Annex 6F

Civil Service Compensation Scheme (CSCS) 2010 guidance for employers

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1. Early departure terms at a glance

There are three categories of early departure under the 2010 terms. They are:

- Voluntary Exit (VE),
- Voluntary Redundancy (VR), and
- Compulsory Redundancy(CR).

The main features of the terms are:

	Voluntary Exit	**Voluntary Redundancy**	**Compulsory Redundancy**
Standard tariff	1 month's pay per year of service	1 month's pay per year of service	1 month's pay per year of service
Variable tariff (to offer more than standard tariff, you must have Cabinet Office Minister's approval)	Between statutory redundancy terms and twice standard tariff	Standard tariff only	Standard tariff only
Minimum qualifying service	2 years but employers may exercise discretion	2 years but employers may exercise discretion	2 years
Cap for those below pension age (subject to tapering for those close to pension age)	21 months' pay	21 months' pay	12 months' pay
Cap for those above pension age	6 months' pay	6 months' pay	6 months' pay
Employer top up to pension	Optional	Must be included	Not permissible
Lower paid underpin of £23,000	Optional	Must be applied	Must be applied
Higher paid cap of £149,820	Must be applied	Must be applied	Must be applied

Impact of the £95,000 cap on public sector exit payments

A cap of £95,000 will be introduced on the total value of public sector exit payments (including any pension top-up). Once the necessary regulations are made, the Civil Service Compensation Scheme will be subject to the conditions of the cap.

Until then, the current additional scrutiny by the Cabinet Office Minister of payments with a total value of over £95,000 (including any pension top-up) will continue. All payments calculated according to the rules of the scheme will either be approved or rejected by the Minister.

2. Voluntary Exit(VE)

VE can be offered in the interests of workforce efficiency and where employers wish to reduce staff numbers, to support organisational changes, address promotion blockages and where there is limited efficiency. There is no compulsion on individuals to accept the offer; it is an agreement between the employer and employee.

2.a Tariff

- There is a standard tariff of 1 month's pay per year of service up to a maximum of 21 months' pay, for those under scheme pension age (see Annex 6H for standard tariff cost estimator).
- There is a maximum of 6 months' pay for those over scheme pension age (for transition members who have benefits in the Principal Civil Service Pension Scheme and **alpha**, it is the **alpha** pension age which applies).
- Tapering of compensation will apply where the employee is close to scheme pension age as explained in paragraph 5.i of this document.
- Employers must apply the restriction on the pay to the highest paid explained in paragraph 5.c of this document.
- The compensation payment cannot be less than the Statutory Redundancy (SR) payment that would be payable on Redundancy[1].

2.b Employer's discretion

Employers can, if they wish, offer more or less than the standard tariff. Cabinet Office approval is required regardless of the level of benefits being offered.

- The minimum an employer can offer is equal to the amount that would be due under Statutory Redundancy terms.

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[1] Either under the Employment Rights Act 1996 (for employees of non-Civil Service bodies) or by analogy with the relevant provisions of the Act (for civil servants who are not covered by the Act). Details of how Statutory Redundancy payments are calculated are at www.gov.uk/redundant-your-rights/redundancy-pay.

- The maximum an employer can offer is twice the standard tariff subject to the limits explained in paragraph 2.a of this document. The approval of the Cabinet Office Minister is required for any tariff above the standard, and employers must provide a clear business case justification if they wish to do this.
- Employers can waive the 2-year qualifying period or reduce it.
- Employers may apply the protection for lower paid staff explained in paragraph 5.b of this document.
- Employers can offer to top up the compensation payment for those with at least 2 years' service who have reached minimum pension age and wish to take their pension benefits related to current service early without reduction (see below).
- Employers can approach the Cabinet Office to seek the Minister's agreement for inclusion of Other Service.

2.c Cabinet Office approval

Employers must apply to Cabinet Office, using the appropriate template provided at EPG section 6 Annex C, for approval to launch any early departure scheme. Details should be included where employers wish to offer any exit of a value exceeding £95,000.

Employers can complete one approval form for VE and VR/CR if they expect to need to use more than one exit scheme for the same group of staff. Where departments request approval to run a VE scheme followed by VR/CR, approval will last for 18 months from the date of Cabinet Office authorization. It will cover all exits under the approved schemes as long as notice is served before the 18 months expire. For VR/CR schemes, approval will last for 12 months from the date of Cabinet Office authorization. It will cover all exits under the approved schemes as long as notice is served before the 12 months expire.

If approval is given, Cabinet Office will provide a scheme identifier for the scheme. The Scheme Administrator (MyCSP) will need to see notification of the scheme identifier before issuing any quotes.

2.d Employee's option to receive an unreduced pension on VE

Employees who are over the minimum pension age with at least 2 years' service and who wish to take early payment of pension can, if they wish, ask their employer to use their compensation payment to buy out the reduction for early payment that would otherwise apply. If they are a transition member and over their minimum pension age in the Principal Civil Service Pension Scheme (PCSPS) but not in **alpha**, this paragraph applies to their PCSPS pension. Their **alpha** pension would be preserved.

If the compensation payment is **more** than is required for the total buy out of the reduction, the employee will receive the remainder of the compensation payment at time of leaving.

If the compensation payment is **less** than the amount required for the total buy out of the reduction:

- The employee may choose to use their own funds to buy out all of the remainder of the reduction (by sending in a cheque to the Scheme Administrator).
- The employer has the discretion for VE schemes to top-up compensation payments where there is not enough to buy out the full reduction (subject to the Cabinet Office Minister approval process if the total value exceeds £95,000). Employers should provide a clear business case justification if they wish to do this.

If you are given Ministerial approval for inclusion of Other Service for an individual or group of individuals in your VE scheme and you are offering top up to compensation payments to buy out the full pension reduction, the approved Other Service as well as the current service must be included in the calculation of the unreduced pension (see paragraph 2.e for details of how Other Service is treated in other circumstances).

