

SEVENTH REPORT

**COMMITTEE ON PUBLIC UNDERTAKINGS
(2009-2010)**

(FIFTEENTH LOK SABHA)

**HINDUSTAN PETROLEUM CORPORATION LIMITED
UNPRODUCTIVE PAYMENT OF INCENTIVE**

(MINISTRY OF PETROLEUM & NATURAL GAS)

(Action Taken by the Government on the recommendations contained in the Thirty-First Report (14th Lok Sabha) on Hindustan Petroleum Corporation Limited – Unproductive payment of incentive in Hindustan Petroleum Corporation Limited based on Para 14.4.1 of the Report on Union Government (Commercial) of the C&AG of India No. 11 CA of 2008.)



Presented to Lok Sabha on 30.04.2010

Laid in Rajya Sabha on 30.04.2010

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 2010 / Vaisakha 1932(S)

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**COMPOSITION OF THE
COMMITTEE ON PUBLIC UNDERTAKINGS (2009 - 2010)**

Shri V. Kishore Chandra S. Deo—Chairman

SI. No. MEMBERS, LOK SABHA

2. Shri K.C. Singh 'Baba'
3. Shri Ramesh Bais
4. Shri Hemanand Biswal
5. Shri Anant Kumar Hegde
6. Shri Sukhdev Singh Libra
7. Dr. Charan Das Mahant
8. Shri Baijayant Panda
9. Shri L. Rajagopal
10. Shri Nama Nageswara Rao
11. Chaudhary Lal Singh
12. Shri Ganesh Singh
13. Shri N. Dharam Singh
14. Shri Rajiv Ranjan Singh alias Lalan Singh
15. Shri Bhisma Shankar alias Kushal Tiwari

MEMBERS, RAJYA SABHA

16. Shri Birendra Prasad Baishya
17. Shri Bharkumar Raut
18. Ms. Mabel Rebello
19. Dr. T. Subbarami Reddy
20. Shri Vijay Kumar Rupani
21. Shri Tapan Kumar Sen
22. Shri Amar Singh

SECRETARIAT

- | | | |
|----|------------------------|---------------------|
| 1. | Shri J.P. Sharma | Joint Secretary |
| 2. | Shri Ajay Kumar Garg | Additional Director |
| 3. | Shri Paolienlal Haokip | Under Secretary |

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Seventh Report on Action Taken by the Government on the recommendations contained in the Thirty-First Report (14th Lok Sabha) on Hindustan Petroleum Corporation Limited – Unproductive payment of incentive in Hindustan Petroleum Corporation Limited Based on Para 14.4.1 of the Report on Union Government (Commercial) of the C&AG of India No. 11 CA of 2008.

2. The Thirty-first Report of the Committee on Public Undertakings (2008-2009) was presented to Lok Sabha on 16th December, 2008. Action Taken Replies of the Government to the recommendations contained in the Report were received on 7th July, 2009. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 25th April 2010. The Minutes of the sitting are given in **Appendix – I**.

3. An analysis of the action taken by the Government on the recommendations contained in the Seventh Report of the Committee is given in **Appendix – II**.

**New Delhi:
28 April, 2010
8 Vaisakha, 1932(S)**

**V. KISHORE CHANDRA S. DEO,
Chairman,
Committee on Public Undertakings.**

REPORT

This report of the Committee deals with the action taken by the Government on the recommendations contained in the Thirty-first Report (Fourteenth Lok Sabha) of the Committee on Public Undertakings which was presented to Lok Sabha on 16.12.2008.

Action taken notes have been received from the Government in respect of the only recommendation contained in the Report. The recommendation had two aspects, both of which have been addressed by the Government in their action taken notes.

In the report, the Committee had observed and recommended on two aspects as given below.

