

F. No. 2(32)/08-DPE (WC)
Ministry of Heavy Industries & Public Enterprises
Department of Public Enterprises

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Copy No.....

Dated: 12 November, 2008

NOTE FOR THE CABINET

Sub: Pay Revision of Executives (Board level Executives, below Board level Executives and Non-Unionised Supervisors) of Central Public Sector Enterprises (CPSEs) w.e.f. 1.1.2007.

1. Background

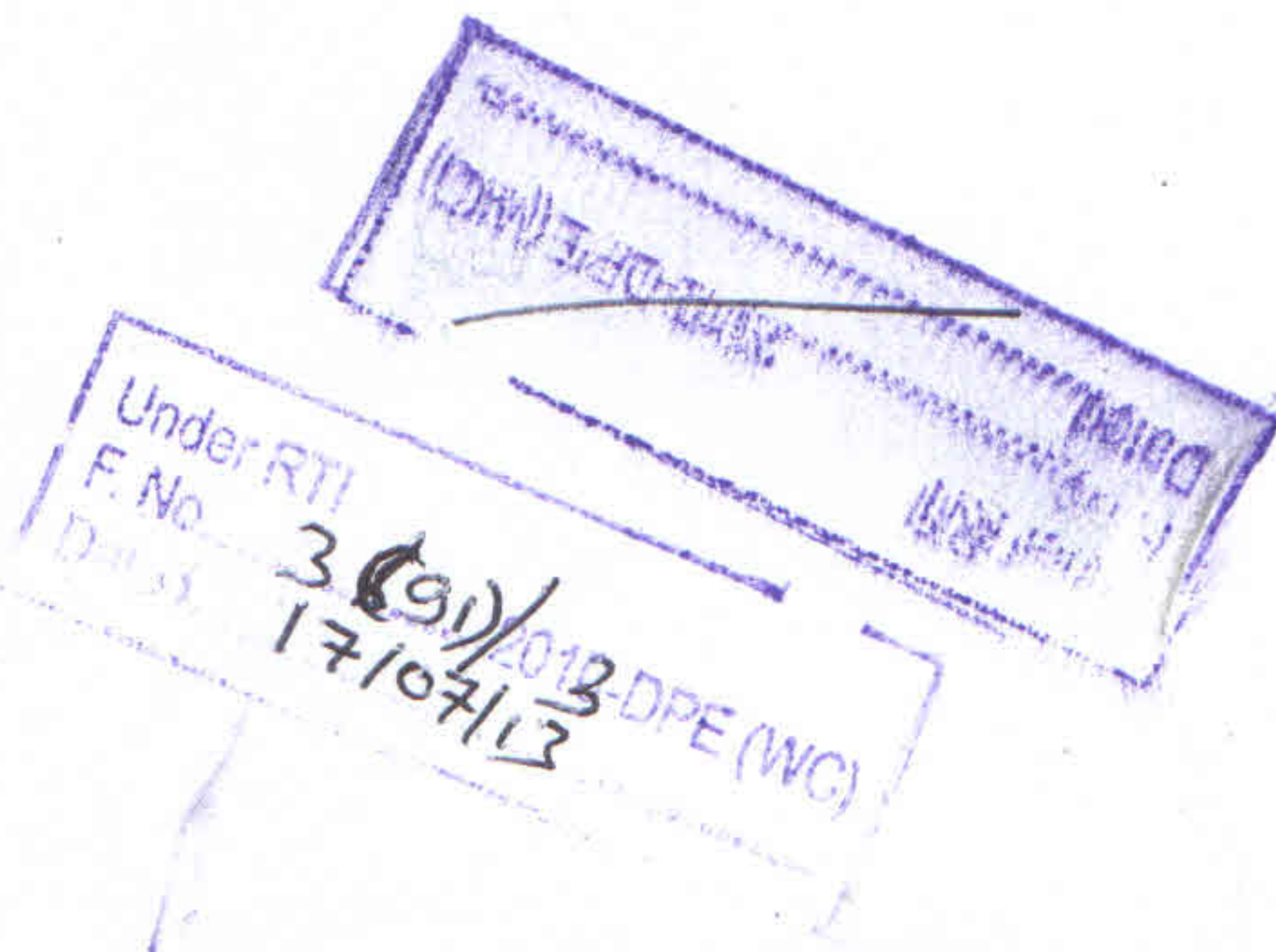
1.1 There are 247 CPSEs in the country, out of which 216 are in operation. The workforce in these CPSEs consists broadly of two categories of employees viz. i) Board level executives, below Board level executives and Non-Unionised Supervisors; and ii) Unionised Workmen. The pay revision of the first category is carried out on the basis of the recommendations of the Pay Revision Committee, appointed by the Government. Remuneration in respect of the second category are to be decided by the Management of the respective CPSEs, based on the guidelines on wage negotiations, issued by the Department of Public Enterprises (DPE).

