

BUDGETING ON RAILWAYS

INTRODUCTION

Budget is a statement of the estimated annual receipts and expenditure both on capital as well as Revenue transactions of an organisation. It is a process of planning and reviewing the activities of an organisation. Railways, being Government of India Department, receipts and payments of the system were merged in the General Budget of the Government of India. As a result of the recommendations of the Acworth Committee during 1920-21, it was decided to separate the finances of Railways from General finances with the object of securing stability for general revenues and to strengthen the Railways finances. This is generally known as "**Separation Convention of 1924**". Since, then separate Railway Budget is submitted in advance of the General Budget to the Parliament.

These statements are submitted to both the Houses of Parliament viz. Lok Sabha and Rajya Sabha. Railways are not run purely on commercial considerations. At the same time, as the finances of Railways are independent of the general finances, Governmental outlook cannot also be applied. The system of accounting adopted in Railways is such that the commercial as well as Government accounting is bridged.

The expenditure on Railways may be either voted or charged. The expenditure covered under the former category requires the approval of Parliament. After President gives assent, money becomes available for the different activities. In respect of charged expenditure, the sanction of the President is conveyed without the budget being submitted for the vote of parliament. It is one of the means by which Parliamentary control on Railway finances is exercised. Parliament has got the powers to give assent to or to reduce or to modify the amounts proposed by the Railways Ministry during the course of discussion on Railway Budget. Such powers are exercised through cut motions. The votable part of expenditure together with the charged appropriation are presented to Parliament in the form of Demands for Grants. As at present there are 16 demands for grants, these have been evolved over a period of years through the Accounting and Budgetary Reforms process. The growing requirements, accountability to Parliament and also the changes in the accounting system have necessitated the review of the forms of Railway Budget from time to time.

DEMANDS FOR GRANTS

Prior to financial year 1924-25, the entire expenditure of Railway department was divided into two categories only viz., Capital and Revenue. After separation of the Railway Finances from general Finances, as a result of recommendation of the separation convention, the revenue expenditure on Railways used to be presented under 14 demands as follows:

- Demand No.1 **Railway Board**
- Demand No.2 **Inspection**
- Demand No.3 **Audit**
- Demand No.4 to 11 **Revenue working expenses**
- Demand No.12 **Appropriation to reserve Fund**
- Demand No.14 **Interest charges**

Demand No.16

The above change were brought into use as a result of the decision to group the ordinary revenue working expenses into 8 functional abstracts, such abstracts being further subdivided into 3 functional sub groups representing Administration. Repairs and Maintenance and operation. This system was found defective due to the form of initial accounting being different from the form in which the Demands for grants are submitted to Parliament for approval. Subsequently, during 1934-35 certain modifications were made in the Revenue abstracts. Similarly, in 1941-42 also certain changes were made. As a result of the recommendations of the task force set up in 1973 to analyse the Budgetary, accounting and management practices of the Railways restructuring of demands for Grants and revision of accounting classification representing a specific activity or a group of homogeneous activity was identified. This activity was further to be analysed into various components such as wages, materials etc., going into the cost of the activity. There could be a direct relationship between the initial accounting and its consolidated presentation to Parliament in the form of Demand for Grants. At the same time, the Demands for grants should present the accounting date in a simple and lucid manner. In restructuring the Demands for Grants, the following basic considerations were kept in mind.

- A) The demand should represent a homogeneous activity controlled by a single departmental authority;
- B) The Demand should equally correlate costs to results duly bringing out the variable and fixed items of costs, to the extent possible; and

C) The Demand should be equally balanced from the point of view of total expenditure. The above considerations could not be fully met due to certain practical restrictions such as

- i) The Railways being a Government Department a budgetary structure with an accent entirely on commercial lines is too difficult to build up:
- ii) Introduction of vital physical data being time consuming and, consequently leads to delays in compilation; and
- iii) The system should be easier to work for the lower formations.

Ultimately, the task force recommended 16 Demands for Grants, grouped under 7 categories, viz.

