National Audit Office

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 1795
SESSION 2010–2012

15 MARCH 2012

Cabinet Office

Managing early departures in central government

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

Cabinet Office

Managing early departures in central government

Ordered by the House of Commons
to be printed on 13 March 2012

Report by the Comptroller and Auditor General
HC 1795 Session 2010–2012
15 March 2012

London: The Stationery Office
£16.00

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

12 March 2012

This study examines the potential for government departments to achieve savings from early departures over the period of the spending review; and to sustain value-for-money savings over the longer term.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
2482191 03/12 7333

Contents

The National Audit Office study team consisted of:

Matt Barnes, Antonia Gracie, Tom Halliday, Tom Wallace and Stephanie Woodrow under the direction of Keith Davis.

This report can be found on the National Audit Office website at www.nao.org.uk/early-departures-2012

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

17,800	£600m	£400m
employees who left central government bodies early, in the year from 22 December 2010, under the revised Civil Service Compensation Scheme	gross initial cash cost to departments of payments for these 17,800 employees under the revised Scheme	annual reduction in civil service paybill from these departures, after meeting the initial costs of compensation and early access to pension

Departments, as a group, should achieve payback from the 17,800 early departures in a period of **11–15 months**

Payback period is the time by which the salary and other cost savings have paid off all the initial costs (not including administration costs) of departures. A payback period of 11 months is possible only if all IT, support services and property on-costs of employment are eliminated within the year, which is highly uncertain

The taxpayer overall should achieve payback in **10–16 months**

This introduces allowance for re-employment, pension and tax effects

The net present value to the taxpayer, over the spending review period to March 2015, of the 17,800 early departures should be in the range **£750 million to £1,400 million**

The higher end of the range is possible with greater success in eliminating on-costs

The savings achieved by the revised Civil Service Compensation Scheme by comparison with the old are **40–50 per cent**

Summary

1 The 2010 Spending Review required government departments to make significant administrative cost savings as part of reducing the deficit. Staff costs typically make up around half of administration budgets and almost all departments are planning staff cost reductions, largely through reducing the number of employees. The Cabinet Office estimates that the civil service will reduce by around 114,000 full-time equivalent staff (23 per cent) between 2010 and 2015.

2 We define 'early departures' to include voluntary early exit (including with early access to pension), voluntary redundancy and compulsory redundancy. Voluntary exits allow departments flexibility in the tariff they can offer staff and can be agreed without formal staff consultation, while a 90-day consultation period is required before a voluntary redundancy scheme. From December 2010, the revised Civil Service Compensation Scheme (the revised Scheme) capped compensation payments at 21 months' pay for voluntary exits and redundancies, and 12 months' pay for compulsory terms.

3 This study examines the potential for government departments to achieve savings from early departures over the period of the spending review; and to sustain value-for-money savings over the longer term. To do this we:

- set out the available information on the scale and impact of the planned departures on the civil service;
- model the cash flows from departures completed under the revised Scheme in the year beginning 22 December 2010; and
- consider how well placed departments are to make informed decisions, and manage risks to value for money.

4 This report is concerned with early departures, from central government departments and other bodies, of staff who are members of the Principal Civil Service Pension Scheme. It does not cover devolved administrations. It also does not examine the large programmes of early departures that are under way in other public sector bodies, including local authorities, the NHS, police and armed forces. The data we have used also exclude a number of other small public sector pension schemes, including those for the Security Service and Secret Intelligence Service.

Key findings

The scale and impact of early departures

5 **Against the background of a general downward trend, departments are front-loading early departures into the first half of the spending review period.** Since 2004, there has been a downward trend in the size of the civil service from a peak of 538,000 to 444,000 in September 2011. There has also been a centrally driven recruitment freeze on all except 'business-critical' or 'front-line' staff since May 2010. Scheme data show around 17,800 early departures in the year beginning 22 December 2010, when the revised Scheme came into force.

6 **Some departments, for example the Department for Work and Pensions, had experience of releasing large numbers of staff, but for others the numbers involved are unprecedented.** Not all departments are reducing staff. Of those that are, the proportion of staff taking early departure during 2011 ranges from less than 1 per cent at the Department of Energy and Climate Change to around 16 per cent at the Department for Communities and Local Government.

7 **The data show older, more senior staff taking early departures first, leaving the civil service with a younger profile.** This is partly a result of top-down restructuring, but also because those over 50, with longer service, gain most financially from taking voluntary exit or voluntary redundancy. It is too early to see any effect on the civil service's gender and ethnic profile, with equality impact assessments not complete. London has seen the greatest number of staff leaving, with 3,200 early departures in 2011, compared with less than 900 in the North East.

Costs and savings of early departures

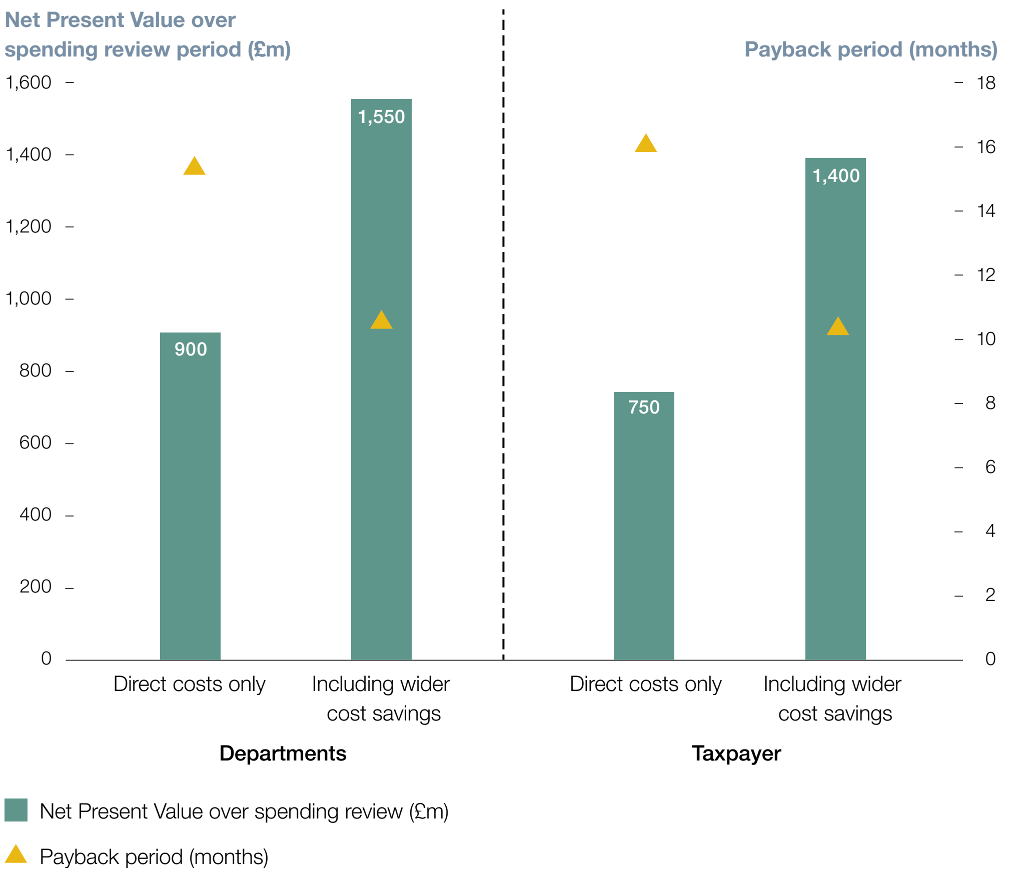
8 **Departments paid an estimated total of £600 million gross to release the 17,800 employees who left early under the revised Scheme during 2011.** These costs are around 45 per cent lower than they would have been under the previous Scheme. However, there were no estimates of the administration or other costs of managing the departures.

9 **Departments will save an estimated £400 million a year on the civil service paybill after meeting these initial costs. The time it takes them to start seeing net savings depends on how quickly they can eliminate wider headcount-related costs.** Cabinet Office data suggest that in addition to salary, the 'on-costs' of employing an individual are around 80–100 per cent of that salary, of which 25 per cent for national insurance and pension contributions is already included in our model. If departments began to save the remaining on-costs immediately, this would mean extra savings of at least £180 million a year in addition to the £400 million in paybill, and a payback period of 11 months.

10 IT cost savings, which the Cabinet Office estimates at around £2,000 per head or £35 million, may be quickly achieved, depending on the terms of IT contracts. But our recent work shows that fixed or semi-variable property-related costs will be slower to eliminate. If none of the on-cost savings are achieved the payback period would be 15 months. Departments should achieve an estimated net present value over the spending review period of £900 million–£1,550 million (**Figure 1**).

11 **For the taxpayer overall there are additional costs, over longer timescales, and payback may range from 10 to 16 months.** Departments are responsible for managing only their own direct costs. But the scale of the early departures means the cash effects on the Principal Civil Service Pension Scheme itself, and on the tax and benefits system, are also significant. We modelled the combined cash flows to departments, the Scheme, HM Revenue & Customs and the Department for Work and Pensions. The net present value of the 17,800 departures to the taxpayer, we estimate at £750 million–£1,400 million over the spending review period, depending on departments' success in realising the on-cost savings discussed above.

Figure 1
Financial effects of 17,800 early departures



Source: National Audit Office

12 **The financial benefit to the taxpayer of the early departures is affected by whether people leaving (and not taking pension) find comparable work and pay tax, or claim benefits.** Based on 2011 official data we assume just over half of leavers not taking pension find work within a year, and between 90 and 100 per cent within three years, depending on age. If the average likelihood of finding comparable employment was 20 per cent worse, the net present value to the taxpayer would fall by between 5 and 10 per cent. Up-side sensitivity suggests that if job prospects improve, net present value could rise by 4 per cent maximum.

Managing early departures

13 **Departments used large-scale open voluntary exit schemes to release staff as early as possible. They aimed to deliver savings quickly and minimise uncertainty for staff.** In doing so, they had to balance the benefits of moving quickly against those of spending more time consulting staff, considering cheaper alternatives to paid departures, and understanding skills requirements.

14 **Departments agreed funding for early departures as part of settlements with the Treasury based on pressures and reforms in their areas, but these were rough early estimates not based on detailed workforce planning.** Departments agreed these settlements before completing detailed plans for cost reduction, and their estimates were uncertain because they could not accurately predict the take-up of voluntary departure. For some, early departures were part of normal non-ring-fenced budgets, while for others, funding was ring-fenced and had to be used within a fixed time period.

15 **Most departments had no plans for transforming their business and headcount reductions were driven solely by a target to reduce administration costs.** A few departments, including the Department for Work and Pensions and the Home Office, already had restructuring plans and had begun work on cost-reduction strategies. Others brought forward plans to move services online or reorganise service delivery with fewer staff. Unless departments now embed redesign of their businesses, there is a risk that the workforce will increase again once the urgency for cost reduction abates.

16 **Departments' processes for handling early departure applications were generally well considered and used business-led criteria to decide who to release.** Governance, including peer-review, sign-off at permanent secretary level where necessary, and internal audit review, was reasonable. Departments generally communicated regularly and openly with staff, and followed good-practice protocols on periods of consultation.

17 Coordination from the centre of government on early departures was minimal, creating duplication of work in HR departments. Moreover, the arrangements for redeploying staff from one department or agency to another are inconsistent, and cannot ensure best use of skills. Since April 2011, Civil Service Resourcing has been developing central recruitment, assessment and redeployment services for the civil service as a whole. There is potential to secure value-for-money savings by rolling out these services, but progress so far has been limited by complex accountability arrangements and a short-term funding model.

18 Departments' decision-making about departures has been restricted by poor information on skills and performance. Data across the civil service on skills are generally inadequate, and largely self-reported by staff. Performance data, though reasonably robust for senior civil service staff, are less good for junior grades, generally lacking enough detail to separate staff for retention/departure purposes. A good-practice performance appraisal process for junior staff is now available but has not yet been adopted across government.

19 Departments experienced delays in obtaining estimates, from MyCSP, the civil service pension scheme administrator, of the cost of releasing individuals. The dramatic increase in demand from departments for thousands of estimates, as they worked through different workforce scenarios, came at a time when the Cabinet Office was reorganising MyCSP. Service levels were also affected by the quality of information provided by departments themselves.

Conclusion on value for money

20 Departments have taken rapid action to reduce headcount, bringing forward significant savings over the spending review period. The short-term costs of this action are around half what they would have been under previous compensation terms. After the initial cash costs of releasing staff have been recovered, these early departures should reduce the annual paybill by £400 million. There is significant scope for further headcount-related cost savings but it is not clear how much of these additional savings departments will achieve. The size of the net benefit to the taxpayer in the short term also depends on whether other sectors can provide alternative employment for those leaving.

21 A great deal of public money will have been spent in achieving these headcount reductions. To deliver the expected savings, staff numbers must stay at their reduced levels during the payback period discussed in paragraphs 9-10. To deliver permanent benefits, and sustain longer-term value-for-money improvements, the numbers need to stay reduced even when the economic situation eases. This means departments need to migrate to a new, lower staffing model, which will probably be information-led, and which is flexible enough to handle increased volumes of activity without either adversely affecting services, or requiring a significant staff number increase. Departments should formally commit to such new models so they can be held to that commitment over the economic cycle.

