SPECIAL AUDIT REPORT

ON PRIVATISATION OF TRAINS OPERATION

IN PAKISTAN RAILWAYS

AUDIT YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General of Pakistan conducts audit in terms of Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Special Audit of Privatisation of Trains Operation in Pakistan Railways was carried out accordingly.

The Directorate General Audit Railways conducted Special Audit of Privatisation of Trains Operation in Pakistan Railways during audit year 2015-16 for the period 2010 to 2016 with a view to report significant findings to stakeholders. Audit examined the bidding process, decisions made in respect of Privatisation of Trains Operation and viability of the contracts executed with private parties. The Special Audit Report indicates specific actions that, if taken, will help the management realise the objectives of the Privatisation of Trains Operation. Most of the observations have been finalized in the light of discussion with management but DAC meeting was not convened by the PAO despite reminders.

This Special Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before both houses of Majlis-e-Shoora (Parliament).

Islamabad **(Javaid Jehangir)**
Dated: **Auditor General of Pakistan**

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Abbreviations and Acronyms

AGM/T	Additional General Manager/Traffic
CCM	Chief Commercial Manager
CME/C&W	Chief Mechanical Engineer/Carriage & Wagons
CMM	Chief Marketing Manager
COPS	Chief Operating Superintendent
DCOS/MGPR	District Controller of Stores/Mughalpura
DE Loco	Diesel Electric Locomotive
ECC	Economic Coordination Committee
EOI	Expression of Interest
FA&CAO	Financial Advisor and Chief Accounts Officer
FAM	Financial Audit Manual
GM/M&S	General Manager/Manufacturing & Services
GM/Ops	General Manager/Operations
GOP	Government of Pakistan
HSD	High Speed Diesel
IPDF	Infrastructure Project Development Facility
JV	Joint Venture
LCCI	Lahore Chamber of Commerce & Industry
M/s	Messer's
MD	Managing Director
MOR	Ministry of Railways
MUL-KYC	Multan-Karachi
NBP	National Bank of Pakistan
PCT	Printed Card Ticket
PPP	Public Private Partnership
PPRA	Public Procurement Regulatory Authority
PR	Pakistan Railways
PRACS	Pakistan Railway Advisory & Consultancy Services
PSE	Public Sector Enterprises
PSR	Preliminary Survey Report
RR&I	Railway Reservation and Inquiry
SBP	State Bank of Pakistan
SECP	Security & Exchange Commission of Pakistan
TIP	Transparency International Pakistan

EXECUTIVE SUMMARY

The Directorate General Audit Railways conducted Special Audit of Privatisation of Trains Operation in Pakistan Railways during May-June 2016. The main objectives of audit were to assess the fairness and effectiveness of the bidding process, to analyse the process of decision making and planning for privatisation and to assess the viability of the contracts executed with private parties to operate the trains. The audit was conducted in accordance with the INTOSAI Auditing Standards.

The passenger trains were privatised/outsourced under the umbrella of Public Private Partnership and open track access policy. The scope of the work included four agreements with private parties for commercial management and passenger facilitation of Hazara Express, Business Express, Shalimar Express and Night Coach. For the purpose, agreements with private parties, bidding documents, documentation relating to technical evaluation, financial bids and other accounting records were obtained and scrutinized.

Key Audit Findings

Privatisation of Hazara Express

i. Loss due to change of terms of contract from revenue sharing to profit sharing - Rs 397.12 million. [1]
ii. Loss on account of providing economy class coaches using the benchmark of luggage van - Rs 295.35 million.[2]
iii. Loss due to non-incorporation of clauses for increase in fare in the subsequent years - Rs 272.94 million.[3]
iv. Loss due to irrational determination of financial commitment of passenger earnings - Rs 94.77 million per annum.[4]

[1]Para 4.1.12
[2]Para No. 4.1.7
[3]Para No. 4.1.8
[4]Para No. 4.1.3

v. Irregular deduction of bank/service charges - Rs 50.27 million. [5]

vi. Cost benefit analysis was not conducted and contract was awarded without competition.[6]

Privatisation of Business Express

i. Loss due to inappropriate decision of the management by referring the case to Economic Coordination Committee – Rs 1,085.15 million.[7]

ii. Non-investment in value additions by M/s Four Brothers - Rs 158.79 million.[8]

iii. Non recovery of journey fare - Rs 2.22 billion.[9]

iv. Irrational determination of criteria for technical evaluation and non-transparent bidding process.[10]

Privatisation of Shalimar Express

i. Irregular conversion of value added investment into performance guarantee - Rs 97.00 million.[11]

ii. Inadmissible value added investment - Rs 23.45 million.[12]

iii. Setting of irrational benchmark less than earnings of suspended train by Rs 9.32 million.[13]

iv. Irrational decision of suspension of Shalimar Express and its subsequent privatisation.[14]

Privatisation of Night Coach

i. Irregular award of contract of Night Coach to technically unqualified firm - Rs 600.00 million per annum. [15]

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[5]Para No. 4.1.4
[6]Para No.4.1.2
[7] Para 4.2.6
[8] Para 4.2.7
[9]Para 4.2.8
[10]Paras 4.2.4 and 4.2.5
[11]Para 4.3.5
[12]Para 4.3.4
[13]Para 4.3.2
[14]Para 4.3.3
[15]Para 4.4.2

ii. Inadmissible value-added investment - Rs 60.22 million.[16]

iii. Misuse of 2nd portion of break van and non-recovery from the contractor - Rs 28.16 million.[17]

Recommendations

i. Monitoring and evaluation of terms and conditions of agreements should be made effective to avoid losses, recoveries be made and a dedicated cell be created for the purpose.

ii. Cost benefit analysis should be conducted keeping in view relevant costs and future projections of revenue.

iii. Arbitration clause of the agreement should be implemented instead of referring the case to ECC.

iv. Treatment of value added investment as performance guarantee should be ended and feasible investment policy should be established for infrastructure development.

v. The negotiations should not be done with the private parties before invitation of bids or during the bidding process for the finalisation of the successful bidder.

vi. Favouritism should be avoided, justice and fair play be promoted and transparent bidding process be adopted.

vii. Operational cost of running the trains to be privatised should be considered while making decision for the privatisation.

viii. Previous year's earning of loss making trains should not be taken as benchmark rather future projections of earnings should be taken as benchmark.

ix. Comprehensive policy for the privatisation may be developed in consultation with Infrastructure Project Development Facility (IPDF) and in accordance with the PPP policy of the Government.

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[16] Para 4.4.5

[17] Para 4.4.4

1. INTRODUCTION

The Directorate General Audit Railways conducted Special Audit of Privatisation of Trains Operation in Pakistan Railways during May-June 2016. The passenger trains were privatized/ outsourced under the umbrella of Public-Private Partnership policy and Open Track Access policy.

Pakistan Railways could not make huge capital investments due to financial constraints; therefore, an alternative program of PPP was initiated by the Infrastructure Project Development Facility. Accordingly, a Track Access Policy was formulated under the umbrella of IPDF in June 2010. Under this policy, private parties were allowed to use track and infrastructure of Pakistan Railways for private freight trains operation. In return, the private parties were to pay an agreed amount of tariff for each kilometer used. Rolling stock and locomotives were to be purchased/ leased by the private parties who were also responsible to manage their repairs and maintenance. As a long term strategy, PR aimed to generate enough additional revenue to pay off its long outstanding overdraft with the State Bank of Pakistan.

PR invited the private sector to operate those passenger trains, which were not generating enough revenue to meet their costs. A decision to this effect was taken in May 2011, but its implementation was deferred owing primarily to acute shortage of locomotives. Under the public private partnership policy of the Government, the private sector was offered commercial management and passenger facilitation of express, passenger, mail, mixed and shuttle trains.

1.1 Definition of Public Private Partnership Policy

Public Private Partnerships involve the financing, development, operations and maintenance of infrastructure by the private sector. The private sector creates the assets through a business and then delivers a service to the public sector entity/consumer in return for payment that would be linked to performance. Therefore, the public sector would be able to redirect its resources to serving other urgent social and economic needs. A PPP may include an equity joint venture between GOP and the private sector.

1.2 Public Private Partnership Policy of GOP

In 2007, the Government of Pakistan issued a comprehensive policy document on PPP titled "Private participation in providing more and better public services through improved infrastructure". It stipulated objectives, implementation structure, viability gap funding, and project life-cycle with respect to PPP contracts. The policy document further mentioned the need of long development periods to ensure affordable tariff levels thus protecting the private sector against undue risk. According to the policy, "PPPs with appropriate arrangements in the sharing of risks in financing, operating and maintaining infrastructure services was a solution."

1.3 Initiatives of Pakistan Railways under Public Private Partnership Policy

Limited resources do not permit the Government to allocate sufficient funds to upgrade Railways infrastructure to meet current requirements. Pakistan Railways planned to overcome this situation through PPP; a system which was being adopted by an increasing number of countries across the globe to develop infrastructure as a service delivery tool. Under this scenario, the Government could lease rights to bidders who would invest, construct, and operate on the basis of shared profitability.

Under Public-Private Partnership, Pakistan Railways entered into agreements with private parties in respect of the following trains between Lahore and Karachi to cater the needs of business community and general public.

Table-1 **(Rs in million)**

S. No.	**Name of Train**	**Train Route**	**Date of commencement**	**PR share of revenue per day (Rs)**	**Value added investment (Rs)**
1	Hazara Express	Havelian to Karachi	15th February, 2006	60 % Share of Revenue	-Nil-
2	Business Express	Lahore-Khanewal-Lodhran-Karachi	3rd February, 2012	3.191 Revised 2.2	225.786
3	Shalimar Express	Lahore-Faisalabad-Multan-Karachi	24th February,2012	1.424	97.000
4	Night Coach	Lahore-Faisalabad-Multan-Karachi	15th January, 2013	1.731	81.838

Under PPP arrangement, PR was required to operate these trains and bear all their operational cost, for example, HSD oil, lubricants, repair & maintenance of locomotives and coaches and to maintain punctuality of trains. On the other hand, commercial management of the trains became the responsibility of private partners.