GROUP		NO.	DEMANDS
I	Policy Formulations and services common to all Railways	1	Railway Board
		2	Miscellaneous expenditure(General)
II	General Superintendence and services on Railways	3	General Superintendence & service on Railways
III	Repairs Maintenance	4	Repairs and Maintenance of Way & Works
		5	Repairs and Maintenance of Motive Power
		6	Repairs and maintenance carriage & Wagons
		7	Repairs and Maintenance Plant and equipment
IV	Operations	8	Operating expenses - Rolling stock and equipment
		9	Operating Expenses - Traffic
		10	Operating expenses - fuel
V	Staff Welfare and Retirement benefits and Misc	11	Staff Welfare and Amenities
		12	Misc. Working expenses
		13	PF/ Pension and other retirement benefits

VI	Railway Payments to funds to General Revenues	14	Appropriation to Fund
		15	Dividend Loan repayment and amortization of over capitalization
VII	Works expenditure	16	Assets Acquisition construction and replacement

Before explaining the features in respect of the existing Demands let us see the difficulties encountered in framing the Budget prior to 1978-79.

As mentioned already there were 8 functional abstracts with 3 functional sub heads under each abstracts. For example, Abstract A represented maintenance of structural works and Abstract B represented maintenance and supply of Locomotive Power. Both the Abstracts had the sub heads Administration Repairs and Maintenance and operation. While the initial accounting was made under each Abstracts and also under the main heads, the Demands for Grants were presented to Parliament in a different manner viz. Demand No.4 was working Expenses Administration For this Demand the data is to be consolidated from all the Abstracts under Sub Head Administration". Similarly was the case for Repairs and Maintenance- So under this method, the initial accounts maintained cannot be presented to Parliament in the same fashion without a further consolidation. Similarly the executive Departments were also required to estimate their total expenditure under different demands, for purposes of budgeting and thereby resulting in experiencing much difficulty in controlling the expenditure. Now, by the restructuring of Demands, the above difficulties have been reduced though not completely eliminated. For example, in the present system, Demand No.4 represents Repairs and Maintenance of Way and Works. The entire demand relates to Engineering Branch except for the General superintendence and services all the other expenditure of the Engineering Department with regard to the Maintenance of Permanent way are accommodated under this grant and are also accounted accordingly in the accounts. Of course, the Engineering Branch has to budget separately for staff welfare and other amenities under Demand No.11, and for the Plant and equipment under Demand No.7. Though the above functions are quite distinct for each grant, the technical and administrative control continued to be vested in the Civil Engineering Department. A further decentralization may not be healthy and the primary objective should be the technical supervision and direction duly correlating the method of accounting and compilation of annual Budget. The traditional budgeting techniques normally take into account the expenditure incurred in the previous year and provide for increments, escalation in cost of stores and the new programmes, if any, without going much deeper into the physical targets set for the year. Of course, during the course of the year a constant review of these estimates is made through the

medium of "August review" "Revised Estimate" and Final Modifications, when the additional available information and data are made use of.

The budgeting as such should originate from the grass root level namely the lowest subordinate who is executing the physical work and as such he must have better knowledge about physical work and as such he must have better knowledge about accounting and budgeting. He is the right person to report to his immediate superiors and monetary effect of any changes to his immediate superiors the monetary effect of any changes in his day-to-day routine. Such data is collected from the various subordinates and then consolidated at sub divisional or divisional level to compare or to review with the statistical data to see how far the monetary terms reflected by the subordinate justifies the physical targets envisaged. It is the first stage where the middle management decisions are to be taken either to continue or to modify the existing way of working.

But the same concept may not be applicable in respect of works grant. Here the physical target for the various works is the criterion for basic budgeting. The works may be at various stages of completion - some of them being in progress and some of them at the preliminary stage or the initial stage of planning. The availability of materials to complete the balance of work and other factors come in the way of budgeting which are to be sorted out and taken note of. Budgeting for works grant needs an in-depth study in respect of each work invariably. Here again, subordinates in charge of individual works should be the grass root estimator. The information so collected should be consolidated and presented at the Divisional level. At the Divisional level the DRM is the Officer in-charge of budgeting having the over all control of the various branches in a division, He is assisted by an ADRM in framing and reviewing the Budget with the Association of Accounts Offices. This does not however absolve the HODs from the budgetary responsibilities. The HODs are equally responsible as they are responsible for the physical targets efficiency of services. The various factors such as increase in cost of labor, the availability of materials, escalation in cost of stores and any new factors that got to increase or decrease the money allotted budgeting is to be made. Each and every new accounting new policy decision should be examined from the budgetary angle and the consequent modifications effected at the proper stage for budgetary reviews. A good estimator should take note of such development. Apart from recording the expenditure under various abstracts and detailed heads and sub-detailed heads representing a particular activity the component of such activity are further analyzed under different units, called Primary units of expenditure. This primary unit-wise analysis enables easy assessment of fixed, semi variable and variable costs. Each demand is

supported with specific annexure of physical performance to have better appreciation of the relationship between the cost and performance.

