

LETTER TO ALL STAFF

Dear Colleague

Proposals to reform the Civil Service Compensation Scheme

In July, I wrote to tell you about Government proposals to reform the Civil Service Compensation Scheme. This is the scheme that sets the terms which Departments use when paying compensation to staff who are made compulsorily redundant or who volunteer for early retirement or early severance programmes.

The compensation arrangements in use at the moment date from 1987 and, while they were appropriate at the time, they are no longer comparable with terms commonly available in the public and private sectors. They have also been challenged on the grounds of age discrimination. The current scheme is expensive and the new proposals have been designed to reflect the Prime Minister's commitment to reduce the costs of running the Civil Service to focus money on front line services.

When I wrote in July I invited you to comment on the new proposals. Some 18,000 civil servants took the opportunity to feed their views back to the Cabinet Office. Based on this consultation exercise Permanent Secretaries have decided to change some aspects of the proposals to take account of the views received from those who responded to the consultation and from our Trade Unions. The changes that we have decided to make are:

- the maximum compulsory redundancy payment will now be set at three years' pay – rather than two – where this leads to a payment of no more than £50,000. In other cases, the payment will be limited to the higher of two years' pay or £50,000. This is a major change designed to protect the position of low paid staff in particular. For instance, the redundancy payment for someone earning £15,000 with 25 years service would be £45,000 – the same as now – rather than the £30,000 under the July proposals;
- for those made redundant within five years of pension age and where a redundancy payment is not sufficient to buy-out an actuarial reduction on the pension earned, employers will make-up the difference. This means that early access to an unreduced pension will still be available to all those who are within five years of pension age. This will also extend to all staff who were aged 50 or more on 31 July 2009 and who had at least five years' service when the original proposals were published; and
- if people leave under compensation scheme arrangements and then return to another job in the Civil Service within the notional period of the payment, we will claw-back some of the compensation.

We have also decided to move the implementation date of the changes from 1 January 2010 to 1 April 2010. This brief postponement from our original 1 January date will allow a number of detailed issues around implementation to be finalised.

For those who are made compulsorily redundant, we do not consider that staff have “accrued rights” to either the current or the 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.

The complete revised proposals and the full response to the consultation exercise, along with more detail on transitional arrangements, are available for you to read on the Civil Service website at: www.civilservice.gov.uk/my-civil-service/pensions.

Overall I believe that these revised proposals represent a fair and affordable package. We have modified them significantly to reflect the views expressed during our consultation while at the same time recognising that we can no longer operate a set of terms which are substantially more generous than what is generally available elsewhere in the economy. The changes do not change our determination to be, and remain, a high quality employer. Nor do they in any way affect pension entitlement.

Please go on to the Civil Service web-site (at www.civilservice.gov.uk/my-civil-service/pensions) or ask your line manager if you would like any further information.