Performance of Departmental Enterprises

Railways

37. Over the years, the contribution of capital from general exchequer in the railways' plans has fallen sharply – from 75 per cent in the Fifth Plan to 42 per cent in the Seventh Plan and further to 23 per cent in the Eighth Plan. It has remained at the level of 23 per cent in 1998-99 (BE). This has led to increasing reliance on internal resource mobilisation and also resort to substantial market borrowings through the Indian Railways Finance Corporation. The share of internally generated resources and extra-budgetary resources has risen from 42 per cent in the Sixth Plan to 58 per cent in the Seventh Plan. This share went up further to 77 per cent in the Eighth Plan and would be almost at the same level in 1998-99(BE).

38. Funds raised through the borrowing are higher cost with a relatively short repayment period as compared to capital from the general exchequer which entails concessional rate of dividend and carries a perpetual obligation. Thus the lease charges payable by the Railways to the Indian Railway Finance Corporation have swelled. These constituted 9.87 per cent of the ordinary working expenses in 1998-99 (BE) as against 0.42 per cent in 1987-88. In order to augment internal resources, attempts have been made to identify some non-traditional sources. Among others, these include: commercial exploitation of railway land and air space; leasing of surplus telecommunication capacity; private investment in promotion of railway tourism, etc.

39. The gross traffic receipts of the Indian railways increased from Rs.24319 crore in 1996-97 to Rs.28589 crore in 1997-98, representing a growth of 17.6 per cent. Over the same period its working expenses (including appropriations to the depreciation reserve fund and pension fund) increased from Rs.21001 crore to Rs.25876 crore reflecting an increase of 23.2 per cent. The steep increase in the working expenditure resulted from an increase in staff cost and pension obligations due to implementation of the Fifth Central Pay Commission.

40. The net traffic receipts of the railways declined to Rs.2713 crore in 1997-98 from Rs.3318 crore in 1996-97. The net railway revenue, comprising the net traffic receipts and net miscellaneous receipts amounted to Rs.3024 crore in 1997-98. Thus the ratio of net revenue to capital-at-charge (including investment from capital fund of the railways) has dropped to 8.9 per cent in 1997-98 as against 11.7 per cent in 1996-97.

41. The railway budget for 1998-99 envisages a surplus of Rs.1656 crore after providing for payment of dividend of Rs.1777 crore to general revenues. Some of the significant changes effected in passenger fares in the railway budget for 1998-99 were: fare rates for air-conditioned 2-tier sleeper, air-conditioned 3-tier and chair car and first class were increased by about 10 per cent; sleeper class and second class fares were increased by around 5 per cent and; slight modification in parcel charges and freight structure. These revisions are expected to fetch additional revenue of Rs.450 crore. It is significant that no general increase in freight was made in the budget. The plan outlay for railways for 1998-99 has been maintained at Rs.9500 crore including capital from general exchequer of Rs.2200 crore. Market borrowings, build-own-lease-transfer (BOLT) and own-your-wagon (OYW) schemes are expected to account for procurement of assets for an additional Rs.2900 crore on lease basis.

42. Various factors (discussed in Box 2.5) have eroded the ability of the Indian Railways (IR) to finance its investment needs. There is an urgent need to modernise the system, to improve productivity of manpower and various assets and to rationalise both freight tariff rates and passenger fares to augment resources.

Telecommunications

43. Department of Telecommunications (DOT) has generated substantial surplus for reinvestment. The healthy growth of internal resources in recent years has helped to finance substantial expansion in the network of this sector. Net receipts are estimated to increase by about 3 per cent to Rs.6773 crore in 1998-99 (BE) from Rs.6600 crore in 1997-98 (RE). The dividend to general revenues were estimated at Rs.286.5 crore both in 1997-98 (RE) and 1998-99(BE). The operating ratio, measured as percentage of net operating expenses (excluding the provision for redemption of bonds) to operating revenue earned (excluding registration fee) is estimated at 48.3 per cent in 1998-99(BE) as against 50.8 per cent in 1997-98 (RE).

BOX 2.5

Factors Affecting Finances of Indian Railways

Indian Railways is one of the largest railway systems in the world under a single management. Railways being both a commercial enterprise and a public utility are also required to discharge myriad of social obligations. Indian Railways (IR) has been consistently generating operating surpluses. However, these have not been adequate for its investment needs. Some of the factors, which have constrained railway finances, are :

