total overpayment made during this period recovered/recoverable has been computed to be Rs. 1.96 crores. Checks in various areas involving payments to staff have been intensified by Zonal Railways and regular monitoring in these areas is done by Railway Board.

(iii) Purchase of material from trade

To ensure the purchase of the best quality material at most competitive price from trade, in Indian Railways, the purchases are regulated by well defined procedures. Except in cases of emergency or procurement of critical items, where special limited tenders are issued, all high value purchases valuing above Rs. 5 lakhs, are made through advertised tenders widespread publicity of the advertised tenders is given through various newspapers and also through the Web-sites of the concerned Railways. For transparency, detailed tender documents are issued to the prospective bidders indicating eligibility/evaluation criteria and their offers are opened in their presence on the nominated date and time, wherein all the commercial conditions are read out. The tenders are examined by a Committee of three officers and their recommendation for purchases are approved by the higher level officer. For small value purchases, the details of required items, due dates of opening etc. are published in the weekly bulletins. The bulletins are circulated by the Railways to all the suppliers registered with them. Further any representations/complaints are looked into by Senior Officers and Vigilance Organization (if involving malafide intension) and appropriate action is taken.

2.47 To avoid possibility of manipulation in tender finalization and to be transparent in purchases following additional measures have been taken:-

(i) Procurement Calendar and Advertised tender notices have been put on Web-site.

(ii) Details of the high value contracts are published in bulletins and also put on Website.

(iii) Negotiations are conducted only with lowest acceptable tenderers, that too on exceptional cases.

All these efforts have led to a more transparent system of public buying and demonstrated the Railway's intention to have a fair play in dealing with their suppliers. It is, however, difficult to quantify these measures in money terms.

Scrap Disposal

2.48 Generation and disposal of scrap is a continuous process on Railways. Scrap generated from Shops and sheds is generally transferred to nearby depot for disposal. Scrap generated out of track renewal works & gauge conversion works is collected at convenient locations for formation of lots for disposal.

2.49 Before disposal every lot of scrap material other than rail and P. way item is surveyed by a committee of three senior officers and acceptance at the level of Controller of Stores or General Manager depending on value. Scrap rail and P. way materials are inspected by engineers and recommendation is accepted by Chief Engineer before disposal.

2.50 After recommendations of Survey Committee are approved by Controller of Stores/General Manager the same are classified as scrap, which is sold through public auctions/tenders. Three officials including one from security departments are responsible for witnessing delivery of the sold material as per the laid down procedure & conditions of Sales Contract. Preventive checks by vigilance officials and other officials are conducted from time to time. During 2001, 799 vigilance checks were carried out which resulted in departmental action against 267 officials including 10 gazetted officers.

2.51 The Ministry have taken the following measures to prevent leakages of revenue in scrap disposal:-

(i) Strict compliance of the codal procedures and instructions issued by Railway Board from time to time.

(ii) Inspection norms for various activities of scrap disposal are followed meticulously to ensure that people carry out the activity in the way they were expected to do.

(iii) Remedial action on irregularities and lapses revealed during the Vigilance checks and strengthening the accountal and disposal procedures.

(iv) Staff dealing with scrap disposal is required to be periodically transferred to eliminate the possibility of nexus formation between officials and purchasers.

(v) The system of appointing private auctioneers have been stopped recently and is now switched over to departmental auction.

(vi) Auctions are now being conducted by officer of JA Grade level.

(vii) Electronic Weighbridges are being provided in depots from where scrap material is delivered to the purchasers. It is expected that the Electronic Weighbridges will be provided by the year end in all the fifty six locations depots dealing with scrap disposal.

(viii) The accountal systems of rail and P. way material is also being thoroughly examined and put on centralized computerized accountal system with Divisional system.

(ix) To check the activities of localized unsocial elements Railways try various methods to overcome such undesirable activities like conducting auction at different locations so that purchasers from different places may take part in auctions freely, shifting of scrap materials from one place to other place where adequate competition exists, etc.

(x) On many occasions State Police Force is called for assistance to take care of threats and disruption apprehended from unsocial elements at the time of auction. Railway Protection Force is available to take care and protection of railway property.

2.52 There is a laid down policy that the tenure of the officers/staff associated with the scrap disposal should not exceed 4 years. The following steps have been taken to ensure that the Mafia influence in scrap disposal activity, if any, is reduced to the barest minimum:-

(i) Scrap is sold either through public auction or open advertised tenders. Wide publicity through newspapers is ensured. The delivery of scrap to purchasers is given jointly by representatives of three different departments viz. Stockholder, Accounts and Security departments to eliminate possibility to connivance.

(ii) Reserve price is fixed by a Junior Administrative Grade Officer before the auction and is kept secret.

(iii) Railways have switched over to Departmental auction, which is conducted by a Junior Administrative Grade level officer.

(iv) In the conduct of auction, an official of Accounts Department of Railways is associated to ensure that proper procedures are followed and Railways' interest are totally protected.

(v) Heavy entry fee of Rs. 10,000/- is charged from all participants to discourage undesirable elements from entry in the venue of auction.

(vi) Railway Protection Force and, at times, local Police's help is sought for, to ensure smooth conduct of auction and to check undesirable activities of unlawful elements.

(vii) The auctions are also conducted at locations, different from the routine place of auction, to bring in greater competition and also to eliminate the influence of local Mafia totally at such distant place.

(viii) Periodical/surprise checks are conducted both by the Department and also by Vigilance organizations during the entire process of scrap disposal.

2.53 Ministry of Railways have clarified that well-organized procedures and systems already exist on the Railways for the disposal of scrap so as to maximize earning of the Railways. Disposal of scrap quantitatively is in the range of 10 lakh MTs and in terms of value it is in the range of abut Rs. 900 crore per year. Scrap is disposed of through public auctions/tenders sales. The actual quantum of various types of scrap sold with value thereof for the last 5 years is enclosed in the statement to appreciate the enormity of the scrap to be handed and disposed off.

Year	Ferrous			Non-Ferrous depot items	Rolling Stock			Total Value
	Rails/P. way-track items	Other depot items	Total		Wagon	Coach	Loco	
	MTs	MTs	MTs	MTs	Nos.	Nos.	Nos.	Rs. in Crs.
1997-98	676761	311315	988076	7008	14789	1806	110	876
1998-99	570672	288440	859112	9364	12707	1717	100	765
1999-00	633617	346020	979637	8940	25690	1454	228	898
2000-01	536171	320286	856457	10023	26262	1298	260	949
2001-02	533095	350793	883888	11923	19403	1019	144	936

Earning due to efforts by Vigilance Organization

2.54 The earnings due to the efforts by vigilance Organization during the last 5 years from 1997 to 2001 is given below:-

Year	Earning
1997	18.1 Crores
1998	21.2 Crores
1999	16.4 Crores
2000	13.1 Crores
2001	20.0 Crores

(h) Tourism Service

2.55 With the thrust and promotion of tourism by the Government of India, Ministry of Railways have taken various initiatives to facilitate rail tourism for inbound tourist which include special luxury tourist trains, Indrail passes for foreign tourists and NRIs, special rail tour packages, heritage steam safaris, improvement in rail facilities for tourists, improved coaches etc.

