The Second Pay Revision Committee (PRC) Central Public Sector Enterprises CPSEs

AN

IRTSA

PRESENTATION

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INTRIDUCTION

- CPSEs were
- classified into ‘strategic’ and ‘non-strategic’.
- Strategic CPSEs were identified in the areas of

(a) Arms & Ammunition and the allied items of defence equipments, Defence air-crafts and warships;

(b) Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries); and

(c) Railway transport.

- All other CPSEs were considered as non-strategic

Policy of Government on CPSEs

i) To devolve full managerial and commercial autonomy to successful, profit making companies operating in a competitive environment

ii) Generally , profit-making companies will not be privatized

iii) Every effort will be made to modernize and restructure sick public sector companies and revive sick industry

iv) Chronically loss making companies will either be sold off, or closed, after all workers have got their legitimate dues and compensation

v) Private industry will be inducted to turn-around companies that have potential for revival

vi) Privatization revenues will be used for designated social sector schemes

vii) Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

Performance status of CPSEs

- CPSEs has grown from Rs.29 crore in 5 enterprises as on 1.4.1951 to Rs.4,21,089 crore as on 31.3.2007.
- In 2006-07, there were 247 Central Public Sector Enterprises in India, as compared to 236 in 1997-98.
- The capital employed has increased from Rs. 2,49,855 Crores in 1997-98 to Rs.6,65,124 Crores in 2006-07 recording a growth of 266%.
- Turnover increased to Rs.9,64,410 Crores in 2006-07, from Rs. 2,76,002 Crores in 1997-98 recording a net worth growth of 349%.
- Net profit has increased by 599% in 2006-07 in comparison to 1997-98 (Rs. 13582 Crores), and is currently to the tune of Rs. 81550 Crores.
- Number of loss incurring CPSEs, it has come down from 100 in 1997-98 to 59 in 2006-07.

Financial Ratios of CPSEs

- Ratio between PBDITEP and C.E has increased from 21.24 in the year 1997-98 to 26.77 in the year 2006-07.
- Ratio between net profit to C.E has increased from 5.44 to 12.26 in the same period.
- There are 156 profit making CPSEs and 58 loss making CPSEs.

(PBDITEP- Profit before Depreciation, Interest, Tax, Extra ordinary item, and prior period adjustment

C.E – Capital Employed)

Contribution to the economy

- The share of output of CPSEs in GDP at market price stood at 8.23 per cent in 2006-07.
- Total investment in the year 2006-07 Rs20800.76 crores.
- Taxes and duties paid by CPSEs in the year 2006-07 Rs.126927.54 crores.

Human Resources

- Out of around 16 lakhs manpower (as on 31.03.07) deployed in CPSEs, about 3.65 lakh are in the supervisory and managerial cadres which represent about 22.12% of total manpower.
- The average of Payment to employees as percentage of Cost of production is around 6.2%;
- Number of employees has reduced from 19.59 lakhs in 1997-98 to 16.14 lakhs in 2006-07, which is a reduction of 17.61%.
- Total emoluments have increased from Rs.25,385 crores in 1997-98 to Rs.52,574 crores in 2006-07, which is an increase of 107%.
- Per capita emoluments have increased from Rs.1,29,582 in 1997-98 to Rs.3,25,738 in 2006-07, which is an increase of 151%.
- The Emoluments as percentage of Turnover has decreased from 9.19% in 1997-98 to 5.45% in 2006-07.

Pay Revision Committees (PRC)

- The First Pay Revision Committee was appointed vide Resolution dated 10th December 1996, under the Chairmanship of Mr. Justice S. Mohan (Retd Judge, Supreme Court) with three Members and a Member Secretary, to examine the structure of pay, allowances, perquisites and benefits for the Board level, Below Board Level Executives & Non-Unionized Supervisors.
- The 2nd Pay Revision Committee has been constituted by the Department of Public Enterprises (DPE) vide Resolution dated 30th November 2006, under the Chairmanship of Mr. Justice M. Jagannadha Rao, with 4 Members and a Member Secretary.

PROCEDURE FOLLOWED BY SECOND PRC

- Obtained feedback in a structured manner through Questionnaires.
- The PRC held Thirty Nine sittings.
- 30 CPSEs, 38 Officers' Associations and 20 other Agencies/Department have made presentations before the PRC.
- **Held Interaction with**
- The Sixth Central Pay Commission constituted for pay revision of central government employees.
- Board of Industrial & Financial Restructuring (BIFR) etc. Managements of CPSEs

PARADIGM SHIFT

- With the entry of the private sector and MNCs in Oil, Power, Coal, Heavy Engineering, Power equipment, Telecommunication, and International trade, CPSEs have become hunting ground for talent by private companies, which offer several times higher compensation than what CPSES offer particularly at the middle and higher levels of management.
- Apart from this, with increasing globalization, talented Indians find job opportunities not only in India but also in several countries abroad

CPSEs not a better career option for Young talented

- Compensation levels in CPSEs are far inferior to those available in private sector and MNCs.
- In an expanding job market, job security offered by CPSEs is no more relevant to bright individuals, who are hopping from job to job looking for better prospects.
- With changing social values jobs in civil services and CPSEs no more enjoy the prestige they used to enjoy in the yore.

