

Principles of Pay Determination

Chapter 4.1

4.1.1 The Seventh CPC has been set up at a time of many noticeable changes on the governance front. The principal role of the government as the prime facilitator has gained firm ground. E-Governance has made considerable progress, facilitating communication and improving coordination of authorities at different tiers of government. There is a specific emphasis on *Minimum Government and Maximum Governance*, harping on the concept of a leaner bureaucracy with more skilled people. There is also a definite need to harmonize the functioning of the Central Government with the demands of the emerging global economic scenario. This Commission had to keep all these factors while finalizing the compensation structure for the Central Government employees.

Compensation Structure in a Government Setting

4.1.2 Employee compensation is an important element of government functioning. In general, the level and structure of compensation should aim to achieve four objectives: (i) pay should be sufficient to attract and retain high quality staff; (ii) pay should motivate staff to work hard; (iii) pay policy should induce other human resource management reforms; and (iv) pay should be set at a level to ensure long term fiscal sustainability.

Our Terms of Reference (ToRs)

4.1.3 The ToRs of the Seventh CPC broadly revolve around these objectives. The Commission has been mandated to *‘examine, review, evolve and recommend changes that are desirable and feasible regarding the principles that should govern the emoluments structure including pay, allowances and other facilities/benefits, in cash or kind, having regard to rationalization and simplification therein as well as the specialized needs of various departments.’*

4.1.4 In carrying out the above, the remaining terms of reference laid down certain pointers. These include:

- *‘In so far as the defence forces are concerned the historical and traditional parities with due emphasis on aspects unique to defence personnel is required to be kept in mind.’*
- *‘The framework in the emoluments structure is required to be linked with the need to attract the most suitable talent to government service, promote efficiency, accountability and responsibility in the work culture, and foster excellence in the public governance system...’*
- The recommendations have to be made keeping in view *the economic conditions in the country and need for fiscal prudence*’ as also *‘the need to ensure that adequate resources are available for developmental expenditures and welfare measures.’*

- Also to be kept in view is *‘the prevailing emoluments structure and retirement benefits available to employees of the Central Public Sector Undertakings’* as also *‘the best global practices and their adaptability and relevance in Indian conditions.’*

Challenges before this Commission

4.1.5 The real challenge before this Commission is to provide a pay structure which is competitive yet affordable, attractive yet acceptable, forward looking yet adaptable, simple yet rational, and one which matches with the current socio-economic and political conditions as well as the changing perception of the overall administrative machinery and the public governance system.

4.1.6 **One of the peculiarities of the Indian civil structure and the pay structure that has been in vogue is the high degree of emphasis on uniformity and relativity.** In interacting with various associations, federations, heads of institutions, what has clearly come across is the prevalence of historical equations across the various cadres in government. Disturbances caused in any of these have an immediate and very vocal effect by way of strident demands in restoring earlier parities. Extensive litigation has come to be the norm. The second issue relates to ease of administration. A simple structure with rules of fixation that are easy to understand and apply would take away the possibility of either inadvertent errors or any element of arbitrariness. This Commission has, therefore set simplicity and complete transparency as a basic guiding principle.

4.1.7 **From the employees’ perspective, the upper most aspect is naturally that the emoluments should appropriately reflect the qualifications and the skill sets that each individual brings to this system.** Apart from being fair and adequate, what is crucial is that the pay structure should correctly reflect the relative positions in the hierarchy. In its deliberations, the Commission has found that the preponderance of grievances relates to the emoluments drawn by others as opposite to what is received by oneself. Due care, therefore, has been given to the aspect of equity.

4.1.8 **Over the years, due to downsizing of bureaucracy, issues relating to diminishing or in some cases non-existent promotional avenues have impacted the employees’ motivational levels.** To address this problem, various schemes of assured career progression have been introduced by previous Pay Commissions. It is now one of the major aspirational challenges spurring work efficiency and which needs to be acknowledged by the Pay Commission. The emoluments structure is now expected to provide scope for career advancement by way of financial upgradation at reasonable intervals so as to keep the workforce motivated.

