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Government of India

Ministry of Heavy Industries & Public Enterprises

Department of Public Enterprises

Public Enterprises Bhawan
Block No.14, CGO Complex, Lodi Road
New Delhi, the 26th November, 2008.

OFFICE MEMORANDUM

Sub: Board level and below Board level executives and Non Unionised Supervisors in Central Public Sector Enterprises (CPSEs) -revision of scales of pay w.e.f. 01.01.2007.

The last revision of the scale of pay of below Board level and Board level executives and non-unionised supervisors, in Central Public Sector Enterprises was made effective from 1.1.1997 for a period of ten years. As the next pay revision fell due from 1.1.2007, the Government had set up a Pay Revision Committee (2nd PRC) under the chairmanship of Justice M. Jagannadha Rao, Retd. Judge of Supreme Court of India, to recommend revision of pay and allowances for above categories of employees following IDA pattern of pay scales. The Government after due consideration of the recommendations of 2nd Pay Revision Committee, have decided as follows:-

1. **Revised Pay Scales**:- The revised Pay scales for Board and below Board level executives would be as indicated in Annex.-I.

2. **Fitment Benefit:**

(i) A uniform fitment benefit @ 30%, on basic pay plus DA @ 68.8% as on 01.01.2007 would be provided to all executives. The aggregate amount would be rounded off to the next ten rupees and pay fixed in the revised pay scale.

(ii) 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.

(iii) Where executives drawing pay at two or more consecutive stages in an existing scale get bunched, then, for every two stages so bunched, benefit of one increment shall be given.

3. **Affordability for implementation of pay revision**: - The revised pay scales would be adopted, subject to the condition that the additional outgo by such revision for a period of 12 months should not result in more than 20% dip in profit before tax (PBT) for the year 2007-08 of a CPSE in respect of executives as well as non-unionised supervisory staff taken together in a CPSE. CPSEs that cannot afford to pay full package, can implement with either part PRP or no PRP. These CPSEs

may pay the full package subsequently, provided the dip in the profit (PBT) is fully recouped to the original level.

4. The CPSEs, which are not able to adopt revised pay scales (2007), may give an increase on the basic pay plus DA drawn in the pre-revised scale as on 01.01.2007, with a uniform lower fitment of 10% or 20%, depending upon their affordability, with the approval of their Ministry/ Department.

5. **Increment:** Annual increment will be at the rate of 3% of the revised basic pay. Stagnation increment and increment for pay fixation on promotion will be as per Annex.-II (A).

6. **Dearness Allowance:** 100% DA neutralization will be adopted for all the executives and non-unionised supervisors, who are on IDA pattern of scales of pay, w.e.f. 01.01.2007. Thus, DA as on 01.01.2007 will become zero with link point of All India Consumer Price Index (AICPI) 2001=100, which is 126.33 as on 01.01.2007. The periodicity of adjustment will be once in three months, as per the existing practice for these categories. The quarterly DA payable from 01.01.2007 will be as per new DA scheme as given in Annex.-II (B).

7. **House Rent Allowance:** The House Rent Allowance to the employees of CPSEs will be at the following rates.

Cities with population	Rates of HRA
50 lakhs and above	30% of Basic Pay
5 to 50 lakh	20% of Basic Pay
Less than 5 lakh	10% of Basic Pay

8. **Leased Accommodation:** The Board of Directors may decide the level of executives, who will be provided company leased accommodation and the size, type and locality of such accommodation. For purposes of CTC, 30% of basic pay may be considered as expenditure on Housing.

9. **City Compensatory Allowance:** The City Compensatory Allowance stands dispensed with.

10. **Other Allowances/ Perks:** The Board of Directors will decide on the allowances and perks admissible to the different categories of the executives subject to a maximum ceiling of 50% of the Basic 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 at replacement cost for the purpose of computing the perks and allowances. The following allowances will, however, be outside the purview of ceiling of 50% of the Basic Pay:

i) North-East Allowance limited to 12.5% of Basic Pay.
ii) Allowance for Underground Mines limited to 15% of Basic pay.

iii) Special Allowance upto 10% of Basic Pay for serving in the difficult and far flung areas as approved by concerned Ministries in consultation with the Department of Public Enterprises from time to time.

iv) Non Practicing Allowance limited to 25% of Basic Pay for Medical Officers.

11. **The admissibility, quantum and procedure for determination of Variable Pay/Performance Related Pay** has been given in Annex.-III.

12. **Long Term incentives, introduction of cost to the company (CTC) concept in CPSEs, Pay of Executives on deputation / transfer to CPSEs, Pay of Government officers on deputation to CPSEs and Superannuation Benefits** will be as per Annex.-IV.

13. **Gratuity**: The ceiling of gratuity of the executives and non-unionised supervisors of the CPSEs would be raised to Rs. 10 lakhs with effect from 1.1.2007.

