

Report Summary

Report of the Committee for Restructuring of Railway Ministry and Railway Board

- The Railway Board had constituted a Committee for mobilization of resources for major railway projects and restructuring of Railway Ministry and Railway Board (Chair: Mr. Bibek Debroy). The Committee was constituted on September 22, 2014 to prepare a blueprint for reforming Indian Railways.
- The Committee submitted its final report in June 2015. This note summarises the key findings and recommendations of the report.
- **Failure of private participation:** One of the key reasons for the failure of private participation in Railways is that policy making, the regulatory function, and operations are all vested within the same organisation, that is, the Ministry of Railways. The Committee recommends that the three roles must be separated from each other to have sustained and large scale private participation. Railways' monopoly discourages private sector entry into the market. Secondly, schemes for private sector participation are not prepared with the involvement of stakeholders. Thirdly, the schemes are designed such that the risk lies mostly with the private parties.
- **Need for an independent regulator:** In order to create a level playing field for private players in the sector, the Committee recommends setting up an independent regulator, the Railways Regulatory Authority. The regulator will be a statutory body, with an independent budget and independent of the Ministry. While it will not determine tariff, it will monitor whether the tariff is market determined and competitive. An independent regulator for Railways is also necessary because of the technical and specialized nature of the sector.
- **Financing issues:** Financing of Railways is a challenge because: (i) investment is made in projects that do not have traffic and hence do not generate revenue, (ii) the unbalanced mix of passenger and freight traffic does not help generate revenue, (iii) the efficiency improvements do not result in increasing revenue, and (iv) delays in projects results in cost escalation, which makes it difficult to recover costs. Railways has also been mostly financed through internal resources and budgetary support, and not through external resources. Thus there has been no financial oversight of its projects.
- **Restructuring of zones:** Indian Railways has 17 zones, which are further divided into 68 divisions. The present zones have developed historically and not from a specific strategy. Hence, there is a need to restructure the organisation's zones and divisions.
- **Focus on core activities:** The Committee has observed that, apart from its core function of running trains, Railways also engages in peripheral activities such as running schools, hospitals and a police force. It is expected that these various zones and divisions within the Railways will face increasing competition in the future. To enable themselves to compete effectively, they will need to reduce costs on these non-core activities that are non-remunerative in nature, and instead improve the efficiency of running trains by greater resource allocation to this function. Non-core activities can be outsourced to private entities. An example cited by the Committee is that of subsidization of education and medical facilities in alternative schools and hospitals respectively, including the private institutions.
- **Accounting reforms:** The current accounting system does not provide details of the cost of various activities and services, such as introduction of new trains and scheduling of stops. It neither tracks assets nor assesses liabilities. Consequently, it becomes difficult to compute the costs and benefits of any project or activity. In this regard, the Committee recommends switching to a commercial accrual-based double entry accounting system. This will clearly distinguish between revenue and capital expenditures and present a complete picture of debt and other liabilities. Additionally, it will help determine how much it costs to run a train and whether it is viable to run it.

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