Observations of the Sixth Pay Commission

- “PSUs, being commercial undertakings which are required to function in a competitive environment and have the commercial objective as the predominant objective, a comparison of salaries between the public sector and the Government may not be appropriate as it would not be a comparison between similarly placed entities.”

NO COMPARISON BETWEEN THE PAY STRUCTURE OF GOVT EMPLOYEES AND EMPLOYEES OF PUBLIC SECTOR

- There are variations in the job content and conditions of service in the public sector and the Government.
- The objectives with which the PSUs have been set up are not comparable with that of the Government.
- The autonomy granted to PSUs in the matter of determining their pay scales does not render an equal comparison possible.

No Parity with Govt. employees

- In the light of above analysis and the observations of the Sixth Pay Commission, the Committee is of the view that the principle of parity between PSEs and the Government has to be given up.

MANPOWER REDUNDANCY

- PRC observed that CPSEs have manpower far in excess of their needs.
- Time bound promotions have been given without reference to need for higher-level positions or performance of the individuals.
- Companies should make proper assessment of their manpower requirement at different levels, consistent with their business requirement, duly benchmarking their manpower cost and productivity with the best available in the respective sectors in private and multinational companies.

VOLUNTARY RETIREMENT VS COMPULSORY RETIREMENT

- Very often the VRS schemes have been taken advantage of by more talented people who after taking VRS from CPSEs have found lucrative jobs in private sector.
- CPSEs have not been able to get rid of poorly performing executives under VRS.
- Committee proposed that VRS schemes be replaced by Compulsory Retirement Schemes (CRS)

RECOMMENDATIONS

of

Second
Pay Revision Committee

No relativity with Govt. employees

- The Committee recommends that the compensation package for executives of CPSEs should be decided independent of what is proposed for the government servants.
- Progressively executive compensations in CPSEs should be aligned with their counter parts in the Private Sector.
- The Committee is accordingly recommending compensation package for the executives of CPSEs independent of the recommendations made by the Sixth Central Pay Commission for the Central Government Employees.

Categorization and Classification of CPSEs

- CPSEs be grouped into 5 Categories namely A+, A, B, C and D
- Based on the Total Income, Size of Manpower and Geographical spread of their Operations for the purpose of deciding the ‘Fixed’ component of the package.

No special status for Navratnas

- The status of Navratna or Miniratna of a CPSE has no direct bearing on the compensation structures. This classification also cuts across sectors and does not provide for sectoral specificity.

ON PAR WITH PRIVATE COMPANIES AND MNCs

- PRC recommended that once the CPSEs achieve performance standards prevailing in private companies and MNCs in their respective sectors, they should be able to align the compensation packages with such private companies & MNCs.

Fixed Pay

- The Committee recommended **'Fixed Pay'** with two sub-components

1. **Basic Pay** and
2. **Risk Pay.**

- All CPSEs that are making cash profits and will not incur cash loss by implementing these recommendations should pay the Basic Pay, HRA and linked statutory contributions to its executives.
- Risk Pay, other allowances, and PRP will be paid based on the financial position of the CPSEs.

Affordability

- For the purpose of deciding affordability, it is proposed that by implementing these recommendations, a dip in profit for the year 2007 – 08 of a CPSE should not exceed 20% in respect of executives.

If Entire package is not possible in single stroke

Stage 1 - Basic Pay + HRA + Statutory contributions

Stage 2 - Basic Pay + Risk Pay + HRA + Statutory contributions

Stage 3 - Basic Pay + Risk Pay + HRA + Statutory contributions +Part allowances + Part PRP

Stage 4 - Full package

- Before implementing the next stage, the dip in the profit should be fully recouped to the original level

Separate

Basic pay & Risk Pay

for individual five categories

FOR LOWEST SCALE - E 0

	Pre revised scale E0	Revised	Risk pay	Total Fixed Pay	
				Minimum	Maximum
A+	6550-200-11350	14500-25000	1300	15800	26300
A	6550-200-11350	13500-23000	1300	14800	24300
B	6550-200-11350	12900-22100	1250	14150	23350
C	6550-200-11350	12200-20900	1200	13400	22100
D	6550-200-11350	11500-19800	1100	12600	20900