Recommendations

For the centre of government

a **Central coordination of early departures is minimal. If the opportunity to embed fundamental change to the civil service staffing model is not to be lost, the new Head of the Civil Service should work with permanent secretaries to provide strategic oversight, including actively monitoring:**

- departments' current and planned staffing levels and workforce shape, drawing on appropriate benchmarks for different business areas;
- an overall, as opposed to a department-level, view of the costs and savings to the public purse, as set out in our model; and
- the effect of early departures on the civil service's skills, experience and equality profile, to identify any erosion of capability and equality gains.

b **Given the potential benefits of the centralised services of Civil Service Resourcing, this group must have a clear mandate to roll them out across government.** The Cabinet Office should ensure it has clearer accountability arrangements, a firm financing model for at least three years, and a ministerial reporting line.

For departments

c **Departments have used widely scoped voluntary departure schemes because they had not finalised detailed workforce planning. This has made it harder to control workforce changes.** Departments should now move quickly to finalise future workforce models and review progress, adjusting further departure plans accordingly.

d **Workforce data, particularly on skills and experience, are still inadequate, but departments have collected valuable information as part of departure applications.** Departments should build on this to improve their understanding of capability, and work with Civil Service Resourcing and Civil Service Learning to keep it current, useful and consistent across the civil service.

e **Performance information on junior staff lacks detail to inform decisions about early departure applications.** Departments should move quickly to adopt the best-practice approach set out by Civil Service Employee Policy. This would improve the quality and consistency of performance information, and hence performance management.

Part One

Introduction

1.1 This part sets out the available information on the scale and impact of planned headcount reductions on the civil service. It is concerned with central government departments, agencies and non-departmental public bodies. It does not cover other public sector areas such as local authorities, the NHS, police and armed forces. It does not cover devolved administrations.

The scale of central government staff reductions

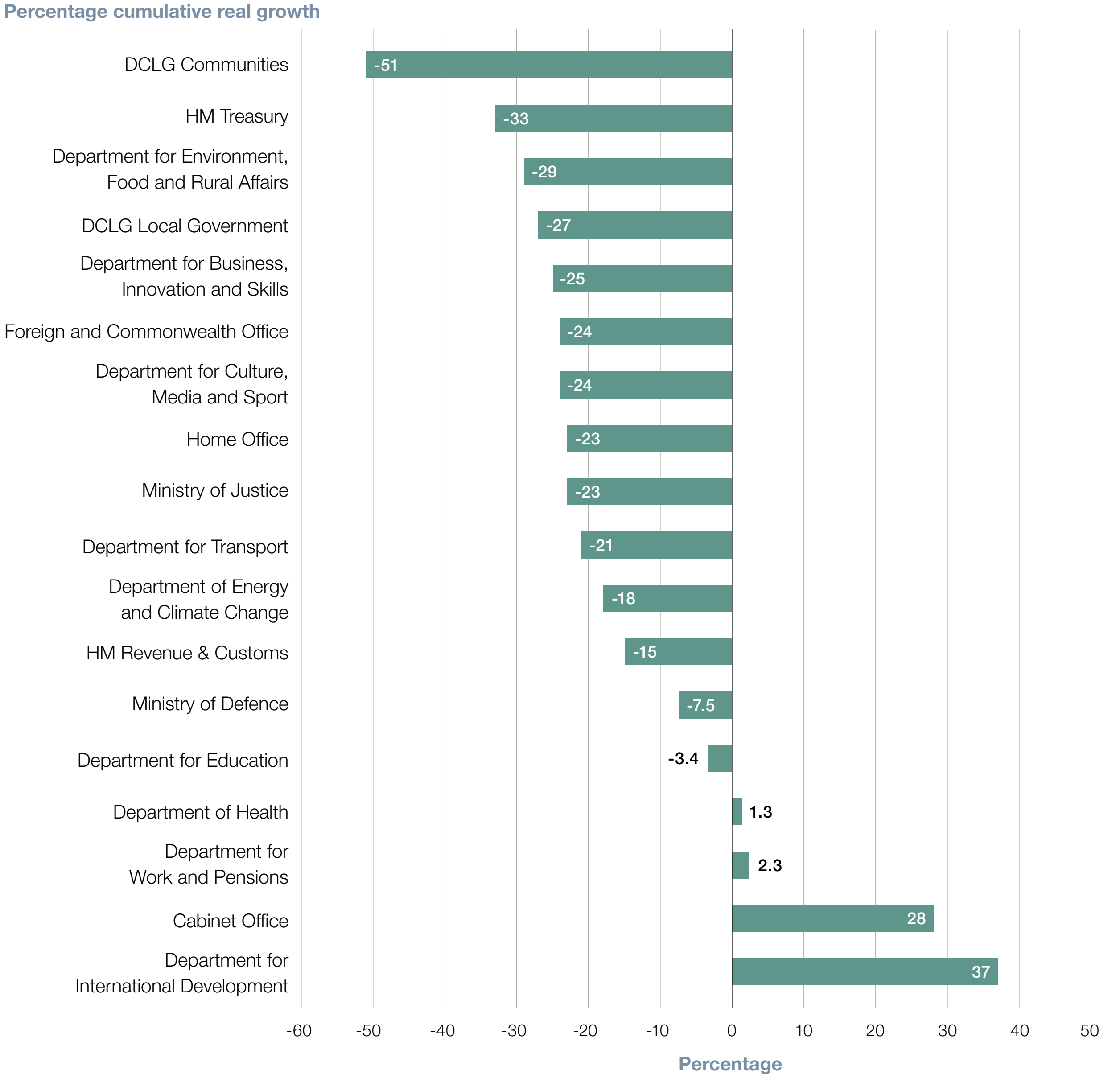
1.2 The October 2010 Spending Review set departments significant financial challenges. A small number of departments will see increased budgets over the four-year spending review period to April 2015. However, the majority face real-terms budget reductions of a fifth or more (**Figure 2** overleaf). Staff costs typically form around 50 per cent of administrative spend – in some departments significantly more (**Figure 3** on page 13). Against this background, most departments are seeking to lower staff costs by reducing headcount.

1.3 Since 2004, there has been a downward trend in the size of the civil service, from 538,000 to 444,000 full-time equivalents in September 2011 (**Figure 4** on page 14). Cabinet Office figures suggest the civil service will continue shrinking, to around 379,000 full-time equivalents by 2015, a reduction of around 114,000 between 2010 and 2015.

1.4 The fall in civil service numbers is partly explained by a drop in entrants – from 39,000 in 2009-10 to 13,400 in 2010-11 (**Figure 5** on page 15). This was driven from the centre of government, with a freeze on civil service recruitment from May 2010. The freeze, covering all but 'front-line' staff and those deemed 'business-critical', continues.

1.5 In addition to controlling recruitment, departments are front-loading headcount reduction, with the bulk of early departures expected by March 2012. The data show approximately 17,800 people taking early departure under the revised Scheme in 2011, although there are no forecasts of the total number of early departures over the spending review period. Other staff will leave via normal retirement, retirement on health grounds, resignation, ending of a fixed-term contract, disciplinary dismissal and death in service.

Figure 2
Departmental programme and administration budgets over the spending review period

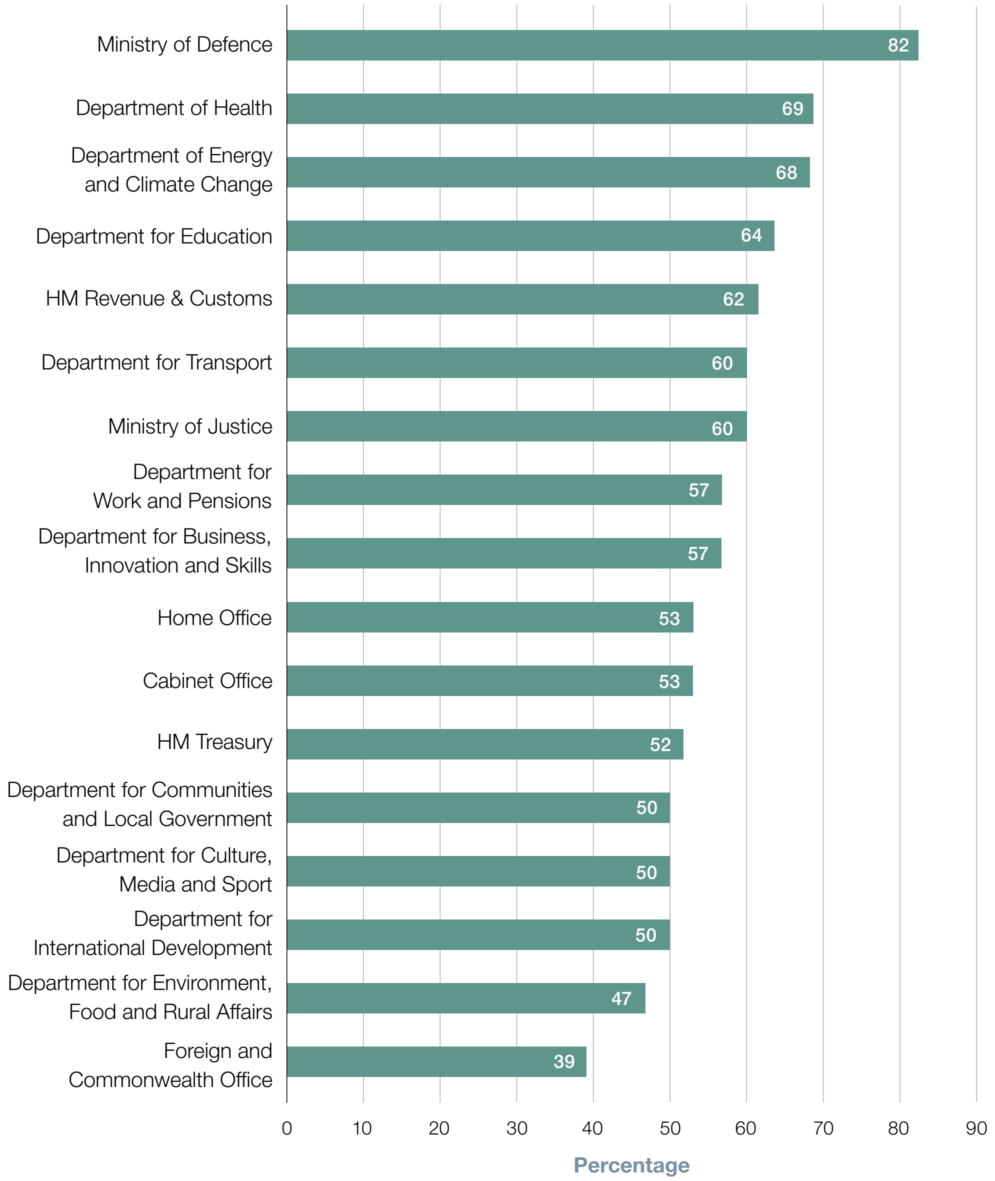


NOTE
1 Figures show resource Departmental Expenditure Limits, excluding depreciation.

Source: HM Treasury Spending Review 2010

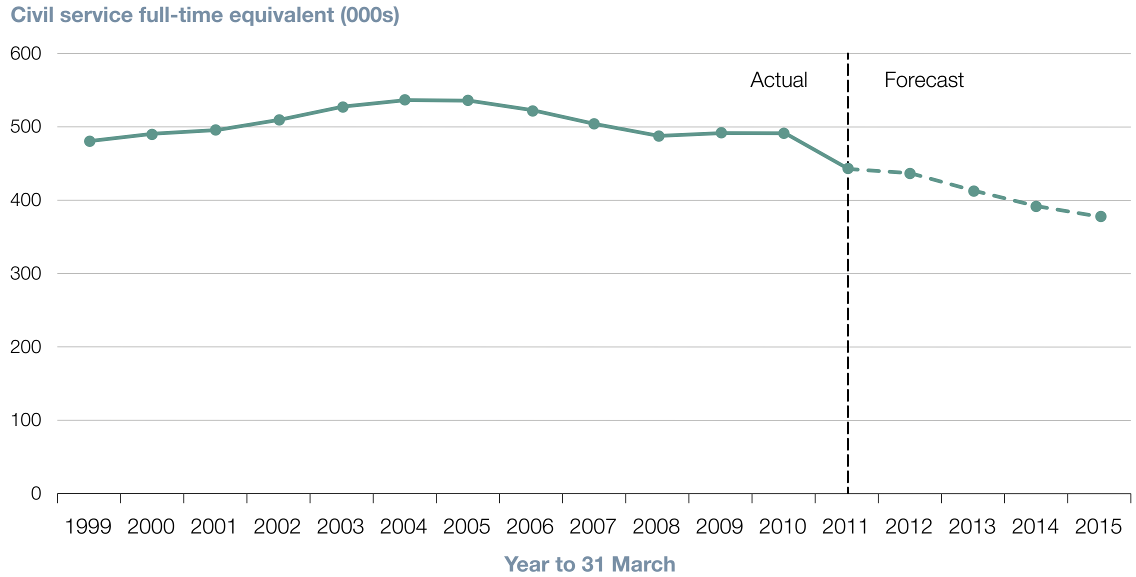
Figure 3
Staff costs as a proportion of administrative budget 2010-11

Department staff costs as a percentage of administrative expenditure



Source: Department annual reports and accounts (2010-11)

Figure 4
Size of the civil service since 1999



Civil service full-time equivalent (000s)	482	492	497	511	529	538	537	524	505	489	493	493	444	438	415	393	379

Source: Office for National Statistics Quarterly Public Sector Employment Statistics/Cabinet Office projections

1.6 Some larger departments have recent experience of early departures – in 2008 the Department for Work and Pensions reduced headcount by approximately 15,000 as part of introducing contact centres.[1] For others, however, the scale of departures represents an unprecedented challenge. The Ministry of Defence saw the greatest absolute number of early departures in 2011. However, other departments released higher proportions of staff (**Figure 6** on page 16).

