

**CCS Series  
on  
NURM Reforms  
No. 7**

**February 2007**

**ADMISTRATIVE REFORMS:  
*RIGHTSIZING THE GOVERNMENT***

**Centre for Civil  
Society**

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# Administrative Reforms

## *Rightsizing the Government*

Makarand Bakore<sup>1</sup>

***JNNURM Reform:** Administrative reforms, i.e., reduction in establishment by bringing out voluntary retirement schemes, non-filling up of posts falling vacant due to retirement etc., and achieving specified milestones in this regard.*

### STATES OF THE VERGE OF BANKRUPTCY

Most Indian states are in a dire financial position. The revenue deficit for Indian states was Rupees 55,111 crores for the year 2002-03.<sup>2</sup> The debt of the states as a percentage of their total Gross State Domestic Product (GSDP) was 34%.<sup>3</sup> A debt of beyond 20% of the GSDP is a sign of bankruptcy.<sup>4</sup> If not put in check, state finances will soon spin out of control. For example, in 2003, the salary expenditure in Andhra Pradesh exceeded the state revenue.<sup>5</sup>

### ELIMINATING REVENUE DEFICIT

The large components in the revenue expenditure are the wage bill, pensions and interest payments. The wage bill was 37% of the total revenue expenditure of the states in 2002-03.<sup>6</sup> Interest payments amounted to 26% of revenue receipts of states in the same year.<sup>7</sup>

The Twelfth Finance Commission has recommended that ‘states should follow a recruitment and wage policy in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 per cent’.<sup>8</sup> Rightsizing the government is necessary to reduce the wage bill and pension payouts.

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<sup>1</sup> Research Associate, Centre for Civil Society, New Delhi. I would like to thank Prof. Munmun Jha, Asst. Prof. of Sociology, IIT Kanpur for his guidance. My thanks to my colleague, Mr. Ali Mehdi, for reviewing this document

<sup>2</sup> State Finances : A Study of Budgets, Reserve Bank of India

<sup>3</sup> Report of the Twelfth Finance Commission, Annexure 12.4

<sup>4</sup> ‘Punjab’s finances under Congress rule’, The Tribune, 27<sup>th</sup> Oct 2003

<sup>5</sup> ‘Salary expenditure exceeds AP State revenue, say experts’, The Hindu, 8<sup>th</sup> Feb 2003

<sup>6</sup> Report of the Twelfth Finance Commission, Appendices Table 4.2.2

<sup>7</sup> *Ibid.*, Annexure 12.5

<sup>8</sup> *Ibid.*, Para 4.63

## **ASSUAGING EFFECTS OF THE SIXTH PAY COMMISSION**

The Fifth Pay Commission was setup in 1994 and had a disastrous effect on the state finances as wages were increased but recommendations on rightsizing were ignored. The government failed to cut the civil service by 30% as recommended by the commission.<sup>9</sup> The Sixth Pay Commission has been announced, and without rightsizing, the increase in wages and pensions will shatter state finances once again. Mechanisms to automatically increase government salaries as per market realities may be considered.

## **METHODS OF RIGHTSIZING**

The Fifth Pay Commission has estimated the surplus staff in the central government to around 30%.<sup>10</sup> The state governments may not be too far behind.

To keep the salary expenditure under 35% of the revenue expenditure, one or more of the following needs to be done:<sup>11</sup>

1. Reduce number of employees i.e. reduce total salary bill
2. Increase revenue receipts without increasing revenue deficit
3. Reduce average salary per employee

Several recommendations have been made regarding the above.

### **1. Reducing Number of Employees**

#### *Existing Employees*

One or more of the following options can be considered:

1. The employees can be offered the Voluntary Retirement Scheme (VRS). A variation of the scheme, the Special Voluntary Retirement Scheme provides more benefits to the departing employee and abolishes the post thereafter.
2. Reduce age of retirement from 60 years to 58 years.<sup>12</sup> This is a contentious issue as people are living longer.

