Weakening Railway Finances

What is the issue?

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- ‘Operating Ratio’ in the Indian Railways has weakened to a 16-year low.
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- This has significantly affected profitability and has increased financial and physical risks in the sector.
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What is operating ration?

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- Operating Ratio is measure of profitability of a venture.
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- If Rs. 70 is spent to earn Rs. 100, the operating ratio is 70/100 or 70%.
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- Thus, the lesser the operating ratio, the better the profitability.
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- The operating ratio for the Indian Railways in 2016-17, has been reported as of 96.5%, which means Railways spends Rs 96.5 to earn Rs. 100.
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- But the CAG has flagged this as this wasn’t inclusive of pension payments, which when taken into considerations the ratio deteriorates to 99.54%.
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- Notably, even at 96.5%, the operating ratio was at its poorest level since 2000-01 when it was 98.34%.
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What are the CAG recommendations?

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- Considering the financial health of Railways, CAG has pitched for revisiting

(increasing) the passenger and other tariffs to reduce losses in core activities.
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- It argued that passenger fares and freight charges should be based on the cost involved so that it brings rationality and flexibility in pricing.
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- Additionally, it was noted that there was hardly any justification for not fully recovering the cost of passenger services offered in AC compartments.
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- Under-recovery in AC compartments is largely due to the big list of concessional travellers, and it has now been recommended to scale down the number of such beneficiaries.
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What is the way ahead?

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- **Safety Fund -** Depreciation Reserve Fund, which is used to replace the over-aged assets is currently lacking
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- This is creating huge backlogs in replacement work, which thereby increases passenger risk, and needs to be addressed on a priority basis.
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- **Auditing principles -** There is a need to strengthen internal control mechanisms to reduce instances of misclassification of expenditure.
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- Unsanctioned expenditure should be controlled and the administration should ensure all unsanctioned expenditure is regularised on priority.
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- Further, Indian Railways should disclose significant accounting policies that involve fixed assets, depreciation and investments.
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Source: The Hindu

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