सत्यमेव जयते

REPORT

OF

3RD PAY REVISION COMMITTEE

(FOR CENTRAL PUBLIC SECTOR ENTERPRISES)

(Effective from 1st January 2017)

रजिस्ट्री सं० डी० एल०-33004/99 REGD. NO. D. L.-33004/99

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भारी उद्योग एवं लोक उद्यम मंत्रालय

(लोक उद्यम विभाग)

संकल्प

नई दिल्ली, 9 जून, 2016

सं. डब्ल्यू - 08/0005/2016-डीपीई (डब्ल्यू सी).—यह महसूस करते हुए कि देश तथा वैश्विक व्यावसायिक माहौल में केन्द्रीय सरकारी लोक उद्यमों (सी. पी. एस. ई.) को व्यावसायिक रुप से सक्षम एवं प्रतिस्पर्धी बनना होगा तथा केन्द्रीय सरकारी लोक उद्यमों के कर्मचारियों को कार्य करने की उपयुक्त परिस्थितियों, परिलब्धियों तथा प्रतिलाभ प्रदान किए जाने होंगे ताकि वे अपने उद्यमों में बेहतर विकास, उत्पादकता एवं लाभकारिता के दिशा में प्रेरित हों, इसलिए भारत सरकार ने केन्द्रीय सरकारी लोक उद्यम के कार्यपालकों के वर्तमान वेतन ढांचे की समीक्षा करने तथा संशोधन करने का निर्णय लिया है।

2.1 सक्षम प्राधिकारी ने तृतीय वेतन संशोधन समिति (3सरी पीआरसी) नियुक्त करने का निर्णय लिया है जिसमें निम्नलिखित शामिल हैं :

अध्यक्ष : न्यायमूर्ति सतीश चन्द्रा (सेवानिवृत्त)

सदस्य : (i) श्री जुगल महापात्रा, पूर्व आई ए एस अधिकारी

(ii) प्रो. मनोज पाण्डा, निदेशक इन्स्टीच्यूट फार इकोनामिक ग्रोथ, दिल्ली

(iii) श्री शैलेन्द्र पाल सिंह, पूर्व निदेशक (मानव संसाधन), एन टी पी सी लिमिटेड

पदेन सदस्य : सचिव, लोक उद्यम विभाग, भारत सरकार

सदस्य सचिव : संयुक्त सचिव / अपर सचिव, भारत सरकार

2.2 इस समिति के नियम एवं शर्ते निम्नलिखित हैं :

2.2.1 समिति केन्द्रीय सरकारी लोक उद्यमों में निम्नलिखित श्रेणियों को वर्तमान में दिए जाने वाले वेतन, परिलब्धियों, प्रतिलाभों तथा अन्य लाभों (गैर वित्तीय लाभों सहित) को ध्यान में रखते हुए वेतनमानों, भत्तों, अनुलब्धियों तथा अन्य लाभों के ढांचे की समीक्षा करेगी तथा इनमें परिवर्ततनों का सुझाव देगी जो वांछनीय, व्यवहारिक एवं वहनीय हों :

(i) निदेशक मण्डल (बोर्ड) स्तर के पदाधिकारी

(ii) निदेशक मण्डल स्तर के नीचे के कार्यपालक

(iii) असंघबद्ध पर्यवेक्षक स्तर के कर्मचारी

2.2.2 समिति ऐसी सिफारिशें करेगी जिससे केन्द्रीय सरकारी लोक उद्यम आधुनिक, व्यावसायिक, उपभोक्ता अनुकूल, व्यावसायिक रुप से सफल एवं प्रतिस्पर्धी संस्थान बन सकें जो राष्ट्रीय विकास के लक्ष्य के प्रति वचनबद्ध एवं जन सेवा के प्रति समर्पित हों।

2.2.3 समिति केन्द्रीय सरकारी लोक उद्यमों के उपर्युक्त पैरा 2.2.1 में उल्लिखित कर्मचारियों के श्रेणियों के लिए व्यापक वेतन पैकेज तैयार करेगी जो केन्द्रीय सरकारी लोक उद्यमों में ढांचों, प्रणालियों तथा प्रक्रियाओं को युक्तिसंगत बनाकर केन्द्रीय सरकारी लोक उद्यमों की विकास, उत्पादकता एवं लाभकारिता क्षमता से जुड़ी हों जिसमें इन संगठनों के प्रचालनों एवं प्रक्रियाओं में जवाबदेही, उत्तरदायित्व, अनुशासन एवं पारदर्शिता सुनिश्चित करते हुए नवीनतम प्रौद्योगिकी, प्रबंधन कौशल, विश्व स्तर की सर्वोत्तम प्रक्रियाओं का समावेश किया गया हो।

2.2.4 केन्द्रीय सरकारी लोक उद्यमों के कार्यपालकों एवं असंघबद्ध पर्यवेक्षकों के लिए उपयुक्त वेतन एवं प्रतिपूर्ति ढांचे की कल्पना करते हुए समिति औद्योगिक महंगाई भत्ता (आई डी ए) एवं केन्द्रीय महंगाई भत्ता (सी डी ए) पैटर्न पर आधारित वर्तमान वेतनमानों के पैटर्न, जहां लागू हों, केन्द्रीय सरकारी लोक उद्यमों के 'क', 'ख', 'ग' एवं 'घ' श्रेणी के वर्तमान वर्गीकरण, केन्द्रीय सरकारी लोक उद्यमों को दिए गए महारत्न, नवरत्न, मिनीरत्न दर्जे, घाटे/आंशिक लाभ में चल रहे केन्द्रीय सरकारी लोक उद्यमों की समग्र स्थिति तथा उन केन्द्रीय सरकारी लोक उद्यमों जो अपने व्यवसाय की विशेष प्रकृति के कारण लाभकारी कम्पनियां नही हैं (कम्पनी अधिनियम, 1956 की धारा 25, या कम्पनी अधिनियम, 2013 की धारा 8 के अन्तर्गत पंजीकृत हैं), जैसे मुद्दों को ध्यान में रखेगी।

2.2.5 समिति ऐसी सिफारिशें करेगी जिससे केन्द्रीय सरकारी लोक उद्यम, लोक उद्यमों की वेशेष भूमिका, सरकार सहित स्टेक होल्डरों की मांगों एवं आशाओं, संसाधनों की कमी के कारण केन्द्रीय सरकारी लोक उद्यमों के प्रबंधन में विवेकपूर्ण वित्तीय उपाय करने की जरुरत, आर्थिक पिरिस्थितियों तथा देश में सामाजिक एवं आर्थिक विकास की जरुरतों को देखते हुए उभरते घरेलू एवं वैश्विक आर्थिक परिदृश्यों का सामना कर सकें।

2.2.6 समिति सामान्य सिद्धान्त, वित्तीय पैरामीटर तथा शर्तों सहित केन्द्रीय सरकारी लोक उद्यमों के प्रयोजनों की जांच करेगी जो उत्पादक्ता से जुड़े प्रतिलाभ स्कीमों एवं कार्य-निष्पादन से जुड़े वेतन के अपेक्षाओं, व्यवहारिक्ता तथा निरन्तरता/सुधारों से नियंत्रित हो।

2.2.7 अपनी रिपोर्ट तैयार करते समय समिति 7वें केन्द्रीय वेतन आयोग की रिपोर्ट को भी ध्यान में रखेगी।

3. समिति अपनी स्वयं की कार्य-प्रणाली तैयार करेगी जो इसे सौंपे गए कार्य को पूरा करने के लिए आवश्यक समझी जाए। भारत सरकार के मंत्रालय एवं विभाग तथा राज्य सरकारें समिति के ऐसी संगत सूचना तथा दस्तावेज प्रस्तुत करेंगे जो समिति द्वारा मांगे जांएगे तथा जो उसे देने की स्थिति में हो या देना उनके अधिकार में हो तथा वे समिति को आवश्यक सहयोग एवं सहायता देंगे।

4. समिति सरकार को अपनी सिफारिशें इसके गठन की तिथि से छह माह के भीतर देगी तथा इसका मुख्यालय दिल्ली में होगा।

5. समिति की सिफारिशों पर सरकार का निर्णय दिनांक 01.01.2017 से प्रभावी होगा।

6. समिति को सेवाएं लोक उद्यम विभाग द्वारा प्रदान की जाएंगी।

राजेश कुमार चौधरी, संयुक्त सचिव

MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

(Department of Public Enterprises)

RESOLUTION

New Delhi, the 9th June, 2016

No. W-08/0005/2016-DPE (WC).—Recognizing that in the prevailing business environment in the country and in the world, the Central Public Sector Enterprises (CPSEs) have to be commercially viable and competitive, and that the employees of the CPSEs have to be provided with suitable working conditions, emoluments and incentives to motivate them to strive for further growth, productivity and profitability of their enterprises, the Government of India has decided to review and revise the existing structure of salary and emoluments of the CPSE executives.

2.1 The competent authority has decided to appoint the 3rd Pay Revision Committee (3rd PRC) comprising of the following:

Chairman	:	Justice Satish Chandra (Retd)
Members	:	(i) Shri Jugal Mohapatra, Ex-IAS Officer
		(ii) Prof. Manoj Panda, Director, Institute for Economic Growth, Delhi
		(iii) Shri Shailendra Pal Singh, Ex Director (HR), NTPC Ltd.
Ex-Officio Member	:	Secretary, DPE, Government of India
Member Secretary	:	Jt. Secretary/Additional Secretary, DPE, Government of India

2.2 The terms of reference of the Committee are follows:

2.2.1 The Committee will review the structure of pay scales, allowances, perquisites, and other benefits for the following categories in CPSE taking into account the salary, emoluments, incentives and other benefits (including non-monetary benefits) available to them and suggest changes which may be desirable, feasible and affordable:

(i) Board level functionaries

(ii) Below board level executives

(iii) Non-unionized supervisory staff

2.2.2 The Committee will make recommendations to enable CPSEs to become modern, professional, consumer friendly, commercially successful and competitive entities committed to national development goals and dedicated to the service of the people.

2.2.3 The Committee will devise a comprehensive pay package for categories of employees of CPSEs mentioned at sub-para 2.2.1 above that is suitably linked to promoting efficiency, productivity and profitability of CPSEs through rationalization of structures, systems and processes in the CPSEs with a view to leverage latest technology, management skills, global best practices, while ensuring accountability, responsibility, discipline and transparency in the operations and processes of these organizations.

2.2.4 While devising a suitable pay and compensation structure for the executives and the non-unionized supervisors of the CPSEs, the Committee will take into account the existing pattern of scales based on Industrial Dearness Allowance (IDA) and Central Dearness Allowance (CDA) pattern, wherever applicable, the prevalent categorization of CPSEs into ‘A’, ‘B’, ‘C’ and ‘D’ Schedule, the status of Maharatna, Navratna, Miniratna bestowed on the CPSEs, the overall condition of the loss/ marginal profit making CPSEs, and those CPSEs, which by the very nature of their business, are not-for-profit companies (registered under Section 25 of the Companies Act, 1956, or under Section 8 of the Companies Act, 2013).

2.2.5 The committee will make recommendations as would equip the CPSEs to compete in the emerging domestic and global economic scenario taking into consideration the special role of public sector, the demands and expectations of the stakeholders including the Government, the need to observe financial prudence in the management of CPSEs due to resource constraints, economic conditions, and the requirements of social and economic development in the country.

2.2.6 The Committee will examine the concerns of the CPSEs including the general principles, financial parameters and conditions which should govern the desirability, feasibility and continuation/modification of the Productivity Linked Incentives Scheme and Performance Related Payments.

2.2.7 While finalizing its report, the Committee will also take into account the report of the 7^{th} Central Pay Commission.

3. The Committee may devise its own procedures as may be considered necessary for fulfilling the task assigned to it. Ministries and Departments of the Government of India and the State Governments will furnish such relevant information and documents as may be required by the Committee and which they are in a position and at liberty to give, and extend the necessary cooperation and assistance to it.

4. The Committee will make its recommendations to the Government within a period of six months from the date of its constitution and have its headquarters in Delhi.

5. The decision of the Government on the recommendations of the Committee will take effect from 1.1.2017.

6. The Committee will be serviced by the Department of Public Enterprises.

RAJESH KUMAR CHAUDHRY, Jt. Secy.

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3RD PAY REVISION COMMITTEE

The Government of India, vide Gazette Notification No. W-08/0005/2016-DPE(WC) dated 9th June 2016, appointed the 3rd Pay Revision Committee (PRC) with specified Terms of Reference.

The Committee was assigned the time-frame to submit its recommendation within a period of six months from the date of its constitution.

The Committee is pleased to submit its report to the Government of India on this 21st day of November 2016.

Sd/-
Justice Dr. Satish Chandra (Retired)
(Chairman)

Sd/-
Shri Jugal Mohapatra
Ex-IAS Officer
(Member)

Sd/-
Prof. Manoj Panda,
Director, Institute for Economic Growth, Delhi
(Member)

Sd/-
Shri Shailendra Pal Singh
Ex Director (HR), NTPC Ltd.
(Member)

Sd/-
Shri Ameising Luikham
Secretary, DPE, Government of India
(Ex-Officio Member)

Sd/-
Dr. Madhukar Gupta
Additional Secretary, DPE, Government of India
(Member Secretary)

INDEX OF
CHAPTERS & SUB-HEADINGS

CHAPTER - 1

Public Sector Undertakings
–
Concept, Evolution & Status
(Strategic Importance)

Chapter – 1: Public Sector Undertakings – Concept, Evolution & Status - (Strategic Importance)

1.1 Public Sector Undertakings – Concept

1.1.1 Public Sector Undertakings (PSUs) in India are the entities which have the status of being Government-owned companies and are considered as 'State'* under Article 12 of the Constitution of India. In accordance with the Companies Act, 2013, the PSUs mean any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

1.1.2 Public Sector Undertakings (PSUs) can be generally classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).

1.1.3 Central Public Sector Enterprises (CPSEs) are those companies in which the direct holding of the Central Government or other CPSEs is 51% or more. The terms of reference of the 3rd Pay Revision Committee (PRC) to review the structure of pay scales, allowances, perquisites, and other benefits for Board level functionaries, Below board level executives and Non-unionized supervisory staff is specific to CPSEs.

1.2 Overview of Public Sector Undertakings

1.2.1 Government laid down the roadmap for developing Public Sector Undertakings during the post-independence era as an instrument for facilitating and promoting self-reliant economic growth at a time when the country was facing socio-economic problems, regional imbalances in economic development, lack of trained manpower, weak industrial base, inadequate investments and poor infrastructure facilities, etc.

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* Judicial decisions have given a wide scope of the expression "other authorities" in Article (12) of the Constitution. The main theory evolved is that of "instrumentality or agency" of Government. *[Ramana Dayaram Shetty- vs -Airport Authority Of India, AIR 1979 SC 1628; Som Prakash Rekhi vs Union Of India, AIR 1981 SC 212; Ajay Hasia Etc vs Khalid Mujib Sehravardi, AIR 1981 SC 487]*

1.2.2 India planned and opted for the dominance of public sector with the belief that 'political independence' without high degree of 'economic self-reliance' was not good for the country. This guiding factor led to the passage of Industrial Policy Resolution of 1948 and was then followed by Industrial Policy Resolution of 1956.

In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development and outlined the following main objectives for setting up the Public Sector Enterprises:

- To help in the rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development;
- To earn return on investment and thus generate resources for development;
- To promote redistribution of income and wealth;
- To create employment opportunities;
- To promote balanced regional development;
- To assist the development of small-scale and ancillary industries; and
- To promote import substitutions, save and earn foreign exchange for the economy.

The new strategies for the public sector were later outlined in the policy statements in the years 1973, 1977 and 1980.

1.2.3 Subsequently, the Industrial Policy announced in 1991 was a significant game-changer for public sector undertakings as it forced them to re-visit its priority for the reason that the policy intended to raise industrial efficiency to the international level and accelerate industrial growth.

1.2.4 In tune with the above objectives, the public sector has throughout played a strategic role in building up the economy. After the initial concentration of public sector investment in the core & strategic areas such as infrastructure, energy and technology sectors, the public sector undertakings began to spread into all areas of the economy including non-core and non-infrastructure areas; and thus started offering a wide range of products and services. Needless to mention that public sector undertakings operating in varies sectors have provided the base for formation of engineering and technological skills.

1.2.5 Besides, the PSUs serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. The Government has issued guidelines on Corporate Social Responsibility for Central Public Sector Enterprises (CPSEs). Accordingly, the CPSEs generally undertake a number of non-commercial responsibilities in furtherance of their commercial objectives.

1.3 Global Trend

1.3.1 In a global context, it can be said that the roots of state intervention in economic activities can be traced back to early 1930s when, in the wake of the Great Depression, most of the countries tried to set-up regulatory agencies to rein in the vested interest dynamics of the private enterprises. The state intervention in commercial activities also got the fillip with the success of erstwhile Soviet industrialization.

1.3.2 Further, the pressure and resource requirements for rebuilding the post-war and post-colonial economies, forced large-scale state intervention / nationalization all over the world. The pragmatic approach around the world during the period was to develop public enterprises as inevitable part of the economy, especially to manage key energy and core industries. The lack of entrepreneurship, security of the country, concern for balanced regional development, employment generation, managerial expertise, etc., were some of the other major issues for encouraging the public sector trend.

1.3.3 During the relevant period, most of the developed countries had nationalized or taken control over the core industries. In post-war period, developed countries like Britain, France, etc. had taken control over the core and strategic sectors, like coalmines, iron & steel, electricity, gas, ports and shipbuilding, telecommunications, automobiles, etc. In the developing countries too, public sector came to acquire a major role. Thus, the trend continued in several countries till early 1980s when the social welfare objectives were achieved through comprehensive state intervention.

1.3.4 During the 1980s, around the globe and also in the mixed economies, the political opinion was swinging towards the view that the proportion of the interference and investment of Government should be reduced to the extent possible with the belief that effective regulatory mechanism would protect the consumers from the abuse of the monopoly power of nationalized companies as well as enhance competition.

1.3.5 As a result, even the socialist economies like erstwhile USSR started the economic reforms under *perestroika* (economic restructuring) alongwith political reform of *glasnost* (transparency). China also implemented economic reforms in a big way as it was realized that the large number of public enterprises working under mixed economies were victims of over centralization in decision making and excessive bureaucratization.

1.3.6 Many eminent economists used to argue that Government must not venture into those areas where the private sector can undertake job efficiently. Lot of emphasis was laid on market driven economies, rather than state administered economies. The collapse of socialist economy of the Soviet block convinced the policy planners around the world that role of the state should be that of a regulator rather than the producer.

1.3.7 Gradually, a new trend of global integration began to emerge and countries all over the world, whether developed or developing, capitalist or socialist, started undergoing vast economic changes, witnessed by the decline in the role of the State in commercial activities and privatization of state owned enterprises.

1.3.8 It may be worth mentioning that, in various countries, the turn towards neo-liberalism also led to discontentment amongst wide sections of population as its benefit did not flow down to the bottom section of society. Many of the countries around the world also witnessed an increase in the poverty level, unequal distribution of wealth and marginalization, which led to people's struggle and there has been resurgence of socialist model of governance.

1.4 Organizational structure of CPSEs

Department of Public Enterprises (DPE), under the Ministry of Heavy Industries & Public Enterprises, formulates policy guidelines and decides on the organizational structure of CPSEs. The nature of categorization are as covered below:-

I. To operate effectively in a competitive environment, the CPSEs have been categorized as below providing for greater autonomy & flexibility:-

a. **<u>Maharatna</u>** - A CPSE qualifying for this status should have an average annual turnover of more than Rs 25,000 crore, average annual net worth of the company should be more than Rs 15,000 crore and average net profit after tax of more than Rs.5,000 crore during the last three years. The Maharatna status empowers the boards of CPSEs to take investment decisions up to Rs.5,000 crore without seeking government approval. The Maharatna CPSEs are free to decide on investments up to 15% of their net worth in a project, limited to an absolute ceiling of Rs 5,000 crore.

b. **Navratna** - A CPSE having Schedule 'A' and Miniratna Category-1 status, and having at least three 'Excellent' or 'Very Good' Memorandum of Understanding (MoU) ratings during the last five years qualifies as Navratna. The Navratna status empowers PSEs to invest up to Rs. 1000 crore or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr.

c. Miniratna:

- For Miniratna category I status, the CPSE should have made profit in the last three years continuously, the pre-tax profit should have been Rs. 30 crores or more in at least one of the three years and should have a positive net worth. In a year, these companies can spend up to Rs.500 crore or equal to their net worth, whichever is lower, without government approval.

- For Miniratna category II status, the CPSEs should have made profits continuously for the last three years and should have a positive net worth. The CPSEs shall have autonomy for incurring the capital expenditure without government approval up to Rs. 300 crore or up to 50% of their net worth, whichever is lower.

The CPSEs categorized under different Ratnas (as on 31.3.2015) are given below:

Ratna	No. of CPSEs
Maharatna	7
Navratnas	17
Miniratna-I	56
Miniratna-II	17

II. CPSEs are categorized in four Schedules namely ‘A’, ‘B’, ‘C’ and ‘D’ based on various quantitative, qualitative and other factors, which decides the board structure of CPSEs.

The quantitative factors are: investment, capital employed, net sales, profit before tax, number of employees, number of units and value added per employee.

Qualitative factors are: national importance, complexities of problems, level of technology, prospects for expansion & diversification of activities and competition from other sectors, etc. while the other factor relates to the strategic importance of the corporation. The pay scales of Chief Executives and full time Functional Directors in CPSEs are determined as per the schedule of the concerned enterprise.

The CPSEs categorized under different Schedules (as on 31.3.2015) are given below:

Schedule	No. of CPSEs
Schedule A	64
Schedule B	68
Schedule C	45
Schedule D	04

III. Cognate group wise classification followed by DPE is based on the generic nature of work carried out by CPSEs. The different cognate group being followed under different sectors are Agriculture (Agro based industries), Mining (Coal, Crude Oil, Other Minerals & Metals), Manufacturing (Steel, Petroleum (Ref. & Marketing), Fertilizers, Chemicals & Pharmaceuticals, Heavy Engineering, Medium & Light Engineering, Transportation Equipment, Consumer Goods, Textiles), Electricity (Power Generation, Power Transmission), Services (Trading and Marketing, Transport Services, Contract & Construction Services, Ind. Dev. & Tech. Consul. Services, Tourist Services, Financial Services, Telecommunication Services).

1.5 Performance Status of CPSEs

1.5.1 As mentioned earlier, the Public sector enterprises were set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices besides meeting certain socio-economic obligations. While there were only five Central Public Sector Enterprises (CPSEs) at the time of the First Five Year Plan, there were 235 operating CPSEs as on 31st March, 2015. The macro view of overall performance of these CPSEs since FY 2006-07 is given in Table 1.1 below:-

Table 1.1

Macro-View of Performance of Operating CPSEs

(Rs. In Crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
No. of Operating Enterprises	217	214	213	217	220	225	230	234	235
Capital Employed	661338	724009	792232	908007	1153833	1337821	1508177	1710453	1830450
Total Gross Turnover/ Revenue	964890	1096308	1271529	1244805	1498018	1822049	1945814	2066057	1995902
Total Net Income/ Revenue	970356	1102772	1309639	1272219	1470569	1804614	1931186	2056336	1965235
Net Worth	454134	518485	583144	652993	709498	776162	850921	926663	962791
Profit before dep., Impairement, Int., Exc.Items, Ex.Ord. Items & Taxes (PBDIEET)	177990	195049	186836	211184	216602	250654	255936	289361	281634
Depreciation, Depletion & Amortization	33141	36668	36780	41603	57118	63591	66109	69817	77530
DRE/Impairement	5841	5802	7661	9565	187	154	436	851	549
Profit before Interest, Exc. Items, Ex.Ord. Items & Taxes (PBIEET)	139008	152579	142395	160017	159298	186910	189390	218693	203555
Interest	27481	32126	39300	36060	26521	36152	38184	51638	56801
Profit before Exp. Items Ex. Or. Items & Taxes (PBEET)	111527	120453	103095	123957	132777	150758	151207	167055	146754
Exceptional Items	-	-	-	-	-1479	3957	-13525	-14618	-2493
Profit before Ex. Or. Items & Tax. (PBET)	111527	120453	103095	123957	134256	146801	164732	181673	149246
Extra-Ordinary Items	-3880	-1570	-14600	-8264	-2695	-428	-1276	-1550	-985
Profit Befor Tax (PBT)	115407	122023	117095	132221	136951	147230	166008	183223	150232
Tax Provision	34352	40749	38828	40018	44871	48985	51025	55178	47229
Net Profit/Loss after Tax from Continuing Operations	81055	81274	83867	92203	92079	98245	114982	128045	103002
Net Profit/Loss after Tax from Discontinuing Operations	-	-	-	-	49	1	-1	250	0
Overall Net Profit/Loss	81055	81274	83867	92203	92129	98246	114981	128295	103003
Profit of Profit-making CPSEs	89581	91577	98488	108434	113944	125929	143543	149636	130363
Loss of Loss incurring CPSEs	8526	10303	14621	16231	-21816	-27683	-28562	-21341	-27360
Profit-making CPSEs (No.)	154	160	158	157	158	161	151	164	157
Loss-incurring CPSEs (No.)	61	54	55	60	62	64	78	70	77
CPSE making no Profit/Loss (No.)	1	-	-	-	0	0	1	0	1
Dividend	26819	28123	25501	33223	35700	42627	49703	65115	56527
Dividend Tax	4107	4722	4132	5151	5372	5877	6704	8709	8642
			(Source - Public Enterprises-Annual Survey of CPSEs-2014-15)						

1.5.2 The following observations are made regarding the performance of CPSEs during the last few years:-

a. The capital employed has increased from Rs. 6,61,338 Crores in 2006-07 to Rs. 18,34,050 Crores recording a growth of 177%.
b. Turnover increased to Rs. 19,95,902 Crores, from Rs. 9,64,890 Crores in 2006-07 recording a growth of 107%. As regards Net worth, it has increased by 112% in 2014-15 in comparison to 2006-07, and is presently, at Rs.9,62,791 Crores.
c. Overall net profits has increased by 27% in 2014-15 in comparison to 2006-07, and is currently to the tune of Rs.1,03,003 Crores.
d. The combined Dividend and Dividend Tax has increased by 111% in 2014-15 in comparison to 2006-07, and is equal to Rs.65,169 Crores.

1.5.3 **Investment pattern:** Financial investment (equity plus long term loans) in all the 298 CPSEs (including 63 enterprises which are yet to commence commercial operations) as on 31.3.2015 stood at Rs. 10,96,057.46 Crore as compared to Rs. 4,21,089 Crore as on 31.03.2007 showing an increase of Rs. 6,74,968.46 Crore or a growth of 160.29 per cent. The growth of investment in CPSEs, over the years, including enterprises under construction, is given in **Table 1.2**. In addition, the CPSEs have accumulated a large amount of reserves and Surplus which stood at Rs. 7, 71,672 cores in 2014-15.

Table 1.2

Growth of investment in CPSEs

Particulars	**Total Investment (Rs. in crore)**	**Enterprises (Numbers)**
On the eve of the 1st Five Year Plan (1.4.1951)	29	5
On the eve of the 2nd Five Year Plan (1.4.1956)	81	21
On the eve of the 3rd Five Year Plan (1.4.1961)	948	47
At the end of 3rd Five Year Plan (31.3.1966)	2410	73
On the eve of the 4th Five Year Plan (1.4.1969)	3897	84
On the eve of the 5th Five Year Plan (1.4.1974)	6237	122
At the end of 5th Five Year Plan (31.3.1979)	15534	169
On the eve of the 6th Five Year Plan (1.4.1980)	18150	179
On the eve of the 7th Five Year Plan (1.4.1985)	42673	215
At the end of 7th Five Year Plan (31.3.1990)	99329	244
On the eve of the 8th Five Year Plan (1.4.1992)	135445	246
At the end of 8th Five Year Plan (31.3.1997)	213610	242
At the end of 9th Five Year Plan (31.3.2002)	324614	240

As on 31.3.2003	335647	240
As on 31.3.2004	349994	242
As on 31.3.2005	357939	237
As on 31.3.2006	403705	239
As on 31.3.2007	421089	247
As on 31.3.2008	455409	242
As on 31.3.2009	528951	246
As on 31.3.2010	579920	249
As on 31.3.2011	666848	248
As on 31.3.2012	729228	260
As on 31.3.2013	850599	277
As on 31.3.2014	992971	290
As on 31.3.2015	1096057	298

1.5.4 Turnover and Sales: Cognate group wise turnover of CPSEs for financial years 2014-15 and 2013-14 showing annual growth is at **Table 1.3**.

The Agriculture had the highest, 22.30 per cent growth, followed by the electricity sector with a 5.48 per cent growth and the service companies with a growth of 3.50 percent in 2014-15 (over 2013-14). Amongst the various cognate groups, the growth in turnover of Agro Based Industries (22.30%), Financial Services (15.46%), Consumer Goods (14.09%), Power Transmission (12.88%), Transport Services (11.16%), Industrial Development & Tech. Consultancy Services (10.24%) and Tourist Services (10.04%) have been significant.

However, the CPSEs under the cognate groups of Heavy Engineering (-23.95%), Petroleum (Refinery & Marketing) (-6.74%), Steel (-6.15%), Chemicals & Pharmaceuticals (-5.25%), Crude oil (-3.33%), Other Minerals & Metals (-2.00%) and Trading & Marketing (-1.50%) have witnessed a negative growth in turnover during 2014-15 over 2013-14. The Gross revenue / turnover of operating CPSEs has declined from Rs. 20,66,057 crore in 2013-14 to Rs. 19,95,902 crore in 2014-15 showing a decrease of 3.40%. Turnover had increased by 6.18% in 2013-14 from the year 2012-13. Thus, CPSEs performance on this account has somewhat gone down this year due to lower orders in hand, low capacity utilization of the plants, lower prices of commodities, and low foreign exchange earnings by the enterprises. There were considerable variations within the cognate groups as well as among them as is evident from **Table 1.3.**

Table 1.3

Group-wise Turnover of CPSEs during 2013-14 and 2014-15

(Rs. In Crore)

Sl. No.	**Cognate Group**	**Turnover during**		**% change over the previous year**
		2014-15	**2013-14**	
	Agriculture			
1	Agro Based Industries	1058.60	865.59	**22.30**
	Sub Total :	**1058.60**	**865.59**	**22.30**
	Mining			
2	Coal	86674.38	80365.93	**7.85**
3	Crude Oil	111732.35	115575.34	**-3.33**
4	Other Minerals & Metals	24240.72	24734.61	**-2.00**
	Sub Total :	**222647.45**	**220675.88**	**0.89**
	Manufacturing			
5	Steel	62624.23	66726.51	**-6.15**
6	Petroleum (Ref. & Marketing)	1118125.26	1198990.01	**-6.74**
7	Fertilizers	20714.30	20050.72	**3.31**
8	Chemicals & Pharmaceuticals	1194.62	1260.78	**-5.25**
9	Heavy Engineering	32276.65	42439.29	**-23.95**
10	Medium & Light Engineering	16149.58	14976.52	**7.83**
11	Transportation Equipment	26765.23	25354.00	**5.57**
12	Consumer Goods	7493.60	6568.29	**14.09**
13	Textiles	1252.29	1162.77	**7.70**
	Sub Total:	**1286595.79**	**1377528.89**	**-6.60**
	Electricity			
14	Power Generation	104392.99	100042.17	**4.35**
15	Power Transmission	17257.84	15289.13	**12.88**
	Sub Total:	**121650.83**	**115331.30**	**5.48**
	Services			
16	Trading and Marketing	197557.25	200559.97	**-1.50**
17	Transport Services	44363.12	39908.83	**11.16**
18	Contract & Construction Services	16800.38	16509.35	**1.76**
19	Ind. Dev. & Tech. Consul.Services	10705.60	9711.22	**10.24**
20	Tourist Services	1579.23	1435.13	**10.04**
21	Financial Services	61811.28	53535.54	**15.46**
22	Telecommunication Services	31132.34	29995.20	**3.79**
	Sub Total:	363949.20	351655.24	**3.50**
	Grand Total	1995901.87	2066056.90	**-3.40**

(Source - Public Enterprises-Annual Survey of CPSEs-2014-15)

1.5.5 **Profit and Loss:** The Net Profit/Loss of CPSEs in the financial year 2014-15 and the year 2013-14 is presented in **Table 1.4**. Amongst the sectors, the best results were achieved by the "Mining" sector as its share of total profits is 55.46% in 2014-15. The share of total profits was followed by "Electricity" sector-24.01 per cent, "Manufacturing" sector-17.66 per cent and "Service" sector-2.98 per cent. The "Agriculture" sector continued to report losses in the third consecutive year. Under the "Manufacturing" sector, losses suffered by enterprises belonging to Chemicals & Pharmaceuticals, Consumer goods, Textiles and Medium & Light Engineering. Steel, Petroleum (Refinery & Marketing), Heavy Engineering, Transportation Equipment showed a decline in profits while enterprises belonging to Fertilizers showed an increase in profits in 2014-15. Under the "Services" sector, losses were suffered by enterprises belonging to Transport Services and Telecommunication Services. The "Electricity" Sector showed an increase in profits in 2014-15

Table 1.4

Group-wise Net Profit / Loss (-) of CPSEs during 2013-14 and 2014-15

Sl. No.	Cognate Group	2014-15		2013-14		% Change
		Net Profit/ Loss	No. of CPSEs	Net Profit/ Loss	No. of CPSEs	Over the Prev. Yrs.
	Agriculture					
1	Agro Based Industries	-109.45	5	-106.33	**5**	2.93
	Sub Total :	**-109.45**	**5**	**-106.33**	5	2.93
	Mining					
2	Coal	26717.88	8	29895.08	8	-10.63
3	Crude Oil	22115.16	5	29332.45	5	-24.61
4	Other Minerals & Meals	8291.27	12	7973.13	12	3.99
	Sub Total :	**57124.31**	**25**	**67200.66**	**25**	-14.99
	Manufacturing					
5	Steel	2298.52	5	3089.23	5	-25.60
6	Petroleum (Ref. & Marketing)	15113.9	8	17868.87	8	-15.42
7	Fertilizers	270.05	7	-543.46	7	-149.69
8	Chemicals & Pharmaceuticals	-496.03	13	-495.96	12	0.01
9	Heavy Engineering	1060.74	8	3686.13	10	-71.22
10	Medium & Light Engineering	-160.55	21	51.53	22	-411.57
11	Transportation Equipment	3042.80	8	3404.17	8	-10.62
12	Consumer Goods	-2524.84	12	-1406.44	14	79.52
13	Textiles	-417.53	4	-277.52	4	50.45
	Sub Total:	**18187.06**	**86**	**25376.55**	**90**	-28.33

	Electricity					
14	Power Generation	19700.67	10	18792.17	10	4.83
15	Power Transmission	5027.97	3	4541.04	3	10.72
	Sub Total:	**24728.64**	**13**	**23333.21**	**13**	5.98
	Services					
16	Trading and Marketing	285.49	21	311.11	21	-8.24
17	Transport Services	-2775.65	14	-4243.97	13	-34.60
18	Contract & Construction Services	1255.86	14	1465.21	13	-14.29
19	Ind. Dev. & Tech. Consul.Services	1043.61	21	1149.33	19	-9.20
20	Tourist Services	111.29	9	40.53	9	174.59
21	Financial Services	14167.64	21	12823.96	21	10.48
22	Telecommunication Services	-11016.12	6	944.91	5	-1265.84
	Sub Total:	**3072.12**	**106**	**12491.08**	**101**	-75.41
	Grand Total	**103002.68**	**235**	**128295.17**	**234**	-19.71

(Source - Public Enterprises-Annual Survey of CPSEs-2014-15)

1.5.6 **Net Value Addition by CPSEs:** The net value addition by CPSEs increased from Rs. 6,24,227 crore in 2013-14 to Rs. 6,30,001 crore in 2014-15 recording a marginal growth rate of 0.92% in nominal terms. Thus, the share of net value addition as a ratio to GDP stood at 5.02% in the year 2014-15 as against 5.50% in 2013-14. The share of gross value addition by CPSEs (net value addition + depreciation & impairment) in the GDP stood at 5.68% in 2014-15 as against 6.13% in 2013-14. In real terms the Gross Value Addition was Rs. 7,08,080 crore in 2014-15 and in 2013-14 was Rs. 6,94,895 crore.

In terms of 'net value addition' (gross value addition - depreciation) generated by CPSEs in 2014-15, the share of indirect taxes & duties (net of subsidies) was the highest at 41.17%. This was followed by profit before tax (23.85%), salary & wages (20.22%), interest payment (9.02%) and rent royalty and cess (5.89%)*.

1.5.7 **Contribution to the Central Exchequer:** CPSEs contribute to the Central Exchequer by way of dividend payment, interest on government loans and payment of taxes and duties. There was, however, a decline in total contribution of CPSEs to the Central Exchequer during the year 2014-15,

** "Untold Story of the Indian Public Sector" by Dr. UD Choubey, Published by Sterling.*

which decreased from Rs. 2,20,981 crore in 2013-14 to Rs. 2,00,584 crore in 2014-15. This was, mainly due to decrease in contribution towards "Dividend", "Corporate tax" and "Custom duty" in 2014-15. There was, however, an increase in "excise duty", “dividend tax”, “sales tax” and "service tax" during the year 2014-15 as compared to the previous year. The figures are shown in **Table 1.5.**

Table 1.5

Contribution to the Central Exchequer

(Rs. In Crore)

Sl. No.	Particulars	2014-15	2013-14	2012-13	2011-12	Growth(%) over Last year
I (1). As Owner						
(i)	Dividend	38165	45523	28864	28524	-16.16
I(2). As Lender						
(i)	Interest	400	744	795	2021	-46.24
Total I		38566	46268	29660	30545	-16.65
II. Taxes Paid by CPSEs to Central Government						
1	Excise Duty	80696	63832	59184	61165	26.42
2	Custom Duty	6281	6812	6076	11518	-7.80
3	Corporate Tax	48257	81553	44611	44192	-40.83
4	Dividend Tax	10311	9292	6470	6099	10.97
5	Sales Tax	4279	3140	2796	2234	36.27
6	Service Tax	5897	5118	6289	3252	15.22
7	Other Duties & Taxes	6294	4963	8122	3394	26.82
Total II		162018	174713	133551	131856	-7.27
Grand Total (I+II)		200584	220981	163211	162401	-9.23

(Source – Public Enterprises-Annual Survey of CPSEs-2014-15)

1.5.8 **Revival of Sick CPSEs:** The CPSEs operate under dynamic market conditions, and due to ups-and-downs in their performance, some CPSEs have been incurring losses continuously for the last several years. The accumulated losses in many of these cases have exceeded their net worth.

Under the mechanisms for restructuring / revival of sick/loss making CPSEs, the sick companies under the Sick Industrial Companies Act 1985 are referred to Board for Industrial And Financial Reconstruction (BIFR), which suggests a restructuring plan involving sacrifices & commitments from promoters and stake holders. Board for Reconstruction of Public Sector Enterprises (BRPSE), which was created in 2004 to advise the

Government for the restructuring or revival plan of referred CPSEs, has been wound up in November, 2015.

DPE has issued guidelines on 29.10.2015 for "Streamlining the mechanism for revival and restructuring of sick/incipient sick and weak Central public Sector Enterprises: General principles and mechanism of restructuring" to be implemented by the administrative Ministries/ Departments in respect of CPSEs under their administrative control. The concerned administrative Ministries/Departments are now responsible to monitor sickness of CPSEs functioning under them and take timely redressal measures with the approval of the competent authority.

The Companies Act, 2013 Chapter XIX refers to Revival and Rehabilitation of Sick Companies and Chapter XX to Winding up of the Companies. These provisions as on date are yet to be notified.