The Business Express was a joint venture between PR and Four Brothers Group (a private sector entity launched by Lahore Chamber of Commerce and Industry). This joint venture started in 2012 to cater Lahore-Karachi passengers. The other two ventures were Shalimar Express and Night Coach with Air Rail Services/ Shalimar Group, (a group affiliated with Pakistan Railways for a long period of time). In addition to these three ventures, PR had also outsourced commercial operations of two passenger trains to its subsidiary, Pakistan Railways Advisory and Consultancy Services in 2006.

The Four Brothers Group managed to decrease the occupancy rate from agreed 88% to 65%, lowering daily rentals from Rs 3.2 million to Rs 2.2 million. This gave birth to a conflict between the parties and ultimately resulted in termination of agreement.

1. AUDIT OBJECTIVES

The main objectives of audit were to:

i. Evaluate the process of planning and approval for public-private partnership in train operations.
ii. Evaluate the bidding process adopted by the PR for privatisation.
iii. Evaluate the viability of PPP contracts executed to operate the trains.
iv. Assess the PPP contracts management (i.e. implementation of the provisions of the agreements, and measures taken by the management against any shortcomings).
v. Evaluate the financial benefits of privatisation for PR.

2. AUDIT SCOPE AND METHODOLOGY

3.1 Audit Scope

Special Audit of Privatisation of Trains Operation was conducted for the period 2010-11 to 2014-15. This included four agreements with private parties for commercial management of Hazara, Business, Shalimar Express and Night Coach. However, Hazara Express was handed over to PRACS in 2006, so data pertaining to 2006 was also scrutinised. Different locations were visited for the purpose of this audit, i.e. office of the Chief Marketing Manager, Lahore, Chief Commercial Manager, Lahore, FA&CAO (Revenue), Lahore, Ministry of Railways, Islamabad and private parties.

3.2 Audit Methodology

i. Review of agreements with private parties to operate trains.
ii. Scrutiny of relevant files/documents/data.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Privatisation of Hazara Express

Historical background

The commercial management and passenger facilitation of Hazara express was awarded to PRACS, a subsidiary of Pakistan Railways, through the decision of the Executive Committee of Railway Board. The meeting of the committee was held on 20.08.2005 in PR headquarters, Lahore, under the chairmanship of Chairman Railways.

PR was operating forty Mail and Express trains, seventy two inter-city and one hundred and twelve passenger trains daily in 2005. Most of the trains were incurring losses and some trains were unable to meet even their variable costs. The reputation, service and earnings of these trains were not satisfactory due to perpetual late running of trains, bad maintenance of racks, excessive transit time, unnecessary stoppages, below standard catering and lack of proper amenities to passengers. To overcome these issues, PRACS presented a proposal to the Executive Committee for transfer of commercial management and passenger facilitation of two trains Chenab (former name of Hazara) and Rohi express from PR to PRACS.

In 2005, Chenab Express (former name of Hazara) was running between Havelian and Karachi city stations via Rawalpindi, Sargodha, Faisalabad, Khanewal, Lodhran, Rohri and Karachi. The train covered this journey in 33 hours in down direction and 32 hours in up direction. The train had a carrying capacity of 512 passengers from Havelian to Karachi and of 220 passengers from Faisalabad to Karachi, i.e. the total carrying capacity of the train was 732 passengers. The fares of 1stclass sleeper, economy class with berth and for a seat only were Rs 1305, Rs 750 and Rs 675 respectively. The average monthly revenue generated by the train from December 2004 to June 2005 was Rs 16.54 million.

Salient features of PRACS proposal for Chenab Express were given below:

i. PRACS would like to take the opportunity as a challenge to enhance its revenues, providing facilities to passengers and improving the image of PR.

ii. PRACS would pay Rs 220 million per year to PR i.e. 10% more than the average revenue generated by the train.

iii. On completion of 1^{st} year's operation, PRACS would also commit to 50:50 sharing of profit in addition to the above assured amount.

The proposal for Chenab and Rohi Express was accepted by the management committee with the following recommendations:

i. The train would be renamed as Hazara Express and will start a new service with fresh timings more suitable to public.

ii. PRACS would open reservation and information offices at the doorstep of passengers to avoid unnecessary travelling to Havelian for reservation.

iii. PRACS would provide a package deal to passengers which will include simple bedding, packed food, small gift pack and clean drinking water during journey.

As a result of approval of proposal by the Executive committee and its ratification by the Railway Board in October 2005, the agreement for a joint venture between the PR and PRACS for commercial management and passenger facilitation of Hazara and Rohi express was signed on 13^{th} January, 2006. Hence, trains were handed over to PRACS on 15.02.2006. The agreement was made for a period of one year extendable after every year with the mutual consent of the parties.

Planning and approval

4.1.1 Feasibility study / Cost benefit analysis was not conducted

The PPP policy described the steps in Project Life Cycle as Government/Agencies conduct Needs and Options Analysis to determine the best solution to provide the service / build infrastructure. Preparation of a Pre-Feasibility Study including possible location(s), alignment(s) and estimates of broad project costs and an initial indication whether the project is likely to be viable and affordable.

While reviewing the initial documentation related to the outsourcing of Hazara and Rohi express, it was noticed that the feasibility and cost benefit analysis were not done at that time. The revenue was not projected and the variable and fixed costs for 3 to 5 years were not determined to assess the viability of the project. This depicted that thorough planning had not been done before assigning the project which reflected non-professionalism on part of railway management. This resulted in outsourcing of Hazara Express at lower rates.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that the commercial management of train was handed over to PRACS after proper analysis based on the earning position. The remarks were not tenable as feasibility study/detailed cost benefit analysis is vital for every new project which helps in decision making at the planning and execution phases.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for not conducting feasibility study/proper cost analysis before awarding the contract and responsibility be fixed.

4.1.2 Award of Contract without fair competition

Rule 20 of PPRA 2004 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

PR outsourced the commercial management of Hazara express to PRACS without any competitive bidding as per the decision of the Executive committee on 20.08.2005. The Railway Board ratified the decision in October 2005. Audit noticed that FA&CAO /Revenue had also expressed reservations about awarding the contract to PRACS. This resulted in irregular award of contract to PRACS without any competition and the executive committee was not the competent forum.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS was awarded contract of Hazara and Rohi Express as a joint venture duly approved by the Executive Committee as these trains were running in losses. The remarks were not tenable as the contract for outsourcing of trains was awarded to PRACS without any competition in contravention to PPRA Rules.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for awarding the contract without competitive bidding and responsibility be fixed.

Defective and non-compliance clauses of agreement

4.1.3 Loss due to irrational determination of financial commitment of passenger earnings- Rs 94.77 million per annum

Para 1801 of Pakistan Railways General Code provides that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

While reviewing the agreement and the composition of train, it was noticed that the composition of passenger coaches given to PRACS was different from the composition in 2005. Therefore, using the earnings of Rs. 215.00 million of 2005 as base year benchmark with 10% increase was not realistic. The projected earnings of new composition of passenger coaches should have been taken into consideration for calculating the amount to be paid to PR. The passenger earnings as per revised composition of Hazara Express during the year 2005 are shown below:

Table-2

Capacity levels	At 100% capacity	At 80% capacity	At 70% capacity	At 60% capacity	At 50% capacity
Earnings	473.24	378.59	331.27	283.95	236.62

The passenger earnings of Hazara Express at 100% capacity was Rs 473.244 million (detail in Annex-A) while PRACS was making payment at 50% of capacity at the rate of Rs 236.50 million which was far below the acceptable standard. PRACS should have paid at least 70% of the capacity that was Rs 331.271 million per annum. This resulted in loss to PR amounting to Rs 94.771 million per annum (Rs 331.271-236.500).

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that the said decision was taken on the basis of the recommendation of the committee comprising of AGM/Passenger, FA & CAO/Revenue, Director /Technical and CCM/P. The recommendations were approved by the Secretary/Chairman Railways before drafting the agreement. The remarks were not tenable as the train was provided to PRACS with a new composition therefore, the benchmark should have been based on new composition.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that reasons be explained for awarding contract with new composition of train while the benchmark of earnings was taken on different train composition of preceding year.

4.1.4 Irregular deduction of bank/service charges – Rs 50.27 million

As per clause 2.1(e) of addendum to the agreement for joint venture between Pakistan Railways and PRACS for passenger facilitation, all bank/service charges, if any, would be borne by PRACS. Further clause 2.2 states that PRACS would pay profit earned on the formula of 60 % to Pakistan Railways and 40 % to PRACS.

While reviewing the profit & loss accounts of Hazara Express, it was noticed that PRACS irregularly charged bank/service charges to profit and loss account of Hazara Express and deducted an amount of Rs 50.27 million for the period from 2007-08 to 2015-16. Deduction of bank/service charges was a clear violation of the contract but due to none monitoring of clauses of agreement Railway management has not taken any action. This resulted in reduction in the share of profit to P.R amounting to Rs 30.16 million (Rs 50.268x60%). Detail of bank/service charges is given in Annex-B.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS was operating 22 reservation offices and depositing daily earning directly in NBP through PR main account and collection charges were being paid by PR. Therefore, the said clause was incorporated for Hazara Express that PRACS would arrange collection of cash and collection charges would be borne by PRACS. The remarks offered by PRACS showed that audit observation was raised correctly. Accordingly, all bank/service charges were to be borne by PRACS. These charges were to be deducted from 40 % profit share of PRACS and not from the entire revenue of this project.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that Rs 30.16 million be recovered from PRACS under intimation to Audit.