The employer will be charged for the compensation payment, including any top-up, at the time of leaving.

If the compensation payment is more than is required for the total buy out of the reduction, the first £30,000 of any remaining severance payment will normally be tax free. Any compensation payment over £30,000 will be taxed in line with the PAYE tax bands. If an individual has previously left with compensation, this will be also taken into account when calculating how much can be tax free.

Buying out the reduction in pension benefits will not affect the member's Annual Allowance calculation for tax purposes regardless of whether they are using their severance payment, own money or a combination of both to buy out the reduction. Neither will it affect a **classic** member's right to take a higher tax-free lump sum.

2.e Other Service

Unless Ministerial approval has been given, the compensation payment is based on current service and the employer only has the discretion to offer the top up for pension based on current service[2]. This excludes service arising from:

- added pension,
- added years,
- transferred in service and

[2] In some circumstances Other Service may have to be included to satisfy TUPE requirements. Please refer to TUPE section for more guidance.

- previous Civil Service Pension service (whether it has been aggregated for pension purposes or not)

The employer cannot meet the cost of the buyout of the reduction on the pension relating to Other Service. Where an individual accepts their employer's offer to buy out the pension reduction relating to their current service, and the individual has Other Service, they can choose to:

- take a reduced pension based on their Other Service at the same time, as long as the reduced benefits pass the Guaranteed Minimum Pension (GMP) test; or
- take the pension based on their Other Service and buy out the reduction themselves by sending in a cheque to the Scheme Administrator; or
- preserve their Other Service pension (this option is not open to those aged 50 and above but below age 55 – current tax rules mean that pension based on Other Service must be paid at the same time as pension based on current service).

If they have aggregated previous PCSPS service with their current service, they must draw their pension based on previous service at the same time as pension based on their current service and will have the choice of taking it on reduced terms for early payment (subject to the GMP test) or they can opt to buy out the reduction themselves as above.

2.f Notice periods

Voluntary Exits will be subject to 3 months' notice. Notice will commence from the date the employee signs the agreement to depart. In exceptional cases, Compensation In Lieu Of Notice (CILON) may be considered for any part of the notice that is not worked. The CILON calculator will provide the amount due for loss of pension benefits within the unworked period of the notice period. CILON must be paid via the payroll and will be subject to tax and National Insurance. The calculator is on the Civil Service Pensions website. For loss of pension benefits during the unworked notice period for those with a **partnership** pension account please see paragraph 6.b.

3. Voluntary Redundancy (VR)

Employers must apply to Cabinet Office, using the appropriate template provided at EPG section 6 Annex C, for approval to launch any early departure scheme. Details should be included where employers wish to offer any exit of a value exceeding £95,000.

Voluntary Redundancy can be used in a variety of situations where the employer has identified business changes which may result in redundancies:

- The work may be changing or reducing

- The work will be done in a different way
- The work will be stopping, or
- The location of the work is changing /the office is closing.

A VR scheme must be offered before CR and the employer must have begun formal consultation with the Unions about possible redundancies before a scheme is launched. The VR scheme should cover at least all staff selected for redundancy, but if the scheme is run before selection is complete, it may cover all those who are at risk (i.e. all those in the unit of redundancy, also known as the redundancy pool).

All approved VR schemes will be given a scheme identifier. There is no compulsion on staff to apply for VR at this stage, but they must be aware they could be made compulsorily redundant at a later stage of the same scheme and receive CR terms. However, if an employee applies but does not meet their employer's criteria for release (or was never offered VR), they cannot be subject to the CR terms at a later stage of that redundancy exercise. They can still be made compulsorily redundant. Staff in this position will be entitled to the VR terms (See section 5.k for application in relation to fixed term appointments).

3.a.Tariff

- Employers **must** offer the standard tariff of 1 month's pay per year of service up to a maximum of 21 months' pay for those under scheme pension age (see Annex 6H for standard tariff cost estimator).
- There is a maximum of 6 months' pay for those over scheme pension age (for transition members who have benefits in the PCSPS and **alpha**, it is the **alpha** pension age which applies).
- Tapering of compensation will apply where the employee is close to scheme pension age as explained in paragraph 5.i of this document.
- Employers must apply the protection for lower paid staff and the restriction on pay for the highest paid as explained in paragraphs 5.b and 5.c of this document.
- Employers must top up the compensation payment for those who are over minimum pension age and wish to use their compensation payment to buy out the reduction in their pension benefits related to current service.
- Employers can waive the 2-year qualifying period or reduce it.
- The compensation payment cannot be less than the SR payment that would be payable on redundancy[3].

3.b Employee's option to receive an unreduced pension on VR

[3] Either under the Employment Rights Act 1996 (for employees of non-Civil Service bodies) or by analogy with the relevant provisions of the Act (for civil servants who are not covered by the Act). Details of how Statutory Redundancy payments are calculated are at www.gov.uk/redundant-your-rights/redundancy-pay.

Employees who are over minimum pension age with at least 2 years' service and who wish to take early payment of pension can, if they wish, ask their employer to use their compensation payment to buy out the reduction for early payment that would otherwise apply. If they are a transition member and over their minimum pension age in the PCSPS but not in **alpha**, this paragraph applies to their PCSPS pension. Their **alpha** pension would be preserved.

If the compensation payment is more than is required for the total buy out of the reduction, the employee will receive the remainder of the compensation payment at time of leaving.

If the compensation payment is less than the amount required for the total buy out of the reduction, the employer must top up compensation payments where they are not enough to buy out the full reduction (subject to the Cabinet Office Minister approval process where the total value exceeds £95,000).

