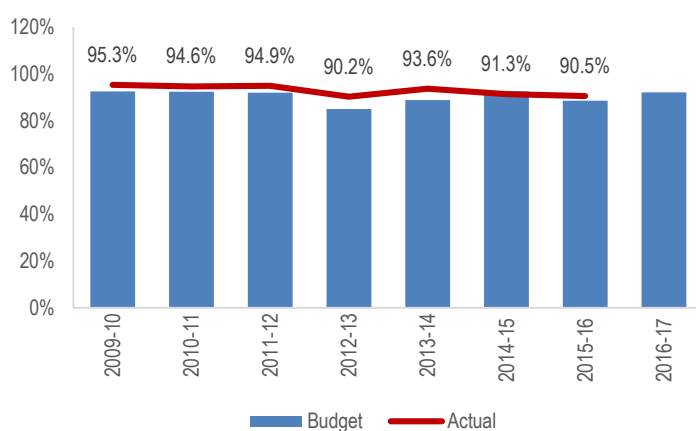# Railways Budget 2016-17: Preliminary Analysis

The Minister of Railways, Mr. Suresh Prabhu, presented the Railway Budget 2016-17 to Parliament on February 25, 2016. In his address, he commented on the performance of Railways in 2015-16 and laid out his budget proposals for the upcoming fiscal year.

Budget Highlights

- **Revenue**: Total revenue for 2016-17 is expected to increase by 10% to Rs 1,89,271 crore from 2015-16 revised estimates (RE). In 2015-16, there was a revenue shortfall of Rs 16,752 crore (9%).

- **Expenditure**: Total expenditure for 2016-17 is projected to increase by 13% to Rs 1,71,060 crore from 2015-16 (RE). In 2015-16, total expenditure decreased from budget estimates by Rs 11,573 crore (7%). A capital expenditure of Rs 1.21 lakh crore is proposed for 2016-17.

- **Surplus**: The railways surplus (after payment of dividend to the central government) in 2016-17 is expected to decrease by 26% from 2015-16 (RE) to Rs 8,479 crore. In 2015-16, the net surplus decreased by 20% to Rs 11,402 crore. Railways can use the surplus it generates for capital investments such as laying new lines, deploying more coaches etc. Therefore, a smaller surplus affects Railways' capability to make such investments.

- **Operating Ratio**: Operating Ratio for 2016-17 is projected to increase to 92%. In 2015-16, the Operating Ratio increased from a budgeted estimate of 88.5% to 90.5%. Operating Ratio is the ratio of the working expenditure (expenses arising from day-to-day operations of Railways) to the revenue earned from traffic. Therefore, a higher ratio indicates a poorer ability to generate surplus that can be used for capital investments such as laying new lines, deploying more coaches etc.

- **Traffic revenue**: Total revenue from traffic is expected to grow by 10% to Rs 1,84,820 crore. Revenue from freight and passenger is expected to grow by 5% and 12% respectively. In 2015-16, revenue from traffic fell by 9%. Internally, the primary earnings of Railways are from freight traffic. As per 2014-15 Actuals, freight traffic contributed to about 66% of the total revenue, while passenger traffic was the next biggest source of revenue at around 26%.

- **Depreciation Reserve Fund (DRF)**: Appropriation to the DRF is projected to decrease by 42% over 2015-16 RE to Rs 3,200 crore. In 2015-16, appropriation to the DRF was Rs 5,500 crore (RE). The DRF is intended to finance the costs of new assets replacing the old ones (asset maintenance). Under-provisioning for the DRF has been observed as one of the reasons behind the decline in track renewals, and procurement of wagons and coaches. Instead of considering the actual requirement for maintenance of assets, appropriation to the DRF is made only after accounting for payment of dividend and appropriation to the Pension Fund.[1]

- **Dividend**: Railways pays a return on the gross budgetary support it receives from the government every year, known as dividend. The dividend is projected to increase by 15% over 2015-16 RE to Rs 9,731 crore. In 2015-16, dividend payment decreased by 21% to Rs 8,495 crore.

