

Annexure - I
To CM 29-10-2014

Annexure I

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No. 2-2/99-Resg. (Vol. I)
Government of India
Ministry of Communications
Department of Telecom Services

New Delhi, the 25th September 2000

NOTE FOR THE CABINET

Subject: Approval for HRD and financial issues arising out of the corporatisation of the Department of Telecom Services and of the Department of Telecom Operations.

1. Introduction

1.1 Commencement of business with effect from 1st October, 2000 is to take place by the corporate entity Bharat Sanchar Nigam Ltd. - BSNL (being set up by corporatisation of the Department of Telecom Services and Department of Telecom Operations).

1.2 This Note is being submitted to seek approval of the Cabinet to the HRD and financial issues related to corporatisation.

2. Present structure of DTS/DTO

2.1 The Department of Telecom Operations (DTO) operates telegraph/telecom services throughout the length and breadth of the country, except telecom services in the metropolitan areas of Mumbai and Delhi.

2.2 As on 31st August 2000, about 23.8 million lines are operational, with about 20% of them working in rural/remote areas of the country. To support this network, 29.22 million lines switching capacity, 2 million lines of Trunk Automatic Exchange capacity, 1,85,000 route kilometers of optical fibre cable systems, 1,60,000 route kilometers of microwave system, and about 416 satellite stations are operational. In addition, about 3.78 lakh villages out of a total of over 6 lakh villages have been covered with village public telephones.

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2.3 This vast network is managed and operated through 20 territorial circles, two metro districts, four project circles, four maintenance regions, and supported by specialized telecom units (Telecommunications Engineering Centre, Quality Assurance etc.), over forty training institutions, and other units such as Telecom Factories, Telecom Stores etc. There are about 3.63 lakh employees in the three Departments of DoT/DTS/DTO of which about 2.66 lakh belong to Group 'C', 0.73 lakh to Group 'D', 18,000 to Group 'B' and about 5,440 to Group 'A'.

2.4 The corporatisation of DTS/DTO involves transfer of officers and staff engaged in service providing functions initially on deemed deputation basis without deputation allowance, and the transfer of complex operations spread throughout the country, evolved over the years and encompassing a spectrum of technologies, to the new corporate entity Bharat Sanchar Nigam Ltd (BSNL). BSNL would also be the successor organisation to DTS/DTO, and accordingly all contracts, legal issues etc. would need to be transferred from DTS/DTO to BSNL through appropriate measures. The assets and liabilities are proposed to be transferred at a provisional value, and through appropriate Government orders. The staff are proposed to be transferred on as is where is basis on deemed deputation without deputation allowance. This will necessarily involve decisions on a number of HRD, financial and operational issues, as given in the succeeding paras.

3. Background and Cabinet approval to certain issues related to legal status etc.

3.1 In connection with the launching of BSNL on 1st October 2000, the Cabinet in its meeting on 31st August 2000 had approved the following proposals (as contained in DoT's Cabinet Note dated 17th August):-

(i) The corporate entity be incorporated as a public limited company under the Companies Act 1956. The name of the corporate entity will be "Bharat Sanchar Nigam Limited" as already announced by the Prime Minister.

(ii) The registered and corporate offices of the corporate entity be in New Delhi.

(iii) The authorised share capital of the corporate entity be Rs.10,000 crores (Rupees Ten Thousand crores), and its paid up share capital be Rs.5,000 crores (Rupees Five Thousand crores). The value of each share be kept at Rs.10/- (Rupees Ten).

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(iv) Keeping in view the time limit of 1.10.2000, the Telecom Commission may be authorised to approve the Memorandum of Association and Articles of Association and take the requisite procedural steps to get the corporate entity incorporated well before 1.10.2000.

3.2 Further action had accordingly been taken in pursuance of the above Cabinet approval. BSNL has since been incorporated, and has also obtained from the Registrar of Companies the certificate for commencement of business.

3.3 It had also been mentioned in para 9.1 of DoT's Cabinet Note dated 17th August that in connection with corporatisation, a number of financial and personnel related issues would also need to be finalised, and that it was proposed to seek Cabinet approval on these issues around mid September, based on examination of Vol.I of the Final Report of the Consultants.

3.4 The said report has since been received and examined, particularly with reference to the financial analysis of the corporate entity done by the consultants, and their recommendations thereon. Accordingly, this Cabinet Note is being submitted to seek approval on the HRD and financial issues.

4. HRD Issues

4.1 With over 3.63 lakh employees working in the three Departments having a large number of unions and associations representing various segments of employees and officers, the HRD dimension assumed significant importance. In connection with corporatisation concern was expressed by the unions/associations representing various segments of employees and officers that their interests will be adversely affected on corporatisation, and also that the corporate entity will not be financially viable.

4.2 The decision of the Government in June 2000 to achieve the corporatisation by 1.10.2000 activated all federations, staff unions of Group 'C' & 'D' and associations of Group 'A' & 'B' to put forth demands pertaining to their respective cadres/categories to be settled before corporatisation. A large number of these required interaction with, and approval of, other Ministries such as DoP&T, Department of Expenditure, Ministry of Finance, Ministry of Labour etc. For examining and settling these issues, the Government constituted in pursuance of a Cabinet meeting held on 24.6.2000 a Group of Ministers under the chairmanship of Minister of Communications with Finance Minister, Minister of HRD, Minister of Commerce and Industries, Minister of Labour and Minister of State for Personnel and Training as its Members. The GOM has already met six times.

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4.3 The concerns expressed by the employees and officers can broadly be categorized into three. The first category relates to those issues which various categories of employees wanted to be settled before corporatisation. The second category broadly covers issues relating to their terms and conditions of service on corporatisation including their retirement benefits, and the third concern related to the viability of the corporate entity.

4.4 The main issues raised by the representatives of the Employees Federations representing Group 'C' & 'D' related to pension and retirement benefits, job security and financial viability of the corporate entity. A large number of other grievances/demands had also been raised, many of which were internal to the Department. Most of these have been resolved.

