

Consultation on reform of the Civil Service Compensation Scheme

Response by Prospect to Cabinet Office consultation on proposals to reform the Civil Service Compensation Scheme

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INTRODUCTION

1. Prospect is an independent trade union representing over 112,000 professional, managerial, technical and scientific staff across the private and public sectors. Our members work in a range of jobs in a variety of different areas including in aviation, agriculture, defence, education, energy, environment, heritage, nuclear decommissioning and scientific research.
2. Tens of thousands of Prospect members are in scope of the proposals for reforming the Civil Service Compensation Scheme (CSCS) that Cabinet Office is consulting on. Given the scale of job cuts expected across the civil service and related areas, thousands of Prospect members could be directly impacted by changes to the CSCS.
3. The proposals Cabinet Office is consulting on have provoked a significant response from Prospect members. This submission reflects the strong views on this issue that thousands of Prospect members have conveyed to us at member meetings and by email and over the 'phone. Hundreds of Prospect members have also indicated to us that they will be responding to the consultation as individuals. It is important that these views, and the views of the hundreds of thousands of other workers in scope of this consultation, are addressed in the response by Cabinet Office.
4. This submission is intended to be a constructive attempt to deal with the issues Cabinet Office is consulting on. Prospect officials are available to discuss our response in more detail. It is essential that any changes to the terms and conditions of civil servants are negotiated and agreed.

SUMMARY OF PROSPECT'S POSITION

5. Prospect is extremely concerned about the impact of these proposals on our members' redundancy compensation. Coming, as they do, after significant job cuts, office and site closures, long-term pay restraint and pension changes; the proposed cuts to redundancy compensation seem to open another front in a sustained attack on civil servants' terms and conditions. The proposals show particular disdain for the many thousands of staff currently at risk of redundancy. Prospect members voted to accept reforms to the CSCS agreed with a Conservative minister only five years ago and will be particularly aggrieved by these proposals to renege on that agreement so soon after it was entered into.
6. There is a major question mark hanging over this consultation. The first principle for reform underpinning the process is to "align with wider compensation reforms proposed across the public sector". However Treasury's consultation on wider compensation reforms closes at almost the same time. It is not possible for respondents to comment on the extent to which the Cabinet Office proposals align (or should align) with any wider reforms. Cabinet Office should not have gone out to consultation when it did and should now suspend the process until there is an outcome to the

Treasury's consultation. Only then would it be appropriate for Cabinet Office to consult on reforms to the CSCS.

7. There are a number of principles underpinning the consultation but the aim of reducing costs by at least a further third is clearly crucial in determining the shape of the proposals put forward. There are two major problems with this: (1) there is no attempt to justify why a reduction in the value of the terms of at least a further third is appropriate and (2) no attempt is made to take into account potential cost savings through improved policies and processes.
8. The ability of employers offering CSCS redundancy terms to manage workforce changes, including the significant headcount reductions implied by spending forecasts, will be significantly impaired if the proposals under consultation are implemented. The current terms have enabled civil service and related employers to efficiently deliver headcount reductions as well as refreshing management structures and skills bases; the proposed changes will compromise the ability of employers to repeat this in the future.

CONTEXT

9. The consultation document talks about the civil service being "the best in the world" and of the need "to recruit and retain the best people". At best these words will sound hollow to many Prospect members and others considering the number of changes to their terms and conditions and other challenges they have faced in recent times. If the civil service truly wants to be the best in the world and retain the best people it must start treating its staff better.
10. By the end of this parliament civil servants will have endured over a decade of pay restraint. Many will have experienced not just real terms pay cuts over a sustained period but nominal reductions in take home pay when pension contribution increases imposed between 2012 and 2014 are taken into account.
11. Civil servants have also suffered from the vagaries of an unfair and discriminatory performance management system. Forced distribution of performance markings in particular has caused discontent and resentment in the workforce which is reflected in staff surveys across the service.
12. Particularly relevant to proposals about changing redundancy compensation are the historic numbers of job cuts being endured across the public sector. Numbers in the civil service are already at levels not seen since the second world war. Just two days before the Chancellor announced cuts in redundancy compensation the Ministry of Defence announced further reductions in its civilian workforce of 30%; the timing of these announcements shows disdain for the employees affected.