If you are given Ministerial approval for inclusion of Other Service for an individual or group of individuals in your VR scheme and you are providing top up to compensation payments to buy out the full pension reduction, the approved Other Service as well as the current service must be included in the calculation of the unreduced pension (see paragraph 3.c for details of how Other Service is treated in other circumstances).

The employer will be charged for the compensation payment, including any top up, at the time of leaving.

If the compensation payment is more than is required for the total buyout of the reduction, the first £30,000 of any remaining severance payment will be tax free. Any compensation payment over £30,000 will be taxed in line with the PAYE tax bands. If an individual has previously left with compensation, this will be also taken into account when calculating how much can be tax free.

Buying out the reduction in pension benefits will not affect the member's Annual Allowance calculation for tax purposes regardless of whether they are using their severance payment, own money or a combination of both to buy out the reduction. Neither will it affect a **classic** member's right to take a higher tax-free lump sum.

3.c Other Service

Unless Ministerial approval has been given, the compensation payment is based on current service and Other Service will be treated in the way described in paragraph 2.e.

The employer will be charged for the compensation payment, including any top up, at the time of leaving.

3.d Notice periods

VR departures will be subject to 3 months' notice. Notice will commence from the date the employee signs the agreement to depart. In exceptional cases, Compensation In Lieu Of Notice (CILON) may be considered for part of the notice that cannot be worked. The CILON calculator (available on the Civil Service Pensions website) will provide the amount due for loss of pension benefits within the unworked period of the notice period. CILON must be paid via the payroll and will be subject to tax and National Insurance. For loss of pension benefits during the unworked notice period for those with a partnership pension account please see paragraph 6.b.

4. Compulsory Redundancy(CR)

Employers must apply to Cabinet Office, using the appropriate template provided at EPG section 6 Annex C, for approval to launch any early departure scheme. Details should be included where employers wish to offer any exit of a value exceeding £95,000.

Individuals should be offered VR, making it clear that they are at risk of CR, before employers move to a compulsory scheme (See section 5.k for application in relation to fixed term appointments). The CR scheme cannot cover anyone beyond the staff who were (or should have been) included in the preceding VR scheme. The scheme identifier for the compulsory scheme will therefore be linked to a specific scheme identifier for a VR scheme. This must be notified to the Scheme Manager before any quotes are issued.

Any member of staff who was turned down for VR (or was never offered VR) and is later made compulsorily redundant under the scheme linked to that VR scheme, will receive VR terms. This protection does not extend to anyone who did not apply for VR or refused an offer of VR linked to the CR scheme.

If an employee who is at risk of redundancy unreasonably refuses any offer of suitable alternative employment, the employer is entitled to withhold compensation. The employer should involve HR and ensure each case is considered on its merits and the employee's circumstances are taken into account before a decision is made.

4.a Tariff

- The tariff is 1 month's pay per year of service up to a maximum of 12 months' pay for those under scheme pension age (see Annex 6H for standard tariff cost estimator).
- There is a maximum of 6 months' pay for those over scheme pension age (for transition members who have benefits in the PCSPS and alpha, it is the **alpha** pension age which applies).

- Tapering of compensation will apply where the employee is close to scheme pension age as explained in paragraph 5.i of this document.
- Employers must apply the protection for lower paid staff and the restriction on pay for the highest paid as explained in paragraphs 5.b and 5.c of this document.
- The compensation payment cannot be less than the Statutory Redundancy (SR) payment that would be payable on redundancy[4].

4.b Employee's option to receive an unreduced pension

Employees who are over minimum pension age with at least 2 years' service and who wish to take early payment of pension can, if they wish, ask their employer to use their compensation payment to buy out the reduction for early payment that would otherwise apply. If they are a transition member and over their minimum pension age in the PCSPS but not in **alpha**, this paragraph applies to their PCSPS pension. Their **alpha** pension would be preserved.

Employers have no flexibility in the terms that can be offered on CR and cannot top up compensation payments to meet the cost of paying unreduced pensions.

If the compensation payment is **more** than is required for the total buy out of the reduction, the employee will receive the remainder of the compensation payment.

If the compensation payment is **less** than the amount required for the total buy out of the reduction the employee may choose to use their own funds to buy out all of the remainder of the reduction (by sending in a cheque to the Scheme Administrator).

If the compensation payment is more than is required for the total buyout of the reduction, the first £30,000 of any remaining severance payment will normally be tax free. Any compensation payment over £30,000 will be taxed in line with the PAYE tax bands. If an individual has previously left with compensation, this will be also taken into account when calculating how much can be tax free.

Buying out the reduction on pension benefits will not affect the member's Annual Allowance calculation, regardless of whether they are using their severance payment, own money or combination of both to buy out the reduction. Buying out the reduction will also not affect a **classic** member's right to take a higher tax-free lump sum.

4.c Notice periods

[4] Either under the Employment Rights Act 1996 (for employees of non-Civil Service bodies) or by analogy with the relevant provisions of the Act (for civil servants who are not covered by the Act). Details of how Statutory Redundancy payments are calculated are at www.gov.uk/redundant-your-rights/redundancy-pay.

The Civil Service Management Code (CSMC) section 11 paragraph 11.1.4 gives details of the notice periods which departments should normally give to civil servants who are compulsorily dismissed for redundancy. The notice period is normally 6 months, unless the civil servant has a different period of notice in their contract of employment. If the civil servant's continuous service start date was on or after 9 November 2016, their notice period is 3 months.

For non-civil servants the notice period will be the period stated in their contract of employment.

Notice will commence from the date the notice of dismissal is issued.

CILON may be considered in exceptional circumstances for any part of the notice period that cannot be worked. The CILON calculator (available on the Civil Service Pensions website) will provide the amount due for loss of pension benefits within the unworked period of the notice period. CILON must be paid via the payroll and will be subject to tax and National Insurance.