2.56 The special tourist trains so far includes Palace on Wheels running in collaboration with RTDC and cover the exciting destinations like the Pink City of Jaipur, Jodhpur, Jaisalmer, Sawai Madhopur, Udaipur, Agra, etc. The Palace on Wheels is a brand name in the foreign tourist market and is a great foreign exchange earner. The net earnings from this train during the last few years are as below:

Year	Rs. Lacs
1998-1999	1573.84
1999-2000	1504.95
2000-2001	2047.08

Royal Orient Express

This trains runs in collaboration with Gujarat Tourism in the State of Rajasthan and Gujarat covering exciting destinations like Mehsana, Ahmedabad, Sasangir, Palitana, Sarkhej etc. the net earnings of this train during the last few years are as below:-

Year	Rs. Lacs.
1997-1998	103.40
1998-1999	101.50
1999-2000	110.00

Fairy Queen

The oldest working steam locomotive (Guinness Book of World Record Holder and National Toursm Award Winner). This train runs from Delhi Cantt. to Alwar on a two-days package. The earnings of this train during the last few years is as below:-

Year	Rs. Lacs.
1998-1999	4.00
1999-2000	1.60
2000-2001	1.70

2.57. Apart from the above special trains there are certain special facilities offered by the Indian Railways for the foreign tourists which include Indrail Passes amongst other things. To explore the splendour of multi-faceted India, Indrail Passes provide excellent value and enhance the charm of holidays for visitors from abroad. It offer visitors on a budget, the facility of travel as they like, over the entire Indian Railways network without any route restriction, reservation fee, super fast charges etc. The sale proceeds from Indrail Passes for the last few years are as under:-

Year	Rs. Lacs
1998-1999	5.46
1999-2000	5.05
2000-2001	5.09

Scope of improvement

2.58. There are presently three sectors under consideration for introduction of special tourist train:-

1. Maharashtra An MoU has been signed with the Government of Maharashtra for operating a luxury tourist train on the lines of Palace on Wheels originating from Mumbai and covering the World Heritage Sites of Ajanta & Ellora amongst other tourist attractions.

2. Karnataka The modalities of running a special tourist train in Karnataka, covering the World Heritage monuments at Hampi, Badami and Pattadakal and beautiful beaches of Karwar and Mangalore amongst other tourist destinations in Karnataka, are also being worked out in consultation with the Government of Karnataka.

3. Andhra Pradesh A proposal to run a pilgrim tourist train in Andhra Pradesh is also under active consideration in the Ministry of Railways.

Steps are also being taken by the Indian Railways to evolve number of comprehensive tourist packages with single window facilities and value added services in collaboration with various State Governments Tourism Departments.

Ministry of Railways has also set up Indian Railways Catering and Tourism Corporation, a public sector company to promote domestic and International Tourism particularly rail based tourism.

The rail tourism hitherto being an untapped sector and having a large potential will definitely get a boost with the setting up of the Indian Railways Catering and Tourism Corporation. With the introduction of the above special tourist trains in near future it is expected that there will be a significant improvement w.r.to revenue generation in this sector.

(i) Catering Services

2.59 Catering services on Indian Railways are considered as passenger amenities and not as a source of revenue.

Ministry of Railways has taken few major policy decisions to increase revenue through catering.

(1) Revision of license fee @ 15% for Shatabdi/Rajdhani trains and 12% for other mobile and static units w.e.f. 1.7.1999, uniformly.

(2) Introduction of two packets tender system for award of license, in case of major catering units.

(3) Expansion of scope of catering services in trains running without pantry cars.

(4) Centralised procurement of few major items to get the most competative rates.

(5) Indian Railway Tourism & Catering Corporation has been set up to mobilize private participation, which will bring more revenue.

2.60 Revenue through catering services has increased in last few years, which can be seen from the following:-

Year	Profit in Dept. Catering Units (Rs. in crore)	License Fee from Licensees (Rs. in crore)
1997-98	3.05	7.83
1998-99	7.63	10.38
1999-2000	11.45	15.38
2000-2001	15.08	21.59

Scope for improvement

2.61. It is anticipated that Indian Railway will get licence fee from present level of catering services approximately Rs. 50 crore in year 2001-02. In addition departmental catering should generate surplus of approximately Rs. 20 crore in the year 2001-02. As all future contract will now be awarded on tender system there is a tremendous potential of revenue generation in this sector. With the setting up of IRCTC, which has expanded the scope of catering on Indian Railways, through food plazas, premium services, budget hotels etc, revenue from this sector is likely to increase substantially.

CHAPTER-III

PLAN & NON-PLAN EXPENDITURE

The major components of expenditure with target fixed, actual incurred, variation and reasons for such variation for the last five years are given below:-

1997-98 **(Net/Rs. in cr.)**

Components	BE	Actual	Variation	Reasons for Variation
(1)	(2)	(3)	(4)	(5)
A. Non-Plan Expenditure			(3-2)	
1. Ordinary Working Exp.	20935	20605	-330	Savings 1.6% only
2. Appropriation to Railway Funds (Depreciation Reserve Fund, Pension Fund, Development Fund & Capital Fund).	5574	6806	1232	Higher appropriation was made under Pension Fund (Rs.1167 Cr.) due to higher pension liabilities for implementation of V CPC's recommendations and Capital Fund (Rs.166 Cr.) due to better fund availability; which is partly offset by lower appropriation was made under DRF (Rs. 96 cr.) and Development Fund (Rs. 5 Cr.) based on Plan requirement.
3. Misc. Expenditure	250	224	-26	Minor Savings.
4. Dividend to General Revenue	1630	1535	-95	Due to Dividend relief on Pre '52 Capital at charge.
B. Plan Expenditure				
(i) Capital	1831	1992	161	Due to additional budgetary Support.
(ii) Railway Funds	3419	3452	33	Higher expenditure for Capital Fund.
(iii) Market Borrowings	3050	2795	-255	Non-materialisation of BOLT investments.
Total Plan Expenditure	**8300**	**8239**	**-61**	

1998-99

Components	BE	Actual	Variation	Reasons for Variation
(1)	**(2)**	**(3)**	**(4)**	**(5)**
A. Non-Plan Expenditure			**(3-2)**	
1. Ordinary Working Exp.	23720	23255	-465	Savings due to stringent austerity/economy measures.
2. Appropriation to Railway Funds (Depreciation Reserve Fund, Pension Fund, Development Fund & Capital Fund).	6347	4979	-1368	Lower appropriation was made under DRF (Rs.1318 Cr.), Capital Fund (Rs.1178 Cr.) and Development Fund (Rs.79 Cr.) due to lower internal generation and plan requirement; which was partly off-set by higher appropriation made under Pension Fund (Rs.1207 cr.) due to higher pension liabilities for implementation of V CPC's recommendations.
3.Misc. Expenditure	254	248	-6	Minor savings.
4.Dividend to General Revenue	1777	1742	-5	Due to higher subsidies.
B. Plan Expenditure				
(i) Capital	2200	2185	-15	Minor short-fall.
(ii) Railway Funds	4400	3455	-945	Lower availability of funds.
(iii) Market Borrowings	2900	3217	317	Higher requirement of market borrowings to partly off-set requirement under Railway Funds.
Total Plan Expenditure	**9500**	**8857**	**-643**	