13. In the context of these diverse challenges, proposals to cut redundancy compensation seem like another front in a constant battle against civil servants' terms and conditions.

CURRENT TERMS

14. The consultation document refers to the 2010 reforms to the CSCS. Those reforms were the outcome of a difficult series of negotiations between the Coalition government and civil service trade unions. The negotiations ultimately resulted in an agreement that members of four trade unions (including Prospect) voted to accept. That agreement represented a significant reduction in the value of redundancy terms for the employees concerned; it was voted for by members because they recognised the need for a fair and sustainable redundancy compensation scheme that allowed employers to carry out the major restructuring that the significant cuts to their funding necessitated.

15. The agreement was recognised by the then Conservative Minister for the Cabinet Office as being "fair for civil servants and fair for other taxpayers". Francis Maude went on to describe the scheme as "a scheme which is fair, protects those who need the most support, addresses the inequities in the current system and is right for the long term". The NAO estimated that departures under the revised terms cost 40-50% less than the previous terms.

16. It is extremely frustrating for Prospect members who voted for revised terms that resulted in enormous savings as well as the efficient delivery of significant workforce change to learn that the government intends to renege on that agreement so soon afterwards. Imposing changes to that agreement would be a breach of faith and would undermine any confidence civil servants or other public sector workers can have in the integrity of agreements with this Government.

17. The confidence of Prospect members in the government as an employer who acts in good faith has already been significantly eroded as a result of (1) the imposition of a cap on redundancy compensation through primary legislation without even the pretence of a proper process of consultation or negotiation and (2) the government's refusal to accept an amendment to the Enterprise Bill 2015-16 that would simply have implemented their own commitment to exempt people earning less than £27,000pa from the proposed cap on redundancy compensation.

18. The consultation document contains a number of claims about the 2010 reforms. In particular it is claimed that they are not fully delivering against its aims. A number of points are put forward to in relation to this claim:

VR terms are limiting the use of VE terms: This is asserted without any supporting evidence. Prospect's experience is that voluntary exit terms are used extensively across the civil service. Use of voluntary redundancy terms will often be dictated by the circumstances and not as a consequence of

staff holding off from applying for redundancy in the expectation of better terms later.

Questionable whether early access to pension is still appropriate:

There is no question whatsoever that access to pension in certain circumstances was a deliberate and important feature of the 2010 reforms. It remains an appropriate element of a redundancy scheme for civil servants. Ability to offer access to an unreduced pension allows employers to target exit schemes in a way that refreshes management structures and skills bases. Unreduced pension is appropriate compensation for redundancy at an age when it is more difficult to retrain and find equivalent employment elsewhere. Unreduced pension is offered by many similar organisations in the private sector.

The scheme is too expensive: Again this is asserted without evidence. The NAO reported that departures under the 2010 terms were 40-50% less expensive than the previous terms. It is stretching even this government's credibility on this issue to suggest that this level of savings is much lower than intended when the terms were agreed.

The scheme is out of line: It is suggested that the scheme is out of line with what government feels is appropriate because it believes six figure compensation payments are not fair or value for money. In practice very few such payments are made from the CSCS and very soon all payments will be capped at £95,000.

DETAILED COMMENTS

19. The questions in the consultation document are addressed below.

Question 1: Do you agree that these are the right principles for the reform of the scheme? If not, what should be the principles to be followed?

No, these are not the right principles for reforming the CSCS.

The main principles should be:

- (1) Terms that enable employers to restructure efficiently while
- (2) Providing fair compensation to workers who lose their jobs as a result

Aligning with wider compensation reforms presents practical and theoretical difficulties. The practical problem is that Treasury has not yet responded to its consultation on reforms to public sector exit payments. As a result it is impossible for respondents to the Cabinet Office consultation to comment on how the CSCS could or should align with the outcome of the Treasury consultation. If the Cabinet Office really wants to align terms with what is available across the public sector it must wait for the outcome of that process and restart a consultation process then. However it is not clear that a one-size-fits-all approach to redundancy compensation is appropriate. It is

more important to devise terms that suit the civil service workforce and allow efficient restructuring on fair terms rather than to fit a model imposed across the public sector. For the avoidance of doubt, regulations under the Enterprise Bill 2015-16 will cap exit payments at a maximum of £95,000 across the public sector so six-figure exit packages will end regardless of any reforms to the CSCS.