FOR HIGHEST SCALE - CMD

	Pre revised scale CMD	Revised	Risk pay	Total Fixed Pay	
				Minimum	Maximum
A+	27750-750-31500	100000 fixed	25000	125000	125000
A	27750-750-31500	80000 fixed	20000	100000	100000
B	27750-650-30950	75000 fixed	15000	90000	90000
C	22500-600-27300	65000 fixed	10000	75000	75000
D	20500-500-25000	55000 fixed	10000	65000	65000

Different fitment benefits

	Category of CPSE				
	% benefit on the existing basic pay+DA				
Grade	A+	A	B	C	D
EO to E3	30	20	15	9	3
E4 to E6	37	25	19	12	6
E7 to E9	42	30	23	13	9
Director	Fixed Pay				
CMD	Fixed Pay				

Fitment Method

A		B		C		D
Basic Pay + Stagnation increments as on 1.1.07 (Personal Pay / Special Pay not to be included)	+	Correspo nding DA of 68.8% as on 1.1. 07	+	Graded fitment benefit as per the Table above on (A+B)	=	Aggregate amount rounded off to the next Rs.10

Variable Increment

- The Committee recommended that annual increments may range from 2% to 4% of the Basic pay depending on the performance of the individual as determined by Performance Appraisal System and the capacity of the CPSE to pay.

Dearness Allowance

- The Committee did not recommend any change in the system of paying the Dearness Allowance.
- DA as on 01.01.2007 will become Zero.
- Link point will be All India Consumer Point Index (AICPI) 2001= 100, which is 126.33 as on 01.01.2007

House Rent Allowance

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

City Compensatory Allowance

- Committee recommended for abolition of CCA.
- Since CCA forms a very small component of the total emoluments of executives in CPSEs.
- There are advantages and disadvantage of working in cities as well as project or industrial sites.

Other Allowances / Perks

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

Allowances outside the perview of 50% limit.

- North East Allowance limited to 12.5% of Basic Pay.
- Allowance for Underground Mines limited to 15% of Basic Pay.
- Special Allowance for serving in the difficult and far flung areas as approved by concerned Ministries in consultation with DPE from time to time up to 10% of Basic Pay.
- Non-practicing Allowance for Medical Officers limited to 25% of Basic Pay.

Variable Pay or Performance Related Pay (PRP)

- The Committee recommended that Variable Pay or Performance Related Pay (PRP) be made an integral part of the compensation package and should progressively become major component of the executive compensation.
- The PRP should be directly linked to the profits of the CPSE/unit and performance of the executives.
- The percentage ceiling of PRP, progressively increasing from junior level to senior level executives

PRP as Percentage of Basic Pay

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
E 10	100	---
Director	150	100
CMD	200	150

PRP linked to over all performance of the company

- If the CPSE achieves ‘Excellent’ rating, the PRP can be paid at 100% eligibility levels as outlined above.
- If the enterprise is rated ‘Very Good’, the eligibility should be scaled down to 80%.
- If the enterprise is rated ‘Good’, the eligibility should be scaled down to 60%.
- If the enterprise is rated ‘fair’, the eligibility should be scaled down to 40%.
- If the enterprise is rated ‘poor’, no eligibility irrespective of the profitability of the CPSE.

PRP should come out of company's profit

- 60% of the Performance Pay, will be given with the ceiling of 3% of PBT.
- 40% of PRP will come from 10% of incremental profit. (profit as compared to previous year's Profit).
- The total PRP, will be limited to 5 % of the years PBT, exclusively for the Executives.

(PBT – Profit Before Tax)

% INCREASE IN PAY INCLUDING PERKS AND PRP

	A+	A	B	C	D
E0	108	94	92	75	65
E1	105	89	80	66	62
E2	101	84	75	66	57
E3	107	90	80	71	62
E4	125	105	94	84	75

% increase continues

	A+	A	B	C	D
E5	126	108	97	87	75
E6	139	117	106	95	82
E7	151	125	114	102	N.A
E8	161	137	124	N.A	N.A
E9	148	135	N.A	N.A	N.A
E10	NEW	N.A	N.A	N.A	N.A
Director	329	297	289	212	145
CMD	463	350	350	289	199

Superannuation Benefits

- No change in the retirement age.
- 30% of the Basic Pay as superannuation benefit which should include CPF, gratuity, pension and post-superannuation medical benefits.
- Company should have own schemes to manage these funds or operate through insurance companies on fixed contribution basis.
- The amount of post retirement benefit will be decided on the returns from the schemes.
- Committee recommended to pay post-retirement benefits without any ceiling limits.

Conclusion

- Second PRC Recommendation for CPSEs heavily favoured the Top most Executives.
- The lowest rated company (D) CMD gets an increase of 199%, whereas excellent rated (A+) company’s junior-most executive gets an increase of only 108%.
- Thus second PRC violated its own principle of performing companies and its executives should be paid more.