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Early Departure Schemes

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This paper discusses the use of Early Departure schemes as part of Public Sector Reform. It considers examples of recent schemes in Great Britain and the Republic of Ireland including how effective they have been in reaching their goals.

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Key Points

- The Northern Ireland Executive has introduced a Voluntary Exit Scheme that is intended to reduce the Northern Ireland Civil Service pay bill;
- Good practice in public sector reform has been identified by researchers, including the necessity to ensure the need, provide a plan and build external support. The National Audit Office (NAO) has also developed a good practice framework;

Great Britain

- Following the October 2010 spending review, Central Government Departments received significant reductions in their budgets. For most Departments, staff costs made up around 50% of administration spending and subsequently most Departments sought to reduce these costs via reducing headcount;
- To facilitate this reduction, Departments undertook a number of processes, including a freeze on civil service recruitment from May 2010. This resulted in recruitment falling from 39,000 in 2009/10 to 13,400 in 2010/11;
- The majority of the headcount reduction was carried out via "Early Departures" facilitated via voluntary exit schemes and voluntary redundancy schemes;
- If a Civil Service organisation undertakes a voluntary exit or voluntary redundancy scheme, compensation is paid under the Civil Service Compensation Scheme (CSCS);
- Reforms in 2010 reduced the maximum payment to 21 months' salary with three months' notice of redundancy, imposed a cap of six times average private sector earnings on the salary used to calculate the redundancy payment in an individual case and introduced a requirement to repay at least part of the compensation if re-employed within six months;
- It also incentivised voluntary, early application by staff as a result of much less generous compulsory redundancy terms;
- Despite each Department operating its own Early Departure Scheme, the NAO was able to identify four criteria used where schemes were oversubscribed and it was necessary to decide who may make use of the scheme. The criteria were:
  - **Contributing to headcount reduction:** If the individual leaves, will this position need to be filled?;
  - **Cost and savings:** If the individual leaves in 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, are Departments considering future skill requirements and flexibility and the investment already made in individuals?; and

- **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?

- Between December 2010 and December 2011,17,800 people took early departure;
- The number of departures from each Department was varied. The MOD had the largest headcount reduction of approximately 3,400 staff (civilian workforce);
- The NAO identified a number of impacts the early departure of civil servants had, including the types of costs and savings accrued by the main organisations involved in the scheme including the cost of lump sum payments, the loss of tax and National Insurance payments and increased Jobseeker's Allowance costs if a leaver has a period of unemployment;
- It also found that there can be improvements in staff morale as a result of disengaged staff being removed, increased productivity via a more efficient operating model and cost savings as a result of less need for IT support and HR administration;
- In terms of the gross initial cash cost to Departments, the NAO identified this cost as being around £600 million at 2011 prices, with an on-average payback period of 15 months;
- The NAO estimated that there would be a yearly saving of £400 million to the Departments' pay bill;
- Staff morale was impacted by the scheme, affecting employees perception of senior management, work-life balance and increased fears over losing their jobs;
- The PAC found that Departments did not have sufficient long term plans in place for new ways of working with fewer staff and that there was a lack of information to show what effect the lower number of staff is having on departmental performance and service standards;

Republic of Ireland

- In the Republic of Ireland (ROI), the decision was made in 2012 to introduce voluntary redundancy schemes (VRS) in order to reduce staff surpluses in a number of Departments;
- The ROI carried out a number of cost cutting measures prior to the VRS, including the introduction of a pay freeze, a comprehensive pay cut for all public servants and increases to working hours within existing salary;
- Following redeployments across the civil service it was found that there were staff surpluses in a number of departments. As a result, the Department of Public Expenditure and Reform (DPER) introduced a VRS;
- VRS had been agreed between the government and ICTU previously, including a guarantee from the government that no compulsory redundancies would take place;
- Employees taking voluntary redundancy were entitled to no more than 3 week's pay per year of service, subject to the total statutory redundancy and ex gratia payment

not exceeding either 2 years' pay or one half of the salary payable to preserved pension age, whichever is less;

- Whilst the ROI Government did not set targets for the number of people to leave under the scheme, it did have a target for overall headcount reduction in the public service up to 2014 (287,000);
- In total the Public Service has had a reduction in staff of 10%, a fall of 32,100 staff in five years;
- The DPER expected to make a salary saving of €200 million per year, with the scheme paying for itself in two years on a gross basis and three years on a net basis;
- The VRS scheme launched in January 2013 was expected to see 4,000 public service workers taking part in it, with a cost to Government of approximately €440 million (based on a cost of €110 million per 1,000 workers).
- A briefing paper from the Secretary General of DPER states that there had been a relatively low uptake of the scheme and that this may be a result of:

  > *Overall public service numbers have been coming down broadly in line with target and therefore the widespread implementation of VR has not been necessary so far.*

- The Institute for Public Administration (IPA) noted that:

  > *Indicators of quality and timeliness of service show quality being maintained or even improved in some areas. Given the scale of change faced by the public service this is a noteworthy achievement.*

- The IPA also identified that capacity issues within public service organisations could potentially be problematic with number reductions, early retirement and redeployments leading to a loss of skills.

The Committee may wish to note the following:

- The Committee may wish to ask the Department what the scale of repayments on the Reinvestment Reform Initiative (RRI) are, how often they occur, and how they will impact on departmental budgets.
- The Committee may wish to ask the Department, in light of the findings of the Oxford Economics study, what consideration has been given to the impact on the wider economy that the reduction in the public sector workforce will have.
- The Committee may wish to ask the Department if it has taken any mitigation measures in the design of the VES to offset potential skill losses and if it has any plans or guidelines in place to tackle any declines in staff morale in both the civil service and public sector as a result of the VES.

Contents

1 Introduction

The Minister for Finance and Personnel has stated that:[1]

> *The overarching objective of the Civil Service voluntary exit scheme is a permanent Northern Ireland Civil Service (NICS) pay bill reduction in the 2015-16 financial year and beyond.*

The exit scheme will be taking place alongside a number of other measures including:

- A recruitment freeze;
- An embargo on promotions; and
- The suppression of funded vacancies[2].

These are expected to realise approximately £30 million of savings in 2015/16 with the voluntary exit scheme saving £88 million per twelve month period.[3] It should be noted that the Northern Ireland Civil Service (NICS) has published guidance on voluntary exit and voluntary redundancy schemes.

