<u>Reforming the Civil Service Compensation Scheme – summary and Q&A</u>

Summary of key points

- The Civil Service has finalised terms for reforming its Compensation Scheme (CSCS) to deliver savings, remove perverse incentives from the existing scheme and ensure it is in line with age discrimination legislation.

- The reforms will modernise a scheme which has existed since 1987, while including measures to give considerable additional protection on compulsory redundancy to the lowest paid Civil Servants and those closest to retirement. The changes do not impact on rights in the Civil Service Pension Scheme.

- Agreement on the new terms was reached with the FDA, Prospect, POA, GMB and Unite unions and they have all offered their public support to the new terms on offer. These unions represent a complete cross section of Civil Service staff across all grades, ages and professions.

- Cabinet Office officials have had numerous meetings with the Civil Service unions since July 2008 to discuss the reforms. Intensive discussions have also taken place this year in one final effort to reach agreement. Unfortunately, the PCS has been unable to agree to the changes.

- The intensive discussions have led to further modifications to the original proposals relating to the terms payable on compulsory redundancy which will allow a greater proportion of the lowest paid staff to receive a compensation payment of up to three years' pay. The modifications also include transitional arrangements which will provide those aged 50 and over with at least 5 years' service, and long-serving staff aged between 40 and 50, with compensation based on what was payable under the existing arrangements as at 31 March 2010.

- The modifications will not affect the savings committed to as the Civil Service will work in partnership with the unions to minimise compulsory redundancies and therefore limit the extent to which the compulsory redundancy terms are payable. The improved transitional terms will only apply when the Cabinet Office is satisfied that all redundancy-avoidance measures have been pursued. And work will be taken forward to amend the terms around Civil Service mobility to allow compulsory transfers of staff between Government departments and agencies.

- The new terms now make the scheme broadly comparable to schemes offered elsewhere in the public sector. They strike a fair balance between the interests of civil servants and those of the taxpayer.

- On 31 March the Prime Minister announced his commitment to cut the cost of the Civil Service. The reforms to the CSCS will ensure the Civil Service can deliver savings of up to £500m over next three years.

- The Civil Service will continue to regard compulsory redundancy as absolutely a last resort, to be used only where redeployment is not feasible and all mechanisms to avoid it have been explored.

- From 1 April 2010, where staff leave as a consequence of compulsory redundancy, the compensation will be mandated in the Compensation Scheme rules. All Departments will be required to follow the same rules. In cases other than genuine compulsory redundancy, employers will have flexibility to determine the compensation payable but subject to overall limits.

- In cases of genuine compulsory redundancy, to protect the position of the lowest paid staff, the maximum payment will be raised from two years to three years' pay where this leads to a payment of not more than £60,000. This has the potential to provide better outcomes than the original proposals for the four-fifths of civil servants who earn less than £30,000. In all other cases, the payment will be limited to the higher of two years' pay or £60,000. Staff may choose to use some or all of this payment to top up their pension.

- The current model of early retirement for those aged over 50 and severance for those under 50 will no longer apply. For the future (apart from transitional arrangements), compensation on termination of contract will normally be provided as a cash payment, but the terms will give the opportunity to access pension to those who are made redundant close to pension age.

- If a civil servant receives a severance payment and then returns to work for the Civil Service, their payment will have to be repaid on a pro-rata basis. In the future, the Civil Service will explore the feasibility of extending this policy to anyone who receives a severance payment and then works as a consultant for the Civil Service.

- Taxpayers have the right to know the cost of early departures and accountability and transparency will be enhanced by improving disclosure in Departmental resource accounts.

- Further details are contained in the document "Fairness for All – Response to consultation" which has been updated to reflect the final package to be implemented from 1 April 2010. This is available at www.civilservice.gov.uk/my-civil-service/pensions

Q&A

Q. What are the main changes being made to the Civil Service Compensation Scheme?

A From 1 April 2010, where staff leave as a consequence of compulsory redundancy, the compensation will be mandated in the Compensation Scheme rules – that is, all Departments will be required to follow the same rules, set out below. In cases other than genuine compulsory redundancy, employers will have flexibility to determine the compensation payable but subject to overall limits.

All Departments have introduced (or are committed to introducing by 1 April 2010) no age retirement polices for all civil servants. Compensation payments will therefore be paid regardless of age. Apart from transitional arrangements for certain existing staff who are made compulsorily redundant, the current model of early retirement for those aged over 50 and severance for those under 50 will no longer apply. For the future, compensation on termination of contract will normally be provided as a cash payment.

From 1 April 2010, employees made compulsorily redundant will get cash compensation based on length of service – one month's pay per year of service for the first 5 years, and two months' pay per year for subsequent service. Compensation will be subject to a maximum of 3 years' pay where this leads to a payment of no more than £60,000 (or, if higher in the future, £50,000 plus the increase in the median full-time Civil Service earnings since 1 April 2010). In other cases, the payment will be limited to the higher of 2 years' pay and £60,000 (or the indexed figure described above).