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<sup>9</sup> 'India's Pay Commission: Pop goes the weasel', Economist, 24<sup>th</sup> Aug 2006

<sup>10</sup>Report of the Fifth Central Pay Commission, Para 27.13

<sup>11</sup>Report of the Twelfth Finance Commission, Appendix 4.2.6

<sup>12</sup>Tenth report of the Expenditure Reforms Commission, Para 7.50

## *Administrative Reforms*

3. Automation reduces work load. Common office support services should be used.<sup>10</sup>
4. Appointment of serving officers to government jobs instead of retired senior civil servants.<sup>13</sup>
5. Long-term leave without pay to explore avenues for jobs outside of government.<sup>14</sup>
6. Mandatory retirement.<sup>10</sup> This is not the same as compulsory retirement which is punitive.

## *New Employees*

1. Near total ban on new recruitment, including for posts rendered vacant due to natural attrition and superannuation.<sup>15</sup>
2. No appointments on compassionate grounds. Instead provide family pensions, insurance or one-time payment.<sup>16</sup>
3. New work contracts with a view to evolving a new work discipline<sup>17</sup> to allow for retrenchment of surplus staff declared surplus, with due notice.<sup>16</sup>
4. All posts vacant for more than six months should automatically stand abolished.<sup>16</sup> Some discretion may have to be applied as all such positions may not be redundant.
5. Target for reduction in sanctioned posts.
6. Total ban on creation of new posts.
7. Annual recruitment plan by the chief secretaries.<sup>16</sup>

## **2. Increase Revenue Receipts without Increasing Revenue Deficit**

Retraining and redeployment of personnel to more productive functions so as improve the financial position of the government.

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<sup>13</sup> Report of the State Administration Reforms Commission, Government of Maharashtra, Para 5.56

<sup>14</sup> *Ibid.*, Para 9.112

<sup>15</sup> Tenth report of the Expenditure Reforms Commission, Para 7.49

<sup>16</sup> Report of the State Administration Reforms Commission, Government of Maharashtra, Para 5.58

<sup>17</sup> Report of the Eleventh Finance Commission, Para 3.60

### 3. Reduce Average Salary per Employee

There may not be a need to appoint a pay commission every ten years. If appointed, it should be in consultation with states.<sup>18</sup>

#### PUBLIC SECTOR UNDERTAKINGS

*What shape are the State Public Sector Undertakings (SPSUs) in?*

At the end of 2000-01, of the 1053 SPSUs in 25 states, those in 23 states reported accumulated losses. The outstanding losses amounted to Rs. 30,249 crores, accounting for more than half of all states' total share capital. Net worth reported was positive in all but 5 states (Assam, Bihar, Himachal Pradesh, Nagaland and West Bengal) with the aggregate being Rs.39,629 crores in 2000-01.<sup>19</sup>

Outstanding guarantees reached the figure of Rs.10,1343 crores in 2000-01 which was nearly a third of the combined tax revenues of the Centre and states.<sup>19</sup> Nearly half of the SPSUs were incurring losses and about a quarter of them are non-working. Thus, nearly three-fourths of the SPSUs are either loss making or non-working.<sup>20</sup>

In 1998-99, the percentage of dividend to equity for SPSUs was meagre 0.58.<sup>21</sup> Most public sector employees are overpaid as compared to employees in the private sector (although this may not be true in case of senior civil servants).<sup>22</sup> The Fifth Pay Commission increased this difference further.

#### *Solutions*

1. Closure of loss-making SPSUs
2. Disinvestment so that the government is the minority share holder
3. Privatization of SPSUs not in position to make profit ever

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<sup>18</sup>Report of the Twelfth Finance Commission, Para 4.63

<sup>19</sup>Study of State Public Sector Undertaking and State Road Transport Undertakings, IIPA, Oct 2004, Para 3.1

<sup>20</sup>*Ibid.*, Table 2.3.2

<sup>21</sup>Study Group on Reforms in Public Sector Undertakings, Vol 1, Planning Commission, Aug 2002, Para 4.22

<sup>22</sup>State Fiscal Reforms in India, World Bank, Nov 2004, Para 2.5

## *Administrative Reforms*

4. Restructuring
5. Mergers, to obtain synergies
6. Downsizing, so as to reduce wage bill
7. Many government functions can be outsourced. Private players may be allowed to be partners in development

### *Case study of Public Sector Banks*

As per FICCI's report 'Staff Contributions to Nationalised Banks', taking a benchmark of Rs. 125 lakh business per employee (BPE) in 1998-99, 22% of the staff in 16 nationalised banks was redundant. This amounted to 1,77,405 employees. The BPE and profit per employee of the Indian public sector banks were much lower than comparable private or foreign banks.

