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RETENTION PAYMENTS

Dear Accounting Officer,

This DAO letter reminds departments that the terms of staff severance payments often require Treasury approval; and that in considering such cases any retention payments should be taken into account. This may be particularly relevant when transformations of NDPBs are being negotiated. Generally retention payments should be exceptional. The Treasury will require a full analysis of each case to consider specific proposals.

Contacts

2. Please contact the following to deal with enquiries about this DAO:

- *specific cases*: departments' usual spending team;
- *regularity or propriety issues*: Jim Duncan, TOA, on 0207 270 4833 or at jim.duncan@hmtreasury.gsi.gov.uk.

Action

3. Each Accounting Officer should ensure that his or her staff are aware of the guidance in this letter and act accordingly. The guidance applies to arm's length bodies (ALBs) as well as to their sponsor departments.

Context

4. Any proposed use of resources which is novel, contentious or repercussive automatically requires specific Treasury approval, even if the amount of money concerned falls within the delegated authority of the public sector organisation responsible. Any severance payments in excess of contractual amounts allowed by pension schemes will be contentious or repercussive. Annex 4.13 of *Managing Public Money* sets out the established policy.

5. The coalition government's programme of reducing the numbers of ALBs is leading some parent departments to negotiate restructuring or redundancy schemes. Some of these apparently involve retention payments designed to encourage key staff to delay their departures. These are always contentious and so always require explicit Treasury approval, whether proposed as individual cases or in groups.



The Treasury's approach

6. Organisations developing severance packages which, exceptionally, involve proposals for retention payments should subject them to strict value for money analysis. The Treasury will always be sceptical of whether they are necessary, especially where ALBs are to be abolished or subsumed into others. Sponsor departments which support the case for retention payments in these circumstances should put together a business case supported by market evidence, together with an evaluation of the risks and costs of alternative options so that the proposal can be understood against alternative management approaches.

7. These are timeless requirements. Against the perspective of the government's policy to reduce the fiscal deficit, they also constitute a high hurdle. The government is committed to a pay freeze, a recruitment freeze and reform of the Civil Service Compensation Scheme. Generally it will not be acceptable for retention payments to undermine these decisions.

Yours sincerely,

Paula Diggle

Paula Diggle
Treasury Officer of Accounts