As per the guidelines issued by DPE on 29.10.2015, the concerned administrative Ministry/Department shall, at the end of each financial year, analyze the performance of its CPSEs and classify them as sick, incipient sick and weak CPSEs as per the criteria laid down in the guidelines. Further, the concerned administrative ministry/department shall formulate revival/restructuring/closure road map for sick CPSEs as per the principles outlined in the guidelines and on approval of the competent authority, implement those decisions. These activities are required to be done in a time bound manner.

Further, DPE has issued guidelines on 7.9.2016 for "time bound closure of Sick / Loss making CPSEs and disposal of Movable and Immovable Assets" to expedite the process for closure of CPSEs. The guidelines seek to expeditiously complete the various processes and procedures for closure of CPSEs and lay down responsibilities of the administrative ministries/departments/CPSEs, including the support required to be extended by nodal departments/organizations and disposal of movable and immovable assets of CPSEs to be closed. The requisites processes also include payment of dues towards employees of CPSEs under closure.

1.5.9 **International Operations of CPSEs:** The Indian economy has embraced globalization on its own terms and the CPSEs also have a footprint in the global market place. Moreover the prevailing global economic scenario, subdued in this case, also leaves its mark on the international operations of CPSEs. During the year 2014-15, total foreign exchange earnings of CPSEs was Rs. 103071.23 crore as against Rs.145195.96 crore in 2013-14, showing a decrease of 29.01%. Similarly total foreign exchange expenditure of CPSEs was Rs. 544559.79 crore in 2014-15 as against Rs. 676869.68 crore in 2013- 14, showing a decrease of 19.55%. During the year 2014-15, as many as 143 CPSEs out of the 235 operating CPSEs either had foreign exchange earnings (FEE) or foreign exchange expenditure (FEE). As many as 32 CPSEs were net foreign exchange earners. Out of these 32 CPSEs, 11 CPSEs, namely ONGC Videsh Ltd., National Aluminium Company Ltd., Bharat Heavy Electricals Ltd., Air India Charters Ltd., IRCON International Ltd., Airports Authority of India Ltd., RITES Ltd., Air India Air Transport Services Ltd., Indian Rare Earths Ltd., Engineers India Ltd. and WAPCOS Ltd. earned net foreign exchange of more than 100 crore during 2014-15.

1.5.10 **Disinvestment:** The policy of 'disinvestment' in Central Public Sector Enterprises (CPSEs) has evolved over the years. Disinvestment of government equity in CPSEs began in 1991-92. The Industrial Policy Statement of 1991 stated that the Government would divest part of its holdings in select CPSEs. Broadly, the objectives of divestment have been to raise resources, encourage wider public participation and bring in greater market accountability*.

The current policy on disinvestment envisages developing people's ownership of Central Public Sector Enterprises to share in their wealth and prosperity while ensuring that the Government equity does not fall below 51% and Government retains management control.

During the financial year 2014-15, against the target of Rs.36,925 crore, Government realized an amount of Rs.24277.17 crore through minority stake sale. In addition, an amount of Rs.71.54 crore was also realized through employees Offer For Sale (OFS).

The Government of India has constituted the National Investment Fund (NIF) into which the proceeds from disinvestment of CPSEs are to be channelized and utilized on specific schemes.

** Privatization of Public Enterprises – Constitutional Anatomy, by Dr. Satish Chandra, Chairman 3rd Pay Revision Committee, Published by Deep & Deep*

1.5.11 **Employment:** As on 31.3.2015, the 298 CPSEs employed over 12.91 lakh people (excluding contract workers). Around 30% of the manpower of CPSEs belongs to managerial and supervisory cadres. The CPSEs, thus, have a highly skilled workforce, which is one of their basic strengths. The details of employment in CPSEs are shown in Table 1.6.

Table 1.6

Employment in CPSEs

Year	Employees (in Lakh) (Excluding contract workers)
2006-07	16.14
2007-08	15.65
2008-09	15.33
2009-10	14.9
2010-11	14.4
2011-12	14.5
2012-13	14.02
2013-14	13.49
2014-15	12.91

1.5.12 **Employment under Reserved Category**: Presidential Directives are issued to CPSEs by the concerned administrative Ministries to ensure reservation in regard to employment for Scheduled Castes, Scheduled Tribes, Other Backward Classes (OBCs) and Persons With Disabilities (PWD), on similar lines as applicable in the Central Government Ministries/Departments.

1.5.13 **Memorandum of Understanding (MoU)**: The MoU is a negotiated agreement and contract between the Administrative Ministry / Department / Holding CPSE i.e. majority shareholder and the Management of the CPSE on selected parameters having targets decided normally before the start of a new financial year and results evaluated after the end of the year so as to measure the performance. The 'management' of the enterprise is made accountable to the government through promise for performance or 'performance contract'.

MoU system was started with four CPSEs signing it in the year 1987-88, which has now increased its cover to 234 CPSEs for the year 2016-17. In the MoU 2016-17 various compliances by CPSEs were mandated as additional eligibility criteria for CPSEs getting Excellent rating and Negative marking was introduced for CPSEs getting other than Excellent rating.

The MoU system uses the five-point scale of performance measurement, that is, 'Excellent', 'Very good', 'Good', 'Average' and 'Poor'. The MoU rating of CPSEs during the years since 2010-11 to 2014-15 is shown in the **Table 1.7**:

Table 1.7

Rating	2010-11	2011-12	2012-13	2013-14	2014-15
Excellent	67	76	75	76	73
Very Good	44	39	39	38	53
Good	24	33	38	36	41
Fair	24	25	36	29	26
Poor	02	02	02	08	07
Total	161	175	190	187	200

Source - Public Enterprises-Annual Survey of CPSEs-2014-15

1.5.14 The progressive way the Indian economy and CPSEs have grown during the last 10 years was definitely in the face of acute challenges and handling of global crisis in different forms. There was no dearth of financial crisis that have threatened the economy e.g. financial crisis in Europe, Asia, Gulf or in the form of fall in oil price or the recent decision of United Kingdom to leave European Union.

1.6 Environmental scan of the economic scenario in the country

1.6.1 Government of India, as part of its national agenda to promote growth, increase in efficiency and international competitiveness, has been continuously framing policies for industrial growth. With the policy re-orientations, the role of Government as regulator is changing from exercising control to one of providing help and guidance by making essential procedures fully transparent and eliminating delays.

1.6.2 Keeping with the reform agenda, the Government has constituted the National Institution for Transforming India, called NITI Aayog, to replace the Planning Commission instituted in 1950. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in National interest, and thereby foster Cooperative Federalism. The Aayog also indicates that this is a diversified country and that its states are in various phases of economic development along with their own strengths and weaknesses, and thus a 'one size fits all' approach to economic planning is obsolete as it cannot make India competitive in today's global economy. The same analogy holds true to certain extent for CPSEs as well who are operating in diversified sectors across country with different complexities, level of technology, varied performance and profitability, strategic importance, etc.

1.6.3 To create healthy competition amongst the industries operating in public sectors and private sectors, the Government of India is promoting business environment like:-

a. Ease of doing business: The important measures that have been undertaken are liberalization of licensing and deregulation of a large number of defence products, extending the validity of licenses to provide enough time to licensees to procure land and obtain the necessary clearances/approvals from authorities, adoption of a checklist with specific time-lines for processing all applications filed by foreign investors in cases relating to retail/non-resident Indian (NRI)/export-oriented unit foreign investments, automation of processes for registration with the Employees Provident Fund Organisation and Employees State Insurance Corporation, processing of environment and forest clearances online, reducing the number of documents for exports, adoption of best practices by states in granting clearances and ensuring compliance through peer evaluation, self-certification, etc.

b. E-biz project: Under the project a Government to Business (G2B) portal is being set up to serve as a one- stop shop for delivery of services to the investors and address the needs of the business and industry from inception through the entire life cycle of the business. The process of applying for industrial license and industrial entrepreneur memorandum has been made online.

c. National Manufacturing Policy (NMP): Government has made the revival of Indian manufacturing as a top priority, which is reflected in 'Make in India' campaign and slogan that aims to transform India into a manufacturing hub. The Make in India programme is aimed to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure in various priority sectors. In this regard, the National Manufacturing Policy (NMP) is by far the most comprehensive and significant policy initiative taken by the government. In doing so, the policy intends to create an additional 100 million jobs and support required skills development programmes.

d. Skill development: A new Ministry of Skill Development and Entrepreneurship has been set-up to promote skill and entrepreneurial activities, work is being undertaken on setting up common norms for skill training across central ministries/departments. Thirty- one industry/employer- led Sector Skill Councils (SSCs) have been made operational and these have been aligned with the twenty- five sectors of 'Make in India'. To create a common standard for skills training and certification in the country, efforts are on to align the National Council for Vocational Training (NCVT), school boards, and the University Grants Commission (UGC).

1.6.4 During the period of last few years, changes in the different critical parameters are relevant to see the impact on CPSEs like:-

a. All India Consumer Price Index (AICPI), which is an index of basket of list of goods and services of consumption for Industrial workers on the base year 2001=100 series, has increased from 126.33 as on 1.1.07 to 268 as on 31.3.2016 i.e. an increase of more than 120%.

b. Gross Domestic Product (GDP) of India was worth Rs.1238.7 crore billion US dollars in 2007 whereas the same in 2015 was worth 2073.54 billion US dollars.

c. During the last 10 years, the oil prices (Brent crude) have fluctuated between as high as around $145 to as low as around $30. The gold prices (per ounce) have fluctuated between as low as around $600 to as high as around $1900.

1.7 New challenges before CPSEs

1.7.1 The new avenues in the way businesses are done in the country have opened up different opportunities in the overall globalized environment, and some of them are:-

a. India in the last few decades has become the 'most preferred' back office of the world and now, India is quickly moving up the value chain by becoming a global R&D hub providing cutting-edge research and development. The advances in space technology, nuclear science, IT, computers, manufacturing, biotechnology, energy, etc., have shown that invention is becoming an important part of the economic activity in India.

b. India gradually is becoming a centre for Knowledge Process Outsourcing (KPO) due to its high potential to use data as the raw material and transform it using technology, information, insight, analysis tools, and human intelligence into knowledge and expertise.

c. Information Technology (IT) and IT Enabled Services (ITES) have expanded their product service portfolio. Also, the enactment of Information Technology Bill has assisted in the growth and promotion of e-Commerce, which is riding on the spread of Internet in the country.

d. Retail business - With the government opening up the retail sector to FDI, India has been projected as the top destination for retail investors. It will lead to new economic opportunities and generating more employment.

e. Carbon trading – Many businesses in cities and even in smaller towns of India have now opportunity of doing a new form of business. The business of carbon trading is regarding trading of 'polluting gases'. Almost all industrialized / developed countries are huge buyer of carbon credit and all developing countries, where industrialization has not reached its peak, are supplier of carbon credit. India is amongst the largest suppliers of carbon credit.

1.8 Opportunities for CPSEs in the emerging scenario

1.8.1 A characteristic feature of India's public sector is the role of the Parliament, and that the public and the Parliament expect the executives of the public sector to be answerable in almost the same manner as they expect Government servants to do and that so much more in detail than a normal shareholder expects of the corporate managers in the private sector.

1.8.2 As a result, there are various forms of control over functioning of public sector, like parliamentary control, Audit control, Central Vigilance commission, Central Bureau of Investigation, Right to Information (RTI) Act 2005, etc. thereby exercising superintendence over acts of omissions and commissions on the part of the executives of Public Sector Enterprises.

1.8.3 In addition to all these, India's Public Sector Undertakings have the status of being treated as a State, which have put Public Sector Undertakings within the purview of Article 12 of the Constitution of India.

1.8.4 In an era, when ‘geography’ has become ‘history’, one has to constantly anticipate change, adapt to change quickly and enjoy change. The conditions of globalization, including economic integration, fiscal discipline and introduction of information communications technologies demands dynamic and revitalized CPSEs armed with the strength of knowledge, skills, values, attitudes and leadership abilities of human capital.

1.8.5 It is against this background, that the public sector faces challenge to perform as a business / commercial enterprise in an ever growing competitive environment where both the Indian private sector and international majors are fighting for market share. On the face of this challenge being dealt by the CPSEs, the Government needs to attempt to the extent possible to provide a level playing field to the CPSEs to be efficient and productive to its full potential.

1.8.6 In conclusion, the growth that is being witnessed in the country today is largely due to the contribution of public sector in terms of setting up a launch pad for the economy to take-off. The public sectors from the very beginning have diligently implemented various Government objectives like building infrastructure, supporting huge middle class families, providing job security, encouraging competition, contributing to private sector growth, fostering socio-economic development, etc. Now, in the existing scenario of fierce competition, the public sector deserves fair right & opportunity to compete with the private sector & MNCs in order to achieve attraction and retention of talented manpower, which is the key resource for growth of an organization.

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CHAPTER - 2

Compensation structure
&
HR perspective - CPSEs
(Significant factors)

Chapter – 2: Compensation structure & HR perspective – CPSEs - (Significant factors)

2.1 Employees profile / categories in CPSEs

2.1.1 The recent figures reflect that there are around 12.91 lakh employees (excluding contract workers) employed in 298 CPSEs, out of which around 30% of the manpower of CPSEs belongs to managerial (Board level and below Board level executives) and supervisory cadres, who will be covered under the recommendations of the 3rd Pay Revision Committee i.e. PRC (in short Committee).

2.1.2 As regards the other category of CPSEs employees i.e. unionized workers (around 70% of CPSEs manpower), broad guidelines for their wage revision are conveyed separately by the Department of Public Enterprises (DPE) under the Wage Policy issued by them from time to time. As being advised by DPE in the wage policy, the management of the CPSEs are empowered to negotiate and settle the wage structure with the workmen keeping in view and consistent with the generation of the resources/ profits by the concerned enterprises while at the same time ensuring that there should be no increase in labour cost per physical unit of output. Further, wage policy also states that the negotiated wages for unionized workers should not come in conflict with the pay revision of officers.

2.2 Human Resources (HR) perspective - Changes and Challenges for CPSEs

2.2.1 Human resources are a public enterprise's most important asset and a source of its competitive advantage. The organizations are increasingly viewing the Human Resource Department as the most strategic function and prime business partner.

2.2.2 In recognition of human resource management in public sector, Government has already brought in place the position of Director (HR) in the Board of Directors of all Schedule-A CPSEs.

2.2.3 If the public sector growth story is to shine in a highly competitive business space, then the time is opportune for CPSEs to have comprehensive look at their HR policies, processes and systems and deliver integrated HR solutions.

2.2.4 In realization of the effect of globalization on the business landscape, the way the HR department is engineered in CPSEs needs to significantly focus on Human Resource Development (HRD), which deals with two aspects i.e. Human Resource and Development:-

- Human resource- consists of total knowledge, creative abilities, skills, talents and aptitudes of an organization's work force, as well as the values and potential of the individuals.
- Development- on the other hand involves enhancement of the skills and abilities of the employee in the present job as well as making him capable of doing so in the future assignments.

Recognising that pay is not the only motivator, the HRD must strive on all the employee engagement aspects to strengthen the organization-employee relationship.

2.2.5 The HR Departments in CPSEs have performed so far in tune with the organizational requirement. In the current context, the HR in CPSEs needs to be alive to the critical role of aligning with the business strategies, like:-

a. Reducing costs through workforce savings and vacancy management;
b. Redeployment and meaningful deployment of available manpower through Skills development & Training to utilize the maximum potential of employees;
c. Investing in competency building of employees should be emphasized to meet the requirements of a knowledge organization;
d. Long term Career planning / Succession planning / Promotion policy (and Performance Appraisal mechanism) must be the main focus of Top Management to see that "talent pipeline" remains in flow;
e. Robust contract management arrangements including the potential / use of outsourcing alongside the more traditional client/contractor arrangements, etc.;
f. Maintaining harmonious Industrial Relations and synergy with the stakeholders;
g. Feedback mechanism should be in place on HR parameters or CPSEs may have HR-scorecard to evaluate the HR Department operations and its linkage to the company's business.

2.2.6 Further, the big challenge for HR in CPSEs is to get involved with service transformation and modernization, and changing the way in which public services are delivered, plus leveraging the opportunities and challenges / pitfalls posed by Social media.

2.2.7 Human capital is largely intangible and difficult to measure as a component in a company's business success; but importantly these resources are known to have immense potential waiting to be tapped. With this challenge, HR has to provide a true competitive advantage to the CPSEs through sustained and continuous development of its human resources.

2.3 Employment Laws and Labour Reforms

2.3.1 In the country, the Employment Laws cover three main categories of employees: Government employees, Public Sector Undertaking (PSU) employees and Private sector employees.

i. Government employees: Rules and regulations governing the employment of government employees stem from the Constitution of India. Accordingly, government employees enjoy protection of tenure, statutory service contentions and assured salary and welfare / social security benefits.

ii. PSU employees: They are governed by their own service regulations, which either have statutory force, in the case of statutory corporations, or are based on statutory nature of orders. The salary and welfare / social security benefits, which can be of statutory nature or otherwise, are provided by the PSUs from out of their financial resources (with no budgetary support of the Government).

iii. Private sector employees: They can be classified into two broad categories namely, Management staff and Workmen. In line with the Industrial Disputes Act, 1947, the Managerial, administrative or supervisory employees drawing a salary of Rs.10,000/- or more per month are considered management staff and there are no statutory provisions relating to their employment and accordingly in case of managerial and supervisory staff/employee, the conditions of employment are governed by respective contracts of employment and their services can be discharged in terms of their contract of employment. Workmen category are covered under the provisions of the Industrial Disputes Act.

2.3.2 The law relating to labour and employment in India is primarily known under the broad category of "Industrial Law". Another context pertains to Industrial Relations (IR) that embrace a complex of relationships between the Workers / Employees, Employers and Government; and it is basically concerned with the determination of the terms of employment and regulation of the working / service conditions of the employees.

2.3.3 Labor laws are under concurrent list as per the Constitution of India i.e. both the Union and the State governments are competent to legislate on labour matters and administer the same. Important laws impacting labour and Industrial relations are –

a. The Industrial Disputes Act, 1947;
b. The Payment of Bonus Act, 1965;
c. The Factories Act, 1948;
d. The Industrial Employment (Standing Orders) Act, 1946;
e. The Contract Labour (Regulation & Abolition) Act, 1970;
f. Minimum Wages Act,1948;
g. The Payment of Wages Act, 1936;
h. The Employees' Compensation Act, 1923;
i. Apprentices Act, 1961;
j. The Employees' State Insurance Act, 1948;
k. The Payment of Gratuity Act, 1972; and
l. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952.

2.3.4 Government is broadly inclined towards **'minimum government, maximum governance'**, and in this context it is being contemplated to simplify Central labour laws by consolidating the existing 44 laws into four labour codes (namely, on wages, industrial relations, safety and security, and health). The labour reforms are viewed to increase the ease of doing business in the country and boost manufacturing and facilitate job creation, without compromising on the genuine protections and rights available for workers.

2.3.5 In view of the changing times, the CPSEs face challenge in dealing with the employees who may seek protection for non-performance under the shield of country's labour laws. On such matters, the trend of judgments of different courts on labour matters, service matters, contract system, strike & bandh related, etc., are reflecting the change in outlook of judiciary which is now more inclined towards promoting Industrial productivity. For example: an important judgment was given by the Hon'ble Supreme Court on the strike by Tamil Nadu government employees stating that in a society where there is large scale unemployment and number of qualified persons are eagerly waiting for employment in Government departments and CPSEs, the strikes cannot be justified on any equitable ground. In another case, the Hon'ble Supreme Court of India held that calling of 'bandh' by any organization is illegal and unconstitutional, as it is counter to the fundamental right of the citizen [*The Communist Party Of India (M) vs Bharat Kumar & Ors, AIR 1998 SC 184*].

2.3.6 As the CPSEs fall within the inclusive definition of 'State' under the Article 12 of the Constitution of India, the Courts and Statutory authorities have power of judicial review on the matters pertaining to CPSEs either in relation to service matters or with regard to commercial transactions.

At the same time, these CPSEs operate as independent commercial entities under the Companies Act. A view has also been expressed that to treat CPSEs as a 'State' negates the very objective of creating independent commercial entities. Being defined as 'State', CPSEs are subjected to a multi-layered accountability framework and are required to comply with:

- Parliamentary Accountability
- MoU system
- Performance review by administrative Ministry
- CAG Audit
- Compliance with Central Vigilance Commission Requirements
- Right to information Act, etc.

These have certainly helped in good governance and sustaining the confidence of people at large in CPSEs. However, it has been also opined that these regulations have brought a state of over governance. Moreover, too much governance has sometimes delayed decision making process, strategy building, resource allocation and programme implementation, resulting in sub-optimal performance and diffused set of goals. Therefore, it is important that the existing systems, laws and regulations are pruned, updated and converged to a single window system to facilitate expeditious decision making process and provide level playing field to CPSEs.

2.3.7 The nature of service matter cases are related to recruitment, pay-matters, disciplinary matters, seniority, etc.; and the break-up of commercial transactions are in the areas of Corporate / Commercial law, contract related, procurement / dealership, tendering related, trading, taxation, etc.

2.3.8 Committee is concerned over the high litigation cost incurred by the CPSEs in dealing with the cases. CPSEs should become more aware of the situation and take required initiatives to stop the leakage of its profits in name of litigation and arbitration. This problem has been addressed in a separate chapter.

2.3.9 As regards the matter of settlement of disputes relating to commercial contract(s) between CPSEs inter-se, and also between CPSEs and Government Departments, the Government of India had created a Permanent Machinery of Arbitration (PMA) in the DPE.

2.4 Compensation structure in CPSEs – glimpse of historical perspective

2.4.1 Before proceeding further to consider the recommendation on the comprehensive pay package from 1st January 2017, it is imperative to understand the trend and the thought process of the previous Pay Revision Committees that have determined the compensation structure in CPSEs till date.

2.4.2 For the period prior to 1982, the pay followed in CPSEs were either sector specific or based on geographical clusters and were supposedly in consideration of the pay-structure in the Government.

2.4.3 As regards the pay scales of Board level executives, the same is determined and linked to the Schedule classification of the CPSEs (i.e. Schedule-A, B, C & D). The said classification was done for the first time in 1965 when the CPSEs were categorized in these four schedules. The table below gives the detailed transition of pay scales of Board level executives from 1965 onwards at an interval of 5 years and later 10 years:-

(Rs. per month)

Period	Schedule A	Schedule B	Schedule C	Schedule D
1965 / (Prior to 1982)	3500-125-4000	3000-125-3500	2500-100-3000	2000-100-2500 *2250-100-2750 (*Revised by Govt. in May 1975)
1.8.82	4500-125-5000	4000-125-4500	3500-100-4000	3000-100-3700
1.1.87	9000-250-10000	8500-200-9500	7500-200-8500	6500-175-7550
1.1.92	13000-500-15000	12000-400-14000	10000-400-12000	9000-300-10500
1.1.97	27750-750-31500	25750-650-30950	22500-600-27300	20500-500-25000
1.1.07 (as per 2nd PRC)	CMD- 80000-125000	CMD -75000-90000	CMD- 65000-75000	CMD - 51300-73000
	Dir - 75000 - 100000	Dir - 65000 - 75000	Dir - 51300 - 73000	Dir - 43200 - 66000

2.4.4 As regards the executives at below Board level, the pay scales are uniform across all CPSEs except that certain grades at top level were not permissible in lower Schedule CPSEs [like level of E-9 is allowed only for Schedule-A and not for Schedule-B, C & D; similarly level of E-8 is allowed only for Schedule - A&B and not for Schedule - C & D; and level of E-7 is allowed only for Schedule-A, B & C and not for Schedule- D].

2.4.5 A conscious effort towards bringing about uniformity in the pay structure in CPSEs was introduced by the then Bureau of Public Enterprises vide their Office Memorandum dated 11.8.1982 for the various Public Enterprises. It was also decided that such revisions would have effect for 5 years from 1.8.1982. Accordingly, pay-scales of below Board level executives were revised w.e.f 1.8.1982. This step of the Bureau of Public Enterprises also aimed to restore the relativities between the emoluments of officers in the scheduled posts and other below Board level officers.

2.4.6 It was the DPE guidelines of 1990, effective from 1.1.1987 which endeavored to introduce an element of uniformity by rationalizing the scales and attempted to systematize the pay scales at the Board level and also for below Board level in CPSEs. The periodicity of this revision was also for a period of 5 years.

2.4.7 Later, the pay structure for CPSEs was reviewed effective from 1.1.1992 through more comprehensive guidelines conveyed vide DPE's OM No. 2(50)/86-DPE(WC) dated 19.7.1995. The periodicity of this revision was also kept for a period of 5 years.

1st Pay Revision Committee (1st PRC)

2.4.8 In order to have comprehensive review of the compensation structure in CPSEs, the Government for the first time constituted the **1st Pay Revision Committee (PRC) (headed by Justice (Retd.) S Mohan)** to recommend on the pay structure to be effective from 1.1.1997. The Committee, was also asked to take into account the report of the 5th Central Pay Commission applicable to Government employees. A gist of the recommendations of 1st PRC and DPE's pay-revision guidelines issued vide OM No. 2(49)/98-DPE(WC) dated 25.6.1999 is as under:-

a. **Affordability**: CPSEs, which have been making profit consistently for the last three years viz. 1996-97, 1997-98 and 1998-99, would be allowed to adopt the recommended scales of pay. CPSEs, which didn't make profit during the last three years viz. 1996-97, 1997-98 and 1998-99 would also be allowed to adopt the same but with the approval of the administrative ministries in consultation with the DPE. In respect of sick CPSEs referred to BIFR, revision of pay scales would be strictly in accordance with rehabilitation packages approved by the BIFR and providing for the additional expenditure on account of pay revision in these packages. CPSEs under construction would submit their proposals for adoption of revised scales of pay to their respective Ministries for approval in consultation with the DPE.

b. **Relativity**: Relativity between pay of a Chief Executive Officers of Schedule 'A' enterprise and Secretary level officer of Government should be 1.12**:**1; and that at entry level for both Government and public sectors should at parity i.e. 1:1.

   As regards the internal relativity, the ratio of pay of highest paid executive and the lowest paid employee should be 10:1; and the ratio of Chief executive at the highest level and the executive at entry level should be 4:1.

c. **Fitment benefit**: Method was recommended as under:-

A		**B**		**C**		**D**
Basic pay as on 31.12.96 and *Personal pay as on 1.1.92	+	Corresponding Dearness Allowance at AICPI 1708 (base 1960=100) as on 1.1.97	+	Upto 20% of 'A'	=	Aggregate amount #

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* Personal Pay resulting as a consequence of the Department of Public Enterprises guidelines dated 19.7.95 on the 1992 Executive salary revision.

The new basic pay will be determined by placing the aggregate amount at Column D in the revised scale of pay. Where the aggregate amount in Column D thus arrived, does not fit into a stage in the revised scale of pay, the new basic pay will be determined by fixing the Aggregate amount at the next higher stage in the revised scale of pay.

d. **Stagnation increments**: Upto a maximum of 3 stagnation increments for those who reach the maximum of their scales.

e. **Dearness Allowance (DA)** –100% neutralization of the DA.

f. **Perquisites, Allowances and Performance Related Payments** - The payment of perquisites and allowances may be upto 50% of Basic pay; and any payments over and above the ceiling of 50% should be entirely in the nature of performance related payments, which should not exceed 5% of the distributable profits in an enterprise.

g. **Periodicity** –10 years (from 1.1.1997 to 31.12.2006)

2nd Pay Revision Committee (2nd PRC)

2.4.9 At the time of completion of 10 years periodicity of 1st PRC's pay-revision, the Government constituted **2nd Pay Revision Committee (PRC) (headed by Justice (Retd.) MJ Rao)** to recommend on the pay structure to be effective from 1.1.2007. The terms of reference of the PRC was more comprehensive than 1st PRC and it also included that categorization of CPSEs such as Schedules (A, B, C & D) and Ratnas (namely Navratna, Miniratna, loss/profit making CPSEs) may be taken into account while evolving suitable pay packages. The 2nd PRC was also to examine the general principles, financial parameters and conditions, which should govern the desirability, feasibility and continuation/modification of the Productivity Linked Incentives Schemes and Performance Related Payments. The PRC, was also asked to take into account the report of the 6th Central Pay Commission (CPC) applicable to Government employees.

2.4.10 2nd PRC recognized that there is a paradigm shift in Indian economy and job market, and CPSEs have ceased to be an attractive career options for bright young Indians. A gist of the 2nd PRC report is as under:-

a. **Affordability:** The parameter for deciding affordability was that by implementing the pay-package the dip in the profit of a CPSE for the year 2007-08 should not exceed 20% in respect of the executives. If the dip is more than 20%, then the pay-package would not be implemented in full, but in different part-stages.

b. **Relativity**: The Committee recommended that the compensation package for executives of CPSEs should be decided independent of 6th CPC's recommendations for the government servants. Progressively executive compensations in CPSEs should be aligned with their counter parts in the Private Sector.

c. **Categorization and classification of CPSEs:** Committee recommended to categorize and rank CPSEs into 5 categories (namely A+, A, B, C and D) to reflect its Size and Management complexities so as to decide Fixed component of compensation package, based on following parameters:-

1. Total Income 75%
2. Size of Manpower 15%
3. Physical dispersal of operations 10%

As per scoring, the CPSEs were categorized into five groups as under

Category	Range of Score	No. of CPSEs	Present Schedule					Present Status		
			A	B	C	D	U	NR	MR1	MR2
A+	**Above 85**	**11**	11	-	-	-	-	8	2	-
A	**55 – 84**	**39**	23	14	-	-	2	8	24	1
B	**30 – 54**	**53**	16	32	2	-	3	-	13	1
C	**15 – 29**	**49**	1	22	21	1	4	-	2	6
D	**Below 15**	**64**	2	6	25	5	26	-	-	5
Total :		**216**	**53**	**74**	**48**	**6**	**35**	**16**	**41**	**13**

d. With the above categorization / principles, the 2nd PRC recommended following components of compensation package:-

(i) Fixed pay: with two sub-components i.e. **'Basic Pay'** and **'Risk pay'**.

- **Risk pay** – It will not be considered in determining the pay-linked benefits. When company is going through crisis and there is serious erosion in profitability, Risk pay may be withdrawn fully / partially.

- **Pay-scales** – Committee recommended 5 sets of pay-scales for five categories of CPSEs. A new pay-scale stage 'E-10' (between E-9 and Director) was recommended for 'A+' category CPSEs.

(ii) Dearness Allowance (DA): 100% DA neutralization.

(iii) Fitment benefit: A graded fitment was recommended as under:

	Category of CPSE				
	% benefit on the existing Basic pay + DA				
Grade	**A+**	**A**	**B**	**C**	**D**
E0 to E3	30	20	15	9	3
E4 to E6	37	25	19	12	6
E7 to E9	42	30	23	15	9
Director	Fixed Pay				
CMD	Fixed Pay				

(iv) Fitment method -

A		B		C		D
Basic Pay + Stagnation increments as on 1.1.2007 (Personal Pay/ Special Pay not to be included)	+	Corresponding DA of 68.8% as on 1.1. 2007	+	Graded fitment benefit as per the Table above on (A+B)	=	Aggregate amount rounded off to the next Rs.10

(v) Pay-related allowances / increments

- **Increments**- Annual increments may range from 2% to 4% of Basic pay depending on the performance of individual as determined by Performance Appraisal System and the capacity of the CPSE to pay.

- **Stagnation** - The individuals who have reached the maximum of the Scale may be allowed to draw maximum of 3 stagnation increments every 2 years at 2% of Basic Pay provided they get a performance rating 'Good' or above.

(vi) Other Allowances / Perks –

- Board may decide on the perks and allowances admissible to the different categories of executives subject to a maximum ceiling of 50% of the Basic Pay (i.e. without Risk Pay).

- Instead of having a fixed set of allowances, the CPSEs may follow **‘cafeteria approach’** allowing the executives to choose from a set of perks and allowances.

- In places where CPSEs have created infrastructure such as hospitals, colleges, schools, clubs etc., these facilities should be monetized for the purpose of computing the perks and allowances.

- The following allowances will be outside the purview of 50% limit:

  - North East Allowance limited to 12.5% of Basic Pay;
  - Underground Allowance for Mining companies;
  - Special Allowance for serving in the difficult and far flung areas;
  - Non-practicing Allowance for Medical Officers.

(vii) **Conveyance** - Company Car should be provided to the Directors and CMD only. All other Executives should use their own transport to commute to the office.

(viii) Variable Pay/Performance Related Pay (PRP)

- PRP should be directly linked to the profits of the CPSEs / unit and performance of the executives.

- For deciding individual levels of PRP, the methodology could be finalized by the CPSE concerned, after putting in position a rational and transparent Performance Management System at the enterprise level, unit level and the individual level as found appropriate by the respective CPSEs. Balanced score cards have to be introduced to all executives to determine the eligibility of PRP for each executive.

- Performance Management System: Since PRP to individuals and Groups will be based on performance against Key Result Areas, the Committee recommended that all CPSEs should develop a robust and transparent PMS system. CPSEs should adopt **‘’Bell curve approach’’** in grading the officers so that not more than 10% to 15% executives are Outstanding / Excellent. Similarly 10% of executives should be graded as below par.

- The percentage ceiling of PRP, is progressively increasing from junior level to senior level executives, expressed as percentage of pay as under:

Grade	A+, A, B Categories	C & D Categories
E0 to E1	40	40
E2 to E3	40	40
E4 to E5	50	50
E6 to E7	60	60
E8 to E9	70	70
E10	100	--
Director	150	100
CMD	200	150

- If the CPSE achieves ‘Excellent’ MOU rating, the PRP can be paid at 100% eligibility levels as outlined above, on ‘Very Good’ the eligibility should be scaled down to 80%. In respect of ‘Good’ and ‘Fair’ ratings, the eligibility levels could be brought down to 60% and 40% respectively. If the CPSE is rated ‘Poor’, there will be no eligibility for PRP irrespective of the profitability of the CPSE.

- Similarly, the executives who get ‘Outstanding’, 'Very Good', ‘Good’ and ‘Fair’ performance rating should get up to 100%, 80%, 60% and 40% of PRP. No PRP is recommended for those achieving ‘Poor’ rating.

- System of PRP must have an in-built mechanism for continuous improvement of the profitability. Towards this end, the Committee recommends the following method of computing the allocable profits for PRP payments:

  - The Performance pay would be based on physical and financial performance and will come out of profits of the company.
  - 60% of the Performance Pay, as recommended, will be given with a ceiling of 3% of PBT.
  - 40% of PRP will come from 10% of incremental profit. Incremental profit is the increase in profit as compared to previous year’s profit. For the purpose of calculating the incremental profit, the starting year would be 2007-08.
  - Total PRP, however, will be limited to 5% of the year’s PBT, exclusively for the Executives.

- Long term incentives: All Enterprises should formulate Employee Stock Option Plan (ESOP) and 10% to 25% of the PRP should be paid as ESOPs.

- Memorandum of Understanding: The MOU rating will form the basis of PRP with all the Key Result Areas identified in the MOU. The CPSEs that do not enter into MOUs will not be eligible for PRP.

- Remuneration Committee: PRC recommended that all CPSEs should have professional Boards with Independent Directors. All the CPSEs should constitute a Remuneration Committee headed by an Independent Director. CPSEs will not be eligible for PRP unless Independent Directors are on their Boards.

(ix) Superannuation Benefits:

- PRC recommended that CPSEs should allow 30% of the Basic Pay as superannuation benefits which should include CPF, gratuity, pension and post-superannuation medical benefits.

- CPSEs should make their own schemes to manage these funds or operate through insurance companies on fixed contribution basis. The amount of Pension, gratuity and post retirement benefits will be decided based on the returns from the schemes to be operated.

- For purpose of paying the gratuity or post-superannuation benefits, the PRC recommended that there should not be any upper ceiling limit.

- Pension and Medical benefits, as superannuation benefits, are aimed at ensuring the loyalty of executives to the CSPEs, and it should be extended to those who superannuate from the CPSE and have put-in 15 years of service.

- CPSEs may create a corpus by contributing 1% to 1.5% of PBT to create fund in order to take care of medical and any other emergency needs of retired executives and also those who are not adequately covered by the Pension scheme.

(x) Deputationists - Government officers on deputation to the CPSEs, will continue to draw the salary as per their entitlement in the parent department.

(xi) Retirement Age – No increase in the retirement age.

(xii) Periodicity – PRC viewed that once this recommendation has been given effect, the responsibility of future revisions should be given to the Board subject to the approval of concerned Ministry. The revision can be considered as and when necessary on the basis of economic situation and nature of the concerned industry.

(xiii) Sick companies:-

- Sick Enterprises making profits may implement pay revision without Risk Pay or Variable Pay.
- Sick Enterprises not making profit should be examined by BRPSE in a period of six months for revival or closure; and accordingly compensated.
- CMD/Director of Sick Enterprises, who have brought turn-around of Sick enterprise should be allowed to continue to serve upto the age of 60 years.

(xiv) Non-Unionized Supervisory Staff:-

- Since Non-Unionised Supervisory staff are not uniformly present in all CPSEs, the appropriate compensation packages for this segment may be decided by the respective Board of Directors of the CPSE where this category of employees are functioning.

Government's Action on Recommendation of 2nd PRC

2.4.11 Upon consideration of the recommendation of the 2nd PRC, the DPE issued the guidelines as under:

- DPE OM No. 2(70)/08-DPE(WC) dated 26.11.08 – Based on the approval of Cabinet.
- DPE OM No. 2(70)/08-DPE(WC)-GL-IV/09 dated 9.2.09 - Specific to Performance Management System.
- DPE OM No. 2(70)/08-DPE(WC)-GL-VII/09 dated 2.4.09 – Based on the approval of Cabinet (after considering the recommendations of Committee of Ministers).

2.4.12 While issuing the above DPE guidelines, the main modifications / amendments made in the recommendations of 2nd PRC are as under:-

i. Categorization of CPSEs – Not accepted.

ii. Risk Pay – Not accepted.

iii. Pay scales – Instead of recommended categorization based CPSE-wise pay scale, a uniform pay scale for executives across all CPSEs were prescribed.

iv. Fitment benefit:

- A uniform fitment rate @30% of BP+DA was prescribed across all grades and CPSEs
- IDA advised to be @ 78.2% (upon 50% DA merger on 68.8% DA)

v. Increment rate: Uniform rate of 3% of BP.

vi. Superannuation benefits – 30% of BP+DA was allowed on defined contribution basis instead of 30% of BP recommended in the report. Gratuity ceiling was raised to Rs.10 lac (from Rs.3.5 lac) from 1.1.07.

vii. Deputation benefit – CVO and other officers on deputation to Vigilance functionaries allowed the option of electing to draw the pay of CPSE. This option not extended to other deputationists. *[Reference: DPE's OM No. 2(27)/10-DPE(WC)-GL-XXIV/2010 dated 3.12.10 – with the approval of the Cabinet].*

viii. Creation of corpus out of 1.5% of PBT - The main framework / guidelines that emerged within which the CPSEs are allowed to create corpus are:-

- Purpose of corpus would be take care of medical and any other emergency needs of retired employees;
- Scheme should not become a defined benefit pensionary scheme.
- Corpus will cover only those employees of CPSEs who retired prior to 01.01.2007.

[Reference: DPE's OM No. 2(81)/08-DPE(WC)-GL-XVI/2009 dated 8.7.09; OM No. 2(81)/08-DPE(WC)GL-XV/2011 dated 20.7.11; OM No. 2(1)/2013-DPE(WC)-GL-VI/13 dated 24.1.2013]

2.5 7^{th} Central pay Commission's recommendations / report

2.5.1 7^{th} Central Pay Commission (CPC), constituted by Government for Central Government employees, has submitted its recommendations in respect of pay-structure and emoluments related issues that will come into effect from 1.1.2016 for Central Government employees. A gist of the 7^{th} CPC report is as under:

1. **Minimum Pay:** Based on the Aykroyd formula, the minimum pay in Government is recommended to be set at Rs.18,000 per month.