Approach of this Commission

4.1.9 **The efforts of the Commission have been to devise a pay structure to address all the above listed issues and concerns. Special emphasis has been laid on designing a pay matrix which is simple, transparent, predictable and easily comprehensible.** During their interactions with the Commission, the stakeholders placed many demands, ranging from

common entry pay, rationalization of the existing grade pay structure, common treatment of like cadres, transparent pay structure as also increasing the frequency of the MACP. The new pay matrix incorporates all these features: subsuming the grade pay, the rationalized matrix presents the whole universe of pay levels in one simple chart. The levels have been rationalized too, displaying a logical pay progression. Employees would be able to see their pay level, where they fit in and how they are likely to progress over their career span. The Commission has also recommended simplified procedures for computation of pension.

4.1.10 On the same pattern, the entire structure of Allowances has been reviewed, rationalized and simplified. Inter-departmental and inter-Ministerial disparities regarding payment of various allowances have been sought to be removed as far as possible. An innovative Risk and Hardship Matrix has been proposed. Also, the Commission recommends that each allowance should be put in the public domain as a step towards greater transparency in governance.

4.1.11 The pay matrix addresses the important issue of adequacy of the compensation structure. The Commission observes that the purpose of pay is to compensate the employees for work done, to motivate them to perform well. The purposes also include **attracting talent to government service and also retaining them**, thus avoiding the need for expensive recruitment and training for replacement.

4.1.12 Ideally speaking, the compensation package should be a well defined function of prescribed educational and other entry level qualifications, job content, roles and responsibilities attached to the position etc. However, this is a difficult task, especially in a government setting, which has hundreds of organizations and plethora of job roles. **The Commission has, to the extent possible, while dealing with individual cadres, attempted to bring about uniformity in their qualification and pay structure.** This should ameliorate grievances of many 'common' cadres across organizations.

4.1.13 The Commission has also analysed the important question of whether wages are sufficient to attract and retain qualified staff. One way to address this question is to compare wages in government sector positions with wages for comparable positions in the private sector. This presumes that if wages in the government sector are too far below private sector wages, the government sector will have difficulty attracting and retaining the sort of staff it requires. In their presentations before the Commission, many associations brought out this aspect highlighting, inter alia, that the compensation pattern in the private sector is more remunerative. Although private sector wage comparators are difficult to obtain, the Commission feels that this could be the case in respect of only a few specialized segments. The results of the IIM, Ahmedabad study on comparing job families between the government and private/public sector has brought out the fact that while at lower levels salaries are much lower in the private sector as compared to government jobs, at the highest echelons of governance, the compensation in government is nowhere comparable to their counterparts in the private/public sector.

4.1.14 But a mere comparison of the salaries should not form the benchmark for remuneration, it is to be viewed keeping in mind the uniqueness inherent in the government in terms of

security of tenure, assured prospects of financial progression even when no promotional avenues exist, leave and pensionary privileges which are not available to their counterparts in the private/public sector.

4.1.15 Having said this, there is no denying that officers at higher level shoulder maximum responsibility and accountability and hence should be compensated accordingly. In light of this, the Commission has accorded slightly higher index of rationalisation at level of Senior Administrative Grade and above.

4.1.16 The Commission notes that government employees are entitled to a host of tangible and non tangible benefits - from job security, inflation indexed salary, assured prospects of financial progression- to name a few. It may be difficult to monetize some of these non-tangibles. That the government jobs retain their charm is evident from the increasing number of qualified candidates per advertised vacancy as well as from the low turnover rates among recent recruits.

4.1.17 The Commission has adopted an innovative design to make the remuneration structure attractive. It has adopted the need based minimum wage formula for designing the pay matrix. The rationalization of pay levels has been done keeping this minimum pay as the base for all calculations. It has been recommended that the minimum pay at each level will be the entry pay for direct recruits for those levels. Each level has been placed equidistantly. The various stages within a level moves upwards at the rate of 3 percent per annum. Owing to this rationalization, the quantum of increase in pay on promotion, either on regular basis or through the MACP, is likely to be substantial. This design will make the existing remuneration pattern in the government more attractive.