14. **Company Car**: The company car would be provided to the Directors and CMDs. The Executive Directors/ General Managers heading the projects of CPSEs may also be provided with the company car. For purposes of CTC, the expenditure on car provided should be excluded.

15. **Pay Revision in respect of non-unionised supervisory staff:** The revision of scales of pay for non-unionised supervisory staff may be decided by the respective Board of Directors of the CPSEs.

16. **Financial Implications:** The CPSE concerned has to bear the additional financial implications on account of pay revision from their own resources and no budgetary support will be provided.

17. **Issue of Presidential Directive, effective date of implementation and payment of allowances etc.:** 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 Directive. 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/ Department for approval. The concerned Administrative Ministry with the concurrence of its Financial Advisor will issue the Presidential Directive. A Copy of the Presidential Directive issued to the CPSEs concerned may be endorsed to the Department of Public Enterprises.

18. **Issue of instructions/clarifications and provision of Anomalies Committee:** The Department of Public Enterprises will issue necessary instructions /clarifications wherever required, in implementation of the above decisions. An Anomalies Committee consisting of the Secretaries of Department of Public Enterprises, Department of Expenditure and Department of Personnel & Training has been constituted to look into further specific issues / problems that may arise in implementation of Government's decision on the recommendations of 2nd PRC. Any

anomaly should be forwarded with the approval of Board of Directors to the administrative Ministry/ Department, who will examine the same and dispose off the issue. However, if it is not possible for the Administrative Ministry to sort out the issue, the matter may be referred to DPE, with their views, for consideration of the Anomalies Committee.

Tripathi

(K.D. Tripathi)
Joint Secretary to the Government of India

Administrative Ministries/ Departments (Secretary by name) of the Government of India.

1. Copy to:

Chief Executives of CPSEs.

2. Copy also to:

i) Financial Advisors in the Administrative Ministry/Department.
ii) C & AG of India, 10, Bahadur Shah Zafar Marg, New Delhi.
iii) Department of Expenditure, E-2 Branch, North Block, New Delhi.
iv) Department of Personnel & Training, North Block, New Delhi.
v) Chairman, PESB/Member(s), PESB/Secretary, PESB, CGO Complex, New Delhi.

3. Copy also to:

Prime Minister Office, (Shri Kamal Dayani, Director)

4. Copy also to:

i) Cabinet Secretariat (Shri C.S. Kedar, Joint Secretary)
ii) Cabinet Secretariat (Shri K. L. Sharma, Director)

5. Copy also to:

i) PS to Minister (HI&PE).
ii) PS to MoS (HI&PE).
iii) PS to Secretary(PE).
iv) AS & FA (PE).
v) All officers of DPE.
vi) NIC Cell, DPE with the request to upload the O.M. on the DPE website.

(P.J. Michael)
Under Secretary

Annex. I
(Para 1)

REVISED SCALES OF PAY OF BOARD AND BELOW BOARD LEVEL EXECUTIVES IN CPSEs

1	2	3
Grade	**Existing**	**Revised**
E0	6550-200-11350	12,600-32,500
E1	8600-250-14600	16,400-40,500
E2	10750-300-16750	20,600-46,500
E3	13000-350-18250	24,900-50,500
E4	14500-350-18700	29,100-54,500
E5	16000-400-20800	32,900-58,000
E6	17500-400-22300	36,600-62,000
E7*	18500-450-23900	43,200-66,000
E8*	20500-500-26500	51,300-73,000
E9*	23750-600-28550	62,000-80,000
Grade	**Existing**	**Revised**
Director (D)	18500-450-23900	43200-66,000
CMD (D)	20500-500-25000	51300-73,000
Director (C)	20500-500-25000	51300-73,000
CMD (C)	22500-600-27300	65,000-75,000
Director (B)	22500-600-27300	65,000-75,000
CMD (B)	25750-650-30950	75,000-90,000
Director (A)	25750-650-30950	75,000-1,00,000
CMD (A)	27750-750-31500	80,000-1,25,000

***E7 only in CPSEs of Schedule A, B & C.**
***E8 only in CPSEs of Schedule A & B.**
***E9 only in CPSEs of Schedule A.**

Annex II(A)
(Para 5)

i) **Stagnation Increment:** The rate of stagnation increment will be 3% of the revised basic pay and executives will be allowed to draw maximum three stagnation increments, one after every two years, upon reaching the maximum of the revised pay scale provided the executive gets a performance rating of "Good" or above.

ii) **Pay Fixation on Promotion**: One notional increment equal to the increment being drawn by the executive in the pay scale, before such promotion would be granted and pay fixed in the promoted pay scale and rounded off to the next multiple of Rs. 10.