In relation to pension and retirement benefits, a framework has been approved on the basis of decisions taken by the GOM which is at Annexure-I. The salient features are given below:-

Pension and Retirement benefits

- (i) All employees will be entitled to Government's scheme of pension/family pension even after their absorption.
- (ii) Technical resignation will not be required.
- (iii) Payment of pension would be made by Government.
- (iv) Arrangements would be worked out for obtaining pension contribution from the PSU to be deposited with the Government.
- (v) Facility to carry over Earned Leave and Half Pay Leave would be provided.
- (vi) The pension framework has been made part of the CCS Pension Rules by amending Rule 37 using powers under Article 309 of the Constitution of India.

Job Security

4.5 Any order of removal/dismissal from the PSU would be reviewed by the Administrative Ministry.

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Financial viability

4.6 In regard to financial viability the GOM has in its interactive meetings with the Federations given them assurance that:-

- (i) Bharat Sanchar Nigam Ltd. would be duly compensated for discharging obligations in regard to rural telephony or any other uneconomic service in accordance with any Government directive for the implementation of NTP-99.
- (ii) GOM has further decided that under no circumstances Bharat Sanchar Nigam Ltd. would be allowed to become non viable as this would be a potent instrument in the hands of the Government for achieving its NTP-99 objectives.

4.7 The main demands/grievances of Group 'B' officers were regarding cadre review and revision of pay scales. The details of the major HRD issues dealt by the GOM are given in Annexure-IA.

4.8 Class A officers in the Department of Telecom Services have expressed their concerns very forcefully. The Indian Telecom Service Association (ITSA) having a strength of approximately 4,000 officers has represented that it is one of the oldest engineering services, and is recruited by UPSC through the competitive examination. In the new era of convergence the telecommunication engineers would have a major role to play in the Government, including the State Governments for spreading telecommunications and IT enabled services. There has been a persistent demand from ITSA for continuing their cadre and for retaining the Civil Service status which would enable them to not only work in BSNL but also in Central/State Governments and in other PSUs and International organisations. They also want recruitment through UPSC to continue.

The Indian Posts & Telecom Accounts and Finance Service (IP&TAFS) has also been pressing for retention of their Civil Service status especially in view of the fact that a very large number of their officers are in a comparatively young age group (the service itself was founded only in 1974). Alternatively, they have suggested, that being a small number of directly recruited officers (approximate strength of 270) the officers could be absorbed into other Central and Accounts Services. They feel that in the new era of convergence they will have a useful role to play as Government officers serving the sector even outside the part which is now being corporatised. Another suggestion made by them is that an All India Finance Service may be formed into which all of them could be absorbed.

There are also Civil, Electrical, Architectural cadres and others in the Department who also have similar demands. These cadres wanted that the vast disparities be removed in their promotion prospects as available to other Class I cadres recruited in the same year. The major grievances of Class A officers are indicated below:-

- i) Continuation of civil servant status.

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- ii) Retaining the identity of the existing cadres and continuation of recruitment through UPSC.
- iii) BSNL to become holding company for MTNL, VSNL, TCIL, ITI and HTL to maintain synergy of all Telecom PSUs.
- iv) The officers of IP&TAFS may be absorbed in other Central and Accounts Services, or Indian Finance Service under the Ministry of Finance may be formed into which all of them could be absorbed.
- v) Cadre review to be considered to improve promotion prospects.

4.9 ITSA have during further discussions indicated that the Group 'A' officers may be given an initial extended period of deemed deputation (foreign service) for a period of ten years, to be reviewed thereafter. During this period, all posts may be encadred and recruitment may be continued through UPSC as per prevalent rules. It may, however, be stated that even this approach would result in the same type of anomalous situation, management difficulties etc. as have been experienced in the case of MTNL, where absorption of Group 'A' officers has still not taken place since 1986. This may also lead to similar demands from Groups 'B', 'C' and 'D' officers/officials. Therefore, taking all the above concerns into consideration regarding HRD issues, and also the view taken by COS regarding the period of deemed deputation, the following broad approach is proposed to be adopted which may be approved:-

- i) All officers and employees other than those being retained in the Department of Telecommunications (DoT), would be transferred w.e.f. 1.10.2000 on deemed deputation without deputation allowance to Bharat Sanchar Nigam Ltd. on as is where is basis along with their posts. Their status as Central Government employees would continue till the date of absorption.
- ii) As per agreement with the 'C' & 'D' categories of employees entered into on 6th & 8th September 2000, such of those who agree to get absorbed w.e.f. 1.10.2000 would be given the benefit of the pay scale of the PSU, as and when they get fixed, and an ad hoc sum of Rs.1000/- would be given, to be adjusted against their future salary. A cut off date would be given for giving their options.
- iii) Suitable cut off date would be given with a reasonable degree of flexibility to ~~Group 'B' officers.~~
- iv) Group 'A' officers may be given an extended period of deemed deputation while deciding upon the cut off date.

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- v) The facility of general pool housing accommodation and CGHS facilities would be continued during their period of deemed deputation.
- vi) Pension & retirement, job security benefits would be as per the scheme at Annexure-I.
- vii) An expert committee would be constituted to work out arrangements and future strategy in regard to cadre management, recruitment against Class A posts with a view to ensuring proper management control by the BSNL over its employees.
- viii) As long as the telecom employees remain Government servants, i.e., till the date of their absorption in the new corporation, they will have to seek redressal of their grievances through the procedure laid down in the JCM. Consequently, any decision taken by this "JCM route" will be applicable to them till the date of their absorption. The corporate entity would be asked to set up a Board sub-committee to look into the remaining HRD issues concerning the officers and employees and settle them in a time bound manner, in consultation with the Government.