4.1.18 The basis for calculation of minimum and maximum pay, rate of pay progression across levels, basis for rationalisation and uniform approach towards fixation of pay have been clearly spelt out to leave no room for ambiguity or conjecture.

4.1.19 Historically, the qualification and skill set required as well as roles and responsibilities discharged at various levels in the overall hierarchy have been central to the basis for pay grading. The rationalisation index has been applied keeping this principle in mind.

4.1.20 There is uniformity in fixation of pay whether at entry level or on promotion or at the time of migrating from one pay regime to another. The new pay structure will bring out clearly what the total emoluments will be at a given point in time during one's career span. The rate of pay progression will also be stated upfront for existing as well as new entrants.

4.1.21 Since, substantial delayering had already been attempted by the previous Pay Commissions, this Commission is not removing any levels, but to simplify the pay structure, the grades pay have been subsumed in the pay band to form distinct levels. The new pay structure is a construct in the matrix format and provides open ended progression in pay at all levels.

4.1.22 One recurrent theme in the representations of various associations relates to 'equity' or 'Equal Pay for Equal Work.' Ideally, the remuneration package should establish horizontal equity: employees should feel that their pay is comparable with the remuneration structure of similarly placed positions outside their organization. The employees should also

feel that the pay structure shows linear progression pattern and thus the notion of vertical equity is also maintained. The Pay Matrix addresses these issues as well. The Commission has designed the pay structure in such a manner that the pay progression recognises the importance of vertical relativities and also assigns a reasonable basis to such progression. This has been done by assigning a uniform fitment factor of 2.57.

4.1.23 The Commission feels that there is strong need to create a culture of performance in government – from establishing standards of performance, to measuring, and promoting people based on performance. To emphasize on the culture of performance, the Commission has recommended that all the non-performers in the system should be phased out after 20 years. The Commission has recommended that Performance Related Pay should be introduced in the government and that all Bonus payments should necessarily be linked with productivity.

Determination of Minimum Pay

Chapter 4.2

Introduction

4.2.1 The estimation of minimum pay in government is the first step towards building its pay structure. In doing so, the approach is to ascertain, by using the most logical and acceptable methodology, what the lowest ranked staff in government needs to be paid to enable him to meet the minimum expenditure needs for himself and his family in a dignified manner.

Minimum Pay Estimated by the V and VI CPC

4.2.2 In making this assessment various methodologies are possible, and have been considered by different Pay Commissions. The V CPC adopted the 'Constant Relative Income Approach' to estimate the minimum pay. This approach is based on the principle that the real minimum pay must grow in tandem with real per capita income so that the compensation of government staff is not independent of the economic realities of the country. Accordingly the V CPC proceeded from the minimum pay of ₹750 estimated by the IV CPC as on 01.01.1986 and added to it the DA of ₹1,110 to arrive at the 'price protected' minimum pay of ₹1,860 as on 01.01.1996. To this a step up of 30.9 percent was applied, the percentage being the real increase in the per capita income (per capita net national product at factor cost) during the period 1986-95. After rounding off, the minimum pay was arrived at ₹2,440 as on 01.01.1996, which was subsequently increased to ₹2,550 at the implementation stage.

4.2.3 To estimate the minimum pay in the government, the VI CPC used the norms set by the 15th Indian Labor Conference (ILC) in 1957 to determine the need-based minimum wage for a single industrial worker. The norms set by the ILC are as below:

- i. A need-based minimum wage for a single worker should cover all the needs of a worker's family. The normative family is taken to consist of a spouse and two children below the age of 14. With the husband assigned 1 unit, wife, 0.8 unit and two children, 0.6 units each, the minimum wage needs to address 3 consumption units;
- ii. The food requirement per consumption unit is shown in the Annexure to this chapter. The specifications were derived from the recommendations of Dr. Wallace Aykroyd, the noted nutritionist, which stated that an average Indian adult engaged in moderate activity should, on a daily basis, consume 2,700 calories comprising 65 grams of protein and around 45-60 grams of fat. Dr Aykroyd had further pointed out that animal proteins, such as milk, eggs, fish, liver and meat, are biologically more efficient than vegetable proteins and suggested that they should form at least one-fifth of the total protein intake;
- iii. The clothing requirements should be based on per capita consumption of 18 yards per annum, which gives 72 yards per annum (5.5 meters per month) for the average worker's family. The 15th ILC also specified the associated consumption of detergents, which can be seen in the Annexure;

- iv. For housing, the rent corresponding to the minimum area provided under the government's industrial housing schemes is to be taken. The 15th ILC kept it at 7.5 percent of the total minimum wage;
- v. Fuel, lighting and other items of expenditure should constitute an additional 20 percent of the total minimum wage.