Types of early departure

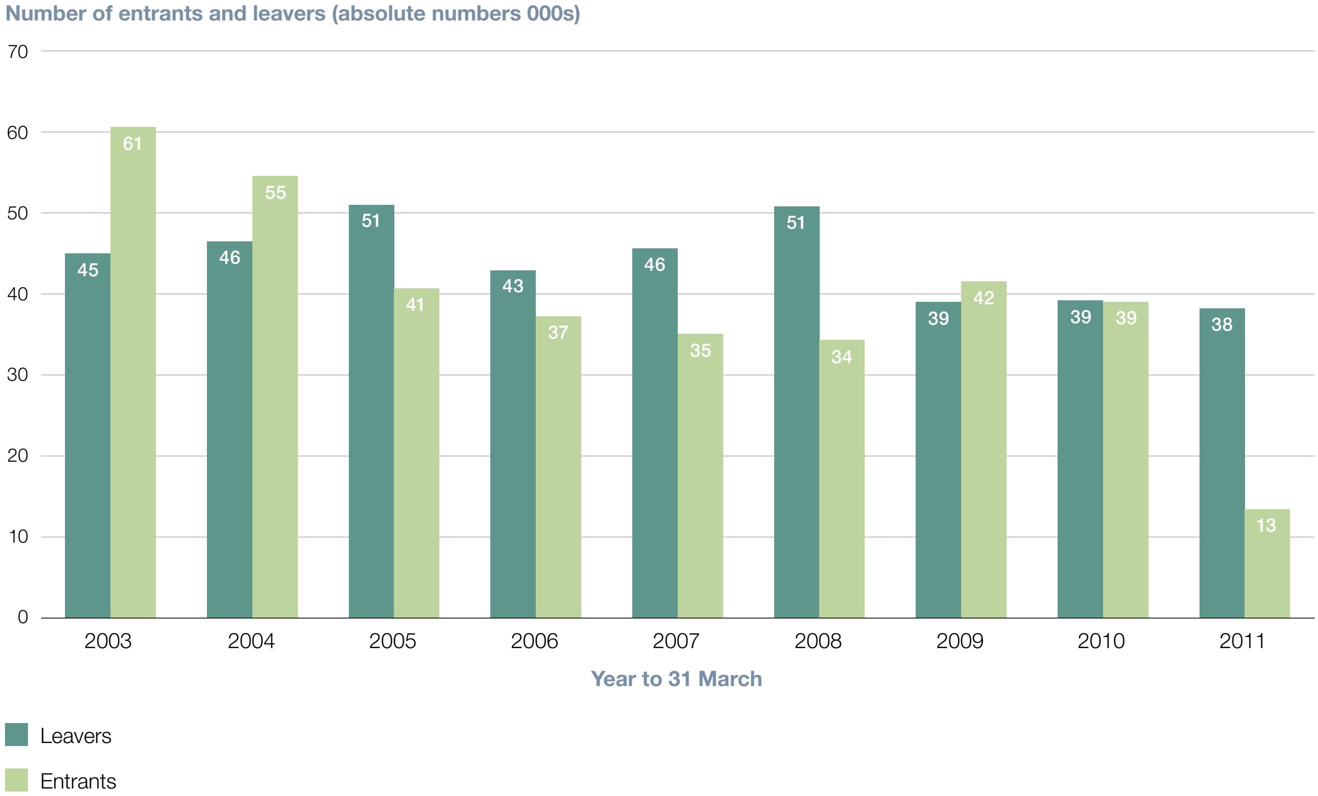
1.7 In December 2010, the Government introduced a revised Civil Service Compensation Scheme (**Figure 7** on page 17).[2] The new terms were designed to:

a make early departures more cost-effective for departments: in particular, the qualifying length of service for voluntary and compulsory redundancy increased and maximum payment reduced; and

b encourage take-up of voluntary terms: the maximum payment is considerably lower for compulsory departures than for voluntary departures.

1 Comptroller and Auditor General, *Reducing costs in the Department for Work and Pensions*, Session 2010–12, HC 1089, National Audit Office, June 2011.
2 Although early departures already agreed could still be implemented after this date.

Figure 5
Civil Service entrants and leavers



NOTES

1 Data include temporary and permanent staff.

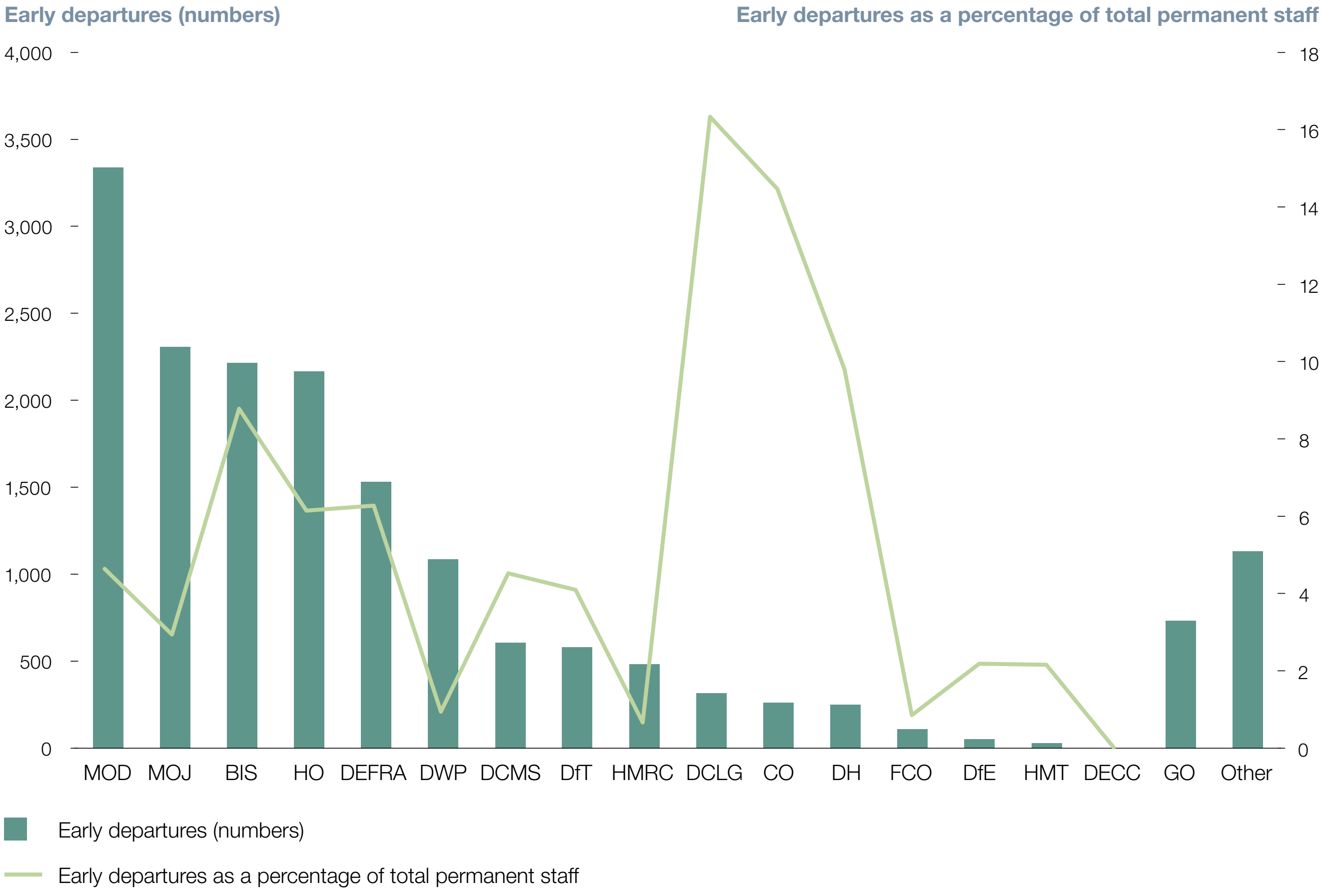
2 Leavers include all types of departure.

Source: Office for National Statistics Annual Civil Service Employment Survey

1.8 The revised Scheme introduced voluntary exit schemes. These were designed to provide departments with more flexibility in terms of the tariff they are able to offer, and can be run without formal staff consultation. Where a department is contemplating voluntary redundancy, it must complete a consultation period of 90 days before launching a scheme. The majority of early departures from the civil service in the first year of the revised Scheme were either voluntary exit or voluntary redundancy. However, evidence from our case examples suggests that some departments will consider compulsory redundancies in 2012.

Figure 6

Numbers and percentages of early departures 22 December 2010 to 21 December 2011



NOTES

1 'Other' includes non-ministerial government departments, public corporations and other organisations without a sponsor department.

2 Government Offices for the regions were abolished in 2011.

3 Departure numbers supplied directly by departments in the cases of: the Department of Energy and Climate Change; Department for the Environment, Food and Rural Affairs; Department for Work and Pensions; Communities and Local Government; Department for Education; HM Revenue & Customs; Home Office; Department of Health; and Ministry of Justice.

4 Core department only in the cases of the Department of Health, the Department for Work and Pensions and the Department for Education.

5 MOD = Ministry of Defence, MOJ = Ministry of Justice, BIS= Business, Innovation and Skills, HO = Home Office, DEFRA = Department for Environment, Food and Rural Affairs, DWP = Department for Work and Pensions, DCMS = Department for Culture, Media and Sport, DfT = Department for Transport, HMRC = HM Revenue & Custom, DCLG = Department for Communities and Local Government, CO = Cabinet Office, DH = Department of Health, FCO = Foreign and Commonwealth Office, DfE = Department for Education, HMT = HM Treasury, DECC = Department of Energy and Climate Change, GO = Government Offices.

Sources: Permanent staff – Whole of Government Accounts (2010-11); Departure numbers – National Audit Office analysis of Principal Civil Service Pension Scheme data, supplemented by data from departments

Figure 7
Summary of revised Civil Service Compensation Scheme terms

	Voluntary Exit	Voluntary Redundancy	Compulsory Redundancy
Departure payment	One month's pay per year of service[1]	One month's pay per year of service	One month's pay per year of service
Qualifying period (number of years' service)	2[2]	2	2
Payment cap if below pension age (number of months' pay)[3]	21	21	12
Payment cap if above pension age (number of months' pay)	6	6	6
Early access to un-reduced pension	May be permitted	Must be permitted	Cannot be permitted

NOTES
1 The employer has discretion to alter this standard tariff, provided the overall cap of 21 months' pay is not exceeded.
2 The employer has discretion to waive or reduce the two years for voluntary exits.
3 Subject to tapering adjustments for those nearing normal pension age.
4 Under the old scheme, prior to December 2010, terms depended on age and circumstances of departure, with lump sum compensation payments of up to three years' pay for the under-50s, and early enhanced pensions for the over-50s, payable on redundancy.

Source: Civil Service Compensation Scheme (http://www.cabinetoffice.gov.uk/news/civil-service-compensation-scheme-reformed)

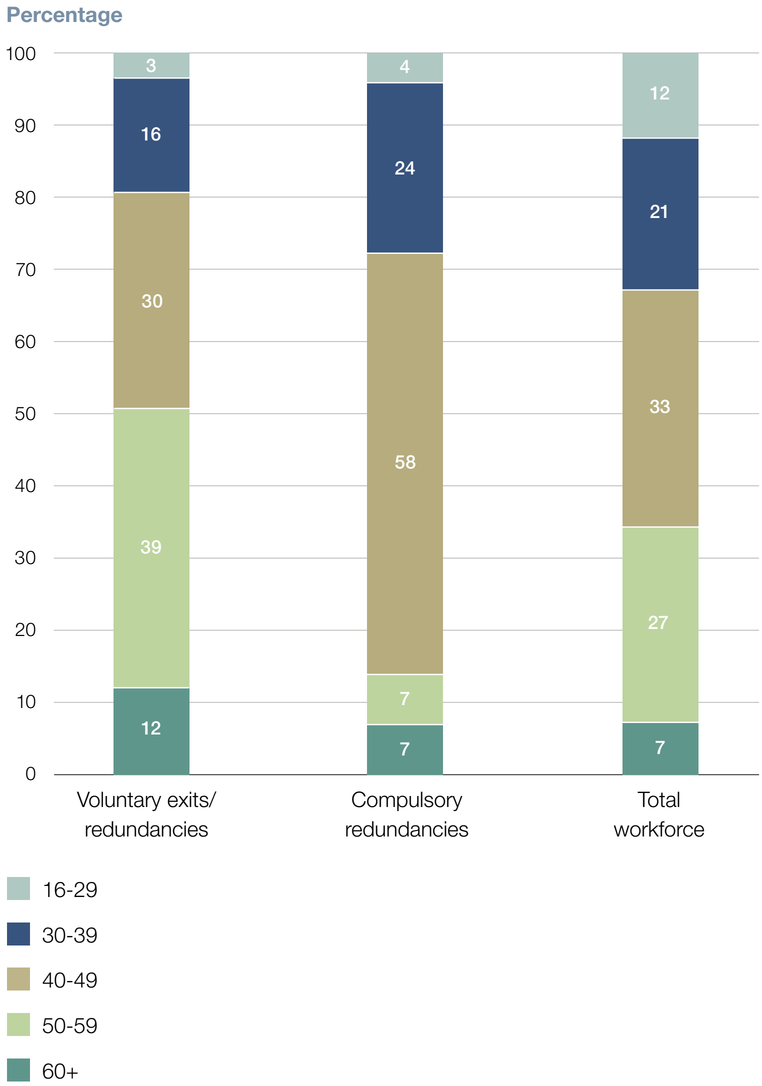
Impact of staff reductions on the profile of the civil service

1.9 Departments are aware of the risk that disproportionate take-up of early departures by particular groups of staff may erode improvements in equality. All the organisations we examined were planning Equality Impact Assessments of their early departure schemes, but mainly after the schemes have finished.