Prospect supports the principle of supporting employers in reshaping and restructuring their workforce; indeed it is implicit in the principles we have suggested for the review of the CSCS. The issue is that we do not believe that the current proposals are likely to achieve this.

To the extent that attracting staff to exit earlier aids efficient restructuring by employers, it should be encouraged. However this should not be at the expense of being fair to the staff concerned. It would be wrong, for example, to place someone in a position of having to apply for voluntary exit when they did not want to simply to protect themselves in case they were later put at risk of redundancy. There is a great deal of flexibility within the terms and structure of the CSCS.

A more efficient scheme will deliver cost savings. The consultation document asserts that costs are higher than originally expected under the 2010 reforms. Given that the NAO has reported that departures under those terms were 40-50% lower than the previous terms this is difficult to believe. Prospect is unaware of where government had stated that it was seeking greater savings from those reforms. Prospect members are reasonable and are prepared to engage in a process that results in more efficient exits that produce savings for taxpayers. What is not appropriate is taking an arbitrary target for savings or to attempt to deliver savings entirely through changes to the terms of the scheme rather than through an overall approach to ensuring employers can restructure more efficiently. Any attempt to impose changes that deliver arbitrary cuts to the terms of the CSCS will cause significant unease and disquiet and will result in industrial relations difficulties.

Early access to pension is an appropriate feature of compensation schemes. It can be more difficult for people closer to retirement to retrain and secure equivalent employment after being made redundant. Private sector organisations commonly offer this benefit.

Question 2: Should the tariff be reduced as part of the cost saving measures? If so, to what levels should it be reduced? If not, what should be changed instead to produce comparable savings?

The premise of this question is problematic. It is based on the approach of setting an arbitrary target of reducing the value of compensation offered under the CSCS by at least a further third and delivering this entirely through changes to the terms of the scheme.

For the reasons set out above Prospect does not believe that is a reasonable approach to take and it is most unlikely that it will result in reforms that

secure the support of Prospect members and others in ballots on revised terms.

Prospect is willing to engage in a process that delivers terms that enable employers to restructure more efficiently while being fair to employees. By looking at processes and other aspects of exit schemes, significant savings can be delivered. Prospect does not rule out discussions on changes to the tariff but the Cabinet Office has not made a case for why changes are necessary.

Question 3: Should the cap on the multiple of salary be reduced? If so, to what level should it be reduced? If not, what should be changed instead to produce comparable savings?

The points made in relation to Question 2 apply equally here.

Question 4: Are there any other significant cost saving measures that should be considered instead of or in addition to a reduction in the tariff and / or cap?

It is hugely disappointing that the Cabinet Office is primarily focussed on cost saving rather than efficiency and is almost entirely focussed on savings that can be achieved through changes to the terms of the CSCS rather than an overall approach to the policies and processes involved as well as the terms of the scheme itself.

Prospect has ample experience of members being made redundant from the civil service and later returning (often to the same employer) either as employees or contractors. In some cases repayment provisions within the CSCS or wider regulations will reduce the direct cost in the form of exit payments but the entire process is wasteful and in many cases it is much more expensive to retain the skills through a contractor (skills that the civil service has often paid for through the training it originally provided anyway). Better workforce planning clearly offers significant opportunities to reduce the cost of exits from the civil service. Just because improving workforce planning is more difficult than changing the tariff in the CSCS does not mean it is not important to implement it.

There is also scope for delivering significant savings through more efficient policies and processes associated with exit schemes. Reducing the average length of time per departure by three months delivers far more savings than reducing the cap on the multiple of salary by three months.

Question 5: Should the Civil Service apply a different cap on the salary that qualifies for compensation payments?

The points made in relation to the tariff and cap are also relevant to this question.

More generally it is difficult to see how changes in the salary cap will deliver significant savings in the context of the £95,000 cap.

Redundancy is compensation for the loss of a job and it is clearly related to the salary the post attracted and it is appropriate for redundancy compensation to reflect salary.

Question 6: Should the requirement for at least one offer under voluntary terms (and for that to be a "good" one rather than a minimal one) before moving to Compulsory Redundancy be kept?