4.1.5 Non incorporation of clause regarding short composition of train resulted in adjustment by PRACS– Rs 126.00 million

Clause 4.1 and 4.2 of the agreement described the operational commitments that PR should ensure the agreed upon train composition for Hazara Express as per agreement. However, in case of damages to the coaches, PR would endeavor to replace the shortage with the available coaching stock of similar description.

During scrutiny of operational commitments of the agreement it was noticed that the contract neither provided any clause for the short composition of train nor any mechanism to be adopted by both the parties in case of short composition. However, PRACS had irregularly adjusted an amount of Rs 126.00 million on this account from its payables to PR without any provision in the agreement. This happened due to slackness of railway management. Further, both the parties have failed to incorporate any clause for the short composition of trains and its proper adjustment.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that it was the responsibility of PR to ensure the agreed composition as per terms and conditions of the agreement. The claim of PRACS was justified and admitted by PR on 12.06.2012.The remarks were not tenable as there was no provision in agreement regarding adjustment on account of short composition neither any revision of clause was made in subsequent years.

The DAC meeting was not convened by the PAO despite reminders.

Audit therefore, recommends that the adjustment of Rs 126.00 million made on this account be recovered from PRACS under intimation to Audit.

4.1.6 Expenditure of printing of tickets was unjustifiably charged to Hazara Express by PRACS–Rs 23.64 million

Clause 5.3 of the agreement states that PRACS would design and print its own computerized tickets for the trains. However, PRACS would also use printed card tickets (PCTs) and indent would be placed directly with DCOS/MGPR and the cost of printing would be borne by PRACS.

While reviewing profit & loss account of Hazara Express it was noticed that an expenditure of Rs 23.64 million on printing of tickets was charged to the direct expenses of train in contravention to the above clause of the agreement from 2007 to 2016 (detail in Annex-B). This resulted in charging of unjustified expenditure to profit & loss account and reduction in share of profit to PR of Rs 14.18 million (Rs 23.64 X 60%).

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS was operating 22 reservation offices and PR was providing tickets through indents. Therefore, the said clause was incorporated and same procedure was adopted for printing of tickets and cost was borne by PRACS against this project. The remarks were not tenable as according to agreement the cost of printing of tickets was to be borne by PRACS. This cost was to be deducted from 40 % share of profit of PRACS and not from the entire revenue of this project.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that Rs 14.18 million be recovered from PRACS, under intimation to Audit.

4.1.7 Loss on account of providing economy class coaches using the benchmark of luggage vans– Rs 295.35 million

According to Clause 6.3 PR had contracted out one luggage van to PRACS at the rate of Rs 33.498 million per annum running between Rawalpindi-Karachi. However, the luggage van was to be replaced with an economy class coach from Havelian to Karachi. Furthermore, clause 6.4 provided that another luggage van was also contracted out to PRACS at the rate of 70% of the carrying capacity. However, PRACS would replace this service with an economy class coach from Havelian to Karachi.

While reviewing the agreement and the agreed upon composition of the train, it was noticed that both the luggage vans were replaced by economy class coaches. However, benchmark was based on the rate of luggage van of Rs 33.49 million and Rs 20.41 million respectively which was irregular due to incorporation of defective clause in the agreement. Audit is of the view that revenue of the coach from Havelian to Karachi amounting to Rs 41.72 million per annum should have been used as benchmark (detail in Annex-A). This resulted in providing undue advantage to PRACS and a loss to PR of Rs 295.35 million as detailed below;

Table-3 **(Rs in million)**

Description	**1st Luggage van**	**2nd Luggage Van**
Earnings of economy class coach	41.719	41.719
Rate per van	33.498	20.405
Loss per van	8.221	21.314
	loss of both vans	**29.535**
	Total loss for 10 years	**295.35**

The matter was taken up with Railway Management in August 2016, however no reply was received.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that reasons be explained for not taking the revenue of the coach as benchmark and loss amounting to Rs 295.35 million be recovered from PRACS under intimation to Audit.

4.1.8 Loss due to non-incorporation of clauses for increase in fare in subsequent years–Rs 272.94 million

Clause 3.2 of the agreement states that with the mutual consent of the parties this agreement could be further extended after one year with the same or revised terms and conditions depending upon the results achieved during the first year on the recommendations of the Performance Review Committee.

During audit it was noticed that the fares and rates were revised many times during the period from 2005 to 2016. The revised fares and rates were applied by PRACS and charged from the passenger and parcel traffic respectively. The earnings of Hazara express increased by 82% from 473.24 million to 859.18 million from 2005 to 2012 (detail in Annex-C). However, their effect in the shape of additional revenue was enjoyed by PRACS only. The committed amount was not revised and remained fixed at Rs 332.85 million due to non-incorporation of any clause for increase in fare. Thus, PR was deprived of revenue of Rs 272.94 million (Rs 332.85X 182%=605.79-332.85).

The matter was taken up with Railway Management in August 2016, however no reply was received.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that responsibility be fixed for non-revision of terms and conditions of the agreement on yearly basis and Rs 272.94 million be recovered from those responsible.

4.1.9 Contradictory benchmarks for additional coaches resulted in loss – Rs 107.66 million

Clause 6.7 of the agreement states that in case any additional coaches were required to be attached with the Hazara Express, PRACS would commit to pay 80% of the potential earnings of each coach calculated from originating to destination station. Furthermore, clause 6.2 provides that two additional economy class coaches would be provided at rate of Rs 32.298 million on the basis of 60% of the potential earnings, which would run between Karachi to Multan and back

During audit it was observed that two additional coaches were provided to PRACS at 60% of the earnings capacity from the start of train operation. The additional coaches at the rate of 80% capacity were never demanded by PRACS during the currency of the contract due to the fact that PRACS had already obtained additional coaches at a lower rate. Hence, PR suffered loss of Rs 107.66 million due to two contradictory benchmarks for additional coaches (Rs 43.064- Rs 32.298 X10).

The matter was taken up with Railway Management in August 2016, however no reply was received.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that loss of Rs 107.66 million for the entire contractual period of 10 years be recovered from those responsible.

4.1.10 Two Break vans were provided to PRACS at lower rates – Rs 16.25 million

Annex-D of the agreement serial no. 3, described that one luggage van and two break vans were handed over to PRACS at the rate of Rs 28.974 million at 70% filling capacity.

While reviewing the contract agreement and allied documents, it was noticed that amount committed for break vans was Rs 8.569 million per annum calculated on average basis. Whereas, the earning of two break vans for the year 2005 at 70% of capacity was Rs 10.194 million. This resulted in a loss of Rs 16.25 million (Rs 1.625x10) on this account to PR from 2006 to 2016 as detailed below:

Table-4

S. No	From/ to	Capacity in KGs	Fare per KG	Earnings (Rupees)		
				Single trip	Per Annum	At 70 % Capacity
1	HVN/KYC	2100	5.0	10500	7,665,000	5,365,500
2	RWP/KYC	2100	4.5	9450	6,898,500	4,828,950
Total					**14,563,500**	**10,194,450**
Committed amount to be paid to PR						**8,569,775**
Loss to PR per annum						**1,624,675**

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that the said decision was taken on the basis of the recommendation of the committee constituted by Secretary/Chairman Railways. The recommendations were accordingly approved by the Secretary/Chairman Railways before drafting the agreement. The remarks were not tenable as break vans were provided to PRACS at 70% of the filling capacity and payment was made at lower rates.

The DAC meeting was not convened by the PAO despite reminders.

Audit therefore, recommends that Rs 16.25 million be recovered from those responsible under intimation to Audit. Besides, reasons be explained for deciding the amount to be paid at lower than 70% of the filling capacity.

4.1.11 Non deposit of daily cash collection in Railway's Collection Account with NBP or Account-III with SBP

According to Clause 2.1 of addendum to the agreement PRACS was to collect daily earnings of Hazara Express from Stations/ Reservation offices and would arrange to deposit the same in the Railway Fund Account No III operative in SBP within 48 hours from the earnings date under intimation to FA&CAO/Revenue. In case of delay in remittance, it would be treated as violation of agreement. In case of persistence in violation, agreement was liable to be terminated.

During audit it was observed that daily cash in respect of Hazara Express was collected by NBP from Railway Stations/ reservation offices and deposited in PRACS collection account No. 25-6 at NBP Corporate Branch, Rawalpindi. However, the daily cash collection was not being deposited in PR Account III of SBP in contravention of the above clause due to lack of monitoring by Railway management. Moreover, neither the contract was terminated nor PR emphasized upon the implementation of these clauses. This resulted in a negative effect on overdraft with SBP as well as interest thereon.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS was paying 7 days advance to PR, as daily deposit of running cash was not possible due to operational bottlenecks. The remarks were not tenable as non-deposit of daily cash collection of Hazara Express into Railway Fund Account III with SBP was a violation of the agreement. If the daily deposit was not possible, the agreement should have been revised accordingly.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that reasons be explained for persistent violation of clause and non-termination of agreement by PR and contract management be improved to include practical/feasible clauses in agreement.

4.1.12 Loss due to change of terms of contract from “revenue sharing” to “profit sharing” Rs 397.12 million

Clause 6.11 described that on completion of one year of operation PRACS would pay not only the fixed revenue returns as agreed upon but would also go into a revenue sharing formula on 60:40 basis (60% to PR and 40% to PRACS). However, the formula was revised as per Clause 2.2 of addendum to agreement that PRACS would pay to PR 60% of profit earned.

During audit it was noticed that after completion of the first year of operation, the clause for sharing revenue was revised to sharing of profit. However, the expenditure to be charged to revenue for calculating profit was not determined. The inappropriate change of formula from revenue to profit sharing resulted in decrease of PR’s share to the extent of Rs 397.12 million (detail in Annex-D) and also resulted in charging of unauthorized expenditure under 13 heads of account amounting to Rs 661.83 million from 2007-08 to 2015-06 by PRACS (detail in Annex-B).