1999-2000

Components	BE	Actual	Variation	Reasons for Variation
(1)	**(2)**	**(3)**	**(4)**	**(5)**
A. Non-Plan Expenditure			**(3-2)**	
1. Ordinary Working Exp.	25740	25645	-95	Savings only 0.4%
2. Appropriation to Railway Funds (Depreciation Reserve Fund, Pension Fund, Development Fund & Capital Fund).	6087	6045	-42	Higher appropriation was made under DRF (Rs. 81 cr.) due to higher plan requirement, Pension Fund (Rs. 575 cr.) due to higher Pension liabilities for implementation of V CPC's recommendations; which was partly off-set by lower appropriation made under Development Fund (Rs. 103 cr.) based on Plan requirement and Capital Fund (Rs. 595 cr.) due to shortfall in earnings.
3. Misc. Expenditure	280	266	-14	Minor savings.
4. Dividend to General Revenue	1914	1890	-24	Due to higher subsidies.
Plan Expenditure				
(i) Capital	2540	2588	48	Increase in expenditure due to shifting of Doubling work from Capital Fund to Capital.
(ii) Railway Funds	4160	3550	-610	Lower internal generation.
(iii) Market Borrowings	3000	2919	-81	Non-materialisation of BOLT investment.
Total Plan Expenditure	**9700**	**9057**	**-643**	

2000-01

Components	BE	Actual	Variation	Reasons for Variation
(1)	**(2)**	**(3)**	**(4)**	**(5)**
A. Non-Plan Expenditure			**(3-2)**	
1. Ordinary Working Exp.	28115	27534	-581	Saving due to stringent austerity/economy measures.
2.Appropriation to Railway Funs (Depreciation Reserve Fund, Pension Fund, Development fund & Capital Fund).	8613	7896	-717	Lower appropriation was made under DRF (Rs. 140 Cr.) due to shortfall in earnings, Pension Fund (Rs.164 cr.) due to lower pension liabilities than expected, development Fund (Rs.99 Cr.) based on plan requirement; and Capital Fund (Rs.314 cr.) due to lesser surplus).
3. Misc. Expenditure	280	262	-18	Minor Savings.
4.Dividend to General Revenue	615	308	-307	Due to reduction in internal generation of resources.
Plan Expenditure				
(i) Capital	3291	3269	-22	Lower capital expenditure.
(ii) Railway Funds	4041	3229	-812	Lower internal generation.
(iii) Market Borrowings	3668	2896	-772	Lower requirement of IRFC funds.
Total Plan Expenditure	**11000**	**9395**	**1605**	

2001-02

Components	BE	Actual	Variation	Reasons for Variation
(1)	**(2)**	**(3)**	**(4)**	**(5)**
			(3-2)	
A. Non-Plan Expenditure				
1. Ordinary Working Exp.	30190	28703	-1487	Saving due to stringent austerity/economy measures and no increase in prices of fuel barring increase in the rates of electricity by a few State Electricity Boards during the year.
2.Appropriation to Railway Funs (Depreciation Reserve Fund, Pension Fund, Development fund & Capital Fund & Railway Safety Fund).	9325	8592	-733	Lower appropriation was made under DRF (Rs. 704 Cr.) due to shortfall in earnings, Pension Fund (Rs.200 cr.) due to lower pension liabilities than expected, development Fund (Rs.62 Cr.) based on plan requirement; which was partly off-set by higher appropriation made under Capital fund (Rs.233 cr.) for repayment of loan and interest.
3. Misc. Expenditure	287	714	427	Includes Rs. 400 cr. as Railway share of Appropriation to Special Railway Safety Fund.
4.Dividend to General Revenue	1352	1337	-15	Due to higher relief thro' subsidies.
B. Plan Expenditure				
(i) Capital	3540	4377	837	Due to additional budgetary support.
(ii) Railway Funds	3550	3625	75	Expenditure of Rs. 1434 cr. under newly created Special Railway Safety Fund offset by reduced expenditure under DRF due to reduced internal generation.
(iii) Market Borrowings	4000	2175	-1825	Non-materialization of OYW & BOLT investment and reduction of target of IRFC borrowings.
Total Plan Expenditure	**11090**	**10177**	**-913**	

(a) **<u>Ordinary Working Expenses</u>**

3.2 The bulk of the non-plan expenditure of the Railways is covered by the Ordinary Working Expenses (OWE) which is vital to the running of the Railways as these cover the entire cost of repairs & maintenance of railway assets, operating and administrative costs etc.

The broad areas where the OWE are spent are given below:

	Approximate % to total OWE
Staff Costs	44%
Stores	9%
Fuel	24%
Lease Charges	11%
Contractual Payments	5%
Misc.	7%

Railways' ordinary working expenses in 1997-98 increased substantially due to steep rise in the staff cost on account of implementation of V Central Pay Commission's recommendations including arrear payments. This trend continued till 1998-99 resulting in an overall 39% increase during 1997-98 to 2001-02. The spurt in staff costs has since stabilized and in 2001-02 and 2002-03 the increase in ordinary working expenses over the previous year has been contained at only 4% as against 27% in 1997-98 (over 1996-97).

3.3 Asked to explain what specific steps have been taken by the Railway to control the expenditure the Chairman, Railway Board submitted before the Committee as under:-

> "On the expenditure side, our main expenditure is on the staff followed by fuel and stores. These are the three components on this side and we have taken a large number of measures. We are reducing the staff continuously and we are engaging in the three per cent retirement. ….Similarly, on fuel side also, a lot of energy conservation measures have been taken. New technologies are being followed. Stores inventory is being controlled."

3.4 The Railways have been taking a number of austerity/economy measures to control the growth of expenditure under the OWE as follows:

(1) Zonal Railways have been instructed to effect saving in revenue expenditure to compensate for unavoidable post-budgetary increases such as revision of diesel prices, hike in power tariff, increase in rates of certain allowances/incentive bonus etc.

(2) Tight control over expenditure in areas such as fuel & power consumption contractual payments, over time allowance, purchase of materials etc.

(3) Austerity and economy measures in areas such as hospitality, publicity, advertisements, inaugural ceremonies, seminars & workshops contingent office expenses etc.

(4) Prioritization of expenditure on works for better use of available resources.

(5) Rightsizing of the work force in order to reduce the expenditure on wages and pensionary liabilities.

(6) Productive use of manpower.

(7) Better utilization of assets.

(8) Steps to reduce the cost of operation and maintenance of rolling stock.

(9) Improvement in inventory management.

