

From the Assistant Private Secretary

Our Ref: MP272934

Rt Hon Tessa Jowell MP
House of Commons
London
SW1A 0AA

February 2010

*Dear Tessa,***REFORM OF THE CIVIL SERVICE COMPENSATION SCHEME**

You recently wrote about the Government's proposed reforms to the Civil Service Compensation Scheme (CSCS).

Yesterday we finalised the terms for reform of the scheme and we have agreed these terms with Unite, the GMB, Prospect, the FDA, and the Prison Officers' Association.

As you know, the CSCS sets out the terms which departments may use on redundancy or voluntary exits. In reforming the scheme, we have had a number of objectives:

- Firstly we wish to be certain that the scheme represents value for money for the taxpayer – and delivers the £500 million saving set out by the Prime Minister in his Written Ministerial Statement of 31 March 2009;
- Secondly we need to ensure that the scheme both does not create perverse incentives, through awarding excessively generous payments to some individuals on redundancy and complies with age discrimination legislation, by ensuring that the level of severance payments awarded is primarily linked to length of service, not to age;
- Thirdly we need to ensure the reforms provide additional protection to the lowest paid staff.

Cabinet Office officials have held numerous meetings with the Civil Service unions since July 2008. We consulted fully on the provisional proposals that the Cabinet Office published in *Fairness For All*, on 31 July 2009, receiving over 18,000 comments in response. We met with the Civil Service Unions on 22 September 2009 as part of that process.

In our response to the consultation, on 4 December 2009 we modified our original proposals to reflect the comments we had received. There were two issues that came through particularly strongly in the responses to the



consultation and in my meeting with the unions. These were the need to ensure that the lowest paid workers with long service could still access up to three years' pay in compensation on redundancy, and the need to preserve the option of access to an unreduced pension on redundancy for those close to pension age.

We met with the unions again on 17 December to discuss our revised proposals and asked Cabinet Office officials to have further meetings with the unions in order to see if it were possible to reach agreement within the parameters of the principles that have been established.

Following these discussions we have reached agreement with five of the six main Civil Service Unions on a modified set of proposals. Unite, the GMB, Prospect, the Prison Officers' Association, and the FDA have agreed that these terms represent a fair deal for their members. Together these five unions represent a cross section of Civil Service staff, across all grades, ages and professions. The sixth and largest union, the PCS, have not agreed the terms, but their members, along with all other civil servants, will be subject to the settlement with the implementation of the amending order.

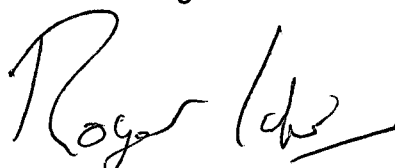
The new terms provide added protection enabling the lowest paid to continue to receive a service-related redundancy payment of up to 3 years' pay, up to a maximum of £60,000. As in our earlier proposals, payments will be capped at a maximum of two years' pay for higher earners. The added protection for the lowest paid means that those earning under £20,000 will not be affected by the new cap limiting severance payments to two years pay, while those earning between £20,000 and £30,000 will be eligible for severance payments of up to between two and three years pay.

We have also agreed some further transitional protection for existing staff. 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 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.

A relatively small number of civil servants, who joined the Civil Service before 1987, are currently eligible for a 'reserved right' severance payment. Here we have modified our earlier proposals so that if made compulsorily redundant, these staff would 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).

We consider that the package of changes addresses concerns raised in the consultation and provides a fair deal both for civil servants and to the taxpayer.

Amendments to the scheme will be laid before Parliament by the end of this week, so as to implement the changes to the CSCS from 1 April 2010.



ROGER COTES
Assistant Private Secretary

Summary of new terms for Civil Service Compensation Scheme – to become effective 1 April 2010

The new terms mean that the maximum compulsory redundancy payment will now be set at two years' pay for those earning £30,000 or more.

For those earning less than £30,000 (four fifths of all civil servants), the maximum compulsory redundancy payment will now be a £60,000 'underpin' or three years' pay, whichever is the lower. To qualify for this maximum payment you would need to have worked in the Civil Service for 20.5 years or more. (In December, the level of underpin offered was £50,000.)

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 retirement terms. This means they will still receive an early, enhanced pension based on their years of service as at 31 March 2010. (This is a new term.)

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. The cash value of this payment will be tapered over the next three years to be of equivalent value to the new terms. (This is a new term.)

In addition, the unions with whom we have 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. (This is a new requirement.)

Case studies of the impact of the new terms on individuals

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.

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).