2. **Maximum Pay**: Rs.2,25,000 per month for Apex Scale and Rs.2,50,000 per month for Cabinet Secretary.

3. **New Pay Structure:** Considering the issues raised regarding the Grade Pay structure and with a view to bring in greater transparency, the present system of pay bands and grade pay (which was the pay-structure of 6^{th} CPC) has been dispensed with and a new pay matrix has been designed. Grade Pay has been subsumed in the pay matrix. The status of the employee, hitherto determined by grade pay, will now be determined by the level in the pay matrix.

4. **Fitment:** A fitment factor of 2.57 (on the Basic Pay and Grade Pay) is being proposed to be applied uniformly.

5. **Annual Increment**: The rate of annual increment has been retained at 3 percent.

6. **Modified Assured Career Progression (MACP)**: Performance benchmarks for MACP have been made more stringent from "Good" to "Very Good". The Commission has also proposed that annual increments not be granted in the case of those employees who are not able to meet the benchmark either for MACP or for a regular promotion in the first 20 years of their service.

7. **Allowances**: The Commission has recommended abolishing 52 allowances altogether. Another 36 allowances have been abolished as separate identities, but subsumed either in an existing allowance or in newly proposed allowances.

8. **House Rent Allowance:** Rate of HRA to be 24 percent, 16 percent and 8 percent of the new Basic Pay for Class X, Y and Z cities respectively. The Commission also recommended that the rate of HRA will be revised to 27 percent, 18 percent and 9 percent respectively when DA crosses 50 percent, and further revised to 30 percent, 20 percent and 10 percent when DA crosses 100 percent.

9. **Gratuity**: Enhancement in the ceiling of gratuity from the existing Rs.10 lakh to Rs.20 lakh. The ceiling on gratuity may be raised by 25 percent whenever DA rises by 50 percent.

10. **Performance Related Pay**: The Commission has recommended introduction of the Performance Related Pay (PRP) for all categories of Central Government employees, based on quality Results Framework Documents, reformed Annual Performance Appraisal Reports and some other broad Guidelines. The Commission has also recommended that the PRP should subsume the existing Bonus schemes.

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CHAPTER - 3

3rd Pay Revision Committee

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Assessment

And

Recommendations

Chapter – 3: Assessment and Recommendations

3.1 Methodology & Approach to recommendations on compensation

3.1.1 The terms of reference of 3rd Pay Revision Committee (PRC) (also referred to as ‘Committee’ in this Report) as laid down in the Gazette Notification No. W-08/0005/2016-DPE(WC) dated 9th June 2016 are as follows:

1. The Committee will review the structure of pay scales, allowances, perquisites, and other benefits for the following categories in CPSE taking into account the salary, emoluments, incentives and other benefits (including non-monetary benefits) available to them and suggest changes which may be desirable, feasible and affordable:-

   (i) Board level functionaries;
   (ii) Below board level executives; and
   (iii) Non-unionized supervisory staff.

2. The Committee will make recommendations to enable CPSEs to become modern, professional, consumer-friendly, commercially successful and competitive entities committed to national development goals and dedicated to the service of the people.

3. The Committee will devise a comprehensive pay package for categories of employees of CPSEs that is suitably linked to promoting efficiency, productivity and profitability of CPSEs through rationalization of structures, systems and processes in the CPSEs with a view to leverage latest technology, management skills, global best practices, while ensuring accountability, responsibility, discipline and transparency in the operations and processes of these organizations.

4. While devising a suitable pay and compensation structure for the executives and the non-unionized supervisors of the CPSEs, the Committee will take into account the existing pattern of scales based on Industrial Dearness Allowance (IDA) and Central Dearness Allowance (CDA) pattern, wherever applicable, the prevalent categorization of CPSEs into ‘A’, ‘B’, ‘C’ and ‘D’ Schedule, the status of Maharatna, Navratna, Miniratna bestowed on the CPSEs, the overall condition of the loss/ marginal profit making CPSEs, and those CPSEs, which by the very nature of their business, are not-for-profit companies (registered

under Section 25 of the Companies Act, 1956, or under Section 8 of the Companies Act, 2013).

5. The Committee will make recommendations as would equip the CPSEs to compete in the emerging domestic and global economic scenario taking into consideration the special role of public sector, the demands and expectations of the stakeholders including the Government, the need to observe financial prudence in the management of CPSEs due to resource constraints, economic conditions, and the requirements of social and economic development in the country.

6. The Committee will examine the concerns of the CPSEs including the general principles, financial parameters and conditions which should govern the desirability, feasibility and continuation/modification of the Productivity Linked Incentives Scheme and Performance Related Payments.

7. While finalizing its report, the Committee will also take into account the report of the 7th Central Pay Commission.

3.1.2 The Committee is guided by the terms of reference laid down in the Gazette notification while deciding on the recommendations on revised compensation & benefits structure.

3.1.3 In accordance with above, the Committee assessed the aspects related to pay revision by opting the methodology of:

(i) Examining the existing position & compensation structure in CPSEs.
(ii) Understanding the demands, issues and suggestions with justification brought out by CPSEs.
(iii) Examining the 2nd Pay Revision Committee's recommendations for CPSEs and Acceptance by Government.
(iv) Examining the 7th Central Pay Commission's recommendation for Central Government employees.
(v) Views / Recommendations arising thereof.

3.1.4 The Committee also analyzed the responses of CPSEs and the Officers' Associations to the Questionnaire framed by the Committee, interacted with the Management and Officers' Association of CPSEs, considered the compensation trend, examined the report of 1st PRC and 2nd PRC and have also taken into account the report of Seventh Central Pay

Commission (also referred to as '7th CPC') for the Central Government employees (supra). The references in the matter are as under:-

- Questionnaire prepared by Committee is attached as Annexure-'A'.
- List of CPSEs from whom the responses to the questionnaire has been received is attached as Annexure-'B'.
- List of Officers' Associations from whom the responses to the questionnaire has been received is attached as Annexure-'C'.
- List of Administrative Ministries from whom the responses to the questionnaire has been received is attached as Annexure-'D'.
- A summary & analysis of the responses received is attached as Annexure-'E' & 'F'.
- Dates on which the Committee's meetings were held, including the dates of interactions held with CPSEs and Officers' Association, is attached as Annexure-'G'.
- List of CPSEs / Officers' Association with whom the Committee interacted is attached as Annexure-'H'.
- List of CPSEs / Ministries / Associations / Retired individuals from whom representations have been received is attached as Annexure-'I'.

3.1.5 After assessment in accordance to above, the Committee has reached a comprehensive pay package in this Report for the Board level, Below board level executives and Non-unionized supervisory staff, which is expected to promote efficiency, productivity and profitability of CPSEs.

3.2 Affordability

3.2.1 Affordability is the key factor that reflects the position of a CPSE to implement the pay-revision without its impact being detrimental to its financial sustainability.

3.2.2 On the issue of affordability, the 1st PRC (effective from 1.1.1997) had recommended that CPSEs, which have been making profit consistently for the last 3 years, would be allowed to adopt the revised scales of pay. The CPSEs that did not make profit during the last three years were also allowed to adopt the same but with the approval of the Administrative Ministries in consultation with the Department of Public Enterprises (DPE).

3.2.3 Similarly, the 2nd PRC (effective from 1.1.2007) had recommended that parameter for deciding affordability shall be that by implementing the pay-package, the dip in the Profit Before Tax (PBT) of a CPSE for the financial year 2007-08 should not exceed 20% in respect of the executives. If the dip is more than 20%, it was stated that then the pay-package would not be implemented in full, but in different part-stages.

3.2.4 The Committee observed that the overall Industrial Production and growth in profitability of the companies over the past few years have shown mix performance on the face of global uncertainties and volatility. As per the trend seen from the Public Enterprises (PE) Survey Report, though the Gross Turnover of the CPSEs during the period from FY 2007-08 to FY 2014-15 has increased from Rs.10,96,308 crore to Rs. 19,95,902 crore (i.e. around 82% increase); however the overall growth in net profits of the CPSEs during the said period has been from Rs.81,274 crores (FY 2007-08) to Rs.1,03,002 crores (FY 2014-15) i.e. around 27% increase.

On the other hand, the salary & wages figure in the PE Survey Report shows increase from Rs.64,306 crore (FY 2007-08) to Rs.1,27,387 crore (FY 2014-15) i.e. around 98%. The prime reason for the increase in salary & wages during these years is understandably the increase in All India Consumer Price Index (AICPI) by more than 100%, thereby affecting the net increase in salary & wages on account of 100% DA neutralization that is linked to AICPI.

Raising concern over the conservative increase in profits of CPSEs (around 27%) during the period after FY 2007-08 (which understandably has been due to competition and stressed phases of global economy) *whereas* almost doubling of salary & wages (around 98%) during the same period, the Committee is of the view that the affordability criteria for implementation of this pay-revision should also be conservative for ensuring long term financial sustainability of the CPSEs.

3.2.5 The Committee is further of the view that the affordability factor should not be determined by linking it to the profitability of only the 1st year in which the pay-revision becomes effective as the businesses / industries run in cyclical phases & fluctuations covering expansion, peak, recession and recovery phases over a period of time. Moreover, the periodicity of pay-revision remaining effective for a longish period, the affordability / impact of pay revision should ideally be gauged on the likely profitability over the years covering a cyclical phase. The duration of a business cycles is linked to the nature of the industry as well as the global outlook and macroeconomics; and as per general understanding, the business cycle may vary starting from one / two years to ten / twelve years. Thus, mere profitability of 1st year is not viewed to be an appropriate measure on which the affordability of pay revision can be determined.

3.2.6 In consideration of the recommendations on pay-revision package being made by the Committee, keeping in trend with the increase in the organization's profitability vis-a-vis salary & wages, and also understanding that implementation of pay-revision has significant impact on the motivation & performance of executives, the Committee ***recommends that the additional financial impact in the year of implementing the revised pay-package for Board level executives, Below Board level executives and Non-Unionized Supervisors should not be more than 20% of the average Profit Before Tax (PBT) of the last three financial years preceding the year of implementation.*** If the additional financial impact in the year of implementing the revised pay-package is more than 20% of the average PBT of last 3 financial years, then the revised pay-package should not be implemented in full but only partly (as per the stage-wise fitment benefit recommended later in the chapter).

3.2.7 In respect of other CPSEs like Sick companies, CPSEs under construction and the CPSEs that by the very nature of their business are not-for-profit companies, the **Committee recommends as under:-**

(i) ***In respect of Sick CPSEs referred to Board for Industrial and Financial Reconstruction (BIFR) / Appellate Authority for Industrial and Financial Reconstruction (AAIFR), the revision of pay scales should be in accordance with rehabilitation packages approved by the Government and providing for the additional expenditure on account of pay revision in these packages.***

(ii) The Committee observed that the sick CPSEs that have not been referred to BIFR, the Department of Public Enterprises (DPE) vide its OM No. DPE/5(1)/2014-Fin.(Part) dated 7.9.2016 has conveyed the guidelines for time bound closure of sick CPSEs that are in the different stages / process of closure. The Committee endorses the initiatives taken by the DPE in this regard.

As regards the sick CPSEs that have neither been referred to BIFR nor the closure process is underway, the ***DPE should ensure that such CPSEs are either referred to BIFR (by considering improvement in the compensation structure to the extent feasible in line with the recommended revised pay-package) or identify the same for closure by way of payment of financial compensation, discharge of***

liabilities, monetization of lands and moveable assets, etc. as laid down under DPE's OM dated 7.9.2016.

(iii) The CPSEs registered under Section 25 of the Companies Act, 1956, or under Section 8 of the Companies Act, 2013 are by the very nature of their business are not-for-profit companies as these CPSEs are mostly set up to implement Government programmes for specific sectors or sections of the society, like to promote commerce, art, science, religion, charity or any other useful purpose. These are not operating in a competitive market and do not normally function with a profit motive; however such companies are to apply their profits, if any, or other income in promoting their objectives. These companies are prohibited from distributing dividends to its members. A few of such non-commercial CPSEs are India Trade Promotion Organization (ITPO), National Scheduled Tribes Finance and Development Corporation (NSTFDC), Artificial Limbs Manufacturing Corporation of India (ALIMCO), etc. Thus, the ***affordability condition shall also be applicable to these CPSEs for implementation of the revised compensation structure (including Performance Related Pay) as being recommended for other CPSEs***.

(iv) There are also certain CPSEs which have been formed as an independent Government company under a statute to perform specific agenda / regulatory functions. The revenue stream of such CPSEs are not linked to profits from the open market competitive scenario but are governed through the fees & charges, as prescribed and amended from time to time by the Government. There is no budgetary support provided by the Government to such CPSEs. In consideration that the impact of the revised compensation structure (including Performance Related Pay) would supposedly form the part of revenue stream for such CPSEs, the ***Committee recommends that affordability condition shall not be applicable to these CPSEs; however the implementation of same shall be subject to the approval of Administrative Ministry upon agreeing and ensuring to incorporate the impact of the revised compensation structure into the revenue stream.***

(v) As regards the CPSEs under construction and are yet to start its commercial operations, ***the implementation of pay-revision for such CPSEs would be decided by the Government based on the proposal***

of concerned Administrative Ministry and in consideration of their financial viability.

(vi) The CPSEs which are currently following the pay-revision package as was effective for the period prior to 1.1.2007 (i.e. effective from year 1997, 1992, etc.) shall continue to be guided by the relevant DPE guidelines for the pertinent period; and these CPSEs will have option to adopt the higher pay-scales / package of the subsequent pay-revision period. ***This Committee's recommendation on the revised pay-package shall be directly applicable only to those CPSEs which have adopted the pay-scales of 1.1.2007.***

3.3 Compensation Package - Non-unionized Supervisory Staff

3.3.1 As per the terms of reference of 3rd PRC, the compensation structure has to be reviewed for Board level executives, Below Board executives and Non-Unionized supervisors.

3.3.2 For Non-Unionized supervisors, the 2nd PRC had empowered the respective Board of Directors of CPSEs to decide on appropriate compensation packages for this category.

3.3.3 The Committee, agreeing with the above principle, ***recommends to empower the Board of Directors of the CPSEs to decide appropriate compensation packages for Non-Unionized supervisors (where this category of employees are functioning) in the manner that it doesn't come in conflict with the pay-revision of executives.***

3.4 Categorization of CPSEs – related significance to compensation structure

3.4.1 Categorization of CPSEs to determine the compensation structure was the key focus area of 2nd PRC. A totally new set of criteria were devised by the 2nd PRC for categorization of CPSEs into 5 categories (namely 'A+', 'A', 'B', 'C' and 'D') to reflect its Size and Management complexities based on weighted parameters related to total income, size of manpower and physical dispersal of operations in order to decide Fixed component of the compensation package. However, the same was not agreed to by the Government while accepting the overall pay-package recommended by the 2nd PRC.

3.4.2 The terms of reference of 3rd PRC specifies that a suitable pay and compensation structure for the executives and the non-unionized supervisors needs to be devised by taking into account the prevalent categorization of CPSEs into 'A', 'B', 'C' and 'D' Schedule, the status of Maharatna, Navratna, Miniratna bestowed on the CPSEs, the overall condition of the loss/marginal profit-making CPSEs, and those CPSEs, which by the very nature of their business, are not-for-profit companies (registered under Section 25 of the Companies Act, 1956, or under Section 8 of the Companies Act, 2013).

3.4.3 The Committee dwelt into the basis of classification being currently followed by DPE to categorize the CPSEs and the relativity & impact it has on the compensation structure.

3.4.4 The Committee noted that categorization of CPSEs in 'Ratna' status (Maharatna, Navratna, Miniratna-I and Miniratna-II) is bestowed to CPSEs upon assessing their performance in terms of Turnover, Net worth, Profits, Memorandum of Understanding (MoU) rating, etc. The Ratna status is not directly linked to the compensation structure of CPSEs but primarily provides financial autonomy to the CPSEs to operate effectively in a competitive environment. The Ratna status empowers the CPSEs in taking investment decisions upto a prescribed limit without seeking Government's approval.

3.4.5 The Committee observes that categorization of CPSEs into Schedule-A, B, C & D is primarily the one that impacts the compensation structure, as mentioned below:-

a. The Schedule of CPSEs have been the basis (since 1965) of differentiating the pay-scales of Board level executives. There are eight pay-scales for '*Board level executives'* linked to the Schedule-A, B, C and D, which are as under:-

(i)	Director	(Schedule -D)
(ii)	CMD	(Schedule -D)
(iii)	Director	(Schedule -C)
(iv)	CMD	(Schedule -C)
(v)	Director	(Schedule -B)
(vi)	CMD	(Schedule -B)
(vii)	Director	(Schedule -A)
(viii)	CMD	(Schedule -A)

b. The number of pay-scales / levels of '*below Board level executives'* are also linked to the Schedule classification of the CPSEs, briefed as below:-

(i) Schedule-D : Applicable levels - E0 to E6
(ii) Schedule-C : Applicable levels - E0 to E7
(iii) Schedule-B : Applicable levels - E0 to E8
(iv) Schedule-A: Applicable levels - E0 to E9

3.4.6 In consideration that since these pay-scales and related structure have been operating in the respective CPSEs since inception, the Committee is of the ***view that existing categorization of CPSEs i.e. Schedule-A, B, C & D for determining the pay-scales of Board level executives as well as levels of pay-scales of below Board level executives should remain unaltered due to its wide ramifications and potential to disturb the internal equities existing within the CPSEs in terms of promotion policies, seniority, delegation of authorities, reservation policies, etc.***

3.4.7 During interactions, the Committee was made aware that there are a few CPSEs that have not yet been categorized into the applicable Schedule classification. In other words, such CPSEs or their subsidiaries are operating without any categorization. The ***Committee recommends that Government may take necessary measures to categorize all such CPSEs. Further, in case of CPSEs which are yet to be categorized, the pay-scales as recommended for Schedule-'D' CPSEs would apply***.

3.5 Compensation trend & relativity/equity

3.5.1 On the issue of compensation trend, the 1st PRC had observed that the executives at higher levels in CPSEs are paid much less than their counterparts in Private sector; and a little more than their counterparts in Government. The 1st PRC has recommended the relativity between pay of entry level executive to top paid executive as 1:4.

3.5.2 2nd PRC had also observed that though the entry level compensation for executives in CPSEs is comparable to their counterparts in private sector, the difference increases at higher levels. The 2nd PRC had recommended a ratio of 1:10 between the lowest and the highest paid executive in CPSEs, which would recognize the level of responsibility a CEO of CPSE is expected to discharge in a fiercely competitive market. However, the pay-scales issued by DPE effective from 1.1.2007 reflects the ratio of minimum of the pay-scale of lowest level executive (E-0) to the minimum pay-scale of top level executive (CMD-A) as 1:6.3.

3.5.3 The Committee acknowledges that CPSEs, though being guided by the compensation structure conveyed by the Government, are otherwise practically impacted by the market driven compensation that gets regulated as per the demand & supply of the talent pool available in the open market / country. The talent pool in the market is common for both private sector and public sector. Equally placed in the business space amongst the intense competition with Private sectors, the CPSEs Management during interactions have sought flexibility to decide on compensation structure for its executives in order to attract & retain talent.

3.5.4 The feedback on compensation trends conveyed by many of the CPSEs, and the findings of the external consultant (M/s Aon Hewitt) engaged by Standing Conference of Public Enterprises (SCOPE) representing the CPSEs, reflect that the pay of executives at entry level in CPSEs are in line with the market driven compensation; however from Mid-level to Top level the gap in the emoluments between the CPSEs and the Private sector increases exponentially in favour of the later.

3.5.5 The gap in emoluments in senior levels is understandable, but in general the high compensation & benefits / perks in private sector are limited to a few selected & identified executives. In private sector, the transparency level in the compensation structure is seen to be lacking and at the same time pressure exists in terms of job security. The private sector industries, by its very nature, are profit oriented *whereas* the CPSEs have a welfare approach in handling human resources alongwith the motive of profit.

In such circumstances, it has also been observed that there is inclination of executives, who have resigned, to return to CPSEs. The number of applicants being received for each post, as informed, shows the keenness of the applicants to join CPSEs. Being a 'State' under Article 12 of the Constitution of India, it is not easy to retrench without assigning reason and following the procedure of law. Welfare measures like medical, perks & allowances, superannuation benefits are the attraction for executives in CPSEs. Hence, Committee opines that the threat of private sector to CPSEs is a bit exaggerated.

3.5.6 Taking cue from the trend of compensation in the private sectors, the Committee is of the view that the comprehensive pay-package to be devised for CPSEs executives should be appreciative of a reasonable mix of fixed as well as variable compensation. The profitability of CPSEs should be the significant factor to determine the compensation of the executives. This is expected to bring focus of the CPSEs on its profitability aspects and more priority to cost control measures.

3.5.7 With the above backdrop, ***the relativity / Internal equity between the minimum of pay-scale of entry level / junior most executive and the top level executive should be around the ratio of 1:4 to 1:7 (depending upon the schedule of the CPSE)***.

3.6 Fitment benefit

3.6.1 The fitment benefit, which is occasioned at the time of pay-revision, is granted to those employees who are on rolls of CPSEs as on the date of pay-revision in order to enable their movement to the revised pay scales. Fitment benefit is primarily the mechanism to ensure corrective measures / adjustments in the Basic Pay (in consideration of the market compensation / trend, etc.), which further leads to deciding the revised pay-scales & related compensation structure.

3.6.2 Fitment benefit recommended by the 1st PRC was 20% of Basic Pay (which was to be added to BP + DA to arrive at the revised BP as on 1.1.1997). The 2nd PRC had recommended fitment benefit of 30% of BP+DA (which was to be added to BP + DA to arrive at the revised BP as on 1.1.2007).

3.6.3 The 7th CPC for Central Government employees has escalated the salary by way of fitment factor of 2.57 times of Basic Pay to arrive at the revised Basic Pay as on 1.1.2016. Further, the Commission has approached the revised Basic Pay by calibrating the same in a graded manner by effectively adopting fitment factor / Index ranging from 2.57 times at lowest level (Level-1) to upto 2.81 times of BP for Apex scale (Secretary level) while fixing their pay in the revised pay-matrix. As the recommendation of 7th CPC applies to all Government employees across levels i.e. from Level-1 to Level-18, however specific to Civil services officers at entry level (i.e. Level-10) the pay-scale escalation Index is 2.67 times of Basic Pay. The 7th CPC goes on to mention in the report that index of rationalization has been enhanced with the levels as the role, responsibility and accountability increases at each step in the hierarchy, and the proposed pay structure reflects the same principle.

3.6.4 The general fitment factor (i.e. 2.57 times of Basic Pay) mentioned above is shown by 7th CPC in terms of increase on Basic Pay; and the said increase in terms of percent of Basic Pay + Central Dearness Allowance (CDA rate was 125% of BP as on 1.1.2016 for Central Government employees) comes to 14.22% of BP+DA.

3.6.5 The Committee acknowledges that the escalation in pay-revision devised by 7th CPC tend to increase towards higher grades, and the trend shown by the external consultant (M/s Aon Hewitt) also reflects that senior level executives command higher pay and better placement in the internal equity level of compensation structure. However, the Committee is of the view that CPSEs being a commercial entity should provide for a reasonable increase in the fixed pay at a uniform level for its executives and should compensate more to the senior level executives from the variable pay i.e. Performance Related Pay (PRP) drawn from the CPSEs profitability.

3.6.6 Further, the Committee also observed that amongst the CPSEs who are currently following the pay-scales of 2007, many of these may not find themselves in a position to fully implement the revised pay-structure if a high fitment benefit is recommended by the Committee. The long term financial sustainability of the CPSEs, as well as equity in the benefit amongst the CPSEs, were also a paramount consideration of the Committee while deciding on the fitment benefit.

3.6.7 In overall consideration of the revised pay-package, the ***Committee recommends a uniform fitment benefit of 15% on sum of Basic Pay & Stagnation increment(s) and Industrial Dearness Allowance (IDA)***.

3.6.8 ***Accordingly, the fitment methodology to arrive at the revised Basic Pay as on 1.1.2017 shall be as under:***-

A		**B**		**C**		**D** [Revised BP as on 1.1.17]
Basic Pay + Stagnation increment(s) as on 31.12.2016 (Personal Pay / Special Pay not to be included)	+	Industrial Dearness Allowance (IDA) as applicable on 1.1.2017 [under the IDA pattern computation methodology linked to All India Cumulative Price Index (AICPI) 2001=100 series]	+	15% of (A+B)	=	Aggregate amount rounded off to the next Rs.10/-.

3.6.9 If the additional financial impact in the year of implementing the revised pay-package is more than 20% of the average PBT of last 3 financial years (FYs), then the revised pay-package with recommended fitment benefit of 15% of BP+DA should not be implemented in full but only partly, ***as per the part-stages recommended below***:-

Part stages	Additional financial impact of the full revised pay package as a % of average PBT of last 3 FYs	Fitment benefit (% of BP+DA)
I	More than 20% but upto 30% of average PBT of last 3 FYs	10%
II	More than 30% but upto 40% of average PBT of last 3 FYs	5%
III	More than 40% of average PBT of last 3 FYs	Nil

Further, in case of improvement in future years in the average PBT of the last 3 FYs, the Board of Directors may decide to implement the full pay package or the higher stage of the pay-package, as the case may be, upon ensuring that additional financial impact of the revised pay-package (i.e. sum total of the part stages pay-package already implemented in the earlier year and the remaining pay-package) do not exceed 20% of the average PBT of the last 3 FYs preceding the year of implementation.

The Committee also acknowledged the situation where in the year of implementation of revised pay-package the additional financial impact as a percentage of average PBT of last 3 FYs of a CPSE is crossing 20% (i.e. Stage-I) or 30% (i.e. Stage-II) or 40% (i.e. Stage-III), ***however*** upon excluding the payout of annual Performance Related Pay (as per the recommendation made ahead on PRP) the additional financial impact for that CPSE may be within the full-implementation range (i.e. upto 20%) or within higher part-stages range [i.e. Stage-I (more than 20% but upto 30%) / Stage-II (more than 30% but upto 40%)]. The Committee, thus, will like to clarify that in such situation, the CPSE may not necessarily reduce the fitment benefit as per the lower part-stage but should reduce the PRP payout to the extent of not crossing the impact percentage required for relevant full / part-stage in the year of implementation of revised pay-package by allowing the applicable fitment benefit.

3.7 Annual Increment

3.7.1 The pay-structure for CPSEs executives effective from 1.1.2007 provides for annual increment of 3% of Basic Pay. It may be mentioned that the 6th Central Pay Commission as well as 7th Central Pay Commission had granted annual increment at the rate of 3% of BP.

3.7.2 In light of above, ***this Committee recommends that annual increment should be allowed to all CPSEs at the rate of 3% of Basic Pay***. Aggregate amount to be rounded off to next Rs.10/-.

3.7.3 There is no uniformity in the date of granting Annual increment amongst the CPSEs; and the CPSEs follow the date(s) for annual increment as per their established Human Resources (HR) policy. The CPSEs shall accordingly continue to grant annual increment on the revised pay on the respective due date, as applicable in the CPSE.

3.8 Promotion Increment

3.8.1 In the event of promotion / elevation of executives to next grade, the executives are entitled to an increment. As per the recommendation of 2nd PRC, the rate of promotion increment has been at par with the Annual increment rate (i.e. 3%) in the CPSEs.

3.8.2 ***The Committee recommends that increment on promotion shall continue to be at with the Annual increment rate (i.e. 3% of Basic Pay)***. Aggregate amount to be rounded off to the next Rs.10/-.

3.9 Pay scales

3.9.1 The 2nd PRC had recommended 5 sets of scales for five categories of CPSEs (namely A+, A, B, C and D) which were devised by the 2nd PRC. However, this new categorization of CPSEs and different sets of pay-scales recommended by 2nd PRC were not agreed to by the Government.

3.9.2 The Committee also examined the recommendations of the 7th CPC and observed the following significant measures taken:-

a. The 7th CPC has dispensed with the system of Pay Bands and Grade Pay, which was introduced by 6th CPC, and brought in a new model in the form of Pay matrix with distinct pay levels by subsuming all the existing levels in the new structure. There shall be now 18 levels for Central Government employees (inclusive of staff and officers). Under the new Pay-matrix, it has been ensured that neither any new level is introduced nor any existing level has been dispensed with.

b. The Pay matrix recommended by 7th CPC comprises of two dimensions:-

- "Horizontal range" in which each level corresponds to a 'functional role in the hierarchy' and has been assigned the numbers 1, 2, and 3 and so on till 18.

- "Vertical range" for each level denoting 'pay progression' within that level. These indicate the steps of annual financial progression of 3% within each level.

  A Central Government employee at a particular level progresses within the level as per the vertical range. The movement is usually based on annual increments till the time of their next promotion. As and when an employee receives a promotion, he/she will progress one level ahead on the horizontal range.

c. In the report of 7th CPC, the minimum pay of the revised Pay-matrix has been computed by applying the index / factor ranging from 2.57 to 2.81 over the pre-revised minimum of Pay band and Grade pay.

d. Further, in the report of 7th CPC, while detailing on the fundamentals of pay-progression behind the Pay-matrix, it has been mentioned that in the true spirit of having open ended pay scales the span of certain levels has been kept at 40 years to ensure that no stagnation takes place. The 7th CPC has particularly mentioned that it is important to note that the end-points of any column do not signify the end points of any traditional pay scale. Hence, it is stated that in any kind of calculation which attempts to work with the "maximum pay of a particular pay scale", it would be inappropriate, even incorrect, to pick the last figure of the column to be so. The column spans have been kept at 40 to cater to persons who may enter a particular level at any stage and may have resided in the level for a fair length of time. The end-points of the column, representing the possible highest and lowest pay in that level, may not be treated as the maximum and minimum of any closed pay scale, as used to prevail prior to the implementation of the 6th CPC.

e. The pay matrix recommended by 7th CPC ensures that an employee who does not have any promotional prospects in his cadre will be able to traverse through at least three (horizontal) levels solely by means of assured financial progression along the career ladder of any employee, assuming a career span of 30 years or more. However, the 7th CPC has also indicated that annual Increments of non-performers should be withheld after 20 Years, and thus the employees should be able to meet the benchmark within the 20 years of service, which will be in the nature of "efficiency bar".

f. For Central Government employees, the problem of stagnation was resolved by previous Pay Commission (i.e. 6th CPC) by way of introducing running pay bands that provided for a sufficiently long span in a manner that no employee ordinarily stagnates at any stage in his/her career. Further, to ensure that no stagnation takes place, it was also allowed that Government employees stagnating at the maximum of any pay band for more than one year continuously shall be placed in the immediate next higher pay band without any change in the grade pay.

g. Though the stagnation issues were resolved for Central Government employees in the last pay-revision itself with the recommendation of 6th CPC, and it is also ensured under the 7th CPC that no stagnation takes place, however in respect of CPSEs executives the problem of stagnation remains and they are currently allowed a maximum of three stagnation increments, one after every two years, provided the executive gets a performance rating of "Good" or above.

3.9.3 After detailed deliberations on the existing pay-pattern for CPSEs allowed for different schedules, and the Pay-matrix benefits submitted by 7th CPC, the present Committee's views on pay-scales formulation and its recommendations are as under:-

i. For CPSEs, there are 10 model pay-scales specified by DPE for below Board level executives out of which the permissible number of pay-scales allowed to CPSEs depends on its Schedule classification. The ***Committee recommends to continue with the same levels & numbers***

of pay-scales linked to the Schedule classification of the CPSEs without any change.

ii. Though the CPSEs shall be operating the pay-scales model with starting point and end point, ***the Committee holds the view that the revised pay-scales should be formulated in the manner that executives in its normal career span should not suffer on account of stagnation***. The span of pay-scales should thus accordingly reflect the fairness in grant of increments across stages in all levels / grades.

iii. Further, the Committee is of the view that the minimum pay of the new pay-scale need not start at the value arrived after accounting for the full fitment benefit for all grades, as the fitment benefit is primarily for those who move on the date of pay-revision from pre-revised to the revised pay scale. The minimum of revised pay-scales has accordingly been moderated for the grades.

iv. Pay-scales have been formulated with reasonability and due consideration of existing pay-scales, full DA neutralization, recommended fitment benefit, span of pay-scales, flow of pay-scales across levels & across CPSEs schedules, etc.

v. ***In accordance to above, the Committee recommends the revised pay-scales for the Board-level and Below Board level executives for each of the schedule of the CPSE i.e. Schedule-A, Schedule-B, Schedule-C & Schedule-D, effective from 1.1.2017, as placed at the Table 3.1, Table 3.2, Table 3.3 & Table 3.4 respectively***.

Table 3.1

SCHEDULE - A

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
E7	43200	-	66000	**100000**	**-**	**260000**
E8	51300	-	73000	**120000**	**-**	**280000**
E9	62000	-	80000	**150000**	**-**	**300000**
Board Level Executives:						
Director (Sch-A)	75000	-	100000	**180000**	**-**	**340000**
CMD (Sch-A)	80000	-	125000	**200000**	**-**	**370000**

Table 3.2

SCHEDULE - B

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
E7	43200	-	66000	**100000**	**-**	**260000**
E8	51300	-	73000	**120000**	**-**	**280000**
Board Level Executives:						
Director (Sch-B)	65000	-	75000	**160000**	**-**	**290000**
CMD (Sch-B)	75000	-	90000	**180000**	**-**	**320000**

Table 3.3

SCHEDULE - C

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
E7	43200	-	66000	**100000**	**-**	**260000**
Board Level Executives:						
Director (Sch-C)	51300	-	73000	**120000**	**-**	**280000**
CMD (Sch-C)	65000	-	75000	**160000**	**-**	**290000**

Table 3.4

SCHEDULE - D

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
Board Level Executives:						
Director (Sch-D)	43200	-	66000	**100000**	**-**	**260000**
CMD (Sch-D)	51300	-	73000	**120000**	**-**	**280000**

3.10 Stagnation increment

3.10.1 In consideration that there is end point of the pay-scale, it is ***recommended that in case of reaching the end-point of pay-scale, the executive shall be allowed to draw stagnation increment, one after every two years, upto a maximum of three such increments provided the executive gets a performance rating of "Good" or above.*** The stagnation amount is treated as Basic pay for all purposes except for drawl of increments.

3.11 Bunching of pay

3.11.1 As regards the bunching increment(s), the report of 7th CPC states that if situation arises whenever more than two stages are bunched together, one additional increment equal to 3 percent of Basic Pay may be given for every two stages bunched, and pay fixed in the subsequent cell in the pay matrix.

3.11.2 In this regard, the Committee is of the view that the pay-scales formulated shall ensure that there will no instances of bunching at the starting point of revised pay-scale in the CPSEs granting full fitment benefit of 15%, as all the existing pay ranges will find its place within the corresponding new pay scales.

3.11.3 However, in a situation where a lower fitment benefit (i.e. 10% or 5%) is granted by a CPSE due to affordability constraints, there will bunching at different grades due to revised Basic Pay falling short of reaching starting point of revised pay-scale. In cases of such CPSEs, in order to avoid bunching in the concerned revised pay-scale, it is recommended that ***either*** the difference between the '*pre-revised Basic Pay*' and the '*minimum of the pre-revised pay scale*' added to the starting point of revised pay-scale ***or*** the revised Basic Pay as arrived after applying the fitment benefit (i.e. 10% or 5% of BP & DA), whichever is higher, shall be the revised Basic Pay.

For example:- CPSE adopting the fitment benefit of 5% will find bunching of pay at E-6 level. In this regard, the computation of pre-revised pay to the revised pay (assumed IDA rate as 120%) at Basic Pay stages near to the *'minimum of the pre-revised pay scale'* shall be as per Table 3.5 below:-

Table 3.5

(Example of Basic Pay revision in cases of bunching in a Grade/level)

Sl. No.	Parameters		Pre-revised pay-scale of E-6 level (in Rs.)			
			Minimum / Starting of pay-scale	Minimum + 1 increment @3%	Minimum + 2 increments @3%	Minimum + 3 increments @3%
			(A)	**(B)**	**(C)**	**(D)**
1.	E-6 level:Pre-revised BP	(31.12.16)	36600	37700	38840	40010
2.	DA (1.1.2017)	Say: 120%	43920	45240	46608	48012
3.	Total	(1) + (2)	80520	82940	85448	88022
4.	Fitment benefit	% of BP+DA	5%	5%	5%	5%
5.	Fitment benefit amount	(4) x (3)	4026.0	4147.0	4272.4	4401.1
6.	Net amount to arrive at revised BP	(3) + (5)	84546.0	87087.0	89720.4	92423.1
7.	Rounded off	Next Rs.10/-	**84550**	**87090**	**89730**	**92430**
8.	Minimum of E-6's revised pay-scale	Starting point	90000	90000	90000	90000
9.	Difference between the 'pre-revised Basic Pay' and the 'minimum of the pre-revised pay scale'	Linked to figure at Column(A) mentioned at Sl. No.1.	(A) - (A) i.e.36600 - 36600	(B) - (A) i.e.37700 - 36600	(C) - (A) i.e.38840 - 36600	(D) - (A) i.e.40010 - 36600
10.	Difference amount	=	0	1100	2240	3410
11.	Net of difference added to starting point of revised pay-scale	(8) + (10)	**90000**	**91100**	**92240**	**93410**
12.	***Revised Pay-scale***	***Higher of (7) or (11)***	***90000***	***91100***	***92240***	***93410***

3.12 Pay protection

3.12.1 The Committee is of the view that in case of promotion or selection to a next level post, the fundamental principle should be that the pay of a CPSE executive to be fixed at the next stage should not be in any case lower than the pay the concerned executive was drawing prior to the promotion / selection.

For example, there may have been a few cases where an executive at E-9 level (drawing current / pre-revised Basic pay of Rs.80,000/-) in a Schedule-A CPSE is selected to the Board level position of Director in

Schedule-B CPSE where the maximum of current / pre-revised pay-scale is Rs.75,000/-; and thus his Basic pay would have got reduced from Rs.80,000/- to Rs.75,000/-.

3.12.2 The Committee is of the view that loss of pay upon elevation to a higher level post shall deter good & deserving executives to join Board level positions of a different / lower Schedule CPSE. In these circumstances, the Committee is of the firm view that these executives should not, in any circumstance, draw pay lower than the pay drawn in the earlier post.

3.12.3 Thus, acknowledging that a principled norm of pay-protection would be in order to be followed in cases of promotion from one level to next level, or upon selection of a CPSE executive to a Board level position, the ***Committee recommends that if in such cases the pay computed for fixation in the next level does not fit within the pay-scale of the Grade in which the incumbent is placed, then the same is to be regulated as below***:-

i. In case the pay computed for fixation (i.e. sum of Basic pay *plus* one notional increment *plus* Stagnation amount, if any) is less than the minimum of the pay-scale of the Grade then the pay of the incumbent shall be fixed at the minimum pay of the said Grade;

ii. In case the pay computed for fixation (i.e. sum of Basic pay *plus* notional increment *plus* Stagnation amount, if any) exceeds the maximum of pay-scale of the Grade then the pay of the incumbent shall be fixed at the maximum of pay-scale; and the excess pay beyond the maximum of pay-scale shall be allowed as the 'Special Pay' (which shall be treated as pay for consequential benefits). There would be, however, no increments granted till the time the notional increment every year (as well as stagnation increment) touches the sum of 'Basic Pay *plus* Special Pay'; and thereafter, the normal stagnation increments, as applicable, will flow subject to the overall maximum of pay scale *plus* three stagnation increments. However, if the sum of 'Basic Pay *plus* Special Pay' is higher than maximum of pay scale *plus* three stagnation increments, then there will be no scope for grant of any further stagnation increment in the grade.