CSS staff

4.10 Besides the Telecom staff, there are nearly 1500 Secretariat and other employees of various categories, employed in the Telecom HQ and the Chief Engineer offices. Presently they are servicing all the three Departments, viz., DoT/DTS/DTO. Consequent upon corporatisation, it is proposed that they would form part of the residual DoT and the BSNL on "as is where is" basis. In their case, the HRD issues have been resolved in consultation with the Office Council of the JCM and have been referred vide DoT's letter dated 19.9.2000, to the DoPT which is their cadre controlling authority. The broad approach is as follows:-

- i) The Secretariat employees would be given option to be absorbed in the BSNL. This option would be given to all Secretariat employees in the residual DoT and those going over to BSNL on "as is where is" basis.
- ii) The Secretariat staff would normally remain attached in the Corporate Headquarters but depending on exigencies may have to move out on transfer.
- iii) A cut-off date for exercise of option on absorption will be given to the Secretariat employees.
- iv) Secretariat employees would be allowed to retain lien in the Government service till the date of their absorption in the BSNL.

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5. Financial Issues

5.1 Transfer value of assets and liabilities

5.1.1 The assets and liabilities of Government, currently deemed to be held by the Department of Telecom Services (DTS)/Department of Telecom Operations (DTO) are proposed to be transferred to BSNL as on 1st October 2000 at book value. For this purpose, the Balance Sheet and Profit & Loss account of DTS/DTO would need to be prepared as on that date. However, at present, though the accounts are available upto 31.3.2000, these have not been audited yet. Beyond this period, the accounts are being compiled on a month to month basis.

5.1.2 Accordingly, it is proposed that transfer of assets and liabilities as on 1.10.2000 may at this stage be done at a provisional value, subject to revision and finalisation subsequently. This provisional value may be taken as equivalent to the indicative net worth at book value of DTS/DTO as on 31.3.2000.

5.1.3 To calculate the net worth of DTS/DTO as on 31.3.2000, an indicative balance of assets and liabilities as on March 31, 2000 has been worked out. To this amount of Rs.67,867 crores, certain adjustments would need to be made. The main adjustments on the assets side would relate to the GOI/DoT investments in MTNL (Rs.354 crores – to be retained by GOI). On the liabilities side, the main adjustments would be on account of various deposits from customers and contingent liabilities (amount yet to be compiled, though not expected to be significant). On this basis (taking into account existing loans: MTNL-Rs.3,071 crores, GOI-Rs.2,034 crores), the net worth at book value of DTS/DTO as on 31.3.2000 is approximately Rs. 63,000 crores.

5.1.4 It is accordingly proposed to transfer the assets and liabilities to BSNL at this net provisional value of Rs.63,000 crores.

5.1.5 The accounts relating to DTS/DTO are to be closed as on 30.9.2000. The final figures of this closing after a 'due diligence', may be used as data for the balance sheet for BSNL as on 1st October, 2000. This will then determine the final value of transfer of assets and liabilities, for which Cabinet approval will be sought at that stage. In case this creates an impact on the capital structure of BSNL as against the capital structure proposed in this Note, any variation will also be reported to Cabinet for approval.

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5.2 Capital Structure of BSNL

5.2.1 The Cabinet in its meeting on 31st August had inter alia approved DoT's proposal that the paid up share capital of BSNL be Rs.5,000 crores {reference para 3.1(iii) above}.

5.2.2 Considering the net worth (as calculated in para 5.1.3 above) of Rs.63,000 crores, the capital structure of BSNL has to be decided carefully, keeping in view various considerations, such as debt:equity ratio, future investment plans, dividend payout, impact on future market value per share etc. and general ability of the future company to raise resources in the capital market. It has been pointed out by the consultants that internationally, telecom companies have been funded largely by equity, with the debt:equity ratio generally being less than 1:1. To meet the projected telephone demand and also the NTP-99 objectives, it has been estimated that the required capital outlay over the next five years (2001-02 to 2005-06) would be approximately Rs. 1 lakh to Rs. 1.1 lakh crores. As the internal accruals may not be adequate to meet the projected capital outlay, this would require substantial market borrowings by BSNL. It is therefore necessary for BSNL to have a strong equity base, so as to ensure a comfortable debt:equity ratio in the coming years. On the other hand, an excessively high level of share capital would lead to a high payout ratio, which would affect the internal accruals i.e. retained earnings of BSNL available for financing the required capital outlay. A balance between the two has therefore to be maintained in the long run.

5.2.3 The consultant has suggested two alternative capital structures for BSNL, Alternative-I with an equity share capital of Rs. 5,000 crores, GOI loan component of Rs. 15,000 crores and the balance as free reserves; and Alternative-II with an equity share capital of Rs. 5,000 crores, Preference Shares of Rs. 15,000 crores, nil GOI loan component, and the balance as free reserves.

5.2.4 In the capital structure of BSNL as proposed by the consultants, a loan component has been considered as a means to service Government's liability for pension payment. It needs appreciation that this is irrelevant in so far as pension for the period of Government service is *ab initio* the liability of the Government and this cannot legitimately be a charge on BSNL finances. The system followed at present whereby all expenses including terminal benefits are charged off upfront before arriving at the "surplus" figure which in turn is ploughed back, has resulted in build up of assets which are being passed on to the BSNL. But this cannot be a justification for conceiving a contrived loan figure for the corporate entity either on account of so called pension liability or any other consideration. This would create an unwarranted liability for the company and in due course, strain its cash flows. However, there are

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two genuine loan components in the books of the Deptt. of Telecom at present. These consist of two elements, viz., (i) contribution from general revenues (amounting to Rs.2034 crores as on 31.3.2000) which bears a perpetual dividend liability and (ii) market borrowing (amounting to Rs.3071 cr.). Therefore, the Department considers that for the present the loan component could at the most be the total of these two figures, viz., about Rs.5105 crores. Thus equity of Rs.5000 crores together with free reserves and surplus amounting to Rs.58,000 crores will place the company in a comfortable position in respect of its future borrowing needs. Thus the capital structure of BSNL is proposed as follows:-

Particulars	Rs. Crores	% Share
Equity Share Capital	5,000	
Reserves	58,000	
Total Shareholder fund	63,000	92.5%
Loans – MTNL	3,000	
Loans – GOI	2,000	
Total Debt	5,000	7.5%
Total Capital Employed	68,000	100%

5.2.5 The revised capital structure as suggested above would benefit both the GOI & BSNL in the long run. If the loan component as suggested by the Consultant is treated as reserves, it will enhance the networth of the company which can be exploited or encashed by the Government at a later stage through disinvestments. Also if BSNL has a favourable debt equity ratio backed by large unencumbered reserves, it would give the company strength to access the primary market for the funds required for its capital outlay in future.