There is a move to introduce progressively the concept of **ZERO BASE BUDGETING** in Railways. Budgeting is done for each year while the planning is done for certain longer periods. As the very name implies, budgeting under this system for each year is done taking the base as zero. In other words the budgeting for each year is to be done from scratch. It does not mean that the present system adopted by Railways is insufficient or inefficient. It is only a means for improving the quality of reporting through budget to the management rather than introduction of a new system of budgeting. Under this system each executive is to explain in greater detail the need for the money he has sought for each decision unit a department or a unit of the Dept in terms of decision package. The main criterion for budgeting under this system is decision packages. Such decision packages are analyzed in the order of priority. The provisions required during the year are to be sought for on the basis of these priorities. If for any reason the allotment for a decision unit is reduced decision package (s) having the least priorities will have to be given up during the year.

In the present set up the heading of each grant is self-explanatory. Yet an attempt is made here to bring out the scope of each grant together with the peculiar or special features involved in each.

Grant No.1 Revenue Railway Board:

This grant is for expenditure on Railway Board. This grant is supported by details of expenditure on Group A & B establishments, Group B and C establishments and other contingent charges together with the primary unit wise distribution. The amount received from the CPWD (Ministry of works Housing and supply) towards maintenance of Rail Bhavan are taken as Credits under this grant and are outside the scope of the demand.

Grant No.2 Miscellaneous expenditure(General)

This grant will cover expenditure on Surveys, RDSO, Railway Inspectorate attached to CBI, Statutory Audit, Share of net earnings payable to Branch lines, Railway Recruitment Board, Railway Claims, tribunal, Publicity for tourism promotion, Institutional Membership to Indian and International Institutes and other misc. expenditure (Genl) etc. Survey expenses though accommodated

initially under this grant are, however, written back to the appropriate head of account on sanction of the project (under Minor Head preliminary Expenses)

Grant No.3: General Superintendence and Services:

This grant covers expenditure on the zonal Headquarters and Divisional Offices of the Railway Administration. Each Department of the Railway system such as General Management/Financial Management/Material Management Rolling stock Management and other departments are detailed as minor heads of this grant. Commission charges recovered from the defence department for audit of warrants and credit notes connected with military traffic are taken as Credit outside the scope of the grant.

Grant No.4: Repairs and Maintenance of permanent way and Works:

This grant covers expenditure on repairs and maintenance of permanent way assets such as track, other building and structures, as detailed in abstract B. The credits under this grant are for materials released from works charged to revenue and share of freight charges of Railway materials. Apart from the primary unit wise distribution of the amount, statistical data as to number of staff involved in each activity compared to the previous year separately under Group C and D are furnished. This grant is also supported with a statement of performance unit for major activities indicating the no. of direct staff, equated Track KM in respect of Permanent Way maintenance, linear metres of waterway in respect of bridge work and square metres of plinth area in respect of service building etc.

Grant No.5: Repairs and Maintenance of Motive Power:

This grant corresponds to Abstract C of the Revenue classification and covers expenditure on steam locomotives, Diesel locomotives, Electric Locomotives rail car and ferry services etc. In this Demand also the statement showing the No. of staff involved in respect of each activity separately for Group C and D compared with the previous year is attached. The performance units for expenditure in respect of this grant are engine holdings both on line and in use, POH and IOH and special repairs with the no. of direct staff involved.

Grant No.6: Repairs and Maintenance of carriages and wagons:

This grant corresponds to Revenue Abstract D and covers expenditure on repairs and maintenance of carriage and wagons and EMU coaches. The running repairs and repairs in sick Lines periodical overhauls and other special repairs

are distinctly exhibited for each category of stock. The staff statement as in grant nos.4 & 5 and also the performance units are presented as annexure to this grant.