For loss of pension benefits during the unworked notice period for those with a partnership pension account, please see paragraph 6.b.

4.d Mandatory requirements

There is a mandatory qualifying period of 2 years.

Employers must apply the protection for lower paid staff and the restriction on pay for the highest paid, see paragraphs 5.b and 5.c of this document.

If an employee who is given notice of redundancy refuses to complete a CSCS1 form confirming personal details, you can complete the form on their behalf.

Employers have no discretion to vary CR terms.

Example calculations

Example (a) – straightforward calculation

Joe works full-time. He earns £40,000 a year and has 15 years' service. Joe's employer is inviting volunteers for redundancy. Joe would receive a payment of £50,000. This is calculated as:

15 x £40,000/ 12 = £50,000

He would receive 3 months' notice.

Example (b) – application of the maximum

Hamish works full-time. He earns £30,000 a year and has 30 years' service. Hamish applies for VR. Even though Hamish has 30 years' service, his redundancy payment is capped at 21 months' pay. Hamish will receive redundancy payment of £52,500. This is calculated as:

21 x £30,000/ 12 = £52,500

He would receive 3 months' notice.

Example (c) – older worker (over pension age)

David is 63 and is a member of the **premium** pension scheme. David earns £25,000 a year and he has 18 years' service. David is made compulsorily redundant. He will receive a payment of £12,500. This is calculated as:

6 x £25,000/ 12 = £12,500

He would receive 6 months' notice. David's pension (and any pension commencement lump sum he chooses to take) will come into payment immediately after his last day of service.

5. Scheme definitions and miscellaneous information

5.a Pay

The pay used to calculate the compensation payment is the full-time rate of basic pay on the employee's last day of service plus any permanent pensionable allowances. Monthly pay is calculated by dividing annual pay by 12.

Allowances (including Saturday and Sunday overtime premium payments) will not count towards the pay used unless they are permanent and pensionable, and also both regular and consistent. Typically, these types of allowances will either be determined at least a year in advance and/or be contractual at a fixed rate or amount. Allowances that fluctuate would not count. Employers must consider whether their own allowances meet the above criteria and liaise with the Scheme Administrator to ensure that the correct information is used to calculate compensation payments. As eligible allowances will be fixed and predictable, like salary they will be determined by taking the annual full-time rate on the last day of service.

Where an individual is not receiving pay on their last day of service in certain circumstances they should be treated as receiving pay of an amount equal to that which they would have received if those circumstances did not apply ('assumed pay'). The circumstances include:

- On secondment to a different employer providing they remain covered by the Civil Service Compensation Scheme
- On sick leave on reduced pay
- Receiving statutory maternity pay
- On ordinary maternity leave
- On ordinary adoption leave
- On paternity leave
- Having been called out or recalled for permanent service in the reserve or regular forces.

The pay on the last day of reckonable service should be used for those who are not receiving pay on their last day of service in the following circumstances:

- On a career break
- On unpaid leave
- On Sick Pay at Pension Rate
- On sick leave without pay.

Part-time workers' compensation payments will be based on the full-time equivalent rate of pay but please refer to paragraphs 5.e and 5.f covering part-time workers and the limit that applies.

The higher rate of pay should be used for those on temporary promotion on their last day of service, but it is the substantive grade pay that should be used for those on substitution on their last day of service.

Some employers have replaced substitution and temporary promotion with a single Temporary Duty Allowance (TDA). In order to maintain the historic position, if an employer believes that but for the exit scheme, the individual would have continued performing the higher duties for a significant period, then the TDA should be included in the pay used to calculate compensation. You must notify the Scheme Administrator as to whether or not TDA should be included.

5.b Protection for the lower paid

Employees earning less than £23,000 who leave on Voluntary or Compulsory Redundancy will be deemed to be earning that amount for the purposes of calculating their compensation payment only. Employers have discretion to apply this low paid protection when offering VE terms if they wish to do so.

Example (d) - protection for the lower paid

Jane works full-time. She earns £20,000 and has 20 years' service. If Jane opts for VR her compensation payment will be based on the deemed minimum of £23,000 and she will receive a compensation payment of £38,333. This is calculated as:

20 x £23,000/12 = £38,333.33

If Jane does not volunteer but is dismissed as compulsorily redundant her payment will be £23,000. This is calculated as:

12 x £23,000/ 12 = £23,000

For VR Jane would receive 3 months' notice or 6 months' notice for CR. If Jane is close to pension age, she might choose to take her pension and use some or all of her payment to buy out the early payment reduction that would otherwise apply.

5.c Restricting payments for the higher paid

Employees earning more than £149,820, who leave on VR, CR, or on VE, will be deemed to be earning that amount when calculating their compensation payment. The deemed rates will not affect the calculation of pension benefits.

Example (e) – payment restriction for the higher paid

Simon earns £200,000 and has 5 years' service. He is dismissed as compulsorily redundant. As a high earner, Simon's pay is restricted to the deemed maximum of £149,820. Simon's redundancy payment is £62,425. This is calculated as:

5 x £149,820/ 12 = £62,425

5.d Years of service

Current reckonable service is the current period of continuous service in an employment to which the CSCS applies, providing any break in service is no more than 28 days. For example, an individual works for MOD for 3 years and resigns on 31 March 1999. They manage to secure employment with DWP and begin employment with them on 10 April 1999 and work for a further 12 years. The break between the two employments is no more than 28 days and therefore the service is treated as continuous (for compensation purposes only). The break between the employments is not reckonable and would be classed as unpaid leave for CSCS purposes. The current reckonable service for compensation is 15 years.

Any casual service that immediately preceded current reckonable service will be included in the reckonable service if it is part of the current period of continuous employment.