3.5 These measures have been taken besides strict implementation of instructions issued by Ministry of Finance for economy in expenses such as hospitality, commercial advertisement & publicity, air travel, telephone charges especially STDs. Due to these steps being taken, the Railways have, after absorbing the various post budgetary impacts, achieved the following savings over Budget Estimates of Ordinary Working Expenses, during the last five years:-

(Rs. in crore)

	BE	**Actual**	**Savings**
1997-1998	20935	20605	330
1998-1999	23720	23255	465
1999-2000	25740	25645	95
2000-2001	28115	27534	581
2001-2002	30190	28703	1487

(b) **Operating Ratio**

3.6 The Operating Ratio as envisaged in the Budget via-a-vis the actual achievement and the variation in earnings and working expenditure which affected the operating ratio, in last five years re indicated in the table below:

		Operating Ratio	Total Earnings	Working Expenditure (Excl. Suspense)
1997-98	B.E.	91.4%	27520.00	25146.16
	Actuals	90.9%	28566.18	25971.39
	Variation	-0.5%	3.8%	3.3%
1998-99	B.E	91.2%	31212.00	28458.60
	Actuals	93.3%	29824.86	27838.10
	Variation	2.1%	-4.4%	-2.2%
1999-2000	B.E.	91.6%	33111.00	30328.53
	Actuals	93.3%	33124.71	30909.92
	Variation	1.7%	0.0%	1.9%
2000-2001	B.E.	98.8%	36029.00	35583.21
	Actuals	98.3%	35287.58	34701.22
	Variation	-0.5%	-2.1%	-2.5%
2001-2002	B.E.	98.8%	39189.00	38728.65
	Actuals	96.0%	37858.54	36351.45
	Variation	-2.8%	-3.4%	-6.1%

The operating ratio for the years 2001-02 and 2002-03 (RE) are 96% and 92.50% respectively as against 98.3% in 2000-01.

3.7 Railways are taking various measures to augment their earnings and control expenditure. The expenditure has been brought under control and the earnings have improved. In the year 2000-01 and 2001-02 the increase in OWE is limited to around 4.2% whereas the gross traffic receipts have increased by 8.5% and 8% respectively during the period.

3.8 During the oral evidence Chairman, Railway Board informed:-

> "We are redeploying and retraining the staff thus reducing the staff expenditure. This is one of the main reasons for which we were able to bring down the operating ratio and reverse the trend."

CHAPTER-IV

BUDGETARY SUPPORT & MARKET BORROWING

(A) Budgetary Support

The Plan Expenditure of Railways is made up of Capital or Budgetary Support from the General Exchequer, Internal Resources and Market Borrowings. Budgetary Support is a financial support from the General Exchequer in the form of a loan in perpetuity for financing Railway Plan. For the Budgetary Support obtained from the Central Budget, the Railway Ministry has to pay dividend to the Central Government at the rate determined by Railway Convention Committee, from time to time. Budgetary Support or Capital has been an important part of the Railways' Plan outlays which is utilized to fund the projects like construction of new lines, doubling of tracks, gauge conversion, Railway electrification, building of staff quarters, purchase of rolling stock & machinery and acquisition of land for works etc.

4.2 The Budgetary support from General Exchequer and its percentage vis-à-vis plan size over the various plans is tabulated below:-

Plan/Period	Outlay (Rs./Cr)	Budgetary Support (Rs./Cr)	Budgetary Support (As %age of Plan size)
I	422	142	34
II	1043	576	55
III	1685	1140	68
1966-69	762	442	58
IV	1428	1031	72
V	1525	1141	75
1978-80	1251	935	75
VI	6585	3802	58
VII	16549	6940	42
1990-92	10208	3388	33
VIII	32306	7313	23
IX	45725	15411 *	34
2002-03 (BE)	12330	5390 *	44

* includes Rs. 1000 cr in 2001-02 and Rs. 1350 cr. in 2002-03 (BE) as contribution from General Exchequer to Special Railway Safety Fund.

4.3 As per the Railways, over the years, the decrease in the share of Central Government in the form of Capital support to the Railways' Plan has been a point of concern for the Railways. This issue has been highlighted in various fora. Due to the concerted efforts of the Railways as well as various other agencies like the Parliamentary Committees associated with Railways, the Budgetary Support being extended by the Government has gradually increased from 23% during 8th Plan to 34% in 9th Plan. In the Annual Plan for 2002-03, which is also the first year of the 10th Plan, the budgetary support has gone up to 44% of the Annual Plan size. However, it may not be out of place to mention here that with the level of throwforward of the projects in hand, the increase in budgetary support is still far from adequate to complete them in a fixed time schedule. The Budgetary Support towards Capital in the year 2002-03 is Rs. 4040 cr. The Government has also decided to fund the new line project of 'Udhampur-Srinagar-Baramulla', which is termed as National Project, separately. Rs. 400 cr. have been extended for this project in 2002-03.

4.4 Contrary to the aforesaid view of the Ministry of Railways that the Budgetary Support has decreased continuously over the year, the Secretary, Planning Commission while appearing before the Committee in connection with the examination of 'Pending & Ongoing Projects' on 8th November, 2001 submitted before the Committee as under:-

> "The allocation (Budgetary Support) to the Railways from the Plan both in terms of percentage as well as in actual value terms has been increasing. In 1995-96, the budgetary support to Central Plan was Rs. 28,994 crore. Out of which, the budgetary support to the Railways was Rs. 1150 crore which was 3.97 per cent. Similarly, in the next year, it went up to 4.64 per cent. Then, it went up to 5.07 per cent, then to 5.18 per cent, then to 5.78 per cent, and in 2000-01, it went up to 7.49 per cent. In the current year, i.e. 2001-02, it is 6.46 per cent. It indicates that the Railways are getting fairly substantial share of the Central Plan allocation."

4.5 Vindicating the observation of the Committee that financial picture of the Railways is not very satisfactory due to various reasons at present, the Secretary, Planning Commission further stated:-

> "We have also found that increasingly the Railways financial picture which they present ---- is not very satisfactory. The borrowings of the Railways have been increasing whereas their internal resources which they are generating have been going down. Just to give you the figures, in the Eighth Plan, the borrowing was 19 per cent whereas the internal revenue generated was 58 per cent. In 1997-98, the borrowing went up to 34 per cent but the internal resources came down to 42 per cent from 58 per cent. In 1998-99, the borrowings went up to 35 per cent and the internal resources were 39 per cent. In the next year, the borrowings were 35 per cent and the internal resources were

27 per cent. In the current year, the anticipated borrowings are 36 per cent and the internal resources are 29 per cent which means from 58 per cent which they used to generated, they came down to 29 per cent. That is exactly half. The borrowings which were 19 per cent, have gone up to 36 per cent.

In the Eighth Plan the total allocation was Rs. 32,302 crore of which Rs. 6,311 crore and Rs. 6,616 crore were borrowings and Rs. 18,830 crore was the internal resource mobilization. This was 58 per cent of the total allocation. As mentioned earlier, from 58 per cent it has gone down in the current Plan to 29 per cent. Therefore, the whole internal resource mobilization has plummeted to just half.