1.10 Early evidence is mixed. The gender and ethnicity of leavers to date is broadly proportionate to the current civil service. However, 2010-11 data indicates that older (aged 50 and over) and more senior employees are more likely to leave under paid voluntary terms (**Figure 8** and **Figure 9** on pages 18 and 19). This may be partly timing, as departments began restructuring at senior levels. It is also because staff aged over 50, with more than 12 years' service, have a significant financial incentive to take voluntary departure rather than risk compulsory redundancy.[3] Losing older staff, and changes in retirement age, will create lower turnover from retirements in future years.

3 Staff with more than 12 years' service are entitled to a greater lump sum under voluntary exit than compulsory exit. Those aged over minimum pension age are also entitled to early access to pension under a voluntary scheme.

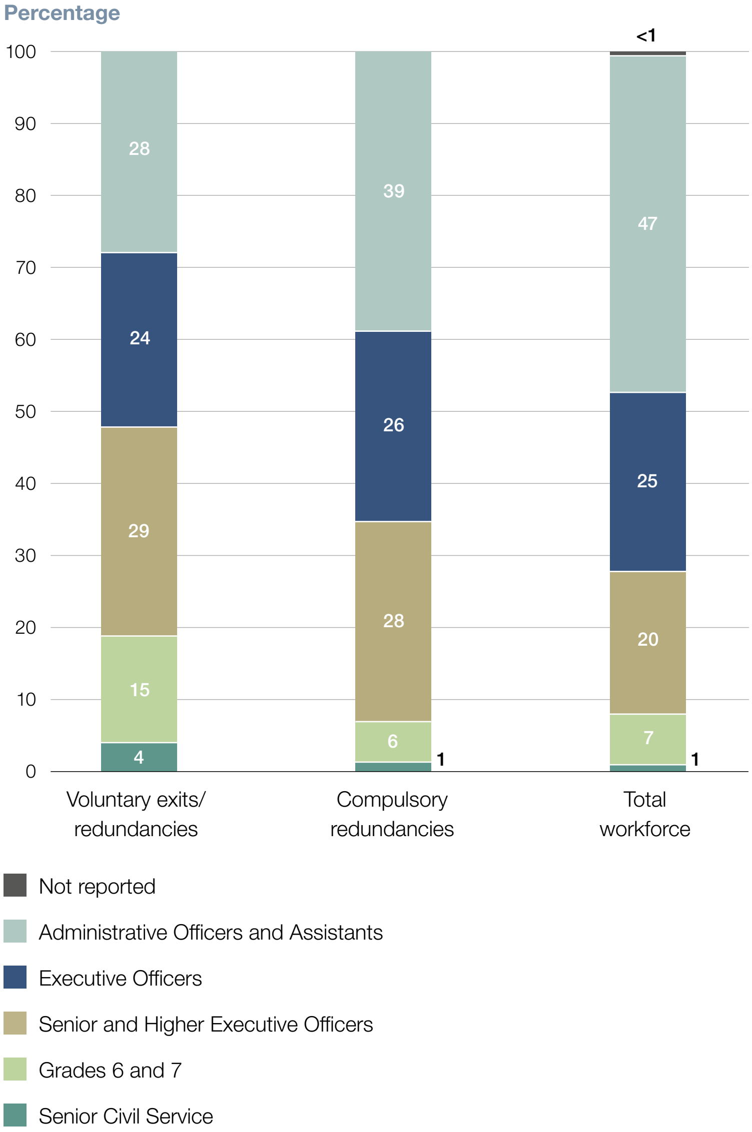
Figure 8
Age mix of early departures 2010-11



Source: Office for National Statistics, Annual Civil Service Employment Survey data, April 2010–March 2011

Figure 9

Grade mix of early departures 2010-2011



Source: Office for National Statistics Annual Civil Service Employment Survey data for April 2010–March 2011

1.11 London and the South East has seen the greatest number of Scheme members take early departure, with around 3,200 leaving in 2011 (a third of all early departures) (**Figure 10**). This reflects the top-down restructuring of departments, and the fact that the bodies involved are mostly Whitehall-led central government departments. Employment prospects for leavers vary across the regions.

Figure 10

Civil servants taking early departure by where they live, and regional unemployment rates

Region	Number of people taking early departure	Headline unemployment rate September – November 2011 (%)
London	3,248	9.9
South East	2,593	6.4
North West	2,113	8.9
South West	1,877	6.5
East of England	1,476	7.2
Yorkshire and the Humber	1,332	10.1
West Midlands	1,320	9.2
East Midlands	1,150	8.3
North East	882	12.0
Wales	700	8.9
Scotland	671	8.6
Northern Ireland	130	7.2
Other/Region not identified	277	–
UK overall	**17,769**	**8.4**

Sources: National Audit Office analysis of Principal Civil Service Pension Scheme data from between 22 December 2010 to 21 December 2011; Office for National Statistics

Roles and responsibilities

1.12 Departments and government bodies are responsible for designing and running their own early departure schemes. They make decisions about individuals, and manage the risks. **Figure 11** shows the other organisations involved.

1.13 In September 2011, the Public Administration Select Committee recommended that the Cabinet Office monitor departments' redundancy programmes to ensure they were retaining key skills.[4] The Cabinet Office stated it was not their role to provide central direction in this way. However, they agreed that a more corporate, cross-departmental approach would be helpful and indicated that the new Head of the Civil Service would be responsible for developing corporate priorities for the service and working towards them with permanent secretaries.

Figure 11
Roles and responsibilities for early departures

Organisation	Role
Department	Plans and implements early departure schemes.
Cabinet Office	Approves schemes proposed by departments, and monitors the civil service workforce at high level. Responsible for developing workforce policy. Also responsible for the management of the Principal Civil Service Pension Scheme through the Scheme Management Board.
HM Treasury	Departments agreed settlements with the Treasury based on pressures and reforms in their areas. For some, funding for early departures was part of normal non-ring-fenced budgets, while for others it was on a ring-fenced, time-limited basis. Departments must seek approval from HM Treasury for all severance payments that exceed the standard Scheme terms. The Treasury considers around 400 such cases from across the public sector each year but was not able to separate out how many relate to central government.
My CSP	Administrator of the Principal Civil Service Pension Scheme and Civil Service Compensation Scheme. Liaises with departments over providing estimates for the cost of individual departures.
Civil Service Resourcing	One of three parts of Civil Service HR, Civil Service Resourcing was formed early in 2011. Its objective is to provide a recruitment, assessment and redeployment service for the civil service. Civil Service Resourcing is housed within HM Revenue & Customs but also reports to the Cabinet Office.

Source: National Audit Office

4 Public Administration Select Committee, *Change in government: the agenda for leadership*, 13th Report, HC 714, September 2011.

Part Two

The financial impact of early departures

2.1 This part models the cash flows involved in approximately 17,800 departures of members of the Scheme between 22 December 2010 (the date of introduction of the revised Scheme) and 21 December 2011. We have excluded staff from the devolved administrations. Full details of our modelling methodology are in the accompanying technical annex at www.nao.org.uk/early-departures-2012.

Direct cash flows associated with early departures

2.2 The direct cash costs and savings associated with releasing a civil servant on early departure fall to several parties including the department, the Scheme, HM Revenue & Customs and the Department for Work and Pensions (**Figure 12**).

Figure 12
Direct cash costs and savings from early departures

Organisation	Costs	Savings
Department	Lump sum payments to leaver Lump sum payments to offset enhanced pension payments	Tax and National Insurance not paid Pension contributions not paid
Principal Civil Service Pension Scheme	Employers' and employees' contributions not paid	Smaller pension payments because of shorter length of service Lump sum payments from departments to offset enhanced pension payments
HM Revenue & Customs	Tax and National Insurance not earned on salary and pension	Tax on lump sum
Department for Work and Pensions	Jobseeker's Allowance if leaver has period unemployed	–

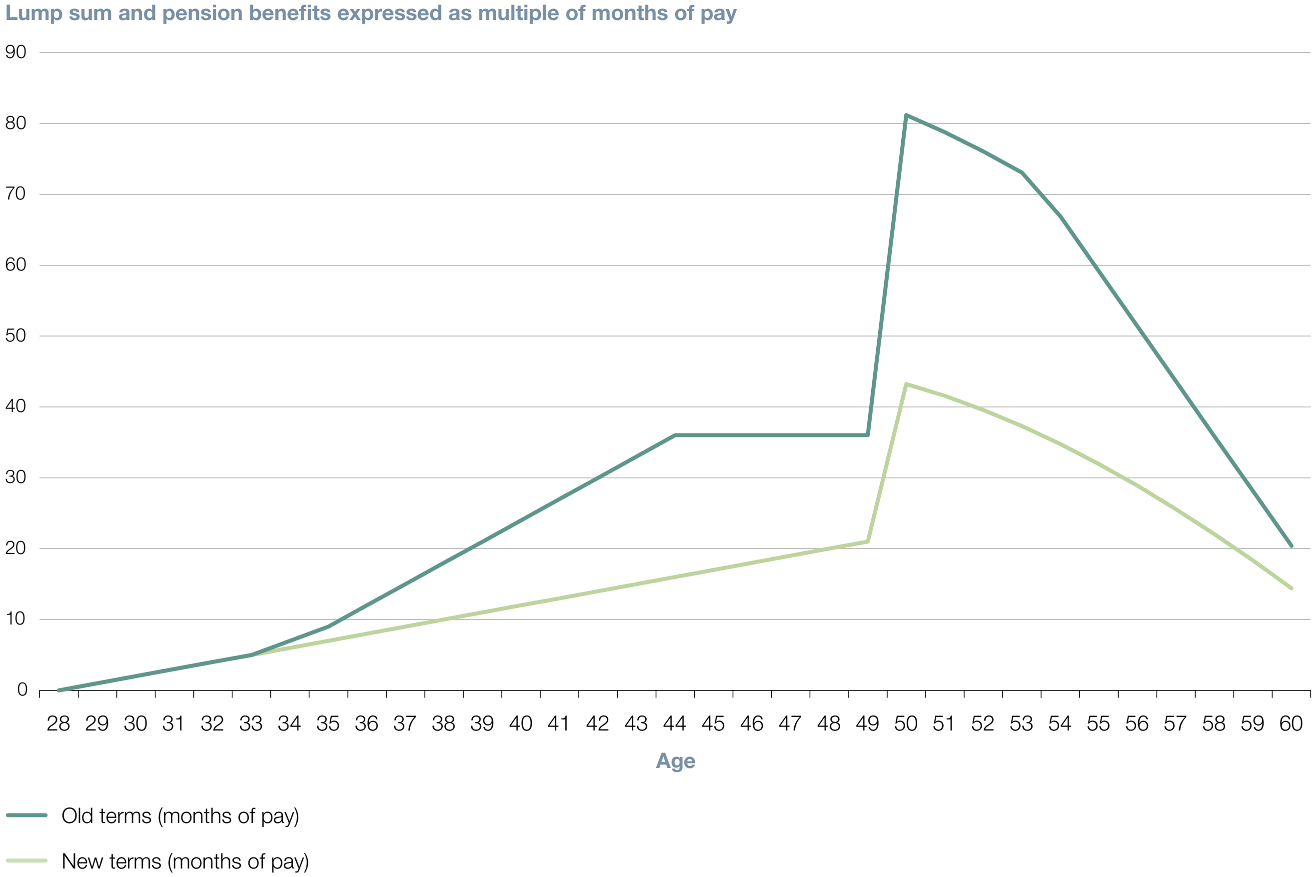
Source: National Audit Office

Financial impact on departments

2.3 Departments have focused on the direct cash costs of early departures and sought to measure the financial impact using the payback period. This is the time taken for the initial costs (lump sum, access to early pension) to be outweighed by the savings in salary, national insurance and pension contributions. Our analysis of 17,769 (henceforth 17,800) departures shows a gross initial cash cost to departments of around £600 million at 2011 prices, with an average payback period of 15 months (not including on-costs). The payback period is approximately 40-50 per cent lower than it would have been under the previous Scheme (**Figure 13**).

Figure 13

Comparison of previous and revised Scheme entitlements for an individual



NOTE

1 Assumes the member joined the Classic Section of the PCSPS at the age of 28, that members who take voluntary redundancy after attaining the age of 50 elect for an enhanced pension benefit, and actuarial assumptions as to the value of pension benefit.

