Chapter-2

COMPENSATION PACKAGES IN CPSEs (1965-2006)

2.1 CLASSIFICATION OF CPSEs – A, B, C, D Schedules (1965)

2.1.1 In 1965, the Central Public Sector Enterprises were divided into 4 Schedules (A, B, C & D) on the basis of recommendations of the 'Committee on Top Posts' headed by the then Cabinet Secretary. This categorization of CPSEs was based on the nature of activities & size of operations (strategic importance), number of employees and investments made therein. The pay-scales for the incumbents of top posts (Chief Executives) w.e.f. Jan, 1965 were fixed as under :

Schedule A	Schedule B	Schedule C	Schedule D
3500-125-4000	3000-125-3500	2500-100-3000	2000-100-2500 * 2250-100-2750

* Revised by the Government in May, 1975.

The respective administrative Ministries, in consultation with the Department of Public Enterprises [then Bureau of Public Enterprises (BPE)] and the Ministry of Finance fixed the pay scales for below Board level Executives.

2.1.2 Historically, the pay-scales of Board level and below Board level Executives were generally at par and comparable with the pay scales of posts in the Government Departments. Vide OM dated 11.08.82, the then BPE revised the pay-scales of scheduled posts, as under, w.e.f. 1.8.82.

Schedule	Existing	Revised
A	3500-125-4000	4500-125-5000
B	3000-125-3500	4000-125-4500
C	2500-100-3000	3500-100-4000
D	2250-100-2750	3000-100-3700

At this stage, a need was felt for revision of emoluments for the below Board level Executives, in order to maintain the relativities between the emoluments of officers in the scheduled posts and other officers. The pay-scales for the below Board level Executives were accordingly revised vide OM dated 11.8.1982 effective from 1.08.82.

It was also decided that such revision would be effective for 5 years. Thereafter, revisions were made by Government of India effective w.e.f. 1.1.87 and 1.1.92.

2.1.3 The Pay scales effective from 1.1.87, as stated above were introduced by the guidelines issued by Government of India in 1990 and that introduced an element of uniformity in the scales. Extracts of the guidelines (D.O. No. 4 (12)/82 -BPE(WC) dated 4.4.90 and the model pay-scales prescribed by the Government w.e.f 1.1.92 and 1.1.97 are at **Annex - 2.1**. The fitment method involved adding basic pay, first ad-hoc relief, DA and a fixed fitment benefit linked to scale of pay. The second ad-hoc relief sanctioned was to be absorbed in the fitment benefit and no stagnation increment was provided on reaching the maximum of the scale.

2.1.4 A new set of guidelines were introduced by the Government in 1995 vide O.M. No. 2(50)/86-DPE (WC) dated 19.07.95 revising the pay scales w.e.f 1.1.92. Extracts are at **Annex - 2.2** . The fitment method was a total of Basic pay, actual DA, 20% of BP as fitment benefit and personal pay/personal allowance/personal DA wherever payable alongwith existing basic pay. There was increase in Non-Practicing Allowance and ceilings for payment of HRA/leased accommodation were revised. BIFR registered CPSEs pay revision will be allowed if it was decided to revive the unit and the package included the enhanced liability on this account.

2.1.5 Appointment of First Pay Revision Committee (Justice Mohan Committee, 1997) :

For the first time Government appointed a Pay Revision Committee for the revision of pay scales of Executives of CPSEs, headed by Justice S. Mohan, Retired Judge, Supreme Court of India, vide resolution dated 10.12.96 **(Annex.-2.3).** While appointing the Committee, Government desired that the recommendation of the 5th Central Pay Commission for Central Government Employees should be taken into consideration by the Committee.