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that Hazara Express was given to PRACS under certain terms and conditions enshrined in the contract between the parties. The expenditure made by PRACS was completely justified to attract passengers by improving the services. The remarks were not tenable as PR suffered loss Rs 397.12 million due to change of formula from revenue sharing to profit sharing. Moreover, non-determination of rationale of charging direct expenditure by PRACS allowed it to charge extravagant expenditure which eventually led to decrease in share of PR.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that Rs 397.12 million on account of loss to PR due to change in formula be recovered from PRACS under intimation to Audit.

Financial Analysis

4.1.13 Unjustified charging of depreciation by PRACS– Rs 18.52 million

Clause 3.4 of agreement states that infrastructures of all immovable properties built by PRACS on PR's network during the tenure of agreement would remain the property of party No.1 (PR) after expiry of the contractual period.

While reviewing the financial statements, it was noticed that PRACS charged an amount of Rs. 18.52 million on account of depreciation to the revenue of the Hazara Express without building any separate infrastructure for train operation. This was unjustified due to the effect that there were no assets/proprieties for Hazara Express. This resulted in less share of profit to PR amounting to Rs. 11.11 million (Rs. 18.52 x 60%). Further, no assets/properties were transferred to PR after termination of agreement in contravention to above clause.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS invested on the improvement of infrastructure of PR including coaches to attract passengers and improve the image of PR. The remarks were not tenable as PRACS deducted Rs 18.52 million on account of depreciation without building any infrastructure.

The DAC meeting was not convened by the PAO despite reminders.

Audit therefore, recommends that amount deducted on account of depreciation be recovered from PRACS under intimation to Audit.

4.1.14 Non-deduction of operational expenditure of PR from the revenue of joint venture of Hazara Express

Clause 6.11 described that on completion of one year of operation PRACS would pay not only the fixed revenue returns as agreed upon but would also go into a revenue sharing formula on 60:40 basis (60% to PR and 40% to PRACS). However, the formula was revised as per Clause 2.2 of addendum to agreement that PRACS would pay to PR 60% of profit earned.

While reviewing the profit & loss accounts of Hazara Express, it was noticed that PRACS deducted all its operational and non-operational expenditure from the revenue of joint venture of Hazara Express. Whereas the operational expenses of PR was never deducted from revenue due to inappropriate change in formula and no determination of expenditure to be charged. Audit is of the view that expenditure of both parties should have been deducted from the revenue before arriving at the final profit to be shared. This resulted in extra profit to PRACS and a lesser share of profit to PR.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS was awarded the contract of commercial management of trains on payment of the contract amount as well as sharing of profit between PR and PRACS. Besides, the expenditure was made for improving the services with the objective to attract the passengers. The remarks were not tenable as both parties incurred expenditure on this joint venture and expenditure of both should have been deducted from revenue.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that profit be shared after deducting operational cost of PR and reasons be explained for not deducting the expenditure of PR from revenue.

4.1.15 Increase in train management expenses of Hazara Express due to charging of irrelevant expenditure

As per clause 2.2 of addendum to the agreement PRACS would pay Pakistan Railways fixed revenue return as agreed upon for 1st year amounting to Rs 332.850 million. In addition to that, PRACS would pay to Pakistan Railways 60 % profit earned.

During review of financial statements of PRACS, it was noticed that the expenditure on train management of Hazara Express was increased, whereas, the Administrative & General expenditure of PRACS decreased. Detail is given below:

Table-5 **(Rs in million)**

Description	2009-10	2015-16	Increase/ decrease	Increase/Decrease percentage
Train Management Expenses (Hazara)	53.945	104.052	50.107	**93%**
Administrative & General Expenses (PRACS)	43.884	32.717	-11.167	**-25%**

This depicted that PRACS charged their Administrative & General expenditure to train management expenses of Hazara Express to show and share less profit with PR. These expenses were charged under various heads (detail in Annex-E and E/1). This resulted in reduced share of profit to PR.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that the expenditure was justified being made with the objective to improve the services of the train and attract passengers, improving financial efficiency of the train as well as building the image of Pakistan Railways. The remarks were not tenable as most of the expenditure deducted by PRACS from the revenue of this project was not related to the project.

The DAC meeting was not convened by the PAO despite reminders.

Audit therefore, recommends that the profit of the entire contractual period of 10 years be recalculated and only expenditure of Hazara Express be deducted. Difference of profit may be recovered from PRACS under intimation to Audit.

Others Issues

4.1.16 Loss to PR due to non-transfer of benefits of agreement with private party to PR– Rs 53.62 million

Clause 7.2 states that PRACS would enter into its own agreements with private parties and vendors for facilitating the passengers during the journey.

In contravention of the above clause, PRACS entered into an agreement with M/s Pak Afghan Goods on 9.03.2015 for parcel services at the rate of Rs 62.20 million for two break vans. Audit is of the view that appointment of parcel muqadum did not fall under passenger facilitation and therefore, agreement was made by PRACS beyond the scope of the agreement. Furthermore, the extra benefit gained had not been transferred to PR as PRACS was paying only Rs 8.58 million for the use of break vans. This resulted in a loss of Rs 53.62 million to PR, during the year 2015-16.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS paid committed amount besides paying 60% profit. The remarks were not tenable as outsourcing of parcel service was beyond the scope of this clause and its due benefits were not transferred to PR.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that PR’s share on account of parcel services be recovered from PRACS.

4.1.17 Irregular award of contract by PRACS; ignored safety requirements and PR freight tariff

PPRA Rules 38 regarding acceptance of bids described that bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract.

PRACS entered into agreement with M/S Pak Afghan Goods as Parcel muqadum of Hazara Express for two break vans of 4200 kg capacity at the rate of Rs 62.20 million per annum. The rates quoted by the private party were exorbitantly high and was not commensurate with Railway tariff. The evaluation committee remarked that the contractor might use unfair means to achieve the target revenue. However, PRACS overlooked these factors and parcel contract was awarded to M/s Pak Afghan Goods. The contractor used unfair means i.e. overloading of 2095kg of usage (found on surprise checking) and excess fares were also charged. This could result in damage to the van, track and may cause accidents.

The Railway Management did not respond to the para. However, PRACS Management replied in June 2016 that PRACS awarded contract to Pak Afghan Goods through open bidding. The fitness of the train was the primary responsibility of PR and trains were checked by train examiner and allowed to run if declared fit. Besides, PRACS imposed penalties in case of any overloading. The remarks were not tenable as contract was awarded without taking into consideration the evaluation committee's reservations concerning the use of unfair means and safety risk due to anticipated overloading.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for awarding the contract by ignoring reservations of committee and safety requirements.

Overall Assessment

The idea behind the privatisation of trains to the subsidiary was justified as it ensured the safety of operations and was beneficial to PR and PRACS. However, the agreement executed between the parties was flawed as the terms and conditions of agreement favored PRACS only.

The earnings of the train had increased manifold but due share of earnings were not transferred to PR. The composition of train was changed considerably but the benchmark of earnings was not changed accordingly. Future, projections of earnings and expenditure of PR on running the train was ignored. The condition for increase in fares over the years was not incorporated in the agreement and the committed annual payment was not revised over the period of ten years which was based on the earnings of 2004-05.

Therefore, it was concluded that the agreement made with PRACS was biased and disadvantageous for PR. The monitoring and evaluation of the terms and conditions of agreement were never made at any stage.

4.2 Privatisation of Business Express

Historical background

The Federal Minister for Railways held a meeting with the delegation of Lahore Chamber of Commerce and Industry (LCCI) on 03.06.2010. LCCI requested for an express train running between Lahore-Karachi having composition of 12 coaches (08 lower A/C, dining car, luggage van, and two power plants). However, PR offered train composition of 16 coaches with 4 AC lower, 9 Economy coaches having two rakes with two locomotives. The train was offered to LCCI at 85% of occupancy. However, the chamber was asked to wait till the supply of 202 Chinese coaches.

The advertisement for outsourcing of trains operation was published subsequently, and the conditions of advertisement were that the organizations participating for the project should preferably be limited by guarantee and registered with the SECP under section 42 of the companies' ordinance 1984. Transparency International Pakistan (TIP) issued a letter to CCM/P for the violation of PPR 2004, as a set of prequalification documents was not provided to the firms in violation of rule 16. TIP also asked PR to re-advertise this prequalification notice under the prescribed procedure.

Two companies participated in the bidding that were M/s Four Brothers (the company floated by LCCI) and M/s Sarfraz Associates. The amount of value added investment quoted by the two bidders i.e. Rs 225 million by M/s Four Brothers and Rs 20 million by Sarfraz Associates was compared for technical evaluation and both the firms were declared as qualified.

The financial bids were opened on 14.03.2011 in the presence of two bidders which are given below:

Table-6 ***(Rs in million)***

S. No	Name of Firm	Amount offered (Rupees)	Percentage of capacity offered
1.	M/s Sarfraz Associates	Not mentioned	87.896%
2.	M/s Four Brothers	1123.516	86.01%

Later on, M/s Four Brothers made enhancement of financial proposal from 86.01% to 88% of occupancy on 04.04.2011. This enhancement of financial bid made M/s Four Brother the highest bidder. On the recommendation of the bidding committee the GM Operations declared M/s Four Brothers as successful bidder. The bid of M/s Sarfraz Associates was rejected on account of less offering of investment in shape of value additions.

Planning and approval

4.2.1 Proposal by LCCI about train composition was not analysed by PR

The PPP policy described the steps in Project Life Cycle as Government/Agencies conduct Needs and Options Analysis to determine the best solution to provide the service / build infrastructure. Preparation of a Pre-Feasibility Study including possible location(s), alignment(s) and estimates of broad project costs and an initial indication whether the project is likely to be viable and affordable.