5.3 Financial viability of BSNL

5.3.1 The telecom infrastructure in India has so far been developed almost entirely by the Government, though there has been some private involvement in the recent past. The compound annual growth rate of over 22% witnessed in the last few years is attributable almost solely to the Governmental efforts. The New Telecom Policy 1999 (NTP-99) has laid down major policy objectives to be achieved in a time bound manner, particularly with regard to development of a world class telecommunication infrastructure, development of the telecom infrastructure in rural areas, making available telephone on demand by the year 2002 and sustaining it thereafter so as to achieve a tele-density of 7 by the year 2005, and 15 by the year 2010. Availability of affordable and effective communications for the citizens is at the core of the vision and goal of the NTP-99.

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5.3.2 The process of corporatisation is likely to increase competitiveness/ efficiency and reduce costs. Alongside however, the ongoing process of opening up of National long distance and rebalancing of tariff are likely to put a lot of pressure in the intermediate time frame on the income streams of the corporate entity, as it will be born after the parent organization itself has shed its monopoly status in these areas. Simultaneously, there will also be additional costs directly attributable to the change of structure from one of a Government department to that of a corporate entity. These are employee related payments, corporate tax, dividend, sales tax, stamp duty, other taxes (property taxes, vehicle tax etc.), insurance charges, etc. Therefore, certain apprehensions have been expressed about the resource generation capacity of BSNL. These need to be viewed in an overall perspective. The financial health of any enterprise is dependent on a large number of factors. The interplay of various forces, including the environment in which the business entity operates, make a major difference to the financials of the entity. An attempt has been made in the following paragraph to correlate future post-corporatisation financial projections with those already available in the form of the Perspective Plan for 10 years from year 2000 to year 2010 so as to gauge the extent and magnitude of these apprehensions.

5.3.3 The Department of Telecom had prepared a comprehensive perspective plan for a 10 year period from 2000 to 2010 to chalk out specific plans of action on the ground to achieve NTP-99 objectives. That document envisages net addition of 1540 lakh lines to the network. Assuming that private sector operators will share about 40% of this burden, the corporate entity, as the incumbent operator, plans to scale down its commitment to provide 895 lakh lines (without taking into account additions by MTNL). The investment outlay required for this purpose would be approximately Rs.2,22,000 crores. In case there is any slippage on the part of the private sector in rolling out the network as assumed, the task on the shoulders of BSNL would be heavier. The present performance of the private sector in this regard has not been too encouraging. It is expected that with the recent migration package offered to the industry in the form of licence fee as revenue share, instead of fixed licence fee upfront, and the other measures announced to boost investment in the telecom sector, there should, in future, be a better response to the needs of the economy from the private sector. Therefore, the indicative figure of resource generation of Rs.2,22,000 crores on the part of BSNL is not being increased at this point.

5.3.4 Relevant figures in support of the above paragraph are furnished in Annexure-II. It may be noted that as against the projected requirement of Rs.2,22,000 crores, the internal resources likely to be generated on the best possible assumptions would be Rs.1,66,628 crores. This would leave a sizeable gap of Rs.55,566 crores. If the costs directly attributable to corporatisation as referred to in para 5.3.2 above are added to this, the resource gap would increase to Rs.88,422 crores (an increase of Rs.32,856

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crores). The resource gap to the tune of almost 40% of the total Plan outlay would not only place undue strain on the capital market if it were to be raised through that source but it would also deplete current surpluses of BSNL to such an extent that the corporate entity will not be able to pursue the NTP-99 objectives. Therefore, this issue has to be seen in the broader context of the crucial role that the telecom sector and its dominant operator, viz., BSNL is destined to play in improving the competitiveness of the whole Indian economy globally. To this end some specific measures are suggested in para 5.4 below.

5.4 Neutralisation of impact of corporatisation on BSNL's resource base

Keeping in view the above analysis, the following specific relief measures are suggested for BSNL :

5.4.1 Exemption from Income Tax Liability or removal of the "anomaly" in tax payment vis-à-vis existing private operators:-

DTS/DTO as Departments are not subject to Income Tax, which they would be in their corporatised PSU form. BSNL needs exemption from Income tax for the first five years to find its feet in the competitive market. Alternatively, BSNL should be allowed the benefit of Sec 80 IA enjoyed by private telecom operators for a level playing field. Under Section 80 IA of the Income Tax Act 1961, telecom undertakings are allowed tax deductions provided they had started providing telecom services between 1st April 1995 and 31st March 2000. Since BSNL would be commencing business with effect from 1st October 2000, it is proposed that the above concession be made applicable to it by extending the period upto 31.12.2000 or specifically declaring BSNL as eligible for this concession. If amendment of the Income Tax Act as suggested is not feasible, GOI should suitably reimburse BSNL for such tax.

5.4.2 Dividend payment:-

Current Government guidelines provide that profitable PSU's should pay a minimum of 20% of equity as dividend. Assuming a dividend rate of 20% (including dividend tax) on the proposed equity capital base of Rs.5,000 crores, the annual dividend payment would be approximately Rs.1,000 crores. Keeping in view BSNL's need for investible surpluses, it is proposed that BSNL be exempted from following general Government guidelines prescribed in the matter.