Both schemes follow effectively the same guidance (which will be discussed in greater detail later in this paper), although as stated by the National Audit Office:[4]

> *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.*

The Minister for Finance and Personnel has stated that in the likelihood that the VES did not achieve the necessary numbers:[5]

> *We would have to look at what other options might be there.*

The Minister goes on to state: [6]

> *It is something that we will have to keep under review, but I do not think that there will be much escaping the need to reduce significantly the numbers working in the broad public sector in Northern Ireland.*

During a briefing to the Committee for Finance and Personnel, a departmental official stated that the scheme in operation is:[7]

[1] Northern Ireland Assembly, 16 February 2015, Oral Answers to Questions, Finance and Personnel, AQO 7579/11-15
[2] Posts which are funded within budgets but which are not filled by staff.
[3] Northern Ireland Assembly, 16 February 2015, Oral Answers to Questions, Finance and Personnel, AQO 7579/11-15
[4] NAO, March 2012, Managing early departures in central government, http://www.nao.org.uk/wp-content/uploads/2012/03/10121795.pdf
[5] Northern Ireland Assembly, 16 February 2015, Oral Answers to Questions, Finance and Personnel, AQO 7579/11-15
[6] Northern Ireland Assembly, 16 February 2015, Oral Answers to Questions, Finance and Personnel, AQO 7579/11-15
[7] Northern Ireland Assembly, Hansard, 25 February 2015, Committee for Finance and Personnel, Northern Ireland Civil Service Workforce Restructuring — Voluntary Exit Scheme: Department of Finance and personnel http://data.niassembly.gov.uk/HansardXml/committee-12267.pdf

Similar to the scheme that was launched for the DVA in Coleraine.

This is in reference to the transfer of vehicle licensing services for the UK which had been administered in Coleraine but which was transferred to Swansea in July 2014. At the time there were 210 DVA staff based in Coleraine. Department for the Environment officials agreed a voluntary exit scheme which open to application from around 1,700 staff[8], although it should be noted that 86 were redeployed to alternative permanent posts.[9]

The scheme was launched on the 19 November 2014 with a closing date of 7 January 2015[10], and staff being released by end March 2015.[11] In response to an Assembly Questions[12][13], the Minister for the Environment stated that a total of 783 eligible staff registered an interest in the scheme, with 223 staff applying. Of these 114 were successful in accessing the VES, with 38 DVA surplus staff.

[8] Northern Ireland Assembly Questions, 21 November 2014, AQW 39173/11-15
[9] Northern Ireland Assembly Questions, 15 October 2014, AQO 6849/11-15
[10] Northern Ireland Assembly Questions, 19 November 204, AQW 39023/11-15
[11] Northern Ireland Assembly Questions, 15 October 2014, AQO 6849/11-15
[12] Northern Ireland Assembly Questions, 20 January 2015, AQT 197/11-15
[13] Northern Ireland Assembly Questions, 9 January 2015, AQW 40494/11-15

2 The Public Sector Reform Process

Following an extensive literature review Fernandez and Rainey (2006), identified eight factors which a change management process, such as public sector reform, should undertake in order to ensure its success.[14]

These factors are:

- **Factor 1: Ensure the need** – Research has found that for the successful implementation of reform within an organisation, managerial leaders must first verify the need for the change and persuasively communicate this with staff and stakeholders so as to ensure they understand the necessity for change. This then sets the direction and informs the context in which the reform takes place;
- **Factor 2: Provide a plan** – A course of action or strategic plan setting out goals and objectives for the change process must be developed. This then acts as a roadmap for the organisation "offering direction on how to arrive at the preferred end state, identifying obstacles and proposing measures for overcoming these obstacles." Clear, specific goals also help to ensure that the measures implemented meet the policy developed by policy makers and ensure accountability for the process;
- **Factor 3: Build internal support for change and overcome resistance** – Managerial leaders should encourage widespread participation in the change process in order to build internal support and reduced resistance. Fernandez and Rainey state that "participation presents a particularly important contingency in the public sector." Involving civil servants within the change process can help reduce resistance to reform;
- **Factor 4: Ensure top-management support and commitment** – Research has found that having an individual or a group guiding and leading the change within an organisation plays an essential role in its success. In addition, top-management support and commitment to change plays an essential role in successful change in the public sector. This includes the commitment to change of both top-level career civil servants and of Ministers and other elected officials;
- **Factor 5: Build external support** – External support from key external stakeholders and political overseers can further enhance the success of public sector reform. This is in part as a result of their ability to impose statutory changes and control the flow of resources to public organisations;
- **Factor 6: Provide resources** – To successfully introduce change in an organisation it must have sufficient resources to carry out the process. Fernandez and Rainey found in their literature review that change is not cheap or without trade-offs. If not properly resourced reform can be poorly implemented, generate high levels of stress and result in core activities and functions of an organisation being neglected;

[14] Public Administration Review, March 2006, Managing successful organizational change in the public sector,

- **Factor 7: Institutionalise change** – Any reforms which occur must become a part of the organisations policies or daily routines. This, however, is not easy. In order to reinforce the new behaviours it is necessary to reinforce them through actions such as data collection to track implementation, engage employees in active participation and evaluate the process;
- **Factor 8: Pursue comprehensive change** – In order to institute comprehensive change it is necessary to ensure change occurs at all levels of an organisation, including at a subsystem level. Without ensuring reforms occur both at the macro and micro level of an organisation, with change communicated at both a top-down and bottom-up level it will be inefficient, ineffective and could ultimately result in additional time and resources being needed to reinforce reform or have the process fail. For example, Golembiewski (1985) found that there was little point in attempting to change attitudes and behaviours towards more teamwork and participation in an organisation if its structure remains hierarchical and fails to support team orientation. Another study, by Robertson and Seneviratne (1995) found that “subsystem congruence may be more difficult to achieve in the public than the private sector because change agents in the public sector exercise less discretion than their private sector counterparts.

The National Audit Office identified a good practice framework for managing staff costs reduction based upon evidence from both the public and private sector.[15]

Figure 1 below details this framework.

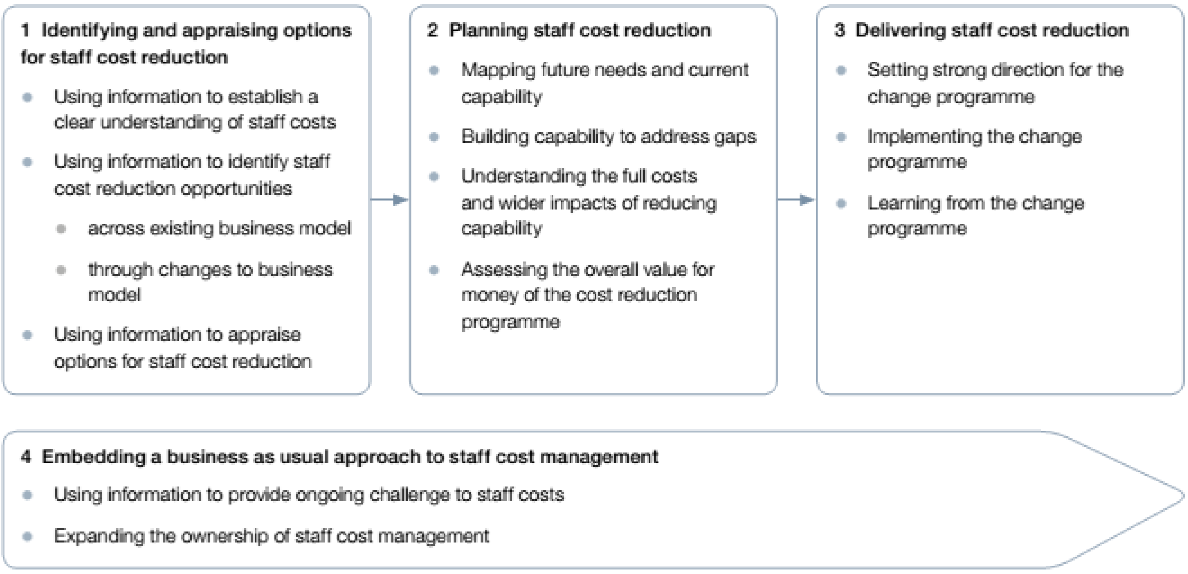

Figure 1: Framework for managing staff costs reduction.