So, there is obviously a problem here that the internal resources as they should have been generated have not been generated because of variety of reasons such as cross subsidization, or perhaps due to built in inefficiency and due to too much cost on the staff and less on the capital investment.

The Tenth Plan projections of Railways as tentatively finalized by the Planning Commission, show a Plan size of Rs. 60,600 crore with a Budgetary Support of Rs. 27,600 crore which includes Government contribution to the SRSF and transfer from Central Road Fund to the Railways. This Budgetary Support works out to 46% of the total 10th Plan projections."

(B) Market Borrowing

4.6 Ever since the separation of Railway Finance from General Finance in 1924, the Railways have been drawing funds for their capital requirement from the General Finances as a loan in perpetuity on which dividend was to be paid as determined by the Railway Convention Committee from time to time. However, the size of budgetary support to the Railways over the different Five Year Plans remained consistently inadequate considering the large investment requirements to cope with the projected growth in traffic demand and to meet with the needs of modernization and expansion of the network. Budgetary support to the Railways declined from 75% of the Railway Plan outlay in the 5th Plan (1974-1978) to 58% in the 6th Plan (1980-1985), and further to 42% in the 7th Plan 1985-1990. Competing demands on the Government's resources also did not permit any substantial increase in the level of budgetary support. It was in this context that the Government decided in 1986-87 to allow bonds issue by non-departmental public sector enterprises which could have greater flexibility in matters like source of tapping funds, terms of issue, etc.

4.7 The Indian Railway Finance Corporation Limited (IRFC) wholly-Government owned public financial institution was incorporated on 12th December, 1986 as a public limited company under Section 4A of the Companies Act 1956 with the objective of raising market borrowings to augment resources for the Railways' Plan. The Corporation has an authorized capital of Rs. 500 crore. The initial paid-up capital was Rs. 50 crore which was gradually raised to Rs. 232 crore by 1989-90.

4.8 According to the memorandum and Articles of Association of IRFC, the main objects to be pursued by the Company provide for IRFC "to carry on business of lending and financing of the schemes/ projects for any body corporate/ bodies corporate and persons." However, since inception, IRFC has primarily been acting as a financing arm for the Ministry of Railways. The target for market borrowing through IRFC each year is fixed by MOR after taking into account the overall requirement of funds to finance the Railways' Annual Plan. The funds raised by IRFC are used so far mainly to finance the acquisition of revenue generating Rolling Stock assets such as Locomotives, Coaches and Wagons as per the Rolling Stock Programme that forms a part of the annual Railway Budget. The assets financed out of market borrowing are leased to the Railways on terms mutually agreed upon and incorporated in the Lease Agreements between Ministry of Railways and IRFC.

4.9 During the initial years up to 1992-93 IRFC borrowings were solely in the form of Tax Free Bonds of 10 years tenor. Between 1993-94 and 1997-98, the liquidity position in the commercial market was tight and there was not much interest even in tax-free bonds among institutional investors. The domestic interest rates in the bond market and for bank loans were ruling high. This led to further diversification of sources of borrowing. Beginning 1996-97, IRFC has tapped domestic as well as overseas markets through diverse and innovative instruments to raise a pool of resources with longer average tenor and lower weighted average cost. There has been gradual softening of interest rates from 1998-99 onwards and more significantly in recent times. IRFC has taken full advantage of the current lower interest rate regime to the maximum extent possible so as to bring down the average cost of borrowing. IRFC has also done refinancing/renegotiating of erstwhile fixed interest rate loans and recalled costlier bonds. The benefits of such financial engineering are being passed on to the Railways. The outstanding borrowings in IRFC's books as on 31st March 2002 is Rs. 13,698 crore.

4.10 The rates of lease charges (which cover both principal repayment liability and interest cost) in respect of assets leased by IRFC in different years are as follows:-

Year of funding	Lease Rental Rate (Principal repayment plus interest) (Per Annum)		Interest cost of MOR (Per Annum)
	Primary lease period	Secondary lease period	
1987-88 to 1992-93	14.5% (10 years)	2.5% (20 years)	10.70%
1993-94 to 1996-97	17.5% - do -	2.5% - do -	14.97%
1997-98	16.5% -do -	1.5% (5 years) & Rs.1 lakh lumpsum (5 years)	12.90%
1998-99	14.5% (15 years)	Rs. 50,000/- lumpsum (15 years)	13.17%
1999-2000	13.8% -do-	Rs.1 lakh lumpsum (-do-)	12.14%
2000-2001	13.5% -do-	Rs.1 lakh lumpsum (-do-)	11.69%
2001-2002	12.5% -do-	Rs.1 lakh lumpsum (-do-)	10.17%

4.11 IRFC keeps track of the latest development in the domestic and international financial markets and uses appropriate mix of various financial products to optimize the cost and provide long term funds to Railways. Besides borrowings at most competitive terms and managing its funds for realizing optimum returns, IRFC has been able to keep its overhead cost at the lowest (0.2% of the total income during 2001-02) for any financial institution with comparable balance sheet size. As a result, IRFC has been charging only a very small margin as part of lease charges and this margin has been reduced from 1.43% in respect of assets leased in initial years to a nominal 0.28% in respect of assets leased during 2001-02.

4.12 In regard to external commercial borrowings IRFC has tied up a few External Commercial Borrowings (ECB) either to tide over the earlier liquidity constraint in the domestic market or to finance specific imports of equipment like locomotives and passenger coaches by Ministry of Railways. The outstanding external borrowings as on 31st March, 2002 in IRFCs' books is Rs.1639 crore. This constitutes about 12% of the total outstanding borrowings of IRFC. All the above foreign currency borrowings were raised at very competitive rates that compare favourably with similar borrowings by other corporates during the relevant period. Presently the interest rates on these borrowings range between 2.05% to 3.4% per annum. Foreign exchange and interest rate risk involved in these ECBs is borne by the Ministry of Railways. While the risk on principal amount has been partially hedged by IRFC through swap transactions, Ministry of Railways has stood to gain from the steep fall in interest rates on US Dollar and Euro capital markets in recent years.

4.13 Regarding the assets financed by IRFC and its earning potential the Ministry of Railways stated that the rolling stock acquired by the Railways through IRFC leasing are all newly-manufactured capital equipment with average productive life in excess of 30 years. Most of these assets are modern, higher-capacity rolling stock, including state-of-the-art high horse power diesel and electric locomotives and BOXN/BCN/BCNA wagons. The category-wise break-up of Rolling Stock and a few other assets in operation on the Railways under IRFC leasing as on 31st March, 2002 is as follows:-

Category of assets	Units (Nos.)	Asset Value (Rs. in Cr.)
Wagons	99873	9933.50
Coaches	15853	5799.31
Electric Locos	1411	4358.37
Diesel Locos	1325	3500.99
Track Machines	27	198.99
EMU Coaches	132	65.85
Cranes	4	17.43
Total		**23874.44**

4.14 The wagons and coaches leased by IRFC constitute about 46% of the total wagon and coach holding as on 31.03.2002. The electric and diesel locos leased by IRFC constitute 49% and 28% of Indian Railways' electric and diesel loco fleet respectively. Induction of this rolling stock into the system has enabled the Railways to modernize the fleet, increase carrying capacity and improve productivity. As regards the contribution of IRFC-financed assets to total freight and passenger earnings of IR, though no separate accounts are maintained in this regard, it can safely be assumed to be in the same proportion as IRFC leased wagon/coach assets to the total wagon/coach holding on the system i.e. 46% (as on 31.03.2002). The amount of lease charges paid by Ministry of Railways to IRFC during the year 2001-02 (Rs.2942 crore) worked out to 7.8% of the Indian Railways Gross Traffic Receipts in that year and about 17% of the proportionate earnings of Indian Railways from IRFC leased wagons and coaches.