Figure 1: Operating Ratio (Budget Estimate vs Actuals)

Notes: Numbers for 2015-16 are Budget Estimates vs Revised Estimates.
Sources: Railways Budget documents; PRS.

Prachee Mishra   February 25, 2016
prachee@prsindia.org

Key proposals and initiatives

- **Challenges**: The slowdown of the international market and the impact of the Seventh Pay Commission have been identified as major challenges for the Railways finances in 2016-17.

- **Strategy**: Overall strategy of Railways for the upcoming year will be based on three pillars: (i) new revenues, (ii) new norms, and (iii) new structures. Under new revenues, the freight policy will be revised and new sources of revenue will be explored. Under new norms, all money that is spent will be re-examined to ensure optimal productivity. Under the third pillar of new structures, the decision making and problem solving under Railways will be revised.

- **Improving freight revenue**: The freight basket of Railways which is dominated by 10 bulk commodities will be expanded to increase the revenue base. The freight tariff policy will be reviewed to rationalize freight tariffs, and make them more competitive as compared to other modes of transport.

- **Improving non-tariff revenue**: Over the next five years, revenue generated from non-tariff sources will be improved. This will be done through: (i) redevelopment of stations; (ii) monetisation of land along tracks; (iii) monetisation of soft assets such as PNR enquiry, e-commerce activities on the IRCTC website, etc; (iv) advertising at stations and land adjacent to tracks outside of big stations; (v) overhauling the parcel business; and (vi) improving manufacturing activities.

- **Seven Missions**: Seven activities will be undertaken in Mission mode. Each Mission will be headed by a Mission Director who will report directly to the Chairman of the Railway Board. These include: (i) Mission 25 Tonne will aim at introducing 25-tonne axle-load wagons and target movement of 70% freight traffic on these wagons; (ii) Mission Zero Accident will aim at elimination of unmanned railway crossings and implementation of train collision avoidance systems; (iii) Mission Procurement and Consumption Efficiency will aim at bringing procurement practices in line with international standards; (iv) Mission Raftaar which will target doubling average speeds of freight trains and increasing speeds of express trains by 25 kmph; (v) Mission Hundred will aim to complete at least 100 sidings over the next two years; (vi) Mission Beyond Book-Keeping will aim to move from single entry to double entry systems, and from cash based to accrual based accounting systems; and (vii) Mission Capacity Utilisation will prepare a blueprint for using the dedicated freight corridor as soon as it is completed.

- **New types of services**: The Minister announced five new types of services: two for unreserved passengers, and three for reserved passengers. (i) The Antyodaya Express will be long-distance, fully unreserved, superfast train; (ii) two to four Deen Dayalu coaches will be provided in long-distance trains for unreserved travel; (iii) Humsafar will be a fully air-conditioned third AC service for reserved passengers; (iv) Tejas trains, for reserved passengers, will operate at speeds of 130 kmph and above, and will offer on-board services such as entertainment and wi-fi; and (v) the Utkrisht Double-Decker Air-conditioned Yatri (UDAY) trains will be overnight double decker trains that will be introduced on the busiest routes.

- **Suburban trains**: Two elevated suburban corridors have been proposed for Mumbai between Churchgate and Virar, and Chhatrapati Shivaji Terminus and Panvel. A Ring Railway system (with 21 stations) has been proposed for Delhi. Suburban lines have been proposed for the cities of Ahmedabad, Hyderabad, Chennai, and Bengaluru. These will be developed in partnership with the respective state governments.

- **Organisational restructuring**: The Railway Board will be organised along business lines and the Chairman of the Board will be empowered accordingly. Cross-functional directorates will be set up within the Railway Board to focus on areas such as non-fare revenues, speed enhancement, information technology, etc. The Public Private Partnership (PPP) cell will be strengthened. All companies owned by Railways will be brought under one holding company to leverage the combined resources.

- **New organisations**: The Special Railway Establishment for Strategic Technology and Holistic Advancement (SRESTHA) will be set up to drive long term research. A team called the Special Unit for Transportation Research and Analytics (SUTRA) will be established for carrying out data analytics for Railways.