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5.4.3 Reimbursement of Licence Fee:-

It is important to bear in mind that the existing vast telecom network has been developed over the years not as a purely commercial network, but in many cases which have major adverse revenue impact, as per the Government's policies, security requirements, Government's directions etc. It is therefore proposed that BSNL be exempted from licence fee on what may be termed 'Legacy services', i.e. basic fixed service and NLDO where it is already an operator. In the case of new services such as Cellular, licence fee may be reimbursed.

5.4.4 Sales Tax:-

After corporatisation, BSNL will no longer be able to avail the 4% concessional sales tax under the Central Sales Tax Act, 1956 presently available to DTS/DTO as a Government Department; similarly, adverse impact may occur on account of local State sales taxes also. It is therefore proposed that BSNL should be appropriately reimbursed the additional amount which it will have to annually incur (approximately Rs.700-800 crores) in procurement of various telecom-related items and stores.

5.4.5 Wireless Spectrum Charges:-

The Department is the largest user of frequency spectrum since it has provided radio connectivities to far-flung areas including rural and unprofitable/remote areas. After the Department's corporatisation as BSNL, it will be liable to pay Rs.400-500 crores annually, as royalty/licence fee for the spectrum utilized. It is proposed that BSNL may be exempted from payment of the spectrum charges for the systems already installed upto 30.9.2000, and future expansions of the basic service network.

5.4.6 Stamp duty on transfer of assets to BSNL:-

The transfer of assets to BSNL could attract stamp duty and other local transfer charges. In case of MTNL, it was provided in the transfer deed that stamp duty has been agreed to be paid by the vendor (i.e. the President of India). Due to this no duty was paid by MTNL. In the case of BSNL also, the above charges should be agreed to be paid by the GOI. Thus there would be no financial implication for BSNL on this account.

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5.5 Financial support to BSNL for NTP-99 objectives

The above mentioned reliefs will specifically neutralize the extra cost attributed to corporatisation as referred to in paras 5.3.2 and 5.3.4. However, this would still leave a large enough resource gap amounting to over Rs.55,000 crores in the next 10 years which are attributable to changes in the telecom's operating environment such as, opening up of NLDO, tariff rebalancing etc. A large resource gap of this magnitude will make it difficult for the corporate entity to meet the national priorities and objectives as enshrined in the NTP-99 which will include a large component of unremunerative projects. Since pursuance of NTP-99 targets is a matter of national priority, requirement to fulfill these objectives will place an extra burden on BSNL finances. It has been estimated that receipt of licence fee dues from private operators in the form of revenue share during the next 10 years would be of the order of Rs.33,000 crores. It is suggested that at least 50% of the likely receipt may be earmarked for being retained by the DoT which in turn will release it in favour of BSNL for developmental projects as per NTP-99. The receipts from USO fund net of BSNL contribution will not be very significant and therefore additionality of resources would become imperative. Even after this extra contribution in the form of a part of revenue share, BSNL will have to borrow considerable amounts from the market on a year to year basis.

6. Financial and administrative powers for BSNL

The proposed conversion of the complex and country wide operations spread throughout the length and breadth of the country, and involving transfer of more than three and a half lakh staff is without parallel. In terms of DELs, the Department has added 45 lakhs DELs during 1999-2000. As of end Aug. 2000, the total number of DELs is 238 lakhs, making this one of the largest telecom systems in the world. The revenue earned in 1999-2000 was Rs.18,250 crore, the capital expenditure was Rs. 12,532 crore, and the cumulative capital outlay as on 31.3.2000 was Rs. 75,729 crore. It is therefore imperative that the Government agrees to conferring "Navratna" powers on the Board of BSNL immediately. Since exercise of "Navratna" status is dependent upon fulfillment of certain conditions, it is also necessary that in the interim BSNL Board is authorized to sanction its Plan projects and procure materials therefor without any monetary limits.

7. DoT's role for management of terminal benefits

An issue which needs to be specifically addressed is with regard to payment of terminal benefits which, as per the Government decision, will continue to be Government's liability. This liability is likely to be approximately Rs.12,000 crores

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(at present value). A mechanism is needed both for its funding and disbursement. As per preliminary estimates, it appears that the receipts in the form of pensionary contribution etc. from BSNL may be adequate in the initial years to enable the Government to meet the liability fully. Later on, there may not be enough accruals to match the entire liability. However, if receipt of licence fee from VSNL and MTNL, and later from BSNL (which is presently a part of the accrual of the DoT), is taken into account, the funds available over the next 10 years and thereafter would be adequate to meet the entire liability on account of terminal benefits. Therefore, DoT will have to set up a mechanism to create a corpus for this purpose as part of its budget, and also keep a small skeleton unit in each operating field unit to disburse these payments. In the unlikely event of the accruals mentioned in this para being found insufficient at any stage in future, the general exchequer will need to make good the shortfall in whatever manner considered feasible.

8. Switch over of financial operations from Government to Corporate system

Normally this switch over would have been easier to handle if the transaction were to take place to coincide with the close of the financial year. However, in view of Government's decision to corporatise DTS/DTO and commence business as a corporate entity with effect from 1st October, 2000 (mid-financial year), special steps have been taken to ensure that the change over occurs with minimal dislocation of operations. Among the steps taken are

- (a) closure of Government accounts of DTS on 30.9.2000;
- (b) termination of banking arrangements with RBI ;
- (c) setting up of BSNL banking arrangements ;
- (d) adjustment of budget grant to meet Parliamentary reporting requirements.

9. Structure of the Board of Directors

9.1 It is proposed to follow the DPE guidelines while structuring BSNL's Board of Directors (BOD). The composition of the BOD would however depend upon a number of considerations, such as the need for functional representation, regional representation etc. The consultants, as per their terms of reference, would be submitting their recommendations on this aspect in Vol II of their final report, which is expected to be submitted by 15th Nov. 2000. Pending the detailed composition of the BOD, it is proposed to appoint a first Board comprising of a few important functional Directors, with effect from 1st October 2000. A "Search Committee" has been constituted for this purpose.