There are some **classic** members (and **classic** members that opted for **premium** or **classic plus** on 1 October 2002) who have been given a service credit for casual service immediately preceding a permanent appointment. This service credit, which is a percentage of the casual service worked, will still count for pension purposes but it is the actual length of casual service that will count as reckonable for compensation as long as the service is within the current period of service.

Reckonable service will be counted in years and days, expressed as decimal years to four decimal places. Only current reckonable service will be used to calculate the compensation payment. An example of this is:

4 years 300 days = 4.8219 (300 ÷ 365)

Current reckonable service excludes:

- Added years
- Transfers in (although this can be included with the approval of the Minister for the Cabinet Office)
- Earlier periods of pensionable service that have either been preserved or have already been aggregated with current service (although again this can be included with Ministerial approval)
- Added pension
- Any break between employments (whether or not they are less than 28 days)
- Any periods of unpaid leave
- Periods on Sick Pay at Pension Rate (SPPR)
- Unauthorised absence
- Periods of unpaid sick absence
- Career break
- Unpaid maternity leave
- Resettlement leave
- Service with a by analogy scheme
- Work step service

Employers can approach the Cabinet Office to seek the Minister’s agreement for inclusion of Other Service.

Historical pension provisions (overseas service and doubling of service for Prison Officers)

An employee who has worked in a scheduled territory whose service for that period reckoned at 1.5 times its length for pension benefits will only reckon at its actual length for compensation.

Prison Officers in post on 30 September 1987 may reckon service at double its actual length for pension purposes after completing 20 years' service. No doubling will count for compensation - service will only reckon at its actual length.

Quarantine period

Those who left under the old CSCS arrangements on Compulsory Early Retirement or Flexible Early Retirement terms will in most cases have been given an enhancement to their service of up to a maximum of 6 2/3 years. If they are re-employed and the enhancement given was greater than the period between the two employments they cannot accrue further pension in the Civil Service Pension Scheme (other than opening a **partnership** account but with no employer contribution) until the remainder of the enhancement has been worked; this is known as the quarantine period. However, under the CSCS arrangements all service since re-employment counts as reckonable for compensation including the service relating to the remaining quarantine period.

5.e Part-time service

Part-time service will be based on actual hours worked i.e. qualifying service x actual hours worked ÷ full-time conditioned hours.

E.g. **Mary** works full time for 3 years (i.e. 36 hours a week, her conditioned hours) she then reduces her hours to 29 a week for the next 5 years.

Mary's qualifying service is 3 + 5 = 8 years, but her reckonable service is her actual hours worked therefore 3 + (5x29/36) = 7.0278 years rounded to the nearest whole day (by multiplying .0278 by 365) = 7 years 10 days reckonable service i.e. 7.0274.

5.f Limit to compensation applied to members working part-time within last 3 years

Where the member has worked part-time in the last three years a limit is applied to ensure that part-time workers do not receive disproportionately more than full-time workers.

The maximum compensation that can be paid will be determined as the maximum that could have been paid to a full-time worker on the same full-time equivalent pay but scaled back in relation to the reckonable service as compared to the full-time equivalent. For this calculation, do not include any unpaid leave in either the qualifying or the reckonable service. Qualifying service in this instance is what they would have worked if all their part-time service had been worked as full-time.

Example (f) – part-time worker (capped service) CR

Darren switched to part-time working (3 days a week, or 0.6) a few years ago. He has worked for the Civil Service for 15 years and has built up a total of 13 years of full-time equivalent reckonable service. Darren is paid £18,000 a year – that is, a full-time equivalent rate of £30,000. Darren is dismissed as compulsorily redundant. Darren's CR compensation is calculated as the lesser of:

(a) Unlimited compensation (actual service and full-time equivalent pay):

13 x £30,000/12 = £32,500

(b) Scaled maximum compensation:

12 x £30,000/12 x 13/15 = £26,000

Darren receives £26,000. This is 0.87 of maximum compensation for a full-timer reflecting Darren working an average of 0.87 FTE across his career.

Example (g) – part-time worker (lower paid and with uncapped service) VR

Jenny works part-time and earns £10,000 a year for a 2.5-day week (0.5 FTE). Jenny's full-time rate of pay is therefore £20,000 so her compensation will reflect the deemed minimum full-time pay of £23,000 (low paid protection). Jenny has a total of 7 years' current reckonable service; she has built this up over 14 years of qualifying service.

Jenny's VR compensation is calculated as the lesser of:

(a) Unlimited compensation:

7 x £23,000/12 = £13,416.67

(b) Scaled maximum compensation:

21 x £23,000/12 x 7/14 = £20,125

Jenny will receive £13,416.67.

Example (h) – part-time worker (high earner and capped service) VR

Helen earns £130,000 a year for a 4-day week (0.8) so her full-time rate of pay is £162,500. As a high earner, Helen's compensation will reflect the deemed maximum of £149,820 (full-time). Helen has a total of 20 years of current reckonable service, built up over 30 years of qualifying service.

Helen's VR compensation is calculated as the lesser of:

(a) Unlimited compensation:

20 x £149,820/12 = £249,700

(b) Scaled maximum compensation:

21 x £149,820/12 x 20/30 = £174,790

Helen's compensation is initially calculated as £174,790 but this will be subject to approval by the Cabinet Office Minister because it exceeds £95,000.

5.g Service that would not normally count for compensation

Employers must ask for Cabinet Office approval in advance using the appropriate template if they wish to take any other periods of service into account, for example where an individual moved from a by-analogy scheme to the Civil Service. Except for instances such as Machinery of Government changes, business cases will normally be required at an individual level.

5.h TUPE INTO THE CIVIL SERVICE – Civil Service Compensation Scheme (CSCS)

Please note that this guidance supersedes and replaces previous guidance in the EPG.

When an employee is compulsorily transferred to another employer under TUPE, their terms and conditions of employment are protected on transfer. This includes their contractual redundancy terms.

