

## Financial implications of the recommendations

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### *Introduction*

10.1.1 Recommendations of the Commission relating to pay scales and revision of pension are proposed to take effect retrospectively from 1.1.2006. Other recommendations will be effective prospectively. The Government, therefore, will have to pay arrears accruing on account of retrospective revision of the pay scales and pension. The financial implications have, accordingly, been computed taking in account the likely expenditure on payment of arrears on this account. The annual implications have been indicated with reference to the year 2008-09 when the recommendations are likely to be implemented. These will vary proportionately for ensuing years.

### *Revised pay bands*

10.1.2 Total cost of implementing the revised pay bands is expected to be Rs.5468 crore p.a. This includes the annual expenditure of Rs.3828 crore on revised pay bands for civilian employees and expenditure of Rs.1640 crore p.a. for revised pay bands in the Defence Forces.

### *Pension*

10.1.3 The Commission is recommending a 40% increase in the pension/family pension. This increase subsumes the increase on account of merger of dearness relief equal to 50% of pension as dearness pay that was given w.e.f. 1/4/2004. This will result in an additional expenditure of Rs.1365 crore p.a. in the year 2008-09. The annual additional expenditure of Rs.1365 crore covers pensioners of Defence Forces as well.

### *Gratuity*

10.1.4 Existing expenditure on Gratuity is estimated at Rs.2515 crore p.a. Increased payments of gratuity on account of the increase in pay scales will result in an additional annual expenditure of Rs.360 crore approximately. There will also be additional expenditure due to the proposed increase in the limit of gratuity. The additional expenditure on this account is expected to be Rs.50 crore p.a. Total additional financial implications due to recommendations made relating to payment of Gratuity will, therefore, be Rs.410 crore p.a.

<i>Leave encashment</i>	10.1.5 Expenditure on leave encashment will also increase on account of proposed increase in the pay scales. The additional expenditure on this account will approximately be Rs.172 crore p.a. The Commission has also recommended encashment of leave upto 60 days while in service which will not be deducted from the maximum number of leave encashable at the time of retirement. This will result in an additional expenditure of Rs.8 crore p.a. Total additional financial implications on account of the recommendations made in respect of leave encashment will, therefore, be Rs.180 crore p.a. approximately.
<i>Military Service Pay</i>	10.1.6 In the case of Defence Forces, there will be an additional annual expenditure of Rs.1996 crore on payment of Military Service Pay (MSP). This will be over and above the annual expenditure of Rs.1640 crore on account of fitment in the revised pay bands. No arrears on account of MSP are payable. Hence, during the year 2008, the expenditure on this account is likely to be Rs.1497 crore.
<i>Allowances for Defence Forces</i>	10.1.7 Annual financial implications on account of increased allowances for Defence Forces are expected to be of the order of Rs.1750 crore. This includes additional expenditure of Rs.250 crore towards the new Housing Allowance being recommended for the first time for PBORs who are not eligible for CILQ or family accommodation.
<i>Transport Allowance</i>	10.1.8 Total annual implications on this account are expected to be Rs.650 crore. This includes implications of Rs.5 crore on increasing the amount for Group A posts; implications of Rs.50 crore on increasing the amount for Group B posts; and implications of Rs.595 crore on increasing the amount for Group C posts. There will be no implication for Group D posts as these will be merged with Group C posts. Along with increase in the rate of Transport Allowance, the CCA will be withdrawn. This will result in a saving of Rs.409 crore p.a. Hence, the net additional expenditure on the proposed increase in Transport Allowance will be Rs.241 crore.
<i>HRA</i>	10.1.9 Additional annual expenditure on payment of HRA on account of the increase in the revised pay scales is expected to be Rs.838 crore. To this, additional expenditure of Rs.182 crore on account of higher rates of HRA being recommended for cities presently classified as B & C would also need to be added. An additional expenditure of Rs.80 crore would be incurrable on account of revised classification of some cities. Thus, the total expenditure on this account is expected to be Rs.1100 crore p.a.
<i>Other allowances</i>	10.1.10 Additional expenditure on revision of allowances is expected to be as follows :-