3.13 Dearness Allowance

3.13.1 Dearness Allowance (DA) is a cost of living adjustment allowance and a mean to offset inflation.

3.13.2 There is no uniformity of pay-scales among the various Public Sector Enterprises with some of them being governed by pay-scales on the Industrial DA (IDA) pattern and the others following the Central DA (CDA) pattern. Due to historical reasons, 69 Public Sector Enterprises were following both Industrial Dearness Allowance and Central Dearness Allowance scales for employees below Board level. However, it was decided that no new CPSE would be set up with a CDA pay structure. It is expected that all CPSEs will switch over to uniform IDA pattern at the earliest.

3.13.3 However, DA in both CDA as well as IDA scales of pay follow the All India Consumer Price Index Number (AICPI) for Industrial Workers (2001=100 series) (AICPI). AICPI is based on the increase in cost of a basket of identified commodities. As per the current DA pattern, the base AICPI (2001=100 series) figure under CDA pattern is 115.76 as on 1.1.2006; and the base AICPI (2001=100 series) figure under IDA pattern is 126.33 as on 1.1.2007.

3.13.4 DA is released once in 6 months to CDA employees based on 12 months average. However, in case of IDA employees it is released every quarter based on 3 months average. DA to the employees is paid for the increase in AICPI over the base AICPI to which the revised scale of pay have been related.

3.13.5 The Industrial DA scheme was initially, based on a point rate system. The rate of neutralization per point rose gradually from Rs. 1.35 in 1970 to Rs. 1.65 in 1983 and thereafter to Rs. 2.00 in 1989. In 1992, the Industrial Dearness Allowance scheme underwent a revision on the analogy of a scheme of percentage neutralization as it existed in Government of India, which varied at different levels of Basic Pay. Under the pay revisions effective from 1.1.1997 and 1.1.2007, the DA neutralization was recommended at the rate of 100% irrespective of basic pay.

3.13.6 For the CPSEs following the CDA pattern pay-scales, the DPE has been extending the pay revision / compensation structure based on the recommendations of the Central Pay Commissions. The same may continue to be applicable.

3.13.7 The recommendations of the 3rd PRC shall cover only the executives at Board level and Below Board level and Non-Unionized supervisors following IDA pattern of pay scales.

3.13.8 The Industrial Dearness Allowance (IDA) being followed in the CPSEs under the pay-structure of 2007 follows the 100% DA neutralization [linked to All India Consumer Price Index (AICPI) 2001=100 series with the base of 126.33 as on 1.1.2007]

3.13.9 ***The Committee recommends no change in the IDA pattern and the 100% DA neutralization shall continue to be applicable. Revised IDA from 1.1.2017 shall be linked to All India Consumer Price Index (AICPI) 2001=100 series with the base of AICPI as on 1.1.2017 as per the quarterly average of AICPI of September, October and November 2016***.

3.14 House Rent Allowance (HRA)

3.14.1 HRA is payable to the CPSE executives in line with the classification of cities and the rate as applicable for Central Government employees. As per the pay-revision of 1.1.2007, it is being paid at the rate of 30% of BP for cities with population of 50 lakhs & above (X-class), 20% of BP for cities with population between 5 to 50 lakhs (Y-class) and 10% of BP for cities with population less than 5 lakhs (Z-class).

3.14.2 The 7th CPC, after rationalizing the existing rates, has recommended HRA of 24%, 16% and 8% of the Basic Pay for Class 'X', 'Y' and 'Z' cities respectively. The 7th CPC, however, has also recommended that the rate of HRA will be revised to 27%, 18% and 9% when DA crosses 50%, and further revised to 30%, 20% and 10% when DA crosses 100%.

3.14.3 The Committee recommends that classification of cities and the rate of HRA shall continue to be as applicable for Central Government employees. Accordingly, ***the recommended HRA is as per the following***:-

Classification of cities	Rates of HRA
X-class *(Population of 50 lakhs & above)*	24% of Basic Pay
Y-class *(Population of 5 lakhs to 50 lakhs)*	16% of Basic Pay
Z-class *(Population below 5 lakhs)*	8% of Basic Pay

3.14.4 The ***Committee also recommends that the rate of HRA will be revised to 27%, 18% and 9% when IDA crosses 50%, and further revised to 30%, 20% and 10% when IDA crosses 100%.***

3.14.5 Further, if at any point of time, the Government enhances the rate of HRA for the Central Government employees, the same is recommended to be made applicable to the CPSE employees.

3.15 Leased Accommodation

3.15.1 Currently, as per the applicable guidelines based on the recommendation of 2nd PRC, the Board of CPSEs are empowered to decide the level of executives who will be provided with leased accommodation and the size, type and locality of such accommodation. In order to assess the market rent of leased accommodation, the CPSEs should have a Rent Assessment Committee

3.15.2 In line with the above, the Committee ***recommends that the Board of Directors shall be empowered to decide the lease rental ceilings applicable for the different level of executives.***

3.15.3 Further, in the interest of administrative convenience, it is opined that instead of assessing the market rent through a Rent Assessment Committee (which can be quite a cumbersome process for CPSEs with limited resources to the assess market rent for different localities and across the country depending upon the spread of operation of the CPSEs), the Board of Directors may decide on the grade-wise lease rental ceilings in a standardized manner. The amount of lease rental ceilings should be decided on its merit keeping in view / linkage to the HRA amount, classification of cities for HRA purpose, pay-scales of the executives, House Rent Recovery (HRR) rate, etc.

3.15.4 The above recommendations toward lease accommodation facility shall be applicable in lieu of availing HRA for rented accommodation. However, if an executive is staying in his/her own house then normally he or she should be entitled to the HRA amount but if the said house is taken as lease accommodation for self-occupation purpose, then in such case the lease rental ceilings (after adjusting the House Rent Recovery amount) should not exceed the net applicable HRA amount.

3.15.5 As regards the House Rent Recovery (HRR) against leased accommodation, the rate currently recovered from the CPSE employees is 10% of Basic Pay and the said rate is common for all cities irrespective of their classification. The Committee is of the view that consequent to the revision in Basic pay, the current HRR rate of 10% of Basic Pay also needs to be rationalized; and further in its prudence the HRR rate should also be linked to the classification of cities in line with the ratio of HRA rates applicable amongst the cities.

3.15.6 ***In accordance to above, the Committee recommends that House Rent Recovery (HRR) should be at the following rate, or the actual rent, whichever is lower***:-

Classification of cities	Rates of HRR
X-class	7.5% of Basic Pay
Y-class	5% of Basic Pay
Z-class	2.5% of Basic Pay

3.15.7 Further, as per the extant DPE guidelines, recovery of rent for accommodation arranged by the CPSE in its own township, or from the pool of flats purchased by it and allotted to its employees, is to be @10% of Basic Pay or standard rent fixed by CPSE, whichever is lower. In line with the HRR rates recommended above, for the recovery of rent for accommodation arranged by the CPSE in its own township the ***Committee recommends that the current recovery rate of 10% of Basic Pay shall be replaced with 7.5% of Basic Pay (for X-class cities) / 5% of Basic Pay (for Y-class cities) / 2.5% of Basic Pay (for Z-class cities), or standard rent fixed by CPSE, whichever is lower***.

3.15.8 The Committee also took into consideration the scenario where there are CPSE's owned accommodation / quarters lying un-utilized at a location but another nearby CPSE may be in need of such accommodation / quarters for stay of its executives. In such scenario, the ***Committee recommends that in case a nearby CPSE, in need, hires such un-utilized accommodation of other CPSE on mutual agreed lease terms, then the House Rent Recovery (HRR) from the executive for the hired CPSE's accommodation should be treated at par with the HRR as applicable for Company owned accommodation of the CPSE rather than HRR as applicable for leased accommodation***.

3.16 Perks & Allowances

3.16.1 The 1st PRC had recommended that payment of perquisites & allowances to the CPSE executives can be allowed upto 50% of Basic Pay (BP).

3.16.2 In the matter, the 2nd PRC had empowered the Board of Directors to decide on the allowances and perks admissible to the different categories of executives subject to a maximum ceiling of 50% of BP. For this purpose, the 2nd PRC had also brought in the concept of **'cafeteria approach'** in the compensation structure of the CPSEs allowing the executives to choose from a set of perks and allowances subject to a maximum ceiling of 50% of BP.

3.16.3 The 2nd PRC had also detailed that in places where CPSEs have created infrastructure such as hospitals, colleges, schools, clubs etc., these facilities should be monetized for the purpose of computing the perks and allowances. For reckoning the value of infrastructure facilities, the DPE had conveyed that the recurring expenditure on maintaining and running the infrastructure facilities alone would be taken into account. The recurring expenditure had to be divided into two parts, based on the proportion of total Basic Pay of executives and non-unionized supervisors and the total basic pay of workmen. The part attributable to the executives and non-unionized supervisors was to be reckoned as the expenditure on perquisites and allowances, subject to the condition that the said amount shall be restricted to 10% of BP of all executives and non-unionized supervisors within the overall limit of 50% of BP.

3.16.4 The following allowances were recommended by the 2nd PRC to be kept outside the purview of 50% of BP limit:

- North East Allowance (inclusive for Ladakh Region) limited to 12.5% of BP;
- Allowance for Underground Mines limited to 15% of BP;
- Special Allowance (upto 10% of BP) for serving in the difficult and far flung areas;
- Non-practicing Allowance for Medical Officers upto 25% of BP.

3.16.5 The 7th CPC while working out the allowances for Central Government employees have provided a raise that is commensurate with the rise in DA, under the following pattern:-

- Allowances that are in the nature of a fixed amount but not DA indexed have generally been raised by a factor of 2.25.
- Allowances that are in the nature of a fixed amount but are partially indexed to DA have generally been raised by a factor of 1.5.
- Allowances that are in the nature of a fixed amount but fully indexed to DA have not been given any raise.

- Regarding percentage based allowances, having regard to the increase in the pay structure (and consequently the Basic Pay) as a result of the recommendations of this Commission, and keeping in mind the raise granted to slab-based allowances, the quantum of percentage based allowances has been rationalized by a factor of 0.8.

3.16.6 CPSEs Management and Officers' Association, during interactions with the Committee, raised the following issues for consideration of Committee:-

- Payment of perks of 50% should be considered on both 'BP & DA' instead of 'BP' alone, as by way of not linking the perks ceiling to DA, the cost of inflation is not getting offset.
- Compensation arising out of sectoral or work-requirement should be kept outside the perks ceiling of 50% of BP as such items are not perks in the nature of individual benefits but are an operational / business necessity and unique to the CPSEs.
- Cost of infrastructure facilities created by CPSEs like Hospitals, Schools, Clubs, etc. should not be loaded within 50% of BP as these expenses of CPSEs are not in the nature of individual perks but are basic amenities created by CPSE at its remote locations as a necessity.
- CPSEs provides accommodation facilities to its employees in the form of Company owned accommodation (like in Townships) and Leased accommodation at different locations. The employees are encouraged by CPSEs to stay in townships so that there is better utilization of the available housings in township and that there could be smooth mobilizing of its employees, especially for plant operations. Wherever, the Township housing / Company owned accommodation cannot be provided, then the CPSEs can provide for lease accommodation on need basis. The executives in CPSEs are in transferable jobs, and thus Company provided accommodation is imperative at locations and a liability to be discharged by CPSE. However, as per the Income Tax Act, 1961, the perquisite value of the house is added to the net income of CPSE executives and is taxed as per the applicable slabs. At the same time, similar perquisite taxation is not applicable to the Government employees.

  The CPSEs expressed that the provisions under Section 10(10CC) of Income Tax Act, 1961, allows an option to the employer to bear tax on 'non-monetary perquisites' provided to the employee. Thus, such amount if borne by the CPSE as per the Act should not be considered to be within perks & allowances ceiling of 50% of BP.

3.16.7 The Committee is of the view that the demand of the CPSEs that ceiling of perks & allowances of 50% should be on both BP & DA (instead of BP alone) to take care of the inflation is not viewed to be reasonable as the measure of 100% Dearness Allowance (IDA) neutralization recommended by the Committee is considered appropriate for taking care in offsetting the inflation.

3.16.8 Further, the Committee is of the view that though based on the recommendation of 1st PRC and 2nd PRC, the CPSEs executives are allowed to draw perks & allowances upto the ceiling of 50% of Basic Pay, however the continuation of said ceiling of 50% of Basic Pay in the new / revised compensation structure needs to be re-visited.

3.16.9 In order to appreciate the reasons behind the ceiling of 50% of Basic Pay on perks & allowances allowed to CPSEs executives, the Committee will like to outline the structural compensation differences between the Central Government employees and the CPSEs executives, as below:-

- For Central Government employees, there is a centralized authority / coordinating agency (i.e. Ministry of Personnel, Public Grievances and Pensions) which issues the Office Memorandum / instructions for implementation on all the personnel matters / HR related aspects i.e. on pay, compensation, benefits, allowances, pension, etc.; ***whereas*** for CPSE executives, each of the CPSEs works out its own policies on compensation & benefits / allowances for its executives based on the parameters and functional requirement existing in CPSEs but within the broad guidelines issued by DPE for all the CPSEs.

- For Central Government employees, the recommendation of the Pay Commission is commonly applicable to all categories of employees; ***whereas*** for CPSEs though the executives are covered under the DPE guidelines (that are based on recommendation of Pay Revision Committee for CPSEs), but as regards the unionized workmen, each of the CPSEs has to negotiate on the compensation structure and allowances with the respective trade unions. Thus, each CPSE, based on their collective bargaining with the unions reaches different settlement which is unique and dissimilar from each other.

Thus, understandably, in order to have certain degree of uniformity amongst the CPSEs in terms of compensation structure, the 1st PRC and 2nd PRC provided for a principled amount upto 50% of BP which should act as a ceiling on perks & allowances.

3.16.10 Since the earlier period of pay-revisions when there used to be variations in terms of perks & allowances amongst CPSEs, it is being generally observed that many of the CPSEs have now settled in terms of 'cafeteria approach' upto a ceiling of 50% of BP.

3.16.11 The Committee also examined that in the scenario of applying the ceiling of 50% of BP towards perks & allowances on the recommended revised pay, the impact / increase of absolute amount of perks & allowances may go up over the current amount in the range of approximately 150%/160% to 175%/180%. Suppose, on the BP of Rs.80,000/-, the perks come to Rs.40,000/- being 50% of BP, but when revised BP will be around Rs.2,00,000/-, then perks value will increase to Rs.1,00,000/-. This consequential impact of continuation of ceiling of 50% of BP on revised pay is seen to be significantly high, and thus the Committee is of the view that the said ceiling needs to be rationalized.

3.16.12 The Committee noted that 7th CPC has rationalized the quantum of percentage based allowances linked to Basic Pay by a factor of 0.8, which if applied to the current perks ceiling of 50% of BP comes to 40% of BP for CPSEs.

3.16.13 The Committee, after examining the perks & allowances under the revised compensation structure in a holistic manner and based on the deliberations held with the CPSEs, ***recommends that Board of Directors of the CPSEs shall be empowered to decide on the perks & allowances that can be provided to the executives / non-unionized supervisors subject to the following broad parameters***:

i. The ***CPSEs can provide to their executives / non-unionized supervisors the perks & allowances, preferably to choose from the set of the perks & allowances under the concept of 'cafeteria approach', the value of which can be upto the ceiling of 35% of Basic Pay***. The ceiling is further recommended to be partially linked to the Industrial Dearness Allowance (IDA) in future, and thereby the CPSEs will be allowed to enhance the ceiling by 25% [of 35% of BP (i.e. by 8.75% of BP)] whenever IDA rises by 50%.

ii. The Committee noted that the CPSEs are operating at distant locations spread across the country, and in the process have created the infrastructure facilities such as hospitals, colleges, schools, clubs etc. as a social obligation & welfare measure to meet the basic needs of the employees posted / transferred at such locations. Many of such infrastructure facilities like hospitals, schools, etc. are also in the nature of quasi-public facilities serving the surrounding public needs. These infrastructure facilities are also commonly utilized by both executives and unionized workmen, however under extant guidelines the charging of recurring expenditure on maintaining & running the infrastructure facilities within the perks & allowances ceiling is mandated only for the executives.

The Committee is therefore of the view that such infrastructure facilities should be encouraged for functioning of the CPSEs in harmony as a necessity of industries to function; and thus ***recommends that the cost incurred on infrastructure facilities is not to be charged within the recommended ceiling on perks & allowances***.

iii. The Committee also took cognizance of the fact that it is crucial for the CPSEs to create housing facilities for its employees at different locations, which are provided in the form of Company owned accommodations in Townships, or otherwise; and thus in the interest of the CPSEs it is viewed that such facilities need to be utilized and well maintained. The employees who are working at a location and staying in Company owned accommodation, have to bear the tax arising out of the perquisite value of the said accommodation. There are CPSEs who also reported that the Company owned accommodation / quarters are lying un-utilized. In consideration of the submissions made by the CPSEs, and also taking note of the provisions under the Income Tax Act that allows the employer to incur certain expenditure on behalf of employees (like bearing the tax on 'non-monetary perquisites' as provided under Section 10(10CC)* of Income Tax Act), ***the Committee recommends that the CPSEs would have the flexibility to avail such provision under Income Tax Act that enables the employer organization to bear such tax in respect of Company owned accommodation on behalf of executives / non-unionized supervisors; however 50% of such expenses borne shall be loaded within the prescribed ceiling on perks & allowances.***

** Section 10(10CC) – Tax on Non-monetary Perquisites, paid by Employer – Tax may be paid by the employer, on a Perquisite provided to the employee (other than by way of monetary payment), within the meaning of section 17(2). Such tax actually paid by the employer, at the option of the employer, on behalf of such employee, (notwithstanding anything contained in Section 200 of the Companies Act, 1956), shall be exempt in the hands of employee.*

iv. Further, the Committee also deliberated on the sectoral / operational requirement or work-related / administrative expenditure, which are unique to each CPSE, necessitated due to the nature of industry and as required for smooth running of its business. The Committee is of the view that compensation / reimbursement towards such work-related / administrative expenditure (for example reimbursement towards transfer expenses incurred on movement from one location to another, official travel, conveyance usage cost, overtime cost, etc.) should not be treated as perks / allowances of a personal nature of individual executives / non-unionized supervisors. ***Thus, the Committee recommends that the CPSEs, with the approval of Government, will be allowed to regulate its work-related / administrative expenditure outside the purview of recommended ceiling on perks & allowances***.

v. Further, ***the expenses incurred towards usage of telephone / internet (communication facilities) can be allowed to be compensated (subject to actuals bills / expenses) upto a certain limit outside the purview of recommended ceiling on perks & allowances as may be decided by the Board of Directors of the CPSEs***. For operational requirement, the Board may also take decision to provide special communication expenses beyond the limit.

vi. In addition, the ***following allowances are recommended to be kept outside the purview of recommended ceiling on perks & allowances***:-

A. Location based Compensatory Allowances

I. The payment of following compensatory allowance shall be admissible for the period the executive / non-unionized supervisor is posted at one of the following locations:-

a. Location based Compensatory Allowances for serving in North East states (viz. Assam, Meghalaya, Manipur, Nagaland, Tripura, Arunachal Pradesh and Mizoram), Sikkim and Ladakh Region shall be allowed at the rate of 10% of Basic Pay;

b. Location based Compensatory Allowances for serving in Island territories of Andaman and Nicobar Islands and Lakshadweep shall be allowed at the following rates:-

Areas around capital towns (Port Blair in A&N islands, Kavaratti and Agatti in Lakshadweep)	10% of Basic Pay
Difficult Areas (North and Middle Adaman, South Andaman excluding Port Blair, entire Lakshadweep except Kavaratti, Agatti and Minicoy)	16% of Basic Pay
More Difficult Areas (Little Andaman, Nicobar group of Islands, Narcondum Islands, East Islands and Minicoy)	20% of Basic Pay

c. Location based Compensatory Allowances / Special Allowance (upto 10% of Basic Pay) for serving in the difficult and far flung areas were allowed (under the previous pay-revision guidelines) in the slab of 4%, 6%, 8% and 10% of Basic Pay based on the locations as respectively specified under Part-D, Part-C, Part-B and Part-A in the Department of Expenditure's OM No. 3(1)/2008-E.II(B) dated 29.8.10. The Committee recommends to continue with the same provision for serving in the difficult and far flung areas.

   Further, in case an area is considered difficult and far-flung by a CPSE but not covered under Department of Expenditure's (DOE) OM dated 29.8.2008, the same can be brought to the notice of the Administrative Ministry for approval of Special Allowance (upto 10% of BP) subject to its merit on the following parameters:-

   - Lack of Infrastructural Facilities like Township / Housing; Medical Facilities; Schooling Facilities;
   - Remoteness like Distance from nearest city, Railway station, Airport, etc;
   - Difficult terrain, extreme Weather Conditions, high altitude;
   - Law & Order problems, insurgency affected area and / or falling under Left Wing Extremism (LWE) affected areas as identified by Ministry of Home Affairs (MHA).

d. In the event of a place falling in more than one category mentioned above (i.e. location falling under both (a)/(b) and (c) above), then only the higher rate of Allowance will be applicable.

II. **Project Allowance**:

In addition to above recommended Location based Compensatory Allowances, the executives posted at the site of a Green-field project of the CPSEs that has been approved by the Board of

Directors, ***shall be allowed a Project Allowance upto 10% of Basic Pay subject to the meeting the following criteria related to the project***:-

- Project Allowance shall be admissible for Green-field / Grass-root project which are independent and not linked to the existing operating units / establishment. It shall not be applicable to expansion project or new units/revamping of existing units/facilities, which may be around or within the premise of an operating / running unit.
- Project should be for commercial production and not incidental as an effect of surplus production or for captive production / manufacturing.
- Project Allowance shall be admissible for the duration of the project commencing from the date of approval of the project by the Board or from the date of joining the Project site, whichever is later.
- Project Allowance shall cease to be payable on transfer from project site or till completion by way of commercial production (mother unit commissioning), whichever is earlier.
- The Project Allowance should not be payable for such a Green-field / Grass-root project that is located in a X-class city or Y-class city (as per HRA classification); but shall be payable only for such project site that falls beyond 50 kilometers from the municipal limits of the closest X-class / Y-class city.

B. Work based Hardship Duty Allowances:

I. The payment of ***work based hardship duty allowance upto 12% of Basic Pay shall be admissible for the period the executive / non-unionized supervisors has actually performed one of the following hardship duty***:-

   a. For performing duty in Underground mines,
   b. For performing duty at Offshore exploration site, and
   c. For performing duty at Hydro-project site located within 200 kilometers from the international border of the country.

II. Non-practicing Allowance (NPA) ***for Medical Officers shall be admissible upto 20% of BP.*** NPA will not be considered as pay for the purpose of calculating other benefits.

3.17 Performance Related Pay (PRP)

3.17.1 The 1st PRC had recommended a broad outline on performance related payments stating that it should not exceed 5% of the distributable profits. The formulation of the scheme was left to the CPSEs to decide in the matter.

3.17.2 However, it was the report of 2nd PRC that dwelt in detail on formulating the concept of variable pay in the form Performance Related Pay (PRP), and had envisaged that the PRP shall be made an integral part of the compensation package. The PRP was linked to physical and financial performance of the CPSE as well as to executive's performance.

3.17.3 The components which were forming part of PRP as per DPE guidelines and were worked out **after multiplying inter-se each of the following components [(A) to (D)]:**-

(A) Allocable profits:

- 60% of Performance Pay will be given within the ceiling of 3% of Profit Before Tax (PBT).
- 40% of PRP will come from 10% of incremental profit. Incremental profit means the increase in profit as compared to previous year's profit.
- Total PRP, however, will be limited to 5% of the year's PBT, exclusively for the Executives as well as Non-unionized supervisors.

(B) Grade-wise percentage ceiling of PRP:

Grade	***%age of Basic Pay***
E0 to E1	40%
E2 to E3	40%
E4 to E5	50%
E6 to E7	60%
E8 to E9	70%
Director (C&D)	100%
Director (A&B)	150%
CMD (C&D)	150%
CMD (A&B)	200%

(C) MOU rating of CPSE:

MOU rating	*%age eligibility of PRP*
Excellent	100%
Very Good	80%
Good	60%
Fair	40%
Poor	Nil

(D) Performance rating as per robust Performance Management System:

Performance rating	*%age eligibility of PRP*
Outstanding	100%
Very Good	80%
Good	60%
Fair	40%
Poor	Nil

For the purpose, 2nd PRC recommended a ''Bell curve approach'' to be adopted by CPSEs in grading the officers so that not more than 10% to 15% executives are Outstanding / Excellent. Similarly 10% of executives should be graded as below par.

(E) Remuneration Committee:

PRP is payable to only those CPSEs that have constituted a Remuneration Committee headed by an Independent Director. This Committee is empowered to decide on the annual bonus / variable pay pool and policy for its distribution across the executives and non-unionized supervisors, within the prescribed limits.

3.17.4 The Committee opined that there is a need to re-consider the existing PRP model due to the following reasons:-

- The multiplier effect, particularly between the MOU rating and the individual performance rating, leads to twofold or cascading effect for the executive. For example - if an executive has scored full / good marks in the individual performance rating but if the CPSE's MOU parameter is rated on the lower side, or vice versa, it resultantly reduces the percentage of performance pay due to the multiplier effect of both the components.

- During interactions, almost all the CPSEs voiced their concern against the element of incremental profit (weightage 40%) which is built-in while computing the allocable profit. Some CPSEs explained that in a competitive market, the incremental profits from year to year is not feasible, and thus viewed that impact of 40% on PRP payout due to incremental profit is seen to be harsh. Many CPSEs / Officers' Associations recommended that incremental profits component should be done away with.

- Almost all the CPSEs / Officers' Associations voiced their concern over the Bell-curve approach that was recommended under the PRP scheme for grading the officers, in particular expressing that forced rating of 10% of executives in the below par / Poor category is repressive and brings in a de-motivating environment. Even many private sectors companies are now gradually doing away with the bell-curve concept for the reason that its experience has not been to the satisfaction. The Committee was requested to consider doing away with the mandatory bell-curve approach and suggested that it should be left to the CPSEs to decide on the rating pattern of the executives.

- The Committee feels that a team or unit's performance should be an essential element in the payment of PRP; however the same is not getting recognized in the current PRP computation. The performance of teams is undoubtedly the key to drive superior performance of a Company. The Committee holds the view that Team performance is the prime link and key factor that results in delivering an Individual's performance towards the Company's performance. Therefore, the PRP model should be such which also gives emphasis to the team's performance to inculcate a team culture and achieve desired productivity levels of CPSEs. Further, allowing PRP for team performance will also built-in a competitive environment within the Company and a motivation to excel as a team. The Committee views that PRP for team performance is a win-win situation, both for individual executives and the CPSEs.

- Further, the Committee also examined linking the Memorandum of Understanding (MOU) rating of a CPSE to the PRP payment of individual executives. The MOU is a broad agreement between the management of the Central Public Sector Enterprises (CPSEs) and the

Government of India to achieve the targets set in the agreement at the beginning of the year. The MOU of a CPSE is viewed to have bigger scope beyond the direct ambit of individual executives posted at different locations, however the MOU performs the lead role in guiding the performance of the team where an executive would be directly contributing.

- Many of the CPSEs also raised concern over the clarification issued by DPE (vide OM No. 2(8)/12-DPE(WC)-GL-XX/13 dated 18.9.2013 and DPE's OM No. 2(8)/12-DPE(WC)-GL-XV/14 dated 2.9.2014) regarding computation of PBT which conveys that interest on idle cash / bank balances may be deducted from PBT, and PRP may be distributed based on profit accruing only from core business activities of the CPSEs. The CPSEs raised concern over this approach because the PBT as appearing in the audited Profit & Loss Account Statement should understandably be the PBT figure for PRP payment. The finance model of each CPSEs is unique and thus there should be a fair model for considering the PBT amount.

  For example, there are CPSEs, particularly in Defence sector, whose finance model for meeting working capital requirements is that they receive payments upon completion of project stages or reaching milestones as per their contractual agreements. Further, the interest accrued from such payments are factored into computation of prices of the products / equipment.

  In contrast, there is another example of a few CPSEs like Oil Marketing Companies (OMCs) who had been representing that many times due to delay in receipt of compensation of the subsidy component from the Government on the subsidized product, these CPSEs per force resort to borrowings from banks to meet their working capital and thereby incur interest burden. For such cases, it has been raised that such interest loss should be added back to profits for the payment of PRP because had the timely compensation been received by these CPSEs the said interest loss would have been a part of their profits. On the other side, there are few companies (like upstream oil companies) who alongwith Government are shouldering the burden of cost subsidy on subsidized products, in whose case it has been demanded that it should be added back to the profits for payment of PRP as the same should have been otherwise part of the profits of such CPSEs.

The Committee is of the view that the PRP, in general, should be payable in consideration of the profits arising with regard to revenues generated from the operations / business conducted during the year. The PRP should be seen in light of such a parameter that serves as an indicator to the operational profitability with all extraneous factors removed from the calculation.

3.17.5 **Recommendation on Performance Related Pay (PRP)**:

In consideration of above, and to equip the CPSEs to compete in the emerging domestic and global economic scenario, the Committee re-visited the PRP model and ***recommends the modified PRP scheme encompassing the following components:-***

(I) **Allocable profits:**

a. The overall profits for distribution of PRP shall be limited to 5% of the year's profit accruing only from core business activities (without consideration of interest on idle cash / bank balances), which will be exclusively for executives and for non-unionized supervisors of the CPSE.

b. The Committee also acknowledged the significance of incremental profit (i.e. the increase in profit as compared to previous year's profit) and its impact on the overall PRP payout. The concept of incremental profit is intended to motivate the employees to improve the profits of the CPSEs, but taking cognizance of the concerns raised by the CPSEs / Officers' Associations, the Committee views to rationalize the present ratio of 60:40 to certain extent. ***The Committee thus recommends that the ratio of break-up of profit accruing from core business activities for payment of PRP between relevant year's profit to Incremental profit shall be 65:35 to arrive at the Allocable profits and the Kitty factor (which has been explained later).***

c. Allocable profit shall be the net amount set-out from the limit of 5% of profit accruing from core business activities (hereinafter, for brevity, referred to as profit) for distribution of PRP after accounting for relevant year's profit and the incremental profit.

(II) **PRP differentiator components:**

(A) PRP payout is recommended to be distributed based on the addition of following parts / components:-

<u>Part-1 : CPSE's performance component</u>:-

(a) **Weightage = 50% of PRP payout**

(b) **Based on CPSE's MOU rating:**

MOU rating	%age eligibility of PRP
Excellent	100%
Very Good	75%
Good	50%
Fair	25%
Poor	Nil

<u>Part-2 : Team's performance component*</u>:-

(a) **Weightage = 30% of PRP payout**

(b) **Based on Team rating** (i.e. linked to Plant / Unit's productivity measures and operational / physical performance):

Team rating	%age eligibility of PRP
Excellent	100%
Very Good	80%
Good / Average	60%
Fair	40%
Poor	Nil

* *In case of a CPSE not having Plants / Units and if there is no Team Performance areas / rating, then the PRP for such CPSE will be determined based specifically on MOU rating after merging the*

weightage of Team performance component to the Company's performance component.

(c) The Team rating shall be linked to individual Plant / Unit's productivity measures and operational / physical performance, as primarily derived from CPSEs' MOU parameters and as identified by CPSE depending on the nature of industry / business under the following suggested performance areas:-

- 'Achievement Areas', in which performance has to be maximized (e.g. market shares, sales volume growth, product output / generation, innovations in design or operation, awards and other competitive recognition, etc.); and

- 'Control Areas' in which control has to be maximized (e.g. stock / fuel loss, operating cost control, litigation cost, safety, etc.).

(d) For office locations of CPSEs, the Team rating should be linked to the Plant / Unit as attached to the said office; and if there is more than one Plant / Unit attached to an office or in case of Head Office / Corporate Office of the CPSE, the Team rating shall be the weighted average of all such Plants / Units. The weighted average shall be based on the employee manpower strength of the respective Plants / Units.

[Plants / Units shall primarily mean the work place where industry's manufacturing process is carried out; and in case of a CPSE not having any manufacturing process, it shall mean the work place where the main business is carried out. The individual department / section within a work place shall not be recognized as a Plant / Unit].

Part-3 : Individual's performance component:-

(a) **Weightage = 20% of PRP payout**

(b) **Based on Individual performance rating** (i.e. as per the CPSE's Performance Management System):

Individual performance rating	%age eligibility of PRP
Excellent	100%
Very Good	80%
Good / Average	60%
Fair	40%
Poor	Nil

(c) As regards the Bell-curve approach, it is viewed that this approach instead of acting as a tool for performance motivator is seen to be seeping in as a de-motivator in the CPSEs.

As per the study conducted at the behest of DPE by Institute of Public Enterprises (IPE), Hyderabad on variable compensation in Public, Private and other Sectors within and outside India, the bell curve / forced rating concept has resulted in serious discontent and is de-motivating the executives. The practice of 10% of the executives receiving Nil PRP because of the implementation of forced distribution has resulted in reducing the team spirit in CPSEs.

In consideration of above, the ***Committee recommends that forced rating of 10% as below par / Poor performer should not be made mandatory. Consequently, the discontinuation of Bell-curve is recommended.*** The CPSEs shall be empowered to decide on the ratings to be given to the executives; however, capping of giving Excellent rating to not more than 15% of the executive's population in the grade (at below Board level) should be adhered to.

(III) <u>Percentage ceiling of PRP</u> (%age of BP):

(a) The Committee is of the view that with the current ceiling of Basic Pay upto which the maximum PRP shall be payable needs to be re-visited and rationalized for the reason that upon revision of current Basic Pay w.e.f. 1.1.2017, the ceilings upto which maximum PRP may become payable shall also otherwise get revised automatically due to PRP ceiling being linked to percentage of Basic Pay (but the same is subject to the restriction of prescribed allocable profit). The PRP payout should be considered more in light of the profitability of a CPSE rather than directly relying on Basic Pay. In other words, the PRP payout due to pay-revision should be more appreciative of the trend in profits as well as should reflect the contribution of the individuals and their teams towards the CPSE's profits, rather than being granted PRP as a gain consequent upon revision of Basic Pay. At the same time, the Committee is also aware of the fact that the PRP payout being contained within the prescribed allocable profit shall normally keep the check on abrupt increase in PRP payout; however there may be cases of a few CPSEs where their profitability may be able to support the high level of PRP payout arising due to its linkage to percentage of Basic Pay. Thus, in consideration of the revision recommended in the Basic Pay, the Committee is of the view that the ceilings upto which the PRP can be payable should be rationalized at the level of senior executives.

(b) Accordingly, ***the Committee recommends the grade-wise percentage ceiling for drawl of PRP within the allocable profits as under***:-

Grade	Current ceiling (% of BP)	Recommended ceiling (% of BP)
E0	40%	40%
E1	40%	40%
E2	40%	40%
E3	40%	40%
E4	50%	50%
E5	50%	50%
E6	60%	60%
E7	60%	70%
E8	70%	80%
E9	70%	90%

Grade	Current ceiling (% of BP)	Recommended ceiling (% of BP)
Director (C&D)	100%	100%
Director (A&B)	150%	125%
CMD / MD (C&D)	150%	125%
CMD / MD (A&B)	200%	150%

Note:

1. For Non-unionized supervisors, the PRP as percentage of BP will be decided by the respective Board of Directors of the CPSE.

2. CPSEs should ensure that the PRP / Incentive / Ex-gratia (in lieu of bonus) payment to unionized workmen should not exceed the PRP payout to entry level of non-unionized supervisors / executives, as applicable in respective CPSEs. However, this recommendation will not affect the bonus of the unionized workmen who are covered under the Payment of Bonus Act, 1965.

(IV) **Kitty factor**: After considering the relevant year's profit, incremental profit and the full PRP payout requirement (computed for all executives based on Grade-wise ceilings, CPSE's MOU rating, Team rating & Individual performance rating), there will be two cut-off factors worked out based on the PRP distribution of 65:35. The first cut-off shall be in respect of PRP amount required out of year's profit, and the second cut-off shall be in respect of PRP amount required out of incremental profit, which shall be computable based on the break-up of allocable profit (i.e. year's 5% of profit bifurcated into the ratio of 65:35 towards year's profit and incremental profit).

The sum of first cut-off factor applied on 65% of Grade PRP ceiling ***and*** the second cut-off factor applied on 35% of Grade PRP ceiling will result in Kitty factor. The Kitty factor shall not exceed 100%.

The examples for computation of Kitty factor is detailed in **Annexure-A-1.**

(V) Based on the PRP components specified above, the Committee recommends that the PRP pay-out to the executives should be computed upon addition of the following three elements:-

(a) <u>Factor-X (% of BP)</u>:

Weightage of 50% ***Multiplied with*** Part-1 (CPSE's MOU rating) ***Multiplied with*** Kitty factor

(b) <u>Factor-Y (% of BP)</u>:

Weightage of 30% ***Multiplied with*** Part-2 (Team's performance) ***Multiplied with*** Kitty factor.

(c) <u>Factor-Z (% of BP)</u>:

Weightage of 20% ***Multiplied with*** Part-3 (Individual's performance) ***Multiplied with*** Kitty factor.

(d) <u>Net PRP</u>= Factor X + Factor Y + Factor Z =Net %age of Annual BP

(VI) Examples on computation of PRP (i.e. PRP Kitty computation and PRP payout to individual executives) is annexed (Annexure-A-1).

(VII) The recommended PRP model will be effective from FY 2017-18 and onwards. For the FY 2017-18, the incremental profit will be based on previous FY 2016-17.

(VIII) The recommended PRP model will be applicable only for those CPSEs which signs MOU as well as have Remuneration Committee (headed by an Independent Director) in place to decide on the payment of PRP within the prescribed limits and guidelines.

3.18 Superannuation Benefits

3.18.1 Based on the recommendation of 2nd PRC, and the subsequent DPE guidelines issued in the matter, the superannuation benefits in CPSEs are to be regulated as per the following guidelines:-

a. CPSEs are allowed 30% of Basic Pay & Dearness Allowance as superannuation benefits, which can include Provident Fund, Gratuity, Pension and Post-superannuation medical benefits.

b. Superannuation benefit is to be under a 'defined contribution scheme' and not under a 'defined benefit scheme'.

c. Provident Fund and Gratuity are statutory benefits and payable to executives as per the provisions under the applicable Acts. However, the Pension and Post-Retirement medical benefits are to be extended only to those executives who superannuate from the CPSE and have put-in minimum of 15 years of continuous service in the CPSEs, prior to superannuation. The 2nd PRC had reasoned that pension and medical benefits should be allowed only upon superannuation for ensuring the loyalty of the executives to CPSEs.

d. Further, the CPSEs should make their own schemes to manage these funds or operate through Insurance companies on fixed contribution basis. The amount of Pension, Gratuity and Post-Retirement Benefit shall be required to be decided based on the returns from the schemes to be operated.

3.18.2 CPSEs, during deliberations with the Committee, have brought out that most part of the superannuation benefits ceiling of 30% of BP+DA is being utilized by statutory benefits (i.e. PF and Gratuity); and thus, the remaining percentage upto 30% of BP+DA is not sufficient to meet their pension requirements, particularly when the pension is not DA / inflation linked. It has been requested by CPSEs to increase the ceiling of 30% of BP+DA.

3.18.3 For the purpose of Gratuity, it is important to mention that the 2nd PRC had recommended that there should not be any upper ceiling i.e. it should continue to be computed at the rate of 'Last drawn salary x 15/26 x Number of years of service' (as laid down under the Payment of Gratuity Act, 1972) without any upper ceiling. However, the Government approved for CPSE the upper ceiling of Rs.10 lakhs w.e.f. 1.1.2007 which was in line with the recommendation of 6th CPC for Central Government.

3.18.4 The 7th CPC in its recommendation has recommended the ceiling of gratuity from the existing Rs.10 lakhs to Rs.20 lakhs from 1.1.2016. The Commission has also recommended enhancement in the ceiling on gratuity by 25% whenever DA rises by 50%.