Recommendation – Delay in formulation and implementation of PRI Scheme

The Committee note that HPCL in 2006 introduced an incentive scheme, namely, the Performance Related Incentive (PRI) scheme. This new scheme was in addition to the two already existing schemes viz., the Productivity Incentive (PI) scheme and the Performance Linked Incentive (PLI) scheme. This scheme in question was justified on the basis of DPE guideline increasing the limit for payment of performance linked incentives to 50% of basic pay and five percent of distributable profit and subject to the condition that payments made under the two existing schemes are well below such limit. The Committee further note that the PRI was made effective retrospectively from the year 2004-05 and later extended to include the years 2002-03 and 2003-04. As a consequence, incentive payments of Rs. 19.55 crore, Rs. 23.91 crore, Rs. 16.30 crore and Rs. 16.50 crore for the years 2002- 03, 2003-04, 2004-05 and 2005-06 respectively were made under the new PRI scheme, amounting to a total payout of Rs. 76.26 crore. In this regard, the Committee note that since the parameters for determining the payment under PRI scheme would have been evolved only after the scheme was introduced in 2006, the Board of HPCL decided to use the parameters of the PI scheme for payment of incentives under PRI for the years 2002-03 to 2005-06.

As per the Audit objection, the payment of incentives retrospectively for the years 2002-03 to 2005-06 using the performance parameters of PI scheme, instead of PRI Scheme was irregular since the objectives of the two schemes were entirely different and tantamounts to releasing of double payment for the same performance thereby resulting in unproductive payment of incentive. Further, implementation of scheme retrospectively cannot be expected to motivate employees for the performance already achieved and rewarded.

The Company, however, has tried to justify their act by stating that the PRI scheme was introduced primarily to utilize the provisions of the revised guidelines to address the inadequacy of the two existing schemes to fairly reward the performance of employees in meeting the stiff targets set for them especially since 2002-03 in view of the dismantling of the Administered Price Mechanism (APM) in Oil sector and the emerging competition from the private players. Besides, the scheme was also aimed at containing the high attrition rate evident since 2005 due to a wide disparity among the salary and benefits paid to employees of public sector oil companies and their counterparts in private sector.

The Committee are not convinced with the justification furnished by the Company on the Audit objections in respect of the PRI Scheme. The Committee feel that the PRI Scheme should have been operationalized soon after the revised guidelines for the payment of perquisites and allowances were issued by DPE in 1999. In the opinion of the Committee, the management, despite having the necessary autonomy to pre-empt the undesirable occurrence of high attrition among its experienced employees, had failed to initiate timely action to compensate them at comparable levels through a proactive introduction of permissible incentives. The Committee recommend that the company should in future take proactive steps to motivate and retain its workforce rather than engage itself in repair work often involving questionable methods such as the utilization of performance parameters of one scheme to pay incentives under another scheme.

As regards giving of retrospective effect to the implementation of the PRI scheme, the Committee note that both HPCL management and the Ministry concurred in justifying the decision based on the need to reward the appreciable performance rendered by the employees since the end of the APM regime in 2002-03 and the inadequacy of the existing limits of incentives to adequately reward such performance. While appreciating the argument, the Committee reiterate that in view of the fact that DPE guidelines have provided for the implementation of such a scheme as early as 1999, the justification put forth by the management and the ministry are at best an attempt to cover up inefficiency in timely introduction of the scheme. Further, the Committee are in concurrence with audit's observation that payment of incentives under PRI scheme based on performance parameters of the PI scheme, which stood attained and rewarded technically amounts to unproductive payment, for incentive schemes are by nature meant to motivate future performance based on defined parameters and should not be utilized to exhaust unutilized funds in gestures of retrospective benevolence. The Committee therefore recommend that the company must take timely action to effect such schemes as per guidelines issued from time to time so as to ensure that recurrence of such kind of anomaly and undesirable situations do not arise.

In reply, the Government had submitted action taken notes on the two aspects of the recommendation of the Committee, had their replies vetted by the C&AG and given their comments on the remarks of the C&AG as given below:

Recommendation (Aspect-I)

The Committee recommended that the Company should in future take proactive steps to motivate and retain its workforce rather than engage itself in repair work often involving questionable methods such as the utilization of performance parameters of one scheme to pay incentives under another scheme.

Reply of the Government

As advised by Honourable Committee, effective 2006-07, the Corporation adopted the mechanism of payment of PRI based on specific parameters set by the Strategic Business Units at the beginning of the year. The payment made to these SBUs is based on actual performance against the targets set by them. This mechanism was further improved during the year 2007-08 by linking the performance of SBUs to individual performance, in order to motivate the employees for focused performance towards growth and profitability of the Corporation.”

[Ministry of Petroleum & Natural Gas]
O.M. No.R-30024/51/2007-MC dated 6th July, 2009

Remarks of Office of C&AG on the Reply of the Government

The reply of the Government has been verified and found correct. Para is therefore not pursued further.