A statement showing the gross value of rolling stock leased/sub leased by IRFC to Ministry of Railways and lease charges paid to IRFC year-wise is at <u>Annexure.</u>

4.15 Giving a detailed profile of IRFC the Ministry stated that IRFC has steadily grown and its bonds are well sought after in the debt capital market. The Balance Sheet of IRFC as on 31.3.2002 stands at Rs. 15,794 crore, with a net worth of Rs. 2096 crore. IRFC has got a 'AAA' stand-alone rating from two reputed credit rating agencies CRISIL and ICRA because of its strong financials. With diligent efforts by the management, IRFC has also succeeded in recovering all its investments in CANFINA and CAN Mutual Fund made during the period 1990-1992 and the company presently does not have any Non-Performing Assets (NPA) in its books. IRFC has been paying dividends to Ministry of Railways regularly. The rate of dividend in the last three years (1998-99 to 2000-2001) had been 28% of the paid-up capital and for the year 2001-02 dividend of 43%, the highest so far, had been proposed.

4.16 Beginning 1997-98, Memorandum of Understanding (MOU) between Ministry of Railways and IRFC, laying down annual performance parameters and targets for IRFC, is being signed every year in accordance with the Department of Public Enterprises (DEP) guidelines. MOUs are finalized after extensive discussions with the Adhoc Task Force (ATF) constituted by the DPE, including a detailed review of past performance, current market trends and practices, and opportunities for future growth.

IRFC was rated 'Excellent' by the DPE for the last 4 consecutive years for achieving and excelling the MOU targets.

The Ministry of Railways described the strategies for future growth of IRFC as follows:

(a) Accessing low cost funds:

4.17 As part of Government policy to reduce subsidies, the Government has over the year scaled down the allocation of tax free bonds to all sectors. Allocation of tax free bonds to IRFC has come down from Rs. 1500 crore in 1991-92 to Rs. 100 crore for the financial year 2002-03. With a view to having access to low cost funds which are required purely for public investment in rail infrastructure for achieving economic development, Ministry of Railways has requested the Ministry of Finance to recommend to RBI to accord SLR (Statutory Liquidity Ratio) status to bonds issued by IRFC. Though Ministry of Finance has so far not agreed to this, the matter is being further pursued with them. IRFC is also exploring emerging opportunities and instruments in the capital market such as securitisation of lease rental receivables and cross border leasing.

(b) Project Financing :

4.18 With a view to achieving the corporate objective of sustained long term growth of the company and fulfilling IRFC's legitimate role as the only public financial institution in the Railway Sector, the issue of diversification of IRFC's portfolio to include project financing has been engaging the attention of Ministry of Railways and IRFC management. There is nothing in the scheme of formation of IRFC or its Memorandum & Articles of Association, which prevents IRFC from taking up project financing. The Adhoc Task Force (ATF) set up by the Department of Public Enterprises (DPE) has underlined the need for IRFC management exploring opportunities in project financing. After detailed deliberations, the IRFC Board has also come to the conclusion that there is a prima facie case for IRFC taking up project financing, it being a financial institution. Needless to say that the Board of Directors of IRFC will consider each such proposal on merits – viability, security of investment and adequate financial returns undoubtedly being the main considerations. Consideration of these factors is in line with the Company's objectives to ensure its credibility and standing in the market are in no way jeopardized.

4.19 Clarifying the query of the Committee whether the IRFC can finance a project other than the rolling stocks and projects of the Railways as per its Memorandum and Articles of Association, the Financial Commissioner, Railway and Ex-Officio Chairman of IRFC stated as under:-

> "The Memorandum and articles of charge of the Indian Railway Finance Corporation do not prohibit IRFC funding projects other than the railway projects. It is a matter of fact that it was founded to fund only railway rolling stock requirements and it has been funding the railway rolling stock requirements. I would like to repeat that IRFC has not funded anything other than the railway requirements."

4.20 Responding to the query of the Committee whether the IRFC can finance any viable project launched/supported by the other State Governments in the similar fashion of Gujarat Pipavav Port Project Limited (a Private Company), the Financial Commissioner, Railways stated:-

> "I see no reason why it should not be done… if there are viable projects, if due diligence is carried out by one of the recognized rating agencies and they consider it for a rating of AA or AAA, we can definitely step in."

4.21 The Ministry of Railways further informed in writing that Pipavav Railway Corporation Ltd is a pioneering venture, which will lay down a frame work for attracting investment in railway sector in line with the economic reform process and is considered a model for Public Private participation in infrastructure. IRFC has got "due diligence" on the project conducted by a reputed credit rating agency (ICRA Ltd.) which has established the adequacy of cash flows for servicing the debt. IRFC has also agreed to join other term lending institutions/Banks, which have expertise in project financing, to form a consortium to provide long term loan to PRCL with terms quantum depending on the decision of the Consortium.

ANNEXURE

Gross value of Rolling Stock assets leased/subleased by IRFC to MOR and lease charges paid by MOR.

(Rs. in Crore)

Year	Value of Assets leased/sub leased during the year	Cumulative value till end of the year	Amount of lease rental paid to IRFC
1987-88	770.33	770.33	27.11
1988-89	860.73	1631.06	123.20
1989-90	1072.56	2703.62	264.80
1990-91	1170.04	3873.66	470.00
1991-92	1500.49	5374.15	626.00
1992-93	961.82	6335.97	855.00
1993-94	900.38	7236.35	960.00
1994-95	1050.10	8286.45	1126.47
1995-96	658.74	8945.19	1395.00
1996-97	* 1901.84	10847.03	1446.40
1997-98	2237.77	13084.80	1855.89
1998-99	2950.29	16035.09	2113.26
1999-2000	** 2848.93	18884.02	2350.00
2000-2001	# 2823.27	21707.29	2748.00
2001-2002	2167.15	23874.44	2942.00

* Includes assets worth Rs. 399.25 crore lease financed by IDBI & ICICI.

** Includes assets worth Rs. 1020.85 crore lease financed by Banks /FIs.

Includes assets worth Rs. 549.97 crore lease financed by IDBI & ICICI.