2.1.6 The 5th Central Pay Commission and its recommendations :

The 5th Central Pay Commission (CPC) made several recommendations in respect of pay-structure and emoluments related issues for Central Government employees for the applicable period i.e. 10 years from 1.1.1996 to 31.12.2005. The Pay Commission made the following recommendations:

i. It was concluded by 5th CPC that economic reforms have come to stay and the economy is in a better shape than before. The 5th CPC observed that as there is every room for optimism, so there is no reason to deny what is reasonably due to the Government employees as they do claim part of the credit for the turnaround of the economy.

ii. Regarding the capacity of the Government to pay, certain measures were suggested by 5th CPC for rightsizing of the Government machinery and it has been recommended for fewer but better paid employees. In case the numbers can be brought down, the Government can very well afford to pay its employees a decent salary.

iii. On the demand for parity of pay of Central Government employees with Public Sector, the 5th CPC observed that it is difficult to concede on the demand as the job contents and conditions of service in the Government and Public Sector are not necessarily the same. There are essential differences between the two, as most CPSEs have been set-up with a multiplicity of objectives and the commercial objective being the most prominent amongst them; on the other hand the Government provides fiduciary services on a no-profit-no-loss basis.

iv. However, the 5th CPC recognized the need to maintain fair relativity, but not parity, as an essential principle of pay-fixation between Central Government employees vis-à-vis Public sector as well as Private sector.

v. The glaring disparities between the pay-structure in the Government and the Private sector and the concern that such disparity might create a serious crisis of talent in the Government, was also taken-up for consideration by 5^{th} CPC. The major reasons for disparity amongst the two sectors that were identified by 5^{th} CPC were:-

a. CEO of private sectors draws an average incentive upto 65% of the Basic salary. The Secretary to the Government of India does not get any benefit of this nature.

b. In addition, a CEO in the private sector draws sundry allowances such as club memberships, credit cards, books, entertainment, etc., which is nearly 55% of his basic salary. As regards the Secretary, he gets some medical benefits, LTC, etc., which comes to 16% of the Basic salary.

c. The annual increase in the compensation to a CEO is 30% to 35%, while the increase for Secretary is 8-9%.

d. An HoD of a private sector draws about 40% lesser than his CEO, whereas in Government the differential between Secretary and a Joint Secretary is very little.

e. In the private sector, performance criterion are well laid down and salaries are revised annually. Those performing better than others are given accelerated increments and promotions.

f. The number of holidays in the private sector are far less than that in Government. Further, the duration of working hours or working days is much greater in the private sector, as mostly there are no standard hours of work.

g. Salaries are deliberately structured in the private sector so that an employee is able to save on income tax.

In view of above, the Commission observed that the "yawning gap" between the salaries and benefits available in the private sector and the Government should be addressed and bridged, but it may not be possible as there are vital differences between the two sectors. Security of tenure in the Government is a distinct advantage compared to the private sector. Similarly, unlike the Government, profitability considerations continue to be the driving force in the private sector. Even so, some relative parity needs to be maintained.

vi. In order to ensure that Central Government employees do not suffer from increase in the cost of living due to non-revision of salaries for a decade or more, the periodicity of pay-revision was recommended to be for 10 years. It has further been recommended that there should be a conversion of Dearness Allowance (DA) into Dearness Pay (DP), which should be counted for all purposes, every time the cost of living index goes up by 50%.

vii. Principles for Pay Determination –In light of the trends being identified in the twenty-first century, the basic criterion considered by the 5^{th} CPC for pay-determinations were:-

a. Inclusiveness – implies that the broad patterns of pay scales that have been adopted for the civil services will be uniformly applied everywhere, especially in areas where some autonomy has been provided.

b. Comprehensibility – implies that the pay scale should normally give a total picture of the emoluments of a post, rather than being fragmented into a number of allowances.

c. Adequacy – the emoluments should be adequate with respect to the skills, educational qualifications, experience, duties and responsibilities.

d. Fair comparison – implies fair comparison across cadres, departments, state governments, public sectors enterprises, private sectors and even internationally.

e. Intrinsic value of a job – this is the summation of all the factors that one can think of in relation to the job

f. Linking smaller entities to larger ones – the isolated posts to be identified and to place them in a cadre.

g. De-link pay from position in the hierarchy – effort has been made to relieve stagnation without unduly upsetting the hierarchy.

h. Justice to all Central Government employees – the need to be evenhanded in justice towards the lowest and highest paid functionaries.

i. Policy on allowances – it has been recognized that the allowances should be more liberal and the compensation for the loss incurred is raised substantially.

j. Capacity to pay – Above all principles, the capacity of the Government to pay is the uppermost.