When an individual TUPE transfers into an employer that participates in the CSCS (a "CSCS employer"), you must find out: (i) what their contractual redundancy terms are at the point of transfer (if any) and (ii) whether any other redundancy terms have been agreed at the point of transfer as a result of an undertaking given by a Minister.

Voluntary and compulsory redundancy

When an employee who has transferred into a CSCS employer under TUPE is to leave on voluntary or compulsory redundancy, you must advise MyCSP of any contractual redundancy terms which transferred with them. MyCSP can then calculate compensation payable under the CSCS rules, which will be the better of:

a) the TUPE protected contractual redundancy terms that transferred with them calculated on the basis of their total continuous period of employment with their previous employer and the CSCS employer;
b) the CSCS terms for the period of employment with the CSCS employer only; and
c) any other terms which reflect a Ministerial undertaking given at the point of transfer.

This comparison applies irrespective of whether or not the individual chose to transfer their pension rights with their previous employer into the Civil Service Pension Scheme. This is because the compensation is linked to an individual's length of employment, not their pension position.

The TUPE protected terms used in the comparison under (a) above will be statutory redundancy terms only if the employee did not have any additional contractual redundancy compensation terms.

Where there are enhanced TUPE protected terms, you will need to check whether any so-called Beckmann and Martin rights have also transferred with the employee. These are typically in the nature of early retirement benefits triggered by redundancy, and which are protected on a TUPE transfer. You should take legal advice if you think such rights apply.

In rare cases, such enhanced TUPE protected terms cannot be easily replicated because, for example, they involve annual payments. In these circumstances, it may be necessary to obtain actuarial advice to enable an equivalent payment to be made in a different form.

Voluntary exit

All the same principles apply where the individual is leaving on voluntary exit terms. However, it is rare for other employers to have specific contractual terms for these kinds of exit. If they did not offer specific contractual terms, the individual would be entitled to CSCS terms based only on their service with you.

Successive TUPE transfers (including TUPE "sandwich" cases)

Where an individual has been subject to successive TUPE transfers, it is necessary to see what redundancy terms have transferred on each change of employment. A new employer may have agreed new redundancy terms with the individual or have changed protected terms with consent for an Economic, Technical or Organisational (ETO) reason entailing changes in the workforce - and it is these changed terms which would transfer on the next TUPE transfer. You need to work out what contractual redundancy terms (if any) are in place immediately before the TUPE transfer into the CSCS employer.

An example of successive TUPE transfers is when an individual is compulsorily transferred out of the Civil Service for a period and then compulsorily transferred back in. This is sometimes known as a "TUPE sandwich". The same principles relating to the comparison of benefits set out above still apply with the exception of (b), as in some limited circumstances the employee will be entitled to the CSCS terms for their **entire period** of continuous employment, rather than only their period of employment post-transfer. An example of this is provided below.

Example (i) – TUPE transfer:

5.5 years' service with Civil Service employer before TUPE transfer to (non-Civil Service) Employer A

2 years' service with Employer A before TUPE transfer back to Civil Service employer

2.5 years' service with Civil Service employer before voluntary redundancy.

There was no Ministerial undertaking given at the point of any transfer.

On the original TUPE transfer to Employer A, unless rights to have compensation calculated in a specific way were incorporated into the individual's contract at that time, the contractual right that transferred under TUPE to Employer A was the right to receive redundancy terms equivalent to whatever would be payable under the CSCS rules at the point of redundancy.

Assuming that no other contractual redundancy terms were agreed during employment with Employer A, the contractual term that transferred back when the individual TUPE transferred back into a Civil Service employer 2 years' later was again the right to receive terms equivalent to whatever would be payable under the CSCS rules at the point of redundancy. Therefore, on final departure for voluntary redundancy, the individual is entitled to receive the current voluntary redundancy terms payable under the CSCS based on 10 years' service (that is, 5.5 + 2 + 2.5).

However, if during the employee's employment with Employer A, Employer A changed the employee's redundancy terms and the employee moved onto Employer A's enhanced contractual redundancy scheme (calculations based on entire length of continuous service) then when the employee transfers back into the Civil Service they will transfer with their new enhanced contractual redundancy terms. Accordingly, on final departure for voluntary redundancy, the individual is entitled to receive the better of the following:

a) the TUPE protected contractual redundancy terms that transferred with them calculated on the basis of their total continuous period of employment (that is 5.5 + 2 + 2.5); or
b) the CSCS terms for the period of employment with the Civil Service post-transfer only (that is 2.5 years).

5.i Tapering

The maximum compensation that can be paid to a member over pension age is 6 months' pay. To avoid a significant reduction in compensation at pension age, compensation will be tapered. The maximum compensation payable will be the lesser of:

- The normal maximum for those under pension age; and

- The number of months to pension age plus 6 months.

Any part months will be rounded up or down to the nearest full month.

Example (j) – tapering

Julie works full-time. She earns £25,000 and has 20 years' service. Julie applies for VR. She is 59 years 7 months on her last day of service and her scheme pension age is 60. The number of months to pension age is therefore 5. Her compensation payment will be the lesser of:

- £25,000/12 x 20 = £41,666.66

- £25,000/12 x 21 = £43,750

- £25,000/12 x (5+6) = £22,916.66

Julie receives £22,916.66.

Tapering will also apply to part-time workers. The number of months to pension age will reflect the actual part-time hours over the full-time conditioned hours. The 6 months payable to those over scheme pension age, will be scaled back in relation to reckonable service over full-time equivalent service. Do not round any part months up or down to the nearest full month until both calculations have been completed and added together see **Gareth example (l)** below.