Staff may choose to use some or all of this redundancy payment to top-up their pension. Where staff are within 5 years of pension age (or are at least 50 with a minimum of 5 years' service at 31 March 2010), and their cash compensation isn't sufficient to buy out the actuarial reduction on their earned pension, their employer will make up the difference (this will apply only in relation to pension earned in the Civil Service and not to any pension transferred in or bought at the employee's own cost).

Existing staff who are made compulsorily redundant will be allowed to leave under the current terms providing that their last day of service is on or before 31 March 2011. Further transitional arrangements will provide those aged 50 and over, and long-serving staff aged between 40 and 50, with compensation based on what was payable under the existing arrangements as at 31 March 2010.

For those over pension age who are able to take an unreduced Civil Service pension (that is, typically someone who is over 60), the cash payment will be less to take account of the fact that their pension is largely funded by the taxpayer. In these cases, payments will typically be 6 months' pay. Payments for those close to pension age will be tapered to avoid a "cliff edge".

In other circumstances, for instance when an employer is reducing numbers and asking for volunteers, there will be some flexibility for employers to devise their own terms around a standard tariff of 1 month's pay per year of service, but subject to an absolute maximum of 2 years' pay. Departments will be required to take account of affordability in devising their terms and may choose to pay less or more than the standard or to offer early retirement (but without any enhancement to service) to those over 55.

Q What changes have been made since the response to the original consultation was published on 4 December?

A Modifications to the original proposals relating to the terms payable on compulsory redundancy have been made which will allow a greater proportion of the lowest paid staff to receive a compensation payment of up to three years' pay. The modifications also include transitional arrangements which will provide those aged 50 and over, and long-serving staff aged between 40 and 50, with compensation based on what was payable under the existing arrangements as at 31 March 2010.

The new terms provide added protection enabling the lowest paid to continue to receive a service-related redundancy payment of up to 3 years' pay, up to a maximum of £60,000 (this monetary "underpin" in the December proposals was £50,000) . This means that those earning under £20,000 (nearly half of all civil servants) will not see any general worsening or reduction in their present level of severance payment. (To qualify for a payment of 3 years' pay, an individual would need to have worked for 20.5 years or more). Those earning up to £30,000 (four-fifths of civil servants) will potentially be eligible for severance payments of up to between two and three years. As in the earlier proposals, payments will be capped at a maximum of two years' pay for higher earners.

Further transitional protection for existing staff has also been agreed. If made compulsorily redundant, staff aged at least 50 as of 31 March 2010 (and with a minimum of five years' service) will continue to receive existing compulsory early retirement terms. This means they will continue to receive an early, enhanced pension based on their years of service as at 31 March 2010, thus providing a significant level of further protection for those closest to retirement from the position reached in December 2009.

A relatively small number of civil servants, who joined the Civil Service before 1987, are currently eligible for a 'reserved right' severance payment. If made compulsorily redundant, these staff will receive a severance payment based on their years of service as at 31 March 2010 (with the cash value tapered to become equivalent in value to the new terms within 3-4 years).

In addition, the unions with whom the Cabinet Office has reached agreement have agreed in principle to the introduction of rules allowing for the compulsory posting of surplus staff between departments. This means that a surplus member of staff in one department may be required to fill a vacancy in another.

Q What impact might the changes made since the proposals in December 2009 have on individuals?

A **Effect of compulsory redundancy 'underpin'**

Jane is aged 40 and has 20 years' service; she earns £20,000 pa. Under the initial proposals set out in July 2009, on being made compulsorily redundant Jane would have received £40,000 instead of the £58,333 provided by the current scheme. Under the revised terms, with the added protection, Jane would now receive £58,333 – the same as the current terms. If Jane had more than 20.5 years' service her redundancy payment would be a full 3 years' pay – ie £60,000.

Such protection, however, will only apply to the lowest paid and will offer no material improvement to those whose salaries are at a more comfortable level, as illustrated by the following example.

Rachael is aged 45 and has 20 years' service; she earns £100,000 pa. Under the initial proposals set out in July 2009, on being made compulsorily redundant Rachael would have received £200,000 instead of the £300,000 provided by the current scheme. Under the revised terms, notwithstanding the 'underpin', Rachael will still receive £200,000.

A **Effect of compulsory redundancy transitional arrangements on early retirement terms**

Stella is aged 55 and has 30 years' service when she is made redundant on 31 March 2012; she earns £30,000pa. Under the current terms Stella would receive an early pension based on enhanced service of 35 years (30 years to 31 March 2012 plus 5 years' enhancement). Under the July 2009 proposals, on being made compulsorily redundant Stella would have received a severance payment of £60,000. Under the new proposals, Stella can still choose to take this severance payment. However, she will now have the option of drawing her pension immediately on the basis of enhanced service of 33 years (28 years to 31 March 2010 plus 5 years' enhancement).

Q Since July 2009, a lot of changes have been made. Is the same amount of money still going to be saved?

A The modifications will not affect the savings committed to as the Civil Service will work in partnership with the unions to minimise compulsory redundancies and therefore limit the extent to which the compulsory redundancy terms are payable. The improved transitional terms will only apply when the Cabinet Office is satisfied that all redundancy-avoidance measures have been pursued. And work will be taken forward to amend the terms around Civil Service mobility to allow compulsory transfers of staff between Government departments and agencies.