2.2 Concept of Dearness Allowance and Recommendations of 5th CPC : IDA and CDA patterns

2.2.1 Dearness Allowance is compensatory payment for erosion in real value of salaries resulting from price increase. CPSEs are largely following Industrial Dearness Allowance (IDA) pattern scales of pay and in some cases are also following Central Dearness Allowance (CDA) pattern scales of pay. Government policy relating to pay scales and pay pattern is that all employees of the CPSEs should be on Industrial Dearness Allowance (IDA) pattern and related scales of pay. Instructions were issued by DPE in July, 1981 and July, 1984 to all the Administrative Ministries that as and when a new CPSE is created or established, IDA pattern and related scales of pay should be adopted ab-initio. CDA pattern pay-scales were applicable to some of the clerical staff, unionized cadres and executives of 69 CPSEs, who were on the rolls of these companies upto 31.12.88 and were in receipt of CDA pattern pay-scales during that time.

2.2.2 A High Power Pay Committee (HPPC) headed by Justice R. B. Mishra, was appointed by the Government in pursuance of the Supreme Court directions dated 12.3.86, which submitted its report to the Government on 24.11.88. Its recommendations have been implemented in these CPSEs. In pursuance of the Supreme Court order dated 3.5.90 read with the subsequent order dated 28.8.91, IDA pattern and related scales of pay have been introduced in these CPSEs with effect from 1.1.1989. Out of 69 CPSEs (covered under HPPC), at present there are only 61 CPSEs, which are following both CDA and IDA pattern scales of pay. As per the recommendations of the High Power Pay Committee and Supreme Court directives thereon, the employees following CDA pattern of scales of the Central Public Sector Enterprises would get pay revision only as and when similar changes are effected for the Central Government employees.

2.2.3 Recommendations of 5th CPC with respect to Dearness Allowance

The Fifth Central Pay Commission recommended uniform neutralization of DA at 100% to Central Govt. employees at all levels; conversion of DA into Dearness Pay each time the CPI increases by 50% over the base index with Dearness Pay counting for all purposes including retirement benefits and Dearness Allowance including Dearness Pay being paid net of tax. The Commission did not favour the option of employing separate indices for each category of employee because of the sheer impracticality of the task and, therefore, recommended using the 12 monthly average of All India CPI(IW) with base 1982 for calculating the DA.

The Fifth Central Pay Commission observed that for the purpose of estimation of AICPI (IW) by Labour Bureau, the coverage of Industrial Workers extended to 70 selected centres in seven sectors namely Factories, Mines, Plantations, Railways, Public Motor Transport Undertakings, Electricity Generation and Distribution Establishments, and Ports and Docks. A working class family was defined as one, where one of the members worked as a manual worker in any of the seven sectors and which derived one half or more of its income through manual work defined on the basis of classification of occupations and jobs involving sufficient physical labour but at the same time not requiring much of educational background in the field of general, scientific, technical and other areas. The Fifth Central Pay Commission also observed that in the Family Living Survey, which is the basis for estimation of the AICPI (IW), the design of the monthly family income classes is open ended, ranging from less than Rs. 750 to Rs. 5000 and above. The working class family Income and Expenditure Survey (1999-2000) for Delhi points to the fact that 53% of the families fall in the income class less than Rs. 5000 per month, which is less than the minimum earning of a Government employee in Delhi. This implies that a composite price index generated from this survey may not adequately represent the price index for Government employees. This is because consumption pattern of the Government employee's vis-à-vis the working class family sample selected in the Family Living Survey would be considerably different.

2.2.4 Industrial Dearness Allowance (IDA)

i. Originally, the Industrial Dearness Allowance Scheme was 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 per point shift in AICPI beyond 800 w.e.f 1.1.89. In 1992, the Industrial Dearness Allowance scheme underwent a revision on the analogy of a scheme of percentage neutralization as it existed in Government, which varied at different levels of basic pay (graded neutralization of cost of living). DA was paid for increase in AICPI above quarterly index average of 1099 (AICPI as on 1.1.92) subject to minimum of Rs 2/- per point shift in AICPI quarterly average beyond 1099. With effect from 1.4.97, graded neutralization has been replaced with 100% neutralization of cost of living as in the case of Central Government employees. DA is paid for increase in AICPI above quarterly index average of 1708 (AICPI as on 1.1.97).

ii. Thus, as on date, the salient features of IDA are as under :

- Percentage Neutralization – 100%.
- All India Consumer Price Index for Industrial Workers (AICPI(IW)) series with base 1960 used for calculating DA. Derived from the 2001 series by multiplying by a conversion factor of 4.63 and 4.93.
- DA installments to be released every quarter i.e. 4 times a year w.e.f 1st January, 1st April, 1st July and 1st October.
- DA to be paid for increase in AICPI above quarterly index average of 1708.
- The percentage increase in the quarterly average of the AICPI for the period ending February, May, August & November over index 1708 is to be taken upto one decimal point.

