Annexure: A-3

RECOMMENDATIONS

AT A GLANCE

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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. COMPENSATION PACKAGE – NON UNIONIZED SUPERVISORS [3.3]

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. CATEGORIZATION OF CPSEs – RELATED SIGNIFICANCE TO COMPENSATION STRUCTURE [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. COMPENSATION TREND & RELATIVITY / EQUITY [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. FITMENT BENEFIT [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.

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) 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) Percentage ceiling of PRP (%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) Factor-X (% of BP):

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

(b) Factor-Y (% of BP):

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

(c) Factor-Z (% of BP):

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

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

XVII. SUPERANNUATION BENEFITS [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. <u>DATE OF EFFECT OF IMPLEMENTATION</u> [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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