Example (k) – tapering (lower-paid and part-time worker)

Zilla leaves on VR on her 59th birthday. Zilla works part-time (she is currently working 3 days a week or 0.6) and she is a member of **premium**. Zilla has a total of 8 years of reckonable service, built up over 11 years. Zilla's full-time equivalent pay rate is £20,000 so her compensation is calculated on the deemed minimum full-time rate of £23,000. Zilla's compensation calculation takes account of both the tapering and the part-time restrictions to maximum compensation.

Zilla's Voluntary Redundancy compensation is calculated as the least of:

(a) Unlimited compensation:

8 x £23,000/12 =£15,333.33

(b) The normal maximum (scaled for part-time)

21 x £23,000/12 x 8/11 = £29,272.73

(c) The scaled down number of months to pension age plus scaled down 6 months

(12 x 0.6) + (6 x 8/11) = 12 (rounded to nearest whole number)

12 x £23,000/12 = £23,000

Zilla will receive £15,333.33.

Example (l) – tapering of a part-time worker

Gareth leaves on VR with only 7 days to go to scheme pension age. His last day of service is 31 July. He works part-time, working 30/37 hours a week. As he is low paid, his compensation payment will be calculated on £23,000. He has 10.2000 years reckonable service and his full-time equivalent service is 13.6685. Gareth's calculation takes account of both tapering and the part-time restrictions to maximum compensation.

Gareth will receive the least of:

(a) Unlimited compensation

10.2000 x £23,000/12 = £19,550

(b) The normal maximum (scaled for part-time)

21 x £23,000/12 x 10.2000/13.6685 = £30,036.21

(c) The scaled down period to pension age plus scaled down 6 months

(7/31 x 30/37) + (6 x 10.2000/13.6685) = 4.6605 (rounded to nearest whole month) = 5

5 x £23,000/12 = £9,583.33

Gareth will receive £9,583.33.

For Pre-Fresh Start Prison Officers who leave before age 55, their pension age is 60 for the purposes of tapering.

5.j Exit after partial retirement

The whole of the member’s current continuous service, (pre and post partial retirement) will count towards calculating the compensation payment. This is subject to the maximum limits for the member’s age and the member’s part-time service.

Example (m) – redundancy after partial retirement

Caspar leaves on CR aged 57. Caspar took partial retirement 2 years ago and went part-time. Caspar has total service of 33 years accumulated over 34 years and his full- time equivalent rate of pay is £20,000. Caspar will receive compensation reflecting his entire service, not just the period after his partial retirement. Caspar’s compensation will reflect the deemed minimum (£23,000).

Caspar will receive the lesser of:

- 33 x £23,000/12 = £63,250

- 12 x £23,000/12 x 33/34 = £22,323.53

Caspar will receive £22,323.53 or a payment according to the statutory redundancy rules if this is greater.

For anyone who has fully retired and is later re-employed, it is only the service from the date of re-employment that will count for any future compensation.

5.k Fixed term employees

What happens at the end of a fixed term contract?

A fixed term employee whose contract is terminated on the expiry date on the grounds of redundancy may be entitled to compensation under the scheme. The expiry of a fixed term appointment is not automatically a dismissal on the grounds of redundancy and you should consider taking legal advice on this point. Where the termination is on the grounds of redundancy, Cabinet Office approval for making a payment is not required, and nor are you required to follow the procedures set out in the Cabinet Office Protocol for handling surplus staff situations (*2016 Protocol – Civil Service Redundancy Principles*). In addition, the requirement to offer VR before making an employee compulsorily redundant, does not apply where a fixed term appointment is terminated on its expiry date.

As long as the fixed term employee has at least 2 years' qualifying service and is being dismissed for redundancy, they will receive the same compulsory compensation terms as a permanent employee. You should notify the Scheme Administrator in the normal way asking for CR terms and giving a Scheme Reference number CR (name of employer e.g. DWP) FTAE (CR DWP FTAE). Provisions relating to notice are not relevant where the fixed term appointment is terminated on its expiry date. As a matter of good practice, you should however advise the employee when nearing the end of their contract that it will not be extended.

No compensation is payable for contracts under 2 years.

Early termination of a fixed term contract

If you propose to terminate a fixed term contract early for redundancy, you must, first make an offer to that individual for a departure using VR terms (including the giving of 3 months' notice). You will not require Cabinet Office approval or need to follow the Cabinet Office Protocol. You should notify the Scheme Administrator in the normal way asking for VR terms and giving a Scheme Reference number of VR (name of employer e.g. MOD) FTAM (VR MOD FTAM).

Where such an offer is not accepted, you can go straight to CR without seeking Cabinet Office approval. You should notify the Scheme Administrator in the normal way giving a scheme reference number CR (name of employer) FTAM (CR MOD FTAM). If the individual's contract stipulates a notice period for early termination, they will receive the same CR terms under the CSCS arrangements as a permanent employee, with the appropriate notice period stipulated in the contract.

If their contract does not stipulate a notice period for early termination, they should receive the better of the CR terms under section 12 of the CSCS or compensation under section 8 of the CSCS (the compensation payment under section 8 will be calculated by GAD).

If an employer wishes, those on a fixed term appointment can be considered for early departure under a departmental wide VE or VR scheme. If accepted they must be treated the same as permanent employees and the normal terms will apply. Approval from Cabinet Office will be required for the scheme. If approved, the scheme will be given a scheme reference number, and this number should be used for permanent and fixed term employees when requesting quotes from the Scheme Administrator.

Notice periods for early termination of fixed term contracts

Any notice period will not have the effect of extending the period of the contract.

5.l Injury Benefit

A person who has suffered an injury that qualifies under the Civil Service Injury Benefit Scheme (CSIBS) who then leaves on VE, VR or CR is entitled to ask for Injury Benefit.