The change in the CSCS in 2010 to the situation where compulsory terms were less generous than voluntary terms was only possible with the assurance that no-one would be made compulsorily redundant without first being offered voluntary terms. It would simply be unacceptable to renege on that commitment now. It would also be grossly unfair.

Question 7: If the requirement for a voluntary offer before redundancy is kept, should that offer be on the basis of a fixed "tariff"?

The offer should be on the basis of the voluntary terms.

Question 8: Should Voluntary Exit allow for higher maximum payments than Voluntary Redundancy? If it should, by how much?

The existing terms allow for a great deal of flexibility and employers are able to offer better terms on Voluntary Exit. While currently it is the tariff that can be improved on Voluntary Exit, Prospect is open to the maximum payment being higher as well. However Prospect is strongly opposed to the specific proposal in the consultation document for Voluntary Exit terms to have a higher maximum through reducing the maximum on Voluntary Redundancy. This proposal is simply about cutting members' entitlement rather than promoting flexibility and is not an acceptable basis for discussing reform of the CSCS.

Question 9: Are there any other ways in which staff could be encouraged to be more pro-active in coming forwards when exit exercises are being run?

The Cabinet Office has not produced any evidence that voluntary exit programmes are not attracting sufficient volunteers within the timescales required. The work suggested on the policies and processes surrounding exit programmes has the potential to deliver further savings.

Question 10: Should the employer funded early access to pension provision be removed from the scheme?

No.

This would impair the ability of employers to use exit schemes to refresh their management structures and skills bases.

It would be unfair because it would ignore the fact that finding an equivalent job can be more difficult for employees in the relevant age ranges.

It would be out of line with practice in similar organisations in the private sector.

Question 11: Should the minimum age for early access to pension be increased to 55?

This is a consultation on changes to the CSCS so we have taken this question to refer to the minimum age for employer funded early access to pension (because early access to pension itself is a feature of the pension schemes).

It would be wrong to impose such a significant change without arrangements in place to protect people from sudden changes to their entitlement.

In time the minimum age for access to pension will be 55 once everyone who joined schemes before April 2006 has retired. However even before then the ability to draw pension earlier will not amount to much of a benefit as the amount of pension concerned will be small.

Question 12: Are there any other ways in which the key issue (the provision of a very expensive retirement benefit to staff unlikely to actually retire) could be resolved?

Access to pension for people made redundant over minimum pension age is not a flaw in the scheme; it is a deliberate feature of the 2010 reforms that remains appropriate for the reasons given above. It is inappropriate to try to unpick fundamental aspects of an agreement entered into so recently.

Question 13: Do you agree that employers should have the flexibility to set a lower maximum cap that £95,000 in Voluntary Exit schemes? Is there any level below which a cap should not be set?

In theory employers have a wide degree of flexibility in the Voluntary Exit terms they offer and the ability to change the cap that applies would be a logical extension of this flexibility.

However it is clear that such a feature could be used to target Voluntary Exit terms in specific ways (excluding experienced staff in certain grades, for example). If such an approach is taken it would be important that staff excluded from Voluntary Exit terms in this way are not penalised in any way if later put at risk of redundancy.

Question 14: Do you support the suggested package set out above?

No.

Prospect has set out our reasons for opposing this package elsewhere in this response. The approach taken is fundamentally flawed and treats civil servants with disdain. If a package similar to this was imposed then there would be significant industrial relations problems arising across the civil service and related sectors.

Question 15: Is there another way in which the Government's aims of reducing costs and ensuring that the CSCS operates as desired could be met?

Yes.

Firstly the Cabinet Office has to adopt more reasonable principles for reform.

Secondly the Cabinet Office has to look to greater efficiencies in delivering savings to taxpayers rather than focussing exclusively on changing the terms of the CSCS.

Improved policies and processes can result in significant savings if exits are speeded up significantly.

A better overall approach to workforce management can result in savings through better use and retention of the skills, expertise and experience the Civil Service already has.

Question 16: What should the tariff be for the reformed "inefficiency" terms?

One month per year of service capped at a maximum of 21 months.

Question 17: Should the revised arrangements be called something different?

Prospect has no objection to renaming these terms.