Source: PwC analysis

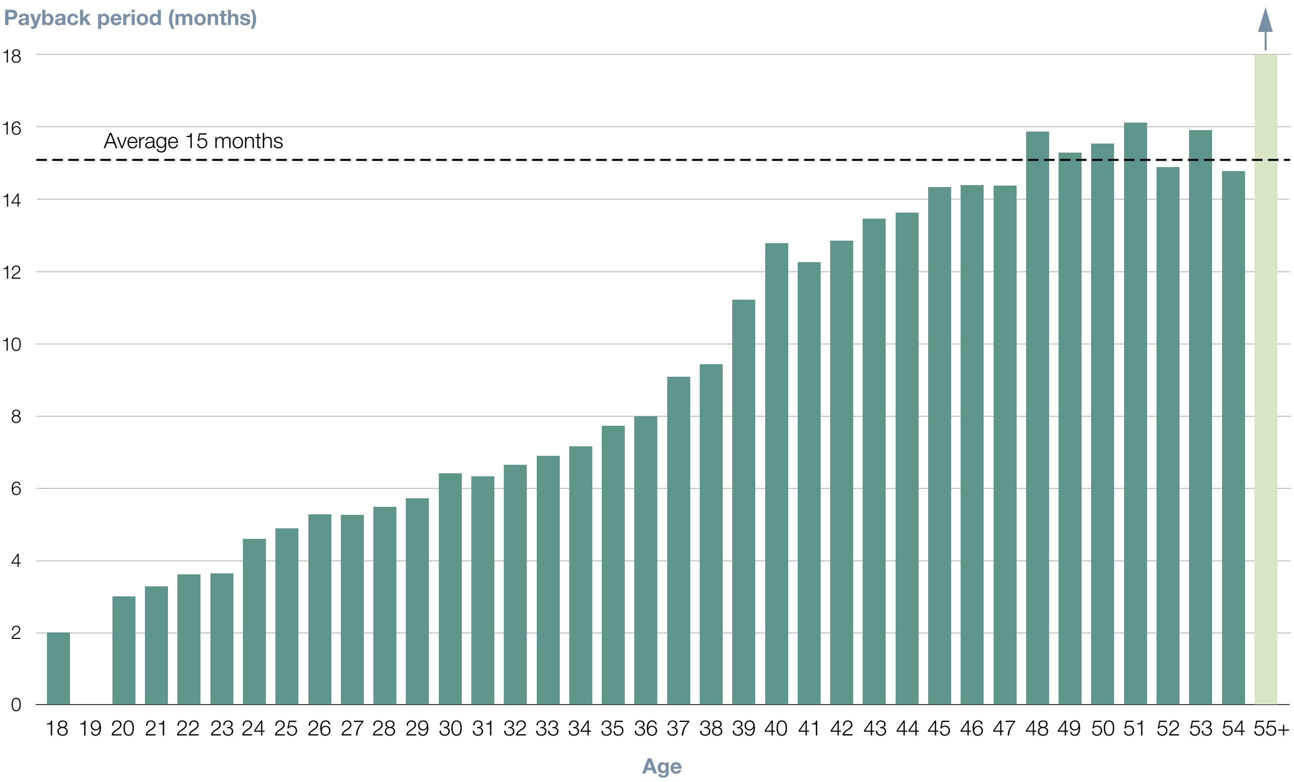
2.4 The payback period of departures for different age groups varies, and early savings from releasing younger staff offset the costs for older staff (**Figure 14**). Scheme data on employers was not sufficiently reliable to analyse the payback periods by department. After meeting the initial costs, the reduction in departments' total paybill will be around £400 million a year.[5]

Modelling the overall costs and savings to the taxpayer

2.5 Given the large scale of early departures, the cash effects on the Scheme itself, and on the tax and benefits system, are significant. When an individual takes early departure, they pay tax on the lump sum but cease paying tax on salary. They may subsequently find work and pay tax, or draw pension. After a period out of work, they may become eligible for benefits.

Figure 14

Distribution of payback period by age group of the 17,800 leavers



NOTE

1 Payback for most longer serving leavers over 55, who form over a third of the total analysed above, is effectively never achieved. Instead younger leavers essentially subsidise these cases. The payback period for the two-thirds of people below 55 is around 11 months, but the average rises to 15 months with inclusion of the over-55s.

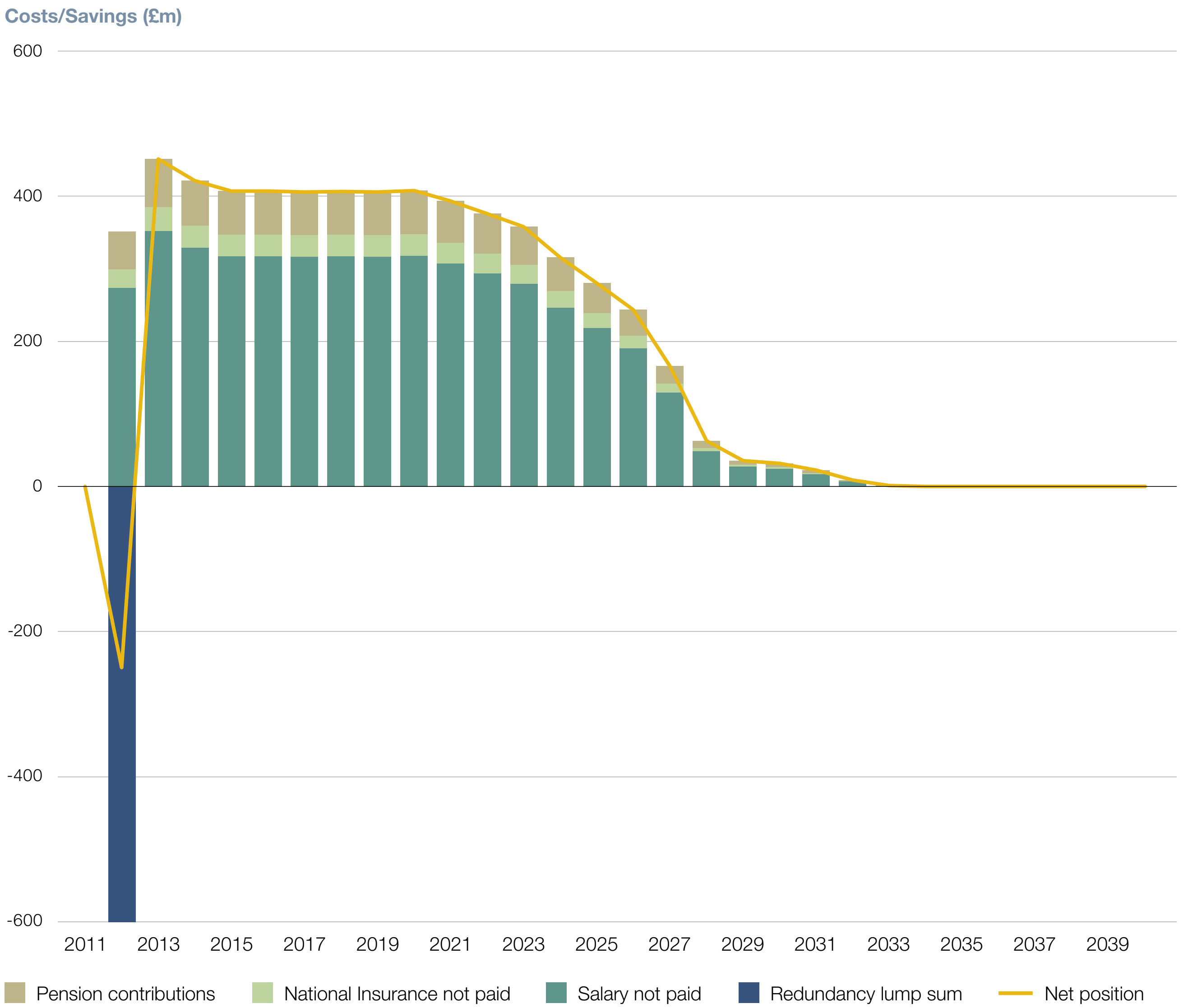
Source: National Audit Office/PwC analysis of Principal Civil Service Pension Scheme records for departures between 22 December 2010 and 21 December 2011

5 Taken as an annual average saving between 2013-14 and 2017-18.

2.6 We modelled the cash flows to departments, the Scheme, HM Revenue & Customs and the benefit system, to establish an overall payback period and net present value for the 17,800 departures. The model is based on a number of economic and actuarial assumptions. The results presented in **Figure 15** to **Figure 19** are a best estimate scenario. Full details of assumptions and sensitivity analysis are in the technical annex accompanying this report.

2.7 For departments, the immediate spike in costs represents the initial lump sums to staff leaving, plus a smaller sum to buy out early pension payments. Above the line, savings accumulate in the form of salary, National Insurance and pension contributions that would have been paid had staff remained (Figure 15).

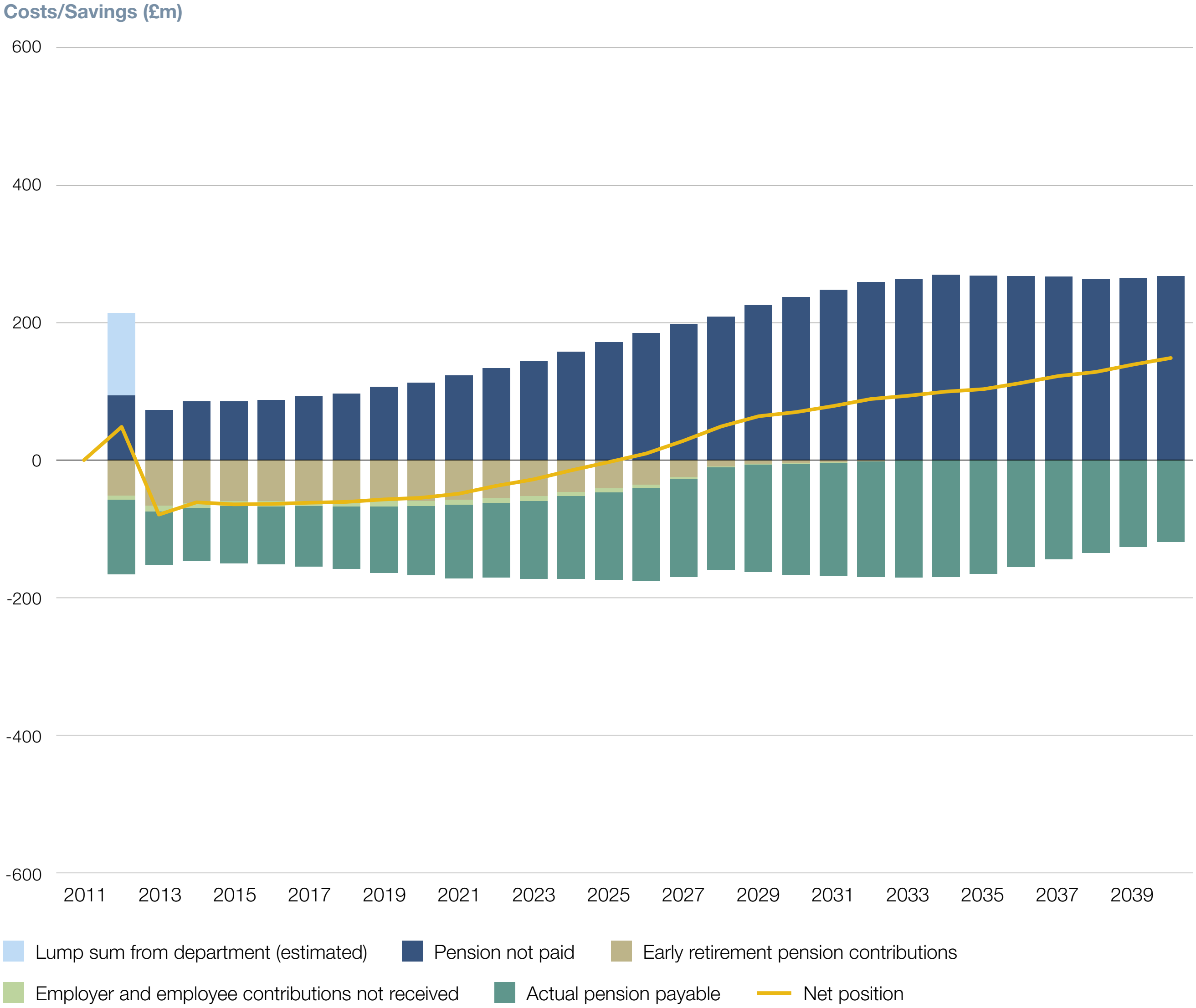
Figure 15
Cash flows for departments



Source: National Audit Office/PwC analysis of Principal Civil Service Pension Scheme data

2.8 Other costs to government cover a longer time frame. For the Scheme, people leaving early and taking pensions create a delayed peak in costs. Payback is achieved over a much longer period, as the overall pension payable is reduced because of the shorter length of service (Figure 16).

Figure 16
Cash flows for the pension scheme



Source: National Audit Office/PwC analysis of Principal Civil Service Pension Scheme data

2.9 For the tax and benefits system, there is an initial windfall in tax on lump sums, but a loss in tax revenue from salary. This chart also shows costs to the Department for Work and Pensions where some leavers claim Jobseeker's Allowance (Figure 17).