It was noticed that Lahore Chamber of Commerce and Industry (LCCI) requested on 03.06.2010 for an express train running from Lahore to Karachi having composition of 08 Air condition (AC) coaches. The proposal of LCCI was not feasible and no previous instance of a full AC train was available in the history of PR. But proposal was not analysed by the management. This resulted in failure of the project right from its inception and the contractor had defaulted only after the 6thday of commercial operation of business train and requested for change in composition of the train within 50 days of operation on 24.03.2012.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that the train was outsourced through open bidding process. At that time P.R was operating Karakorum Express at 100% filling, so there was a potential to fill this train with nine AC Business coaches. The remarks were not tenable as Karakoram express was not running with all AC coaches therefore, could not be taken as precedent.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for accepting the proposal of all AC coaches.

4.2.2 Setting irrational benchmark of 85% of occupancy of the train

Para 1801 of Pakistan Railways General Code provides that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

While reviewing the initial proposal it was noticed that benchmark of 85% of occupancy was set for the outsourcing of business train. However, the basis on which such high percentage of occupancy was decided were not given. Therefore, setting of high benchmark without proper working was irrational. This inappropriate estimation of financial commitment of 88% of occupancy to be paid by the party to PR on daily basis resulted in frequent defaults in payment of fare.

The matter was also taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that benchmark of Business train was fixed at 85% keeping in view operational cost of a prestigious train. The remarks were not tenable as it was not a matter of pride rather it should have been based on future projections of revenue. The detail of operational cost of train was not provided.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons for setting high benchmark without proper financial analysis may be explained.

4.2.3 Irrational/baseless determination of criteria for technical evaluation

As per PPRA Rule 29 the procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Further, Para 8.1 of bid documents described that Technical Proposal shall be prepared keeping in view the required standards for operation of Business Train and showing the amount of investment which the party is ready to make on Value Added Services.

While reviewing the bid documents and technical evaluation of the bidders it was noticed that extraordinary weightage was given to the value added investments in contravention to above rule and other factors for technical evaluation like ability, experience, viability and financial stability of the private parties were completely ignored. This resulted in inappropriate evaluation of bidders for their ability to operate private train operation. This caused operational and financial bottlenecks throughout the execution of business express train service.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that technical committee comprising POs evaluated the technical proposals submitted by the parties and weightage was given to value addition as it was being initiated for the 1st time. Audit point of view was accepted.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for taking value added investment as sole criteria and ignoring other factors regarding ability of private party to operate trains besides fixing the responsibility.

4.2.4 Non-transparent bidding process

Rule 31(1) of PPRA provides for clarification of bids as no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. Further rule 36 (b) (ix) states that the bid found to be the lowest evaluated bid shall be accepted.

While reviewing the bidding process for the outsourcing of Business Express, it was noticed that financial bid was opened on 14.03.2011 in presence of two technically qualified bidders which was as follows:

Table-7

Sr. No	Name of Firm	Percentage of capacity
1.	M/s Sarfraz Associates	87.89%
2.	M/s Four Brothers	86.01%

Although M/s Sarfraz Associates was the highest financial bidder but negotiations were made with M/s Four Brothers irregularly and their financial proposal was modified from 86.01% to 88% of occupancy on 04.04.2011 in contravention of above rules. This enhancement of financial bid made M/s Four Brother the highest bidder. Thus GM Operations on the recommendation of the tender committee declared M/s Four Brothers as successful bidder and the bid of M/s Sarfraz Associates was rejected.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that no negotiation was made with M/s Four Brothers to enhance their financial bid. Party has increased their financial bid at their own. The remarks were not based on facts as the party could never increase the rate without advice of PR.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained that why M/s Four Brothers was allowed to modify the financial bid thereby resulted in the rejection of highest financial bid of M/s Sarfraz Associates in contravention of PPRA Rules.

Defective and non-compliance of clauses of agreement

4.2.5 Breach of financial commitment and inaction by PR

Agreement clause 6.1 described the financial commitment as the party No.2 is obliged to pay party No.1 a sum of Rs3.191 million per round trip at 88% occupancy at normal business class fare for passengers and luggage. The journey fare on daily basis would be deposited with PR before commencement of train journey. Any delay would entail additional penalty of 5% of that amount. If no amount was deposited till the 6^{th}day the PR would be entitled to suspend the operation of train without any notice.

The first month's payment history of journey fare i.e. Feb, 2012 revealed that the daily due amount was not deposited into PR account as per agreement. On 10^{th} Feb, 2012, the CEO Business Express requested the Chairman Railways for the review/suspension of Clause 6.1 of the agreement and stopped the payment. The outstanding amount at the end of February 2012 was Rs 36.715 million. This depicted that M/s Four Brothers defaulted at the very initial stage of train operations but the Railway management did not suspend the train operation in contravention of above clause of the agreement.

The matter was taken up with Railways Management in August 2016, and Management replied on 17.10.2016 that request of the party was turned down and party was requested to pay as per commitment made under clause 6.1 of the agreement. The remarks were not acceptable as the contractor had not paid the committed amount and action was not taken by management for suspension of train.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the mater may be investigated to fix the responsibility for non-suspension of train operation and reasons for accommodating the contractor despite its default at an initial stage of operation be explained.

4.2.6 Inappropriate decision of the management to refer the case to ECC resulted in loss – Rs 1,085.15 million

Clause 11.1 and 11.2 of the agreement provides that any dispute which would occur as a result of application/ stipulation of agreement would be resolved by a committee comprising nominated Railway Officers and representatives of the contractor. If the dispute is not resolved within 60 days, either party could invoke arbitration as per Arbitration Laws in Pakistan.

While reviewing the summaries moved to ECC and decisions thereon, it was noticed that an appeal was made by CEO M/s Four Brothers to Finance Minister, Cabinet Committee on 24.03.2012 for amendment in contract and adjustment of financial liability. The Ministry of Finance asked for views and it was appraised by MOR that the parties cannot revisit or revise the contract however, an appropriate forum to discuss the issue could be the ECC of the Cabinet. The decision of MOR was inappropriate in contravention of the clauses of the agreement. This had long lasting effects on the revenue earnings of PR which were reduced from Rs 3.191 million to Rs 2.20 million per day per round trip as a result of decisions of the ECC. This resulted in a financial loss of Rs 1085.15 million (0.991x 365x3).

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that MOR referred the case to ECC, they will be in better position to explain the case. The reply has not been received from MoR.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons for referring the issue to ECC instead of resolving it through departmental committee or Arbitration be explained.

Value added investment

4.2.7 Non-investment in value additions by M/s Four Brothers–Rs 158.79 million

Clause 6.1 of the agreement states that, investment of Rs 225.786 million to be made by the 2ndparty for value addition be treated as performance guarantee/ security.

M/s Four Brothers claimed that they have invested an amount of Rs 176.306 million on account of value addition but only a small amount of Rs 67 million was approved and verified by PR. Therefore, neither performance security was obtained from the contractor nor complete amount of value added investment was incurred in contravention of above clause. The matter was taken up by the NAB authorities and it was recommended in April 2013 that verification of value added investment should be done and proper guarantee / collateral be taken from the contractor but nothing was done by the management in this respect. This resulted in loss due to non-investment in value added services by the party amounting to Rs 158.79 million.

The matter was taken up with Railways Management in August 2016, however no reply was received.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for not taking up the matter of non-investment in value addition with M/s Four Brothers and not considering the recommendations of NAB authorities.

Defaults in Payments

4.2.8 Non recovery of journey fare amounting to – Rs 2.22 billion

Agreement clause 6.1 described that the party no.2 is obliged to pay party no.1 the sum of Rs 3.191 million per round trip calculated at 88% occupancy at normal business class fare for passengers and luggage. The journey fare on daily basis was to be deposited with PR before commencement of train journey. Any delay would entail additional penalty of 5% of that amount. Further, The ECC approved to withdraw its earlier decision dated 01.01.2013 ab-initio and upheld the above clause on 18.09.2015.

PR took over the commercial management of the train on 28.10.2015 on account of violation/ breach of agreement by M/s Four Brothers. The party was required to pay all arrears outstanding amount of Rs 2,222.228 million in the lights of revised ECC decision on 18.09.2015 but no payment was made by the party.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that daily payment was revised from 1st January, 2013 due to ECC decision conveyed through Ministry of Railways. The case is under process for arbitration and both parties have nominated their arbitrators but appointment of an Umpire is yet to be made. The progress of the case be intimated to Audit.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the matter be taken up at an appropriate forum for the recovery of outstanding amount from the contractor or legal heir.

Overall Assessment

The bidding process was not transparent at the very outset as meetings were held with Lahore Chamber of Commerce and Industry (LCCI), proposals were initiated, discussed and decided even before the advertisement of notice for the Expression of Interest in newspapers. The conditions of notices were favouring LCCI and the notices were floated without proper planning and preparation of bid documents.

The criteria for technical evaluation was also inappropriate as financial stability, prior experience, staff position and ability of the company to run business express was totally ignored and only value added investment was taken as a sole criteria for selection. The highest financial bid of M/s Sarfraz Associates was ignored and irregular negotiations were made with M/s Four Brothers (company floated by LCCI) to increase financial bid. Undue advantage was granted to M/s Four Brothers as commitment had already been made between MOR and LCCI on 03.06.2010 for the commercial management of business train. Therefore, the entire bidding process was only a formality to cover up the legal requirements for the selection of a firm.

Therefore, Audit concluded that the bidding process was not transparent, irregular negotiations were made with the private party after opening the financial bids. A lot of political influence was exercised on PR management by the party for reducing the journey fare and change in train composition. The venture proved to be unsuccessful right from the beginning and had to be taken to court and it concluded with a decision of Supreme Court of Pakistan. An amount of Rs 2.22 billion is still recoverable from M/s Four Brothers on this account.