4.2.4 The VI CPC considered additional components of expenditure to cover for children's education, medical treatment, recreation, festivals and ceremonies. This followed from the Supreme Court's ruling in the *Raptakos Brett Vs Workmen* case of 1991 for determination of minimum wage of an industrial worker. The Supreme Court had prescribed this amount at 25 percent of the total minimum wage calculated from the first five components. However, in considering this additional component the VI CPC took note of the educational allowance and medical facilities being provided by the government. Based on its calculations the VI CPC arrived at a minimum wage of ₹5,479. This was enhanced by about 22 percent to ₹6,660, which was recommended as the minimum pay in the government. The enhancement quantified the skill factor that Group D staff would acquire through training, upon their merger into Group 'C'. Ultimately, at the implementation stage, the minimum pay was fixed at ₹7,000 per month on 01.01.2006.

Demand made by JCM-Staff Side to the Commission

4.2.5 In its representation the JCM-Staff Side has submitted that the Commission must determine a 'need-based minimum pay,' estimated entirely from the ILC norms and factoring in the 1991 ruling of the Supreme Court to provide for education, medical, recreation, festivals and ceremonies. In addition they have also sought the inclusion of a quantified skill factor on the lines of the VI CPC's approach for addressing the merger of the Group D staff into Group 'C'. They have further stated that unlike the previous CPCs, the Commission should not exclude any of the seven components (five ILS components + additional 25 percent provisioning + skill factor) on the apprehension that it would impose a heavy financial burden on the government.

4.2.6 Based on the various components of the ILC norms and the subsequent additions the JCM-Staff Side has reported that the minimum pay should be ₹26,000 per month, as on 01.01.2014, the date from which it wants the Commission's recommendations to be implemented. The prices used for the calculation are stated to be the retail prices prevailing in New Delhi, Mumbai, Chennai, Kolkata, Hyderabad, Bhubaneswar, Trivandrum and Bangalore, as on 01.01.2014. The JCM-Staff Side has argued that this estimation of minimum pay is still on the lower side. This is on the basis of their argument that the 15th ILC norms need to be revised for including old and dependent parents as additional consumption units.

Approach of the Commission

4.2.7 The 15th ILC norms were formulated in 1957. As such, the I CPC, which gave its recommendations in 1948, pre-dated the same. The II CPC did make an initial assessment using the ILC norms. However, it moderated the minimum pay so calculated in line with the then

prevailing per capita income. The III CPC adopted a modified version of the norms to calculate the minimum pay. The IV CPC estimated the minimum pay by applying the growth of total emoluments index on the minimum pay estimated by the III CPC. As already discussed, the V CPC estimated the minimum pay through the 'Constant Relative Income Approach' whilst the VI CPC adopted the 15th ILC norms to arrive at a base figure, to which was added additional 25 percent for various additional items plus the skill factor. The Commission has thus noted that directly or indirectly, the ILC norms have always been at the core of the minimum pay calculations made by the previous Pay Commissions. The Commission is also of the view that the ILC norms, along with other supplements (the entire set of seven components), are the best approach to estimating the minimum pay as it is a need-based wage calculation that directly costs the requirements, normatively prescribed to ensure a healthy and a dignified standard of living.

4.2.8 The Commission has estimated the minimum pay (the calculations for which have been tabulated in the Annexure) through the following steps:

Step 1: The food, clothing and detergent products listed and their respective quantities specified by the 15th ILC have been adopted. These quantities indicate the monthly consumption of the listed products by a family comprising three consumption units. [For e.g. for the product 'Dal' the quantity specified for daily consumption is 80 grams per consumption unit per day. The monthly consumption of Dal by a consumption unit thus works out to 2.4 kg (80 x 30). Accordingly the monthly consumption of Dal by a family comprising 3 units is 7.2 kgs (2.4 x 3).]