Figure 17
Cash flows for HM Revenue & Customs and Department for Work and Pensions

Source: National Audit Office/PwC analysis of Principal Civil Service Pension Scheme data

2.10 Figure 18 combines the three previous charts.

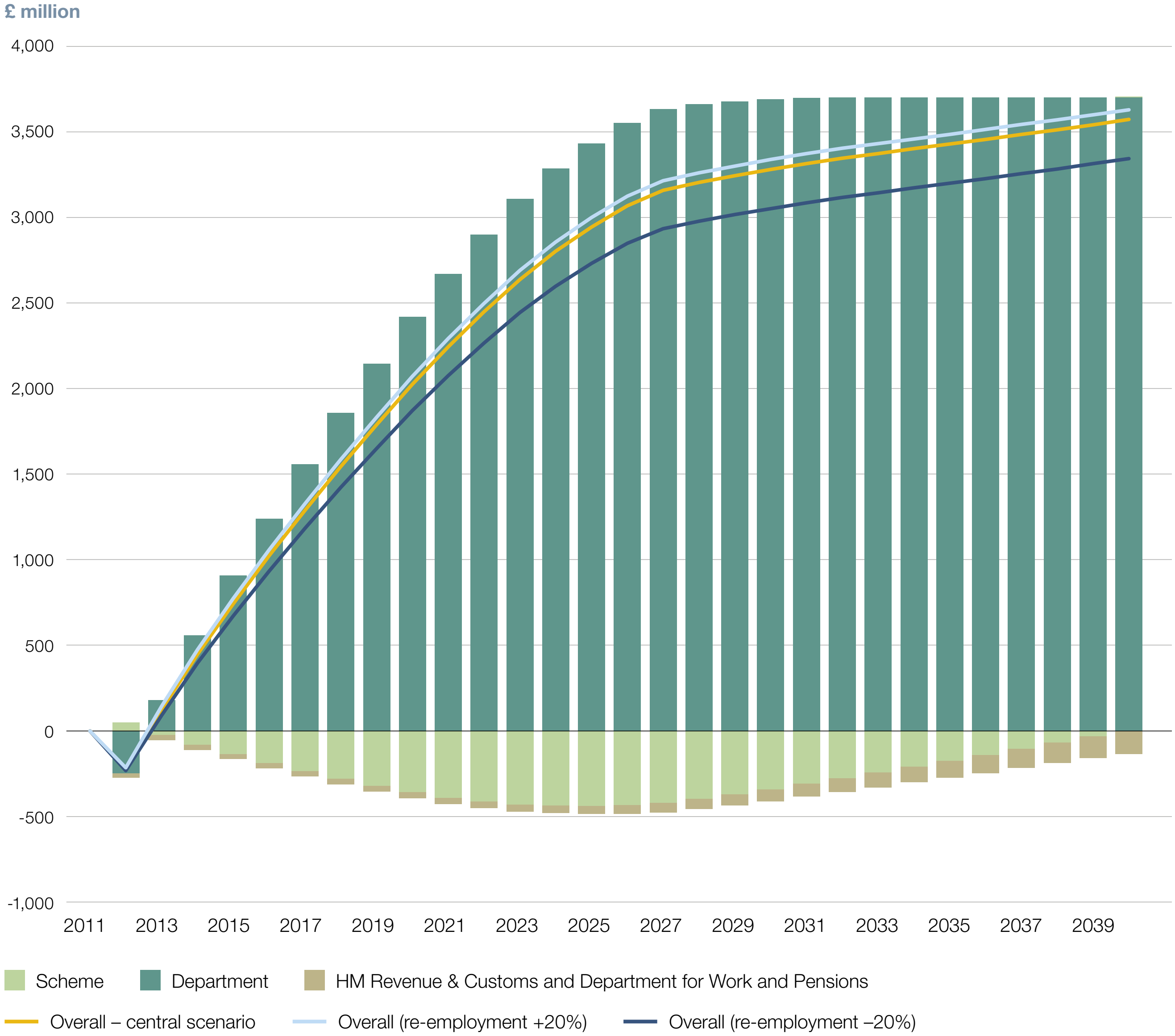
Figure 18
Overall cash flows

Source: National Audit Office/PwC analysis of Principal Civil Service Pension Scheme data

2.11 Considering these costs and savings cumulatively illustrates the time taken for the initial costs to be offset by savings. Because of the longer-term costs involved, the payback period for the taxpayer is slightly longer than for departments at 16 months (Figure 19). Discounting, we estimate the long-term net present value to the taxpayer at around £4.2 billion. In the short term, net present value over the spending review period is around £750 million.

Figure 19

Cumulative discounted cash flows of early departures



NOTES

1 The yellow line shows the central (best estimate) scenario from which we take the payback period and net present value. The light blue and dark blue lines show the sensitivity analysis described in paragraph 2.14.

2 Discount rate is 3 per cent above assumed rate of Consumer Price Index, consistent with the discount rate to be used to value unfunded public sector pension schemes to calculate scheme contribution rates. HM Treasury agreed this discount rate in March 2011 after consultation.

Source: National Audit Office/PwC analysis of Principal Civil Service Pension Scheme data

Assumptions and sensitivity of the results

On-cost savings

2.12 While departments took into account the cost of compensation payments and early pensions in early departure decisions, most had not included the wider costs. These include, for example, Human Resources time, or job-search support for departing staff (**Figure 20**). We have not included estimates for these costs in our model. Nor had departments projected the level of headcount-related savings on IT, training or property, focusing only on salaries and contributions saved.

2.13 Cabinet Office data suggest that in addition to salary, the costs of employing an individual are around 80 to 100 per cent of that salary, of which 25 per cent for national insurance and pension contributions is already included in our model. If departments began to save the remaining on-costs immediately, we estimate this would bring additional savings of around £180 million a year, and reduce the payback period to 11 months (Figure 1 on page 7). The financial impact on the taxpayer would also improve. IT costs, which the Cabinet Office estimates at around £2,000 per head or £35 million in total, may be quickly saved, depending on the terms of IT contracts. But our recent work shows that fixed or semi-variable property costs will be more difficult to release.[6]

Re-employment of leavers

2.14 The financial benefit to the taxpayer of the early departures is affected by whether people leaving (and not taking pension) find comparable work and pay tax, or claim benefits. Our central estimates, based on 2011 Labour Force Survey and claimant count data, assume just over half of people find work within a year and between 90 and 100 per cent within three years, varying with age. However, if the likelihood of finding comparable employment was on average 20 per cent worse, the maximum net present value to the taxpayer would fall to around £670 million (**Figure 21**) and payback

Figure 20
Wider costs and benefits of early departures

Costs	Benefits
Administrative cost of running the scheme e.g. the cost of time spent by HR and line managers	Improvements to morale and by removing disengaged staff
Cost of training remaining staff and handing over knowledge	More efficient operating model e.g. through restructuring
Loss in productivity from disruption and lower morale	Staff on-costs saved e.g. IT support, HR administration, property and services
Cost of transition support for outgoing staff, either provided in-house or outsourced	

Source: National Audit Office

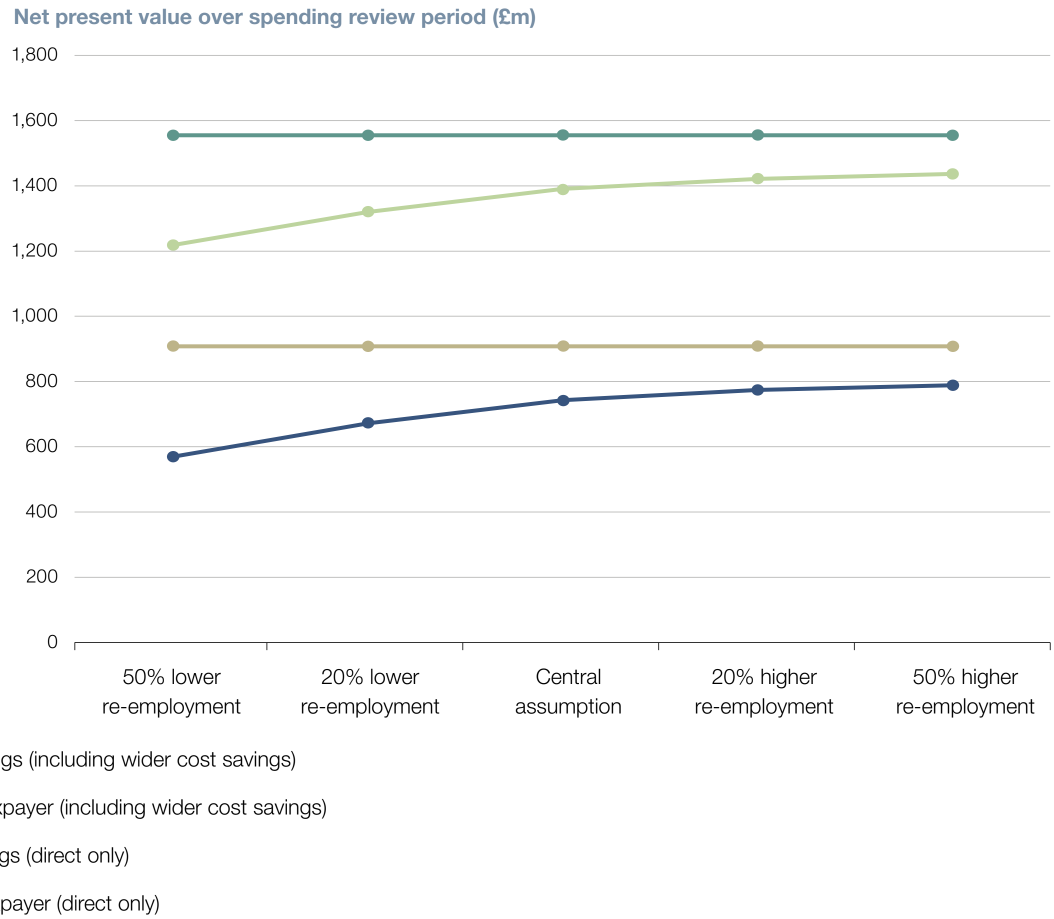
6 Comptroller and Auditor General, *Improving the efficiency of central government office property,* Session 2010–12, HC 1826, National Audit Office, March 2012.

increase by a month. Conversely, if job prospects improve by the same factor, maximum net present value would rise to around £770 million and payback fall. Details of our assumptions, sensitivity analysis and sources are in the accompanying technical annex.

2.15 To date, those leaving the civil service have been older, more experienced staff leaving on voluntary terms. Re-employment rates for younger, less experienced staff leaving on compulsory terms may be less good, and there is regional variation (Figure 10 on page 20). Therefore the financial impact on the taxpayer of later redundancies may be less positive, unless economic prospects improve.

Figure 21

Effect of better or worse re-employment rates on net present values over the spending review period



NOTES

1 The results for departments alone are not affected by the re-employment rate, and are included for comparison purposes only.

2 Both lines for the taxpayer, tend to a maximum, at which point all leavers have found re-employment.

Source: National Audit Office analysis of Principal Civil Service Pension Scheme data

Part Three

Managing early departures

3.1 This part considers whether departments are in a position to make value for money-led decisions about early departures and manage the risks. Our programme of separate cost reduction studies looks at individual departments' plans for restructuring and their ability to realise the benefits longer term.

Good practice framework

3.2 We have already identified good practice in managing staff cost reduction, from private and public sectors[7] (**Figure 22**). We use this framework to structure this part of the report.

3.3 Planning and managing early departures involves balancing conflicting risks (**Figure 23** on page 34). Most departments did not begin agreeing departures until the revised Scheme came into force in December 2010, but started releasing staff as soon as possible afterwards, because of pressure to bring forward savings.

Identifying and appraising the need for early departures

3.4 Simple top-slicing of budgets and headcounts can leave organisations exposed and unprepared, and lead to higher overall costs or cost displacement.[8] Instead we would expect departments to make staff reductions through workforce planning that:

- forecasts demand for services;
- determines an optimum model by which services should be delivered, supported by revised processes and systems (a target operating model);
- identifies future skills requirements and gaps; and
- draws on good quality management information.

7 National Audit Office, *A framework for managing staff costs in a period of cost reduction*, August 2010.
8 National Audit Office, *A short guide to structured cost reduction*, June 2010.

Figure 22
Framework for managing staff costs reduction

1 Identifying and appraising options for staff cost reduction
- Using information to establish a clear understanding of staff costs
- Using information to identify staff cost reduction opportunities
  - across existing business model
  - through changes to business model
- Using information to appraise options for staff cost reduction

2 Planning staff cost reduction
- Mapping future needs and current capability
- Building capability to address gaps
- Understanding the full costs and wider impacts of reducing capability
- Assessing the overall value for money of the cost reduction programme

3 Delivering staff cost reduction
- Setting strong direction for the change programme
- Implementing the change programme
- Learning from the change programme

4 Embedding a business as usual approach to staff cost management
- Using information to provide ongoing challenge to staff costs
- Expanding the ownership of staff cost management

Source: Comptroller and Auditor General, A framework for managing staff costs in a period of cost reduction, National Audit Office, August 2010

Strategic workforce planning

3.5 When the scale of intended cost reductions became clear in October 2010, the departments we examined did have up-to-date workforce plans as a starting point. For the Home Office and Department for Work and Pensions restructuring has been a long-term aim and they had pre-existing plans to reduce headcount. Some used a shift to online service delivery to support reduced headcount. One example is in **Figure 24** on page 35. Another is HM Revenue & Customs' shift to online filing, which delivered savings of £126 million,[9] reflecting reductions in staff needed to process tax returns.