[15] National Audit Office, March 2012, Managing Early Departures in Central Government, http://www.nao.org.uk/wp-content/uploads/2012/03/10121795.pdf

The NAO goes on to state that:[16]

> *Planning and managing early departures involves balancing conflicting risks.*

For example, the pace of early departures can impact on areas such as financial cost with a slow pace resulting in savings taking too long to realise and a **too fast pace potentially resulting in an inadequate consideration of less costly alternatives to paid exits.**

This paper will now discuss two early departure schemes, one in Great Britain and the other in the Republic of Ireland. The paper considers the broad context of the schemes, what form they took and their impact.

[16] Ibid

3 Headcount Reduction in GB Civil Service

3.1 Background

Following the October 2010 spending review, Central Government Department received significant reductions in their budgets. For most Departments, staff costs made up around 50% of administration spending and subsequently most Departments sought to reduce these costs via reducing headcount.

To facilitate this reduction, Departments undertook a number of processes, including a freeze on civil service recruitment from May 2010. This resulted in recruitment falling from 39,000 in 2009/10 to 13,400 in 2010/11.

The majority of the headcount reduction was carried out via "Early Departures" facilitated via voluntary exit schemes and voluntary redundancy schemes. It should be noted that there are only minor differences between a VES and a VRS, such as a VRS must have a consultation period whereas a VES does not.

In 2010 in order to reduce the costs of headcount reductions, the Government introduced a revised Civil Service Compensation Scheme. This introduced new terms and conditions which had a number of impacts, such as:

- **Making early departures more cost-effective for Departments:** In particular, the qualifying length of service for voluntary and compulsory redundancy increased and maximum payment reduced;
- **Encourage take-up of voluntary terms:** The maximum payment is considerably lower for compulsory departures than for voluntary departures;

It also introduced Voluntary Exit Schemes (VES). As stated by the National Audit Office:

> *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.*

The Public Accounts Committee stated that:[17]

> *Departments are responsible for implementing their own early departure programmes.*

As such, central government departments undertook their own early departure schemes.

As with NI, there is a broad set of guidelines in place (the Civil Service Compensation Scheme - PCSCS) that the Departments must follow. However, within this is flexibility in how the programme is implemented.

[17] House of Commons, Public Accounts Committee, Managing Early Departures in Central Government, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/503/50306.htm

Whilst UK Departments were responsible for running their own exit schemes, a number of governmental bodies had a role in organising the process themselves:[18]

- **Government Departments:** Plan and implement early departure schemes;
- **Cabinet Office:** Approves Departmental schemes and develops workforce policy. Also responsible for the management of the Principal Civil Service Pension Scheme (CSPS) through the Scheme Management Board;
- **HM Treasury:** Departments agreed settlements with the Treasury. For some Departments, funding for early departures was part of normal ring-fenced budgets (unlike in Northern Ireland), while for others it was a ring-fenced, time-limited basis;
- **My CSP:** Administrator of the Principle CSPS and Civil Service Compensation Scheme. Liaises with Departments over providing estimates for the cost of individual departments; and
- **Civil Service Resourcing:** Formed in early 2011, this part of the CS Human Resources section provides a recruitment, assessment and redeployment service for the CS.

3.2 Process

If a Civil Service organisation undertakes a voluntary exit or voluntary redundancy scheme, compensation is paid under the Civil Service Compensation Scheme (CSCS).[19]

Reforms in 2010 reduced the maximum payment to 21 months' salary with three months' notice of redundancy, imposed a cap of six times average private sector earnings on the salary used to calculate the redundancy payment in an individual case and introduced a requirement to repay at least part of the compensation if re-employed within six months.

The NAO states that:[20]

> *The scheme was also structured so as to incentivise voluntary, early application by staff, by putting in place arrangements for compulsory redundancy which are much less generous and to protect the lower paid through the use of a salary underpin (set at 90%) of average private sector earnings or £23,000.*

[18] Ibid

[19] Civil Service Pension Scheme, Voluntary Exit – Guidance for staff, http://www.civilservicepensionscheme.org.uk/media/41089/cscs_voluntary_exit_guidance_for_staff_tcm6-38086.pdf

[20] House of Commons, Public Accounts Committee, Managing Early Departures in Central Government, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/503/50306.htm

As stated in Voluntary Exit Scheme Guidance:[21]

> *Your employer will decide who they want to let go and will tell you what selection criteria they are going to use.*
>
> *If you apply, you do not have to accept the offer to go. If you do accept, you will receive a cash payment as compensation for giving up your job. Depending on your circumstances, you can use some or all of your compensation payment to increase your pension.*

Compensation is calculated based on three elements:[22]

- **Pay:** This is the full rate of an employee's basic pay on their last day of service plus any permanent pensionable allowances;
- **Tariff:** This is the basis of the compensation payment. This is based on the amount of pay (generally one month's pay) for each year of service up to a maximum of 21 months. For those over pension age this is six months; and
- **Years of Service:** The compensation payment is based on an employee's current service.

For those who take their pension before they are of pensionable age it is possible to use the compensation payment to buy out the reduction which is normally applied if they take their pension early.

Other factors of note include:

- Under the scheme individual's taking early exit are entitled to three months' notice; and
- If an individual is re-employed in an organisation covered by a CS pension scheme within 28 days of leaving their current employer their compensation will be cancelled and their service treated as continuous. If employed between 28 days and six months, the employee will pay back the compensation on a pro rata basis.

Departments also operated voluntary redundancy schemes (VRS) as part of the Early Departure process, with some Departments operating a VES, a VRS and finally a Compulsory Redundancy Scheme (CRS) if uptake in the first two schemes were not sufficient.

VRS follow similar guidance as that of the VES, albeit with some variation in terms of protection for the lower paid, with those earning under £23,000 per annum treated as having earned that amount when the compensation payment is calculated.[23]

[21] Civil Service Pension Scheme, Voluntary Exit – Guidance for staff, http://www.civilservicepensionscheme.org.uk/media/41089/cscs_voluntary_exit_guidance_for_staff_tcm6-38086.pdf
[22] Ibid
[23] Civil Service Pension Scheme, Voluntary Redundancy – Guidance for staff, http://www.civilservicepensionscheme.org.uk/media/41087/cscs_voluntary_redundancy_guidance_for_staff_tcm6-38087.pdf

Also, under the VRS if you are nearing pension age compensation payments are tapered in order to reflect how close an individual is to retirement.

Despite each Department operating its own Early Departure Scheme, the NAO was able to identify four criteria used where schemes were oversubscribed and it was necessary to decide who may make use of the scheme. The criteria were:

- **Contributing to headcount reduction:** If the individual leaves, will this position need to be filled?;
- **Cost and savings:** If the individual leaves in 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, are Departments considering future skill requirements and flexibility and the investment already made in individuals?;
- **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?

