MANAGEMENT IN CONFIDENCE

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NBPM

22 May 1985

Dear Nigel,

REVIEW OF EARLY RETIREMENT ARRANGEMENTS

I was grateful for Barney Hayhoe's letter of 22 March giving Treasury support for the proposals in this review, which has now also been endorsed by the Prime Minister as a suitable basis for new early retirement arrangements in the Civil Service.

As you know, my officials have discussed the review in detail with yours and those of other departments; and they are about to set up an inter departmental working group to ensure close co-operation in the process of refining the review's general proposals into specific measures for implementation. I thought, however, that other colleagues might be interested to have an idea at this stage of the thinking behind the review, so I enclose for their information a synopsis of the review's main proposals which I first sent to Patrick Jenkin and yourself earlier this year. It has been slightly revised to take account of subsequent developments, particularly in the proposed arrangements for financial control.

I am copying this letter and its enclosures to all Ministers in charge of departments, to Sir Robert Armstrong and to Sir Robin Ibbs.

Yours,
Grey

GOWRIE

MANAGEMENT IN CONFIDENCE

SYNOPSIS OF THE REVIEW OF EARLY RETIREMENT ARRANGEMENTS

Background

1. The review examines the existing arrangements for early retirement. It concludes that they no longer fully meet management's current or future needs and recommends the introduction of a new, more coherent regime, which offers greater flexibility and better value for money.

Existing Arrangements

2. The existing arrangements fall into four main groups:-

   a. ill-health retirement;

   b. premature retirement on inefficiency grounds;

   c. compulsory premature retirement in the public interest;

   d. voluntary early retirement (VER).

The ill-health arrangements have operated well and no changes are proposed to them. The review concentrates on the relationship between the compulsory and voluntary arrangements for early retirement where the main difficulties have occurred. It also considers the inefficiency arrangements which were heavily criticised by the Review of Personnel Work (RPW).

3. The "public interest" terms were originally devised to deal with compulsory premature retirements, and there is a sharp distinction between the terms available for these and those applicable to VER especially as regards staff in mobile grades (EO level and above). The compulsory terms may include a lump sum compensation payment of up to 6 months pay, together with what essentially amounts to the early payment of enhanced superannuation benefits, possibly over a period of up to 20 years. The VER terms, on the other hand, involve only the early payment of unenhanced superannuation benefits over at most a period of 5 years. A similar disparity exists between the terms available for mobile and non-mobile officers.

The Need for Change

4. Many of the situations which make early retirement desirable in the management interest would not warrant compulsory retirement under the law, so there is necessarily reliance on persuasion. Therefore the terms need to contain an element of inducement. Except where VER is applicable, this means offering the more expensive inducement of compulsory terms. The current Special Early Retirement Scheme which the Prime Minister authorised last year is a prime example. This tendency to extend and develop the original criteria for compulsory retirement in response to changing management needs has now resulted in a complicated collection of arrangements and criteria which are difficult for the centre and departments to operate with confidence.

5. At the same time, while accepting the need for an inducement, it is not easy to justify paying the same terms to someone who agrees to go as those paid to those who have no choice in the matter, eg because they are redundant. (This difficulty is perhaps less acute in a period of rapid rundown, when premature retirement costs can be more than offset by salary savings.) Nor is the present disparity in the treatment of senior (mobile) and junior (non-mobile) staff easily justifiable. Looking to the future, our problems are likely to be related less to achieving numbers, targets as such, and more to coping with the effects of the rundown on age and grade structures particularly at middle and senior management levels and with the effects of technological change on the demand for particular skills. We shall need early retirement to help adjust the shape and character of the Service as well as its dimensions. If premature retirement costs are therefore unlikely to be directly offset by salary savings there is a need to ensure that we have a set of arrangements in which the terms, as well as the criteria, will offer value for money.

<u>New Arrangements</u>

6. The review proposes a new regime of early retirement arrangements consisting of a multiple and graded system which relates levels of compensation to the extent to which the individual is responsible for and disadvantaged by his departure, and to the extent to which the respective interests of management and the individual are served. It recommends four main types of early retirement:-

a. <u>Compulsory</u> - where management has compulsorily to retire someone prematurely through no fault of the individual's. In these circumstances the existing "public interest" terms would apply to staff at all levels.

b. <u>Flexible</u> - where management invites specific individuals to leave. New terms, less than the existing compulsory ones but better than VER, would apply which should still provide a sufficient inducement to persuade people to leave.

c. <u>Approved</u> - where individuals whose age and reckonable service add up to a specific figure, eg at least 90 years, can seek management's permission to retire. Terms equivalent to the current VER terms would apply.

d. <u>Standard</u> - where individuals exercise a right (without management veto) to retire early on an actuarily reduced pension at no additional long term cost to the Government.

So far as the inefficient are concerned, it is recommended that only those who become inefficient through no fault of their own deserve compensation; the culpably inefficient should be dismissed without compensation and a code of practice should be drawn up for dealing with poor performers.

7. In some respects the above proposals worsen, in some respects they improve the existing terms. These categories and terms would apply equally to mobile and non-mobile staff, since there seems little logical justification for the present distinctions. But there would be a new distinction based on age. Staff below the age of 50 who leave under the new arrangements (as they could under (a) and (b) above) would do so on the basis of an immediate compensation payment of up to 3 years pay depending on length of service, but their pension would be preserved until age 60. Staff aged 50 and over would have compensation and pension paid immediately. While these arrangements have been designed to meet the needs of the Civil Service, the review has had regard to practice outside. The proposals, especially in relation to age limits, seem generally more consistent with the practice of other major employers than is the case with our existing arrangements.

Financial Control

8. At present the cost of early retirements is borne as a charge on the Superannuation Vote expenditure from which it is accounted for centrally, but there are varying degrees of delegated authority to departments to incur expenditure, and some of the difficulties of operating the arrangements stem from this separation of management and financial responsibility. The review therefore proposes that employing departments should bear the additional costs of early retirement so that the costs and benefits in particular cases can be more directly compared and assessed. (This recommendation, which is in line with FMI developments and is equally applicable to either the existing or the proposed criteria and terms, is now being implemented by Treasury and will come into effect for all major departments from 1 April 1986. A corresponding transfer of managerial authority will be made by MPO so that departments will be able to instigate most early retirements without seeking prior approval from the Centre.)

23 MAY 1985