CSIBS may apply to those who leave before their pension age and those who leave at or after pension age. This means the usual process for determining Injury Benefit entitlement applies. Employers should contact the Scheme Administrator who will need to ask the Scheme Medical Adviser to assess the extent to which the person’s injury has impaired their earning capacity and whether apportionment is appropriate.

6 Notice periods

The Civil Service Management Code (CSMC) section 11 paragraph 11.1.4 gives details of the notice periods which departments should normally give to civil servants who are compulsorily dismissed for redundancy. The notice period is normally 6 months, unless the civil servant has a different period of notice in their contract of employment. For non-civil servants, the notice period will be the period stated in their contract of employment. Notice will commence from the date the notice of dismissal is issued.

For Voluntary Exits and Voluntary Redundancies, the notice period is 3 months. Notice will commence from the date the employee signs the agreement to depart.

6.a CILON

Where the notice period is not worked CILON may be considered in exceptional circumstances. Employers have access to a calculator so they can calculate the loss of pension benefits. The CILON payment must be paid through the payroll as tax and NI will apply.

6.b Partnership

For those with a **partnership** pension account, the CILON payment for loss of pension benefits in the unworked notice period should be based on the employer age related contribution and if applicable, the employer matching contribution that was in payment immediately before the member's last day of service. The money should be paid directly to the member.

7. Added pension

Individuals retain the right to use their compensation payment to buy added pension and can use the added pension calculator on the website to obtain an estimate. Anyone who is interested in purchasing added pension will attach a screen shot of the calculation with their Compensation Declaration Form when they return it to their employer. The employer will pass these documents to the Scheme Administrator to process the pension payment.

Added pension is subject to the Annual Allowance for tax. If the growth of an individual's pension savings increases by more than the Annual Allowance, they may have to pay tax on the excess. The Scheme Administrator can provide information for individuals on request.

Example (n) – using compensation to purchase added pension

Henry asks his employer to pay all of his compensation payment into the pension scheme to purchase added pension for him. The added pension increases Henry's pension by £1,000 a year. Henry's pension had also increased in real terms during the year (as a result of his ongoing service and a small pay rise) by £500 a year. In total, Henry's pension has increased by £1,500. Henry is in **classic,** so his lump sum has also increased by £4,500. For Annual Allowance purposes, Henry's pension increases are valued at £28,500 ((16 x £1,500) + £4,500)). As Henry does not have an adjusted income exceeding £150,000, Henry's Annual Allowance is £40,000 so Henry does not incur any extra tax charges.

8. Pension Sharing and earmarking on divorce

The compensation lump sum payment is based on all current reckonable service regardless of the pension sharing or earmarking order. If the member opts for early payment of pension benefits on reduced terms, the pension debit will be applied to the member's pension (and lump sum if **classic** or **classic plus**) at the time the reduced pension benefits are paid. It will be the member's reduced pension/lump sum that will be used to calculate the cost of the buy-out.

9. Re-employment

If someone is re-employed in an organisation covered by the Civil Service Pension and compensation arrangements within 28 days of leaving their current employer, their compensation will be cancelled and their service will treated as continuous. They will have to repay the **full** compensation amount.

A compensation payment must be re-paid in full or in part if an employee is re- employed in an organisation covered by the Civil Service Pension and compensation arrangements within the lesser of (a) 6 months and (b) the notional period of their compensation payment. Repayment is not required if re-employment is for less than 15 days in any 91-day period, or for periods totaling in aggregate less than 15 days in any 91-day period. Where the employer has topped up the compensation payment to meet the total cost of buying out the actuarial reduction of pension, the notional period of the compensation payment for re-employment purposes will be the amount originally awarded to the member (i.e. not the total cost of the buy-out). If re-employment is at a lower salary, an adjustment will be made as in the example below.

Example (o) – re-employment

Millie receives a severance payment of £30,000 which represents 12 months' pay. 4 months later, Millie is re-employed in the Civil Service on a salary of £24,000. Millie will be required to repay 8 months' compensation, adjusted for her new salary level.

The amount to be repaid will be calculated as:

£30,000 x 8/12 x 24,000/30,000 = £16,000

(In this case, the severance payment – being no more than £30,000 – would not have attracted tax. In cases where tax is payable, any repayment is adjusted, as now, to take account of taxpaid.)

Where re-employment takes place within 28 days of leaving, the compensation award will be withdrawn, and service will be regarded as continuous. **The employee must repay the full compensation amount.**

If an employer re-employs anyone receiving a pension (or an annual compensation payment under the pre-22 December 2010 arrangements), the pension (or annual compensation payment) may be abated.

Re-employment of a member of the Senior Civil Service during a period covered by a compensation payment must be approved by the Cabinet Office.

If any employer offers a non-standard tariff under their VE scheme and the individual is re-employed after 28 days, but before the lesser of the notional period of the lump sum compensation payment and 6 months, the notional period of the lump sum should still be expressed as a decimal number of years.

You must use the Pension Questionnaire and Calculator (on the Civil Service Pensions website) to identify anyone who is re-employed after receiving a compensation payment.

10. Employer costs

The cost of the buy-out using the member's compensation lump sum and the additional cost of the top up for the buy-out of the reduction to the member's pension, if applicable, will be chargeable at time of leaving. The total cost will be charged to the employer by the Scheme Administrator in the normal way.

11. Tax

The first £30,000 of a compensation payment is normally tax free.

After the first £30,000 tax will be deducted in line with the PAYE tax bands. This will mean that individuals who are higher and additional tax rate payers will pay closer to the right amount of tax at the time they receive their compensation payment. HMRC have processes in place that will for the majority of individuals, allow for any over deduction of tax to be repaid in-year.

If the compensation payment is used to buy out the reduction to the pension for early payment, it is only any remaining compensation lump sum over £30,000 that will be subject to tax.

If an individual has previously left with compensation, this may also be taken into account when calculating how much can be tax free.