The NAO found that these criteria were applied across Departments but were weighted dependent on the needs of the organisation. It noted however, that the impact on the business was the main criterion used.

3.3 Early Departures in December 2010 to December 2011

Between December 2010 and December 2011,17,800 people took early departure with most staff expected to leave via retirement, retirement on health grounds, resignation, ending of fixed-term contract, disciplinary dismissal and death in service.[24]

The majority of these early departures from the Civil Service in the first year of the scheme were either VES or Voluntary Redundancy.

Figure 1 below, from the NAO report on the early departures from central government, shows the number and percentage of people who took early departures from central government departments.

[24] National Audit Office, March 2012, Managing Early Departures in Central Government, http://www.nao.org.uk/wp-content/uploads/2012/03/10121795.pdf

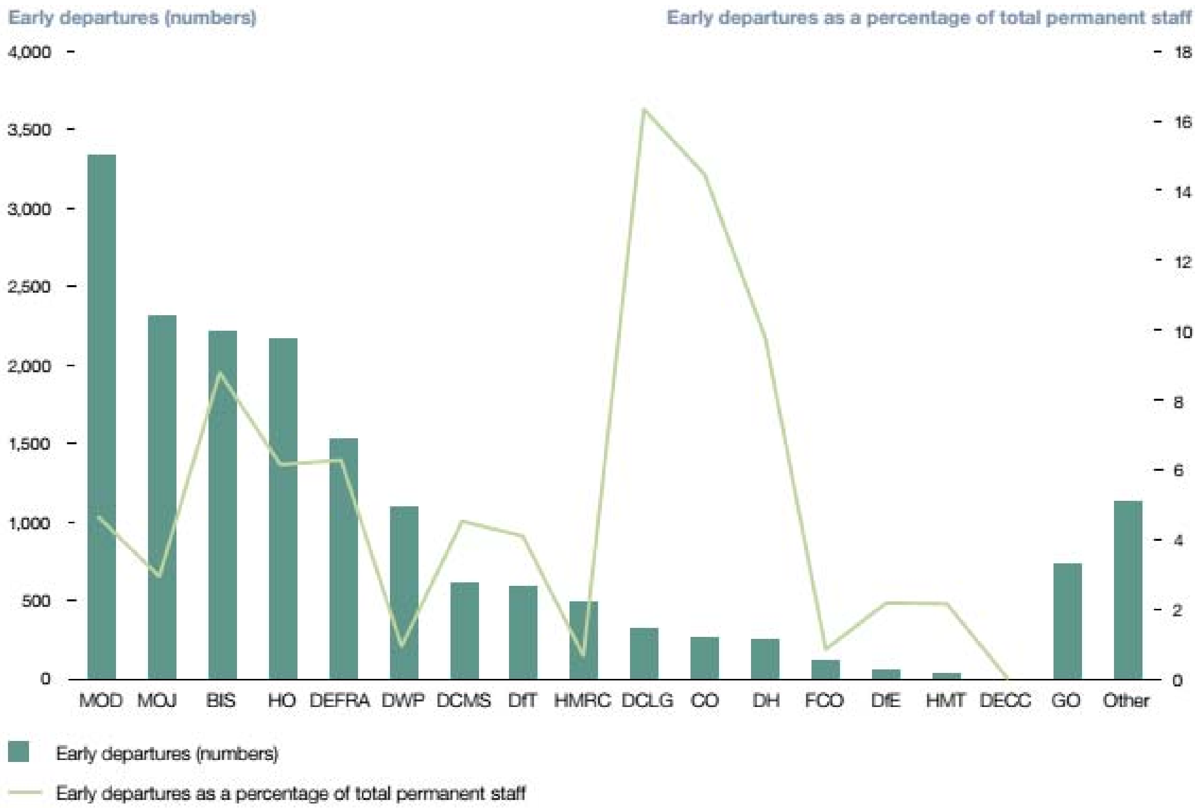

Figure 1: Early departures from central government departments, December 2010-December 2011

As can be seen above, the number of departures from each Department was varied. The MOD had the largest headcount reduction of approximately 3,400 staff (civilian workforce).

Other Departments, such as the Department for Education, HM Treasury and the Department for Environment and Climate Change (DECC) have a much smaller reductions.

The line on the graph shows that some Departments saw a significant impact on their staffing as a result of beginning with a generally low level of staff in comparison to others. For example the Department for Communities and Local Government (DCLG) has a relatively low cut in the number of staff in comparison to other Departments (approximately 400 staff). However, this equates to a cut in staff of approximately 16%, the highest reduction of all the Departments.

Table 1 following details the impact on regional civil service organisations for December 2010 to December 2011.

Table 1: Civil Service headcount reduction December 2010 to December 2011[25]

Region	Number taking early departure
London	3,248
South East	2,593
North West	2,113
South West	1,877
East of England	1,476
Yorkshire and Humberside	1,332
West Midlands	1,320
East Midlands	1,150
North East	882
Wales	700
Scotland	671
Northern Ireland	130
Other	277
UK Overall	17,769

As can be seen above, the largest headcount reductions occur in London and the South East, although it should be noted that that in 2011 there were 81,368 civil servants based in London and 53,276 in the South East region.

The reduction varies across the regions, with the North East having 882 early departures and 33,497 CS employees in 2011.

It should be noted that NI figures do not include staff employed by the Northern Ireland Civil Service.

3.4 Impact of Early Departures

The NAO identified a number of impacts the early departure of civil servants had, including the types of costs and savings accrued by the main organisations involved in the scheme.

[25] Ibid

Table 2: Types of direct cash costs and savings of early departure

Organisation	Costs	Savings
Department	Lump sum payments to leaver; Lump sum payments to offset enhanced pension payments	Tax and National Insurance is not paid; Pension contributions not paid.
PCSPS	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.
HMRC	Tax and National Insurance earned on salary and pension.	Tax on lump sum.
DWP	Jobseeker's Allowance if a leaver has a period of unemployment.	-

In addition to these financial costs, the NAO identified wider costs and benefits:

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

In terms of the gross initial cash cost to Departments, the NAO identified this cost as being around £600 million at 2011 prices.[26]

Based on this figure and the reduction in salaries as a result of the lower head count costs, the NAO calculated that there would be an average payback period of 15 months.

The NAO goes on to state:[27]

> *The payback period of departures for different age groups varies, and early savings from releasing younger staff offset the costs for older staff. 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 pay bill will be around* ***£400 million*** *a year.*

[26] Ibid
[27] Ibid

The Cabinet Office has, however calculated this saving as £630 million a year in the first year after the early departures are completed.[28]

The PAC states that the reason for this difference is a result of:

> *The period over which the figures are calculated and also the assumptions as to how many staff would have retired or left anyway.*

It goes on to state that:

> *We recognise there is uncertainty in any estimates; nevertheless it is clear that the savings are substantial.*

Another area of note was identified by the PAC. The Committee stated that:

> *Departments have not demonstrated that they have redesigned the way in which they work in order to permanently operate with fewer staff. Instead, they have targeted staff cuts where their business will be least impacted under existing structures.*

The PAC found that this could impact negatively if urgent planning on Departmental restructuring following the headcount reductions did not occur with Departments potentially having to begin recruitment.