1.2 In total, there are about 16.14 lakh employees in 247 CPSEs. Out of which, 2.58 lakh belong to the Board level and below Board level executives, 1.20 lakh belong to the Non-Unionised Supervisors and the remaining 12.36 lakh belong to the Unionised Workmen. Approximately 96.36% of manpower is governed as per the Industrial Dearness Allowance (IDA) pattern of scales. The remaining manpower is covered under the Central Dearness Allowance (CDA) pattern of scales, which have since been revised based on the recommendations of 6th Central Pay Commission.

1.3 Based on the recommendations of the Justice Mohan Committee (1st Pay Revision Committee), the orders for revision of scales of pay w.e.f. 1.1.1997 for

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Board level executives, below Board level executives and non-unionized supervisors in CPSEs were issued in June, 1999. These scales of pay were valid for a period of 10 years. Pay revision for these categories of employees is due from 1.1.2007. This note covers the revision of pay and allowances of employees falling in the categories of Board level Executives, below Board level executives and Non-Unionised Supervisors, in the CPSEs governed under IDA pattern of scales of pay.

2. The Second Pay Revision Committee (2nd PRC)

2.1 The Government on 30.11.2006 decided to appoint the Second Pay Revision Committee to examine the present pay structure, allowances, perks and benefits for CPSE executives at the Board level, below Board level and non-unionized supervisory staff and to recommend changes in the same, w.e.f. 1.1.2007. The Committee was headed by Justice M. Jagannadha Rao, a retired Judge of Supreme Court of India. Dr. Nitish Sengupta, Economist and former Secretary, Planning Commission, Shri P.C. Parakh, former Secretary to the Government of India, Ministry of Coal, and Shri R.S.S.L.N. Bhaskarudu, former Managing Director, Maruti Udyog Limited and former Chairman, Public Enterprises Selection Board (PESB), were the Members of the Committee. Secretary, Department of Public Enterprises, Government of India was the Ex-officio Member of the Committee. The detailed Terms of Reference of the Committee are at Annex. I (pages 14 - 16). The Committee had tenure of 18 months and within the stipulated time, the Committee submitted its Report on 30.5.2008 to the Government.

3. Methodology adopted by the Second Pay Revision Committee

3.1 The Committee held detailed deliberations and interactions on a wide range of issues with a cross section of Chief Executives, representatives of

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Executives' Associations, BIFR, PESB, 6th Central Pay Commission, Senior Civil Servants, Standing Conference of Public Enterprises (SCOPE), Institute of Public Enterprise, Hyderabad, some renowned private sector companies and others concerned.