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9.2: Meanwhile, in order to enable BSNL to immediately commence operations with effect from 1st October, 2000, it had been decided, with the approval of the Minister of Communications, to appoint four senior Departmental officials as BSNL's first Directors. These first Directors were appointed in order to take the requisite procedural steps for obtaining the certificate of incorporation for BSNL, and thereafter to apply for the certificate for commencement of business.

10. Functions of the Department of Telecommunications after the corporatisation of DTS/DTO

10.1 The Telecom Commission (TC) was constituted in April 1989, "in order to promote rapid development in all aspects of telecommunications including technology, production and services...". It has thus functioned as a 'single window' decision maker, which has enabled the extremely rapid growth witnessed in this sector during the last few years. In the post corporatised scenario, the TC will necessarily have to continue to ensure achievement of the already announced NTP-99 policy objectives, and those to be announced from time to time. This task will be all the more challenging now, with the increasing involvement and participation of the private sector. The TC will accordingly have to function like a 'think tank', to quickly evolve new policy initiatives to deal with the emerging and rapidly changing domestic and global telecom scenario, and also act as a final decision making body in this regard.

10.2 The functions presently being performed by the Department of Telecommunications (DoT) are as specified in the 29th November, 1999 notification allocating business between the DoT and the DTS. It has been stipulated in the Cabinet Sectt. notification dated 17th July 2000, against both Department of Telecom Services and Department of Telecom Operations, that "On corporatisation of this temporary Department, residual work, if any, will stand allocated to the Department of Telecommunications." Accordingly, post corporatisation, DoT will perform certain additional functions, which would include becoming the administrative Department for Bharat Sanchar Nigam Ltd. (i.e. the corporatised DTS/DTO), the existing PSUs of MTNL, VSNL and TCIL, the Centre for Development of Telematics (C-DOT), administration of the proposed Universal Access Levy, residual work of the erstwhile DTS/DTO (including issues such as pension settlement, cadre management) etc.

11. Comments of other Ministries

11.1 A copy of this note has been sent to the Ministry of Finance, the Department of Economic Affairs, the Department of Expenditure, the Department of Personnel & Training, the Department of Legal Affairs, the Department of Company Affairs, the

Department of Public Enterprises, the Ministry of Urban Development, and the Ministry of Health & Family Welfare.

11.2 In view of the shortage of time, they have been requested to place their views in the meeting of the Cabinet.

12. Approvals sought

Accordingly, approval of the Cabinet is sought to the following:-

(A) Approval for HRD Issues
(reference para 4 above)

(a) All officers and employees other than those being retained in the Department of Telecommunications (DoT), would be transferred w.e.f. 1.10.2000 on deemed deputation without deputation allowance to Bharat Sanchar Nigam Ltd. on as is where is basis along with their posts on existing terms and conditions. Their status as Central Government employees would continue till the date of absorption.

(b) As per agreement with the 'C' & 'D' categories of employees, such of those who agree to get absorbed w.e.f. 1.10.2000 would be given the benefit of the pay scale of PSUs as and when they get fixed and an ad-hoc sum of Rs.1000/- would be given to be adjusted against their future salary. A cut off date would be given for giving their options.

(c) A suitable cut off date would be given with a reasonable degree of flexibility to Group 'B' officers.

(d) Group 'A' officers may be given an extended period of deemed deputation while deciding upon the cut off date.

(e) Pension & retirement, job security benefits would be as per the scheme at Annexure-I.

(i) All employees will be entitled to Government's scheme of pension/family pension even after their absorption.

(ii) Payment of pension would be made by Government.

(iii) Arrangements would be worked out for obtaining pension contribution from the PSU to be deposited with the Government.

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- (iv) The existing GPF amount of the employees will be transferred to their new GPF accounts to be operated by the PSU.
- (v) Facility to carry over Earned Leave and Half Pay Leave would be provided.
- (vi) The pension framework has been made part of the CCS Pension Rules by amending Rule 37 using powers under Article 309 of the Constitution of India.
- (vii) Any order of removal/dismissal from the PSU would be reviewed by the Administrative Ministry.
- (f) The facility of general pool housing accommodation and CGHS facilities would be continued during their period of deemed deputation.
- (g) Bharat Sanchar Nigam Ltd. would be duly compensated for discharging obligations in regard to rural telephony or any other uneconomic service in accordance with any Government directive for the implementation of NTP-99.
- (h) Bharat Sanchar Nigam Ltd. would not be allowed to become non viable as this would be a potent instrument in the hands of the Government for achieving its social objectives of achieving NTP-99 objectives.
- (i) An expert committee would be constituted to work out arrangements and future strategy in regard to cadre management, recruitment of Class A posts with a view to ensure proper management control by the BSNL over its employees.
- (j) As long as the telecom employees remain Government servants, i.e., till the date of their absorption in the new corporation, they will have to seek redressal of their grievance through the procedure laid down in the JCM. Consequently, any decision taken by this "JCM route" will be applicable to them till the date of their absorption. The corporate entity would be asked to set up a Board sub-committee to look into the remaining HRD issues concerning the employees and settle them in a time bound manner in consultation with the Government.
- (k) The issues relating to CSS employees would be decided by DoT in consultation with DoPT which is the cadre controlling authority of CSS.