9 Comptroller and Auditor General, *The expansion of online filing of tax returns*, Session 2010–12, HC 1457, National Audit Office, November 2011.

Figure 23
Balancing the pace of early departures for a department

Factor	Risks if too slow	Risks if too fast
Financial	Savings take longer to realise. Cost of running schemes increases. Funding no longer available.	Inadequate consideration of less costly alternatives to paid exits.
Delivery	Staff lack direction; time spent on restructuring activities reduces delivery. Positive effect of new structure slow to be realised.	Inadequate planning of the target operating model (including workforce capacity or capability, IT, systems and processes), means restructured organisation after departures may not be effective. Having to re-employ staff or buy in expertise later.
Skills and corporate knowledge	Uncertainty may lead to business-critical staff resigning.	Not enough time to identify key skills and corporate knowledge needed before releasing staff. Not enough time to consider alternatives such as redeploying skilled staff within department or to other government body.
Staff morale and engagement	Uncertainty leads to fall in morale and productivity.	Inadequate time for communicating and engaging with staff.
Industrial relations		Less time for consultation and negotiation. Perception that insufficient steps are being taken to minimise risk of compulsory redundancies. Increased risk of industrial action; reputation risk.

Source: National Audit Office

Figure 24
Changing the workforce model

Department for Work and Pensions: delayering and matrix working

The Department for Work and Pensions planned to reduce staff within its corporate centre by 40 per cent. It started a programme of restructuring and early departures in January 2011, based on:

- reducing the number of management layers; and
- reducing the number of directorates. For example, analytical support, such as economists and researchers, will be managed centrally. The principle is to have a flexible skills-led matrix, rather than each team having its own experts.

Charity Commission: online service delivery

The Charity Commission plans to achieve staff reductions by focusing on activities that only it can carry out and by encouraging self-service using online solutions. To achieve this, the Commission has improved its website and focused on communicating to charities how they can use it to obtain information more easily and quickly, or redirect them to more suitable help. The Commission reports an increase in the percentage of business conducted electronically from 78 to 87 per cent in the last year, and around 25 per cent less demand for advice and guidance between April 2010 and September 2011.

Source: National Audit Office case examples

3.6 However, many other departments and bodies did not have existing plans incorporating the level of headcount reduction now anticipated. As we reported in February 2012,[10] cost reduction activity has not yet been delivered alongside longer-term business change. This is also reflected in our work on structured cost reduction, for example in HM Revenue & Customs.[11] Although measures had been taken to live within budgets over the spending review period, the Department did not have a detailed long-term target operating model.

3.7 Departments faced pressure to make changes quickly, limiting their ability to consider new target operating models. This was exacerbated by funding arrangements. Four of the seven organisations we examined agreed a ring-fenced budget for early departures, either from HM Treasury or in one case through the parent department, as part of the spending review. This funding typically needed to be used either by the end of 2010-11 or 2011-12. As a result, many departments are running early departure schemes before comprehensively planning and modelling future priorities and resourcing, as noted by the Public Administration Select Committee in September 2011.[12]

10 Comptroller and Auditor General, *Cost reduction in central government: a summary of progress*, Session 2010–12, HC 1788, National Audit Office, February 2012.

11 Comptroller and Auditor General, *Reducing costs in HM Revenue & Customs*, Session 2010-12, HC 1278, National Audit Office, July 2011.

12 Public Administration Select Committee, *Change in government: the agenda for leadership*, 13th Report, HC 714, September 2011.

3.8 Departments may also not understand their staff costs well enough to identify sustainable headcount reductions. In March 2011, we reported that departments were rarely able to measure the costs and value of different activities, to inform decisions on where to refocus spending.[13] One key problem is the absence of staff time-recording.[14]

3.9 Flexibility is also important. For example, the introduction of Universal Credit will demand considerable resource in the Department for Work and Pensions at a time when large numbers of staff have been released. The Department is planning headcount reduction and restructuring with this in mind; some additional resource will almost certainly be required. Other changes in demand are less predictable. The Crown Prosecution Service was challenged in the summer of 2011 when civil disorder led to a peak in workload at a time when it had already significantly reduced its workforce.

Alternatives to paid early departures

3.10 Early departures are one tool for reducing paybill. Owing to the costs and risks involved, we expect departments to avoid unnecessary paid departures through: reduced recruitment, flexible working, natural wastage and redeployment.

3.11 Civil service recruitment reduced by two-thirds in 2010-11 (paragraph 1.5). We also found isolated examples where departments had encouraged alternative working arrangements such as part-time employment and job sharing, over and above their normal requirement to support flexible working.

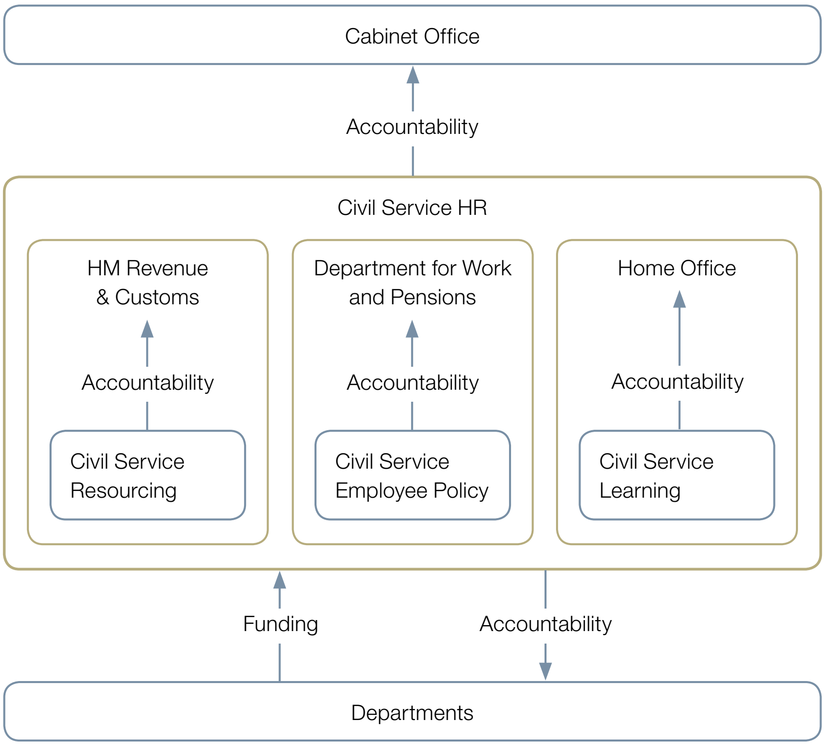
3.12 Departments are attempting to update forecasts of natural wastage to help them plan. For example, the Cabinet Office planned a fall in staff numbers of 400, but anticipated that only 200 early departures would be required after natural wastage. However, forecasts of natural wastage can often be too high-level to help with reshaping the skills profile. Economic uncertainty, changes in retirement age and the uncertain take-up of voluntary departures have made accurate forecasts difficult.

3.13 While redeploying staff will not remove the need for early departures in the current climate, it would improve value for money by making better use of civil service skills and avoiding some departures. Since April 2011, a new group, Civil Service Resourcing, has been developing a recruitment, assessment and redeployment service for the civil service. This is part of Civil Service HR, a programme to review and modernise civil service human resourcing, initiated by the Cabinet Office in 2009 as 'Next Generation HR' (**Figure 25**). Civil Service Resourcing works across government but is hosted by HM Revenue & Customs and also reports to the Cabinet Office and to a national steering group of HR representatives from departments.

13 Comptroller and Auditor General, *Progress in improving financial management in government*, Session 2010-11, HC 487, National Audit Office, March 2011.

14 Comptroller and Auditor General, *Managing staff costs in central government*, Session 2010-11, HC 818, National Audit Office, March 2011.

Figure 25
Civil Service HR: funding and accountability



Source: National Audit Office

3.14 Civil Service Resourcing has the potential to take a cross-cutting view of skills, surplus staff and vacancies, to help redeploy 'surplus' staff where they are needed. To this end, it has launched services for departments, including:

- **Online resourcing tools:** The Civil Service Jobs Portal, launched in September 2011, advertises civil service vacancies across government and to external candidates where appropriate. Individuals can register as 'surplus' and will be automatically advised of any vacancies relevant to their skills and experience set. This is part of a full e-Recruitment system developed and being rolled out across government by Civil Service Resourcing. Civil Service Resourcing also provide a recruitment service. So far, three departments have commissioned Civil Service Resourcing to manage their recruitment. Rolling this out across all departments could generate savings.

- **Career transition support:** Staff can be redeployed through career transition support. So far, individual departments have tended to provide this in-house or by contracting out (**Figure 26**). However, Civil Service Resourcing aims to become the single provider, which could generate efficiency savings and provide quality and consistency. To date, it has run a pilot programme for the Department for Energy and Climate Change covering all grades, and has piloted a senior civil service career transition service to all departments.

3.15 There remain barriers to progress, however. Deploying staff effectively across the civil service depends on all government bodies participating in a consistent way. For example, departments use different definitions of 'surplus' staff. Some use the term to cover staff in unfunded posts who have useful work and could not be released immediately. Other departments include only staff with no work. A common standard of definitions and behaviour across the civil service would improve the efficiency of moves.

3.16 Furthermore, there is a cultural stigma attached to 'surplus' staff. Civil Service Resourcing reported, and our interviews confirmed, that departments sometimes assume these staff are poor performers and are reluctant to take them on. A culture shift among staff may be needed to one where moves between departments are a matter of course, and this will require good line management.

3.17 So far, Civil Service Resourcing's impact has been small-scale and pilot-based. Its ability to scale up its services is limited by its funding, collected from departments and agreed on a year-by-year basis only. Moreover, the accountability of Civil Service Resourcing (and those of its two counterparts) is complex, involving reporting to a host department, the Cabinet Office and a cross-departmental panel, which may hamper effective delivery.

Figure 26
Redeployment and career transition centres

Department for Transport

The Department for Transport released 250 people under a voluntary exit scheme starting in December 2010. The Department tried to minimise paid departures using a redeployment centre. If staff were unallocated after a selection process, they were moved to the centre. Here, they received guidance on a number of options, including voluntary exits, but also in finding alternative work either in the civil service or outside. Support was provided on developing CVs, job interviews, and seeking voluntary work.

The redeployment centre, staffed by the Department's own human resources staff, successfully redeployed 50 staff elsewhere in the civil service.

Source: National Audit Office case examples

Planning and managing early departure programmes

3.18 To secure value for money from early departures, departments need to have effective processes informed by relevant and accurate information. We would expect:

- a process shaped at senior level, with strategic input from the permanent secretary. The department should manage the process centrally, but with decision-making by senior operational staff;
- appropriate criteria to ensure decisions on individual applications for early departure are value for money. Criteria may vary and should reflect the department's business needs;
- readily available and accurate management information to support decisions; and
- an overview of decisions and their impact to be taken at senior level.

Process and roles

3.19 We found that departments had appropriate governance for departure schemes. They were designed and informed by senior staff and managed by Human Resources. Departments told us they largely planned their schemes and created key documents and templates in isolation. There was no coordination of good practice or documentation from the centre of government. In response to the Public Administration Select Committee, in January 2012, the Cabinet Office stated that it had no plans to impose central direction over departments' workforce reduction programmes. However, there is scope for Civil Service HR to help departments learn from each other and avoid duplication.

3.20 With some variation, departments tended to follow a core process in running their schemes (**Figure 27** overleaf).

Figure 27

Process for an early departure scheme

Information	Process	Risk
Workforce information and demand modelling	Departments identify areas to reduce headcount	Inadequate data and unpredictable demand
Personal information, self-reported	Applications submitted by individuals wishing to take a voluntary departure (typically three to four weeks)	Insufficient applications or applications from wrong part of the business
Management information relating to costs, performance, skills	Applications reviewed and endorsed by line managers if appropriate. Line managers are able to reject some applications on grounds of being business-critical	Inadequate management information. Line managers not equipped to screen applications
Intelligence from across the department	Where schemes are oversubscribed, applications are considered by a panel. In some cases, marking and weighting against criteria is applied / If insufficient applications are received, departments may begin consulting on voluntary and compulsory redundancies (90 days)	View of departures not sufficiently holistic

Source: National Audit Office case examples

Decision-making criteria

3.21 Departments must decide on the criteria they use to make decisions on individual applications for departures. We found their decisions were generally well thought through. Certain criteria are commonly applied where voluntary schemes are oversubscribed:

- **Contributing to headcount reduction:** If the individual leaves, will this position need to be filled?
- **Costs and savings:** If the individual leaves on paid departure, how long will it take for the salary saved to pay off the lump sum?

- **Impact on the business:** Does losing an individual's skills, knowledge and experience represent an unacceptable risk to delivering the core business? As part of this, departments are considering future skills requirements and flexibility, and the investment already made in individuals. For example, Fast Stream staff often cannot apply or are rejected at an early stage.