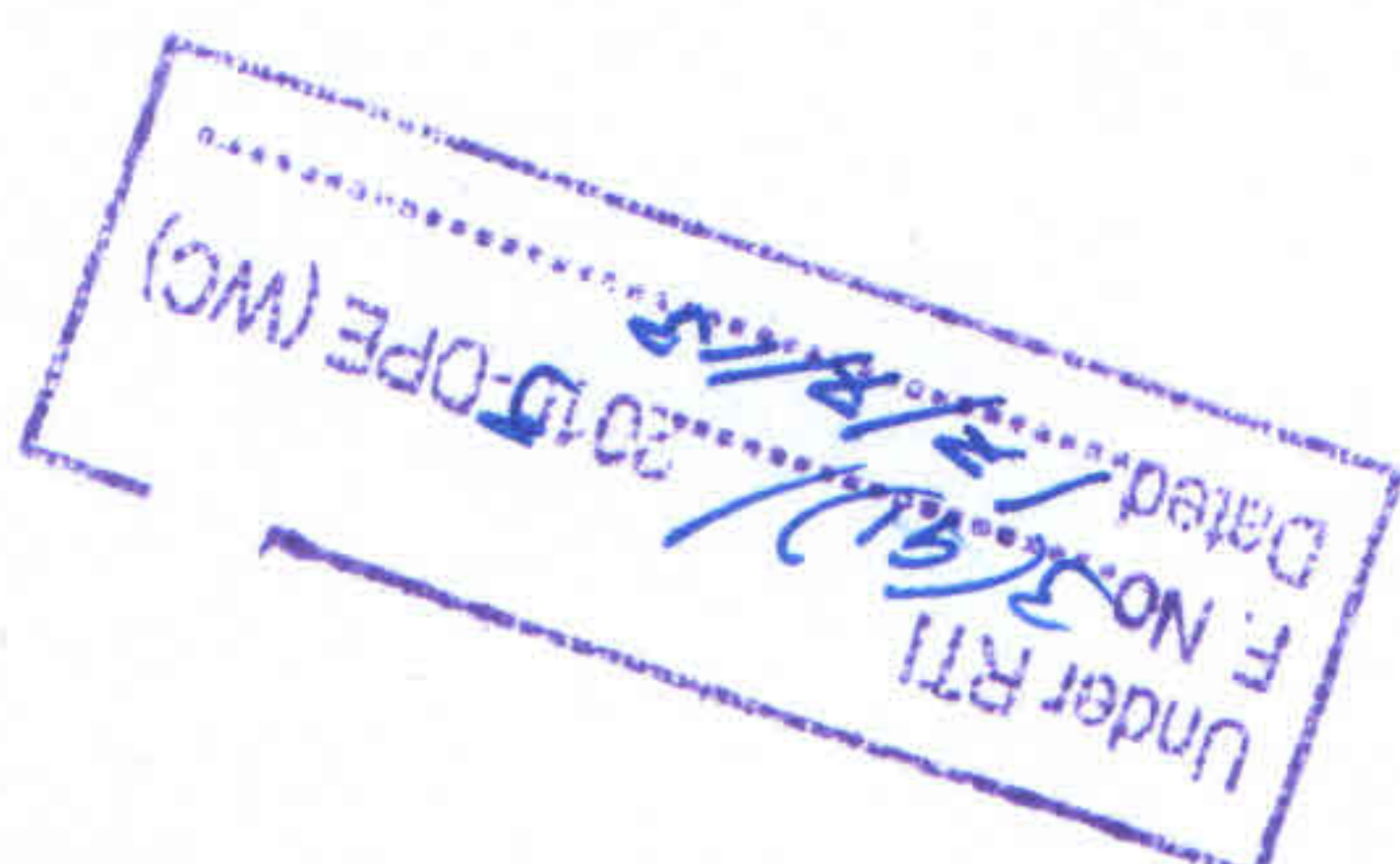
4. Recommendations of the Second Pay Revision Committee

4.1 Recommendations of the 2nd PRC as contained in Chapter 6 of the Report is given in Annex. II (pages 17 - 32) of the Note. The report of the 2nd PRC was also placed on the website of this Department.

5. Consideration of Report by Committee of Secretaries:

5.1 A draft Cabinet Note was earlier circulated to all Administrative and Nodal Ministries/ Departments, Planning Commission and Public Enterprises Selection Board (PESB) for their comments/ views. The comments received from Administrative Ministries/ Departments concerned with the CPSEs and other nodal Departments/ Organizations like Public Enterprises Selection Board (PESB) etc. alongwith comments of this Department have been placed at Annex. III (pages 33 – 60). The comments received from CPSEs, Officers' Associations, Non Unionized Supervisors' Association, SCOPE etc. is at Annex. IV (pages 61 – 64). On examination of the Comments/ views so received, it was found that on the following three basic issues, the Ministries/ Departments and others had divergent views and also raised serious apprehensions:

(A) CATEGORIZATION OF CPSEs – At present, all the CPSEs are divided into four categories, namely, 'A', 'B', 'C' and 'D'. The 2nd PRC has proposed to change the entire basis of categorization and recommended five categories, namely, A+, A, B, C and D.