<b>Allowance</b>	<b>Additional annual expenditure</b>
TA/DA/Transfer Allowance/Conveyance Allowance	Rs.100 crore.
Various compensatory allowances other than Dearness Allowance	Rs. 50 crore
Uniform/related Allowances	Rs.50 crore
Housing allowance for CPMF personnel not given Rent Free Accommodation/Family Accommodation	Rs.200 crore
<b>Total</b>	Rs.400 crore

***Other recommendations***

10.1.11 The Commission has recommended upgradation of different posts. This will also result in an additional expenditure of Rs.100 crore p.a. including additional implication of Rs.50 crore p.a. on account of the proposed upgradation of common categories posts of Teachers, Police, Nurses and additional implication of Rs.50 crore on account of the proposed upgradation of specific individual posts. Proposed increase in the rate of individual allowances specific to certain categories is expected to cost an additional amount of Rs.50 crore p.a. The total implication on account of other recommendations will, therefore, be Rs.150 crore pa.

***Total gross implications***

10.1.12 Total gross implications of the various recommendations made by the Commission are tabulated as follows:-

<b>Sl. No.</b>	<b>Head</b>	<b>Implications (Rs. in crore per annum)</b>
1.	Revised pay scales for civilians	3828
2.	Revised pay scales for Defence Forces	1640
3.	Military Service Pay for Defence Forces	1497
4.	Transport Allowance (civilians and Defence Forces)	241
5.	HRA (civilians and Defence Forces)	1100
6.	Pension (civilians and Defence Forces)	1365
7.	Gratuity (civilians and Defence Forces)	410
8.	Leave encashment (civilians and Defence Forces)	180
9.	Defence Forces allowances	1750
10.	Other allowances	400
11.	Miscellaneous (upgradations of individual posts, individual allowances etc.)	150
	<b>Total</b>	12561

***Projected savings on account of proposed recommendations***

10.1.13 The gross financial implication on account of the recommendations made in this Report will need to be reduced by the savings that will accrue on account of various recommendations made in the Report. These savings are on account of the following:-

<b>Recommendation</b>	<b>Projected savings p.a.</b>
Rectification of commutation of pension formula	Rs.1000 crore
Revised scheme for payment of pension commutation	Rs.1344 crore
Revised scheme for payment of advances	Rs.442 crore
Lateral movement of Defence Forces personnel in CPMFs [Rs.600 crore (on pension) + Rs.1100 crore (on commutation of pension) + Rs.100 crore (on training & recruitment)]	Rs.1800 crore
<b>Total</b>	<b>Rs.4586 crore</b>

***Net Financial implications***

10.1.14 The net additional financial implication on account of implementation of various recommendations of this Commission will, therefore, be Rs.7975 crore p.a.

***Implications in Budgets of the Central Government and Railways***

10.1.15 In the year when recommendations are implemented, no savings may accrue. Consequently, the additional expenditure for that year will be Rs.12561 crore. Out of this, Rs.9242 crore will go towards the Budget of the Central Government and Rs.3319 crore will go in the Railway Budget. Since the recommendations relating to revision of pay scales and pension are recommended for being implemented retrospectively w.e.f.1.1.2006, the Government will have to pay arrears on this account. Arrears will need to be paid for the years 2006 and 2007 in case the recommendations are implemented in 2008. The Government will, therefore, have to bear one time expenditure on payment of arrears on this account. This one time expenditure will be approximately Rs.18060 crore. Out of this, an expenditure of Rs.12642 crore will have to be borne in the Budget of the Central Government with the remaining amount of Rs.5418 crore going to the Budget of Indian Railways. The Government may pay the arrears in two installments in different years which will mean that the expenditure on this account will be of Rs.6321 crore in Central Budget and Rs.2709 crore in Railway Budget for each of the two years. Including the expenditure on payment of arrears, the additional expenditure for the year 2008 for the Government, excluding Railways which has a separate budget,

will be Rs.15,563 crore in case arrears are paid over a period of two years with the remaining expenditure of Rs.6028 crore being borne by the Railways in their Budget.