Grant No.7: Repairs and Maintenance of plant and equipment:

This corresponds to abstract E covering maintenance of all plant and equipment owned by all the branches of Railways such as Civil, Mechanical and Electrical and signaling staff statement and also the performance unit are shown as annexure. No. of machinery a No. of trains are the performance units in respect of this grant.

Grant No.8: Operating expenses-rolling stock and equipment:

This grant covers expenditure on the operating expenses of Mechanical, Signaling, Electrical and Tele-communication equipments including rolling stock. The credit under this Grant represent receipts from non-government railways, hire and haulage charges in respect of rolling stock and also cost of electrical energy charges recovered. As usual, share of credit for freight charges on Railway materials also form part of the credit.

Grant No.9: Operating expenses: Traffic:

This grant caters for expenditure on traffic operating and traffic commercial departments. Claims organisation are, however, excluded from the scope of the Demand and are accommodated under grant No.12.

Misc. Expenses on conference hire and penalty charges on interchanged stock as well as inter-railway financial adjustments relating to rolling stock are covered in this grant. The performance units for this grant are no. of trains, shunting engines hours and train kms.

Grant No.10 Operating Expenses Fuel :

This demand covers expenditure on coal, fuel oil for loco purposes and electric energy charges for traction purposes. Freight, handling charges including fueling of engines, sales tax, excise duty and cess on coal are also accommodated under this grant. Credits on account of sales of cinder and coal ashes and credits on account of inspection charges on coal are the recoveries under this demand, over and above the freight charges on railway stores and coal as appearing under Demand No. 5 to 8. This demand is supported with the performance statement showing gross tone kms for passenger, goods and shunting engine in

respect of steam and diesel separately. The staff statement is also sent as an annexure as in other grants.

Demand No. 11. : Staff welfare and Amenities:

This demand covers the expenditure on educational, medical facilities, health and welfare services, other staff amenities such as canteens etc., maintenance and improvement of railway colonies, staff quarters and other welfare buildings. The cost of released materials and also grants-in-aid to railway schools received from state govt. and fees collected are taken as credits or recoveries under this grant. The performance units for this grant are no. of students, no. of employees, plinth area of residential and welfare buildings.

Demand No. 12 : Misc. Working Expenses:

This demand caters to expenditure on security branch and compensation claims for goods loss or damaged and also payments arising out of Workmen's Compensation Act and catering. Apart from the above, this demand takes into account the transactions under the Suspense head "Demand Payable" and " Misc. Advances Revenue" while the budgeting in respect of the final heads as well as MAR are made for gross debits, in respect of "Demands payable" the provision is made for the "Net" only viz. un discharged liability pertaining to a year. The amounts recouped from Accident Compensation Safety and passenger amenities fund are as credits or recoveries under this grant.

Demand No. 13 : Provident Fund, Pension and Other Retirement Benefits:

Retirement benefits covered under this demand may be categorized as

- items met out of pension fund and
- payments of gratuities and other contribution to provident fund.

Out of these, the payment in respect of pension is met out of "Pension Fund" and the amount recouped from this fund is shown as credit under this grant. The other payments of gratuities and contribution to PF are met out off revenue.

Demand No. 14 : Appreciation to DRF, Pension Fund, Development Fund, and Capital fund:

This demand deals with appreciation to DRF, Pension Fund, Development Fund, and capital fund. Appropriations are made out of revenue. Appropriation to DRF is divided into various branches the railway system such as Engg., Mech., Sig, etc.

Demand No. 15 : Dividends to General revenue, repayment of loan taken from general revenue and amortization of over capitalisation:

This demand deals with dividends to General revenue, repayment of loan taken from general revenue and amortization of over capitalisation. This demand covers grants to states in lieu of passenger fare tax also.

Demand No. 16 : Assets : Acquisition, construction and replacement:

This grant is otherwise known as "**Works Grant**". This grant caters to the expenditure on acquisition of new assets, construction of new lines, replacements and renewals of the existing assets. The finances for these assets are met either through "Capital" otherwise known as loans obtained from the General Exchequer or internal resources of Railway system namely the Depreciation, Reserve fund, Development fund and capital fund.

