

Proposals to reform the Civil Service Compensation Scheme - Q&A

1. Q. What are the main proposed changes?

A From 1 January 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) no age retirement policies for civil servants below the senior civil service. Compensation payments will therefore be paid regardless of age. Subject to transitional terms for current staff made redundant during an interim period, 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 be provided as a cash payment in all cases.

From 1 January 2010, employees made compulsorily redundant will get cash compensation based on length of service and subject to a maximum of 2 years' pay (the maximum will apply to those with more than 14½ years' service). Staff may choose to use some or all of the payment to top-up their pension, but – other than during the transitional period to 31 March 2011 - enhanced early retirement packages will no longer be available on redundancy.

For those 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.

Voluntary terms form the bulk of exits from the Civil Service. In the three years from 2005-8 there were fewer than 100 compulsory redundancies of those people who wished to continue their civil service career even though the Civil Service as a whole reduced by over 70,000 during that period.

2. Q Will Departments still be able to offer voluntary early retirement packages?

A Yes. Departments will have flexibility to set their own terms when they are seeking reductions in headcount on a voluntary basis. However, they will be required to take account of affordability in devising their terms. While they and may choose to offer early retirement to those over 55, this will in future be without any enhancement of service.

The standard tariff will be 1 month's pay per year of service, subject to an absolute maximum of 2 years' pay. The variation that Departments may offer is subject to a maximum of twice the standard tariff (or, if less, 2 years' pay) and a minimum of statutory redundancy. For senior staff, any proposal to go over the standard tariff will have to be approved by the Permanent Secretary personally and, in some cases, by the Cabinet Office as well.

3. Q The new arrangements still give Permanent Secretaries and Departments a certain amount of flexibility– how can we make sure that there is complete transparency and consistency in the application of compensation?

A Departments will need to operate within guidance to be provided by the Cabinet Office. The intention is to enable them to set terms which suit their business needs and their budgets. Tax payers have the right to know the costs of redundancy and other early departure costs, and these will be disclosed in Departmental resource accounts starting with those relating to the 2009-2010 financial year.

4. Q What is compensation for?

A Compensation is paid for loss of office. This could occur for a number of reasons including both involuntary departures (e.g. compulsory redundancy) and voluntary departures (for instance, when a Department seeks to address staff surplus by asking for volunteers to leave). The Civil Service Management Code gives guidance to Departments on the circumstances in which compensation may be appropriate (although the references to the current range of exit terms will, of course, need to be updated)

5. Q Why are you doing this?

A The current terms (in place since 1987) are inflexible, expensive and do not provide good value for money to the taxpayer who funds them. Some aspects of the current scheme are age discriminatory and have to be addressed on that score.

6. Q When is this happening?

A From 1 January 2010. However, for an interim period to 31 March 2011, transitional arrangements will be available to staff who were in post before 30 July 2007 and who are made compulsorily redundant.

7. Q Who decided that these changes should happen?

A On 31 March 2009, the Prime Minister announced the Government's intention fundamentally to reform the severance and early retirement schemes in order to control costs, and improve accountability and value for money for the taxpayer. The specific proposals being put forward today have been decided upon by Permanent Secretaries collectively.

8 Q How do these changes bring the scheme in line with age discrimination legislation?

A The new terms generally provide the same compensation regardless of age. However, in recognition of the fact that older workers can access an occupational pension which is largely funded by the taxpayer, the maximum compensation payable will be less in these cases.

9 Q Does this mean that the current arrangements are discriminatory? Will people be entitled to bring legal action if this is the case?

A An Employment Tribunal ruled, in the case of Mr J M Wallis & others v Cabinet Office & others, that some aspects of the current terms are unjustifiably age discriminatory and that some other aspects are not. The current terms will be modified to reflect this guidance.

10 Q Does this mean you are getting ready to make lots of redundancies?

A No. Departments will continue to do everything they can to ensure that compulsory redundancies are the last resort. Current protocols ensure that compulsory redundancies only happen when Cabinet Office and the national trades unions, as well as local management and unions, are satisfied that they are wholly unavoidable – that will remain the case.

In the three years from 2005-8, there were fewer than 100 compulsory redundancies of people who wished to continue their civil service career even though the civil service reduced by over 70,000 during that period.

11. Q What will it mean for me?

A First and foremost, Departments will continue to do everything that they can to ensure that compulsory redundancies are the last resort. So it doesn't mean that you are more likely to be made compulsorily redundant; all the current safeguards will continue to be in place.

If you are made compulsorily redundant, then common terms will apply across the Civil Service. Compensation will be provided through a cash payment based on your service, up to a maximum of 2 years' pay.

