



**Dusty Amroliwala OBE FCIPD**  
Director Civil Service Workforce

Admiralty Arch  
The Mall  
London  
SW1A 2WH

**Telephone** 020 7276 1559

**Civil Service Capability Group**

**e-mail:** [dusty.amroliwala@cabinet-office.x.gsi.gov.uk](mailto:dusty.amroliwala@cabinet-office.x.gsi.gov.uk)

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Dear HR Director

### **Reform of the Civil Service Compensation Scheme**

I am writing to advise you of the proposals to reform the Civil Service Compensation Scheme which we will be putting formally to the Council of Civil Service trade unions on Friday morning of this week. As you know, these proposals, which have the full support of Permanent Secretaries, are intended to apply to exits from 1 January 2010.

We have spent much of the past few months in intensive and private negotiations with the Civil Service trades unions to see if we could reach an agreed position to put to the workforce. This has included bi-lateral meetings not only with the Cabinet Office's team but also with Gus O'Donnell and Leigh Lewis (chair of the Permanent Secretaries' Employment Relations sub-group). Leigh is writing in parallel today to Permanent Secretaries setting out where we have reached and the steps which Permanent Secretaries need to take later this week.

This letter is to provide you with the information and detail that will help you in securing two key communication outcomes, namely:

- ensuring that all of our staff, at all levels, understand what we are doing and why; and
- second, to be clear with our senior leadership community of the role that they will need to play in managing this change effectively.

CSCS reform is not a new topic, and you will be aware that this is something that Permanent Secretaries, as the Civil Service leadership group, have been discussing for some time. There are, of course, a number of reasons for us making these changes. Our current terms, which have been in place since 1987, are inflexible in meeting our business needs and provide poor value for money. They are also increasingly difficult to maintain in relation to age discrimination legislation. Overall, the current terms are not only unsustainable but are also unjustifiable and provide perverse incentives to staff.



Changing the current terms is going to mean a change in culture - for us as employers as well as for staff. But such a change has the potential to contribute very significantly to our programme of wider Civil Service reform by making us more competitive and more able to live within reducing administrative budgets – something that is likely to become the norm over the foreseeable future.

There is much in the detail of the proposals (see further details at Annex), but the top lines for Departments are:

- where compulsory redundancies are unavoidable (with all other options having been exhausted), compensation will in future be on a consistent basis across Departments. Compensation will be provided through a service-related severance payment up to an absolute maximum of two years' pay (or up to six months' pay for those over pension age). Transitional terms will be available for current staff. These will reflect the current Compulsory terms and will apply, for compulsory redundancy departures only, up to 31 March 2011.
- in the majority of cases, including where departments seek volunteers to leave, Departments will have a degree of discretion to set their own terms to suit their business need and budget. However these will remain subject to an absolute maximum of two years' pay and, at senior level, departures from the standard terms will require Permanent Secretary and, in the case of Directors General and above, Cabinet Office approval; and.
- there will be improved accountability, through disclosure in resource accounts, of expenditure on severance payments and early retirement packages.

Putting these proposals formally to the trade unions marks the beginning of a period during which the unions will wish to consult their members. At present, we do not see any compelling justification for your providing "facility time" to staff who are union members but we will advise you if our view changes.

We will, of course, take note of any comments received (whether from employers, the unions or others) during the summer. But we are clear that change needs to happen. It follows, therefore, that we intend that the new terms will apply to departures from 1 January 2010 (subject to transitional terms being available for current staff made genuinely compulsorily redundant).

It is important to stress that the new terms mean that the Civil Service will be offering terms for voluntary or compulsory departures which still compare well with many of the best employers in the country – public and private. Indeed some commentators are likely to attack them as remaining too generous. But Permanent Secretaries have concluded that they strike the right balance between the Civil Service remaining an employer of choice, while not imposing costs on the taxpayer which currently are simply impossible to justify.

## Next steps

Attached to this letter are the following documents **which are under embargo until**



**9.00am on Friday 31 July.:**

- the detailed proposal document ***Fairness for All*** that we will be putting to the Trade Unions on 31 July,
- a draft note to staff which should be published as soon as possible after 9am on 31 July. You are free to tailor this to your Department's own circumstances,
- top lines and the full Q&A pack on the proposed changes (a version appropriate to staff will be placed on the Pensions Website),
- a paper covering the handling of exit schemes in progress or which are in the pipeline, and
- a copy of the press release that will be issued centrally from the Cabinet Office Press Office on Friday morning, but which you may wish to share privately with your departmental Heads of News in advance of its publication.

We are also writing to HR practitioners, via an Employer Pensions Notice, to invite them to attend a seminar which will provide an opportunity to understand better what the proposals mean for Departments. We are planning to host 10 seminars during August and September and will arrange more if required.

A wider external media handling brief has also been prepared. Your individual press teams will be able to obtain this directly from the Cabinet Office Press Office.

Cabinet Office is inviting comments on these proposals until **5 October 2009** and staff with comments to make can do so either via their union or by emailing [pensionspr@cabinet-office.x.gsi.gov.uk](mailto:pensionspr@cabinet-office.x.gsi.gov.uk)

Needless to say I am at your disposal if you have any issues or questions.

Yours sincerely,