CHAPTER-V

PRIVATE PARTICIPATION IN RAILWAY INFRASTRUCTURE

Industrial Policy Resolution of 1991 has reserved 'Rail Transportation' for "Public Sector". Railways also fall in strategic sector. Railway operations are undertaken by the Zonal Railway Administrations under Ministry of Railways and also Konkan Railway Corporation. The expertise of operating a railway system, as of now, is with Indian Railways and does not exist outside Railways.

5.2 Ministry of Railways have initiated certain steps for financial participation of private sector in rail projects. Guidelines have also been issued for State government and public sector participation in rail infrastructure projects. The railway projects are capital intensive and have large gestation period. For these reasons, they are not easily amenable to commercialization. There are issues of predictability and control of operation and maintenance cost and flexibility over tariff which need to be addressed.

5.3 Railways' first initiative towards private participation was the Build Operate Lease Transfer (BOLT) Scheme which was launched in 1994. However, due to certain weakness in it, response to this scheme was poor and therefore the scheme has been redesigned as BOT Scheme and certain projects are in the process of implementation. The following two projects have been taken up under the Build-Own-Transfer (BOT) Scheme during the year 2001-2002. The contracts were under finalisation.

Sl. No.	Name of Work	ROR of the Project	Approx. Cost (in Rs. Cr.)	Works to be done under BOT
1.	Utratia-Chandrauli and Sultanpur-Bandhua Kalan (N.Rly.) Doubling	20%	47	Track, Ballast and Signalling only.
2.	Viramgam-Mahesana Gauge Conversion (W.R)	22%	65	Track, ballast, and signalling only

5.4 In addition, the following three projects are being considered for BOT scheme during the year 2002.

(a) Amroha-Kankather Doubling.

(b) Bridge on the river Mahanadi between Cuttack and Nergundi as part of Talcher-Paradip Doubling project.

(c) Bhatapara – Shilyari 3rd line as a part of Bilaspur-Urkura 3rd line project.

(A) <u>Overview of projects being implemented under various Public-Private-Participation models</u>

(1) Surendra Nagar- Pipavav: Gauge Conversion Project

5.5 An SPV has been formed with 50:50 equity participating with Gujarat Pipavav Port Limited (GPPL). The project is now anticipated to cost Rs. 333 crores. It excludes contingency, interest during construction and pre-operating expenses. Ministry of Railways and Gujarat Pipavav Port Limited are fifty-fifty partners in the equity. Ministry of Railways has given concession to the newly formed SPV (PRCL) for the above project by signing a Concession Agreement.

<u>Financing of rail link to Pipavav Port</u>

5.6 In pursuance to the above and the policy of the Government to promote Joint Venture projects through Special Purpose Vehicles (SPVs) etc. in the Railway sector, IRFC has been considering a proposal for debt-financing as one of the members of a Consortium of financial institutions/Banks, the project of providing a rail link between Surendranagar and Pipavav Port (anticipated cost Rs. 355 crore), which, though a sanctioned railway project, has been languishing for want of funds. The project is not only financially viable, but is aimed at Railways capturing the high-value traffic from and to the port. As a 50% shareholder in the JV, GPPL is bringing in their own funds as equity (Rs.98 crore), besides providing guarantees of up to 3 million tonnes per annum from third year onwards to ensure a fair return on the investment. Speedier execution of the project through SPV route will cut the sizeable losses currently being incurred by Railways on operation of the existing MG line between Surendranagar and Rajula City and will help to avoid time and cost over-runs if Railways are to undertake the project on its own. The rail link will be constructed, operated and maintained by the Indian Railways. Upon completion of the concession period, all the assets created by PRCL will revert back to the

Railways. Ministry of Railways also exercises administrative control over PRCL as Member Traffic, Railway Board, is and will always be the Chairman of PRCL and it has Directors on the Board in proportion to its equity. PRCL is, therefore, a pioneering venture, which will lay down a framework for attracting investment in railway sector in line with the economic reform process and is considered a model for Public-Private participation in infrastructure.

(2) New Line to Mundra Port

5.7 M/S. Gujarat Adani Port Limited has constructed a 54-kilometre long railway line from Adipur to Mundra at their cost. Indian Railway will operate the line under an agreement.

(3) Gandhidham – Palanpur Gauge Conversion project

5.8 Gauge Conversion project of Gandhidham – Palanpur section (313 kms.) is being planned to take it thorough the SPV route. The project is anticipated to cost Rs. 343 crore, excluding interest during construction, contingency and debt service reserve, etc. A Memorandum of Understanding for financial participation by Ministry of Railways, Government of Gujarat, Kandla Port Trust and Gujarat Adani Port Limited was to be finalized.

(B) Partnership Arrangements with State Government

(1) Karnataka:

5.9 A Joint Venture with equity participation of 52% to be equally subscribed by Ministry of Railways and Karnataka Government and 48% by Infrastructure Development Corporation of Karnataka (Ideck) was proposed to be formed for execution of certain identified projects in the State of Karnataka. Financial Institutions and other Banks etc. may also participate in equity subsequently.

5.10 The Joint Venture Company named K-RIDE has been incorporated under the Companies Act 1956. This company will be a project development company for the following four identified projects:-

(i) Solapur – Gadag: Gauge Conversion – Rs. 264 Crores.

(ii) Guntakal – Hospet: Gauge Conversion – Rs. 159 Crores.

(iii) Hubli – Ankola: New Line – Rs. 997 Croes and

(iv) Hassan – Mangalore Gauge Conversion – Rs. 326 Crores.

Separate project specific SPVs or other financing structure was to be finalized for these projects by K-RIDE.

(2) Andhra Pradesh-

Hyderabad Multimodal Suburban Project:

5.11 An MOU has been signed between Ministry of Railways and Government of Andhra Pradesh to provide clean, comfortable, fast, efficient, reliable suburban commuter transportation in Hyderabad urban agglomeration and its neighbourhood. Upgradation of rail infrastructure on the routes of Falaknuma-Secunderabad, Secunderabad-Lingampally and Secunderabd-Nampally has been taken up at an estimated cost of Rs.70 crores on 50:50 cost sharing basis between the State Government and Ministry of Railways. SPV will be created for operationalising this project. JVC will have equal equity contribution from Ministry of Railways and Government of Andhra Pradesh. Private entrepreneur may also be inducted if considered desirable, after mutual consultation.

5.12 The work is in progress and Target date for completion of fixed infrastructure was November 2002. Decision to form the JVC and its financial structure will be taken up after a detailed Feasibility and Investment Banking Report (DFIBR) is prepared covering all aspects of the projects including rolling stock, commercial exploitation etc. Consultants for the study was to be finalized.

(3) Private Freight Terminal Project at Garhi Harsaru

5.13 A Memorandum of Understanding was signed between Ministry of Railways and M/s Continental Warehousing Corporation Ltd. On February 27,2001 to set up a privately-owned freight terminal for public use at Garhi Harsaru for dispatch of multimodal rail borne traffic with necessary warehousing facilities. Under this agreement between Railways and CWCL, Railways will provide facilities for rail connectivity on payment of siding construction charges and supply empty wagons as per agreed schedule in terms of the extant rules and procedures. CWCL on its part will construct, operate and maintain the freight terminal and services to the customers for loading and unloading of wagons. They will also provide facilities for transporting goods from customers' premises to the rail-head. All goods will be booked as per railway tariff and CWCL will be allowed to levy handling/warehousing/road transportation charges. Indian Railways will also pay a service charge to CWCL for the services rendered at the terminal at a rate mutually agreed upon. The rate of service charge will be linked to volume of business. Railway staff posted at the terminal will issued PRs. CWCL will pay demurrage as per the extant rules.