It may not be out of place to mention here that the items included in this grant are finalized long before the presentation of budget during February. During Aug-Sep every year, the works, machinery and plant programme to be executed during the next following financial year is suggested by the individual Railways to Railway Board in the form of preliminary works programme. This programme is generally divided into 3 categories namely, works in progress, new works and works clearly sanctioned not to be commenced. The individual works, the estimated cost thereof, the actual outlay to end of the previous year, the outlay proposed for the budget year in question and the balance of funds to complete the work are the details furnished in this programme. After a preliminary examination at the Railway Board's level, the individual railways are call for a detailed discussion and the items to be included are finally decide and this document is known as "**final works programme**".

This final works programme will be the basis for the preparation of budget estimate figures in respect of this grant. In the case of Revenue Grants, budget estimate together with the revised estimate for the current year and the budget estimate for the ensuing year are exhibited, but it is not the case with this grant. Here the budget estimate figures are decided in advance through the medium of works programme. The revised estimate figures for the current year are only advised.

Apart from the source of finance, this grant exhibits the expenditure under different plan heads as decided by the Planning Commission. These plan heads comprise of Final Heads of Accounts, such as new lines, Gauge Conversion, Doublings, Traffic Facilities etc., and also the Suspense heads such as Stores

Suspense, Manufacture Suspense and Misc. Advances Capital. While in the case of Final heads, the Gross Expenditure during the year is the criteria for budget purposes, the credits or recoveries, representing the value of stores released are taken outside the scope of grant. But the Suspense heads have some peculiar features in them. The figures of debits and credits, in other works, Receipts and Issues are separately budgeted under all the suspense heads. The credits or the issues, include an element of work done for the various final heads within the same grant. They are normally known as "Issues within the demand" and are exhibited as "Deduct Entry" under each suspense heads and the vote of parliament is obtained in the gross debits less the deduct entry. The object behind this mechanism is to avoid double voting inherent in the system of budgeting under suspense. These peculiar features should not be lost sight of. The vote of parliament is obtained as far as this grant is concerned for the gross debits under the final heads and the gross debits excluding issues within the demand. Re-appropriation from one source of finance to other is not permitted. Similarly the re-appropriation funds from among the plan heads, for which funds are allotted after a detailed and thorough examination by the planning commission, such as new lines, track renewals, doublings, restoration of dismantled lines, etc., are also not permitted. This grant is supported by an annexure showing state-wise investments in road services. In respect of works expenditure there are only 17 primary units.

BUDGETARY EXERCISE

Budgetary exercise is a concurrent one spread over throughout the year, watching the progress of expenditure against the allotment. When once the Railway Budget is voted by Parliament, Budget allotments under each grant pertaining to each Railway are communicated by Railway Board through an advice known as Budget Order.

August Review

During August, a review is conducted of the performance done by individual railways bringing out the modifications necessary in the allotments already made consequent on the trend of performance noticed then. This is known as August Review.

Budget Estimate

The second review is done during Nov-Dec. known as Revised Estimate for the current year and Budget Estimate for the ensuing year. Based on the

progressive expenditure booked by individual Railways, the Railway Board after making necessary re-appropriation amongst the Railways concerned in respect of each grant with the available funds, decide upon the necessity or otherwise of the supplementary grant. Pending approval by Parliament of the supplementary grant, if necessary revised allotment is fixed by Railway Board and communicated to individual Railway based on which the individual Railways are to regulate their expenditure.

Final Modification

During the end of Feb. another review is conducted, known as "Final Modification ". And by the late-March, telegraphic modification statement, if necessary, is also called for from individual Railways.

Final Grant

By 31st March, final grant as pertaining to individual Railway under individual grant is fixed by the Railway Board and communicated.

Monthly Review

As a means of controlling the expenditure, a monthly review comparing the actual expenditure with the **proportionate budget allotment** is made and an appreciation report bringing out the Special features in respect of each month account are also submitted to Railway Board. While working out the **budget proportion**, certain guidelines as contemplated in the code are adopted. The establishment charges such as salaries, wages, TA etc., are of a routing and uniform nature. The total expenditure on this are divided by 12, while the expenditure on stores and other adjustment transactions are generally divided by 14, this is because the March accounts are spread over till the end of June every year to enable booking of expenditure under adjustment transactions completely. The difference of 2 (14 - 12) is distributed quarterly i.e. at 25 each for the first 3 quarters and the balance of 1.25 taken to the last quarter.