Step 2: The quantities have been multiplied by their respective product prices to arrive at product wise cost. The price adopted for each product is the average of prices of various items that are included in the product. The price of an item is the average of its prices prevailing in each month from July, 2014-June, 2015. [At monthly family consumption of 7.2 kg the Commission has estimated the monthly expenditure on Dal at ₹704.44 after calculating the price of Dal at ₹97.84 per kg. The price of Dal has been calculated as the average of prices of Toor, Urad and Moong Dal items specified under the product Dal and whose prices have been determined at ₹87.86, ₹109.66 and ₹96.00 respectively. The prices of these three Dal items are the twelve monthly average prices for the period July, 2014-June, 2015.]

The prices of all items have been sourced from Labor Bureau, Shimla. These prices are used in the calculation of the CPI (IW) and subsequently the calculation of Dearness Allowance. In the current exercise the prices of all items are for the period July 2014-June 2015 and have been used in the calculation of DA at 119 percent operative from 01.07.2015.

Step 3: The cost of food, clothing and detergent products obtained from Step 2 has been divided by 0.8 to arrive at a total, of which 20 percent provides for fuel and lighting expenses. This addresses the fifth component under para 4.2.3. The fourth component on housing under para 4.2.3 has not been addressed at this stage as its quantification at the final stage of pay estimation is considered more appropriate by the Commission.

Step 4: The cost estimated from Step 3 is divided by 0.85 to arrive at a total, of which 15 percent is towards recreation, ceremonies and festivities. The prescribed provision of

25 percent to cover education, recreation, ceremonies, festivals and medical expenses has been moderated to 15 percent because expenses on educational and medical necessities are being separately provided for through relevant allowances and facilities and thus need not be provided here. This partially addresses the first of the two components outside the 15th ILC norms.

Step 5: The cost estimated from Step 4 is increased by 25 percent to account for the skill factor, following the reasoning that there is no unskilled staff in the government after the merger of Group D staff in Group 'C'. This addresses the second of the two components outside the 15th ILC norms.

Step 6: The cost estimated from Step 5 is divided by 0.97 to arrive at a total, of which 3 percent provides for housing expenses. This is done in view of the observation that license fees for government accommodation is about 3 percent of the total pay. This addresses the fourth component stated under para 3 but partially so, as the 15th ILC norms had fixed the housing provision at 7.5 percent.

Step 7: The cost estimated from Step 6 is as on 1 July, 2015 when the DA was 119 percent. The DA is assumed to be 125 percent as on 1 January, 2016, the day from which the Commission expects its recommendations to be implemented by the government. Accordingly the cost estimated from Step 6 has been increased by 3 percent ($2.25/2.19 = 1.027$ or nearly 3%).

4.2.9 The cost estimated from Step 7 is next rounded off to ₹18,000, which is the minimum pay being recommended by the Commission, operative from 01.01.2016. This is 2.57 times the minimum pay of ₹7,000 fixed by the government while implementing the VI CPC's recommendations from 01.01.2006. Accordingly, basic pay at any level on 01.01.2016 (pay in the pay band + grade pay) would need to be multiplied by 2.57 to fix the pay of an employee in the new pay structure. Of this multiple, 2.25 provides for merging of basic pay with DA, assumed at 125 percent on 01.01.2016, while the balance is the real increase being recommended by the Commission. The real increase works out to 14.2 percent ($2.57 \div 2.25 = 1.1429$). The following table shows the real increase given by each CPC/Government over the previously set minimum pay:

(in percent)

II CPC	14.2
III CPC	20.6
IV CPC	27.6
V CPC	31.0
VI CPC	54.0
VII CPC	14.3

4.2.10 The real pay in government is protected by providing Dearness Allowance (DA), which is *that* percentage of pay by which the CPI (IW)¹⁶ increases over a fixed base value.