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The proposed classification of the companies in the five categories have been made by the Committee considering the three parameters only with different weightages namely, turnover (75 %), manpower (15 %) and geographical spread (10 %). (The data for this has been taken from the 'Public Enterprises Survey' 2007). As a result, some of the companies which are in the Navratna categories are not placed in the A+ category whereas a few in the non-Navratna companies have been placed in A+. Many of the Ministries, CPSEs and Executive Associations have represented against this type of categorization and the basis of the categorization.

In certain sectors like Petroleum, Power, Steel and Telecom, there are companies which are now in the same category, have been proposed by the Committee to be placed in different categories on the basis of the parameters mentioned above. In the Power Sector, there will be problem with NTPC on one hand and National Hydro Power Corporation Ltd. (NHPC) & Power Grid Corporation on the other. In the Oil Sector, there would be problem with Oil and Natural Gas Corporation (ONGC) on one hand and Oil India Ltd. (OIL) on the other. In the Steel sector, there will be problem with the Steel Authority of India Limited (SAIL) on the one hand and MECON Limited and Rashtriya Ispat Nigam Limited (RINL) on the other. Similar problem will also arise with BSNL & MTNL in the Telecom Sector. This may result in serious discontentment among the executives working in different CPSEs in the same sector.

(B) FIVE SETS OF SCALES AT BOARD AND BELOW BOARD LEVELS IN ALL CPSEs

2nd PRC has recommended 5 set of scales of pay for executives depending upon the category of the CPSE. The scales of pay of below Board level executives in all four categories of the CPSEs (namely A, B,C and D), have

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all along been common, while Board level executives in the said four schedules have been given four set of different pay scales.

Differentiation in pay scales will lead to a number of litigations and HR problems as executives will be monetarily impacted. Having different pay scales between two CPSEs within the same industry, may have implications, when physical and financial performance is similar but potential to earn differs. The differentiation of pay scales will obviously create a lot of resentment among the executives of the CPSEs.