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(B) Approval for Financial Issues

- (i) Transfer of assets and liabilities to BSNL on 1st October 2000 on a provisional value of Rs.63,000 crores, subject to finalisation of the transfer value by 31.3.2001 (reference para 5.1.4 above), in consideration of equity of Rs.5,000 crores in favour of GOI, and the balance appearing as reserves in the books of BSNL.
- (ii) Capital structure of BSNL as given in para 5.2.4 above.
- (iii) BSNL be given the following fiscal/monetary reliefs:-
 - (a) Exemption from IT liability for a period of five years to be reviewed later. Or, remove the anomaly in tax payment vis-à-vis existing private operators, either by amendment of the Income Tax Act (by extending general applicability or specifically exempting BSNL), or by reimbursement to BSNL of the difference arising on account of payment of corporate tax without amendment to the Act (reference para 5.4.1 above).
 - (b) Exemption from the application of Government guidelines on dividend payout for a period of ten years (reference para 5.4.2 above).
 - (c) Reimbursement, net of taxes of the annual license fee payable by it for all the telecom services provided by it, till 2010 (reference para 5.4.3 above).
 - (d) Reimbursement till 2010, the additional amount which it will have to annually incur on account of enhanced rate of sales tax, on procurement of various telecom-related items and stores (reference para 5.4.4 above).
 - (e) Exemption from payment of the annual spectrum charges for the systems already installed upto 30.9.2000. In addition, reimburse to BSNL the spectrum charges for providing radio connectivities in the rural/ unprofitable/ remote areas in future (reference para 5.4.5 above).
 - (f) GOI to bear Stamp Duty on transfer of GOI assets to BSNL (reference para 5.4.6 above).
 - (g) Reimburse BSNL for any non-commercial activity which GOI may direct it to perform (reference para 5.5 above).

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(h) Exempt the amounts being reimbursed to BSNL on the above reliefs/concessions from Income Tax. For this purpose, necessary amendments to the Income Tax Act may also be carried out.

(i) Continuance of these reliefs/concessions till such time as BSNL continues to be a Government Company.

(iv) Authorise DoT to administer payment of terminal benefits (reference para 7 above).

(C) Approval for other issues

(i) Confer on BSNL "Navratna" status (reference para 6 above).

(ii) BSNL be permitted to undertake, without any monetary ceiling, capital expenditure on purchase of new items or for replacement (reference para 6 above).

12. The statement of implementation schedule in respect of the above proposals has been given in Appendix to the Note.

13. This Note issues with the approval of the Minister of Communications.


(Anil Kumar)
Joint Secretary

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APPENDIX
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Ministry of Communications
Department of Telecom Services

STATEMENT OF IMPLEMENTATION SCHEDULE

Subject: Approval for HRD and financial issues arising out of the corporatisation of the Department of Telecom services and of the Department of Telecom Operations.

Gist of decision required	Projected benefits/results	Time-frame and manner of Implementation/Reporting to Cabinet Secretariat
Approval of the Cabinet is sought on various HRD and financial issues arising out of the corporatisation of the Department of Telecom services and of the Department of Telecom Operations.	The approvals sought will enable successful operationalisation of the corporate entity.	The Department will take appropriate follow-up action to operationalise the corporate entity from 1 st October 2000.


(Anil Kumar)
Joint Secretary

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Annexure-I

In the Central Civil Services (Pension) Rules, 1972, the following shall be inserted after Rule 37 and before Rule 38, namely:-

"37-A. Pension on absorption consequent upon conversion of a Government Department into a Central Autonomous Body or Public Sector Undertaking.

- (1) On conversion of a Government Department into a PSU/Autonomous Body, all employees of the Department shall be transferred en-masse to the PSU/Autonomous Body on foreign service terms without deputation allowance till such time as they get absorbed in the new organization. The transferred Government servants will be permanently absorbed in the PSU/Autonomous Body with effect from a date to be notified by the Government.
- (2) The transferred employees shall be given the option to revert back to Government or to seek permanent absorption in the PSU/Autonomous Body. They shall exercise the option in such manner and within such period as may be stipulated by the Government. The permanent absorption in the PSU/Autonomous Body shall take effect from the date their option is accepted by the Government and from that date, they will cease to be Government servants. They shall be deemed to have retired from the Government service and their posts in the Government will automatically stand abolished. Such of the Government servants who opt to revert back to Government shall be redeployed through the Surplus Cell.
- (3) Those employees including quasi permanent and temporary but excluding casual labourers who opt to be permanently absorbed in the PSU, shall, from the date of such absorption, be governed by the service rules etc. of the PSU. The permanent employees shall, however, be eligible for pensionary benefits on the basis of combined service in the Government and the PSU, in accordance with the formula for calculation of pension/family pension under the Central Government Rules in force at the time. The benefits will be calculated on the last ten months' average pay drawn in IDA scale in the PSU. In addition to pension/family pension, they shall also be eligible to dearness relief as per IDA pattern. These benefits shall also be available to quasi permanent/temporary employees after they have been confirmed in the PSU/Autonomous Body.
- (4) Pensionary benefits of absorbed employees shall be paid out of a Pension Fund in the form of a Trust to be created by the Government. The Secretary of the administrative Ministry of the PSU shall be the Chairman of the Board of

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Trustees which will include representatives of the Ministries of Finance, Personnel, Labour, PSU, employees and other experts in the field. The procedure and the manner in which pensionary benefits are to be sanctioned and disbursed will be determined by the Government on the recommendation of the Board of Trustees.

- (5) The Government will discharge its pensionary liability by paying in lump sum as a one time payment to the Pension Fund, the pro rata pension/service gratuity/retirement gratuity for the service rendered till the date of transfer of the Government employees from the Government Department to the PSU. The mechanism of sharing the financial liability by the PSU on this account will be determined by Government. Lump sum amount of the pro rata pension will be determined with reference to Commutation Table laid down in CCS (Commutation of pension) Rules, as amended from time to time. For the period of service to be rendered under the PSU, the PSU shall make pensionary contribution to the Pension Fund at the rates as may be determined by the Board of Trustees so that the Pension Fund becomes self-supporting.
- (6) If, for any financial or operational reason, the Trust is unable to discharge its commitments fully from the Pension Fund and the PSU is also not able to meet the shortfall, the Government shall undertake this responsibility and debit the expenditure on that account to either the Fund or the PSU as the case may be. Payments of Pensionary benefits of the existing pensioners of the Government Department shall continue to be the responsibility of the Government and the mechanism for sharing its liabilities on this account will be determined by the Government.