- **Planning**: A Railway Planning and Investment Organisation will be set up for drafting medium term (five years) and long term (10 years) corporate plans for the Railways. The organisation will conduct independent studies and will also propose financing mechanisms for identified projects. A National Rail Plan (NRP-2030) will be developed in consultation with all stakeholders including the state governments and other relevant ministries. NRP-2030 will seek to integrate Railways with other modes of transport and help develop a multi-modal transportation system for the country.

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[1] Report of the Committee for Mobilization of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board, Ministry of Railways, June 2015, http://www.indianrailways.gov.in/railwayboard/uploads/directorate/HLSRC/FINAL_FILE_Final.pdf.

Railway revenue and expenditure of Central Government (In Rs crore)

Table 1: Railways Revenue and Expenditure for 2016-17 (in Rs crore)

		Actual (2014-15)	Budget (2015-16)	Revised (2015-16)	% Change (RE/BE 2015-16)	Budget (2016-17)	% Change (2016-17 BE/ 2015-16 RE)
	Receipts						
1	Passenger - Upper Class	13,134	15,074	14,667	-3%	16,318	11%
2	Passenger - Second Class	29,056	35,101	30,709	-13%	34,694	13%
3	Other Coaching	3,998	4,612	4,325	-6%	6,185	43%
4	Freight	1,05,791	1,21,423	1,11,853	-8%	1,17,933	5%
5	Sundry	5,093	7,318	6,230	-15%	9,590	54%
6	Suspense	-361	50	50	0%	100	100%
7	**Gross Traffic Receipts (Sum 1 to 6)**	**1,56,711**	**1,83,578**	**1,67,834**	**-9%**	**1,84,820**	**10%**
8	Miscellaneous	4,307	4,979	3,971	-20%	4,451	12%
9	**Total Revenue (7+8)**	**1,61,017**	**1,88,557**	**1,71,805**	**-9%**	**1,89,271**	**10%**
	Expenditure						
10	Ordinary Working Expenses	1,05,996	1,19,410	1,10,690	-7%	1,23,560	12%
11	Appropriation to Depreciation Reserve Fund	7,775	7,900	5,500	-30%	3,200	-42%
12	Appropriation to Pension Fund	29,225	34,900	34,500	-1%	42,500	23%
13	**Total Working Expenditure (10+11+12)**	**1,42,996**	**1,62,210**	**1,50,690**	**-7%**	**1,69,260**	**12%**
14	Miscellaneous	1,183	1,270	1,217	-4%	1,800	48%
15	**Total Expenditure (13+14)**	**1,44,179**	**1,63,480**	**1,51,907**	**-7%**	**1,71,060**	**13%**
16	Dividend payable to General Revenues	9,174	10,811	8,495	-21%	9,731	15%
17	**Net Surplus after payment of Dividend (9-15-16)**	**7,665**	**14,266**	**11,402**	**-20%**	**8,479**	**-26%**
18	**Operating Ratio (13/7)**	**91.3%**	**88.5%**	**90.5%**		**92%**	
19	Appropriation to Railway Development Fund	1,375	5,750	1,324	-77%	2,515	90%
20	Appropriation to Capital Fund	6,233	7,616	6,293	-17%	5,750	-9%
21	Appropriation to Debt Service Fund	57	900	3,786	321%	214	-94%

Sources: Budget of Railway Revenue and Expenditure of the Central Government for 2016-17; PRS.

Explanatory Notes

Other sources of earning

1. Coaching earnings include income from parcels and luggage.

2. Sundry earnings represent earnings from lease of railway land, advertisement and publicity etc.

3. Suspense represents unrealized traffic earnings.

Performance parameters

4. 'Net Surplus after payment of Dividend' represents excess of receipts over expenditure after the Dividend liability (payment for investment in Railway capital) of General Revenues has been paid off.

5. 'Operating Ratio' is the ratio of operating expenses to receipts. A lower ratio indicates higher surplus availability for investments.

Railway Funds

6. Depreciation Reserve Fund – Finances the cost of new assets replacing old assets including the cost of any improved features. Appropriation to this fund are made on the recommendations of the Railway Convention Committee (RCC).

7. Pension Fund – Finances all pension payments to retired Railway staff.