

Rail Budget merger without holistic reforms implies window-dressing

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THE Cabinet's decision to merge Indian Railways (IR) budget with the General budget is a classical case of piecemeal reforms. This crucial initiative should have been preceded with certain core reforms as recommended by a few committees in the past.

The merger should be accompanied by certain initiatives to enable the Government to go beyond the realm of creative accounting. Merger decision looks like an exercise in creative accounting due to frugal disclosure.

We expect Modi Government to lay a crystal-clear roadmap for railway reforms to unleash Railways' potential as a growth engine. Before discussing the missing reforms, consider the official announcement on merger.

Post-merger, the Railways will continue to maintain its distinct entity as a departmentally run commercial undertaking as at present. It will retain their functional autonomy and delegation of financial powers etc. as per the existing guidelines. The existing financial arrangements will continue wherein Railways will meet all its revenue expenditure, including ordinary working expenses, pay and allowances and pensions etc. from its revenue receipts, according to a release.

It adds:

"The Capital at charge of the Railways estimated at Rs.2.27 lakh crore on which annual dividend is paid by the Railways will be wiped off. Consequently, there will be no dividend liability for Railways from 2017-18 and Ministry of Railways will get Gross Budgetary support. This will also save Railways from the liability of payment of approximately Rs.9,700 crore annual dividend to the Government of India."

Capital at Charge, the book value of the railways' capital assets, also reflects the loan in perpetuity (quasi equity) taken from General Finance on which interest is paid as dividend. The Rs.227-lakh crore wipe-off (or write-off?) and dispensing with the need for Rs 9700-cr dividend is a master stroke of creative accounting.

This reminds us of investible surplus of Rs 46,534 crore contrived by the then Railways Minister Lalu Prasad during five years ending 31 March 2009. This case was elaborated by IR's White Paper released during December 2009 when Mamata Banerjee was at the helm of affairs in Rail Bhavan.

If merger decision is not accompanied by other policy, organizational and regulatory reforms, then IR's working would become more opaque and difficult to assess.

The cleansing of capital at charge and dividend liabilities raises several questions. Major ones are: What would be the manner of accounting for returns in investments from the national exchequer with IR neither having equity or debt component? Would entire investment be treated as grant? Is it fair to pamper a monopoly which is actually subsidized by the public notwithstanding its hyped social obligations?

As it is, IR enjoys slew of tax exemptions by virtue of its being departmental undertaking with in-house manufacturing operations and integrated value chain.

IR does not need window-dressing of its accounts. It requires presentation of accounts that are transparent and comparable. The merger of railways budget should have preceded completion of accounting reforms project (ARP) initiated more than a decade back with the aid of Asian Development Bank (ADB).

ARP envisages adoption of accrual-based accounting by Railways, which currently prepares its accounts on cash basis. As put by Railway Board document,

"Indian Railways is exploring various avenues to harness non-conventional sources of finance such as Institutional Financing, FDI, PPP, etc. This option mandates that IR's annual accounts are compiled as per Generally Accepted Accounting Principles (GAAP) for improved financial reporting for the benefit of various stakeholders."

Certain components of snail-paced ARP are still in the pilot scale mode. ARP's progress can be gauged from the fact that the Railways constituted a Fixed Assets Committee in January 2016 to facilitate compilation of master list of assets held by different arms of the Railways. The target for roll-out of Opening Balance Sheet (OBS) and Closing Balance Sheet (CBS) in all divisions and workshops of Railways is 30th April 2019.

ARP's importance was aptly driven home by Committee for Mobilization of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board headed by Dr. Bibek Debroy, Member, NITI Aayog.

In its report submitted in June 2015, the Committee identified completion of accounting reforms, setting up of Railways Regulatory Authority of India (RRAI) and certain other steps are pre-requisites to merger of two budgets.

The Committee observed that the present accounting system of IR is less than conducive for a transporter as it does not capture the service-wise cost, including the depreciation arising accurately.

It stated: "The IR accounting practices are not in the same band of commercial accounting followed by most other railway systems. With the diminishing Government funding IR has little option but to look for non-government sources of funds. This imperative is a major driver for need-based refinements in the way IR prepares and maintains accounts, and costs its businesses, activities and services. Unless commercial accounting is adopted, the IR becomes non-conducive for investment."

The merger decision should have been preceded by full-scale adoption of accrual system of accounting by IR. Ideally, IR should have been corporatized and its accounts should have been prepared in the format stipulated by the Companies Act.

It is here pertinent to recollect what Expert Group on Railways, commonly known as Rakesh Mohan Committee, recommended. In its report submitted in mid-2001, the Committee proposed

"comprehensive review of the legal framework and specific statutes required to create a vibrant rail based industry" prior to merger of two budgets.

It concluded that the problem with the Railways Budget is that it blurs the dividing line between policy making and implementation. To make matters worse, the extreme 'visibility' of the Railways Budget accentuates political compulsions. It impairs the autonomy of IR management to take commercial decisions.

The merger of IR budget into general budget was mooted by Rakesh Mohan Committee with the assumption that this departmental undertaking would be corporatized.

Modi Government should indicate whether it would corporatize IR and transform into a railway tracks and signalling corporation, leaving operation of trains to public and private sector rail operators.

The merger should also have preceded the implementation of Cabinet decision to set up Rail Tariff Authority (RTA), as an advisory body, through a Government Resolution, pending amendment of the Railway Act, 1989.

Though this decision was taken in January 2014, it continues to remain a virtual non-starter.

There are whole lot of rail reforms on which Modi Government should take call. Dr. Bibek Debroy Committee has listed diverse initiatives recommended by various committees since 1947. The Government ought to study them and select the ones that are still relevant and feasible.

It would be apt to conclude the logic for holistic reforms with a quote from Rakesh Mohan Committee.

The Committee observed:

"Indian Railways is one of the most studied institutions on the planet. For almost every conceivable question that can be asked there already exists a comprehensive and rigorous report that lays out the facts and indicates the answers. What is striking, however, is that there has been little action on the many reports IR has commissioned, both internal and external."