Indeed, an article in the Guardian in March 2013 stated that:[29]

> *Whitehall departments and local authorities hit by years of belt-tightening are re-hiring staff to fill gaps left by over-zealous redundancy schemes.*

In terms of impact on morale, the NAO found that:[30]

> *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.*

Government Departments carried out regular and open communication with staff, although this varied across Departments.

The PAC stated that as the second phase of the headcount reduction may involve more compulsory redundancies this could have a negative impact on morale.

Indeed:[31]

[28] House of Commons, Public Accounts Committee, Managing Early Departures in Central Government, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/503/50302.htm
[29] The Guardian, 12 March 2013, Public sector rehiring begins after too many jobs were culled
[30] National Audit Office, March 2012, Managing Early Departures in Central Government, http://www.nao.org.uk/wp-content/uploads/2012/03/10121795.pdf
[31] House of Commons, Public Accounts Committee, Managing Early Departures in Central Government, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/503/50302.htm

This will bring heightened challenges to morale at a time where staff perceptions of senior leadership are already poor. Departments where large numbers of staff have left under early departure programmes have already seen falls in the level of staff engagement—a measure of staff morale based on a standardised survey used throughout central government. The Department for Communities and Local Government, for example, saw a fall of eight percentage points between 2010 and 2011.

The Institute for Government found that:[32]

The experience so far has already been draining for staff at all levels – whether they are leaders responsible for finding savings or staff going through redundancy selection processes while trying to deliver even more. Motivating staff and retaining the best people is increasingly difficult as staff see a bleaker future than when they joined and little prospect of improvement.

A more recent survey by the CIPD into employee morale found that employees in the public sector are the most negative in regards their perception of senior managers, performance management systems, work-life balance and attitudes to the current economic context (fears over losing their job was highest in the public sector).

The CIPD states that:[33]

Trust and confidence levels are particularly low in the public sector and have potentially been influenced by the current unrest and strike action going on in the public sector.

The NAO report on the early departure schemes in 2010/2011 identified some equality impacts on the CS based on early evidence.

As found by the NAO, 2010-11 data indicated that older workers (50+) and higher grade employees were more likely to leave under paid voluntary terms.[34]

The NAO found that this may be a result of a number of factors, including timing, whereby Departments began restructuring at senior levels which have an older age profile. In addition, staff aged over 50 with more than twelve years' service have a significant financial incentive to take a voluntary departure rather than risk compulsory redundancy.

[32] Institute for Government, Transforming Whitehall Departments, http://www.instituteforgovernment.org.uk/sites/default/files/publications/Transforming_Whitehall_Departments_0.pdf

[33] CIPD, Sprung 2014, Employee Outlook, http://www.cipd.co.uk/binaries/6582%20EmpOutlook%20Spring%202014%20%28WEB%29.pdf

[34] National Audit Office, March 2012, Managing Early Departures in Central Government, http://www.nao.org.uk/wp-content/uploads/2012/03/10121795.pdf

An impact of the departure of older staff is that:[35]

> *Losing older staff and changes in retirement age, will create lower turnover from retirements in later years.*

In addition:

> *It is too early to see any effect on the civil service's gender and ethnic profile, with equality impact assessments not complete.*

The NAO goes on to state that:[36]

> *All the organisations we examined were planning Equality Impact Assessments of their early departure schemes, but mainly after the schemes have finished.*

As EQIA's are not a statutory requirement in GB, only a number of them have been identified as having been carried out.

The DWP, which had one of the larger early release schemes, did carry out an EQIA prior to running its VES. It identified the areas targeted for the scheme which included Human Resources, Policy Groups and the Communications Directorate. The bulk of the reductions were required amongst HEO to SCS grades.[37]

The EQIA found the following:

- There was no expected impact in regards gender as whilst there were slightly more females than males in the corporate centre (52% as opposed to 48%), individuals had the same opportunities to apply for the scheme;
- There was no expected additional impact as a result of the scheme on disabled staff. However, this group was monitored to ensure they were not disproportionately affected; and
- There was no expected disproportionate impact on staff from ethnic minorities in terms of the criteria and how this has been applied.

However, it should be noted that the DWP scheme prevented those entitled to compensation of more than 21 months' salary from being offered an exit and that this was likely to affect those in older age groups who had been employed for a longer period of time in the Department.[38]

The HSE carried out an EQIA after its scheme and considered the equality issues for the nine protected characteristics. No negative equality impacts were found for any of the groups, although it did find that:[39]

[35] Ibid
[36] Ibid
[37] Department for Work and Pensions, DWP Corporate Centre Early Release Scheme 2010/11 EQIA
[38] Ibid
[39] HSE, March 2011 Voluntary Exit Scheme Initial Internal EQIA,

- The age of those taking part in the scheme was broadly represented the HSE's age profile, with no evidence or feedback from staff citing age discrimination or negative impact on any particular age group;
- Those with disability's had a slightly higher percentage taking part in the scheme than the HSE's declared disability profile (around 6% of those who applied to the scheme stated they had a disability as opposed to 4.1% of total staff having declared a disability). The EQIA noted, however that the "*nature of the Scheme attracted a higher percentage of people aged 50 and over; research indicates that disabilities are higher among this group than among people below age 50";*
- In addition to the nine protected characteristics, the HSE also considered the impact on those with varied working patterns and found that the proportion of people working part time and taking part in each stage of the VES were somewhat higher than the 21% who worked part-time hours. The EQIA explained this as being, in part, a result of the Scheme's availability to people aged 60+, some of whom had reduced their hours when continuing to work past 60.

The HSE went on to note that:[40]

> *HSE's Voluntary Exit Scheme resulted in 199 people leaving the organisation on 25 February 2011. The organisation's staff in post (headcount) figure, post VES, was 3280 (excluding HSL). The impact of this number of staff leaving the organisation is spread evenly across all groups of staff with protected characteristics. The organisation's diversity profile remains largely similar to that before VES.*

It should be noted, however, that the MOD EQIA on its VES (on both its initial scheme and on a future planned scheme) noted that there may be some impact on areas of its protected characteristics, most notably amongst its age profile, especially amongst staff aged over 50.

It also noted that in a previous VES scheme as the majority of staff at E1 level were female and that there was a disproportionate number of applications from this grade for the VES, the scheme had a larger impact amongst women at this level.

As with the HSE, more people with a disability applied for the VES than the percentage employed by the MOD.

The MOD stated that:[41]

> *It is likely that as a result of early releases and limited redundancies up to 31 March 2014 there will be an impact on all of the protected characteristic groups. It is, however, too early to assess the scale of the impact and the extent to which it may be detrimental.*

[40] HSE, March 2011 Voluntary Exit Scheme Initial Internal EQIA
[41] MOD, Voluntary Early Release Schemes 2011 and 2012-2014

3.5 Conclusion

Following the VES the NAO and the Public Accounts Committee (PAC) reviewed the scheme and came to a number of conclusions.