Note: The provisions of sub-rules (4), (5) & (6) will not apply in the case of conversion of the Departments of Telecom Services and Telecom Operations into Bharat Sanchar Nigam Limited, in whose case Government have decided that the pensionary benefits including family pension shall be paid by the Government. For this purpose, the Government will devise a suitable mechanism including the rate of pensionary contributions to be made by Bharat Sanchar Nigam Limited to the Government and the manner in which financial liabilities on this account will be met. These arrangements will be applicable only to the existing pensioners and to the employees who are deemed to have retired from the Government service for absorption in Bharat Sanchar Nigam Limited and will not apply to the employees directly recruited by Bharat Sanchar Nigam Limited for whom it shall devise its own pension scheme

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and make arrangements for funding and disbursing the pensionary benefits to these employees.

- (7) The GPF balance, standing at the credit of the employees on the date of absorption, shall be transferred to the new Provident Fund Account of the employees in the PSU/Autonomous Body, with the consent of the body.
- (8) Earned leave and Half Pay Leave at the credit of the employees on the date of absorption shall stand transferred to the PSU/Autonomous Body.
- (9) Dismissal/Removal from service of the PSU after absorption for any subsequent misconduct shall not amount to forfeiture of the retirement benefits for the service rendered under the Government. Also, in the event of dismissal/removal/retrenchment concerning the absorbed employees, the decisions of the PSU/Autonomous Body shall be subject to review by the administrative Ministry.
- (10) If at a future date, the Government decides to disinvest its equity in the PSU to the extent of 51% or more, it shall ensure that adequate safeguards are provided to protect the interests of the absorbed employees of the PSU. These safeguards, inter-alia, will include option for voluntary retirement or continued service in the Corporation or voluntary retirement benefits on terms applicable to Government employees or PSU employees as per option of the employees, assured payment of earned pensionary benefits with relaxation in period of qualifying service, as may be decided by the Government."

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Annexure IA

Status of HRD issues

No.	Issue	Status
1	Revision of Pay scales of Sr. TOA and TOA	Agreed in principle subject to fulfillment of guidelines of expert committee (Seshagiri committee) and modalities to be finalized by Group of Secretaries (GOS). This meeting was held on 20/9/2000.
2	Cadre of Telecom Attendant	It was approved in principle to be extended only to those employees who opt for permanent absorption in BSNL. Actual pay scale in Group 'D' is to be identified by DoPT.
3	Pay scale of Linemen, Wiremen and Telegraphmen at par with Postmen.	GOM has approved with effect from 10/10/97.
4	Regularisation of strike period wages from 3/11/90 to 22/11/90. and Regularization strike period wages from 19/6/95 to 23/6/95	GOM has approved the recommendations of COS to treat the periods as dies non.
5	Changes in the promotion policy for Grade IV.	The proposal for making promotion to Grade IV as time bound was not approved. The Federations took up this issue again during negotiations on 6 th and 8 th September. The matter was discussed by a Group of Secretaries for the meeting held on 20/9/2000. The matter is still to be resolved.
6	Cadre restructuring of Group 'B' Officers in the cadre of SDEs.	A revised cadre review proposal has been prepared. The matter is still to be resolved.
7	Cadre restructuring of JTOs.	A revised cadre review proposal has been prepared. The matter is still to be resolved.
8	Revision of pay scales of JAOs.	A revised cadre review proposal has been prepared. The matter is still to be resolved.
9	Anomaly cases.	There are seven anomaly cases referred to DOP&T. It was decided in the last GOM meeting that DOP&T would process them and appoint arbitrator as per the procedure.
10	Revision of pay scale of AE etc.	COS/GOM has not recommended the case as it may have repercussions in other Departments. The demand/grievance would need to be seen by the BSNL management.

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11	Other unsettled issues.	GOM has decided that these may be left to be considered by the management of BSNL in consultation with the Government as JCM route would need to be adopted wherever necessary for deciding cases during the period of deemed deputation. This may be done in a time-bound manner by setting up a sub-committee of the Board.
12	Counting of past service of casual labour for pension.	GOM decided that the existing Rules on this matter should be strictly followed.
13	Group 'A' issues	GOM decided that the Committee of Secretaries may look into these issues and give their recommendations.

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Annexure-II

Revised Resource-Gap Consequent to Corporatisation

Year	Addition to DELs(lakhs)	Investment Required(cr)	Internal Resources(cr)	Resource Gap(cr)	Addl Gap Post Corporatisation	Total Revised Gap
00-01	53.5	16500	13848	2562	691	3253
01-02	69.14	20362	13326	7036	4157	11190
02-03	64.47	16866	13135	3732	3034	3766
03-04	76.87	20110	13525	6591	3530	10121
04-05	83.27	20695	12985	7710	1388	9099
05-06	93.06	23129	17153	5976	3114	9092
06-07	96.9	22879	16456	6423	1894	8317
07-08	107.39	25356	20796	4560	4191	8751
08-09	119.03	26699	20999	5700	4716	10416
09-00	131.56	29509	23852	5658	6141	11799
Total	895.19	222194	166628	55566	32856	88422

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Government of India
Ministry of Communications
Department of Telecom Services


New Delhi, the 26th September 2000

CORRIGENDUM TO CABINET NOTE

Subject: Approval for HRD and financial issues arising out of the corporatisation of the Department of Telecom Services and of the Department of Telecom Operations.

In this Department's Cabinet Note No.2-2/99-Restg.(Vol.I) dated 25th September 2000 on the above subject, the following corrections may kindly be made:-

1. In para 4.9(ii), in the fourth line, after the words "sum of Rs.1000/-" and before the words "would be given", the words "per month" may be added.
2. Similarly, in para 12(A)(b), in the third line, after the words "sum of Rs.1000/-" and before the words "would be given", the words "per month" may be added.
3. In Annexure-I, in para (3), in the eighth line, after the words "last ten months' average pay drawn", the words "in IDA scale in the PSU" may be deleted.


(Anil Kumar)
Joint Secretary

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