Comments of the Ministry on the remarks of Office of C&AG

No further comments in view of the decision of C&AG to not to pursue the Para further.

[Ministry of Petroleum & Natural Gas]
O.M. No.R-30024/51/2007-MC dated 6th July, 2009

Recommendation (Aspect-II)

The Committee recommends that the company must take timely action to effect such schemes as per guidelines issued from time to time so as to ensure that recurrence of such kind of anomaly and undesirable situations do not arise.

Reply of the Government

As advised by Honourable Committee, the Corporation has taken action regarding payment of PRI Scheme based on the actual performance against the targets set in the beginning of the year by each SBU and individual officers and same will continue in future with improved performance based mechanism. The Incentive Scheme of the Corporation would also be suitably modified to conform with the latest

guidelines on the subject consequent to the recent revision of pay and allowances of Executives of Central Public Sector Enterprises (CPSE).

[Ministry of Petroleum & Natural Gas]
O.M. No.R-30024/51/2007-MC dated 6th July, 2009

Remarks of Office of C&AG on the Reply of the Government

The mechanism for payment of incentive against PRI Scheme has been improved by the Company. Modification to the incentive scheme with reference to the revision of pay and allowances of executives of CPSE will be reviewed in Audit and observations, if any, will be taken up separately. Hence, the Para may be treated as settled.

Comments of the Ministry on the remarks of Office of C&AG

No further comments in view of the decision of C&AG to treat the Para as settled.

[Ministry of Petroleum & Natural Gas]
O.M. No.R-30024/51/2007-MC dated 6th July, 2009

Comments of the Committee

Considering the fact that the Office of C&AG had verified the reply of the Government and found it to be correct, the Committee express their deep satisfaction over the prompt appreciation by the Government of their recommendation. The Committee further observed that the better exchange of perspectives between the executive and the Office of C&AG during the process of Audit would go a long way in making the exercise of ensuring accountability of the Executive more meaningful and substantive.

New Delhi:
28 April, 2010
8 Vaisakha, 1932(S)

V. KISHORE CHANDRA S. DEO,
Chairman,
Committee on Public Undertakings.

**MINUTES OF THE 17th SITTING OF THE COMMITTEE ON
PUBLIC UNDERTAKINGS (2009-10) HELD ON 28th APRIL 2010**

The Committee sat from 1530 hrs to 1600 hrs.

PRESENT

Chairman

Shri V. Kishore Chandra S. Deo

Members, Lok Sabha

- | | |
|----|---|
| 2 | Shri K.C. Singh 'Baba' |
| 3 | Shri Ramesh Bais |
| 4 | Shri Sukhdev Singh Libra |
| 5 | Shri Baijayant Panda |
| 6 | Shri L. Rajagopal |
| 7 | Shri Nama Nageswara Rao |
| 8 | Chaudhary Lal Singh |
| 9 | Shri Ganesh Singh |
| 10 | Shri Rajiv Ranjan Singh alias Lalan Singh |
| 11 | Shri Bhisma Shankar alias Kushal Tiwari |

Members, Rajya Sabha

- | | |
|----|------------------------------|
| 12 | Shri Birendra Prasad Baishya |
| 13 | Shri Bharatkumar Raut |
| 14 | Ms. Mabel Rebello |

Secretariat

- | | | |
|----|------------------------|-----------------|
| 1. | Shri J.P. Sharma | Joint Secretary |
| 2. | Shri Rajeev Sharma | Director |
| 3. | Shri Paolienlal Haokip | Under Secretary |

Officials of C&AG

- | | | |
|----|-----------------|--|
| 1. | K.P. Sasidharan | Director General (Commercial) |
| 2. | Birendra Kumar | Principal Director (Comm.) Audit Board |

2. The Committee considered the draft Action Taken Reports on the following subjects and adopted them without modification: -

(i). Hindustan Petroleum Corporation Limited – Unproductive payment of incentive in Hindustan Petroleum Corporation Limited Based on Para 14.4.1 of the Report on Union Government (Commercial) of the C&AG of India No. 11 CA of 2008, and

(ii). XXXXX XXXXX XXXXX

3. The Committee then authorized the Chairman to finalize the Reports for presentation.

4. The Committee then adjourned.