4.3 Privatisation of Shalimar Express

Historical background

General Manager Operations approved the outsourcing of commercial management of Shalimar express on the recommendation of CCM and AGM/Traffic on terms and conditions meant for Business Train. A notice of invitation for bids was advertised on 02.08.2011 to outsource commercial management of Mail and Express service on the Lahore-Faisalabad-Multan-Karachi route and vice versa. Benchmark of 60% of total carrying capacity was proposed by CMM. Subsequently, the benchmark was raised from 60% to 65% of the filling capacity of the train.

A committee comprising CMM, FA & CAO/Revenue and CME/C&W was constituted for opening technical and financial bids. Three out of five parties qualified the technical bid. Financial bids by the qualified parties were opened on 14.09.2011. Two parties submitted their bids quite below the benchmark. M/s Air Rail Services offered Rs 480.069 million at 66% of the filling capacity of the train and became the highest bidder. The committee recommended for accepting the bid of M/s Air Rail Services. During the process of this case, the party enhanced its bid from 66% to 70% of filling capacity of train which came to Rs 509.165 million and was approved by the GM/Operations accordingly.

An agreement between the parties was signed on 14th October, 2011. First addendum to the agreement was signed on 21.12.2011. The commercial management of train was handed over to the M/s Air Rail Services from 26.02.2012.

Planning and approval

4.3.1 Feasibility study/cost benefit analysis was not conducted by PR

The PPP policy described the steps in Project Life Cycle as Government/Agencies conduct Needs and Options Analysis to determine the best solution to provide the service / build infrastructure. Preparation of a Pre-Feasibility Study including possible location(s), alignment(s) and estimates of broad project costs and an initial indication whether the project is likely to be viable and affordable.

While reviewing the initial documentation relating to the outsourcing, it was noticed that the feasibility study and cost benefit analysis was not done at that time. The projection of revenue, variable and fixed cost from 3 to 5 years was not done to assess the viability of the project. This depicted unprofessional behavior of Railways management about outsourcing of train without proper planning and analysis. This also resulted in setting lower benchmark of 65% capacity.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that cost benefit analysis was made accordingly. The remarks were not tenable as feasibility study has not been conducted and future projections of revenue and cost was not made.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for not conducting feasibility study by Railways management before outsourcing of Shalimar Express.

4.3.2 Setting of irrational benchmark less than earnings of suspended train by Rs 9.32 million

Para 1801 of Pakistan Railways General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

During scrutiny of record of Shalimar Express, it was noticed that the train was suspended on 27.07.2010. The revenue and full cost of train at the time of suspension in comparison with the benchmark at 65% and 70% of capacity is given below:

Table-8 **(Rs in million)**

Description	Revenue	Full Cost	Profit /(Loss)	Remarks
Before suspension	482.117	668.297	(186.18)	Train was suffering loss.
Benchmark 65%	472.796	668.297	(195.501)	Decrease in revenue of train as well as increase in loss by setting benchmark @ 65 % of carrying capacity.
Loss of Revenue	**(9.321)**			
Benchmark 70% (Final offer)	509.165	668.297	(159.132)	The train would suffer a loss of Rs 159.132 million p.a.

The Benchmark at 65% carrying capacity was less than earning of train before its suspension by Rs 9.32 million. The cost of running the train at the time of suspension was Rs 668.29 million and the contract was awarded at loss of Rs 159 million per annum. Thus, setting the benchmark below the earnings of suspended train was irrational. This led to lower offers of bidders and resulted in loss to PR.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that train was outsourced at 70% of the carrying capacity at Rs 519 million. Earning of Shalimar Express was Rs 382.045 million when it was suspended. The remarks were not tenable as the earning of suspended train was Rs 482 million as per record.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for fixing the benchmark below the revenue of Shalimar Express before its suspension.

4.3.3 Irrational decision of suspension of Shalimar Express and its subsequent privatisation

The policy of the Government, regarding reduction in deficit/losses, after the approval of Cabinet was conveyed on 10th March, 2010. The policy states that PR should reduce its burden on the exchequer by reducing its losses and by enhancing its surplus.

While reviewing the documents for the suspension and restoration of Shalimar Express, it was noticed that Shalimar Express was included in the loss making trains. The financial analysis of various trains suspended during the year 2010 is given below:

Table-9 **(Rs in million)**

S. No	Train	Running between	Date of suspension	Earnings	Full cost	Percentage
1	Tezrao	Karachi – Mardan	20.07.2010	311.2	819.06	38%
2	Chilten	Quetta- Faisalabad	20.07.2010	217.08	612.18	35%

3	Shalimar	Karachi- Lahore	29.07.2010	482.12	668.30	72%
4	Mehran	Karachi -Mir pour Khas	18.07.2010	15.12	126.44	12%
5	Sialkot	Lahore- Sialkot-Rawalpindi	18.07.2010	32.68	108.66	30%
6	Sakhi Abbas	Lahore- Pattoki	18.07.2010	8.53	135.90	6%

This depicted that Shalimar Express was covering its variable cost but the management suspended the train without considering variable cost although it had the potential for improvement as compared to other trains. However, the train was still outsourced at Rs 509 million per annum which was only 5.6% above the actual earnings of 2010. Therefore, the decision of the management for suspension of train was irrational and against the interest of Government.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that variable cost of the train was Rs 407 million and potential earning at 100% capacity was Rs 609.864 million. The train was outsourced at 70% of the carrying capacity at Rs 519 million, which was Rs 112 million more than the variable cost. Earning of Shalimar Express was Rs 382.045. The remarks were not tenable as the earning of suspended train was Rs 482 million. The train was not only covering variable cost but also contributing to fixed cost by Rs 75 million. Therefore, the decision for suspension was not correct.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the matter may be investigated at appropriate level to fix the responsibility for the suspension of train and subsequent privatisation. Besides, reasons may also be explained for suspension of Shalimar Express while it was covering variable costs.

Non-compliance of clauses of agreement

4.3.4 Inadmissible value added investment–Rs 23.45 million

According to clause 3.5 of agreement between PR and M/s Air Rail Services, Party No.2 had agreed to invest an amount of Rs 97.00 million and an investment plan containing detailed costing of all value additions in upgrading the services was to be provided. Further, Clause 11.7 stipulated that, the infrastructure facilities of all immoveable properties built by the party would remain the property of PR after the expiry of the agreement.

While reviewing the details of investment on value addition it was noticed that the following operational expenditures of M/s Air Rail Services were included in the investment plan:

Table-10

Item No.	Location	Name of Machine/Equipments	Qty	Amount (Rs)
45	In Train	Tea, Coffee Machine, Tea Mixer	10	1,500,000
51	In Train	Crockery	1000	500,000
52	In Train	Complete Cooking Range	2	200,000
54	-	Marketing & Media Campaigns	1	20,000,000
55	-	Staff Uniform	250	1,250,000
			Total	**23,450,000**

The above mentioned items were the operational expenses pertaining to business of M/s Air Rail Services and could not be considered as investment on value additions. However, these expenses were agreed and approved by Railway management unjustifiably. This resulted in loss to PR of Rs 23.45 million and nothing could be transferred to PR after termination of agreement.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that these items were purchased by the party in order to provide maximum facilities to the travelling public. The reply was irrelevant as passenger facilitation did not cover/fall under value added investment.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that an amount of Rs 23.45 million be recovered from M/s Air Rail Services and be invested by PR on necessary value additions.

4.3.5 Irregular conversion of value added investment into performance guarantee–Rs 97.00 million

PPRA Rule 39 states that, where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

While reviewing the record of Shalimar Express, it was observed that the value added investment was irregularly treated as the performance security. A defective clause 6.1 clause was included in the agreement which stated that investment of Rs 97.00 million by the second party for value addition would be treated as performance guarantee/security in contradiction of PPRA Rules. Thus, Railway administration gave undue favour to the contractor and did not safeguard the interests of PR.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that it was optional not mandatory to submit performance security. However, value addition of Rs 97 million committed by the party was considered as performance security. The reply was not tenable as performance security was mandatory being a long term contract and value addition would not be treated as security.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the matter may be investigated to fix the responsibility besides Clause 6.1 of agreement may also be revised and performance guarantee be obtained from M/s Air Rail Services accordingly.

Defaults in payments

4.3.6 Non-recovery of outstanding amount against M/s Air Rail Services on account of journey fare – Rs 26.26 million

Clause 6.1 stipulates that journey fare on daily basis would be deposited with PR before commencement of train journey. Any delay would entail additional penalty of 5% of the amount. If no amount was deposited till 6th day the PR would be entitled to suspend the operation of Shalimar express without any notice.

While reviewing the summary of outstanding position of Shalimar Express, an amount of Rs 26.258 million was found outstanding against M/s Air Rail Services on account of journey fare from February 2012 to June 2016. But the management has not made concrete efforts for timely clearance of the outstanding amount.

The matter was taken up with Railway Management in August 2016, however no reply was received.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the outstanding amount be recovered under intimation to Audit.

Overall Assessment

Railways management did not properly plan to outsource the commercial management of Shalimar Express. The train was suspended on 29.07.2010 while it was covering 72% of its expenses. Later, it was decided to outsource and a benchmark of only 65 % of total carrying capacity was proposed which was less than the earning of suspended train. The train was outsourced at Rs 509 million per annum which was only 5.6% above the actual earnings of 2010.

Furthermore, the contract management on part of Railway was very weak and depicted negligence. The terms and conditions of the agreement was same as in case of Business Express and performance guarantee was not obtained from the firm.

Therefore, it is concluded that the decision of management to suspend Shalimar Express was irrational and contract was awarded without proper analysis of revenue generation.