Where Departments want to invite volunteers to leave, they will have a degree of flexibility to set their own compensation terms to meet their business needs and budgets subject to an overriding maximum of 2 years' pay. Departments will also be able to offer early retirement to people over 55 but on an unenhanced basis.

Under current tax law, severance payments under £30,000 are tax-free. For larger amounts, the first £30,000 is paid tax free.

12. Q How can you make these changes? Surely the current Compensation scheme is part of my terms and conditions of employment?

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.

13. Q My post has already been declared surplus, does that mean I will get compensation under the old or new terms?

A Every effort will be made to avoid making you redundant, and to redeploy you elsewhere. The Cabinet Office and the national trade unions, as well as local management and unions, must be satisfied that compulsory redundancies are wholly unavoidable before compulsory redundancies are authorised. If you are then made compulsorily redundant you will be eligible for the current terms if your last day of service falls before 31 March 2011.

14. Q My Department has already made me a formal severance offer. Does this still stand?

A If you are due to leave before 31 December 2009 – Yes

If you are due to leave between 1 January 2010 and 31 March 2011, and:

- your Department has already provided you with an estimate; and
- you have said that you are happy to go on these terms; and
- your Department has confirmed that you will go and agreed the date of your departure

then the terms you have agreed will probably be paid unless you and your employer agree something different.

If matters are at an earlier stage than outlined above, for instance if you have received an estimate but taken no further action, then your Department will tell you how the proposals will affect you.

15. Q I'm over 50 and interested in the possibility of early retirement. How do the new arrangements affect me?

The rules of the Civil Service Pension Scheme give you the right to draw a pension early on actuarially-adjusted terms – that is, your pension and lump sum will be permanently reduced to reflect the fact that your pension will be paid for longer than if you had drawn it at pension age. (Please note that pension cannot be drawn before age 55 if you joined the pension scheme on or after 6 April 2006.) The pension scheme rules will be amended to allow you to buy out, at full cost, all or part of the actuarial reduction.

The new compulsory redundancy terms will provide for a cash payment only. If you want to, however, you will be able to put some or all of that payment towards the cost of bringing your pension into payment early on an unreduced basis.

Where employers are asking for volunteers to leave, they may decide to offer early retirement terms (but not to people under 55). In that case you would receive the pension (and lump sum) you have built up, without any reduction for early payment, but without any enhancement of service

16. Q How will the transitional terms work? And who will benefit from them?

A The transitional terms will apply only to those leaving on compulsory redundancy before 1 April 2011 and whose current period of continuous service began before 30 July 2007. People in this position may opt for the current Compulsory Early Severance (or Compulsory Early Retirement, if appropriate) terms to apply instead of the new terms.

17. Q What about ill-health retirement?

A Ill-health retirements are made under the pension scheme rules and are unaffected by these changes.

18. Q Will you be reviewing Civil Service Pension arrangements next?

A We have recently completed a major reform of the Civil Service pension arrangements and have no plans for further changes.

19. Q How do these terms and conditions compare to other parts of the public service?

A The new proposals are broadly comparable to those offered elsewhere in the public service.

20. Q What consultation has there been on these changes?

A Cabinet Office has been in discussions with the Civil Service Trades Unions for some months but, regrettably, it has not proved possible to reach agreement with all of the unions involved.

As a result Permanent Secretaries have now agreed formal proposals and these have been sent to the Unions. We expect that the unions will consult their members before responding formally to Cabinet Office which they are asked to do by 5 October. Staff can send any comments to their union or direct to Cabinet Office – see the proposal document ***Fairness for All*** at www.civilservice.gov.uk/pensions for further information.

21. Q Does Cabinet Office intend to impose the proposed changes without union agreement?

A The proposals take considerable account of points made during many months of discussion with the unions. We will take account of comments made – whether by the unions or others – during the current consultation period and may change the Proposals as a result. Permanent Secretaries are clear that change is overdue and must be made soon.

22. We have heard that better terms had been discussed in recent weeks with the Unions, why do the Proposals not reflect these?

A The Proposals have changed considerably from those put to the unions initially, and reflect points made by the unions in private discussions over the past few months. Permanent Secretaries are disappointed that the unions have not been able to agree on a package of reforms, but consider that the proposals set out in ***Fairness for All*** represent a reasonable balance between the interests of staff and taxpayers.

23. Q What are you doing about compensation payments currently paid to staff who leave on grounds of inefficiency?

A In the light of these proposals, we are considering what changes to make to the current rules covering payments to staff dismissed on grounds of inefficiency.