¹⁶ CPI (IW) is Consumer Price Index for Industrial Workers maintained by Labour Bureau, Shimla.

Consequently the absolute amount of DA keeps on *growing* with every point increase in CPI (IW). On the other hand the real value of the industrial minimum wage is protected by providing Variable Dearness Allowance (VDA), which is a *fixed* amount of money given per point increase in CPI (IW) as notified by the Chief Labour Commissioner (central sphere) from time to time. Consequently, over a period of time, the minimum pay + DA in government becomes larger than the minimum wage + VDA in the private sector even though the basic minimum wage in both the sectors is calculated on the basis of the 15th ILC norms. As on 01.01.2015 the minimum pay in government was ₹14,910 whereas minimum wage for a skilled worker was in the range of ₹9,000–₹11,000 per month.

4.2.11 Besides DA, government provides house rent, transport, location and function specific allowances besides Leave Travel Allowance (LTA) which, along with the basic pay, constitute the gross pay of a government employee. If one were to only take HRA at 30 percent of the basic pay and transport allowance at ₹400+DA, as are admissible in A1/A class cities, together with educational allowances for two children at the rate of ₹1,500 per month, the gross pay further increases to ₹20,870 (20870 = 14910 +2100+860+3000) as on 01.01.2015. In addition government gives a host of other benefits that can be measured under the CTG (Cost to Government of an employee) concept. From these numbers it is clear that benefits given to the lowest ranked government employees, whether monetized or not, are significantly higher than the minimum basic pay and also much higher than the emoluments of skilled industrial workers.

4.2.12 To obtain a comparative picture of the salaries paid in the government with that in the private sector enterprises the Commission engaged the Indian Institute of Management, Ahmedabad to conduct a study. According to the study the total emoluments of a General Helper, who is the lowest ranked employee in the government is ₹22,579, more than two times the emoluments of a General Helper in the private sector organizations surveyed at ₹8,000-₹9,500.

4.2.13 After considering all relevant factors the Commission is of the view that the minimum pay in government recommended at ₹18,000 per month, w.e.f. 01.01.2016, is fair and reasonable and one which, along with other allowances and facilities, would ensure a decent standard of living for the lowest ranked employee in the Central Government.

Annexure to Chapter 4.2

Calculation of Minimum Pay as on 01.01.2016 by the Commission							
		Per day PCU	Unit	Per month 3 PCU	Unit	Price/ Unit (₹)	Expenses (₹)
1.	Rice/Wheat	475	gm	42.75	kg	25.93	1108.30
2.	Dal (Toor/Urad/Moong)	80	gm	7.20	kg	97.84	704.44
3.	Raw Vegetables	100	gm	9.00	kg	58.48	526.28
4.	Green Vegetables	125	gm	11.25	kg	38.12	428.85
5.	Other Vegetables	75	gm	6.75	kg	32.80	221.42
6.	Fruits	120	gm	10.80	kg	64.16	692.93
7.	Milk	200	ml	18.00	litre	37.74	679.26
8.	Sugar/Jaggery	56	gm	5.04	kg	37.40	188.48
9.	Edible Oil	40	gm	3.60	kg	114.02	410.46
10.	Fish			2.50	kg	268.38	670.95
11.	Meat			5.00	kg	400.90	2004.51
12.	Egg			90.00	no.	4.27	383.98
13.	Detergents etc			₹/month		291.31	291.31
14.	Clothing			5.50	meter	164.88	906.83
15.	Total (1-14)						9217.99
16.	Fuel, Electricity, Water Charges						2304.50
17.	Total-(15) divided by 0.8						11522.49
18.	Marriage, Recreation, Festivals, etc.						2033.38
19.	Total-(17) divided by 0.85						13555.87
20.	Provide for Skill by adding 25% to (19)						3388.97
21.	Sum (19+20)						16944.84
22.	Housing @						524.07
23.	Total-Divide no.21 by 0.97						17468.91
24.	Step up of 3% on No.23 as DA is projected at 125% on 01.01.2016						524.07
25.	Final Minimum Pay as on 01.01.2016 (23+24)						17992.98
26.	Rounding off						18000