Annex II(B)
(Para 6)

Rates of Dearness Allowance for the employees of CPSEs following IDA pattern

Date of Dearness Allowance	Rate of Dearness Allowance (in percentage)
01.01.2007	0
01.04.2007	0.8
01.07.2007	1.3
01.10.2007	4.2
01.01.2008	5.8
01.04.2008	6.3
01.07.2008	9.2
01.10.2008	12.9

Annex III
(Para 11)

i) **Variable Pay/Performance Related Pay:**

The PRP has been directly linked to the profits of the CPSEs/units and performance of the executives. The percentage ceiling of PRP progressively increasing from junior level to senior level executives, expressed as percentage of pay are indicated below.

Grade	Percentage of Basic Pay
E-0 to E-1	40
E-2 to E-3	40
E-4 to E-5	50
E-6 to E-7	60
E-8 to E-9	70
Director (C&D)	100
Director (A & B)	150
CMD(C&D)	150
CMD(A & B)	200

For Non Unionised Supervisors, PRP as percentage of Basic Pay will be decided by the respective Board of Directors in a CPSE.

The above PRP will, however, be on the following conditions:

a) The PRP would be payable at 100% eligibility levels in case the CPSE achieves the Memorandum of Understanding (MoU) rating as "Excellent". If the CPSE's MoU is rated as "Very Good", the eligibility of PRP would be 80% of the Basic Pay. In respect of "Good" and "Fair" ratings, the eligibility levels would be 60% and 40% respectively. However, there will be no PRP irrespective of the profitability of the CPSE, in case it is rated as "Poor".

b) The PRP would be based on physical and financial performance and will come out of profits of the CPSE. 60% of the PRP will be given with the ceiling of 3% of Profit before Tax (PBT) and 40% of PRP will come from 10% of incremental profit. Incremental profit would mean the increase in profit as compared to previous year's profit. The total PRP, however, will be limited to 5% of the year's PBT, which will be for executives as well as non unionized supervisors in a CPSE. The PRP for the year will be calculated latest by December of the following year based on the CPSE's performance as per audited accounts. The proposed PRP scheme will begin from the financial year 2007-08. There will be no incremental profit for the year 2007-08 as it will be the first year of introduction of PRP scheme. The amount available for PRP for above will be 3% of PBT of 2007-08. For the purpose of calculating the incremental profit, the starting year would be 2007-08. The Variable Pay component coming from incremental profit for the first time will be after knowing the results of CPSE's performance for the year 2008-09. Thus, this portion of PRP will be payable w.e.f. 2009-10.

ii) **Memorandum of Understanding (MoU):** Each CPSE would be required to sign the MoU with its parent Ministry/ Department/holding company. The MoU rating will form the basis of PRP with all the Key Result Areas identified in the MoU. No PRP will be eligible for the CPSEs that do not enter into MoU.

iii) **Performance Management System (PMS):** Each CPSE would develop a robust and transparent Performance Management System. 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". Some CPSEs already have a PMS and others will have to frame a robust and transparent PMS to be able to pay PRP. However, CPSEs which do not have a robust and transparent PMS till date may put in place a robust and transparent PMS by 31.03.2009. For the period 01.01.2007 and till a PMS is in place not later than 31.03.2009, the executives will be governed by the existing guidelines of DPE on PRP, which is limited to 5% of distributable profit in an enterprise.

iv) **Remuneration Committee:** Each CPSE would have Professional Boards with Independent Directors. CPSE to constitute a Remuneration Committee headed by an Independent Director. CPSE will not be eligible for PRP unless the Independent Directors are on its Boards. Remuneration Committee will decide the annual bonus/variable pay pool and policy for its distribution across the executives and Non Unionised Supervisors, within the prescribed limits.

Annex IV
(Para 12)

i) **Long Term Incentives:**
All CPSEs would formulate Employees Stock Option Plan (ESOP) and 10% to 25 % of the PRP should be paid as ESOPs. In order to see that Enterprises are able to operate ESOPs scheme, the concerned Administrative Ministry/Department should encourage the CPSEs coming under its control to get them listed on the Stock Exchanges.

ii) **The concept of cost to company (CTC) in CPSEs:**
The concept of cost of Company would be introduced in all the CPSEs. The entire cost of an executive is explicitly made known by the CPSEs adopting the system of CTC for the purpose of reporting executive compensation. Pay, allowances, perquisites and retirement benefits should all be monetized and included while reporting the cost of manpower to the CPSE.

iii) **Pay etc. of Executives of CPSEs, on deputation / transfer:** 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.

iv) **Pay etc. of Government officers on deputation to CPSEs:** The government officers, who are on deputation to the CPSE, 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.

v) **Superannuation Benefits:** CPSEs would be allowed 30% of Basic Pay as Superannuation benefits, which may include Contributory Provident Fund (CPF), Gratuity, Pension and Post-Superannuation Medical Benefits. 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 will be decided based on the returns from the schemes to be operated. The Pension and Medical benefits can be extended to those executives, who superannuate from the CPSE and have put in a minimum of 15 years of service in the CPSE, prior to superannuation.

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