CHAPTER-VI

OUT STANDING DUES

Railway Receipts since 1998-99 have been adversely affected mainly due to shortfall in freight earnings and continuous accretion to the freight outstandings because of non-clearance of Railways' dues by the Power Houses/State Electricity Boards.

The quantum of outstanding dues from the Power Houses/State Electricity Boards during 1997-2002 are as under:-

(Rs. in crore)

Year	Amount outstanding as on 31st March
1997-1998	928.86
1998-1999	1139.91
1999-2000	1306.19
2000-2001	1661.06
2001-2002	1616.45

6.2 Some of the efforts made by the Railways to clear the outstanding dues from State Electricity Boards/ Power Houses are as follows:-

(a) The scheme for pre-payment of freight for carriage of coal to State Electricity Boards/Power Houses was introduced since 1.10.1996 for all Power Houses with the exception of Badarpur Thermal Power Station of NTPC, for whom the scheme commenced on 1.1.1997. This was done to arrest fresh accrual of freight outstanding.

(b) Pursuant to Government decision on 7.2.1997 that the outstanding dues from State Electricity Boards and Power Houses as on 31.12.1996 would be adjusted from the Central Plan Assistance of the State Governments subject to certain limits, an amount of Rs. 159.23 crore has been received by Railways upto October, 2002.

(c) Close monitoring of recovery of outstanding dues from State Electricity Boards by holding regular meetings with representatives of State Electricity Boards/Power Houses.

(d) Adjustment of outstanding dues against traction bills in respect of Uttar Pradesh State Electricity Boards, West Bengal State Electricity Board, Gujarat State Electricity Board, Haryana State Electricity Board, Andhra Pradesh State Electricity Board and Delhi Vidyut Board is also being carried out.

(e) The Union Cabinet has approved a scheme for 'One time Settlement of SEB dues' by issuing of Bonds. For the purpose, the Government of India, RBI and 24 State Government have to sign tripartite agreement.

6.3 The Ministry have approached Secretaries of the concerned Ministries and Chief Secretaries of the States from time to time. In addition to this, letters have been written by the Minister for Railways to the Chief Minister of Punjab, Delhi, Rajasthan, Maharashtra, Haryana and Andhra Pradesh urging, them for clearance of outstanding of their State Electricity Boards.

6.4 While most of the power houses are booking coal by pre-payment of freight, Badarpur Thermal Power Station (BTPS), Punjab State Electricity Board (PSEB), Rajasthan State Electricity Board (RSEB), and Delhi Vidyut Board, who are the major contributor to the outstanding dues, are not opting for the system of compulsory prepayment of freight at the time of booking of coal either in the form of payment of Credit Note Cum Cheque (CNCC) or "Weight Only" system which involves payment through bank against bills presented by Financial Adviser and Chief Account Officer (FA&CAO) of the Railways. Adoption of pre-payment scheme at forwarding point would have definitely helped them to eliminate the chance of levy of 10% surcharge as it happens in the present cases in which payment has been made at destination. Instead, they resort to ad-hoc payments, which do not match with the accrual of freight outstanding, thereby adding to the figures of outstanding of freight charges.

6.5 During a number of meetings held under the Ministry of Power and representatives of these SEBs from time to time, no commitment emerged for a time bound plan for clearance of Railways' previous outstanding dues. Concern regarding dwindling coal stocks and replenishment of the same has remained the main focus. The expert Group has considered the amount of outstanding dues as on September, 2001 as the outstanding towards various State Electricity Boards/Power Houses to be securitised in the form of Bonds. For this purpose reconciliation of dues with respective SEBs is a pre-requisite. However, some of the SEBs have disputed these outstandings. The issue is being pursued with the SEBs concerned and General Managers of Zonal Railways have been advised to pursue the matter with the Finance Secretaries of concerned State for inclusions of the outstanding dues in the notification of bonds.

(a) Ministry of Railways have also requested the Ministry of Finance for deduction of outstanding Railway dues from the allocation of concerned States and pass on the amount so deducted to Railways in case of SEBs.

(b) Central Power Utilities, Ministry of Power should deduct the dues of the Railways from their annual allocation and deducted moneys to be passed on to the Railways.

6.6 The details of the Power Houses/State Electricity Boards against whom the dues are outstanding as on 31.3.2003 and the amount thereof in each case are as under:-

(Rs. in crore)

Sl. No.	Name of State Electricity Boards/ Power Houses	Amount Payable as on 31.3.2003
1.	Andhra Pradesh State Electricity Board	0.01
2.	Assam State Electricity Board	0.00
3.	Bihar State Electricity Board	0.02
4.	Delhi Vidyut Board	179.88
5.	Gujarat State Electricity Board	0.32
6.	Haryana State Electricity Board	1.13
7.	Jharkhand State Electricity Board	0.25
8.	Karnataka State Electricity Board	0.01
9.	Maharashtra State Electricity Board	0.87
10.	Madhya Pradesh State Electricity Board	6.29
11.	Punjab State Electricity Board	424.05
12.	Rajasthan State Electricity Board	109.92
13.	Tamilnadu State Electricity Board	0.60
14.	Uttar Pradesh State Electricity Board	27.36
15.	West Bengal State Electricity Board	8.11
16.	Badarpur Thermal Power Station	966.63
17.	National Thermal Power Corporation	20.45
18.	Damodar Valley Corporation	7.94
19.	Private Power House-Sabarmati	0.03
	Total	**1753.87**

6.7 Elaborating the efforts made by the Ministry of Railways to realize the aforesaid outstanding dues, the Financial Commissioner, Railway Board stated:-

> "In this area, continuous dialogue is there between the zonal railway and the concerned State Electricity Board at various levels. Then, there are also letters being written from the Railway Board and at the level of even the Minister to the concerned Chief Ministers and the matter is also taken up through the Ministry of Power. Now, a little bit of Plan assistance, a small portion, is taken out and given to the Railways, but that is not much. But all these efforts do have some fruit and the current outstanding, at least in the last couple of years, is not going up very heavily."

6.8 Sharing the views express by the Committee for one time settlement of these dues, the Financial Commissioner, Railway Board submitted as under:-

> "We are a party to the new settlement which has been worked out between the State Governments, the Ministry of Power of the Central Government as well as the Reserve Bank of India under which a one-time settlement is supposed to be worked out by all SEBs by 2003. We do not charge any interest on our dues. All the dues are supposed to be securitised and they are supposed to make the payment. So far as we are concerned, this does not affect the Badarpur Thermal Power Station for which a separate discussion is on with the Ministry of Power."