2.2.5 Central Dearness Allowance (CDA): Central Dearness Allowance applies in the case of 58 CPSEs, which have employees both on CDA and IDA pattern of scales.

i. The salient features of CDA are as under :

- Percentage Neutralization – 100%.
- All India Consumer Price Index for Industrial Workers (AICPI(IW)) series with base 1982 used for calculating DA. Derived from the 2001 series by multiplying by a conversion factor of 4.63.
- 12 monthly average of AICPI taken.
- With effect from 1.7.96 for increase in 12 monthly average of AICPI over 12 monthly average as on 1.1.96 i.e. 1510 (1960=100).
- Revised every six months.

ii. Dearness Allowance (% of basic pay) under both CDA and IDA systems from 1.1.97 onwards is at **Annex-2.4.**

2.3 Report of Justice Mohan Committee (1999) :

2.3.1 Justice Mohan Committee appointed in 1997 gave its report in 1999 after taking into account the recommendations of the 5th Central Pay Commission. Based on the said recommendations, the Government of India revised the pay scales of the Executives of the Board & below Board level with effect from 1.1.97. The extracts of the Government guidelines in that behalf issued vide DPE OM No. 2(49)/98-DPE(WC) dated 25.06.99 is at **Annex - 2.5**. Payment of perquisites & allowances could be upto a maximum of 50% of the basic pay. Payments over & above the ceiling of 50 percent are required to be entirely in the nature of Performance Related Payments, which should not exceed 5 percent of the distributable profits in an enterprise. Clarification were issued vide DPE OM No. 2(15)/2000-DPE (WC)-G.L.XIX dated 27.03.2000, **Annex - 2.6.**

2.3.2 Relativities: In the past, the pay of the Chief Executive Officers of Schedule A enterprises were higher than that of posts equivalent to Secretary to the Government of India. The ratio between the pay of a Chief Executive Officer of a Schedule A enterprise and that of a post equivalent to Secretary to the Government was 1.19:1 as on 1.1.87 and dropped to 0.96: 1 by 31.12.91, mainly due to lower level of dearness allowance neutralization for Public Sector Enterprises executives. On 1.1.92, the pay scales for Public Sector Enterprises were revised and the ratio improved to 1.28:1. By 31.12.95 it had come down to 1.19:1, again primarily due to differences in dearness allowance neutralization. New pay scales for government employees were introduced on 1.1.96. The Committee has noted these changes and in particular the fact that, the pay of Chief Executive Officers of Public Sector Enterprises was, historically, higher than that of the equivalent posts in Government.

2.3.3 Taking all this into consideration and after careful deliberation, the Committee recommended a relativity of 1.12:1 between the pay of Chief Executive Officers of Schedule A public sector enterprises and that of a Secretary level officer of the Government of India. In so far as emoluments at entry level are concerned, the Committee recommended that the current parity, namely, a near 1:1 parity be preserved between the executives in the public sector and the Government of India. In regard to the intermediate scales of pay, the Committee has given particular attention to calibrating the relativity in steps so that there are few anomalies and there is a sense of progression in the career path of the Public Sector Enterprise executives.

2.3.4 Decisions of Government, based on Justice Mohan Committee recommendations:

(A) Profit making CPSEs

Most of the profit making companies, which include the Navratna and Miniratna companies, are on IDA pattern pay structure, last revised w.e.f. 1.1.1997. However, 58 CPSEs have employees both on IDA and CDA pattern pay structure. Pay structure of employees on CDA pattern has been last revised w.e.f. 1.1.1996. 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 scales of pay for the executives holding posts at and below the Board level and non-unionized supervisors, strictly in accordance with these guidelines.