- **Performance:** Is the individual a high performer who should be retained? Is he or she a poor performer who is or should be in a disciplinary process and not offered paid departure?

3.22 Although the criteria used are similar, it is appropriate that departments give them different relative importance. For some, costs and savings are most important; other criteria may only be applied if there is little to separate two or more applications on financial grounds (**Figure 28** overleaf). More commonly, however, the impact on the business was the primary criterion.

Quality of management information

Performance data

3.23 Where departments used performance information to decide which applications to accept, they tended to use information collected by the applicant and his/her line manager during the application process, rather than existing appraisal data. There is currently no standard appraisal system below the senior civil service, and the data available is typically not sufficiently detailed to inform early departure decisions.

3.24 Civil Service Employee Policy has produced good practice guidance on appraisals, including data requirements. However, departments are not obliged to adopt it. While the raw data will still require interpretation before it can be used as part of departure decisions, a consistent approach across departments would reduce additional data collection and improve performance and talent management generally.

Skills data

3.25 Central government still lacks management information about skills. As we reported in July 2011,[15] departments do not fully understand their skills requirements, or the skills of individuals in their business. We also reported:

- in December 2011, that HM Revenue & Customs does not have a good overview of its skills gaps;[16] and

- in February 2012, that the lack of civilian skills data within the Ministry of Defence means it will struggle to target its programme of early departures on the skills it can most afford to lose.[17]

15 Comptroller and Auditor General, *Identifying and meeting central government's skills requirements*, Session 2010–12, HC 1276, National Audit Office, July 2011.
16 Comptroller and Auditor General, *Core skills at HM Revenue and Customs*, Session 2010–12, HC 1595, National Audit Office, December 2011.
17 Comptroller and Auditor General, *Managing change in the defence workforce*, Session 2010–12, HC 1791, National Audit Office, February 2012.

Figure 28
Early departure decisions: differing criteria

Department for Work and Pensions: Cost

For the Department for Work and Pensions, cost implications were paramount in deciding which applications to accept. The Department did not want an average payback period greater than two years. To measure this, it modelled the cash flows, including the initial lump sum and any pension payments associated with potential departures, as well as the projected savings over time for each departure. The Permanent Secretary agreed any departures that had a payback period of more than three years.

Defence Support Group: Business need

The Defence Support Group maintains and repairs equipment for the UK Armed Forces, and its activities require a certain set of specialist skills. The Group needed to reduce headcount because of a fall in demand from the Ministry of Defence. Relative to the Group's total headcount of 3,000, the 600 early departures planned were significant. Managing this, while maintaining service delivery and preserving capability to meet future defence scenarios was a challenge. Although the voluntary exit scheme was open to all, applications went through two approval stages, from line managers and a panel of senior individuals including the Chief Operating Officer. Where a gap would be left, the panel considered whether it was feasible to retrain remaining staff to fulfil the role, as well as alternative service delivery. Applications were rejected where staff would have to be recruited externally to bridge gaps.

Source: National Audit Office case examples

3.26 This lack of data makes it more difficult and time consuming for panels to link individual decisions to business need. Information must be self-reported by applicants and assessed by line managers.

Financial data

3.27 MyCSP provides departments with quotes for the costs of individual departures. Departments are responsible for updating MyCSP on events relating to individuals throughout their career, such pay fluctuations, and MyCSP for calculating individuals' entitlement to compensation and pension. In some cases, departments attributed delays in releasing staff to waiting times for quotes, while MyCSP identified that some departments had not provided complete data to enable them to provide accurate figures. In January 2012, the Comptroller and Auditor General issued a qualified opinion on the accounts of Civil Superannuation (which includes the Principal Civil Service Pension Scheme) because he had received insufficient evidence to support the accuracy of pension payments made.[18] He recommended that ensuring the systematic retention and maintenance of members' records, which must be held over several decades, should be a priority for the Scheme.

18 Comptroller and Auditor General, *Report on the Civil Superannuation Accounts 2010-11*, Session 2010–12, HC 1013, National Audit Office, January 2012.

3.28 In 2011, MyCSP came together as a merger of six different providers using different IT platforms. It also moved to be hosted by the Department for Work and Pensions, and back into the Cabinet Office, during the year. This coincided with an unprecedented peak in demand for quotes. MyCSP estimates it processed three times as many quotes as early departures were completed between April and June 2011 (approximately 21,000 quotes). This fell to around 5,000 in July and August, still many times more than normal. In 2012, the Cabinet Office plans to make MyCSP a mutual organisation and its service level agreements will be reviewed in the first 12 months of operation.

Delivering the benefits and managing the risks of early departure programmes

3.29 For most departments, it is too early to establish the full impact of early departures on long-term staff costs, skills and capability, or morale. Although all seven organisations we examined were planning an internal evaluation, only two had so far commissioned one and none had reported.

Contributing to sustainable paybill savings

3.30 The take-up of voluntary departure is not fully within departments' control, which can limit the speed of progress on savings. For example, the Crown Prosecution Service found insufficient take-up in regions with limited alternative employment, while others were oversubscribed. Departments are encouraging take-up by making clear to staff that later compulsory departures may be needed. Departments have found take-up has mostly been encouraging.

3.31 Another risk is that staff leaving via paid departure are later re-employed within the civil service, negating any savings. Pre-recruitment checks in the civil service are in place to prevent this within six months, unless the staff member surrenders a proportion of the compensation payment. (There is no legal requirement for leavers taking up a job elsewhere in the public sector, such as the NHS or local government, to surrender compensation.) In the short term, departments also have measures in place to prevent early departures being later back-filled by other external recruitment. We found departments were not approving any departures that were likely to lead to external recruitment in the near future.

3.32 Sustaining paybill savings in the longer term depends on departments being able to: continue delivering services; meet shifting priorities and demands with the lower level of staffing; and prevent the upwards drift of pay and grading that we have previously seen.[19] Without firm target operating models, it is not yet clear that departments can do this, and they may have to recruit externally for skills they previously released. Departments are required to report quarterly statistics on staff numbers, grade composition and new recruitment, which provides an opportunity to monitor the position centrally.

19 Comptroller and Auditor General, *Managing staff costs in central government*, Session 2010-11, HC 818, National Audit Office, March 2011.

Maintaining employee relations and staff morale

3.33 Departments voluntarily adhere to a 2008 agreement between the Cabinet Office and Council of Civil Service Unions on handling surplus staff situations.[20] This includes engaging with trade unions as early as possible and demonstrating they are doing everything possible to avoid compulsory departures. Civil Service Resourcing helps facilitate discussions between management and unions. We found a generally constructive relationship between unions and departments, with regular meetings and good communications. It will be important to maintain this as departments contemplate compulsory redundancies.

3.34 Large-scale early departures inevitably have a negative impact on staff engagement and morale, and departments have tried to minimise the period of uncertainty to offset this. We found departments undertaking regular and open communication. From permanent secretaries to line managers, there were efforts to engage with staff throughout the process. Nevertheless, large numbers of staff have spent several months 'at risk of redundancy' and awaiting decisions.

3.35 The Civil Service People Survey suggests that staff engagement overall has remained steady since 2009 (**Figure 29**). However, there is significant variation across departments (**Figure 30**). There is also anecdotal evidence of some high-performing staff deciding to leave the civil service as a result of uncertainty over future roles.

Figure 29
Civil Service People Survey

	2009 (%)	2010 (%)	2011 (%)
Employee Engagement Index	58	56	56
I feel that change is managed well in my organisation	27	27	27
My organisation keeps me informed about matters that affect me	56	54	55
I have the opportunity to contribute my views before decisions are made that affect me	34	32	36

NOTES

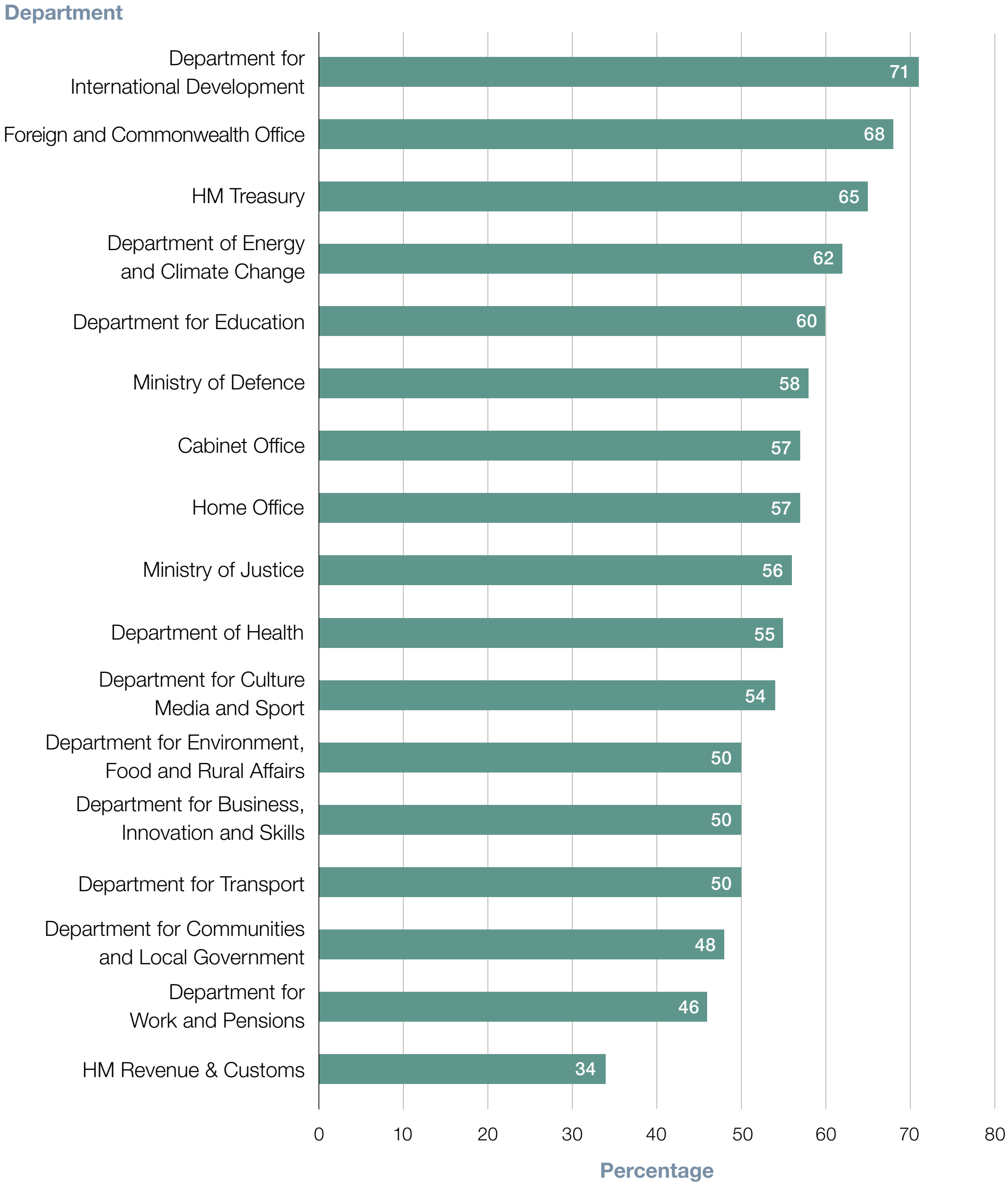
1 Employee Engagement Index is calculated as a weighted average of the response to the five employee engagement questions and ranges from 0 to 100.

2 For other questions, we use the proportion saying they 'strongly agree' or 'agree'.

Source: Civil Service People Survey, http://www.civilservice.gov.uk/wp-content/uploads/2011/10/Civil-Service-People-Survey-2011-Civil-Service-benchmark-final.pdf

20 Cabinet Office and Council of Civil Service Unions, *Protocol for handling surplus staff situations*, April 2008.

Figure 30
Employee Engagement Index 2010 by department



NOTE

1 The Employee Engagement Index is calculated as a weighted average of the response to the five employee engagement questions and ranges from 0 to 100.

Source: Civil Service People Survey

Appendix One

Methodology

The main elements of our fieldwork, undertaken between June and December 2011, are set out below. Our fieldwork included looking at seven case example organisations, covering a variety of types of body and approaches to early departures.[21]

Method	Purpose
Modelling of financial data from the Principal Civil Service Pension Scheme provided by Capita. Actuarial and modelling expertise provided by PwC.	To analyse cash flows associated with early departures between December 2010 and December 2011 for departments, the pension provider, HM Revenue & Customs and the Department for Work and Pensions.
Analysis of secondary data from the Cabinet Office, the Office for National Statistics, and our audits of departments' accounts.	To provide context to the study and supplement primary data sources.
Semi-structured interviews and document review with HR staff and selected managers from seven case example organisations. We did not interview staff.	To understand how departments are managing early departures.
Interviews with key individuals at the Cabinet Office, HM Treasury, Civil Service HR, and MyCSP.	To understand how departments are supported by the centre of government.
We consulted the National Trade Union Council.	

A technical note on the details of our financial model is available at www.nao.org.uk/early-departures-2012

21 These were: Department of Health, Department for Transport, Department for Work and Pensions, Home Office, Crown Prosecution Service, Charity Commission and Defence Support Group.

Design and Production by
NAO Communications
DP Ref: 009809-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & Email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline
Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http//www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

£16.00

ISBN 978-0-10-297546-8