3.18.5 In consideration of above, the ***Committee recommends the following***:-

a. ***The ceiling of gratuity to be enhanced from the existing Rs.10 lakhs to Rs.20 lakhs from 01.01.2017. The ceiling on gratuity shall increase by 25% whenever IDA rises by 50%***.

b. The ***Committee recommends that the current limit of 30% of BP + DA of executives/non-unionized supervisors upto which the CPSEs can contribute towards the superannuation benefits shall continue to operate from 1.1.2017 on a defined contribution basis subject to the following proviso***:-

   (i) The superannuation benefits allowed upto 30% of BP + DA shall encompass of Provident Fund, Gratuity, Post-superannuation medical benefits and Pension;

   (ii) However, taking cognizance of a scenario that the funding of recommended enhanced amount (i.e. beyond the existing gratuity ceiling of Rs.10 lakhs w.e.f. 01.01.2017) under the Gratuity scheme may not be feasible to be accommodated within the limit of 30% of BP + DA (alongside Provident Fund, Pension and Post-superannuation medical benefits) because of the limited returns from the Gratuity fund / scheme to enable CPSEs to make gratuity payment of Rs.20 lakhs w.e.f. 01.01.2017, ***it is recommended that funding / payment towards the additional amount beyond the gratuity of Rs.10 lakhs shall be allowed to be outside the limit of 30% of BP+DA***. In other words, the funding of Gratuity (upto Rs.10 lakhs), alongside Provident Fund, Pension and Post superannuation medical benefits, shall be allowed within the limit of 30% of BP + DA; and the funding of additional / balance Gratuity amount beyond Rs.10 lakhs shall be allowed to be borne by the CPSEs outside the limit of 30% of BP + DA. The said funding should be based on the principle of actuarial valuation by certified Actuaries as per the accounting standards.

c. Further, the ***Committee recommends that requirement of superannuation and of minimum of 15 years of service in the CPSE should not be mandated for the pension***. This recommendation will enable the CPSEs the option to invest in the National Pension System (NPS) being operated for all citizens of the country through the Pension Fund Regulatory and Development Authority (PFRDA). This may also be beneficial for the employees in terms of being tax efficient, as applicable.

d. However, ***existing Post-Retirement medical benefits should continue to be linked to the requirement of superannuation and of minimum of 15 years of continuous service for ensuring the loyalty of the executives to the CPSEs***.

e. The existing provision of 15 years of service for availing the Post-Retirement medical benefits shall however not apply to Board level executives for the reason that their selection (through Public Enterprises Selection Board / Search Committee) is on tenure basis. Within the applicable provision / ceiling on superannuation benefits, ***the Post-Retirement medical benefits shall be allowed to Board level executives (without any linkage to provision of 15 years of service) upon completion of their tenure or upon attaining the age of retirement, whichever is earlier***.

3.18.6 <u>**Creation of Corpus**</u>: The Committee also examined the recommendation of 2nd PRC on creation of corpus out of 1.5% of each year's PBT as well as the DPE guidelines that were issued allowing CPSEs to utilize the said corpus for the purpose to meet the medical and any other emergency needs of those ex-employees who have retired prior to 1.1.2007. This corpus is not permissible to be utilized towards any defined benefit pensionary scheme. It is pertinent to mention that in the past (i.e. prior to 1.1.2007), there were no guidelines of DPE for regulating the post-retirement medical benefits of ex-employees. The ex-employees mentioned here refers to all categories of retired employees i.e. executives, non-unionized supervisory and unionized workmen cadre.

3.18.7 Upon assessment of the provisions laid down under extant DPE guidelines towards post-retirement medical benefits, it is derived that the source of funding the post-retirement medical benefits is either through corpus created out of 1.5% of each year's PBT in respect of those employees who have retired prior to 1.1.2007 <u>***or***</u> from within the provision of 30% of BP+DA allowed towards all superannuation benefits for employees retiring after 1.1.2007.

3.18.8 Further, under the scheme / corpus out of 1.5% of each year's PBT, the Committee observes that there is a limitation emerging in respect of non-coverage of a new section of ex-employees who are retiring after 1.1.2007. In other words, the post-retirement medical expenditure for this new section of ex-employees who are retiring after 1.1.2007 are neither getting directly covered under the CPSEs funding within 30% of BP+DA <u>***nor***</u> getting covered out of corpus fund of CPSE created from 1.5% of each year's PBT.

3.18.9 In consideration that medical is the most critical requirement for retired employees, ***the Committee after taking a holistic view in the matter***

recommends for creation of the corpus fund with the approval of the Board of Directors within the following parameters:-

a. The expenditure on post-retirement medical benefits in respect of all retired employees (i.e. ex-employees who have retired prior to 1.1.2007 as well as the employees retired after 1.1.2007) shall be met out of corpus fund created out of 3% of each financial year's PBT [effective from 1.4.17 (i.e. from FY 2017-18)]. Other than post-retirement medical benefits, the corpus shall not be permitted to be utilized for any other purpose / scheme (other than provision being recommended ahead for ex-gratia payment in case of extraordinary personal hardship). The ex-employees mentioned here refers to all categories of retired employees i.e. executives, non-unionized supervisory and unionized workmen; and the corpus shall cover eligible dependent family members of retired employees as may be allowed under the CPSEs scheme of post-retirement medical benefits.

b. The present corpus limited to 1.5% of PBT (effective from 1.1.2007) has been recommended to be enhanced to 3% of PBT for the reason that in addition to the ex-employees who have retired prior to 1.1.2007, the corpus shall now also cover those who have retired thereafter and also those who will be retiring in future on continuous basis.

c. In the matter, the Committee will also like to bring clarity into its implementation perspectives. The CPSEs shall be required to account for the funding (based on the principle of actuarial valuation by certified Actuaries as per accounting standards) of the relevant scheme applicable to retired employees as well as to employees towards their post-retirement medical benefits. The actuarial valuation is to be carried out each financial year. Based on the actuarial valuation, in case any additional funding is needed to meet the shortfall in the fund of the post-retirement medical benefits scheme, then the said funding liability in respect of serving employees (for their post-retirement medical benefits) shall come out of the ceiling of 30% of their BP+DA ***<u>and</u>*** on the other hand the funding liability of the scheme in respect of retired employees shall come out of the corpus created out of 3% of PBT.

d. If any of the CPSE is already operating an approved scheme under the corpus of 1.5% of PBT (as per the extant DPE guidelines), which is not for a common post-retirement medical benefits scheme but for any other Emergency need scheme, then the same can continue (within the revised corpus permissible out of 3% of PBT) in an unaltered manner. In such case, the balance corpus within 3% of PBT shall be allowed to be utilized to account for the expenditure on post-retirement medical benefits in respect of retired employees in the manner as has been recommended above.

e. If there is no fund requirement in running of the scheme of Post-Retirement Medical Benefits for the retired employees, then the unutilized corpus of 3% of PBT shall not be permissible to be utilized for any other purpose / scheme (other than provision being recommended ahead for ex-gratia payment in case of extraordinary personal hardship). However, if there is any fund requirement to meet the retired employees liability in respect of their Post-Retirement Medical Benefits and if the corpus of 3% of PBT is short of meeting the liability, then the Board of the CPSE shall be empowered to consider funding the shortfall for the concerned year (from its Profit & Loss account, if considered feasible) with the provisioning that the said funded amount shall stand adjusted from the corpus of 3% of PBT generated in future years.

f. The scheme of Post-Retirement Medical Benefits should preferably operate through Trust route by way of following the necessary accounting procedures.

g. In addition to above, the ***Committee recommends that if there is an unutilized corpus out of 3% of PBT after accounting for the expenditure on post-retirement medical benefits in respect of retired employees, the Board of Directors, if deemed fit, may consider to introduce a scheme for ex-gratia relief to mitigate extraordinary personal hardship if being faced by the retired employees***. The extraordinary personal hardship of the retired employees shall be defined as the one of extreme situation viz. loss of dwelling unit / property due to natural calamity, self-paralysis / disablement, for providing support to dependent physically / mentally challenged children of retired employee, and for life-saving medical equipment / aid (not covered under post-retirement medical benefits / rules). The same shall be regulated relying on the documentary evidence and can be allowed upto a maximum financial ceiling of Rs.50,000/- per retired employee in a year. Needless to mention that the said scheme for ex-gratia relief shall be subject to availability of fund in the corpus, and thus the financial ceiling may vary from year to year (but not exceeding Rs.50,000/- per retired employee in any case).

h. Further, though there shall be two source of funding of the post-retirement medical benefits expenses as mentioned above i.e. out of 30% of BP+DA ***<u>and</u>*** out of corpus of 3% of PBT, as applicable, but the scheme of Post-Retirement Medical Benefits for the retired executives should ideally be common for all retired executives irrespective of the date of retirement. Importantly, in a scenario where the Post-Retirement Medical Benefits scheme and/or Ex-gratia relief scheme (for extraordinary personal hardship) are separate for different group of retirees, it needs to be ensured that there is no conflict in the schemes i.e. the Post-Retirement Medical Benefits scheme/ Ex-gratia relief scheme of those retiring later should not be inferior to those earlier retired.

3.19 Date of effect of implementation

3.19.1 As per the terms of reference of the Committee, the decision of the Government on the recommendations of the Committee is to take effect from 1.1.2017. So, the ***Committee recommends that the revised compensation & benefits / allowances, as recommended by the Committee for CPSEs, shall be effective from 1.1.2017 subject to meeting the affordability criteria***.

3.20 Deputation to CPSEs

3.20.1 Deputation is a medium for CPSEs to acquire or source the required talent from Government Departments or other CPSEs.

3.20.2 The deputation involves interconnect amongst the deputationist, his parent organization and the borrowing organization. The deputationists, ordinarily, seek deputation from their parent organization to any other organization with the purpose of better job prospects, salary, etc. As regards perspective of parent organization vis-à-vis borrowing organization is concerned, it is worthwhile to mention that it is the borrowing organization that has requirement of person(s) with certain expertise / skill-set (which is not available in-house) to come on deputation from the other organization(s) *whereas* it is for the parent organization to grant 'No Objection Certificate' to the concerned applicant(s) (which is a necessary pre-condition for going on deputation) as well as to see that the movement of concerned applicant(s) to the borrowing organization is in the larger interest of parent organization. All the cost on account of the deputationist during the deputation period is borne / reimbursed by the borrowing organization.

3.20.3 Under the DPE guidelines, the deputation to CPSEs is allowed subject to the following criteria in the matter:-

- As per the Government guidelines, the deputation of all Government officers, including those belonging to Defence Services, to all posts (whether Board-level or below Board-level) in CPSEs are not permitted.

  Deputation to CPSEs is however, permitted in the cases of Chief Vigilance Officers / Chief Security Officers, etc. The Government officers can, however, join posts in the CPSEs only on 'immediate absorption' basis.

- Further, deputation is permitted for the posts of Chief Executives and Regional / Zonal chiefs of Central Public Enterprises who require continuous liaison and coordination with State Governments and where expertise acquired in the State Government is needed for organizational efficiency. A few of such CPSEs that have been identified are Central Cottage Industries Corporation, Central Inland Water Transport Corporation, Central Warehousing Corporation, Cotton Corporation of India, Food Corporation of India, etc.

- Further, under extant Rules, the CPSE employees are not permitted to join other CPSE on deputation basis. The policy that Government employees joining public sector undertakings can do so only on ‘immediate absorption’ basis applies mutatis mutandis to employees of one CPSE joining other CPSE, regardless of the level of the posts involved. However, due to non-availability of suitable persons for particular posts and when all avenues have been exhausted for filling-up the post on regular basis, such post of a CPSE can be exempted on case-to-case basis from the rule of ‘immediate absorption’. As per the Rules, the exemption is to be concurred by DPE and it has to be obtained by the concerned Administrative Ministry.

3.20.4 The DPE guidelines (OM No. 2(70)/08-DPE(WC) dated 26.11.2008) state that the executives, who are brought into holding companies from subsidiary companies or vice versa on deputation / transfer, will continue to draw their Basic pay as drawn in the original company; they will, however, be entitled to draw the allowances and variable pay / Performance Related Pay as applicable to the borrowing CPSE. As regards the Government officers, who are on deputation to the CPSE, the DPE guidelines dated 26.11.2008 stated that they will continue to draw the salary as per their entitlement in the parent Department. Only those, who come on permanent absorption basis, will get the CPSE scales, perks and benefits.

3.20.5 The Committee, after assessment on the deputation matters, recommends as under for regulation of deputation in CPSEs:-

I. Deputation of Executive of one CPSE to other organization

a. The Committee is of the view that deputation of an employee from one CPSE to another CPSE in the same sector and region would offer the advantage of making available to the borrowing CPSE the relevant knowledge and expertise possessed by the employee, while at the same time allowing the borrowing CPSE to save on time and resources that would otherwise be spent in imparting training to a fresh recruit. Keeping this purpose in mind, the Committee opines that greater flexibility should be adopted by DPE in allowing deputation from one CPSE to another CPSE so that knowledge and skills can be transferred and used in a cost-effective manner alleviating pressure on normal recruitment channels, besides exposing CPSEs to a greater talent pool.

b. The Committee also holds the view that the CPSEs post(s) for deputation that can be exempted on case-to-case basis from the rule of 'immediate absorption' should be in respect of such post of CPSEs where there is total non-availability of suitable persons within the CPSE for the said post and when all the internal avenues have been exhausted for filling-up the post on regular basis. The selection of the deputationist from other CPSE to the post should be carried out by the borrowing CPSE in an open, fair & transparent manner by way of inviting nominations from all the concerned CPSEs that may be having the required functional expertise.

c. Further, in maintaining parity with the recommendations of the 7th CPC, it is recommended ***that the regulation of compensation structure for CPSE executives on deputation to other CPSE (subject to necessary clearance) shall be as per the following:-***

(i) Pay and Pay related benefits [like Perks & Allowances, Performance Related Pay (PRP), Superannuation benefits] shall be regulated for concerned deputationist as applicable in the parent CPSE. In order to bring clarity in the regulation of compensation structure of the deputationists, the following is further mentioned:-

- The parameters for payment of PRP to the deputationist, [namely the Factor-X (CPSE's rating), Factor-Y (Team's rating) and the Profit / Kitty factor, etc.] shall be as applicable for the parent CPSE; however the Individual's performance component (i.e. Factor-Z of the PRP model) shall be as assessed / rated by the borrowing CPSE and conveyed to the parent CPSE.

- As regards the Team's performance component (i.e. Factor-Y of the PRP model), the same shall be taken for the deputationist at par with the Team rating of the Head Office / Corporate Office of the parent CPSE.

(ii) Besides the Pay and Pay related benefits of the parent CPSE mentioned above, ***the Deputation Allowance shall be admissible at the following rate***:

- 5 percent of Basic Pay subject to a ceiling of Rs.4,500 per month for deputation within the same station (as the last place of posting of the employee); or

- 10 percent of Basic Pay subject to a ceiling of Rs.9,000 per month for deputation involving change of station.

- The above ceilings will rise by 25 percent each time DA increases by 50 percent. [If at any point of time, the Government enhances the rate of deputation allowance for the Central Government employees, the same is recommended to be made applicable for the deputation cases referred here].

d. The above recommended compensation structure shall also apply to the following categories of deputationists:-

- CPSE executives who are sent on deputation to Government regulated agencies / organizations [set-up to undertake Government strategic initiative / agenda like Directorate General of Hydrocarbons (DGH), Centre for High Technology (CHT) Petroleum Conservation Research Association(PCRA), etc.]; and

- CPSE executives who are sent on deputation to Joint Ventures of the CPSEs.

e. In a nutshell, all the concerned CPSE executives on deputation would thus continue to draw the pay, perks & allowances, PRP, etc. of the parent CPSE; plus Deputation allowance. The total cost thereof shall be borne / reimbursed by the borrowing CPSE.

f. The rules of Government of India (FRSR) will apply to appoint, regulate / absorb the deputationist.

g. The above recommended provisions are in respect of deputation of an executive from one CPSE to another CPSE including the movement of executive between holding CPSE and its subsidiary CPSE. However, the Committee will like to underline that in case of movement of an executive from a holding CPSE to its subsidiary CPSE *or* from a subsidiary CPSE to its holding CPSE *or* within the subsidiary CPSEs of a holding CPSE, which if it happens under a laid down Transfer policy of holding / subsidiary CPSE (as agreed amongst these CPSEs), then the regulation of payment of PRP to all executives of holding/subsidiary CPSE may be considered to be computed on the overall PBT and Kitty factor by pooling / consolidating the PBTs (including the losses, if any) of holding CPSE and all its subsidiary CPSEs. This dispensation is an option that may be exercised by a CPSE & its subsidiary CPSEs as per their need assessment and agreement amongst the CPSEs; otherwise, the above recommended provisions in respect of deputation of an executive from one CPSE to another CPSE shall apply to such individual transfer cases.

II. Deputation of Government officials to CPSE

a. In the recommendations of 2nd PRC, it was stated that Government Officers on deputation to CPSEs will continue to draw the salary as per their entitlement in the parent department. Only those who come on permanent absorption basis were allowed to avail the benefit of CPSE scales, perks & benefits. The DPE guidelines were also issued to this effect.

b. However, later on based on approval of Cabinet, the option to draw pay either in the scale of pay of the CPSE concerned or pay in the parent cadre plus deputation (duty) allowance thereon plus personal pay, if any, was allowed only for vigilance functionaries on deputation to CPSEs. This option allowed only to vigilance functionaries has brought differentiation in treatment of Government officials on deputation to CPSEs.

c. The Committee is of the firm view that principle of compensation structure in respect to deputationists should be uniform in respect to all Government officials. Thus, in line with the recommendations of 7th CPC and to keep parity with the deputation allowance recommended for CPSE's executive on deputation to other organization, it is recommended ***that the regulation of compensation structure for Government officials on deputation to a CPSE shall be as per the following:-***

   i. Pay and Pay related benefits [including allowances / PRP, Superannuation benefits, etc. as applicable] shall be regulated for concerned deputationist as applicable in the parent cadre (in Government).

   ii. Besides the Pay and Pay related benefits of the parent cadre (in Government) mentioned above, ***the Deputation Allowance shall be admissible to all the Government deputationists at the following rate***:

      - 5 percent of Basic Pay subject to a ceiling of Rs.4,500 per month for deputation within the same station (as the last place of posting of the employee); or

      - 10 percent of Basic Pay subject to a ceiling of Rs.9,000 per month for deputation involving change of station.

- The above ceilings will rise by 25 percent each time DA increases by 50 percent. [If at any point of time, the Government enhances the rate of deputation allowance for the Central Government employees, the same is recommended to be made applicable for the deputation cases referred here].

d. In a nutshell, all the concerned Government officials executives would draw the pay and pay related benefits of the parent cadre (in Government); plus deputation allowance. The cost thereof shall be borne / reimbursed by the borrowing CPSE.

e. The rules of Government of India (FRSR) will apply to appoint, regulate / absorb the deputationist.

3.21 Retirement Age

3.21.1 Government had taken the decision to increase the age of retirement from 58 to 60 years of Board level and below Board level employees of CPSEs in 1998. As regards the sick / unviable CPSEs, the age of retirement can be rolled back from 60 to 58 years, as well as enhanced from 58 to 60 years provided that sick CPSEs have started making profit and are meeting the laid down conditions, subject to approval of the specified Competent Authority.

3.21.2 The Committee ***recommends no enhancement in the retirement age for the CPSE employees***. However, the Committee is also of the view that in consideration of general increase in life expectancy and to draw maximum benefit of much required experienced manpower, the Government may consider to enhance the retirement age of CPSE executives placed at higher / senior level grades.

3.22 Periodicity

3.22.1 Prior to the pay-revision effective from 1.1.1997, the periodicity of structured pay-revisions conveyed for CPSEs used to be for the duration of 5 years. It was based on the recommendation of 1st PRC that the periodicity of pay-revision for CPSEs got raised from 5 years to 10 years effective from 1.1.1997.

3.22.2 The 2nd PRC had viewed that the responsibility of future revisions should be given to the Board subject to the approval of the concerned Ministry. The revision can be considered as and when necessary on the basis of economic situation and nature of the concerned industry. The periodicity of said pay revision is however for 10 years i.e. till 31.12.2016.

3.22.3 The periodicity of 6th CPC recommendation was effective for 10 years i.e. due from 1.1.2016. The 7th CPC has observed that there should be a permanent Remuneration Authority to review the pay structure based on job roles evaluation, remuneration prevailing in the market for comparable job profiles, general working of the economy, etc. within a given budgetary outlay. With this, the pay structure could be revised periodically, at more regular intervals, say annually, without putting an undue burden on the public exchequer every ten years, as is the case now. Thereby, the impact of revision of wages could be easily absorbed in each year's budget and quicker remediation of anomalies would take place, leading to greater employee satisfaction. In the backdrop of annual revisions, the present system of biannual revision of DA could also be dispensed with.

3.22.4 CPSEs and the Officers' Associations, in general, have demanded that the periodicity of pay revision should not be longer than 5 years as otherwise it is considered beyond the standard duration of a pay structure to remain relevant, and the same also becomes non-appreciative of the trend in the market driven compensation.

3.22.5 Committee also noted the concern of almost all CPSEs in the matter of anomalous situation being faced in the organizations due to different periodicity of pay revision applicable for executives as compared to unionized workmen. This anomalous situation is arising due to DPE guidelines / Policy on the 7th Round of wage negotiations for unionized workers in CPSEs, which permitted periodicity for unionized workmen to be less than 10 years but not less than 5 years, but for officers it remained as 10 years. During discussions, it has been brought out that in many CPSEs the salary structure of executives is lesser than the unionized workmen for the reason that ***either*** the CPSEs revised the unionized workmen's salary for a period lesser than 10 years and gave them another pay-revision within 10 years (which was supposedly with the approval of the Minister concerned) ***or*** for the reason that higher fitment benefit was granted to unionized workmen for agreeing to 10 years periodicity. The CPSEs shared that it has brought tremendous conflict in the salary amongst the employees as many executives are drawing lesser compensation vis-a-vis workmen.

3.22.6 After due consideration in the matter, this Committee ***recommends that review of the compensation & benefits structure of the CPSE executives should happen in line with the periodicity as decided for Central Government employees but it should not be later than 10 years***.

3.22.7 Further, to avoid pay conflict and anomalous situation amongst the pay of employees within a CPSEs, as well as to enhance the confidence of executives, ***the Committee strongly recommends the following:-***

i. Under no circumstances, the periodicity of wage / pay revision of unionized workmen shall be lesser than the periodicity of executives and non-unionized supervisors, as applicable.

ii. That the negotiated wage revision in respect of unionized workmen should not come in conflict with the pay revision of executives and non-unionized supervisors i.e. the pay-scales, fitment benefit, allowances, performance / incentive / bonus payment etc. of unionized workmen should not be higher than that of entry level of executives and non-unionized supervisors.

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CHAPTER - 4

Recommendations to Improve the Performance of CPSEs

Chapter– 4: Recommendations to improve the performance of CPSEs

4.1 Modern, Professional and Consumer Friendly CPSEs – A few challenges

4.1.1 These aspects of the CPSEs need detailed study and suggestions. But due to limited time period, the Committee is unable to examine the same. However, just to touch upon the problems / aspects, it is stated that if India has come a long way from a GDP of mere Rs.94 billion in 1950 to Rs.120 Trillion now, certainly Public Sector Enterprises have played a key and important role. It provided the much needed hand holding to enable the economy stand on its feet and achieve the kind of progress which led India grew from 0.5 percent annually in the first half of the 20th century to 5 percent in the second half of the 20^{th} century and setting stage for high growth of 8-10 percent in 21^{st} Century.

4.1.2 Governance structure of a CPSE is composed of three distinct layers namely:

- Government as owner for policies;
- Board for developing strategy; and
- Executive management for execution/implementation

As an owner, government's responsibility include articulating fundamental outcomes, appointing of CEO/Board Members and deciding their remuneration, monitoring performance against set targets, approving mechanism for project investment, dividends and devising disinvestment strategy.

4.1.3 Continued communication and free flow of information from top to down level, vertically and horizontally, are essential to improve performance and achieve goals of the company. Close aligning between CEO and Board of Directors act as a powerful driver of organizational performance. Chairman should hold meetings with the Directors regularly while Directors should hold meetings with the Executive Management every month. This will ensure that CPSEs objectives and strategies are understood by everyone and help everyone to deliver what is expected from them. Employees should be encouraged to share ideas and suggestions to improve the performance that will help the company to innovate and become competitive. There is also need to develop information sharing mechanism both horizontally and vertically between all layers in the organization.

4.1.4 The top management of CPSEs is generally appointed for a (maximum) one time tenure of 3 to 5 years. However, at times, the change in leadership happens within a year or even within a month leading to instability in policies and lack of focus on effective implementation. With frequent changes in leadership little time is left to effectively implement or plan the implementation of the interventions and hence, focus shifts to devising systems alone. A fixed tenure to improve accountability, transparency and efficiency is a major concern. ***Creating a fixed tenure will not only help in smoother succession planning but would ensure that board level posts do not remain vacant for long***.

4.1.5 Moreover, Public Sector Boards have a unique but complex structure. They have three different classes of Directors – Functional Directors, Government nominee Directors and Independent Directors. They come with different qualifications, experience, working environment or background/areas. Functional Directors have domain expertise but lack interconnectivity to meet transition from working level to Functional Director level. They may possess strong functional capability but remain deficient in a strategic perspective where inter-connectivity with business market regulators, competitors, technology is required. Government Nominee Directors come from privilege position and pursue the political and social agenda. It is an admitted fact that such Government nominees still does exercise a degree of formal and informal influence over the Boards of public enterprises which, in many cases, may be influenced by several considerations, including those of political and social agenda of the government. They have a gap with the working level people. Similarly, Independent Directors need not necessarily possess the company's domain experience. They are neither wedded to the commercial orientation of the full time Functional Directors nor do they represent the political or the social agenda of the Government Nominee Directors. Therefore, all the three classes need some orientation in matters of corporate functioning and goals of enterprise.

4.1.6 The Companies Act 2013, provides for ***atleast one Woman Director on the Board of every listed company***. But this has been a challenge for most of the CPSEs as many companies have yet to appoint a Woman Director on their respective boards. The fact remains that there is dearth of sufficient requisite number of women executives to occupy the board level positions. ***CPSEs need to work towards training and succession planning of women employees in their organizations***.

4.1.7 An appropriate mechanism should be developed to evaluate the performance of the Board. The purpose of evaluation of the Board will be served only if it takes into account the performance of the Independent Directors and Government Nominee Directors.

4.1.8 ***Based on above, the Committee recommends the following for improvement in governance of CPSEs*** :-

a. There should be well documented policy with clear laid down role and responsibility that the government seeks for effective corporate governance.
b. The Board should be responsible for vision, strategies & monitoring of strategy and must be based on the premise of transparency, integrity, accountability and responsibility. If the Board is not performing within above framework, the same may be changed.
c. Evaluation of performance of Independent Directors and recall for non performance.
d. Every CPSE may be directed to coin social vision along with industry vision. It is also suggested that mandatory provision of CSR may be further enhanced. Allocation/selection of projects should be based on baseline/need based surveys and done through board approved policy so that the benefit reaches the end users. There is need for social audit of CSR expenses to monitor progress, implementation and impact assessment of the programme.
e. Convergence of accountability system/heterogeneous regulatory mechanisms.
f. Mandatory orientation programmes for capacity building of Board Members.
g. To make CPSEs modern, professional, consumer friendly and commercially successful in the present competitive environment, the Committee strongly recommends that there should be regular orientation / training programmes at all levels in the organization. Regular workshops / seminars as required should be conduted to keep the staff at all levels updated and equipped with requisite skills and know-how.
h. For the Top Management, a fixed term is recommended.
i. At least, one woman Director on the Board of each CPSE is recommended.

4.2 Employee Stock Ownership Plan (ESOP)

4.2.1 ESOPs have emerged as an important form of remuneration to employees in some companies. These involve transferring some ownership right in the company to some or all employees and have been advocated on the grounds of creating ownership sense in the employees and bringing in line the long-term interests of employees with those of the shareholders, thereby fostering greater commitment towards achievement of organizational goals and individual excellence. As a compensation tool, ESOPs may exceed the expectations of employees depending on stock price of the company but are still affordable to the company. It is considered as a big motivating factor from the perspective of a company that likes to reward loyalty of employees.

4.2.2 Under ESOP, a company grants to an employee the right (option) to buy a certain number of shares of the company at a grant price (normally the market price prevailing on the date of grant or a discounted price) over a certain number of years (option period). The 'grant' or 'exercise' price remains fixed during the option period. The employee expects that the share price would increase during the option period and he would gain by exercising his option at a lower price. Exercise of this option may be linked to some minimum number of years (three to five years) to work and some performance targets. The employee need to exercise the option within a specified period and the option lapses or loses its validity if not exercised during this period.

4.2.3 It may be noted that options become shares only when the employee exercises the right granted to him/her. If a closely held company grants ESOPs, employees need to be provided with an exit option since shares in such companies are not publicly traded. The shareholders pass special resolution approving grant options on recommendations of an authorized committee regarding the criteria and modus operandi to be followed in the company based on relevant considerations. Thus, ESOPs are essentially a form of performance related rewards and the level of grants are linked to the extent of performance and responsibility handled. A company uses ESOP as an incentive devise to motivate employees to improve performance and retain talent. Besides, ESOPs help to maintain liquidity, which might be an important consideration for the startups.

4.2.4 ESOPs became popular in India when Information Technology (IT) companies introduced them in 1990s to provide incentive to their employees who form the most critical assets for these companies, though several non-IT companies have also introduced ESOPs for their senior and middle level management cadre. The Companies (Share Capital and Debenture) Rules, 2014 and SEBI guidelines govern the grant of stock options in India. Permanent employee working in or outside India and whole-time or part-time directors are entitled for ESOPs, but not promoters or directors holding more than 10 per cent of the equity shares of the company.

4.2.5 ESOPs scenario in CPSEs

i. The 2nd PRC had recommended that CPSEs should formulate ESOPs plan and pay 10-25% of Performance Related Pay (PRP) in the form of ESOPs. To facilitate this process, it had further recommended that government should encourage CPSEs for listing in the stock market. PRP could be a significant portion of remunerations paid in some CPSEs. The idea behind performance bonus in the form of ESOPs is that employees can become part owners of the companies and have stake in their growth.

ii. Last year, market regulator SEBI had made it mandatory for PSUs to ensure at least 25 percent public shareholding within three years. Subsequently, the Department of Disinvestment had suggested to the Department of Public Enterprises (DPE) that the Performance Related Pay (PRP) to CPSE executives be in the form of ESOP.

iii. If payments are made in the form of ESOPs, an employee would think of self to be a part owner of the company and would want to work for the better profitability of the company. Secondly, this would also help increase retail holding in the company and the ESOP route would make it easier to meet the target set by SEBI on retail holding for PSUs. But, there does not seem to be much progress on this front understandably for the following reasons:-

- ESOP can be provided, if CPSE concerned is listed on the stock exchange. The scheme of ESOP involves dilution of Government holding in a CPSE. Thus, CPSEs will be required to submit the scheme to Administrative Ministry, which may thereafter obtain approval of Cabinet Committee on Economic Affairs (CCEA), after inter-ministerial consultation.
- The CPSEs having Government of India’s shareholding marginally above 50% may not be in a position to dilute the holding any further for ESOPs. Further, there are certain CPSEs which were established through Acts of Parliament, which may involve further intricacies for diluting the stake.

- The ESOP, being recommended as a part of the PRP, would be considered to be exercised by the employee only if the option is given to them at an attractive discounted price.

4.2.6 Thus, ***the Committee recommends that ESOP being a concept beneficial for both CPSEs and its employees, the DPE should elaborate the mechanism in consultation with concerned Government authorities to enable introduction of ESOP in CPSEs (which is listed on the stock exchange) with empowerment to the Board or Administrative Ministry to approve the same. It will be in lieu of part of PRP.***

4.2.7 In case the above recommendation on ESOP is not feasible, the other option shall be that ***Board of the CPSEs (which are listed on the stock exchange) may announce a scheme in line within the following broad guidelines:-***

i. Employees (as per the level considered) would be allowed to buy the shares of the CPSE, directly from the market within a period of 6 months from the announcement of the scheme;

ii. CPSEs would be allowed to reimburse 25% of the fair market value of the 6 months buying period based on the number of shares so purchased by each employee during the period ***provided*** the employee holds on to the shares for a minimum period of 4 years (i.e. lock-in period). In other words, the recommended reimbursement of 25% would be allowed after a minimum of 4 years from the buying period.

iii. The maximum amount that can be reimbursed should not exceed Rs.1 lac per employee.

iv. The above recommended ESOP scheme should be allowed as an option to the executives that may be chosen by individual at the time of announcement of scheme for the reason that the reimbursement of 25% of the fair market value would be in lieu of the corresponding entitled PRP amount payable in the year of reimbursement (i.e. after a lock-in period of 4 years).

4.2.8 The CPSEs which are listed in stock exchange and intending to utilize ESOP may also examine to opt to operate the same through Trust route by way of following the necessary accounting procedures.

4.3 Voluntary Separation Scheme (VRS)

4.3.1 VRS is a tool for the Management to optimize / right size the manpower as well as seeing to it that VRS is extended primarily to such employees whose services may be dispensed without detriment to the Company; and at the same time, care should be exercised to ensure that highly skilled and qualified manpower are not given the option for separation under VRS.

4.3.2 The VRS policy in CPSEs is governed by the DPE guidelines, which has the following broad features:-

a. As per extant guidelines, enterprises, which are financially sound and can sustain a scheme of VRS on their own surplus resources may devise and implement variants of the existing VRS Policy.

b. Marginal profit or loss making enterprises have option to follow Gujarat pattern of VRS. Under this system, the compensation consists of salary of 35 days for every completed year of service and 25 days for the balance of service left until superannuation. The compensation is subject to a minimum of Rs. 25,000/- or 250 days salary whichever is higher. However, this compensation shall not exceed the sum of the salary that the employee would draw at the prevailing level for the balance of the period left before superannuation.

c. Besides above, for Sick and unviable units, the Voluntary Separation Scheme (VSS) package on Department of Heavy Industry (DHI) pattern could be adopted as per the following:

   i. An employee is entitled to an ex-gratia payment equivalent to 45 days emoluments (Pay + DA) for each completed year of service or the monthly emolument at the time of retirement multiplied by the balance months of service left before the normal date of retirement, whichever is less;

   ii. All those who have completed not less than 30 years of service, are eligible for a maximum of 60(sixty) months salary/wage as compensation. This will be subject to the amount not exceeding the salary/wage for the balance period of service left (at the rate of monthly salary/wage at the time of voluntary retirement).

d. Marginal profit or loss making enterprises or sick and unviable units have subsequently been given option either to adopt Gujarat pattern or DHI pattern.

4.3.3 In the matter, ***the Committee recommends that***:-

i. Profit making CPSEs, which can bear the cost of VRS scheme with their own surplus resources, are allowed to implement VRS policy by allowing compensation/ex-gratia on the revised pay scales effective from 1.1.2017.

ii. Those CPSEs which are not covered in point (i) above, but are in a position to bear the compensation cost of scheme of VRS/VSS on their own, without budgetary support, may implement the scheme by allowing the payment of compensation / ex-gratia based on the pay scales applicable from 1.1.2017 in line with the recommendations made by the Committee.

iii. For points (i) and (ii) above, VRS compensation/ ex-gratia should be paid equivalent to 60 days salary for each completed year of service *or* the salary for the number of months of service left, whichever is less.

iv. For sick and loss making CPSEs, which are under closure / being considered for closure or rightsizing with revival package, VRS compensation/ex-gratia should be paid in the same manner as mentioned at point (iii) above but based on the pay scale of 1.1.2007. In such cases, the proposal will be implemented with the approval of the Government.

4.4 Leave regulations / management

4.4.1 The CPSEs are empowered to frame their leave rules for its employees keeping in view the broad parameters of the policy guidelines laid down in this regard by the Government.

4.4.2 However, in the past a clarification was issued by the DPE requiring the CPSEs to follow the overall ceiling of 300 days for encashment of Earned Leave (EL) and Half-Pay Leave (HPL) put together on retirement, and that the Sick Leave (SL) encashment is not allowed. The CPSEs raised concern that such directive has disturbed the leave management of the CPSEs. In the CPSEs, the leave encashment of EL upto 300 days and HPL/SL as available at the credit were being allowed to be encashed at the time of retirement.

4.4.3 For Central Government employees, the encashment of EL and HPL has been allowed w.e.f. 1.1.2006 to be put-together within the overall ceiling of 300 days.

However, prior to 1.1.2006, the encashment of Earned Leave (upto 300 days) and Half-Pay Leave (HPL) was allowed to Central Government employees without any limit at the time of retirement (subject to adjustment / reduction from pension relief / pension equivalent of Retirement Gratuity). The same guidelines were also allowed on retirement to the Central Government industrial employees governed by Factories Act, 1948. Later, based on the recommendation of 6th Central Pay Commission, the benefit was granted of utilizing the HPL for availing full ceiling upto 300 days, alongwith EL, without reducing the corresponding pension amount allowed from 1.1.2006.

4.4.4 CPSEs drew attention of the Committee to the point that direction to the CPSEs (in line with Central Government) to put together the number of EL and HPL to 300 days for encashment at the time of retirement is due to non-appreciation of the holistic fact that in case of Government, the HPL encashment upto 300 days was granted by 6th CPC as a benefit because the said amount will no longer be reducing their corresponding pension amount (which was otherwise happening prior to 1.1.2006) ***whereas*** for CPSEs the same provision cannot be replicated for the reason that there was no pension scheme for CPSE employees.

4.4.5 CPSEs also explained that the leave provisions in CPSEs are linked to the Industrial climate and aligned to the operational need of the CPSEs, like:

- Leave encashment provisions in CPSEs are to disincentivise / curb absenteeism occurring due to leave being resorted to by employees in the last few years prior to retirement in order to lapse the leave lying in the credit.
- Business/operations in many industries are round-the-clock; and it also falls in the list of Industries involving hazardous processes under the Factories Act, 1948. Absence due to availing leave adversely affects the operations.
- Due to limited manning pattern any such absence generates overtime payments for manning the shift operations, which is at double the rate of applicable wages.

4.4.6 The CPSEs are commercial / industrial set-ups unlike an administrative one, and thus by design the leave rules of Central Government need not be ipso facto applicable to CPSEs. The overall service conditions and the working conditions are also dissimilar. So much so that even the overall leave policies, its governing regulations and even its nomenclature are seen to be different for different CPSEs.

4.4.7 The Committee is of the view that the leave policies applicable for Government employees are not comparable with the leave management polices applicable under an Industrial set-up for CPSEs employees. Thus, ***the Committee recommends that CPSEs will be allowed to frame their own leave management policies and the same can be decided based on CPSE's operational and administrative requirement.*** In the process, the CPSEs shall however comply with the following principles:-

a. Maximum accumulation of Earned Leave available are not permitted beyond 300 days for an employee of CPSE. The same shall not be permitted for encashment beyond 300 days at the time of retirement.

b. CPSEs should adopt 30 days' month for the purpose of calculating leave encashment.

c. Casual and Restricted Leave must not be encashed at all and it shall lapse at the end of the calendar year.

4.5 Healthcare of employees

4.5.1 In India, healthcare benefits are an essential part of the benefits package provided by employers. But for cost rationalization, the organizations have pushed to freeze or reduce their benefits programme budget. Consequently, the issue of managing increasing costs of healthcare benefits has emerged as one with far reaching implications, both for the employers and employees alike. Health care benefits are not merely an operational cost for employers but a tool to maintain a healthy workforce and be competitive in the market place as a preferred employer.

4.5.2 Therefore, to remain competitive and yet efficiently manage costs, it is increasingly important that employers develop a strategic and considered approach towards managing their health benefit provision. Generally, it is compensated under the head of 'medical allowance'.

4.5.3 The medical allowance is just an amount that is defined by the government. The purpose of this amount is to provide employees with tax benefits in case they have had to spend on medical procedures in the year. It can be claimed for treatment undertaken by an employee or their families.