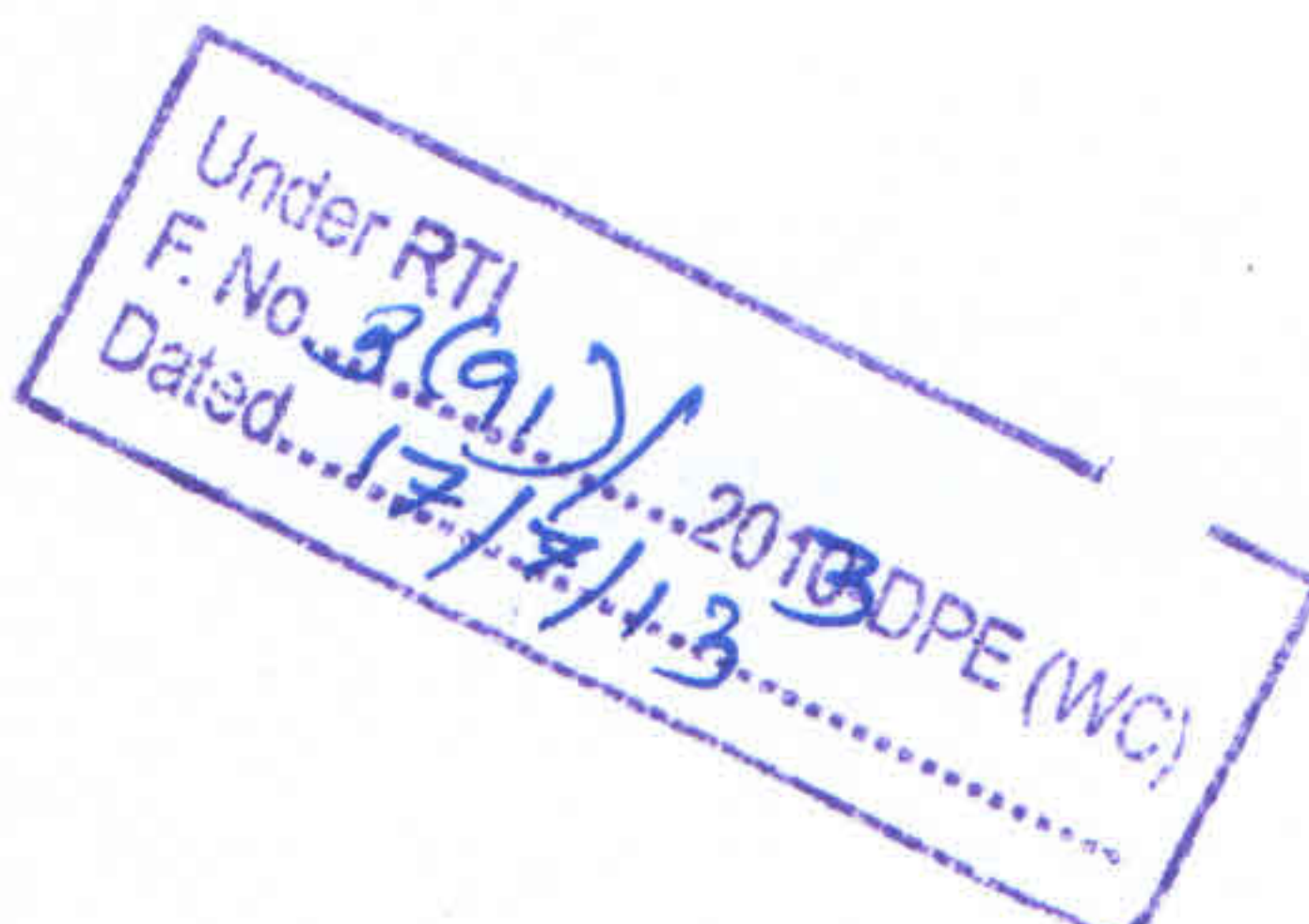
(C) GRADED FITMENT IN A CPSE & ACROSS THE CPSEs

While recommending five set of pay scales, the Committee has also recommended graded fitment benefit which will vary depending on the category of the company as well as on the pay grade of the executives making the fitment benefit widely varying among different classes of executives. The fitment so far has been uniform for all the executives irrespective of the category of the CPSE and the pay grade. The graded fitment is likely to lead to wide dissatisfaction across the CPSEs and executives.

The matter was placed before the Minister (HI & PE) and on whose direction these issues were discussed with the Cabinet Secretary. The Cabinet Secretary directed that these issues would require deliberations by a CoS.

5.2 Accordingly, these issues were placed before CoS through a Note dated 01.10.2008. A copy of the CoS Note is at Annex. V (pages 65 – 69). CoS held its meetings on 14.10.2008 and 23.10.2008 to discuss these issues.

5.3 After detailed discussions and analysis, the CoS recommended as follows:



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- i) The existing categorization of CPSEs into schedule A, B, C & D should continue instead of the new categorization of CPSEs into five categories based on different sets of parameters recommended by 2nd PRC.
- ii) A single set of pay scales should be followed for executives for different grades with an elongated span to avoid stagnation instead of 5 sets of scales of pay recommended by the 2nd PRC. Since there will be no A+ category, there will not be E-10 grade as recommended by the 2nd PRC.
- iii) Separate sets of pay scales should be followed for Directors and CMDs depending upon the schedule of the CPSE instead of fixed pay as recommended by the 2nd PRC.
- iv) The proposed scales of pay for executives and Directors/ CMDs may be as per the Annex. VI (page 70).
- v) No Risk Pay will be paid separately as Risk Pay recommended by the 2nd PRC will be merged with the minimum as well as the maximum of the proposed pay scales and treated as part of Basic pay.
- vi) A uniform fitment @ 30% of Basic Pay + DA as on 01.01.2007 may be provided to all executives instead of graded fitment of 3% to 42% as recommended by the 2nd PRC. The CoS also noted that because of comparatively higher scales at the senior management level for E7 to E9 categories and Board level posts, fitment could be more than 30%.
- vii) The benefit of bunching one increment for every two increments earned may be extended to mitigate the problem of junior and senior executives getting the same pay.

