Staying on track

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It is that time of the year, we are all waiting to see whether the railway minister will be kind one more time and allow us to make those short or long train trips without major bloodletting in the wallet. But we have seen reports in the press that all is not well with the railways and the minister may have no choice with the budget this time round.

A word on what the railway budget is about. It is both a peep into the future as well as a plan. It starts with the way the earnings have been coming in and expenditure is mounting, during the first 9 months, till December, for an idea of how the year is going to end. With this picture in focus comes the peek into the year to come. The earnings come mainly from goods and passengers that use the railway. The numbers of tonnes of goods and passengers of the current year are increased, according to the trend that is seen, and, with a little more in the name of enthusiasm, the earning that should arise, with rates and fares unchanged, is worked out. And then for the costs— a percentage is added, because everybody will receive increments and also more allowances because of inflation; plus carrying more traffic will cost a little bit more, for fuel, mainly, plus some for inflation, and the expenditure figure of the coming year is worked out. With both the figures at hand, we have an idea of the surplus, for which there are specific uses.

Apart from just running trains, the railways also carry out work of replacing worn out track, bridges, cable and wagons, to improve the quality of service and to add new services. All this activity needs funds and the budget has to make provisions. Things like new lines, buildings or profitable assets are paid for by 'capital', which is money provided by the government, in exchange for a return of about 7% every year. But the rest of the investment, which runs into a good bit even for replacements alone, needs to come from the surplus that the railways make.

The important part of the budget exercise, then, is to tweak the rates, both for goods as well as for passenger service, to provide the surplus needed for the works activity, apart from the portion paid for by the government.

In earlier years, this surplus was not a great figure and studies showed that replacements were not being given enough attention. Making greater provisions then forced some increases in rates and the axe fell heavily on goods traffic, where increases are less visible. With limits to investment by the government, the railways took to borrowing from the market and there was talk about the railways falling into a debt trap, unless the government came forward and provided cheap capital.

Understanding the nature of the costs of the railways, however, may temper our reaction to news about the department. The costs of the railways are to a very great extent, fixed, unavoidable costs, of staff salaries and of basic maintenance. The portion that rises and falls with the level of traffic is a much smaller portion. The result is that after the railways have found a balance of costs being met by earnings, even a small increase in the level of traffic does not increase the large part of the cost, but only the smaller part which changes with traffic. The earnings, however, increase to the full extent. Conversely, if there is a small drop in the level of traffic, the bulk of the cost is still there, but the earning drops to the full extent.

During the 1990s and the early part of this century, the expansion of the Indian economy resulted in greater railway traffic and unprecedented surplus. The rise in railways earnings over the decade can be shown to closely follow the trend in the GDP and there is little doubt that the fine performance of the railways during the period was largely thanks to the economic tidal wave.

During this period the railways posted a record surplus, made more impressive by window dressing, even questionable accounting, and there were improvements in visible services, without major increases in charges and none in passenger fares. Management institutes lauded the minister and financial dailies joined in chorus.

Then came the slowdown, and the last two years have seen a snail-pace growth of rail traffic. With earning nearly standing still, expenditure has grown apace. The Sixth Pay Commission loaded the railway heavier than the box wagon; fuel charges have risen and so have costs all round. The position before the start of the current year was grave. But the railways had to save face and they still came up with a record works programme, of Rs 32,000 crore. And funded by a surplus to come from inflated earnings projections and conservative expenditure estimates.

The reality check came with the accounts of December 2010, where the earnings were well below target and the expenditure promised a healthy excess.

A standard way of managing such shrinking of surplus is to slow down the work that is funded from the surplus, and even to ‘hold up’ payment of bills. This had been done to the hilt last year and in the current year, the exercise had to be started early. But still, spending on work has many supporters and the work cost till December 2010 was more than the corresponding figure in the previous year.

The railways have a challenge in the budget for 2011-12. They will need to use every trick to balance the books, including, maybe, taking a loan from the government. But there is a certain level of replacement and development work that is unavoidable. Just for this funding in the normal course, the projections for the current year may be higher than justified and for the coming year, may be imaginary (astronomical, greater than imagined).

Mamata Banerjee’s budget will show if the railways are continuing the charade or will bite the bullet and tell the story as it is. The railways are a great national asset and pay back in national development many times the value shown in their earnings account. It is time to look at the railways as a national responsibility and allow the accountant to do his work.

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