4.5.4 It may be mentioned that Medical allowance is a fixed allowance paid to the employees of a company on a monthly basis irrespective of whether they submit the bills to substantiate the expenditure or not. Medical reimbursements are the actual amount that the employer gives to an employee when they submit bills for medical treatment availed. There are no restrictions in terms of allopathic, homeopathic or other forms of treatment to claim exemption.

4.5.5 Medical reimbursement is not taxable [Section 80 (D), (DD) and (DDB), Income Tax Act, 1961] if the treatment of an employee or his family member is undertaken in any of the following hospitals:

- Hospital maintained by Employer
- Hospital maintained by Central Government/State Government / Local Authorities
- Hospital approved by government
- Hospital approved by the Chief Commissioner of Income Tax.

4.5.6 Many often use the words 'medical reimbursement' and 'medical allowance' interchangeably assuming that they mean the same. However, the terms encompass different tax treatments as per Income Tax Act, 1961. According to experts, the correct nomenclature vis-a-vis the medical component of an employee's salary should be 'medical reimbursement' and not medical allowance since allowance is taxable in several cases, except specifically exempted.

Medical Allowance	**Medical Reimbursements**
Medical allowances are assigned by the government under the IT Act of 1961	Medical reimbursements are subject to the presentation of valid medical bills and are provided by the employers.
The medical allowance is not free from tax.	The amount that is reimbursed or claimed is exempt from income tax.
The limit for the allowance is Rs.15,000.	The limit for reimbursements is Rs.15,000. Bills may be submitted for amounts exceeding this limit but tax benefit will be provided only up to the limit of Rs. 15,000.
The medical allowance may be paid to the employee by the employer irrespective of claims made.	This facility can be claimed ONLY if actual expenses have been incurred by the employee or their family.

4.5.7 Cashless hospitalization services: Several leading insurance providers in the country have a network of hospitals which offer cashless hospitalization services for the benefit of customers. Customers, therefore, do not have to unduly worry about immediate cash requirements in case of any emergencies. In several cases, the third party administrator pays the bill to the hospital or institute.

4.5.8 In view of above, the ***Committee recommends that CPSE employees should avail the medical facility in the hospitals of CPSEs, if any, failing which each employee of CPSE should get a fixed medical allowance of Rs.1,000 (Rupees One Thousand) per month for treatment in Out-patient department (OPD) without submitting any bill or may be allowed reimbursement against bills, whichever modality is decided at the discretion of the CPSE. The reimbursement against bills should be subject to conditions / limits as may be decided under the Medical Rules of the CPSEs.***

4.5.9 ***Further, for hospitalization, cashless policy for providing a minimum coverage to employees from Insurance Companies may be provided by CPSE. For this purpose, the services of a common Insurance Company is suggested to be explored through a common forum / agency (on behalf of CPSEs) to explore for getting a bulk policy to get cost advantage in insurance premium to cover the hospitalization treatment of CPSE employees (including for retired employees). In needy (special) cases, the Board of Directors may consider on merit to provide for the ex-gratia grant beyond the permissible amount***.

4.5.10 The above recommendations are the minimum healthcare facilities that may be provided by the CPSEs. However, in case a CPSE is providing a healthcare policy / medical facilities that is better than the recommendations made above, then the CPSE shall be permitted to continue with its facilities / policy.

4.5.11 The healthcare policy / medical facilities applicable in CPSEs, outside the purview of ceiling on perks & allowances, being a need based critical welfare facility should cover all categories of employees (i.e. Board level executives, Below Board level executives, Non-Unionized supervisors and Unionized workmen).

4.6 Club membership

4.6.1 The Committee was apprised that there are instances where the CPSEs have taken club membership in the name of individual Board level executives.

4.6.2 Historically, the terms & conditions of appointment of Board level executives that were issued for the period prior to 1.1.2007 used to state that they will be eligible to become member of two clubs at the expense of the CPSE but the membership will be co-terminus with their tenure. However, the said provision was not covered in the terms & conditions of appointment of Board level executives issued for the period after 1.1.2007.

4.6.3 The Committee will like to ***recommend that the CPSEs shall not be allowed to provide for any individual club membership to Board level executives; however in the interest of business and for peer level interactions with the leaders of the Industry, the CPSEs will be allowed to provide Board level executives with the Corporate Club membership (upto maximum of two clubs), the membership of which will be co-terminus with their tenure***.

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CHAPTER - 5

Drainage of Revenue Towards the Litigation & Arbitration – Critical Analysis

Chapter– 5: Litigation & Arbitration – Critical Analysis

5.1 Cost of litigation and arbitration in CPSEs - a study

5.1.1 When an industry is engaged in business / commercial activities and in hiring the external services, then litigation is bound to happen. Litigation is unproductive activity and such expenses are viewed as wastage of valuable funds.

5.1.2 During the process of formulating recommendations regarding the compensation structure for CPSEs executives, the Committee's attention was drawn to the staggering layout of litigation costs and executive's time involved because of the large number of litigation in which these entities are involved.

5.1.3 Concerned by the ever-rising graph of litigation at all levels involving the CPSEs and mounting expenses that it involves, this Committee sought detailed information through SCOPE on the factual status in respect of all CPSEs with regard to cost of Litigation and Arbitration in the CPSEs during the last two financial years 2014-15 and 2015-16. SCOPE addressed detailed queries of an urgent nature to these undertakings and sought their co-operation for furnishing reliable data, providing total number of cases, award in favour and against the CPSEs, Arbitration fee and legal expenses incurred, claim involved and average time taken in resolution of such legal disputes. Attempt was made by the Committee for understanding CPSE's approach to litigation and whether they have any policy for either initiating or avoiding litigation. Suggestions were invited from these CPSEs for curbing wasteful litigation.

5.1.4 A detailed presentation by SCOPE, along with various CPSEs, was made before the Committee. Due to short notice and paucity of time, out of about 235 operational CPSEs, only 50 major CPSEs have furnished the data. Even though the sample size of 50 CPSEs may be small, but the facts emanating from their figures are alarming enough for the Committee to take cognizance of the matter and recommend mitigating factors for improving the system and process within the CPSEs by professionalizing its legal division and making it an efficient cost center.

Arbitration in 50 CPSEs (Sample)

Financial year	Arbitration cases	Arbitration fees / expenses incurred (Rs. in crore)
2014-15	1347	717.09
2015-16	1483	737.09

Litigation cases in 50 CPSEs (Sample)

Financial year	Cases pending	Legal expenses incurred (Rs. in crore)
2014-15	38,381	144.25
2015-16*	39,849	163.24

** Average 797 legal matter pending in one CPSE*

5.1.5 On discussions and interactions with SCOPE and other CPSEs, the Committee was constrained to conclude that CPSEs are in general prodigal with litigation. CPSEs are lacking professionalism and devoid of in-house talent while dealing in Arbitration and other legal disputes. The legal cell in these CPSEs continues to litigate at the cost of the public exchequer. A type of largesse is distributed in selecting lawyers who receive fat fees for appearing for public sector undertakings. They have interest in adjournment and charge the fee for appearance. The Committee on examining the pattern of litigation followed by CPSEs observed that often senior law officers of the CPSEs in whom the decision- making power for initiating and continuing litigation vests manipulate and protract the litigation by blindly carrying the matter from court to court on frivolous grounds.

5.1.6 Moreover, in majority of CPSEs, there is no unity of command for exacting responsibility and accountability by a single functional Director before the Board of the Company. There is a general perception that Chief Of Human Resource Officer (CHRO) or Director (Personnel/ HR) is normally expected to oversee and ensure effective delivery on legal aspects. But in practice, the role conflict exists and legal functions remain dispersed amongst various departments and different executives with no legal understanding. Further, the functioning of the legal department in most CPSEs is largely mechanical in nature with their work limited to merely carrying of files and handing over cases to outside advocates/lawyers, without making any contribution on merits and strategies.

5.1.7 The Committee observed during discussion with the representatives of various CPSEs that despite elaborate procedures prescribed to settle disputes involving CPSEs by arbitration, the situation has hardly improved because there is a loophole in the arrangement. If the dispute involves a question of law and not decided by the Supreme Court, only than matter may be taken contested. But if the issue is well settled then it can be decided accordingly. What is a question of law cannot be explained in a scientific manner. So, anything can be twisted into a question of law and litigated upon.

5.1.8 It was noticed by the Committee that the litigious culture and tendencies cultivated and exhibited by most CPSEs betrays a lack of understanding of cost-benefit ratio. The expenditure required to be incurred by the CPSEs for meeting the mounting litigation expenses eats away a large chunk of profits of these CPSEs. This wasteful litigative expenditure constitutes a diversion of the scarce financial resources and contributes to a low profitability profile of most CPSEs. Needless to mention the principle of economics is that one rupee saved means one rupee earned.

5.1.9 This Committee, with a view of facilitating improvement in performance of CPSEs and enabling them to operate effectively in a competitive environment, had interaction with the representatives of CPSEs for curbing excessive and unproductive wasteful expenditure on litigation and arbitration. The Committee prima facie agrees that following measures may form an integral part of good governance in all CPSEs, essential for sustainable business with focus on generating surpluses for self-sustaining growth:

- Director (Personnel/HR) or CHRO of the CPSEs may be made accountable for monitoring and supervising all legal processes. They even act as Compliance Officer under the Company Law in majority of Companies. This will remove dysfunctional legal structure of the CPSEs. There is also a pressing need to enhance the competence of in-house counsels and equip them with updated knowledge to enable them to discharge their role and responsibilities effectively, thereby reducing reliance on external talent and services.

- As most of the litigation in CPSEs is attributable to loosely drafted Contracts/ Agreements, a robust system of Contract/Agreement drafting and its legal vetting should be devised, so as to mitigate the ever evident ambiguity amenable to different and loose interpretations.

- Advocate's fee, Arbitration fee and other legal expenses may be rationalized as fixed to bare minimum and maximum towards success fee. This will discourage relentless pursuit of litigation by way of appeals being preferred on extraneous or irrelevant grounds and mitigate the practice of seeking repeated adjournments in the pending matters. Senior counsel should be engaged only in rarest of rare cases where high stake is involved or cases having complex facts and law. Cases should be represented and argued by the respective law officers of the CPSE wherever possible.

- To devise and evolve effective in-house settlement /conciliation machinery for resolution of disputes before resorting to arbitration and commercial litigation.

- To put in place Outside Expert Committee(OEC) as a settlement/ conciliatory mechanism for settling cases before referring matters for Arbitration. The Committee subscribes to the suggestion given by most CPSEs that efficacious non-court forums for settlement of disputes should be encouraged to reduce interminable, complex and atrociously expensive litigation.

- To promote Permanent Institute of Arbitration (PIA) with SCOPE as the alternative institutional mechanism with a view to reducing litigation or resort to courts needs to be considered. All disputes between CPSEs and Government departments should mandatorily have PMA arbitration clause as prescribed by DPE. Mechanism should be created to cover the existing disputes between CPSEs also within PMA mechanism of DPE irrespective of contractual provisions in this regard. PMA and Law Secretary (Appellate Authority) orders as per PMA mechanism in DPE should be made final and binding to reduce litigation between CPSEs/Govt. In line with PMA mechanism for resolving tax disputes between CPSEs and tax departments, some mechanism may be created internally to minimize tax disputes.*

- Strict guidelines must be framed for adherence to procedural timelines for filing of pleading, documents, etc. and by attending the hearings on scheduled dates to ensure that Arbitration/litigations are not prolonged and can be disposed of expeditiously. Significant changes were made by the Arbitration and Conciliation (Amendment) Act, 2015, which provides for time limits in passing an arbitral award and limits fees payable to arbitrators can be expected to improve the nature of arbitration proceedings considerably which have become highly technical in present times, accompanied by unending prolixity.

- The Committee lends its weight to the suggestion coming from most CPSEs that in order to ensure that arbitration proceeding is an end of litigation, award of the arbitrator should ordinarily be accepted as final unless there is an error apparent on the face of the record and it is of such a gross nature that a challenge becomes inevitable. Likewise, seeking of repeated adjournments in court cases should be discouraged so that litigation is not perpetuated endlessly.

- Employee related service matters should be discussed and settled amicably to avoid litigation.

- A proper litigation policy and strategy must be formulated and followed by CPSEs, with an aim of reducing and controlling litigation to a minimum, if not eliminating and eschewing it wholly and saving avoidable costs on unproductive litigation and also releasing the energies of executives held up in court work. Efforts should be made to make a direct dent on litigious tendencies of these undertakings with a view to reducing frequent resort to litigation.

- No fee can be pay for adjournment. It may be paid if there is effective hearing.

- Repetition of Arbitrator(s) needs to be avoided. For quality Arbitration at low cost, help may be taken in form of Institutional Arbitration like International Centre for Alternative Dispute Resolution (ICADR); or SCOPE. In any case, no Arbitrator can be appointed directly (Adhoc). To this effect necessary provision must be made in the agreement/contract.

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* *ONGC* Vs *Collector of Central Excise* [*104* CTR (SC) 31]
Mahanagar Telephone Nigam Ltd. v. *Chairman*, *CBDT*, [2004] *267* ITR 647(SC)

5.2 Concluding Remark

5.2.1 This Committee is keen to extensively examine this issue but active and participatory co-operation from most CPSEs was not forthcoming. As this Committee is working in a time bound manner, it cannot wait indefinitely. As the urgency and desirability of laying down norms for restricting mounting costs and expenses on litigation by CPSEs cannot be over-emphasized, this Committee strongly recommends that a separate committee/commission be created to make extensive study of Litigation and Arbitration and enormous expenditure incurred by CPSEs thereupon and make suitable recommendations for curbing the same.

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ANNEXURES

TO
REPORT OF
3RD PAY REVISION COMMITTEE

<u>**Annexure: A-1**</u>

<u>Performance Related Pay (PRP): Examples for calculating Kitty factor/Allocable profit</u>

- **PRP Kitty Distribution : within 5% of profit accruing from core business activities** (hereinafter, for brevity, referred to as Profit).
- **Ratio of relevant year's profit : incremental profit = 65 : 35**

<u>Example – 1:</u>

Sl.	Parameters	Amount (Rs.)/ %age
1	FY 2016-17	Profit = 5000 crore
2	FY 2017-18 [for which PRP is to be distributed]	Profit = 6000 crore
3	Incremental profit	1000 crore
4	5% of the year's profit	300 crore
5	*Allocable profit out of current year's 5% of profit based on distribution in the ratio of 65:35 towards the year's profit and incremental profit:*	
a.	PRP payout from year's profit	195 crore [i.e. 65% out of 300 crore]
b.	PRP payout from incremental profit	105 crore [i.e. 35% out of 300 crore]: [105 crore can be fully utilized as incremental profit is 1000 crore.]
6	Full PRP Payout requirement (computed for all executives based on Grade-wise ceilings, CPSE's MOU rating, Team rating & Individual performance rating) – *but without applying kitty factor related to year's profit or Incremental profit*	500 crore
7	*PRP payout break-up based on 65:35 distribution out of year's profit and incremental profit:*	
a	PRP amount required out of year's profit (i.e. 65% of Sl. No. 6)	65% of 500 crore = 325 crore
a1	Cut-off factor(1) (in %age) for year's PRP payout with reference to Sl. No. 5(a) & 7(a)	195 crore / 325 crore = 60.00%
b	PRP amount required out of incremental profit (i.e. 35% of Sl. No. 6)	35% of 500 crore = 175 crore
b1	Cut-off factor(2) (in %age) for incremental PRP payout with reference to Sl. No. 5(b) & 7(b)	105 crore / 175 crore = 60.00%
8	Thus, total Profit amount allocated for PRP distribution	195 crore + 105 crore = 300 crore [i.e. 5% of Core business / operating profit]
9	Kitty factor for respective Grade (in %age)	[65% x Grade PRP ceiling (%) x Cut-off factor(1)] ***<u>Plus (+)</u>*** [35% x Grade PRP ceiling x Cut-off factor(2)] = **Kitty factor**

PRP Payout to Individual Executives

Example – 1 : For Grade E-1

Sl	Parameter	Amount (Rs.)/ %age payout
A	CPSE's MOU rating [Weightage = 50%]	75% (Very Good)
B	Team's rating [Weightage = 30%]	100% (Excellent)
C	Individual's performance rating [Weightage = 20%]	60% (Good/Average)
D	Grade ceiling (E1) (Max. of 40% of BP)	40% of BP
E	Cut-off factor (1)	60.0%
F	Cut-off factor (2)	60.0%
G	Kitty Factor for Grade E1 i.e. [65% x D (Grade PRP ceiling) x E (Cut-off factor(1))] ***Plus (+)*** [35% x D (Grade PRP ceiling) x F (Cut-off factor(2))]	[65% x 40% x 60.00%] + [35% x 40% x 60.00%] = 15.60% + 8.40% = 24.00%
E	Net PRP	
i	Factor-X [Company's performance component]	Wtg.(50%) x A x G
	i.e.	50% x 75% x 24.0% = 9.00%
ii	Factor-Y [Team's performance component]	Wtg.(30%) x B x G
	i.e.	30% x 100% x 24.00% = 7.20%
iii	Factor-Z [Individual's performance component]	Wtg.(20%) x C x G
	i.e.	20% x 60% x 24.00% = 2.88%
H	**PRP payout distribution**	**Factor X + Factor Y + Factor Z = 19.08% of Basic Pay**

Performance Related Pay (PRP): Examples for calculating Kitty factor/Allocable profit

- **PRP Kitty Distribution : within 5% of profit accruing from core business activities** (hereinafter, for brevity, referred to as Profit).
- **Ratio of relevant year's profit : incremental profit = 65 : 35**

Example – 2:

Sl.	Parameters	Amount (Rs.)/ %age
1	FY 2016-17	PBT - 7000 crore
2	FY 2017-18 [for which PRP is to be distributed]	PBT - 6000 crore
3	Incremental profit	Nil
4	5% of the year's profit	300 crore
5	*Allocable profit out of current year's 5% of profit based on distribution in the ratio of 65:35 towards the year's profit and incremental profit:*	
a.	PRP payout from year's profit	195 crore [i.e. 65% out of 300 crore]
b.	PRP payout from incremental profit	105 crore [i.e. 35% out of 300 crore]: [Nil amount to be allocated as profit is Nil.]
6	Full PRP Payout requirement (computed for all executives based on Grade-wise ceilings, CPSE's MOU rating, Team rating & Individual performance rating) – *but without applying kitty factor related to year's profit or Incremental profit*	500 crore
7	*PRP payout break-up based on 65:35 distribution out of year's profit and incremental profit:*	
a	PRP amount required out of year's profit (i.e. 65% of Sl. No. 6)	65% of 500 crore = 325 crore
a1	Cut-off factor(1) (in %age) for year's PRP payout with reference to Sl. No. 5(a) & 7(a)	195 crore / 325 crore = 60.00%
b	PRP amount required out of incremental profit (i.e. 35% of Sl. No. 6)	35% of 500 crore = 175 crore
b1	Cut-off factor(2) (in %age) for incremental PRP payout with reference to Sl. No. 5(b) & 7(b)	Nil / 175 crore = 0.00%
8	Thus, total Profit amount allocated for PRP distribution	195 crore + 0 crore = 195 crore [i.e. 3.25% of Core business/operating profit]
9	Kitty factor for respective Grade (in %age)	[65% x Grade PRP ceiling (%) x Cut-off factor(1)] ***Plus (+)*** [35% x Grade PRP ceiling x Cut-off factor(2)] = **Kitty factor**

PRP Payout to Individual Executives

Example – 2 : For Grade E-1

Sl	Parameter	Amount (Rs.)/ %age payout
A	CPSE's MOU rating [Weightage = 50%]	75% (Very Good)
B	Team's rating [Weightage = 30%]	100% (Excellent)
C	Individual's performance rating [Weightage = 20%]	60% (Good/Average)
D	Grade ceiling (E1) (Max. of 40% of BP)	40% of BP
E	Cut-off factor (1)	60.0 %
F	Cut-off factor (2)	00.0%
G	Kitty Factor for Grade E1 i.e. [65% x D (Grade PRP ceiling) x E (Cut-off factor(1))] ***Plus (+)*** [35% x D (Grade PRP ceiling) x F (Cut-off factor(2))]	[65% x 40% x 60.00%] + [35% x 40% x 0.00%] = 15.60% + 0.00% = 15.60%
E	Net PRP	
i	Factor-X [Company's performance component]	Wtg.(50%) x A x G
	i.e.	50% x 75% x 15.60% = 5.85%
ii	Factor-Y [Team's performance component]	Wtg.(30%) x B x G
	i.e.	30% x 100% x 15.60% = 4.68%
iii	Factor-Z [Individual's performance component]	Wtg.(20%) x C x G
	i.e.	20% x 60% x 15.60% = 1.87%
H	**PRP payout distribution**	**Factor X + Factor Y + Factor Z = 12.40% of Basic Pay**

Annexure: A-2

ACKNOWLEDGEMENT

The completion of this Report gives 3rd Pay Revision Committee much pleasure. The Committee wishes and believe that this Report will lead to enhancement in the performance of Central Government Public Enterprises (CPSEs), which in turn will give impetus to the economic growth as well as more engagement of CPSEs in nation building activities.

The Committee acknowledges that formulation of this Report would not have been possible without the support and contribution of various entities and individuals. The Committee would thus like to place on record its gratitude and appreciation as below:-

- The Committee would like to thank the team of officials of Department of Public Enterprises (DPE), which was led by Shri Neeraj Verma, Assistant Director, for their support in coordinating with CPSEs and compilation of information pertaining to the CPSEs.

- The Committee would like to express gratitude to Standing Conference of Public Enterprises (SCOPE), which is recognized as an apex professional organization representing the CPSEs, for their contribution in providing insights through external consultant and for facilitating in getting the information from CPSEs, particularly on litigation matters. Our special thanks goes to Dr. UD Choubey, DG, SCOPE for extending support to the Committee.

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- The Committee would also like to acknowledge the aspiring guidance, invaluably constructive criticism and friendly suggestions that were

received on various issues from the CPSEs Management and Officers' Association, which enlightened the Committee and helped in deciding on the recommendations.

- Committee would like to recognize and appreciate the comprehensive analysis / research work on pay-revision issues done by Shri Nishant Prasad, Senior Human Resources Manager, IOCL, and the efforts put in by him towards preparation of the Report.

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Annexure: A-3

RECOMMENDATIONS

AT A GLANCE

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XXIII. LITIGATION & ARBITRATION – CRITICAL ANALYSIS [5.1]

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EXECUTIVE SUMMARY / RECOMMENDATIONS - AT A GLANCE

I. AFFORDABILITY [3.2]

Affordability or the position of a CPSE to implement the pay-revision without its impact being detrimental to its financial sustainability is the focus area of the Committee. The following is recommended:

1. Additional financial impact in the year of implementing the revised pay-package for Board level executives, Below Board level executives and Non-Unionized Supervisors should not be more than 20% of the average Profit Before Tax (PBT) of the last three financial years preceding the year of implementation. If the additional financial impact in the year of implementing the revised pay-package is more than 20% of the average PBT of last 3 financial years, then the revised pay-package should not be implemented in full but only partly (as per the stage-wise fitment benefit).

2. In respect of Sick CPSEs referred to Board for Industrial and Financial Reconstruction (BIFR) / Appellate Authority for Industrial and Financial Reconstruction (AAIFR), the revision of pay scales should be in accordance with rehabilitation packages approved by the Government and providing for the additional expenditure on account of pay revision in these packages.

3. As regards the sick CPSEs that have neither been referred to BIFR nor the closure process is underway, the DPE should ensure that such CPSEs are either referred to BIFR (by considering improvement in the compensation structure to the extent feasible in line with the recommended revised pay-package) or identify the same for closure by way of payment of financial compensation, discharge of liabilities, monetization of lands and moveable assets, etc.

4. The affordability condition shall also be applicable to the CPSEs registered under Section 25 of the Companies Act, 1956, or under Section 8 of the Companies Act, 2013 (which by its very nature of their business are not-for-profit companies) for implementation of the revised compensation structure (including Performance Related Pay) as being recommended for other CPSEs.

5. There are also certain CPSEs which have been formed as an independent Government company under a statute to perform specific agenda / regulatory functions. The revenue stream of such CPSEs are not linked to profits from the open market competitive scenario but are governed through the fees & charges, as prescribed and amended from time to time by the Government. There is no budgetary support provided by the Government to such CPSEs. In consideration that the impact of the revised compensation structure (including Performance Related Pay) would supposedly form the part of

revenue stream for such CPSEs, the Committee recommends that affordability condition shall not be applicable to these CPSEs; however the implementation of same shall be subject to the approval of Administrative Ministry upon agreeing and ensuring to incorporate the impact of the revised compensation structure into the revenue stream.

6. As regards the CPSEs under construction and are yet to start its commercial operations, the implementation of pay-revision for such CPSEs would be decided by the Government based on the proposal of concerned Administrative Ministry and in consideration of their financial viability.

II. <u>COMPENSATION PACKAGE – NON UNIONIZED SUPERVISORS [3.3]</u>

Board of Directors of the CPSEs shall be empowered to decide appropriate compensation packages for Non-Unionized supervisors where this category of employees are functioning in the manner that it doesn't come in conflict with the pay-revision of executives.

III. <u>CATEGORIZATION OF CPSEs – RELATED SIGNIFICANCE TO COMPENSATION STRUCTURE</u> [3.4]

1. The Committee is of the view that existing categorization of CPSEs i.e. Schedule-A, B, C & D for determining the pay-scales of Board level executives as well as levels of pay-scales of below Board level executives would remain unaltered due to its wide ramifications and potential to disturb the internal equities existing within the CPSEs in terms of promotion policies, seniority, delegation of authorities, reservation policies, etc.
2. As regards such CPSEs or their subsidiaries that are operating without any categorization, the Committee recommends that Government may take necessary measures to categorize all such CPSEs.
3. Further, in case of CPSEs which are yet to be categorized, the pay-scales as recommended for Schedule-'D' CPSEs would apply.

IV. <u>COMPENSATION TREND & RELATIVITY / EQUITY</u> [3.5]

Relativity / Internal equity between the minimum of pay-scale of entry level / junior most executive and the top level executive should be around the ratio of 1:4 to 1:7 (depending upon the schedule of the CPSE)

V. <u>FITMENT BENEFIT</u> [3.6]

1. Fitment benefit shall be uniformly 15% on sum of Basic Pay & Stagnation increment(s) and Industrial Dearness Allowance (IDA).

2. The fitment methodology to arrive at the revised Basic Pay as on 1.1.2017 shall be as under:-

A		B		C		D [Revised BP as on 1.1.17]
Basic Pay + Stagnation increment(s) as on 31.12.2016 (Personal Pay / Special Pay not to be included)	+	Industrial Dearness Allowance (IDA) as applicable on 1.1.2017 [under the IDA pattern computation methodology linked to All India Cumulative Price Index (AICPI) 2001=100 series]	+	15% of (A+B)	=	Aggregate amount rounded off to the next Rs.10/-.

3. If the additional financial impact in the year of implementing the revised pay-package is more than 20% of the average PBT of last 3 financial years (FYs), then the revised pay-package with recommended fitment benefit of 15% of BP+DA should not be implemented in full but only partly, as per the part-stages recommended below:-

Part stages	Additional financial impact as a % of average PBT of last 3 FYs	Fitment benefit (% of BP+DA)
I	More than 20% but upto 30% of average PBT of last 3 FYs	10%
II	More than 30% but upto 40% of average PBT of last 3 FYs	5%
III	More than 40% of average PBT of last 3 FYs	Nil

Further, in case of improvement in future years in the average PBT of the last 3 FYs, the Board of Directors may decide to implement the full pay package or the higher stage of the pay-package, as the case may be, upon ensuring that additional financial impact of the revised pay-package (i.e. sum total of the part stages pay-package already implemented in the earlier year and the remaining pay-package) do not exceed 20% of the average PBT of the last 3 FYs preceding the year of implementation.

VI. <u>ANNUAL INCREMENT</u> [3.7]

Applicable at the rate of 3% of Basic Pay.

VII. <u>PROMOTION INCREMENT</u> [3.8]

Applicable at the rate of 3% of Basic Pay.

VIII. PAY SCALES [3.9]

1. The Committee recommends to continue with the existing levels & numbers of pay-scales linked to the Schedule classification of the CPSEs without any change. Thus, the CPSEs shall be operating the pay-scales model with starting point and end point.

2. Pay-scales have been formulated with reasonability and due consideration of existing pay-scales, full DA neutralization, recommended fitment benefit, span of pay-scales, flow of pay-scales across levels & across CPSEs schedules, etc.

3. The revised pay-scales for the Board-level and Below Board level executives for each of the schedule of the CPSE i.e. Schedule-A, Schedule-B, Schedule-C & Schedule-D, effective from 1.1.2017, is placed at the Table 3.1, Table 3.2, Table 3.3 & Table 3.4 respectively.

Table 3.1

SCHEDULE - A

Grade / Level	**Pre-revised w.e.f. 1.1.2007**			**Revised w.e.f. 1.1.2017**		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
E7	43200	-	66000	**100000**	**-**	**260000**
E8	51300	-	73000	**120000**	**-**	**280000**
E9	62000	-	80000	**150000**	**-**	**300000**
Board Level Executives:						
Director (Sch-A)	75000	-	100000	**180000**	**-**	**340000**
CMD (Sch-A)	80000	-	125000	**200000**	**-**	**370000**

Table 3.2

SCHEDULE - B

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
E7	43200	-	66000	**100000**	**-**	**260000**
E8	51300	-	73000	**120000**	**-**	**280000**
Board Level Executives:						
Director (Sch-B)	65000	-	75000	**160000**	**-**	**290000**
CMD (Sch-B)	75000	-	90000	**180000**	**-**	**320000**

Table 3.3

SCHEDULE - C

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
E7	43200	-	66000	**100000**	**-**	**260000**
Board Level Executives:						
Director (Sch-C)	51300	-	73000	**120000**	**-**	**280000**
CMD (Sch-C)	65000	-	75000	**160000**	**-**	**290000**

Table 3.4

SCHEDULE - D

Grade / Level	Pre-revised w.e.f. 1.1.2007			Revised w.e.f. 1.1.2017		
	Min.		*Max.*	*Min.*		*Max.*
Below Board Level Executives:						
E0	12600	-	32500	**30000**	**-**	**120000**
E1	16400	-	40500	**40000**	**-**	**140000**
E2	20600	-	46500	**50000**	**-**	**160000**
E3	24900	-	50500	**60000**	**-**	**180000**
E4	29100	-	54500	**70000**	**-**	**200000**
E5	32900	-	58000	**80000**	**-**	**220000**
E6	36600	-	62000	**90000**	**-**	**240000**
Board Level Executives:						
Director (Sch-D)	43200	-	66000	**100000**	**-**	**260000**
CMD (Sch-D)	51300	-	73000	**120000**	**-**	**280000**

IX. STAGNATION INCREMENT [3.10]

Executive shall be allowed to draw stagnation increment, one after every two years, upto a maximum of three such increments provided the executive gets a performance rating of “Good” or above.

X. BUNCHING OF PAY [3.11]

1. There will no instances of bunching at the starting point of revised pay-scale in the CPSEs granting full fitment benefit of 15%, as all the existing pay ranges will find its place within the corresponding new pay scales.

2. In a situation where a lower fitment benefit (i.e. 10% or 5%) is granted by a CPSE due to affordability constraints, there will bunching at different grades due to revised Basic Pay falling short of reaching starting point of revised pay-scale. In cases of such CPSEs, in order to avoid bunching in the concerned revised pay-scale, ***either*** the difference between the '*pre-revised Basic Pay*' and the '*minimum of the pre-revised pay scale*' added to the starting point of revised pay-scale ***or*** the revised Basic Pay as arrived after applying the fitment benefit (i.e. 10% or 5% of BP & DA), whichever is higher, shall be the revised Basic Pay

XI. PAY PROTECTION [3.12]

3.1.1 Acknowledging that a principled norm of pay-protection would be in order to be followed in cases of promotion from one level to next level, or upon selection of a CPSE executive to a Board level position, if the pay computed for fixation in the next level does not fit within the pay-scale of the Grade in which the incumbent is placed, then the same is to be regulated as below:-

i. In case the pay computed for fixation (i.e. sum of Basic pay *plus* one notional increment *plus* Stagnation amount, if any) is less than the minimum of the pay-scale of the Grade then the pay of the incumbent shall be fixed at the minimum pay of the said Grade;

ii. In case the pay computed for fixation (i.e. sum of Basic pay *plus* notional increment *plus* Stagnation amount, if any) exceeds the maximum of pay-scale of the Grade then the pay of the incumbent shall be fixed at the maximum of pay-scale; and the excess pay beyond the maximum of pay-scale shall be allowed as the 'Special Pay'.

XII. DEARNESS ALLOWANCE [3.13]

100% DA neutralization should continue to be applicable. Revised IDA from 1.1.2017 shall be linked to All India Cumulative Price Index (AICPI) 2001=100 series with the base of AICPI as on 1.1.2017 as per the quarterly average of September, October and November 2016.

XIII. HOUSE RENT ALLOWANCE [3.14]

The classification of cities and the rate of HRA shall continue to be as applicable for Central Government employees. Accordingly, the recommended HRA is as per the following:-

Classification of cities	Rates of HRA
X-class *(Population of 50 lakhs & above)*	24% of Basic Pay
Y-class *(Population of 5 lakhs to 50 lakhs)*	16% of Basic Pay
Z-class *(Population below 5 lakhs)*	8% of Basic Pay

The rate of HRA will be revised to 27%, 18% and 9% when IDA crosses 50%, and further revised to 30%, 20% and 10% when IDA crosses 100%.

XIV. LEASED ACCOMMODATION [3.15]

1. The Board of Directors shall be empowered to decide the lease rental ceilings applicable for the different level of executives. The grade-wise lease rental ceilings may be decided in a standardized manner and on its merit keeping in view / linkage to the HRA amount, classification of cities for HRA purpose, pay-scales of the executives, House Rent Recovery (HRR) rate, etc.

2. The above recommendations toward lease accommodation facility shall be applicable in lieu of availing HRA for rented accommodation. However, if an executive is staying in his/her own house then normally he or she should be entitled to the HRA amount but if the said house is taken as lease accommodation for self-occupation purpose, then in such case the lease rental ceilings (after adjusting the House Rent Recovery amount) should not exceed the net applicable HRA amount.

3. The House Rent Recovery (HRR) should be at the following rate, or the actual rent, whichever is lower:-

Classification of cities	Rates of HRR
X-class	7.5% of Basic Pay
Y-class	5% of Basic Pay
Z-class	2.5% of Basic Pay

4. The recovery of rent for Company owned accommodation shall be 7.5% of Basic Pay (for X-class cities) / 5% of Basic Pay (for Y-class cities) / 2.5% of Basic Pay (for Z-class cities), or standard rent fixed by CPSE, whichever is lower.

5. In case a nearby CPSE in need hires such un-utilized accommodation of other CPSE on mutual agreed lease terms, then the HRR from the executive for the hired CPSE's accommodation should be treated at par with the HRR as applicable for Company owned accommodation of the CPSE rather than HRR as applicable for leased accommodation.

XV. PERKS & ALLOWANCES [3.16]

The Board of Directors of the CPSEs shall be empowered to decide on the perks & allowances that can be provided to the executives / non-unionized supervisors subject to the following broad parameters:

i. The CPSEs can provide to their executives / non-unionized supervisors the perks & allowances, preferably to choose from the set of the perks &

allowances under the concept of ‘cafeteria approach’, the value of which can be upto the ceiling of 35% of Basic Pay. The ceiling shall further be partially linked to the Industrial Dearness Allowance (IDA) in future, and thereby the CPSEs will be allowed to enhance the ceiling by 25% [of 35% of BP (i.e. by 8.75% of BP)] whenever IDA rises by 50%.

ii. That the cost incurred on infrastructure facilities is not to be charged within the recommended ceiling on perks & allowances.

iii. The CPSEs would have the flexibility to avail provision under the Income Tax Act that enables employer organization to bear the tax (on ‘non-monetary perquisites’) in respect of Company owned accommodation on behalf of executives / non-unionized supervisors; however 50% of such expenses borne shall be loaded within the prescribed ceiling on perks & allowances.

iv. The sectoral / operational requirement or work-related / administrative expenditure of each CPSE is unique necessitated due to the nature of industry and as required for smooth running of its business. The Committee is of the view that compensation / reimbursement towards such work-related / administrative expenditure (for example reimbursement towards transfer expenses incurred on movement from one location to another, official travel, conveyance usage cost, overtime cost, etc.) should not be treated as perks / allowances of a personal nature of individual executives / non-unionized supervisors. Thus, with the approval of Government, CPSEs will be allowed to regulate its work-related / administrative expenditure outside the purview of recommended ceiling on perks & allowances.

v. Further, the expenses incurred towards usage of telephone / internet (communication facilities) can be allowed to be compensated (subject to actuals bills / expenses) upto a certain limit outside the purview of recommended ceiling on perks & allowances as may be decided by the Board of Directors of the CPSEs.

vi. In addition, the following allowances shall be kept outside the purview of recommended ceiling on perks & allowances:-

A. Location based Compensatory Allowances

(a.) Location based Compensatory Allowances for serving in North East states (viz. Assam, Meghalaya, Manipur, Nagaland, Tripura, Arunachal Pradesh and Mizoram), Sikkim, Ladakh Region shall be allowed at the rate of 10% of Basic Pay;

(b.) Location based Compensatory Allowances for serving in Island territories of Andaman and Nicobar Islands and Lakshadweep at the following rates:-

Areas around capital towns (Port Blair in A&N islands, Kavaratti and Agatti in Lakshadweep)	10% of BP
Difficult Areas (North and Middle Adaman, South Andaman excluding Port Blair, entire Lakshadweep except Kavaratti, Agatti and Minicoy)	16% of BP
More Difficult Areas (Little Andaman, Nicobar group of Islands, Narcondum Islands, East Islands and Minicoy)	20% of BP

(c.) Location based Compensatory Allowances / Special Allowance (upto 10% of Basic Pay) for serving in the difficult and far flung areas were allowed (under the previous pay-revision guidelines) in the slab of 4%, 6%, 8% and 10% of Basic Pay based on the locations as respectively specified under Part-D, Part-C, Part-B and Part-A in the Department of Expenditure's OM No. 3(1)/2008-E.II(B) dated 29.8.10 shall continue for serving in the difficult and far flung areas.

Further, in case an area is considered difficult and far-flung by a CPSE but not covered under Department of Expenditure's (DOE) OM dated 29.8.2008, the same can be brought to the notice of the Administrative Ministry for approval of Special Allowance (upto 10% of BP) subject to its merit on the following parameters:-

- Lack of Infrastructural Facilities like Township / Housing; Medical Facilities; Schooling Facilities;
- Remoteness like Distance from nearest city, railway station, airport, etc;
- Difficult terrain, extreme Weather Conditions, high altitude;
- Law & Order problems, insurgency affected area and / or falling under Left Wing Extremism (LWE) affected areas as identified by Ministry of Home Affairs (MHA).

(d.) In the event of a place falling in more than one category mentioned above (i.e. location falling under both (a)/(b) and (c) above), then only the higher rate of Allowance will be applicable.

B. Project Allowance:

The executives posted at the site of a Green-field project of the CPSEs that has been approved by the Board of Directors, shall be allowed a Project Allowance upto 10% of Basic Pay subject to the meeting the following criteria related to the project:-

- Project Allowance shall be admissible for Green-field / Grass-root project which are independent and not linked to the existing operating units / establishment. It shall not be applicable to expansion project or new units/revamping of existing units/facilities, which may be around or within the premise of an operating / running unit.

- Project should be for commercial production and not incidental as an effect of surplus production or for captive production / manufacturing.

- Project Allowance shall be admissible for the duration of the project commencing from the date of approval of the project by the Board or from the date of joining the Project site, whichever is later.