The NAO recommends that to gain value for money from early departures, the following elements should be included within a VES:

- A process shaped at senior level, with strategic input from the Permanent Secretary. Departments should manage the process centrally but with decision making by senior operational staff;
- Appropriate criterion to ensure decisions on individual applications for early departure are value for money;
- Readily available and accurate management information should be available to support decisions; and
- An overview of decisions and their impact to be taken at a senior level.

The NAO also argues that planning and managing early departures involves balancing conflicting risks. The figure below details these in terms of the pace of early departures.[42]

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.

[42] National Audit Office, March 2012, Managing Early Departures in Central Government, http://www.nao.org.uk/wp-content/uploads/2012/03/10121795.pdf

The review of the Early Departures Schemes carried out by the PAC made a number of conclusions and recommendations, including:[43]

- Departments do not have long-term plans in place for new ways of working with fewer staff;
- There is a lack of information to show what effect the lower number of staff is having on departmental performance and service standards;
- Performance appraisal information is not good enough to inform individual early departure decisions;
- The Treasury does not have proper control over individual exit payments that exceed the standard early departure terms; and
- Further staff reductions will be more challenging to deliver than those achieved so far.

It should be noted that the PAC concluded that:[44]

> *The Cabinet Office estimates that around half of the required headcount reduction is yet to come. That second half is likely to be more challenging than the first, as the more readily achievable cuts have already been made. Future rounds of staff reductions are also likely to involve more compulsory redundancies, and excellent leadership will be required to manage this while also strengthening morale across the civil service.*

[43] House of Commons, Public Accounts Committee, Managing Early Departures in Central Government, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/503/50302.htm
[44] Ibid

4 Republic of Ireland (ROI)

4.1 Measures to Reduce Public Sector Costs

In the Republic of Ireland (ROI), the decision was made in 2012 to introduce voluntary redundancy schemes (VRS) in order to reduce staff surpluses in a number of Departments.[45]

As stated by the Department of Public Expenditure and Reform (DPER):[46]

The purpose of VR is to aid Government in implementing restructuring and

The VRS that took place in the ROI must be seen against a backdrop of other policy measures taken as a result of the response to the Financial Crisis of 2007 and 2008.

These measures were extensive and included:[47]

- **Introduction of a pay freeze:** An 11 month pay freeze was introduced in 2008, with pay increases to be introduced in September 2009 and June 2010. Currently the pay freeze has ended, although there are now delayed incremental progressions up until June 2016, although there is some flexibility for those on lower salaries;[48]
- **Pension Related Deduction (PRD):** In March 2009 the PRD was introduced under the Financial Measures in the Public Interest (FEMPI) Act 2009. Whilst not technically a reduction in gross pay, PRD is deducted at source and returned to the Exchequer, thereby reducing the public pay bill. This amounted to a reduction of 7% of total salary costs or €900 million per annum;
- **Comprehensive pay cut for all public servants:** In January 2010 a graduated pay cut was introduced for public servants, resulting in savings of €1.2 billion in the 2010 pay bill;
- **Croke Park Agreement:** This introduced a framework for introducing changes to achieve efficiencies and savings in the public sector. It included revised protocols for redeployment across the public sector, redesign of work processes and improved performance management;
- **Haddington Road Agreement:** In May 2013 the Haddington Agreement introduced measures in which civil servants had their working time extended by an additional 15 million hours per annum for no additional pay. The intention behind this was to increase productivity, lower overtime and reduce agency costs. The Agreement also proved for reform in work-sharing, workforce restructuring and paid

[45] Irish Government Economic and Evaluation Service (IGEES) The Cost of the Public Service (2014) pp.15-16 http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf

[46] Ibid

[47] Department of Public Expenditure and Reform, October 2014, The Cost of the Public Service, http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf

[48] DPER, 12 June 2013, Circular 8/2013 Revision of pay of Civil Servants, http://per.gov.ie/wp-content/uploads/2014-Circular8.2013-Final-Version...Feb_.pdf

leave arrangements. It should be noted that a number of these reforms will revert back to their original forms as the agreement expires in 2016; and

- **Reductions in pay and premium payments:** This introduced a further reduction in pay for those earning over €65,000 pa, amounting to a salary cut of between 5.5% and 10% and generated savings of approximately €0.2 billion.

Alongside these cuts to wage bills, the government targeted a reduction in the size of the public sector, using a number of policy tools.

The initial measures used where:[49]

- A moratorium on recruitment and promotion across the public sector – although it should be noted there was some flexibility built into the measure in order to allow for the recruitment of critical staff, especially in areas such as Health and Education;
- Staff redeployment: Changes to how staff could be redeployed within the public sector allowed for departments to react to increases in demand for certain services without needing to turn to external recruitment. DPER cites the example of the Department of Social Protection which had a large increase in its client base following the financial crisis and the subsequent recession. With the increased flexibility in the system it was possible for the DSP to meet its increased need for staff via redeployment rather than the recruitment of new staff; and
- DPER has also stated that the work practice reforms arising from the Haddington Road Agreement will also provide significant future productivity benefits.

Following the introduction of the schemes it was found that:[50]

> *Reducing headcount by attrition alone – i.e. by not replacing departing staff – was not considered sufficient, given the urgency of the fiscal crisis and the desire to accelerate reform to deliver a leaner, more efficient public service, and therefore other exit mechanisms were introduced.*

Initially two early retirement schemes were introduced:

- **An Incentivised Scheme of Early Retirement (ISER):** Introduced in May 2009 this allowed public servants aged over 50 to retire early and receive a pension based on their service. Around 1,000 people left under this scheme; and
- **Early Retirement and Voluntary Redundancy Scheme:** This was introduced in 2010 and was for the Health Service Executive only.

More targeted reductions were also introduced:[51]

- **Incentivised career breaks:** Allowed staff to leave the Public Sector for a three year period and receive up to €12,500 p.a. (or a third of gross basic pay). Those

[49] Department of Public Expenditure and Reform, October 2014, The Cost of the Public Service, http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf
[50] Ibid
[51] Ibid

taking a career break could not take up paid employment in the ROI.[52] It increased flexibility by allowing management to temporarily reduce staffing levels at a relatively low cost. About 1,000 people left under the scheme; and

- **Voluntary Early Retirement and Voluntary Redundancy in the Health Sector:** Targeted voluntary redundancy and voluntary early retirement schemes were offered to selected categories of staff in the Health sector in 2010. Under these programmes, more than 1,600 FTEs left the public health service.