Q The Cabinet Office has always said that it would try and seek agreement with the unions. The PCS haven't agreed to the changes so does that make them illegal?

A The law allows for the scheme terms to be changed after consultation with the unions. For those who are made compulsorily redundant, the Cabinet Office does not consider that staff have "accrued rights" to either the current or new terms until an individual actually comes within the scope of the scheme, and therefore does not consider that union agreement is required by law for the changes to be made.

Q To what extent have the unions been consulted about the reforms?

A Officials have had numerous meetings with the Civil Service unions since July 2008. The Cabinet Office formally published its proposals on 31 July 2009 and invited comments from interested parties. Responses were received from the Council of Civil Service Unions (CCSU) and from many of the individual unions representing civil servants. Union representatives have also met Cabinet Office Ministers and the Head of the Home Civil Service as part of the consultation process. Further intensive discussions between officials and unions took place in one final effort to reach agreement within the parameters of the principles agreed by Ministers. Agreement has been reached with five of the six main Civil Service unions (FDA, Prospect, the Prison Officers' Association, Unite and the GMB) on a modified package.

Q To what extent have individuals been able to have their say?

A The Cabinet Office received over 18,000 e-mails and letters in response to the proposals published on 31 July. These included comments from civil servants, employers and the unions.

Q Have Ministers been directly involved in discussions?

A The Minister for the Cabinet Office met the unions on 22 September and 17 December 2009. She outlined the Government's principles for reform and listened to their concerns.

Q What are the Government's principles for reform?

A The principles for reform are:
- To achieve the £500m savings set out by the Prime Minister
- To reform the current, overly generous compensation scheme
- To reform perverse incentives created by the current scheme
- To be in line with current age discrimination legislation.

The current terms have existed since 1987 and are no longer appropriate or flexible enough to meet the needs of a modern Civil Service.

Q Has the Government taken any notice of the unions' concerns?

A The Cabinet Office has made some important changes as a result of comments made by the unions and others. A revised package was issued to the unions on 4 December 2009 which took account of concerns raised by providing better terms to allow the lowest paid to receive up to three years' pay in compensation, and access to pension for those close to pension age. Further revisions to the package have been made as a result of intensive discussions with the unions in January 2010.

Q How will the compulsory redundancy transitional arrangements work?

A Staff who have been in continuous service since before 30 July 2007 who are made compulsorily redundant may opt for the existing compulsory early severance or compulsory early retirement terms to apply providing that their last day of service is on or before 31 March 2011.

From 1 April 2011 onwards, those individuals aged at least 50 as at 31 March 2010 and with a minimum of 5 years' current qualifying service will, if dismissed as compulsorily redundant, receive Compulsory Early Retirement terms based on reckonable service as at 31 March 2010. Cabinet Office prior approval will be required as these terms will only apply where Cabinet Office agrees that dismissal on compulsory terms is unavoidable.

From 1 April 2011 to 31 March 2015, those individuals who would be eligible for a "reserved right" payment if departing on Compulsory Early Severance terms on 31 March 2010, if subsequently dismissed as compulsorily redundant before the age of 50, will receive a payment based on the "reserved right" CES payment that would have applied on departure on 31 March 2010. In such cases, which will also be subject to Cabinet Office prior approval, the cash value of these payments will be tapered as follows:

- Compulsory redundancy 1 April 2011 – 31 March 2012 : 100%
- Compulsory redundancy 1 April 2012 – 31 March 2013 : 80%
- Compulsory redundancy 1 April 2013 – 31 March 2014 : 60%
- Compulsory redundancy 1 April 2014 – 31 March 2015 : 40%

Q How do the terms compare with other sectors/organisations?

A The new terms are now broadly comparable with those used elsewhere in the public sector. Private sector practice tends to be more flexible, with terms being determined from time to time rather than being formalised as is the case in the public sector.

Q Are changes being made to the Civil Service Pension Scheme?

A There will be no adverse changes to the Civil Service Pension Scheme as a result of the reforms to the CSCS.

Q How can you make these changes? Surely the current Compensation Scheme is part of staff's terms and conditions of employment, and they have accrued rights to benefits?

A The law, and the current scheme rules, allow for the scheme terms to be changed. All benefits are paid at the discretion of the Minister for the Civil Service.

For those who are made compulsorily redundant, the Cabinet Office does not consider that staff have "accrued rights" to either the current or new terms until an individual actually comes within the scope of the scheme. However, as a matter of policy, staff made compulsorily redundant will be allowed to leave under the current terms providing that their last day of service is on or before 31 March 2011.

Q Do formal severance offers already made by departments still stand?

A If the individual is due to leave before 31 March 2010 – Yes

If the individual is due to leave between 1 April 2010 and 31 March 2011, and:

- their department has already provided them with an estimate; and
- they have said that they are happy to go on these terms; and
- their department has confirmed that they will go and have agreed the date of their departure

then the terms the department has agreed will probably be paid unless they agree something with the individual.

If matters are at an earlier stage than outlined above, for instance if the individual has received an estimate but taken no further action, then their department will tell them how the changes will affect them.