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- viii) The ceiling of Gratuity for the executives of CPSEs may be increased to Rs. 10 lakh instead of Gratuity without any upper ceiling limit as recommended by 2nd PRC.
- ix) Since the base is higher, a uniform rate of annual increment @ 3% of Basic Pay in all CPSEs could be allowed instead of 2% to 4% as recommended by the 2nd PRC.
- x) The rate of stagnation increment may be 3% of the Basic Pay instead of 2% as recommended by the 2nd PRC. Other conditions relating to stagnation increment recommended by the 2nd PRC will continue.
- xi) EDs/ GMs heading projects of CPSEs may also be provided with company car.
- xii) Marginally profit making CPSEs may implement the proposed scales of pay with the uniform lower fitments of 10% or 20%, depending upon affordability.
- || xiii) The recommendations of the 2nd PRC with the above suggested modifications will be implemented as a package.
- xiv) An Anomalies Committee consisting of Secretaries of DPE, DoE and DoPT may be constituted to look into further specific issues/ problems that may arise in implementation of the Government's decision on the recommendations of the 2nd PRC.

5.4 A copy of the Minutes of CoS is at Annex. VII (pages 71 – 78).

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5.5 The stages of implementation of pay revision in a CPSE, depending upon their affordability as recommended by 2nd PRC will also stand modified, in the light of the recommendations of CoS, as under:

Stage 1	-	Basic pay + HRA + Statutory contributions
Stage 2	-	Basic pay + HRA + Statutory contributions + part allowances + part PRP
Stage 3	-	Full package

Those marginally profit making CPSEs, which are not able to implement even stage 1 mentioned above may give an increase of 10% or 20% of their existing pay plus DA, depending upon their affordability.

6 CoS has recommended that all the recommendations of the 2nd PRC (Annex. II) with the suggested modifications by CoS will be implemented as a package. The recommendations of 2nd PRC with regard to Dearness Allowance, House Rent Allowance, Leased Accommodation, City Compensatory Allowance, other allowances/ perks, Variable Pay/ Performance Related Pay, Memorandum of Understanding, Performance Management System, Remuneration Committee, Long Term Incentives, Cost to the Company, retirement age, Non Unionized Supervisory staff, pay of executives moving from holding CPSEs to subsidiaries or vice-versa on deputation/transfer, pay of government officers on deputation to CPSEs and Superannuation Benefits are proposed to be implemented.

7 The recommendations of 2nd PRC with regard to Sick Companies (para 6.2.4, Annex. II), CPSEs having income levels of less than Rs 50 crores and creating a corpus for retired executives for medical and any other emergency needs (para 6.2.5 (b) & (c) Annex. II) will be examined separately.

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8. The 2nd PRC has recommended that appropriate compensation packages for Non Unionized Supervisors may be decided by the respective Board of Directors of the CPSEs. The 2nd PRC has recommended that by implementing these recommendations, dip in profit for the year 2007-08 of a CPSE should not exceed 20% in respect of executives, for the purpose of deciding affordability. The 2nd PRC also recommended that the total Performance Related Pay will be limited to 5% of the year's Profit before Tax, for the executives. Since the Second Pay Revision Committee was required to give their recommendations in respect of executives as well as non unionized supervisors as per the terms of reference these recommendations relating to ceilings on dip in profit and Performance Related Pay would be for the executives and non unionized supervisors taken together in a CPSE.

9.1 If any extra ordinary increment (s) and / or increase in the pay in respect of executives/ non unionized supervisors have been granted with retrospective effect, which affects the revision of pay as on 1.1.2007, such increment and / or increase in pay will be ignored for the purpose of fitment/ pay revision.

9.2 In view of comparatively higher pay package given to senior management level, it is proposed that the posts in E-7 and above grades would be created after obtaining the approval of Administrative Ministries. The posts carrying pay scales equivalent to Functional Directors of Boards would be created with the approval of Department of Public Enterprises.