- Project Allowance shall cease to be payable on transfer from project site or till completion by way of commercial production (mother unit commissioning), whichever is earlier.

- The Project Allowance should not be payable for such a Green-field / Grass-root project that is located in a X-class city or Y-class city (as per HRA classification); but shall be payable only for such project site that falls beyond 50 kilometers from the municipal limits of the closest X-class / Y-class city.

C. Work based Hardship Duty Allowances:

i. The payment of work based hardship duty allowance upto 12% of Basic Pay shall be admissible for the period the executives / non-unionized supervisors has actually performed one of the following hardship duty:-

a. For performing duty in Underground mines,
b. For performing duty at Offshore exploration site, and
c. For performing duty at Hydro-project site located within 200 kilometers from the international border of the country.

ii. Non-practicing Allowance for Medical Officers shall be admissible upto 20% of BP.

XVI. PERFORMANCE RELATED PAY [3.17]

Committee re-visited the PRP model and recommends the modified PRP scheme for the MOU signing CPSE encompassing the following components:-

(I) **Allocable profits:**

a. The overall profits for distribution of PRP shall be limited to 5% of the year's profit accruing only from core business activities (without consideration of interest on idle cash/bank balances), which will be exclusively for executives and for non-unionized supervisors of the CPSE.

b. The ratio of break-up of profit accruing from core business activities for payment of PRP between relevant year's profit to incremental profit shall be 65:35 to arrive at the Allocable profits and the Kitty factor.

c. Allocable profit shall be the net amount set-out from the limit of 5% of profit accruing from core business activities (hereinafter, for brevity, referred to as profit) for distribution of PRP after accounting for relevant year's profit and the incremental profit.

(II) **PRP differentiator components:**

(A) PRP payout is recommended to be distributed based on the addition of following parts / components:-

Part-1 : CPSE's performance component:-

(a) **Weightage = 50% of PRP payout**

(b) **Based on CPSE's MOU rating:**

MOU rating	%age eligibility of PRP
Excellent	100%
Very Good	75%
Good	50%
Fair	25%
Poor	Nil

Part-2 : Team's performance component:-

(a) **Weightage = 30% of PRP payout**

(b) **Based on Team rating** (i.e. linked to Plant / Unit's productivity measures and operational / physical performance):

Team rating	%age eligibility of PRP
Excellent	100%
Very Good	80%
Good / Average	60%
Fair	40%
Poor	Nil

(c) The Team rating shall be linked to individual Plant / Unit's productivity measures and operational / physical performance, as primarily derived from CPSEs' MOU parameters and as identified by CPSE depending on the nature of industry / business under the following suggested performance areas:-

- ‘Achievement Areas’, in which performance has to be maximized (e.g. market shares, sales volume growth, product output / generation, innovations in design or operation, awards and other competitive recognition, etc.); and

- ‘Control Areas’ in which control has to be maximized (e.g. stock / fuel loss, operating cost control, litigation cost, safety, etc.).

(d) For office locations of CPSEs, the Team rating should be linked to the Plant / Unit as attached to the said office; and if there is more than one Plant / Unit attached to an office or in case of Head Office / Corporate Office of the CPSE, the Team rating shall be the weighted average of all such Plants / Units. The weighted average shall be based on the employee manpower strength of the respective Plants / Units.

<u>Part-3 : Individual’s performance component</u>:-

(a) **Weightage = 20% of PRP payout**

(b) **Based on Individual performance rating** (i.e. as per the CPSE's Performance Management System):

Individual performance rating	**%age eligibility of PRP**
Excellent	100%
Very Good	80%
Good / Average	60%
Fair	40%
Poor	Nil

(c) The forced rating of 10% as below par / Poor performer shall not be mandatory. Consequently, there shall be discontinuation of Bell-curve. The CPSEs shall be empowered to decide on the ratings to be given to the executives; however, capping of giving Excellent rating to not more than 15% of the executive's population in the grade (at below Board level) should be adhered to.

(III) <u>Percentage ceiling of PRP</u> (%age of BP):

(a) The grade-wise percentage ceiling for drawl of PRP within the allocable profits has been rationalized as under:-

Grade	Current ceiling (% of BP)	Recommended ceiling (% of BP)
E0	40%	40%
E1	40%	40%
E2	40%	40%
E3	40%	40%
E4	50%	50%
E5	50%	50%
E6	60%	60%
E7	60%	70%
E8	70%	80%
E9	70%	90%
Director (C&D)	100%	100%
Director (A&B)	150%	125%
CMD / MD (C&D)	150%	125%
CMD / MD (A&B)	200%	150%

(IV) **Kitty factor**: After considering the relevant year's profit, incremental profit and the full PRP payout requirement (computed for all executives based on Grade-wise ceilings, CPSE's MOU rating, Team rating & Individual performance rating), there will be two cut-off factors worked out based on the PRP distribution of 65:35. The first cut-off shall be in respect of PRP amount required out of year's profit, and the second cut-off shall be in respect of PRP amount required out of incremental profit, which shall be computable based on the break-up of allocable profit (i.e. year's 5% of profit bifurcated into the ratio of 65:35 towards year's profit and incremental profit).

The sum of first cut-off factor applied on 65% of Grade PRP ceiling ***and*** the second cut-off factor applied on 35% of Grade PRP ceiling will result in Kitty factor. The Kitty factor shall not exceed 100%.

The examples for computation of Kitty factor is detailed in **Annexure-A-1.**

(V) Based on the PRP components specified above, the Committee recommends that the PRP pay-out to the executives should be computed upon addition of the following three elements:-

(a) <u>Factor-X (% of BP)</u>:

Weightage of 50% ***Multiplied with*** Part-1 (CPSE's MOU rating) ***Multiplied with*** Kitty factor

(b) <u>Factor-Y (% of BP)</u>:

Weightage of 30% ***Multiplied with*** Part-2 (Team's performance) ***Multiplied with*** Kitty factor.

(c) <u>Factor-Z (% of BP)</u>:

Weightage of 20% ***Multiplied with*** Part-3 (Individual's performance) ***Multiplied with*** Kitty factor.

(d) <u>Net PRP</u>= Factor X + Factor Y + Factor Z =Net %age of Annual BP

XVII. <u>SUPERANNUATION BENEFITS</u> [3.18]

CPSEs are currently allowed 30% of Basic Pay & Dearness Allowance as superannuation benefits, which includes Provident Fund, Gratuity, Pension and Post-superannuation medical benefits; and the same has to be under a 'defined contribution scheme' and not under a 'defined benefit scheme'. In this respect, the following has been recommended:-

a. The ceiling of gratuity to be enhanced from the existing Rs.10 lakh to Rs.20 lakh from 01.01.2017. The ceiling on gratuity shall increase by 25% whenever IDA rises by 50%.

b. The current limit of 30% of BP + DA of executives/non-unionized supervisors upto which the CPSEs can contribute towards the superannuation benefits shall continue to operate from 1.1.2017 on a defined contribution basis subject to the following proviso:-

   i. The superannuation benefits allowed upto 30% of BP + DA shall encompass of Provident Fund, Gratuity, Post-superannuation medical benefits and Pension;

ii. However, the funding / payment towards the additional amount beyond the gratuity of Rs.10 lakhs shall be allowed to be outside the limit of 30% of BP+DA. In other words, the funding of Gratuity (upto Rs.10 lakhs), alongside Provident Fund, Pension and Post superannuation medical benefits, shall be allowed within the limit of 30% of BP + DA; and the funding of additional / balance Gratuity amount beyond Rs.10 lakhs shall be allowed to be borne by the CPSEs outside the limit of 30% of BP + DA.

c. Further, the Committee recommends that requirement of superannuation and of minimum of 15 years of service in the CPSE shall not be mandated for contributory pension.

d. However, existing Post-Retirement medical benefits shall continue to be linked to the requirement of superannuation and of minimum of 15 years of continuous service for ensuring the loyalty of the executives to the CPSEs.

e. The existing provision of 15 years of service for availing the Post-Retirement medical benefits shall however not apply to Board level executives. Within the applicable provision / ceiling on superannuation benefits, the Post-Retirement medical benefits shall be allowed to Board level executives (without any linkage to provision of 15 years of service) upon completion of their tenure or upon attaining the age of retirement, whichever is earlier.

f. The expenditure on post-retirement medical benefits in respect of all retired employees (i.e. ex-employees who have retired prior to 1.1.2007 as well as the employees retired after 1.1.2007) shall be met out of corpus fund created out of 3% of each financial year's PBT as per the modalities laid down. In addition, the if there is an unutilized corpus out of 3% of PBT after accounting for the expenditure on post-retirement medical benefits in respect of retired employees, the Board of Directors, if deemed fit, can consider to introduce a scheme for ex-gratia relief to mitigate extraordinary personal hardship (as specified) if being faced by the retired employees.

XVIII. DATE OF EFFECT OF IMPLEMENTATION [3.19]

The revised compensation & benefits / allowances, as recommended by the Committee for CPSEs, shall be effective from 1.1.2017 subject to meeting the affordability criteria.

XIX. DEPUTATION TO CPSEs [3.20]

A. Deputation of executive of one CPSE to other organization

i. The regulation of compensation structure for CPSE executives on deputation to other CPSE (subject to necessary clearance) shall be as per the following:-

   a. Pay and Pay related benefits [like Perks & Allowances, Performance Related Pay (PRP), Superannuation benefits] shall be regulated for concerned deputationist as applicable in the parent CPSE.

   b. Besides the Pay and Pay related benefits of the parent CPSE mentioned above, the Deputation Allowance shall be admissible at the following rate:

      - 5 percent of Basic Pay subject to a ceiling of Rs.4,500 per month for deputation within the same station (as the last place of posting of the employee); or
      - 10 percent of Basic Pay subject to a ceiling of Rs.9,000 per month for deputation involving change of station.
      - The above ceilings will rise by 25 percent each time DA increases by 50 percent.

ii. The above recommended compensation structure shall also apply to the following categories of deputationists:-

   - CPSE executives who are sent on deputation to Government regulated agencies / organizations [set-up to undertake Government strategic initiative / agenda like Directorate General of Hydrocarbons (DGH), Centre for High Technology (CHT) Petroleum Conservation Research Association(PCRA), etc.]; and

   - CPSE executives who are sent on deputation to Joint Ventures of the CPSEs.

iii. Further, in case of movement of an executive from a holding CPSE to its subsidiary CPSE *or* from a subsidiary CPSE to its holding CPSE *or* within the subsidiary CPSEs of a holding CPSE, which if it happens under a laid down Transfer policy of holding / subsidiary CPSE (as agreed amongst these CPSEs), then the regulation of payment of PRP to all executives of holding/subsidiary CPSE may be considered to be computed on the overall PBT and Kitty factor by pooling / consolidating the PBTs (including the losses, if any) of holding CPSE and all its subsidiary CPSEs. This dispensation is an option that may be exercised by a CPSE & its subsidiary CPSEs as per their need assessment and agreement amongst the CPSEs;

otherwise, the above recommended provisions in respect of deputation of an executive from one CPSE to another CPSE shall apply to such individual transfer cases.

B. Deputation of Government officials to CPSEs

- The above recommendation related to deputation of executive of one CPSE to other CPSE shall also apply in the similar manner to deputation cases of Government officials to CPSEs.

XX. <u>RETIREMENT AGE</u> [3.21]

- The Committee recommends no enhancement in the retirement age for the CPSE employees.
- However, the Committee is also of the view that in consideration of general increase in life expectancy and to draw maximum benefit of much required experienced manpower, the Government may consider to enhance the retirement age of CPSE executives placed at higher / senior level grades

XXI. <u>PERIODICITY</u> [3.22]

- The review of the compensation & benefits structure of the CPSE executives should happen in line with the periodicity as decided for Central Government employees but it should not be later than 10 years.
- Further, to avoid pay conflict and anomalous situation amongst the pay of employees within a CPSEs, as well as to enhance the confidence of executives, the following is recommended:-

  i. Under no circumstances, the periodicity of wage / pay revision of unionized workmen should be lesser than the periodicity of executives, as applicable.

  ii. That the negotiated wage revision in respect of unionized workmen should not come in conflict with the pay revision of executives and non-unionized supervisors i.e. the pay-scales, fitment benefit, allowances, performance / incentive / bonus payment etc. of unionized workmen should not be higher than that of entry level of executives and non-unionized supervisors.

XXII. <u>RECOMMENDATION TO IMPROVE PERFORMANCE OF CPSEs</u>

1. **Modern, Professional and Consumer Friendly CPSEs – A few challenges [4.1]**: The following is recommended for improvement in governance of CPSEs:-

   a. There should be well documented policy with clear laid down role and responsibility that the government seeks for effective corporate governance.

b. The Board should be responsible for vision, strategies & monitoring of strategy and must be based on the premise of transparency, integrity, accountability and responsibility. If the Board is not performing within above framework, the same may be changed.
c. Evaluation of performance of Independent Directors and recall for non-performance.
d. Every CPSE may be directed to coin social vision along with industry vision. It is also suggested that mandatory provision of CSR may be further enhanced. Allocation/selection of projects to be based on baseline/need based surveys and through board approved policy so that the benefit reaches the end users. There is a need for social audit of CSR expenses to monitor progress, implementation and impact assessment of the programme.
e. Convergence of accountability system / heterogeneous regulatory mechanisms.
f. Mandatory orientation programmes for capacity building of Board Members.
g. To make CPSEs modern, professional, consumer friendly, commercially successful in competitive environment, the Committee strongly recommends that there should be regular orientation / training programme at all levels in the organization. Regular workshop / seminar as required to keep updated the staff at all level.
h. For the Top Management, a fixed term is recommended.
i. At least, one woman Director on the Board of each CPSE is recommended.

2. **Employee Stock Ownership Plan (ESOP) [4.2]**

ESOP being a concept beneficial for both CPSE and its employees, the DPE should elaborate the mechanism in consultation with concerned Government authorities to enable introduction of ESOP in CPSEs with empowerment to the Board or Administrative Ministry to approve the same. It will be in lieu of part of PRP.

In case the above recommendation on ESOP is not feasible, the other option shall be that the Board of CPSEs may introduce a scheme in line within the following broad guidelines:-

i. Employees (as per the level considered) would be allowed to buy the shares of the CPSE, directly from the market within a period of 6 months from the announcement of the scheme;

ii. CPSEs would be allowed to reimburse 25% of the fair market value of the 6 months buying period based on the number of shares so purchased by each employee during the period provided the employee holds on to the shares for a minimum period of 4 years (i.e. lock-in period). In other words, the recommended reimbursement of 25% would be allowed after a minimum of 4 years from the buying period.

iii. The maximum amount that can be reimbursed should not exceed Rs.1 lac per employee.

iv. The above recommended ESOP scheme should be allowed as an option to the executives that may be chosen by individual at the time of announcement of scheme for the reason that the reimbursement of 25% of the fair market value would be in lieu of the corresponding entitled PRP amount payable in the year of reimbursement (i.e. after a lock-in period of 4 years).

3. **Voluntary Separation Scheme (VRS) [4.3]**

i. Profit making CPSEs, which can bear the cost of VRS scheme with their own surplus resources, are allowed to implement VRS policy by allowing compensation/ex-gratia on the revised pay scales effective from 1.1.2017.

ii. Those CPSEs which are not covered in point (i) above, but are in a position to bear the compensation cost of scheme of VRS/VSS on their own, without budgetary support, may implement the scheme by allowing the payment of compensation / ex-gratia based on the pay scales applicable from 1.1.2017 in line with the recommendations made by the Committee.

iii. For points (i) and (ii) above, VRS compensation/ ex-gratia should be paid equivalent to 60 days salary for each completed year of service *or* the salary for the number of months of service left, whichever is less.

iv. For sick and loss making CPSEs, which are under closure / being considered for closure or rightsizing with revival package, VRS compensation/ex-gratia should be paid in the same manner as mentioned at point (iii) above but based on the pay scale of 1.1.2007. In such cases, the proposal will be implemented with the approval of the Government.

4. **Leave Regulations / Management [4.4]**

a. That the leave policies applicable for Government employees are not comparable with the leave management polices applicable under an Industrial set-up for CPSEs employees.

b. That CPSEs will be allowed to frame their own leave management policies and the same can be decided based on CPSE's operational and administrative requirement. In the process, the CPSEs should however comply with the following principles:-

i. Maximum accumulation of Earned Leave available are not permitted beyond 300 days for an employee of CPSE. The same shall not be permitted for encashment beyond 300 days at the time of retirement.

ii. CPSEs should adopt 30 days' month for the purpose of calculating leave encashment.

iii. Casual and Restricted Leave must not be encashed at all and it shall lapse at the end of the calendar year.

5. **Healthcare of Employees [4.5]**

- CPSE employees should avail the medical facility in the hospitals of CPSEs, if any, failing which each employee of CPSE should get a fixed medical allowance of Rs.1,000 (Rupees One Thousand) per month for treatment in Out-patient department (OPD) without submitting any bill or may be allowed reimbursement against bills, whichever modality is decided at the discretion of the CPSE. The reimbursement against bills should be subject to conditions / limits as may be decided under the Medical Rules of the CPSEs.

- Further, for hospitalization, cashless policy for providing a minimum coverage to employees from Insurance Companies may be provided by CPSE. For this purpose, the services of a common Insurance Company is suggested to be explored through a common forum / agency (on behalf of CPSEs) to explore for getting a bulk policy to get cost advantage in insurance premium to cover the hospitalization treatment of CPSE employees (including for retired employees). In needy (special) cases, the Board of Directors may consider on merit to provide for the ex-gratia grant beyond the permissible amount.

- The above recommendation are the minimum healthcare facilities that may be provided by the CPSEs. However, in case a CPSE is providing a medical facilities / healthcare policy that is better than the recommendations made above, then the CPSE shall be permitted to continue with its facilities / policy.

6. **Club membership [4.6]**

- The CPSEs shall not be allowed to provide for any individual club membership to Board level executives; however in the interest of business and for peer level interactions with the leaders of the Industry, the CPSEs will be allowed to provide Board level executives with the Corporate Club membership (upto maximum of two clubs), the membership of which will be co-terminus with their tenure.

XXIII. LITIGATION & ARBITRATION – CRITICAL ANALYSIS [5.1]

As this Committee is working in a time bound manner, but understanding the urgency and desirability of laying down norms for restricting mounting costs and expenses on litigation by CPSEs cannot be over-emphasized, the Committee recommends that a separate committee/commission be created to make extensive study of Litigation and Arbitration and enormous expenditure incurred by CPSEs thereupon and make suitable recommendations for curbing the same

CONCLUDING REMRAKS

Through the aforementioned recommendations, this Committee seeks to equip the CPSEs to effectively compete in the emerging domestic and global economic scenario, taking into consideration the demands and expectations of all the stakeholders and the requirements of social and economic development of the country.

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Annexure-A

QUESTIONNAIRE

Questionnaire of Pay Revision Committee for Executives and Non- Unionized Supervisors of CPSEs – w.e.f 1.1.2017

1. Role of the Government & Uniform Wage Policies in CPSEs

1.1 The 2nd PRC in the preface to its report stated that ‘Finally, we feel that time has come when we should no longer look at all these CPSEs spreading over a vast spectrum with a common approach.’ A decade has passed since then and in the present scenario what in your view should be the role of the Government with reference to wage policies in CPSEs.

1.2 Flowing from the above, should there be some uniformity of pay scales and perks among CPSEs, or should these decisions be left to the best judgement of the respective administrative Ministries and the Boards of their CPSEs?

1.3 As part of Government’s policy for granting greater autonomy to the Boards of the CPSEs under the Maharatna, Navratna and Miniratna schemes, should there be separate pay scales for ‘Ratna’ CPSEs?

1.4 (a) Is the present system of classifying the CPSEs on the basis of Schedule i.e. ‘A’, ‘B’, ‘C’, and ‘D’ is satisfactory? If not, please suggest alternative ways of classification of CPSEs with adequate justifications.

(b) Once a system of classification is agreed, should uniformity of pay scales within each of the category be maintained? If not reasons therefore and also suggest suitable alternatives.

1.5 In the absence of some degree of uniformity, isn’t there a risk of migration of talent from financially weak CPSEs to financially better off CPSEs thereby further jeopardising future of the weak CPSEs. Will it also not lead to unhealthy competition amongst CPSEs to attract/retain the talent, which in the long run may act to the detriment of the public sector?

1.6 Would you suggest any changes in the existing relationship between pay packages of workmen and executives/supervisors immediately above level of workmen.

2. Emoluments structure including pay, allowances and other facilities/benefits

2.1 Over the years, the Central Pay Commissions especially the 6thCPC advocated reduction in the number of pay scales. In the 7th CPC recommendations, however, there were no further reductions. Do you feel whether the existing number of pay scales in the CPSEs should be retained or modified? Please give your suggestions.

2.2 What should be the minimum and the maximum pay in CPSEs? What should be the reasonable ratio between them?

2.3 What in your opinion is the desirable ratio of pay scale between top level and entry level?

2.4 What is the expected ratio of manpower cost to cost of production/sales turnover in your industry?

2.5 What should be the method of fixing pay in the revised pay scales? Should there be a point-to-point fixation? If not, please suggest an alternate method with illustration by which it can be ensured that persons with longer service are suitably protected.

2.6 What should be the pattern of pay scales of Board level executives?

3. Increments

3.1 Should the rate of increment be fixed as absolute value or based on percentage basis?

3.2 What should be the rates of increments in respect of different scales of pay?

3.3 Should the present system of granting one stagnation increment after every 2 years, subject to a maximum of 3 such increments, for those executives who reached the maximum of their scale be continued? Please give your views.

3.4 Should the date of increment be uniform for the employees of CPSEs as in the case of Central Government employees?

3.5 What should be the increment on promotion?

4. Composition of the Emoluments package

4.1 Is it preferable that the compensation package include spay plus allowances and perks or club them into a consolidated remuneration?

4.2 Is the present system of 'Cafeteria Approach' of choosing from a set of perks and allowances within the overall ceiling of 50% of Basic Pay satisfactory? If not, kindly give your suggestions for further improvement?

4.3 Do you have any comments/suggestions with reference to the following:

- Classification of Cities and rates of HRA for different class of cities
- DA neutralisation for those who are on IDA pattern of scales
- Company leased accommodation
- Monetisation of facilities availed from the infrastructure like schools, colleges, hospitals, clubs/recreation facilities etc. created by CPSE
- Allowances to be kept outside the ceiling of 50% or whatever rate to be decided
- Hardship allowance and criteria for defining hardship

5. Variable Pay / Performance Related Pay

5.1 Should there be fixed salary and a variable component which is related to the performance of the individual. If so what should be the amount/proportion?

5.2 What in your opinion should be the basis/criteria for granting performance related pay?

5.3 Whether performance related payment be allowed on the basis of distributable profit of the Enterprise? Section 8 companies under the Companies Act, 2013 by definition are not for profit companies and if the PRP is linked to distributable profit, their employees are denied performance incentives. How to reward the performance in Section 8 companies?

5.4 How do you rate the present system of PRP in vogue? Give your comments / suggestions in respect of each of the following:

- Rates i.e. % of Basic Pay payable as PRP at different grades in different Schedules of CPSEs
- Weight age for different MoU ratings
- Proportion and ceiling of PRP to be given out of current PBT and incremental PBT of a CPSE
- Performance Management System (PMS)

5.5 What are your views on Bell Curve approach being followed currently under the PMS? Give your suggestions for improving the PMS.

5.6 Any suggestions to incentivise performance and to have a more equitable system.

6. Recruitment, Promotion, Attrition

6.1 What is the number of executives leaving in each category during the last 5 years and its percentage to the total strength in the concerned category? Is it comparable with other CPSEs and Private companies operating in the same sector? What could be the main reasons for their leaving your CPSE?

6.2 What is the system of recruitment of management trainees or equivalent levels in your organization?

6.3 Are you recruiting management trainees through campus recruitments. If so, please indicate the names of institutions from which such campus recruitments have been made and criteria for identifying the institution.

6.4 What is the current promotion policy in your CPSE and there any changes in the offing?

6.5 Does your CPSE have a 'Succession Planning' in place? If so, please mention important points.

7. Relativity with Government/Private sector/Multinational Corporations

7.1 Should the new compensation packages in CPSEs w.e.f. 01.01.2017 onwards be based on the packages as they now exist, with some percentage increase, or would you suggest any other method?

7.2 Should CPSE pay scales and allowances have any linkage to the pay scales and allowances in the Government? If so, what are your suggestions?

7.3 How do the current compensation package in CPSEs compare with their competitors in private sector or multinationals?

7.4 Taking into account the advantages other than pay, derived by employees in CPSEs vis-à-vis the private sector like security of tenure, promotional avenues, retirement packages, housing and other invisibles, can there be any fair comparison between the salaries of public and private Sector?

7.5 If parity of emoluments for CPSEs with that of private sector is recommended, what changes in CPSEs in terms of performance targets, evaluation, accountability and other conditions of service etc., shall be insisted?

8. Issue of resource constraint and Pay revision in Sick/BIFR referred CPSEs

8.1 Given the problem of resource constraints and the existing 'Affordability' clause in adopting revised pay packages, is there a way of bringing improvements in emoluments so as to attract and retain talent in CPSEs?

8.2 In case of non-affordability, can the enhanced package be deferred and linked to the future performance of the CPSEs? How can the employees be rewarded without a direct or immediate burden on the organization? Schemes like stock option provide an appreciation in the value of the holdings of the employees through the capital market mechanism – what other schemes of this nature can be suggested?

8.3 What should be the pay revision policy for sick / incipient sick / weak CPSEs?

9. Long term Incentives and Superannuation benefits

9.1 Based on the earlier PRC, it was prescribed that 10-25 % of the PRP shall be given as ESOP. Has your company implemented this? Please give details and suggestions for improvement.

9.2 Can the ESOP be an option for deferred implementation / payment of revised package?

9.3 Do you think that any change is required in the existing policy of granting 30% Basic Pay plus DA as superannuation benefits? If so give detailed comments/suggestions.

9.4 What should be the gratuity ceiling?

9.5 What should be the policy regarding leave encashment at the time of retirement on superannuation?

10. Voluntary Retirement Scheme

10.1 In addition to the VRS, would you like to suggest any other ways to rationalise manpower?

10.2 Whether VRS scheme issued by DPE and amended from time to time should continue or VRS package should be modified? If yes, indicate the suggestions?

11. Specific proposals

11.1 How the functioning of CPSEs can be improved so as to make them more professional, citizen-friendly and delivery oriented?

11.2 Please outline specific proposals, which could result in:

(a) Reduction and redeployment of staff
(b) Reduction of paper work
(c) Better work environment
(d) Economy in expenditure
(e) Professionalization of services
(f) Effective grievance redressal mechanism
(g) Reduction in litigation and grievances on service matters
(h) Better delivery of services/product by CPSEs to their users
(i) Any other suggestions

11.3 The concepts of contractual appointment, part-time work, flexible job description, flexi time etc. are expected to change the environment, provide more jobs and impart flexibility to the working conditions of employees? Share your experiences.

COMPENSATION PACKAGE IN CPSEs AS ON 31.12.2016

1. **Name of CPSE:**

2. **Financials Status of CPSE (loss making/ BIFR referred/profitmaking/ Maharatna/ Miniratna/ Navratna)**

3. **Status of Pay Revision:**

   - in IDA scale of pay - 1987, 1992, 1997 and 2007
   - in CDA scale of pay – 1986 , 1996 and 2006

4. **Total No. of employees:**

In IDA scales of pay/ CDA scales of pay	Workman (unionized)	Non-unionised supervisors	Executives below Board level	Board level	Total

5. **Nature of employees:**
   - Regular (State No.)
   - Contractual (State No.)

6. **Status of scales of pay:**
   - DPE model scales of pay
   - Deviated scales of pay

7. **Reasons for deviation in scales of pay:**

8. **Approval of competent authority for deviation:(Please state the authority approving the deviations)**

9. **Periodicity of wage/ pay revision:**

10. **Increments fixed/if percentage basis then indicate the percentage of BP:**

11. Compensation Parameters	Workmen (unionized employees)	Non-unionized supervisors	Executives below Board level (E-0 to E-9)
i. Salary			
Basic (incl. PP & any other type)			
DA			
Sub-Total			
ii. Performance Related Pay			
Sub-Total			
iii. Details of other perks and Allowances included in cafeteria basket.			
a			
b			
c			
d			
Sub- Total			
iv. Social Amenities/Benefits			
Education			
Housing (Township)			
Medical			
Others (pl. specify)			
Sub-Total			
v. Superannuation Benefits			
PF			
Gratuity			
Post-Retirement medical Benefits			
Company's contribution to pension			
Sub-Total			
vi. Any other items			
vii. Total (Cost to Company)			
(i+ii+iii+iv+v+vi)			

Note:- (i) While information on all components is requested for, at least total under each of the heads may kindly be furnished for detailed analysis by the pay Panel.

12. Remarks, if any:

Annexure-B

Questionnaire Responses Received from CPSEs

Sl. No.	Name of the CPSE
1.	Bharat Earth Movers Limited (BEML)
2.	Bharat Electronics Limited (BEL)
3.	Bharat Petroleum Corporation Limited (BPCL)
4.	The Briaithwaite Burn & Jessop Construction Company Limited
5.	Bharat Sanchar Nigam Limited (BSNL)
6.	Containers Corporation of India Limited (CONCOR)
7.	Cotton Corporation of India Limited
8.	Dedicated Freight Corridor Corporation of India Limited (DFCCIL)
9.	Dredging Corporation of India Limited
10.	Engineers India Limited (EIL)
11.	Fertilizer and Chemicals Travancore Limited (FACT)
12.	Food Corporation of India (FCI)
13.	Hindustan Aeronautics Limited (HAL)
14.	Hindustan Antibiotics Limited
15.	Hindustan Fluorocarbons Limited
16.	Hindustan Machine Tools Limited (HMT)
17.	Hindustan Newsprint Limited
18.	Hindustan Petroleum Corporation Limited (HPCL)
19.	Hindustan Shipyard Limited
20.	HLL life Care
21.	India Infrastructure Finance Company Limited
22.	Indian Rare Earth Limited (IREL)
23.	Indian Telephone Industries Limited (ITI)
24.	IRCON International, Limited
25.	Kolkata Metro Rail Corporation Limited
26.	Kudremukh Iron Ore Company Limited (KIOCL)
27.	MECON Limited
28.	Mishra Dhatu Nigam Limited (MIDHANI)
29.	Mumbai Railway Vikas Corporation Limited
30.	National Backward Classes Finance & Development Corporation (NBCFDC)
31.	National Hydroelectric Power Corporation Limited (NHPC)

32.	National Mineral Development Corporation Limited (NMDC)
33.	National Small Industries Corporation Limited (NSIC)
34.	National Thermal Power Corporation Limited (NTPC)
35.	Konkan Railway Corporation Limited
36.	National Building Construction Corporation Limited (NBCC)
37.	Neyveli Lignite Corporation Limited (NLCI)
38.	Oil and Natural Gas Corporation Limited (ONGC)
39.	ONGC Videsh Limited
40.	Pawan Hans Limited
41.	Power Finance Corporation Limited (PFC)
42.	Rail India Technical and Economic Service Limited (RITES)
43.	Rail Telecommunication Corporation India Limited (RAILTEL)
44.	Rajasthan Electronics Instruments Limited (REIL)
45.	Rashtriya Chemicals and Fertilizers Limited (RCF)
46.	Rural Electrification Corporation of India Limited (REC)
47.	Burn Standard Co. Limited
48.	Bengal Chemicals & Pharmaceuticals Limited
49.	Central Cottage Industries Corporation of India Limited
50.	Delhi Police Housing Corporation Limited (DPHC)
51.	Goa Shipyard Limited
52.	HLL Biotech Limited
53.	Hindustan Prefab Limited
54.	Housing and Urban Development Corporation Limited (HUDCO)
55.	HSCC (India) Limited
56.	Garden Reach Shipbuilders & Engineers Limited (GRSE)
57.	Indian Railway Finance Corporation Limited
58.	Indian Oil Corporation Limited
59.	National Textile Corporation Limited
60.	Kamarajar Port Limited
61.	Mineral Exploration Corporation Limited (MECL)

62	Metals and Minerals Trading Corporation Limited (MMTC)
63	Metals Scrap Trade Corporation Limited (MSTC)
64	National Fertilizers Limited (NFL)
65	National seeds corporation Limited
66	North Eastern Handicrafts and Handlooms Development Corporation Limited
67	North Eastern Electric Power Corporation Limited (NEEPCO)
68	National Projects Construction Corporation Limited (NPCC)
69	National Highways & Infrastructure Development Corporation Limited (NHIDCL)
70	National Film Development Corporation of India (NFDCI)
71	Oil India Limited
72	PEC Limited
73	South Eastern Coalfields Limited
74	Telecommunications Consultants India Limited (TCIL)
75	Uranium Corporation of India Limited (UCIL)
76	Bharat Dynamics Limited (BDL)
77	Coal India Limited (CIL)
78	Electronics Corporation of India Limited
79	Indian Trade Promotion Organisation (ITPO)
80	Cochin Shipyard Limited
81	Numaligarh Refinery Limited
82	Sethusamudram Corporation Ltd.
83	Indian Railway Catering and Tourism Corporation (IRCTC)

Annexure-C

Questionnaire Responses Received from Officers' Association of CPSEs

Sl. No.	Name of the Officers' Association
1.	All India Bharat Sanchar Nigam Executives' Association
2.	Bharat Dynamics Officers' Association
3.	Bharat Electronics Officers' Association
4.	Coalmines Officers' Association
5.	Cochin Refineries Officers' Association
6.	Hindustan Newsprint Officers' Association
7.	MECON Executives' Association
8.	MIDHANI Officers' Association
9.	MTNL Executives' Association
10.	NHPC Officers' Association
11.	NTPC Executives' Federation of India
12.	Officers' Association of DMP (NMDC)
13.	Sanchar Nigam Executives' Association
14.	Association of Scientific & Technical Officers (Oil and Natural Gas Corporation Limited)
15.	NALCO Officers' Association
16.	National Research Development Corporation Officers' Association (NRDC)
17.	ITI Officers' Association
18.	FACT Officers' Association
19.	FCI Officers' Association
20.	BEML Officers' Guild
21.	Chennai Petroleum Officers' Association
22.	Indian Oil Officers' Association

Annexure-D

Questionnaire Responses Received from Administrative Ministries

Sl. No.	Name of the Ministry
1.	Ministry of Personnel, Public Grievances & Pensions
2.	Ministry and Micro, Small and Medium Enterprises
3.	Department of Financial Services (Ministry of Finance)

Annexure-E

SUMMARY OF COMMENTS ON THE QUESTIONNAIRE

An exercise to collect the information from various agencies, including CPSEs, Associations and Administrative Ministries of CPSEs, pertaining to existing pay structure and pay benefits in CPSEs was undertaken by 3rd PRC. For the purpose, a questionnaire was prepared and sent to above mentioned agencies that are likely to be affected by the pay revision. A total of 108 responses have been received consisting of 83 CPSEs and their subsidiaries, 22 Associations and 3 Ministries. A detailed analysis has been done on each of the question based upon the replies received at Annexure-F**.** However, a brief summary of the replies has been prepared as under:

(i) As regards, the wage policies in CPSEs, 36% of all the respondents are of the view that there should be broad guidelines issued by the Government for pay structure and allowances should be left to the CPSEs. Majority of CPSEs expressed their view that Government should ensure uniformity of pay scales and perks. Whereas, 7% CPSEs have shown interest in getting the freedom in the matter of determining compensation packages for their employees commensurate with their paying capacities.

(ii) On the issue of uniformity in perks, most of the respondents mentioned that perks can vary based on financial capacity of CPSEs while there should be some uniformity in pay scales. Rest of the respondents expressed their view for uniformity in both pay scales and perks or the decision should be left to the best judgement of the respective administrative Ministries and the Boards of respective CPSEs.

(iii) The majority of respondent CPSEs (about 32%) have expressed their response for different rates of increments of pay. The rates of increment for different scales of pay may be in the range of 4% to 10% of basic pay with higher rate for higher pay scales. 23% of CPSEs suggested for 5% fixed rate of increment while 21% of CPSEs have advocated for continuation of existing rate of 3%.

(iv) Most of the CPSEs are of the view that the span of each pay scale should be open ended to avoid stagnation of pay. A few CPSEs expressed their view to modify the present system of granting stagnation increments to the extent that stagnation increment is granted every year instead of every two years being given at present.

(v) Majority of respondents have expressed satisfaction with the present cafeteria approach. Some CPSEs and their Officers' Associations have advocated for either dearness allowance to be added with Basic pay while calculating cafeteria allowance or overall ceiling of Cafeteria on the basic pay to be enhanced upto 100% of basic pay.

(vi) About 60% of all the respondents have opined to add service conditions such as remoteness of location / non-availability of basic amenities / poor connectivity with major cities, hazardous nature of job, extreme climate, infrastructure project, on shore / off-shore duty assignments of oil sector while defining Hardship. They have demanded to increase the present rate of such allowances and decision of the same to be left to the CPSEs and administrative Ministries concerned.

(vii) Most of the CPSEs and Associations have expressed that to draw "Bell Curve" on the basis of PAR scores required making forced rankings of executives. About 50% respondents are of the view that the "Bell Curve" applied to employee's performance creates more problems than what it strives to solve, including de-motivation and unfairness. In view of the above, the respondents have requested that DPE guidelines w.r.t. use of Bell Curve for PRP and especially the requirement to compulsorily rate 10 % executives as 'Below Par' and not to pay them any PRP is difficult to implement, and the same need to be reviewed.

(viii) Almost 50% of the respondents have advocated to calculate PRP on the basis of PBT of the previous financial year only instead of calculating PRP on previous year's profit and incremental profit of the CPSE.

(ix) Most of the organizations and associations are of the view that the current compensation package in CPSEs is comparable with the private sector at the entry level. However, in the middle and senior management levels, private sector compensation packages are substantially higher. Almost all the Officer's Associations shared the above view of their managements.

(x) Majority of respondents have expressed their opinion to have the same limit of gratuity as set by the 7th Pay Commission. While many 'Ratna'

CPSEs expressed their opinion for no ceiling or increase the ceiling limit to 25 Lakhs.

Thus, it can be seen that CPSEs, particularly the profit-making ones, have already put in place robust PMS systems aligned themselves towards operationalising the concept of Performance Related Pay with thrust on variable pay as compared to fixed pay. In the present competitive environment of business, retention of talent as well as attracting new talent appears to be a challenge for CPSEs which can be addressed through innovative use of pay, perks, benefits, career growth, better work environment and development opportunities etc.

Annexure-F

ANALYSIS OF THE RESPONSES TO THE QUESTIONNAIRE

1. Role of the Government & Uniform Wage Policies in CPSEs

1.1 **The 2nd PRC in the preface to its report stated that 'Finally, we feel that time has come when we should no longer look at all these CPSEs spreading over a vast spectrum with a common approach.' A decade has passed since then and in the present scenario what in your view should be the role of the Government with reference to wage policies in CPSEs.**

As regards, the wage policies in CPSEs, 36% of all the respondents are of the view that there should be broad guidelines issued by the Government for pay structure and allowances should be left to the CPSEs. Majority (48%) of CPSEs expressed their view that Government should ensure uniformity of pay scales and perks. Whereas, 7% CPSEs have shown interest in getting the freedom in the matter of determining compensation packages for their employees commensurate with their paying capacities.

1.2 **Flowing from the above, should there be some uniformity of pay scales and perks among CPSEs, or should these decisions be left to the best judgement of the respective administrative Ministries and the Boards of their CPSEs?**

On the issue of uniformity in Perks, 43% of the respondents mentioned that perks can vary based on financial capacity of CPSEs while there should be some uniformity of pay scales. Almost 28% respondents expressed their view for uniformity in both pay scales and perks. 21% of the CPSEs have advocated for these decisions be left to the best judgement of the respective administrative Ministries and the Boards. Since CPSEs have to function in different type of competitive environment in the area of Technology, Finance, Competition and Human Resource, it may not be appropriate to maintain uniformity within the four schedules in the matter of pay scales and allowances. 8% respondents did not provide any view on the issue.