However, it was found that a more widespread scheme was needed in order to reduce the numbers of surplus staff. In October 2012 the Government agreed to accelerate the reduction in Public Service workers to achieve a target of 282,500 by the end of 2014 (this had previously been the target for the end of 2015).[53]

> *The VRS was announced in January 2013 and was initially targeted at three Departments which had surplus staff – the Department of Agriculture, Food and Marine, and parts of the Health and Education sectors. In addition, it was targeted at back office and support posts rather than front line services. Management and administration grades were also a focus of the VRS.[54] reform in a strategic and targeted manner.*

As stated by RTE News:[55]

> *It is understood the Government expects natural retirements to achieve much of the reduction, but as some staff are being replaced in health and education, they will need a further 2,000 exits in 2013 and again in 2014.*

The terms of the scheme had been previously agreed between DPER and ICTU and include:[56]

- Any ex gratia payment will amount to no more than 3 week's pay per year of service, subject to the total statutory redundancy and ex gratia payment not exceeding either 2 years' pay or one half of the salary payable to preserved pension age, whichever is less;
- Public servants in employment for less than 2 years (104 weeks) are not eligible for a severance payment; and
- Public servants who accept the payment are not eligible for re-employment in the public service by any public service body for a period of two years from termination

[52] DPER, 30 April 2009, Special Civil Service Incentive Career break Scheme 2009, http://hr.per.gov.ie/files/2011/09/Circular-4-of-2013-Career-Break-Scheme-in-the-Civil-Service.pdf

[53] DPER, 22 January 2013, Minister for Public Expenditure and Reform Announces Targeted Voluntary Redundancy Scheme http://www.per.gov.ie/minister-for-public-expenditure-and-reform-announces-targeted-voluntary-redundancy-scheme/

[54] RTE News, 22 January 2013, Government estimates public sector redundancy plan will cost €440m, http://www.rte.ie/news/2013/0122/363878-cabinet-redundancy-scheme/

[55] Ibid

[56] DPER, June 2012, Collective Agreement: Redundancy Payments to Public Servants, http://per.gov.ie/wp-content/uploads/Collective-Agreement-June-2012.pdf

of the employment. Thereafter the consent of the Minister for Public Expenditure and Reform will be required prior to re-employment.

It should be noted that:[57]

There will be no automatic right to redundancy and all applications will be subject to ongoing business needs and service provision priorities.

It is important to note that under the Croke Park Agreement, no compulsory redundancies could be made.[58]

4.2 Staffing Reductions

Whilst the ROI Government did not set targets for the number of people to leave under the scheme, it did have a target for overall headcount reduction in the public service up to 2014 (287,000).

Table 4 below, taken from a DPER paper, shows the changes in staffing levels across the ROI's public sector from 2008 to 2013.[59]

Table 3: Changes in staffing level, 2008-2013

			Decrease over the period	
Sector	**2008**	**2013**	**Amount**	***Percentage***
HSE	110,000	100,000	-10,000	***-9%***
Education sector	95,000	91,600	-3,400	***-4%***
Civil service	41,000	36,100	-4,900	***-12%***
Justice	15,400	13,100	-2,300	***-15%***
Non-commercial State agencies	12,700	10,200	-2,500	***-20%***
Defence sector	11,300	9,800	-1,500	***-13%***
Exchequer funded staff	**285,400**	**260,800**	**-24,600**	***-9%***
Local Authorities	*35,000*	*27,500*	*-7,500*	*-21%*
Total public service	**320,400**	**288,300**	**-32,100**	***-10%***

Source: Department of Public Expenditure & Reform

As can be seen above of the Exchequer funded staff, the HSE and the Civil Service have had the largest reduction in staffing levels, although it should be noted that as a percentage of the workforce Non-commercial state agencies and the Justice System have had the largest headcount fall.

Of the total Public Sector, the Local Authorities have had the largest headcount reduction from 35,000 staff to 25,500 or 21% of employees.

[57] DPER, 22 January 2013, Minister for Public Expenditure and Reform Announces Targeted Voluntary Redundancy Scheme http://www.per.gov.ie/minister-for-public-expenditure-and-reform-announces-targeted-voluntary-redundancy-scheme/

[58] Irish Government Economic and Evaluation Service (IGEES) The Cost of the Public Service (2014) pp.15-16 http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf

[59] Department of Public Expenditure and Reform, October 2014, The Cost of the Public Service, http://igees.gov.ie/wp-content/uploads/2013/10/The-Cost-of-the-Public-Service.pdf

In total the Public Service has had a reduction in staff of 10%, a fall of 32,100 staff in five years.

The Institute for Public Administration (IPA) stated in 2013 that:[60]

> *From 2008 to 2013, as the cutbacks in numbers and pay introduced by the Government have taken effect, expenditure on public service pay and pensions has decreased from its high of €18.7bn to €16.6bn in 2013 (the cost of the pay bill alone fell from €17.5 billion in 2009 to €14.1 billion in 2013 due to both pay cuts and staff reductions).*

The VRS scheme launched in January 2013 was expected to see 4,000 public service workers taking part in it, with a cost to Government of approximately €440 million (based on a cost of €110 million per 1,000 workers).[61]

Based on this headcount reduction the DPER expected to make a salary saving of €200 million per year, with the scheme paying for itself in two years on a gross basis and three years on a net basis.

In a briefing document for the Secretary General of DPER in 2014, details were provided on the VR schemes introduced since October 2012:

Table 4: Schemes introduced since October 2012

Department/Office	Number of Applications	Number of Applications Approved	Number who have departed under VR
Civil Service	Nil	Nil	Nil
Defence Sector	93	66	34
Education Sector	72	72	72
Health Sector	NA	NA	1
Justice Sector	Nil	Nil	Nil
Local Authorities	1,451	750	623
NCSA[62]	127	98	70
Total	1,743	986	799

The paper goes on to state that there had been a relatively low uptake of the scheme and that this may be a result of:[63]

> *Potentially the main factor behind the low response rate is that overall public service numbers have been coming down broadly in line with target*

[60] Institute for Public Administration, May 2014, Public Sector Reform in Ireland: Views and experiences from senior executives, http://www.ipa.ie/pdf/PublicSectorReform_View&Experience_2014.pdf

[61] RTE News, 22 January 2013, Government estimates public sector redundancy plan will cost €440m, http://www.rte.ie/news/2013/0122/363878-cabinet-redundancy-scheme/

[62] Comprises of 4 schemes in Fáilte Ireland, Ordnance Survey Ireland, Inland Fisheries Ireland and Teagasc

[63] Department of Public Expenditure and Reform, 3 April 2014, Briefing to the Secretary General, Chapter 28 - Voluntary Redundancy, http://per.gov.ie/wp-content/uploads/28.-Voluntary-Redundancy.pdf

and therefore the widespread implementation of VR has not been necessary so far.

4.3 Other Implications of Public Service Reform

One of the major implications identified by the IPA is in regards the ROI's growing population. In 2014 it stated that:[64]

> *Public service employment relative to the population was relatively stable at between 70 and 73 public sector employees per 000 population up to 2008, but has been dropping since 2008 and was at 63.2 public service employees per 000 population in 2013.*

The IGEES noted that the ratio of public servants to general population was the same in 2013 as it was in 1980.

