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Managing early departures in central government

Key facts

17,800

employees who left central government bodies early, in the year from 22 December 2010, under the revised Civil Service Compensation Scheme

£600m

gross initial cash cost to departments of payments for these 17,800 employees under the revised Scheme

£400m

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.

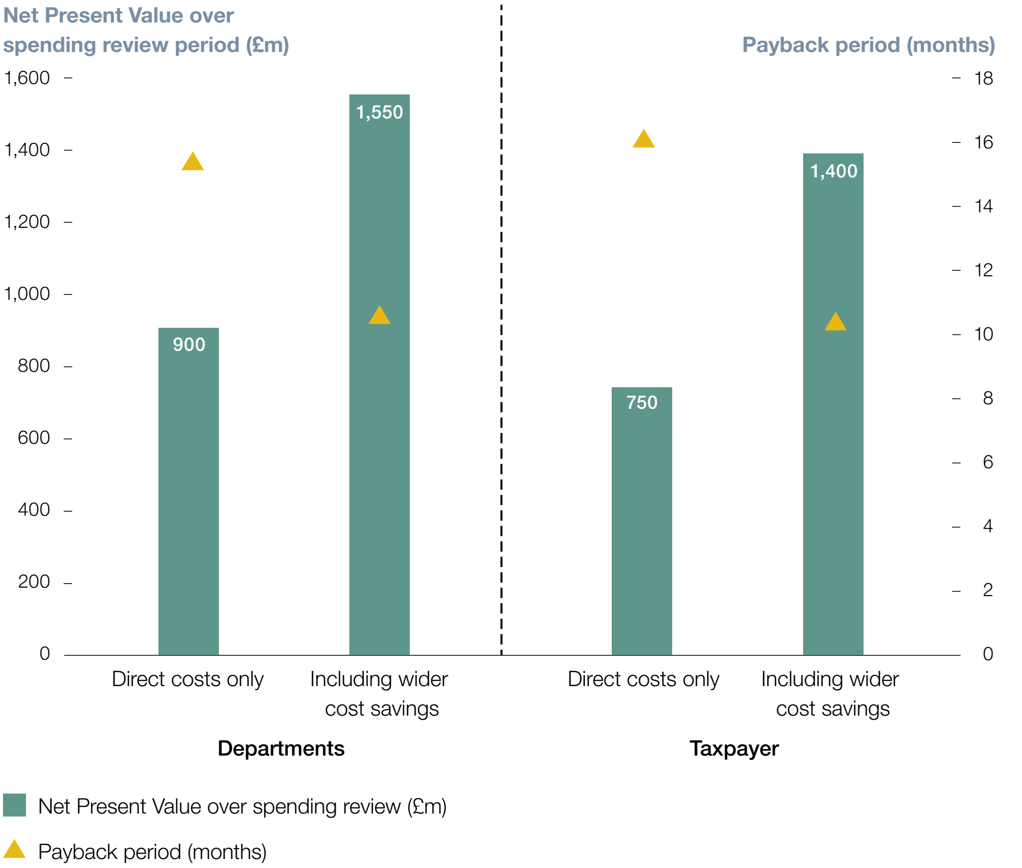
9 **Departments will save an estimated £400 million a year on the civil service paybill after meeting these initial costs. The time it takes them to start seeing net savings depends on how quickly they can eliminate wider headcount-related costs.** Cabinet Office data suggest that in addition to salary, 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.