9.3 The 2nd PRC has recommended that on promotion of executives, the management can use its discretion in fixing the pay. It is felt that to have uniformity, one notional increment equal to the increment being drawn by the executive in the pay scale, before such promotions be granted and pay fixed in the promoted pay scale and rounded off to the next multiple of Rs. 10.

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10. The revised pay scales would be implemented by issue of Presidential Directive in respect of each CPSE separately by the concerned Administrative Ministry/ Department. The revised pay scales will be effective from 1.1.2007. The payment of HRA, perks and allowances based on the revised scales will, however, be from the date of issue of Presidential Directives as was the practice followed for implementing the recommendations of 1st PRC for CPSE executives and the 6th Central Pay Commission for Central Government employees. The Board of Directors of each CPSE would be required to consider the proposal of pay revision based on their affordability to pay, and submit the same to the Administrative Ministry for approval. The concerned Administrative Ministry with the concurrence of its Financial Advisor will issue the Presidential Directive.

11. Expenditure on account of pay revision is to be entirely borne by the CPSEs, out of their earnings and therefore, no financial outgo from the Government on account of pay revision is envisaged.

12 Inter Ministerial Consultation

12.1 As indicated in para 5.1, a draft Cabinet Note was earlier circulated to all Administrative and Nodal Ministries/ Departments, Planning Commission and Public Enterprises Selection Board (PESB) for their comments/ views. The comments received from Administrative Ministries/ Departments concerned with the CPSEs and other nodal Departments/ Organizations like Public Enterprises Selection Board (PESB) etc. alongwith comments of this Department have been placed at Annex. III (pages 33 – 60). As directed by the Cabinet Secretary, the matter was considered by CoS. The CoS has recommended that the matter may be placed before Cabinet with recommendations of CoS and the Cabinet Note may be processed in a time bound manner.

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13. Approval sought:

Approval of the Cabinet is sought for the following:

- i) To accept the recommendations of 2nd PRC as given ^m para ~~10~~ 6 above.
- ii) To accept the recommendations of CoS as indicated in para 5.3 including the proposed scales of pay as in Annex VI.
- iii) The stages of implementation of pay revision will be as per para 5.5.
- iv) The ceilings in respect for implementation of pay revision will be as indicated in para 8.
- v) Procedure of arriving at the Basic Pay as on 1.1.2007, creation of posts at senior management level and pay fixation on promotion will be as per para 9.1, 9.2 & 9.3 respectively.
- vi) The pay revision will be effective from 01.01.2007. The effective date of perks and allowances will be as per para 10.
- vii) The expenditure on account of pay revision would be borne by the CPSE concerned from their own resources as indicated in para 11.
- viii) The Department of Public Enterprises may be authorized to issue necessary clarifications in implementation of the above decisions of the Cabinet.

