

Minutes of  
"COS" Meeting  
14-12-2004

No. 16-4/2002-B  
Department of Telecommunications

SECRET

- Subject :- (i) Liability of Bharat Sanchar Nigam Limited (BSNL) towards payment of pension of retired employees - [vide Department of Telecommunications note No.16/4/2002-B dated 25.11.2004]
- (ii) Payment of pensionary benefits including family pension to Government employees absorbed in Mahanagar Telephone Nigam Limited (MTNL) - [vide Department of Telecommunications note No. 40-21/2000-Pen(T)Pt. Dated 30.11.2004].

A meeting of Committee of Secretaries was held under the chairmanship of Cabinet Secretary in the Cabinet Secretariat on 14<sup>th</sup> December, 2004 to discuss the subject mentioned above.

2. Introducing the subject, Secretary, Department of Telecom (DOT) stated that the issue for consideration before COS were (i) the extent of BSNLs liability towards payment of pensionary benefits to retired employees of DOT/ Department of Telecom Services/Department of Telecom Operations and also to the employees who retired after their absorption in BSNL, and (ii) Payment of pensionary benefits to government employees absorbed in Mahanagar Telephone Nigam Limited (MTNL).

3. Secretary, DOT put forth the following arguments:

(i) At the time of corporatisation of BSNL, the Government notified an exception in respect of BSNL, in Rule 37 A of the Central Civil Services (Pension) Rules, 1972, As a result of this exception, the payment of pension has to be made by the Government to the existing pensioners and also the employees who were in Government service as on 1.10.2000 and retired in BSNL after 1.10.2000. Arrangement in the manner of pensionary contributions to be made by BSNL to the Government were to be specified by the Government.

(ii) The receipts that were earlier accruing to DOT i.e. dividend from MTNL, license fee from MTNL and license fees from BSNL totaling approximately Rs.1127 crores in 2003-04 now accrued to the Consolidated Fund of India. An

additional amount of about Rs.1000 crores per year in terms of Corporate Tax, Excise Duty and Dividend paid by BSNL had also become part of the receipt of the Consolidated Fund.

(iii) The annual expenses on account of pension contributions already being made by BSNL was about Rs.1000 crores, this amount was expected to go up to Rs.2000 crores with the increasing number of DOT employees retiring in next 5-10 years.

(iv) The framework for capitalization of BSNL in the year 2000 did not take into account the liability of pension towards BSNL as it was presumed that GOI would bear the burden and consequently the asset value was assessed as approximately Rs.63,000 crores which otherwise would have been approximately Rs.48,000 crores.

(v) The transfer of liability of pension of retired employees of DOT to BSNL was likely to create other problems and would not be in keeping with the assurance given to the staff at the time of formation of BSNL.

(vi) The issue regarding payment of pensionary benefits to MTNL employees was well settled and did not merit a review at this stage.

4. Secretary, Telecom, on account of the above, proposed that pension liability with respect to employees of the Department of Telecommunications/ Department of Telecom Services/Department of Telecom Operation as well as all the employees who retired after their absorption, should be borne by the Government in BSNL. For the employees who have worked/are working in BSNL on deemed deputation, BSNL would discharge its pension liability by way of pension contribution.

5. Secretary, Department of Expenditure, stated that the entire pension liability including that of existing pensioners should be borne by BSNL in full. He contended that prior to corporatisation of BSNL, revenues earned from commercial activities accrued to DOT which were used to meet the pension

liabilities of the employees. Since, the entire revenue stream started accruing to BSNL after 1.10.2000, the entire pension liabilities must also be borne by the company. He observed that the exception made with regard to pension rules for BSNL employees was at the insistence of the employees who feared that BSNL might not be in a position to discharge the pensionary liabilities. In this background sub rules 21-23 were incorporated in Rule 37A. The provisions envisage that Government shall devise a suitable arrangement and the manner in which financial liability on this account would be met by it. BSNL has already been given a number of financial exemptions and it had inherited all the assets of DOT. In these circumstances, he insisted that BSNL should discharge the entire pension liabilities. He expressed his readiness to examine whether the pension liabilities of the organization, were taken into account while the capital structure was being finalized. He stated that any special dispensation for BSNL would attract similar demand from other organizations that were similarly placed. He opined that such a precedent would put financial stress on central government's exchequer.

6. Cabinet Secretary observed that income accruing to the Government from activities of BSNL and MTNL appeared to be sufficient to discharge the pensionary liabilities of employees who had retired before 1.10.2000 as well as of those employees who were transferred to BSNL if the company made contributions according to FR 116. Since the idea behind corporatisation of BSNL was not to draw benefits for the Government from the organization but to enable it to provide better services to the people, it would be reasonable for government to accept some liability if it did not lead to net out-go from government exchequer.

7. The Note circulated regarding uniformity in treatment for MTNL employees, was also considered. It was felt that the issue is well settled regarding the applicability of Rule 37A to MTNL and should not be reviewed at this stage. There are disparities in pay scales between MTNL and BSNL staff and these are in favour of MTNL. In majority of the pay slabs, BSNL was given one scale below MTNL. The issues which may come up in the event of any restructuring is premature at this stage.

73

liabilities of the employees. Since, the entire revenue stream started accruing to BSNL after 1.10.2000, the entire pension liabilities must also be borne by the company. He observed that the exception made with regard to pension rules for BSNL employees was at the insistence of the employees who feared that BSNL might not be in a position to discharge the pensionary liabilities. In this background sub rules 21-23 were incorporated in Rule 37A. The provisions envisage that Government shall devise a suitable arrangement and the manner in which financial liability on this account would be met by it. BSNL has already been given a number of financial exemptions and it had inherited all the assets of DOT. In these circumstances, he insisted that BSNL should discharge the entire pension liabilities. He expressed his readiness to examine whether the pension liabilities of the organization, were taken into account while the capital structure was being finalized. He stated that any special dispensation for BSNL would attract similar demand from other organizations that were similarly placed. He opined that such a precedent would put financial stress on central government's exchequer.

6. Cabinet Secretary observed that income accruing to the Government from activities of BSNL and MTNL appeared to be sufficient to discharge the pensionary liabilities of employees who had retired before 1.10.2000 as well as of those employees who were transferred to BSNL if the company made contributions according to FR 116. Since the idea behind corporatisation of BSNL was not to draw benefits for the Government from the organization but to enable it to provide better services to the people, it would be reasonable for government to accept some liability if it did not lead to net out-go from government exchequer.

7. The Note circulated regarding uniformity in treatment for MTNL employees, was also considered. It was felt that the issue is well settled regarding the applicability of Rule 37A to MTNL and should not be reviewed at this stage. There are disparities in pay scales between MTNL and BSNL staff and these are in favour of MTNL. In majority of the pay slabs, BSNL was given one scale below MTNL. The issues which may come up in the event of any restructuring is premature at this stage.

Akh

8. After detailed deliberations, COS decided to recommend that:

- (i) The annual pension liability of the Government shall not exceed 60% of the annual receipts to Government from the following items:-
  - (a) Dividend income from MTNL/BSNL
  - (b) Licence Fee from MTNL/BSNL
  - (c) Corporate Tax / Excise Duty (Service Tax) paid by BSNL
- (ii) Any amount exceeding (i) above shall be borne by BSNL.
- (iii) Existing system of payment of pension would continue.
- (iv) Pensionary contribution from BSNL would be made to Government as per FR-116.