Despite the increased demand for services the IPA notes that:[65]

> *At the same time, indicators of quality and timeliness of service show quality being maintained or even improved in some areas. Given the scale of change faced by the public service this is a noteworthy achievement.*

This implies that productivity levels have risen within the public service. Indeed, the IPA identified the following:[66]

- In Revenue, staff numbers are 850 or thirteen per cent lower, while the number of audit and assurance checks carried out has increased by fifty-five per cent, since 2008;
- Staff numbers in the health sector reduced by 2,855 between April 2011 and March 2012, yet the number of day cases in 2011 was 6.5 per cent above planned levels. In the acute hospitals, net spend has reduced by eleven per cent between 2009 and 2011, yet activity levels were ten per cent higher and the cost per discharge was twenty per cent lower; and
- In the higher education area, there has been a 14.9 per cent increase in student numbers since 2008/09, yet staff numbers have reduced by 7.3 per cent in the same period. Student numbers are projected to increase by a further twelve per cent by the 2014/15 academic year, while the decrease in staff numbers will continue.

It should be noted, however, that some bodies have had to recruit additional staff in order to meet demand, such as the Department for Social Protection.

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[64] Institute of Public Administration, May 2014, Public Sector Reform in Ireland: Views and experiences from senior executives, http://www.ipa.ie/pdf/PublicSectorReform_View&Experience_2014.pdf

[65] Institute of Public Administration, December 2014, Public Sector Trends 2014, http://www.ipa.ie/pdf/PUBLICSECTORTRENDS2014.pdf

[66] Institute of Public Administration, June 2013, Fit for purpose? Progress report on public sector reform, http://www.ipa.ie/pdf/Fit_For_Purpose_Pp9_June2013.pdf

The IPA also identified that capacity issues within public service organisations could potentially be problematic with number reductions, early retirement and redeployments leading to a loss of skills.

These skill deficits are expected to increase as more demand is created for staff with experience or training in areas such as procurement, contract management and change management.

Mitigation measures were identified by the IPA, citing examples of methods used in countries such as the UK and New Zealand.[67]

In the UK, and as mentioned earlier, the HR Resourcing unit was developed to provide learning and development opportunities in order to meet the skills needs of the CS.

In New Zealand:

> *The State Services Commissioner is required to lead a culture-building process across the state services by defining, communicating and reinforcing the behaviours required of all state employees (for example, integrity, innovation, continuous improvement) and aligning the formal parts of the system to incentivise, support and reward these behaviours (e.g., recruitment, performance agreements and performance review processes).*

[67] Ibid

5 Discussion

In both GB and the ROI the cost of the headcount reductions (as a result of the need to pay compensation to early leavers) was recouped within approximately 12-18 months, dependent on the scale of the departures, with the schemes paid for via existing budgets.

A similar position would be expected in Northern Ireland. However, as the NI VES is being funded via a loan from the UK Exchequer (£700 million), the cost will not have an immediate impact upon the delivery of services here, thereby not impacting on departmental budgets in the short term.

In the medium term, however, the NI Executive will need to repay the loan and the interest accrued upon it.

As it is being funded via the RRI[68] the £700 million (assuming full use of the funding) will be added to NI's existing debt under the scheme (£2.1 billion in 2013/14) with RRI borrowing expected to reach £2.77 billion by 2015-16, although the budget document states that the level of outstanding debt will be an estimated £1,834 billion by the end of 2015-16.[69]

As stated in the 2015/16 budget:[70]

> *Each £100 million of borrowing will cost between £3 million and £4 million a year in loan repayments, but will yield annual savings in excess of £50 million.[71]*

As such the £700 million covering the VES will add between £21 million to £28 million to NI's annual RRI debt repayments.

The Committee may wish to ask the Department what the scale of repayments on the RRI are, how often they occur, and how they will impact on departmental budgets.

In July 2014 it was announced that Driving and Vehicle Licensing services that were carried out in Coleraine and a number of other sites in Northern Ireland would be moved to Swansea, Wales, resulting in over 300 job losses alone in the Coleraine area.

A number of sources cite a report on the potential impact of the DVA job losses carried out by Oxford Economics. The report identified that these job losses would result in a

[68] The Reinvestment Reform Initiative provides the Executive an additional borrowing facility of up to £200 million a year from the National Loans Fund to fund capital investment. NIAR 771-14

[69] Northern Ireland Executive, Budget 2015-16, http://www.northernireland.gov.uk/budget-2015-16.pdf

[70] Ibid

[71] It should be noted that in a press release dated the 2 March 2015 by the Northern Ireland Executive it is stated that "*NICS Departments consider that the pay bill savings they need to make via the voluntary exit scheme in 2015/16 equate to approximately £26 million and around £88 million per year thereafter"* Source: Northern Ireland Executive, 2 March 2015, Civil Service Voluntary Exit Scheme Launched, http://www.northernireland.gov.uk/news-dfp-020315-civil-service-voluntary

loss of £14.5 million in GVA from the NI economy and £7 million in lost workplace wages.[72]

A consultation document[73] also noted the impact on the local and national supply chain, with the DVA spending £1,158,000 through outsourced services (e.g. cleaning) and procurement (such as stationary). The report stated that:

> *Unless alternative public sector work can be brought to the affected areas, under the current economic climate it is not reasonable to assume that this supply chain contribution could be supplemented by increased private sector activity. Although it is not possible to identify the size of impact in the areas affected, it is clear given the distribution of the affected posts, that the impact will be felt most acutely in Coleraine.*

Whilst some of the impact of the closure of the DVA in NI was mitigated by the redeployment of staff, the findings of the Oxford Economics is still of note to this paper, especially in light of the comments of the DFP official regarding the parallels between the schemes.

It should be noted that the UK government in its Local Economic Impact Assessment of the relocation of the DVA identified a number of issues with the Oxford Economics report, including:[74]

- The underlying analysis on which estimates are based is not specified and as such there is no way to check the validity of the estimates; and
- The analysis does not reflect the impact of the changes to the DVA's operations including its benefits such as more services moving to post offices. The Government report goes on to state that this will ultimately increase employment in Northern Ireland as a result of reduced costs to vehicle licensing and registration to businesses. The Government response does not state how long it will take for these benefits to be realised or how many jobs would be generated.

The Committee may wish to ask the Department, in light of the findings of the Oxford Economics study, what consideration has been given to the impact on the wider economy that the reduction in the public sector workforce will have.

Based on the GB and ROI schemes the major impact on staffing appears to be on those aged over 50, with the schemes more attractive as a result of longer terms of service.

This can result in skills losses within services, although in the ROI this was offset via the redeployment scheme and business planning.

[72] Local Economic Impact Assessment, Future of Vehicle Registration and Licensing Services in Northern Ireland, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/289449/Local_Economic_Impact_Assessment_-_DVLA_Future_of_NI_Vehicle_Services.pdf
[73] Ibid
[74] Ibid

In the GB scheme some Departments found it necessary to recruit following the completion of the schemes, with NAO highlighting this as a potential risk of schemes being carried out to fast and without sufficient planning.

In addition, the schemes can have a negative impact on staff morale with the PAC finding the process had been draining on staff with the CIPD finding that trust and confidence levels were low in the public sector following the unrest within the sector.

The Committee may wish to ask the Department if it has taken any mitigation measures in the design of the VES to offset potential skill losses and if it has any plans or guidelines in place to tackle any declines in staff morale in both the civil service and public sector as a result of the VES.