Between 15<sup>th</sup> November 2000 and 31<sup>st</sup> March 2001, the first round of VRS was implemented. It produced dramatic results. According to the study published by Indian Banks' Association, out of the total 863,117 employees in the 26 state-owned banks that implemented the initiative, 100,810 (11.7%) staff took the offer. The staff costs reduced from Rs. 21,050 crores in 2000-01 to Rs. 18,959 crores in 2001-02, a saving of Rs. 2,091 crores.

### *Protecting interests of the workers*

1. Adequate compensation should be provided in VRS schemes. This compensation can be paid through the State Renewal Fund the funding for which should come out of from the disinvestment/restructuring fund created out of the proceeds of the sale of State PSUs.<sup>23</sup>
2. In case of privatisation of a state PSUs, a Social Safety Net, encompassing retraining, redeployment and employment insurance can be set up.<sup>24</sup>

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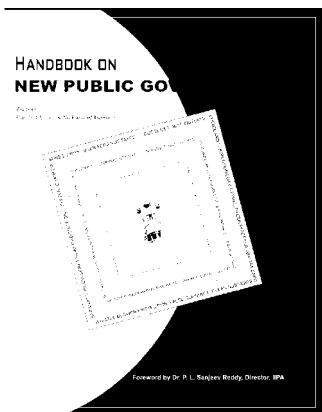
<sup>23</sup> Study Group on Reforms in Public Sector Undertakings, Vol 1, Planning Commission, Aug 2002, Para 7.9

<sup>24</sup> *Ibid.*, Para 7.10

## **CONCLUSION**

In today's time the role of the state has changed from that envisioned during India's independence. With the private sector and civil society organisations taking the lead in providing for the society, the state needs to limit its role to essential functions. Huge state governments and proliferation of State Public Sector Units have been a consistent drain on the exchequer for decades. We can expect a debt-trap if we do not act soon. Rightsizing the state governments and its companies is one important way to face the challenge.

## CCS PUBLICATIONS



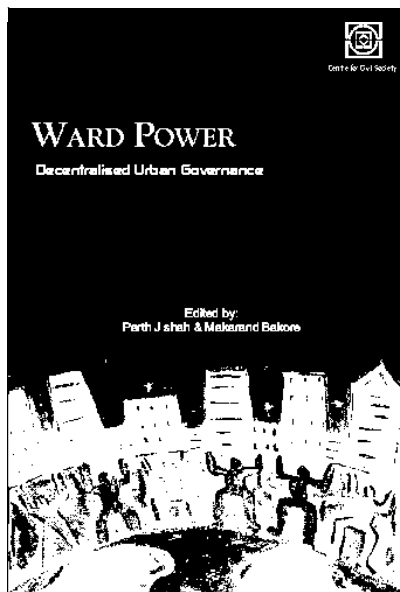
### **Handbook on New Public Governance** *Parth J Shah and Makarand Bakore*

The handbook offers a spectrum of choicest of articles that capture the essence of good governance. The rich menu has insightful contributions on New Public Management, decentralisation, participation, accountability and e-governance. Illustrative case studies on public-private partnerships exemplify sustainable service delivery models worldwide. This digest is a swift route to grasping the fundamentals of governance for politicians, administrators, civil society members and students.

### **Ward Power: Decentralized Urban Governance**

*Parth J Shah & Makarand Bakore*

The book focuses on the functioning of urban municipalities. It attempts to provide answers to very pertinent questions- 'How can an ordinary citizen demand accountability from the mighty Municipality in whose hands are vital services like water, electricity supply, garbage removal, roads and primary education? Where does the person go to have a say in the decisions that affect the neighbourhood?' The book, which is targeted at policy makers, urban planners and citizens associations, suggests creating a local self-governance unit at a level of a Ward for decentralized management.