4.4 Privatisation of Night Coach

Historical Background

M/s Air Rail Service requested the Chairman, Pakistan Railways for outsourcing of Commercial Management of new train like Shalimar Express on 19.06.2012. The notice for the outsourcing of a new train between Lahore-Karachi via Faisalabad-Multan-Bahawalpur-Rohri was advertised on 07.07.2012. The recommendation of the successful bidder was submitted to the GM/Operations by the committee on 30.08.2012, wherein it was decided that physical verification of offices and other records of the successful bidders should be done.

Two members of the bid evaluation committee, the CCM and FA & CAO/Revenue pointed out deficiencies in technical bid of Shalimar Group and recommended rebidding. The General Manager/Operations desired that legal opinion regarding the conformity of the successful bidder to the PPRA Rules may be obtained.

It was opinioned by Railway Counsels that marks awarded to Shalimar Group by the technical evaluation committee under “Bank Certificate for Financial Health” and “Similar Work in Hand” were incorrect. Therefore, it was recommended that PR shall again advertise in newspapers to outsource commercial management of a new train.

Ministry of Railways intimated on 01.10.2012 that the competent authority has approved the opening of financial bids. The financial bid of M/s. Shalimar Group, being the only qualified firm, was opened on 19.10.2012. The Group offered an amount Rs 600.00 million per annum and GM/Operations accepted this offer.

Agreement between the parties was signed on 26.12.2012 for Night Coach instead of new train. The first addendum to the agreement with M/s Shalimar Group was signed on 26.02.2016. The train started its commercial operation from 16.01.2013.The financial bid of M/s Shalimar group for Rs 600 million per annum was further increased to Rs 631.927 million per annum due to an increase in Railways fares.

Planning and approval

4.4.1 Feasibility study/cost benefit analysis was not conducted by PR

The PPP policy described the steps in Project Life Cycle as Government/Agencies conduct Needs and Options Analysis to determine the best solution to provide the service / build infrastructure. Preparation of a Pre-Feasibility Study including possible location(s), alignment(s) and estimates of broad project costs and an initial indication whether the project is likely to be viable and affordable.

While reviewing the initial documentation of outsourcing commercial management of Night Coach, it was noticed that the feasibility study and cost-benefit analysis was not done. The projection of revenues, variable and fixed cost for next 3 to 5 years was not made to assess the viability of the project. This depicted unprofessional behavior of Railway management about outsourcing of commercial management of train without proper planning and analysis. This resulted in award of contract at lower rates.

The matter was taken up with Railway Management in August 2016, however no reply was received.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that the reasons be explained for not conducting feasibility study/ cost benefit analysis by Railways management before outsourcing of Night Coach.

4.4.2 Irregular award of contract of Night Coach to technically unqualified firm –Rs 600.00 million per annum

According to clause 18 of PPRA Rules, the procuring agency shall disqualify a supplier or contractor if it finds, at any time, that the information submitted by firm concerning its qualification as supplier or contractor was false and materially inaccurate or incomplete. Further, clause 36 (b) (v) states that the procuring agency shall evaluate the technical proposal in a manner prescribed in advance, without reference to the price and reject any proposal which does not conform to the specified requirements.

Scrutiny of record of Night Coach revealed that two, out of three, members of Technical Evaluation Committee, found that the balance available in the group's Bank Account was insufficient, having no independent registered office. The firm could not claim experience as registered on 31.07.2012 three days earlier the submission of bid documents. Therefore, the marks awarded in technical evaluation were incorrect and recommended rebidding. The Legal Counsel of PR also recommended rebidding but MOR approved to open the financial bid of M/s Shalimar Group in contravention of PPRA rule-18. The financial bid of M/s Shalimar Group, being the only qualified firm, was opened on 19.10.2012. The Group offered an amount Rs 600.00 million per annum and GM/Operations accepted this offer. This resulted in awarding the contract to technically unqualified firm against the recommendations of the technical evaluation committee and legal counsel.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that on the directives of G.M./Operation matter was referred to MOR, legal opinion was sought from two different lawyers. One lawyer suggested for rebidding and other opinioned, shortcoming may be sought from the firm and if technical committee satisfied then financial bid may be opened. MOR allowed opening the financial bid. The audit point of view has been accepted.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that responsibility be fixed for unjustified award of contract of night coach to technically unqualified firm in violation of PPR and against the recommendation of the committee. Further, the contract may be terminated immediately or the extension in agreement should not be granted to M/s Shalimar Group and the train should be re-advertised accordingly.

Non-compliance of clauses of agreement

4.4.3 Non-verification of investment on account of value-addition–Rs 81.84 million

According to clause 2 (B) of agreement, the contractor has promised to make an investment of Rs 81.84 million for value addition to the services for passengers in five years which would be certified by Pakistan Railways regarding fixtures and receipts.

While reviewing the agreement, it was noticed that verification of amount invested by the private party had not been conducted in contravention of above clauses. In absence of reports / certificate of Railway Management the authenticity of value-additions could not be determined. This resulted in unauthentic investment on account of value additions.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that the matter regarding verification of value addition pertains to CCM office. However, no reply was received from CCM office.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that verification of value added investment may be carried out immediately and reports be sent to Audit besides explaining the reasons for non-conducting verification and certificate thereon by PR.

4.4.4 Misuse of 2nd portion of break van and non-recovery from the contractor–Rs 28.16 million

As per rake composition mentioned in the agreement of Night Coach, break van would be provided with the carrying capacity of 26 berths, 06 seats of economy class and 2100 kg luggage portion.2nd luggage portion was allowed through addendum to the agreement on 29.02.2016 and M/s Shalimar Group was to deposit Rs 9.038 million per annum i.e. Rs 24,766 per day with effect from 07.03.2016.

Night Coach was running with break van having two luggage portion of 4200 kg carrying capacity from 16.01.2013 in contradiction of agreement which allowed only one luggage portion of 2100 Kg. The 2nd luggage portion was allowed through addendum to the agreement on 29.02.2016. However, M/s Shalimar Group did not deposit any amount on this account since 16.01.2013. The recoverable amount against M/s Shalimar Group was Rs 28.16 million for the period from 16.01.2013 to 29.02.2016 (1137 days @ Rs 24,766 per day).

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that the matter pertains to CCM office. However, no reply was received from CCM office.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that entire amount for utilizing 4200 kg capacity of break van by M/s Shalimar Group be recovered and responsibility be fixed for violation of agreement under intimation to Audit.

4.4.5 Inadmissible value-added investment–Rs 60.22 million

According to clause 3.5 of agreement with M/s Shalimar Group, Party No.2 has agreed to invest an amount of Rs 81.838 million in five years and a plan be given containing detailed costing and all value additions in upgrading the services and station terminals. Further, Clause 11.7 stipulates that, the infrastructure facilities of all immoveable properties built by the party shall remain the property of PR after the expiry of the agreement.

While reviewing the agreement and details of investment on value addition it was noticed that the following operational expenditures were included in the investment plan

Table-11

S. No.	Location	Name of Machine/Equipments	Qty	Amount (Rs)
E	In Train	Janitorial services		43,324,000

K	Lahore and Karachi	Commission for franchises		10,500,000
K		Staff Uniform	3200	6,400,000
Total				**60,224,000**

The above mentioned items were the operational expenses pertaining to business of M/s Shalimar Group and could not be considered as investment on value additions. However, these expenses were agreed and approved by Railway management unjustifiably. This resulted in loss to PR amounting to Rs 60.22 million as nothing would be transferred to PR after termination of agreement.

The matter was taken up with Railway Management in August 2016, and Management replied on 17.10.2016 that the matter pertains to CCM office. However, no reply was received from CCM office.

The DAC meeting was not convened by the PAO despite reminders.

Audit recommends that Rs 60.22 million be recovered from M/s Shalimar Group and be invested by PR on necessary value additions. The investment plan of the agreement be revised accordingly.

Overall Assessment

Railways management did not properly plan to outsource the commercial management of Night Coach. The contract was awarded to unqualified firm as it did not meet the evaluation criteria. The Technical Evaluation Committee and Legal Counsel of PR recommended rebidding which was not done by the PR management.

The contract management on part of Railway was very weak and depicted negligence. The value added investment made by the party was not verified and invalid item were included. The bidding process and selection of the firm was not fair and transparent and undue favour was granted by PR management to the M/s Shalimar Group.

5. CONCLUSION

After analysing the privatisation process of PR trains operations, it is concluded that the mechanism adopted by the entity for this purpose was ineffective. The management ignored the basics of Pubic Private Partnership (PPP).The process of privatisation of trains operation was neither appropriately planned nor monitored.

The bidding process was not transparent as negotiations were made and private firms were selected even before the advertisement of notices in newspapers. The criteria for technical evaluation was inappropriate as the financial stability, prior experience, and ability of the company to run trains was ignored and only value added investment was taken as a sole criteria for selection. The agreement executed between the parties was flawed as the terms and conditions of agreement favoured private parties at the disadvantage of PR. The condition for increase in fares over the years had not been incorporated in the agreements and the committed annual payment had not been revised over the period.

Furthermore, the contract management on part of Railway was very weak and depicted negligence as performance guarantee was not obtained from the firms. The value-added investment made by the party was not verified and invalid items were included. The decision of management to suspend Shalimar Express was irrational. The monitoring and evaluation of the terms and conditions of agreement had never been made at any stage. At the end, it can be safely summed up that privatisation of PR train operations could not achieve its goals in true spirit.

5.1 Key issues for the future

The management ignored the basics of Pubic Private Partnership (PPP) and the mechanism adopted by the entity for privatisation was ineffective. The process of privatisation was started without conducting feasibility studies and the benchmark of loss making trains was taken. The bidding process was not transparent as negotiations were made and private firms and criteria for technical evaluation was also inappropriate. The terms and conditions of agreement favoured private parties and monitoring and evaluation of terms had never been made at any stage. The contract management on part of Railway was very weak and depicted negligence.