(B) Loss making CPSEs

Most of the loss making and BIFR referred companies are on CDA pattern pay structure. CPSEs, which did not make profit during the last three years viz. 1996-97, 1997-98 and 1998-99 or had incurred net loss during any of these financial years would also be allowed to adopt these scales of pay of their executives holding posts at and below the Board level and non-unionized supervisors with the approval of the Government i.e. the administrative ministry acting in consultation with the DPE, provided they give an estimate as to how resources would be generated by them to meet the extra expenditure.

(C) BIFR referred CPSEs

In respect of sick enterprises 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.

2.3.5 Departure by certain CPSEs from Pay Revision guidelines and subsequent directions of the Union Cabinet.

i. There have been departure from Pay Revision guidelines with respect to pay-scales and/or increments in around 36 % (16 out of 44) of respondent profit-making companies. These companies have adopted either scales higher than those prescribed by DPE and/or have adopted percentage increments instead of fixed increments. These deviations were more common in the Navratna companies, the figure being 83 % (5 out of 6) of respondent Navratna companies as compared to 35% (7 out of 20) of respondent Miniratna companies and 28 % (4 out of 14) of respondent other profit-making companies.

ii. Substantial deviation is seen with regard to implementation of the guideline of performance related payments being subject to the ceiling of 5% of distributable profits. In the year 2003-2004, the performance linked payments exceeded the afore-mentioned prescribed ceiling in 37 % of respondent companies (15 out of 40), in the year 2004-2005, the figure was 44 % of respondent companies (19 out of 43) and in the year 2005-2006, the figure was 45 % of respondent companies (21 out of 46).

iii. Government's guidelines with regard to departure from Pay Revision guidelines dated 6.06.2001 are at **Annex - 2.7.**

2.4 COMPENSATION SCENARIO

2.4.1 The Prevailing Concepts

In simple terms, the compensation includes everything an employed individual receives in return for his work, which mainly comprises of salaries, allowances, incentives & miscellaneous fringe benefits. In a comprehensive way, the total compensation system includes direct compensation, indirect compensation, financial and non-financial perquisites and benefits, and intrinsic and extrinsic rewards, etc. In today's terminology, it is called "**Cost to the Company**" (CTC). The competitive organizations design the compensation system in such a way that it results in enhanced performance and ensure the loyalty of the executives to remain with the company. In general terms, the compensation package or comprehensive pay package broadly includes the following components:-

i) Salary

Salary comprises of basic pay in pay-scale linked to grade, Dearness Allowance (DA), personal pay, special pay, special personal pay etc.

ii) Performance Related Payments

Performance related payments generally consist of payments linked to performance like incentives and rewards. Performance may be performance of the organization, business unit, department, team and / or individual. As per existing guidelines, total performance related payments whether linked to performance of the organization, team or individual should not exceed 5% of the distributable profits of the organization. While performance related payments in CPSEs are linked to performance of the organization and that of unit / team, a few CPSEs have already introduced payment for individual performance.

iii) Allowances & Reimbursements

Allowances & Reimbursements would include various allowances and reimbursements like conveyance / transport allowance or reimbursement, shift allowance, newspaper / professional literature / magazine reimbursement or HRD allowance, entertainment allowance, furnishing allowance, city compensatory allowance, canteen allowance / reimbursement, washing allowance, leave travel concession (LTC), facility of leave encashment, reimbursement for membership of professional bodies and clubs , internet subscription reimbursement etc.

iv) Social Amenities & Benefits

Social amenities and benefits generally include facilities for education of children, housing facilities like company accommodation in townships, company leased accommodation, house rent allowance (HRA), facility of medical attendance and treatment whether in company owned, government, empanelled and / or private hospitals, liveries and various group insurance schemes for which premium is borne by the organization.

v) Retirement Benefits

Retirement benefits would generally include Provident Fund, Gratuity, social security schemes like Pension Scheme and post-retirement medical benefits / facilities. At present, however, several CPSEs do not have pension schemes and/ or medical benefits schemes.

vi) Others

As regards perquisites and allowances in CPSEs, DPE has specified that the same should not exceed 50% of basic pay. It has also clarified as to what would be taken to be outside the prescribed ceiling of 50%.

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