This monthly review would help in controlling the expenditure effectively if carried out at Divisional or Sub-Divisional level. This would also help in managing the finance in a better manner by the respective Departmental heads by directing Postponement or Modifications in the physical activity contemplated.

BUDGET SUMMARISED CONCEPTS

Definition

Budget is a financial statement prepared prior to a defined period of time (financial year) of the policy to be per during that period for the purpose of a given objective.

Objective

To define objectives in financial terms for execution at all levels. To allocate scarce resources to important activities, to co-ordinate complex plans for action facilitate controls by:

- 1) Establishing departmental budgets
- 2) Fix responsibility
- 3) Comparison and reviews
- 4) Corrective measures

Types of budgets

- 1) Capital budget
- 2) Revenue budget
- 3) Performance budget
- 4) Zero based budget
- 5) Responsibility budget

BUDGET DOCUMENTS

- 1) SPEECH OF RAILWAY MINISTER
 - Part I
 - Part II
- 2) KEY TO BUDGET DOCUMENTS
 - GLOSSARY OF TERMS
- 3) BUDGET OF THE RAILWAY REVENUE AND EXPENDITURE FOR THE ENSUING YEAR
- 4) EXPLANATORY MEMORANDUM TO THE RAILWAY BUDGET
 - PLAN PROGRESS,
 - INVESTMENTS BY PLAN HEADS,

- TRAFFIC PLAN,
 - TARGETS/ACHIEVEMENTS,
 - FINANCIAL RESULTS
 - OPERATING RATIO,
 - SURPLUS/SHORTFALL,
 - NET RETURN
 - BUDGET ESTIMATES
- 5) MEMORANDUM-ADJUSTMENTS IN FREIGHT AND FARE
- COMMODITY WISE ADJUSTMENTS,
 - FARES SLABWISE,
 - SUBURBAN FARES
- 6) DEMANDS FOR GRANTS
- PART I - RAILWAY AS A WHOLE
 - PART II - ZONAL RAILWAYS/PRODUCTION UNITS
- 7) WORKS, MACHINERY AND ROLLING STOCK PROGRAM (PART I/II)
- 8) Green Book
- 9) INDIAN RAILWAY YEAR BOOK, SAFETY BULLETIN
- 10) INDIAN RAILWAY ANNUAL REPORT AND ACCOUNTS
- FINANCIAL RESULTS
 - BALANCE SHEET
 - LOAN ACCOUNTS
 - BLOCK ACCOUNT
 - ECO REVIEW
- 11) INDIAN RAILWAY ANNUAL STATISTICAL STATEMENTS

BUDGET CYCLE

Sample: Revenue Budget 2004-05

Budget estimate	Nov/Dec2003
Budget presented to Parliament (Demands)	Feb'04
Grant (Budget Order Issued) August Review	March'2004
August Review	August/Sept'2004
Revised estimate 2004-2005 and Budget estimate 2005-2006	Nov/Dec/04
Revised Grant	Jan 2005
Final Modification	Feb2005
Final Grant	March 2005
Cash Closing	31.3.2005
Transfer Transactions	April-May-2005
Closing of 2004-05 A/C	20.6.2005
Appropriation A/C	Sept 2005

STRUCTURE OF RAILWAY BUDGET

DEMANDS FOR GRANTS

DEMAND NO.	DESCRIPTION
1	Railway Board
2	Miscellaneous expenditure (General)
3	General superintendence and services on Railways
4	Repairs and maintenance of Permanent way and Works
5	Repairs and Maintenance of Motive Power
6	Repairs and Maintenance of Carriages and Wagon
7	Repairs and Maintenance of Plant and Equipment
8	Operating Expenses-Rolling Stock and Equipment
9	Operating Expenses-traffic
10	Operating Expenses-Fuel
11	Staff Welfare and Amenities
12	Miscellaneous Working expenses
13	Provident fund Pension and other Retirement benefits
14	Appropriation to Funds
15	Dividend to General revenues repayment of loans taken from General Revenues and Amortization of over capitalisation
16	Acquisition Construction & replacement of Assets

Demand No.11 is for expenditure on educational and medical facilities, health and welfare services, canteen and other staff amenities, repairs maintenance and improvement of Railway colonies, staff quarters, residential and welfare buildings.