5.2 Guidelines for the management

Planning should be done before making the decision for the privatisation of any operational activity. Feasibility study should be conducted keeping in view all relevant costs and revenue. Future projections of earnings should be taken as benchmark. A Comprehensive policy for privatisation may be developed in consultation with Infrastructure Project Development Facility (IPDF) and in accordance with the PPP policy of the Government. Transparent bidding process should be adopted and favoritism by providing undue advantage to any particular party should be avoided. Better and feasible investment policy should be developed keeping in view the requirements of the organization. Monitoring and evaluation of terms and conditions of agreements should be made effective.

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Annex-A

Potential passenger earning of Hazara Express at the fare of 2005

S.No	Coach	From/ to	Seats	Berths	Earnings of Seats	Earnings of Berth	Total Earnings	Earnings per annum per coach
1	ZFH	HVN/KYC	18	60	12,150	45,000	57,150	41,719,500
2	ZFH	HVN/KYC	18	60	12,150	45,000	57,150	41,719,500
3	ZFH	HVN/KYC	18	60	12,150	45,000	57,150	41,719,500
4	ZFH	HVN/KYC	18	60	12,150	45,000	57,150	41,719,500
5	ZFH	HVN/KYC	18	60	12,150	45,000	57,150	41,719,500
6	ZFH	HVN/KYC	18	60	12,150	45,000	57,150	41,719,500
7	ZFLRGH	HVN/KYC	36	8	24,300	6,000	30,300	22,119,000
8	ZFH	RWP/KYC	18	60	11,430	42,600	54,030	39,441,900
9	ZFH	RWP/KYC	18	60	11,430	42,600	54,030	39,441,900
10	ZFLR	RWP/KYC	36	8	22,860	5,680	28,540	20,834,200
11	ZFH	MUL/KYC	18	60	7,470	29,400	36,870	26,915,100
12	ZFH	MUL/KYC	18	60	7,470	29,400	36,870	26,915,100
13	ZFH	MUL/KYC	78	0	32,370	0	32,370	23,630,100
14	ZFH	MUL/KYC	78	0	32,370	0	32,370	23,630,100
Total			**408**	**616**	**222,600**	**425,680**	**648,280**	**473,244,400**

Fare per seat Rs 675, Rs 635, and Rs 615, Fare per berth Rs 750, Rs 710, Rs 490

Annex-B

Detail of Head Wise, Year Wise Expenditure charged to Hazara/ Rohi Express

EXPENDITURE	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Salaries & Allowances	21.273	27.724	33.454	42.212	61.744	71.625	64.489	67.359	75.175	**465.05**
Travelling Allowance	0.443	0.921	1.492	1.438	1.576	2.441	1.524	1.097	1.918	**12.85**
Utilities	0.847	1.481	1.754	2.177	2.293	1.974	1.844	2.654	3.192	**18.22**
Printing & Stationary (Office & Train)	2.449	2.837	3.002	2.661	2.035	2.836	2.187	2.518	3.112	**23.64**
Overhead Expenses	0.721	1.676	2.774	2.53	3.476	4.096	3.258	5.271	12.867	**36.67**
NBP cash Collection Charges	1.841	2.712	2.606	6.256	5.755	6.545	7.362	8.137	9.054	**50.27**
Depreciation	1.708	1.594	1.87	2.381	2.96	2.458	1.932	1.88	1.737	**18.52**
Gratuity	0.974	3.299	3.299	2.024	0	0	6.926	6.37	5.525	**28.42**
Salaries & Allowances of catering staff	2.19									**2.19**
Catering consumables	4.277	0.416								**4.69**
Gift Packs to Passengers	0.247	0.075								**0.32**
Uniform	0.019	0.094	0.024							**0.14**
Rent of Agencies	0.202	0.377	0.118	0.158						**0.85**
Total Expenditure	**37.191**	**43.206**	**50.393**	**61.837**	**79.839**	**91.975**	**89.522**	**95.286**	**112.58**	**661.83**

Annex-C

Potential passenger earning of Hazara Express due to increase in fares (in Rs)

S. No	W.E.F 2005	W.E.F. 01.01.2006	W.E.F. 26.07.2008	W.E.F. 08.12.2008	W.E.F. 01.02.2011	W.E.F. 01.09.2012
1	41,719,500	42,573,600	54,180,600	51,903,000	56,458,200	74,416,200
2	41,719,500	42,573,600	54,180,600	51,903,000	56,458,200	74,416,200
3	41,719,500	42,573,600	54,180,600	51,903,000	56,458,200	74,416,200
4	41,719,500	42,573,600	54,180,600	51,903,000	56,458,200	74,416,200
5	41,719,500	42,573,600	54,180,600	51,903,000	56,458,200	74,416,200
6	41,719,500	42,573,600	54,180,600	51,903,000	56,458,200	74,416,200
7	22,119,000	22,600,800	29,054,000	27,769,200	30,338,800	40,091,600
8	39,441,900	40,865,400	51,903,000	50,194,800	54,312,000	71,569,200
9	39,441,900	40,865,400	51,903,000	50,194,800	54,312,000	71,569,200
10	20,834,200	21,637,200	27,769,200	26,805,600	29,316,800	38,485,600
11	26,915,100	28,623,300	36,091,200	34,952,400	37,799,400	49,932,000
12	26,915,100	28,623,300	36,091,200	34,952,400	37,799,400	49,932,000
13	23,630,100	25,338,300	33,025,200	31,886,400	34,733,400	45,552,000
14	23,630,100	25,338,300	33,025,200	31,886,400	34,733,400	45,55,2000
Total	**473,244,400**	**489,333,600**	**623,945,600**	**600,060,000**	**652,094,400**	**859,180,800**

Annex-D

Effect of change in formula from revenue to profit sharing

Detail	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue	**483.011**	**652.344**	**697.038**	**676.739**	**663.409**
Contract Fee	418.493	418.472	418.473	418.473	418.473
Net Revenue	64.518	233.872	278.565	258.266	244.936
PR Share 60 % of net Revenue	38.7108	140.3232	167.139	154.9596	146.9616
PR Share 60 % of Profit	16.407	114.398	136.902	117.856	99.057
Loss to PR	**-22.304**	**-25.9252**	**-30.237**	**-37.1036**	**-47.9046**
Detail	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Total**
Total Revenue	**698.133**	**807.095**	**918.195**	**990.6**	**6586.56**
Contract Fee	359.015	332.85	332.85	332.85	**3449.95**
Net Revenue	339.118	474.245	585.345	657.75	**3136.62**
PR Share 60 % of net Revenue	203.4708	284.547	351.207	394.65	**1881.97**
PR Share 60 % of Profit	148.263	230.832	294.035	327.102	**1484.85**
Loss to PR	**-55.2078**	**-53.715**	**-57.172**	**-67.548**	**397.117**

Annex-E

Comparative Analysis of Train Management and Others Expenditure with Administrative & General Expenditure

(Rs in million)

Expenditure Heads	Train Management (Hazara)					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Bank Charges	2.804	7.594	5.654	6.665	7.769	8.575
Salaries and Benefits	38.621	51.371	61.248	66.243	64.741	68.399
Gratuity			7.210	6.926	6.369	5.525
Traveling and Conveyance	1.645	1.208	1.831	2.432	1.148	1.746
Rent, Rates and Taxes	0.531	0.729	0.085	0.177	0.114	0.436
Office Running and Maintenance	0.783	0.779	0.617	0.299	0.758	4.941
Professional Charges	0.011	0.025		0.009	0.12	0.647
Utilities	0.524	0.807	0.742	0.755	0.853	1.355
Pottage, Tele, Internet	1.448	1.666	1.277	1.232	1.248	1.594
Printing and Stationary	3.071	2.778	2.774	1.953	1.855	3.181
Vehicle Running Exp	1.454	1.197	2.402	2.360	1.635	2.101
Business Promotion	0.402	0.090	0.199	0.038	0.102	0.111
Advertisement		0.113	0.162	0.296	0.085	0.375
Newspapers and Periodicals	0.03	0.020	0.021	0.035	0.024	0.022
Uniform	0.014	0.178		0.140		1.012
Depreciation	2.382	2.960	2.458	1.932	1.88	1.737
Miscellaneous	0.225	0.488	0.462	0.485	0.674	0.868
Janitorial Services						1.427
TOTAL	**53.945**	**72.003**	**87.142**	**91.977**	**89.375**	**104.052**

Annex-E/1

(Rs in million)

Expenditure Heads	Administrative & General Expenses					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Bank Charges						
Salaries Benefits	23.554	25.537	26.015	27.756	26.275	20.756
Gratuity						2.21
Traveling	2.936	1.293	1.348	1.265	0.663	1.2
Rent, Rates	0.546	0.727	0.046	0.003		
Office Running	2.799	1.839	1.154	1.175	0.98	1.845
Professional fee	0.137	0.65	0.319	0.282	0.227	1.242
Utilities	0.412	0.564	0.418	0.464	0.567	0.597
Postage, Tele, Int	1.252	1.222	1.027	0.91	0.74	0.498
Printing and Stat	0.77	0.978	0.539	0.483	0.346	0.461
Vehicle Running	3.297	3.266	3.816	3.825	3.68	2.807
Business Promotion	2.125	0.966	0.721	0.243	0.172	0.534
Advertisement	4.632		0.12			
Newspapers and Periodicals	0.099	0.104	0.039	0.063	0.034	0.013
Uniform	0.049					
Depreciation	0.476	0.592	0.792	0.386	0.376	0.347
Miscellaneous	0.8	0.074	0.084	0.049	0.096	0.207
Janitorial Services						
TOTAL	**43.884**	**37.812**	**36.438**	**36.904**	**34.156**	**32.717**

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