1.3 **As part of Government's policy for granting greater autonomy to the Boards of the CPSEs under the Maharatna, Navratna and Miniratna schemes, should there be separate pay scales for 'Ratna' CPSEs?**

55% of the respondents are in favour of separate scales for Maharatna, Navaratna and Miniratna CPSEs. 36% of the respondents are not in favour of separate pay scales for Maharatna, Navratna and Miniratna CPSEs, while 9% remained silent on this issue.

1.4 **(a) Is the present system of classifying the CPSEs on the basis of Schedule i.e. 'A', 'B', 'C', and 'D' is satisfactory? If not, please suggest alternative ways of classification of CPSEs with adequate justifications.**

71% of the respondents have expressed satisfaction with the classification on the basis of schedule. 10% have opined that the present classification on the basis of schedule as 'Not Satisfactory'. 8% of respondents have opined that too many categorisations are not needed and C & D category companies should be clubbed together. 11% did not respond on this issue.

(b) Once a system of classification is agreed, should uniformity of pay scales within each of the category be maintained? If not reasons therefore and also suggest suitable alternatives.

76% of the respondents have expressed their views in favour of uniformity of pay scales within each category. Whereas, 13% have responded against any uniformity (This includes Maharatnas advocating complete autonomy for compensation package based on performance). 11% have not responded on this issue.

1.5 **In the absence of some degree of uniformity, isn't there a risk of migration of talent from financially weak CPSEs to financially better off CPSEs thereby further jeopardising future of the weak CPSEs. Will it also not lead to unhealthy competition amongst CPSEs to attract/retain the talent, which in the long run may act to the detriment of the public sector?**

62% of the respondents suggested for uniformity of pay structure to curb migration of talent. 23% of the CPSEs have mentioned that migration of talent is unavoidable and the pay structure is not the sole driving force behind migration as work culture, other HR interventions also affect migration. Some have requested for easing the deputation norms for adoption of best practices. However, 10% respondents did not provide any proper response.

1.6 **Would you suggest any changes in the existing relationship between pay packages of workmen and executives/supervisors immediately above level of workmen?**

55% of the respondents are of the view that the pay of Executives/Supervisors should be sufficiently higher than the workmen. While 20% responded in favour of existing practice to be maintained. However 3% have advocated for autonomy to CPSEs to decide emoluments for officers and workmen. 22% did not provide their response to the question.

2. Emoluments structure including pay, allowances and other facilities/benefits

2.1 **Over the years, the Central Pay Commissions especially the 6th CPC advocated reduction in the number of pay scales. In the 7th CPC recommendations, however, there were no further reductions. Do you feel whether the existing number of pay scales in the CPSEs should be retained or modified? Please give your suggestions.**

A majority of respondents (80%) are of the view that the existing number of pay scales should be retained. About 6% have expressed their opinion for autonomy to their Boards for devising their own pay scales. 7% of respondents were of the view that number of pay scales should be changed. Some of them were in favour of introduction of new pay scales such as E-10. However, some of them were in favour of reduction in pay scales from present E9 to E7 only. About 7% respondents did not offer any suggestion on this issue.

2.2 **What should be the minimum and the maximum pay in CPSEs? What should be the reasonable ratio between them?**

The minimum and maximum pay for executives elucidated varied response ranging from Rs.25,000/- and Rs.7,50,000/-respectively with a variable ratio of 1:6 to 1:20.

2.3 **What in your opinion is the desirable ratio of pay scale between top level and entry level?**

The desirable ratio of pay scale between top level and entry level of executives has been suggested ranging from 1:7 to 1:10. However, some respondents suggested that it should be in the ratio of more than 1:10.

2.4 **What is the expected ratio of manpower cost to cost of production/sales turnover in your industry?**

The ratio of manpower cost to cost of production/sales turnover varies from company to company depending on the type of industry and the type of business one is operating in. 27% respondents suggested the cost of manpower to the cost of production/sales turnover should be in between 1:5 to 1:20. 20% respondents favored that it ratio should be less than 1:5 while 14% suggested that ratio may go beyond the ratio of 1:5. About 39% respondents did not provide any proper response to the question.

2.5 **What should be the method of fixing pay in the revised pay scales? Should there be a point-to-point fixation? If not, please suggest an alternate method with illustration by which it can be ensured that persons with longer service are suitably protected.**

Almost 85% respondents responded in favour of a point to point fixation method to avoid bunching of pay, while about 15% respondents did not provide any suggestion.

2.6 **What should be the pattern of pay scales of Board level executives?**

A majority (33%) have pleaded for higher scales for board level executives at par with Private Sector / MNCs, in view of their tremendous responsibility and accountability. While many of the respondents (about 29%) have advocated for retaining the existing pattern of pay scales for Board level executives. About 27% did not provide any proper response to the question. Rest 11% opined that pay scales of Board level executives should be in line with the executives.

3. Increments

3.1 Should the rate of increment be fixed as absolute value or based on percentage basis?

An overwhelming majority of 91% CPSEs have opined in favour of the rate of increment to be based on percentage of basic pay.

3.2 What should be the rates of increments in respect of different scales of pay?

The majority of respondent CPSEs (about 32%) expressed their response for different rates of increments of pay. They suggested that rates of increment for different scales of pay may be in the range of 4% to 10% of basic pay with higher rate for higher pay scales. 23% of CPSEs have suggested for 5% fixed rate of increment while 21 % of CPSEs advocated for continuation of existing rate of 3%. About 24% CPSEs did not provide any response to the question.

3.3 Should the present system of granting one stagnation increment after every 2 years, subject to a maximum of 3 such increments, for those executives who reached the maximum of their scale be continued? Please give your views.

Most of the CPSEs (about 58%) are of the view that the span of each pay scale should be open ended to avoid stagnation of pay. There should be no limit on number of stagnation increments to be granted. While about 32% of respondents have requested for stagnation increment at alternate years (once in two years). 10% CPSEs did not offer their response to this query.

3.4 Should the date of increment be uniform for the employees of CPSEs as in the case of Central Government employees?

59% of the CPSEs have responded for a uniform date of increment for the CPSEs. However, almost 20% of CPSEs have stated in favour of continuation of the existing method in their companies. 7% CPSEs have expressed their view for increments to be paid on two dates i.e., on 1st of January and on 1st of July. While a small number of CPSEs (2%) have advocated that it should be on the basis of date of joining. 12% CPSEs did not provide any response.

3.5 **What should be the increment on promotion?**

44% of the respondent CPSEs have expressed their views for the higher rate of increment on promotion. However, about 12% of the respondents have asked for continuation of the current practice of increment on promotion.

4. Composition of the Emoluments package

4.1 **Is it preferable that the compensation package includes pay plus allowances and perks or club them into a consolidated remuneration?**

Most of the respondents (about 84%) have expressed their view in favour of the Compensation package to include pay plus allowances and perks. However, this should be the prerogative of individual CPSE.

4.2 **Is the present system of 'Cafeteria Approach' of choosing from a set of perks and allowances within the overall ceiling of 50% of Basic Pay satisfactory? If not, kindly give your suggestions for further improvement.**

Majority of respondents (about 50%) have expressed satisfaction with the present cafeteria approach. About 21% CPSEs and their Officers' Associations have advocated for either dearness allowance to be added with Basic pay while calculating cafeteria allowance or overall ceiling of cafeteria allowances on the basic pay to be enhanced upto 100% of basic pay. About 7% respondents have talked about empowering CPSEs in this regard. About 22% of the respondents did not reply to this question.

4.3 **Do you have any comments/suggestions with reference to the following?**

Classification of Cities and rates of HRA for different class of cities.

38% of the respondents have expressed that CPSEs should be given autonomy to increase the rate of HRA and to upgrade the present status of cities in different categories. While about 38% of respondents have suggested that the present system of HRA to continue on revised basic pay. 24% respondents have not responded to the question.

DA neutralisation for those who are on IDA pattern of scales

A large number of respondents (about 64%) have expressed their view for continuation of present system of 100% DA neutralisation for IDA pattern of scales.

Company leased accommodation

As per existing DPE Guidelines, 10% of basic pay is recovered for leased accommodation. 24% of the respondents have advocated to give freedom to CPSEs to decide the amount of recovery for leased accommodation.

Monetisation of facilities availed from the infrastructure like schools, colleges, Hospitals, clubs/recreation facilities etc. created by CPSE

A large number of the respondents (about 49%) have advocated for non monetisation of these facilities being related the welfare facilities. About 8% suggested that these facilities should be monetized while 2% suggested that CPSEs should be empowered to take decision in this regard. A large number of respondents (about 41%) have not replied to the question.

Allowances to be kept outside the ceiling of 50% or whatever rate to be decided

As per existing DPE guidelines, following four allowances are allowed outside the limit of 50% of basic pay towards perks and allowances under cafeteria approach:

i) North East Allowance upto 12.5% of Basic Pay
ii) NPA for Medical Officer upto 25% of Basic Pay
iii) Allowance for underground mines upto 15% of Basic Pay
iv) Special allowance for working in difficult and far flung areas upto 10% of Basic pay.

Most of the respondents (about 70%) are comfortable with the existing rates of North-East allowance, NPA, allowance for underground mines and special allowance and they have suggested the same to be continued on revised basic pay.

As far as special allowance for working in difficult and far flung areas is concerned, about 50% respondents have demanded for enhancement of rate and its scope to mitigate the hardship faced by special category of employees. They have also requested to increase the present ceiling of 10% to 30%. About 15% of the respondents have advocated for medical/professional bodies membership/conveyance/far flung area/ risk/project allowance, telephone/mobile, laptop, canteen charges, uniform allowance etc. to be kept outside the ceiling.

Hardship allowance and criteria for defining hardship

About 60% of the respondents have opined to add service conditions such as remoteness of location / non-availability of basic amenities / poor connectivity with major cities, hazardous nature of job, extreme climate, and infrastructure project, on shore / off-shore duty assignments of oil sector while defining Hardship. They have demanded to increase the present rate of such allowance and decision of the same to be left to the CPSEs and administrative Ministries concerned.

5. Variable Pay / Performance Related Pay

5.1 **Should there be fixed salary and a variable component which is related to the performance of the individual. If so what should be the amount/proportion?**

About 78% of CPSEs are of the opinion that there should be a fixed salary and a variable component related to the performance of the individual. 6% have suggested that there should be fixed pay only whereas 16% have not responded to the question.

In addition to above, large numbers of respondents have suggested that the variable pay for the executives should be progressive (Higher for the higher level and lower for the lower level) as their decision play crucial role in the overall performance of the company. Some of the respondents stated that the Component I and II of PRP should be restructured and ratio should be 80:20 instead of current ratio 60:40.

5.2 **What in your opinion should be the basis/criteria for granting performance related pay?**

About 45% of the respondent CPSEs have expressed their satisfaction with the present calculation method of PRP. 14% have suggested that it should be left to the best judgement of Board of the CPSEs. Whereas 19% have suggested that either only individual's performance should be taken into account or everyone irrespective to his/her Bell curve rating be paid PRP. However, most of them have expressed their reservation for the criteria of "10% NO PRP" clause and have demanded for abolition of the same.

5.3 **Whether performance related payment be allowed on the basis of distributable profit of the Enterprise? Section 8 companies under the Companies Act. 2013 by definition are not for profit companies and if the PRP is linked to distributable profit, their employees are denied performance incentives. How to reward the performance in Section 8 companies?**

Most of the respondent CPSEs are not a Section 8 company under the Companies Act, 2013 and therefore this question does not pertain to them. However, it has emerged from the suggestion that performance of employees in such companies can also be measured in terms of the percentage achievement of the quantified organizational targets. A large number of CPSEs (approximately 33 %), have expressed that PRP should be calculated on distributable profit and for Section-8 companies it should be formulated based on their performance.

5.4 **How do you rate the present system of PRP in vogue? Give your comments / suggestions in respect of each of the following:**

- **Rates i.e. % of Basic Pay payable as PRP at different grades in different Schedules of CPSEs**

Large number of the respondents (about 37%) have advocated that the rate of percentage of PRP on the basic pay at different grades below board level should be increased. However, about 27% of the respondents mentioned that current percentage of the PRP at different executive levels i.e. from 40 % at E0 level to 200 % at the level of CMD seem to be in right order, if the same percentage ceilings are maintained at the revised basic pay. While about 38% of respondents have not offered their views on the subject. Most of the CPSEs advocated to remove the condition of compulsorily rating 10% executives at “below par” and debarring them from paying any amount of PRP.

- **Schedules of CPSEs/Weightage for different MoU ratings**

35% of the respondents have shown their satisfaction with the present practice of MoU ratings while about 11% stated that there should not be any weightage for different MoU ratings for calculating PRP. 3% respondents have favored to increase the present weightage of MoU ratings. About 51% have remained silent on the issue.

- **Proportion and ceiling of PRP to be given out of current PBT and incremental PBT of a CPSE**

Present requirement is to pay the PRP-I component out of 3% of PBT and to pay the PRP II component from the incremental profit (10% of the increase in the PBT over the previous financial year) with the provision to ensure that PRP I and PRP II taken together do not exceed 5% of PBT. Almost 50% of the respondents have advocated to calculate PRP on the basis of PBT of the previous financial year only instead of calculating PRP on previous year’s profit and incremental profit of the CPSE.

- **Performance Management System (PMS)**

DPE guidelines stipulate that CPSEs have to ensure a robust management Performance Management System (PMS). Most of the CPSEs (50%) are already having a robust and verifiable PMS system.

5.5 What are your views on Bell Curve approach being followed currently under the PMS? Give your suggestions for improving the PMS.

Most of the respondents (about 80%) have expressed that to draw “Bell Curve” on the basis of PAR scores required making forced rankings of executives. DPE guidelines say: “CPSEs would adopt “Bell Curve Approach” in grading the officers so that not more than 10% to 15% executives are “Outstanding/ Excellent”. Similarly, 10% of executives should be graded as “Below Par”. About 50% respondents are of the view that the “Bell Curve” applied to people performance creates more problems than what it strives to solve, including de-motivation and unfairness. The new world has no space for a rusted tool of the past. In view of the above, the CPSEs have requested that DPE guidelines regarding use of Bell Curve for PRP and especially the requirement to compulsorily rate 10 % executives as ‘Below Par’ and not pay them any PRP is difficult to implement, and the same need to be reviewed.

5.6 Any suggestions to incentivise performance and to have a more equitable system

Most of the respondents have stated that use of the “Bell Curve” approach is creating problems and especially the requirement to compulsorily rate 10 % executives as ‘Below Par’ and not pay them any PRP is causing lot of demoralization among executives. Therefore, the requirement to compulsorily rate 10% executives at “Below Par” and not to pay them any amount of PRP may be removed. Alternatively, most of the respondents stated that they are already having a robust PMS and requested to grant them autonomy to design and implement their own PRP schemes by limiting the maximum pay out under the scheme to 5 % of PBT.

6. Recruitment, Promotion, Attrition

6.1 **What is the number of executives leaving in each category during the last 5 years and its percentages to the total strength in the concerned category? Is it comparable with other CPSEs and Private companies operating in the same sector? What could be the main reasons for their leaving your CPSE?**

Most of the respondents stated that attrition has been maximum at entry level (E1-E3) grades and is not very significant at middle management level. Some of the reasons mentioned by CPSEs for leaving the organization include:

- The hazardous and arduous nature of frontline field operations
- Preference for office based assignments and better compensation / spouse employment

- Opportunity of experience related financial advantage in job market

6.2 **What is the system of recruitment of management trainees or equivalent levels in your organization?**

Most of the CPSEs are recruiting through open all India level competitive examination (subject to minimum level of qualifications, marks percentage and age etc.) and through GATE score at induction level for technical cadre. Very few are going for campus selection alone. Officer's Associations have either offered no comments or shared the same view as of their management on the issue.

6.3 **Are you recruiting management trainees through campus recruitments? If so, please indicate the names of institutions from which such campus recruitments have been made and criteria for identifying the institution.**

i) Large number of the CPSEs responded that they are not doing campus recruitments, whereas about a small number of CPSEs have responded to be recruiting through campus.
ii) The list of the institutes includes the reputed institutes such as IITs / IIMs / NITs / XLRIs and some other specialised institutes for design, maritime, mining, fire and safety branches.
iii) Most of the CPSEs have responded that the campus recruitment is done as per the approval of their respective CPSE Boards and keeping in view the specific needs of the industries.

6.4 **What is the current promotion policy in your CPSE and there any changes in the offing?**

Different CPSEs have different promotion policy depending upon the nature of business, working conditions and competitive business scenario. However, up to middle management, it is time bound subject to certain minimum standards achieved by the individual. Above this level, it is based on vacancy-cum-merit. Cluster system is being followed in most of the CPSEs. Promotion within the cluster is based on time-cum-merit (as explained above) and between clusters it is vacancy-cum-merit. Many of the CPSEs have informed about reviewing their corporate promotion policy.

6.5 **Does your CPSE have a 'Succession Planning' in place? If so, please mention important points.**

Most of the profits making CPSEs have responded to have a well defined and managed succession planning mechanism such as Senior Management Programmes (SMPs), Leadership Assessment and Development Systems (Leads), Training, Job Rotation etc. While some CPSEs do not have any defined succession planning mechanism.

7. Relativity with Government/Private sector/Multinational Corporations

7.1 **Should the new compensation packages in CPSEs w.e.f. 01.01.2017 onwards be based on the packages as they now exist, with some percentage increase, or would you suggest any other method?**

Most of (56%) the respondents are of the view that the compensation packages w.e.f. 01.01.2017 may be based on the packages as they now exist with some percentage increase, while 19% of the respondents are of the view that the package should be at par with MNCs / Private companies. About 9% respondents have expressed their view to have open ended pay scales with autonomy to their Boards for fixing the other compensation packages. 16% have not expressed any view on the issue.

7.2 **Should CPSE pay scales and allowances have any linkage to the pay scales and allowances in the Government? If so, what are your suggestions?**

Almost 59% respondents expressed their opinion that pay scales and allowances of CPSEs should have no linkage with the Government in view of the different nature of functions and objectives. While another 24% respondents are of different view than the above, whereas 17% respondents did not offer any suggestions to this question.

7.3 **How do the current compensation package in CPSEs compare with their competitors in private sector or multinationals?**

Most of the respondents (about 49%) are of the view that the current compensation package in CPSEs is comparable with the private sector at the entry level. However, in the middle and senior management levels, private sector compensation packages are substantially higher. Almost all the Officer's Associations share the above view of their managements. 28% respondents have expressed difficulty in having any comparison because of the different origin of both the competitors. 11% respondents did not respond to this question.

7.4 **Taking into account the advantages other than pay, derived by employees in CPSEs vis-à-vis the private sector like security of tenure, promotional avenues, retirement packages, housing and other invisibles, can there be any fair comparison between the salaries of public and private Sector?**

15% of the respondents voiced in 'Yes'. The comparison is possible taking into account the 'Cost to Company' approach, while most of the respondents, almost 68% expressed their views against any comparison. About 16% respondents did not express their response.

7.5 **If parity of emoluments for CPSEs with that of private sector is recommended, what changes in CPSEs in terms of performance targets, evaluation, accountability and other conditions of service etc., shall be insisted?**

66% of the respondents stated to have Performance evaluation, accountability and other conditions of service similar to private sector. They also requested to give greater freedom in dealing with lack of performance in case emoluments are recommended at par with private sector. Almost 36% did not give any proper response while 8% said that CPSEs are already at par with private players in terms of responsibilities.

8. Issue of resource constraint and Pay revision in Sick/BIFR referred CPSEs

8.1 **Given the problem of resource constraints and the existing 'Affordability' clause in adopting revised pay packages, is there a way of bringing improvements in emoluments so as to attract and retain talent in CPSEs?**

Many of the respondents have agreed that it is true that enhancement of overall compensation packages would increase the financial burden on the enterprise. However, this could be minimized by increased productivity, reducing manpower and introducing latest and superior technology. Majority of the respondents did not express any view on the subject.

8.2 **In case of non-affordability, can the enhanced package be deferred and linked to the future performance of the CPSEs? How can the employees be rewarded without a direct or immediate burden on the organization? Schemes like stock option provide an appreciation in the value of the holdings of the employees through the capital market mechanism – what other schemes of this nature can be suggested?**

Most of the respondents have not given any suggestions on the subject.

8.3 **What should be the pay revision policy for sick / incipient sick / weak CPSEs?**

Most of the respondents have not given any suggestions on the subject.

9. Long term Incentives and Superannuation benefits

9.1 **Based on the earlier PRC, it was prescribed that 10-25 % of the PRP shall be given as ESOP. Has your company implemented this? Please give details and suggestions for improvement.**

95% of CPSEs mentioned that ESOP (Employee Stock Option Plan) has not been implemented in their companies.

9.2 **Can the ESOP be an option for deferred implementation / payment of revised package?**

A majority of respondents (about 50%) have suggested that ESOP should not be implemented as an option for deferred payment. About 25% respondents have shown interest in implementing ESOP as an option for deferred payment, and also suggested that proper guidelines should be issued keeping company's stock market status and the share of PRP on which ESOP be issued. About 25% respondents offered 'no suggestion' for the question.

9.3 **Do you think that any change is required in the existing policy of granting 30% Basic Pay plus DA as superannuation benefits? If so give detailed comments/suggestions.**

44% of the respondents advocated that the ceiling for payment of superannuation benefits may be enhanced to 40% of basic pay plus DA.

While about 27% respondents were comfortable with present ceiling of 30%, some others (8%) demanded that 15 years minimum service cap of 15 years to be removed for these benefits. Whereas about 3% have suggested that it should be in line with 7th CPC recommendations. About 18% respondents did not offer any suggestions.

9.4 **What should be the gratuity ceiling?**

Majority of respondents (about 43%) have expressed their opinion to have the same limit of gratuity as set by the 7th Pay Commission. While 10% CPSEs expressed their opinion to increase the ceiling limits to Rs. 25 Lakhs. About 35% have suggested that there should be no upper ceiling for gratuity. About 11% respondents did not offer any suggestions.

9.5 **What should be the policy regarding leave encashment at the time of retirement on superannuation?**

Leave is earned by employees after rendering requisite period of service. About 62% respondents have expressed that employees may be allowed to encash leave (Earned leave and HPL) at their credit at the time of retirement without any ceiling or the ceiling should be enhanced to 500 days. About 28% of respondents have advocated for continuation of the existing practice, while about 10% offered no response on the subject.

10. Voluntary Retirement Scheme

10.1 **In addition to the VRS, would you like to suggest any other ways to rationalise manpower?**

Most of respondents didn't provide any response to the question. However, some of the CPSEs have suggested the following ways to rationalise manpower in addition to VRS:

- ✓ Allowing Deputation to other CPSEs/Government
- ✓ Sabbaticals for education/pursuing any activity of their interest
- ✓ Long leave to find other suitable employment

10.2 **Whether VRS scheme issued by DPE and amended from time to time should continue or VRS package should be modified? If yes, indicate the suggestions?**

24% of respondents advocated for the VRS package to be left to Board of CPSEs to make it more attractive. 13% respondents suggested that ex-gratia amount should be enhanced in keeping with prevailing cost of living and there should be a provision for monthly payment of some amount till notional age of superannuation. Some (about 29%) CPSEs and their Officers Associations are comfortable with the existing VRS scheme. While a majority of (about 34%) respondents offered no response on the subject.

11. Specific proposals

11.1 **How the functioning of CPSEs can be improved so as to make them more professional, citizen-friendly and delivery oriented?**

Large numbers of the respondents are of the view that the functioning of CPSEs can be improved by granting full operational and managerial autonomy to the Board of Directors in respect of capital expenditure, joint ventures, VRS, forming subsidiaries, acquisition and mergers, compensation package, manpower and other areas related to performance of the enterprise. Some other have suggested for implementation of Enterprise Resource Planning (ERP) technology as a mandatory solution for business effectiveness and rigorous implementation of Balance Score card.

11.2 **Please outline specific proposals, which could result in:**

(a) Reduction and redeployment of staff

Suggestions received from CPSEs:

- In view of high performing CPSEs, workforce optimization through re-deployment can be achieved if Pan-India re-deployment of staff is allowed. While recruitment may continue to be decentralized. Mobility through inter sector/location transfers may be allowed to even out location/sector imbalances at staff level.

- Re-skilling initiative may be pursued to gainfully re-deploy employees in areas of requirement.

- Reduction of staff may be achieved through technology induction and digitization of processes.

- Part/ short time hiring, outsourcing and contractual engagement will increase indirect employment and also enhance operational efficiency of business.

(b) Reduction of paper work

(c) Better work environment

(d) Economy in expenditure

(e) Professionalization of services

(f) Effective grievance redressal mechanism

(g) Reduction in litigation and grievances on service matters

(h) Better delivery of services/product by CPSEs to their users

(i) Any other suggestions

Modified and remunerative VRS, office automation, providing excellent working and living conditions, development of an alternate mechanism to settle disputes on service matters, are some of the suggestions received from respondents.

11.3 **The concepts of contractual appointment, part-time work, flexible job description, flexi time etc. are expected to change the environment, provide more jobs and impart flexibility to the working conditions of employees? Share your experiences.**

A few CPSEs shared their experiences which are as under:

- The concepts of part-time work, flexible job description, flexi time etc. have not been implemented in many CPSEs. However, in cases of contractual appointments, there have been increasing number of court cases praying for regular appointment.

- Experience in the case of any kind of employee engagement other than regular induction has not been very encouraging so far, from the business/industry perspective.

- Such concepts require to be supported by labour law amendments that protect the basic rights of workers and also make clear and transparent provisions for inclusion of business interests and perspectives.

Annexure-G

List of hearings held by 3rd Pay Revision Committee:

Meeting No.	Date	Venue
1st	23/06/2016	New Delhi
2nd	30/06/2016	New Delhi
3rd	12/07/2016	New Delhi
4th	13/07/2016	New Delhi
5th	04/08/2016	New Delhi
6th	19/08/2016	New Delhi
7th	24/08/2016	New Delhi
8th	17/09/2016	Pune (Maharashtra)
9th	19/09/2016 & 20/09/2016	Goa
10th	20/09/2016 & 21/09/2016	Mumbai(Maharashtra)
11th	29/09/2016- 01/10/2016	Kolkata (W.B.)
12th	13/10/2016 – 14/10/2016	Bengaluru (Karnataka)
13th	03/11/2016 & 04/11/2016	Chandigarh
14th	05/11/2016 & 06/11/2016	Shimla (HP)
15th	16/11/2016	New Delhi
16th	21/11/2016	New Delhi

Annexure-H

List of CPSEs/Association/Agencies with whom 3rd PRC Interacted

CPSEs:

Sl. No.	Name of the CPSE
1.	National Thermal Power Corporation Limited (NTPC)
2.	Bharat Electronics Limited (BEL)
3.	Bharat Heavy Electricals Limited (BHEL)
4.	Steel Authority of India Limited (SAIL)
5.	Indian Oil Corporation Limited (IOCL)
6.	Hindustan Aeronautics Limited (HAL)
7.	Shipping Corporation of India Limited(SCI)
8.	National Mineral Development Corporation(NMDC)
9.	Oil and Natural Gas Corporation Limited (ONGC)
10.	Bharat Earth Movers Limited (BEML)
11.	Indian Railway Catering and Tourism corporation (IRCTC)
12.	Rail India Technical and Economic Service (RITES)
13.	Minerals and Metals Trading Corporation of India (MMTC)
14.	Indian Rare Earths Limited (IREL)
15.	Airport Authority of India Limited (AAI)
16.	Security printing and Minting Corporation of India Limited (SPMCIL)
17.	Bharat Petroleum Corporation Limited (BPCL)
18.	National Projects Construction Corporation Limited (NPCL)
19.	National Seed Corporation Limited (NSCL)
20.	IRCON International Limited
21.	Pawan Hans Limited
22.	Engineering Projects India Limited (EPIL)
23.	Hindustan Antibiotics Limited
24.	Cotton Corporation of India Limited
25.	BEL Optronic Devices Limited
26.	Hindustan Organic Chemicals Limited
27.	Goa Shipyard Limited
28.	Goa Antibiotics and Pharmaceuticals Limited

Sl. No.	Name of the CPSE
29.	Manganese Ore India Limited (MOIL)
30.	Hindustan Petroleum Corporation Limited (HPCL)
31.	Rashtriya Chemical Fertilizer Corporation of India Limited (RCF)
32.	Mazagaon Dockyard Limited
33.	Bharat Sanchar Nigam Limited (BSNL)
34.	Food Corporation of India Limited (FCI)
35.	Balmer Lawrie & Co. Limited
36.	Garden Reach Shipbuilders & Engineers Limited (GRSE)
37.	National Aluminum Co. Limited (NALCO)
38.	Coal India Limited (CIL)
39.	Hindustan Paper Corporation Limited
40.	MSTC Limited
41.	The Jute Corporation India Limited
42.	Uranium Corporation of India Limited (UCIL)
43.	Bengal Chemicals & Pharmaceuticals Limited
44.	Hindustan Copper Corporation of India Limited
45.	Kudramukh Iron Ore Company Limited (KIOCL)
46.	Mangalore Refinery and Petrochemical Limited (MRPL)
47.	Bharat Dynamics Limited (BDL)
48.	Karnataka Antibiotics and Pharmaceuticals Limited
49.	Neyveli Lignite Corporation Limited (NLC)
50.	Electronics Corporation of India Limited (ECIL)
51.	Chennai Petroleum Corporation Limited (CPCL)
52.	National Fertilizer Limited (NFL)
53.	National Projects Construction Corporation Limited (NPCC)
54.	Rural Electrification Corporation Limited (REC)
55.	Power Grid Corporation Limited (PGCIL)
56.	Satluj Jal Vidyut Nigam Limited (SJVN)
57.	Power System Operation Corporation Limited (POSOCO)

Associations:

Sl. No.	Name of the Association
1.	National Confederation of Officers Association (NCOA)
2.	All India BSNL Executive’s Association
3.	Indian Oil Officers Association
4.	NTPC Executives’ Federation of India (NEFI)
5.	BEL Officers’ Association
6.	BELOP Officers’ Association
7.	All India Telecom and Electricals Engineers Association (AITEEA)
8.	RCF Officers’ Association
9.	ONGC Association of Scientific and Technical officers (ASTO)
10.	NALCO Officers’ Association
11.	Coal Mines Officers’ Association
12.	Steel Executive Federation of India (SEFI)
13.	MECON Executives’ Association
14.	GRSE Officers’ Association
15.	HCL Officers’ Association
16.	Federation of BHEL Executive Associations (FOBEA)
17.	All India Hindustan Aeronautics Officers’ Federation (AIHAOF)
18.	HMT Officers’ Associations
19.	BEML Officers’ Guild
20.	All India Non-Pensioned cum Senior Citizen Retirees Association’ Bengaluru
21.	Confederation of Maharatna Company Officers’ Associations (COMCO)
22.	Federation of Oil PSU Officers’
23.	ONGC Association of Scientific and Technical officers’-Central Working Committee (ASTO)
24.	NFL Officers’ Associations
25.	NLC Joint Action Council of Associations
26.	NMDC Officers’ Associations
27.	National Confederation of Officers Association, Karnataka Zone (NCOA)
28.	ITI Officers’ Association

Annexure-I

Indicative List of CPSEs / Ministries / Associations / Individuals from whom representations have been received

(A) Ministry/CPSEs:

Sl. No.	Name of the CPSE
1	Ministry of Railways
2	Hindustan Aeronautics Limited (HAL)
3	Bharat Petroleum Corporation Limited (BPCL)
4	Numaligarh Refinery Limited (NRL)
5	Metal Scrap Trade Corporation Limited (MSTC)
6	Balmer Lawrie & Co. Limited
7	Oil and Natural Gas Corporation Limited
8	Container Corporation of India Limited
9	Satluj Jal Vidyut Nigam Limited (SJVN)
10	Power System Operation Corporation Limited (POSOCO)
11	National Fertilizers Limited(NFL)

(B) **Associations:**

Sl. No.	Name of the Association
1.	All India Non-Pensioned cum Senior Citizen Retirees Association' Bengaluru
2.	BHEL Diploma Engineers welfare Association, Bhopal
3.	National Confederation of Officers Association (NCOA)
4	Rourkela Steel Plant Executive's Association
5	Confederation of Maharatna Company Officers'(COMCO)
6	HMT Officers' Association
7	United Forum of BSNL & MTNL Executives' Associations
8	HCL Officers Association
9	MTNL Executives' Association, New Delhi
10	Association of Supervisors GRSE Ltd.
11	NTPC Executives' Federation of India
12	Federation of BHEL Executive Associations (FOBEA)
13	National Union of BSNL Workers (FNTO)
14	HMT Karmik Sangh
15	Sanchar Nigam Executives' Association MTNL Executive Association
16	Cochin Shipyard Officers' Association
17	The All India Hindustan Aeronautics Officers' Federation
19	All India Telecom Executive & Engineers Association
20	Posts and Telecom & BSNL Pensioners Welfare Association, Chandigarh
21	Doctors from Coal India Ltd.
22	O.N.G.C. Retired Officers Association (Central Work Committee)
23	BHEL-Retired Employees' Welfare Association (Bangalore)
24	Steel Executives' Federation Of India (Kolkata)
25	NLC Joint Action Councils of Association, Neyveli
26	Federation of Retired SAIL Executive
27	Federation Of All India BHEL Engineers & Officers Association
28	Federation of OIL Officers
29	HR Taskforce constituted by M/o Petroleum & Natural Gas
30	All India ONGC Employees Welfare Association
31	All India forum of MMTC Ex. Employees' Welfare Association
32	MMTC Former Officers' Welfare Association

(C) **Retired Individuals:**

Sl. No.	Name of the Individuals
1.	Shri S. Sivaraman, (Retiree of BHEL)
2.	Shri R. Subramanian, (Retiree of BHEL)
3.	Shri T.K Pandya, (Retiree of BHEL)
4.	Shri S. Venugupalan, (Retiree of BHEL)
5.	Shri S. Rajamani, (Retiree of BHEL)
6.	Shri N.Venkatachala Raju, (Retiree of BHEL)
7.	Shri V. Lakshminarasimhan, (Retiree of BHEL)
8.	Shri R. Mohanlal, (Retiree of BHEL)
9.	Shri D. Ranganathan, (Retiree of BHEL)
10.	Shri V. Swaminathan, (Retiree of BHEL)
11.	Shri T.Kannan, (Retiree of BHEL)
12.	Shri K R Vasudevan, (Retiree of BHEL)
13.	Shri D. Rangachari, (Retiree of BHEL)
14.	Ms. Kamla Krishnamurti, (Retiree of BHEL)
15.	Shri K. Athinarayanan, (Retiree of BHEL)
16.	Shri K.S Balasubramamian, (Retiree of BHEL)
17.	Shri D. K. Ravindranathan (Retiree of BHEL)
18.	Shri T. S. Sundararajan, (Retiree of BHEL)
19.	Shri S. Chandrasekaran, (Retiree of BHEL)
20.	Ms. T. Padmawathi, (Retiree of BHEL)
21.	Shri A. Ramarathanam, (Retiree of BHEL)
22.	Shri S. Veluchamy, (Retiree of BHEL)
23.	Ms. S. Kamla, (Retiree of BHEL)
24.	Shri T. R. Govindan, (Retiree of BHEL)
25.	Shri S. Vedachalam, (Retiree of BHEL)
26.	Shri G.Kannan, (Retiree of BHEL)
27.	Shri P.S Sriranjan, (Retiree of BHEL)
28.	Shri N.Vekataraman, (Retiree of BHEL)
29.	Shri M. Krishnamoorthy, (Retiree of BHEL)
30.	Shri K.Kesavan, (Retiree of BHEL)
31.	Shri K. Sethuraman, (Retiree of BHEL)
32.	Shri T.V. Subrananian, (Retiree of BHEL)
33.	Shri V. Ramanandhan, (Retiree of BHEL)
34.	Shri R. Jayaraman, (Retiree of BHEL)
35.	Shri R. Manavalaraj, (Retiree of BHEL)
36.	Shri V. Srinivasan, (Retirees of BHEL)
37.	Shri V. Krishnamurti, (Retiree of BHEL)

Sl. No.	Name of the Individuals
38.	Shri R. Ramasamy, (Retiree of BHEL)
39.	Shri V. Lakshmann, (Retiree of BHEL)
40.	Shri R. Swaminathan, (Retiree of BHEL)
41.	Shri S. Krishnan, (Retiree of BHEL)
42.	Shri V. Sriniwasan, (Retiree of BHEL)
43.	Shri M.G. Subramanian, (Retiree of BHEL)
44.	Shri E. Shanmuga Sundaram, (Retirees of BHEL)
45.	Shri V. Srinivasan, (Retirees of-BHEL)
46.	Shri P. Ramaraj, (Retiree of BHEL)
47.	Shri V.V. Gangadharan, (Retirees of-BHEL)
48.	Shri P. Murugesan, (Retiree of BHEL)
49.	Shri K.R. Surendran, (Retiree of BHEL)
50.	Shri P. Namasivayam, (Retiree of BHEL
51.	Shri N.K.R. Surendran, (Retiree of BHEL)
52.	Shri. Sankarasubbu, (Retirees of BHEL)
53.	Ms. Seethia Rajagopalan, (Retirees of BHEL)
54.	Shri M. Rajagopalan, (Retirees of BHEL)
55.	Shri M.R. Kishnamoorthy, (Retirees of BHEL)
56.	Shri G. Subburam, (Retirees of BHEL)
57.	Shri M. Sridararajan, (Retirees of BHEL)
58.	Shri R. Venkatesan, (Retirees of BHEL)
59.	Shri Suresh Kumar, (Retirees of ITI Ltd.)
60.	Shri S.S Lakshmanan, (Retirees of BHEL)
61.	Shri M.S. Surendran, (Retirees of BHEL)
62.	Shri R. Sachithanandam, (Retirees of BHEL)
63.	Shri T. Somasundaram, (Retirees of BHEL)
64.	Shri A. Syed Mubark, (Retirees of BHEL)
65.	Shri Rajendran. A, (Retirees of BHEL)
66.	Shri T. Karuppian, (Retirees of BHEL)
67.	Shri P. Marimuthu, (Retirees of BHEL)
68.	Shri L. Murugan, (Retirees of BHEL)
69.	Shri R. Swaminathan (Retirees of BHEL)
70.	Ms. N. B. Vijayalakshami, (Retirees of BHEL)
71.	Mrs S. Vanaja, (Retirees of BHEL)
72.	Shri V Jayaraman, (Retirees of BHEL)
73.	Shri S. Sadasvam, (Retirees of BHEL)
74.	Shri T.N Savangarajan, (Retirees of BHEL)
75.	Shri S. Natarajan, (Retirees of BHEL)
76.	Shri V. S. Balasubramanian, (Retirees of BHEL)
77.	Shri C. Palani, (Retirees of BHEL)

Sl. No.	Name of the Individuals
78.	Shri G. Subbaram, (Retirees of BHEL)
79.	Shri S. Kandan, (Retirees of BHEL)
80.	Shri M. Salai Valvalian, (Retirees of BHEL)
81.	Shri G. David, (Retirees of BHEL)
82.	Shri R. Sethuramalinoam, (Retirees of BHEL)
83.	Shri P. Manivelu, (Retirees of BHEL)
84.	Shri M. Thangavelu, (Retirees of BHEL)
85.	Shri M. Angusamy, (Retirees of BHEL)
86.	Shri K. Ramalingam, (Retirees of BHEL)
87.	Shri G. Sankarajan, (Retirees of BHEL)
88.	Shri C. Suthanthira Raju, (Retirees of BHEL)
89.	Shri K. Balasubramanian, (Retirees of BHEL)