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# CENTRE FOR CIVIL SOCIETY

## *The Power of Ideas*

**The Centre for Civil Society is an independent, non-profit, research and educational organisation devoted to improving the quality of life for all citizens of India by reviving and reinvigorating civil society.**

India got her political independence in 1947 from the British state, but we still do not have complete social, cultural and economic independence from the Indian state. We aim to limit the domain of the state and make more space for civil society.

We champion limited government, rule of law, free trade, and individual rights. We are an ideas organisation, a think tank that develops ideas to better the world. We want to usher in an intellectual revolution that encourages people to look beyond the obvious, think beyond good intentions, and act beyond activism.

We are driven by the dream of a free society, where political, social, and economic freedom reigns. We are soldiers for a Second Freedom Movement.

The Centre's *Livelihood Freedom Test* calls to test all existing and new rules and regulations for their impact on the freedom to earn an honest living. Does any law of the city restrict opportunities of any person to earn an honest living, particularly the one that requires little capital or skills? If so, then Review, Revise, or Remove.

The *School Choice Campaign* is aimed at policy change in order to give education subsidies directly to the students, who would be able to choose the school they would like to attend. This will increase competition among schools and lead to better educational services. Fund Students, Not Schools. Join the Education Choice Campaign at <http://schoolchoice.in>!

CCS is creating awareness about *Ward Level Management*, where many of the current services, provided by the state and the Municipal Corporation, can be more effectively delivered by Ward Committees to their respective Ward. Decentralisation of services would bring transparency and accountability into the system.

*(continued from back cover)*

**Optional Reforms (Common to state and local bodies)**

1. Revision of bye-laws to streamline the approval process for construction of buildings, development of sites, etc
2. Simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes
3. Introduction of Property Title Certification System in ULBs
4. Earmarking at least 20-25% of developed land in all housing projects (both Public and Private Agencies) for EWS/LIG category with a system of cross subsidization
5. Introduction of computerized process of registration of land and property
6. Revision of bye-laws to make rain water harvesting mandatory in all buildings to come up in future and for adoption of water conservation measures
7. Bye-laws on reuse of recycled water
8. Administrative reforms, i.e., reduction in establishment by bringing out voluntary retirement schemes, non-filling up of posts falling vacant due to retirement etc., and achieving specified milestones in this regard\*
9. Structural reforms
10. Encouraging public-private partnership\*

**The National Urban Renewal Mission (NURM)** is a project of the central government. Through this project, the central government will fund 63 cities for developing urban infrastructure and services. The cities will have to carry out mandated reforms in return. The mission will last for a period of seven years starting December 2005. The total central government funding will be Rs. 50,000 crores. Adding the contribution of states and municipalities, the amount will go up to Rs. 1,25,000 crores over the seven year period.

### **REFORMS UNDER NURM**

CCS research papers are available for the starred reforms.

#### **State Level Mandatory Reforms**

1. Effective implementation of decentralization initiatives as envisaged in the Constitution (Seventy-fourth) Amendment Act, 1992 \*
2. Repeal of Urban Land (Ceiling and Regulation) Act, 1976 \*
3. Reform of Rent Control laws, by balancing the interests of landlords and tenants \*
4. Rationalisation of stamp duty to bring it down to no more than 5 per cent within seven years
5. Enactment of public disclosure law \*
6. Enactment of a community participation law, so as to institutionalise citizens' participation in local decision making \*
7. Association of elected municipalities with the city planning function

#### **Municipal Level Mandatory Reforms**

1. Adoption of a modern, accrual-based, double entry system of accounting\*
2. Introduction of a system of e-governance using IT applications, GIS and MIS for various urban services
3. Reform of property with GIS, and arrangements for its effective implementation so as raise collection efficiency to 85 per cent
4. Levy of reasonable user charges, with the objective that full cost of operation and maintenance is collected within seven years \*
5. Internal earmarking of budgets for basic services to the urban poor
6. Provision of basic services to the urban poor, including security of tenure at affordable prices

*(continued on back page)*



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