- Declining capital support from the general exchequer, which has declined, from a level of 75 per cent in the Fifth Plan to 23 per cent in the Eighth Plan.
- Limited adjustment in fare and freight rates vis-à-vis increase in costs of basic inputs. While the cost of inputs has gone up 16 times in the last four decades, the freight and passenger fares increased by only 10 times and 7 times respectively.
- IR renders public service obligations (for example, transportation of some essential commodities at concessional rates, subsidisation of some categories of passenger services, operation of uneconomic branch lines, etc) which entail revenue foregone. This amounted to Rs.1800 crore in 1996-97.
- The share of market borrowings to compensate for the declining capital support has escalated sharply. This has imposed high burden of lease charges. These have risen from Rs.25 crore in 1987-88 to an estimated Rs.2392 crore in 1998-99 (BE).
- The generation of internal resources by the Railways is seriously constrained by the burgeoning wage bill. Staff costs which were earlier close to 50 per cent of the working expenses are now estimated to account for 54 per cent of the working expenses in 1998-99 including pension after the implementation of the Fifth Central Pay Commission.
- There is a massive amount of cross subsidisation of passenger services by freight services. This is reflected by the fact that whereas the transport effort put in for carriage of passenger traffic vis-à-vis freight in terms of number of trains is in the ratio of 60:40, the revenue contribution is in the ratio of 28:72. This has kept freight rates quite high, tending to affect the Railways' competitiveness.
- Railways have to incur heavy capital investment on track, overhead electric installations and signalling equipment, railway bridges, buildings, etc. out of the Railway Budget. It has also to bear the cost of maintaining these assets as well. To help railways in meeting their capital requirements, governments abroad have (a) undertaken the funding responsibility for investment and of maintaining basic railways infrastructure; and (b) levied an access charge on passenger and freight operators on the lines of road tax levied on vehicles.

44. The size of plan outlay for the DOT was hiked by about 26 per cent to Rs.11006 crore in 1998-99(BE) from Rs.8730 crore in 1997-98 (RE). Almost the entire outlay for 1998-99 (BE) is to be financed from the department's internal accruals and extra budgetary resources. Internal accruals at Rs.8709 crore account for about 79 per cent of total DOT's plan outlay in 1998-99(BE). The plan outlay for the PSUs (MTNL, VSNL, ITI&HTL) is placed at Rs.3881.73 crore for 1998-99 (BE) as against Rs.2414.40 crore in 1997-98 (RE). Almost the entire plan outlay for the PSUs is to be financed from the internal accruals and extra budgetary resources.

Post

45. The gross receipts of the department of Post during the year 1997-98 were Rs.1567 crore, gross working expenses were Rs.3598 crore and net working expenses Rs. 2560 crore. There was, therefore, a deficit of Rs.993 crore. During the year 1998-99 as per the budget estimates the gross receipts are expected at Rs.1880 crore and gross working expenses at Rs.3789 crore with net expenses at Rs.2597 crore. The deficit is estimated at Rs.717 crore for 1998-99.

46. The budget of department of Post has been in deficit continuously over the years, and no dividend is being paid to the general revenue. Low tariff on most of the postal services, increase in working expenses due to implementation of revised pay scales and inadequate agency charges for agency functions have contributed towards the deficit. However, there was a moderate increase in the rate of some of the postal services, viz., competition postcard from Rs.2 to Rs.3; letter card from Re.1 to Rs.1.50; letter (slab 20 gms) from Rs.2 to Rs.3; parcel (slab 500 gms) from Rs.8 to Rs.10; registration fee from Rs.10 to Rs.12; insurance fee from Rs.8 to Rs.10 (upto the value of Rs.200) and

Rs.4 to Rs.6 for every additional Rs.100 or fraction thereof; acknowledgement from Re. 1 to Rs.2 and money order form from 10 paise to 25 paise. Additional revenue on account of these revisions of rates is estimated at Rs.272 crore per annum. The degree of subsidy was estimated in the range of about 26 per cent in respect of competition postcard to 93 per cent on registered newspaper (single) during 1997-98.

47. The tariff rates in respect of foreign "letter post items" (excluding printed papers, registered newspapers and Braille literature) were revised with effect from February 1, 1999. These tariff were last revised on November 1, 1991. It is estimated that the additional annual revenue due to revision in these tariff rates will be about Rs. 47 crore and about Rs. 8 crore for the year 1998-99.

Broadcasting

48. The total expenditure on broadcasting during 1997-98 was Rs.1327 crore as against total receipts of Rs.606 crore. This shows an increase of 17 per cent and a decrease of 10 per cent in total expenditure and receipts, respectively over the previous year. As a result, the ratio of total receipts to total expenditure deteriorated from 59.5 per cent in 1996-97 to 45.7 per cent in 1997-98. Commercial receipts from broadcasting activity have fluctuated. These were Rs.510 crore in 1995-96, Rs.656 crore in 1996-97 and 595 crore in 1997-98. Similarly, the commercial receipts in the case of Doordarshan were Rs.430 crore in 1995-96, 573 crore in 1996-97 and Rs.500 crore in 1997-98.