14. Statement of Implementation schedule is at Appendix.

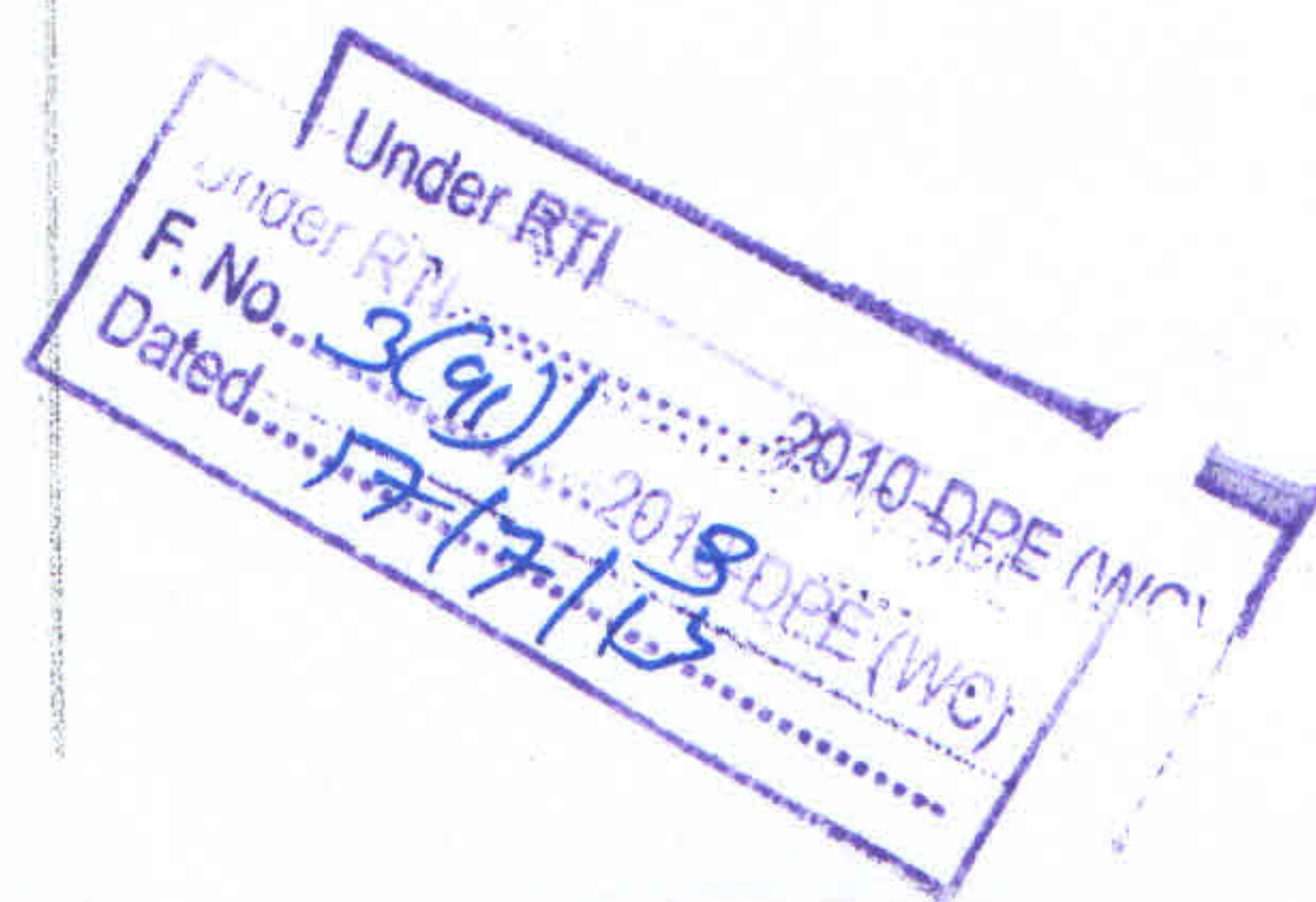
15. This note has been seen and approved by Minister of Heavy Industries & Public Enterprises.

K.D. Tripathi
(K.D. Tripathi)
Joint Secretary
Tel. No. 24360204

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Place: New Delhi

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Appendix

STATEMENT OF IMPLEMENTATION SCHEDULE

Sub: Pay revision of executives and non-unionized supervisors due from 1.1.2007.

Gist of decision	Projected benefits/ results	Time schedule and manner of sending implementation Report to Cabinet
<p>i) To accept the recommendations of 2nd PRC as a package with regard to Dearness Allowance, House Rent Allowance, Leased Accommodation, City Compensatory Allowance, other allowances/ perks, Variable Pay/ Performance Related Pay, Memorandum of Understanding, Performance Management System, Remuneration Committee, Long Term Incentives, Cost to the Company, retirement age, Non Unionized Supervisory staff, pay of executives moving from holding companies to subsidiary companies or vice-versa on deputation/ transfer, pay of Government officers on deputation to CPSEs and Superannuation Benefits.</p> <p>ii) To accept the recommendations of CoS including the Scales of Pay.</p> <p>iii) To implement pay revision in stages depending upon affordability.</p> <p>iv) The ceilings for implementation of pay revision will be applicable for executives and non unionized supervisors.</p>	<p>The proposed pay revision would benefit the executives and non-unionized supervisors of CPSEs and help CPSEs to attract and retain talent.</p>	<p>Orders to implement the decisions of the Cabinet would be issued immediately.</p>