

APPENDIX 1

Early Retirement / Severance Scheme

1. INTRODUCTION

- 1.1 There are a number of circumstances in which early retirement, or severance, may be appropriately considered for an employee. These circumstances may be related to the individual situation of an employee, for example in the case of ill health, or arise as a result of organisation changes.
- 1.2 The Council will in all circumstances make every effort to avoid compulsory redundancies. Where the Council decides, however, that after taking all considerations into account, early retirement, flexible retirement or severance is either unavoidable or appropriate for sound business reasons, the Council will ensure that:
- The processes used will be fair, transparent, reasonable and objective
 - Any enhancements given are affordable in the short and long term.
- 1.3 Any payments made under this scheme will be subject to tax regulations in force at the time of their implementation.

2. SCOPE

- 2.1 The provisions of the Council's early retirement and severance scheme applies to all Council employees who meet the relevant eligibility criteria set out in the remaining sections of this document, subject to legislation and regulations in force at the time of their implementation.

3. LINKS TO OTHER COUNCIL POLICIES

- 3.1 This document should be read in conjunction with the following existing Council policies and procedures and any relevant future policies which replace, change or amend the existing policies:-

Redundancy Selection Policy
Consultation Agreement
Attendance Management Policy and Framework

4 CRITERIA FOR EARLY RETIREMENT/SEVERANCE

- 4.1 There are a number of different, but specific, circumstances which might lead to early retirement or severance being considered. These are as follows:

4.2. Ill Health

- 4.2.1 To be eligible for retirement on these grounds the employee must be certified as suffering from ill health which permanently affects their ability to do the job for which they are employed. In addition there must be no comparable alternative employment available which the employee is able to carry out. The Council will ensure that the decision to allow early

retirement on the grounds of ill health is made solely on medical grounds. This will be based on an assessment by the Council's Occupational Health Adviser who will follow the advice issued by the United Kingdom Steering Committee for Local Government Pensions, drawn up by the Association of Local Authority Medical Advisers.

Note: Comparable employment is that as compared to the substantive post held.

4.3. Ill Health provision

4.3.1 Provided the employee is in the Local Government Pension Scheme (LGPS) with at least three months membership, or has transferred rights from another pension scheme into the Local Government Pension Scheme (LGPS) the employee receives:

- the early release of pension
- the payment of a pension lump sum

Benefits to be calculated based on the length of membership in the scheme as follows:

Length of Service	Membership used to calculate benefits.
4 months – 5 years	- actual membership
5 to 10 years	- membership is doubled
10 to 13.33 years	- membership is increased to 20 years
13.34 years plus	- actual membership service plus 6. $\frac{2}{3}$ years.

In all instances these will be subject to maximum membership of 40 reckonable years. There is no enhancement beyond the age of 65.

Employees with less than three months membership in the LGPS who have not transferred pension rights from another scheme into the LGPS receive a lump sum payment, which is equivalent to a refund of the contributions they have paid, less the statutory deductions (20% tax) and an amount to buy them back into the state pension scheme.

Where a person is or has been part time, the LGPS Regulations specify how the membership used in the calculation of benefits is to be pro-rated.

If a person is already in receipt of an ill health pension from the LGPS they will not receive an enhanced ill health pension on any subsequent ill health retirement.

4.4. Redundancy

This applies where there is a redundancy situation as defined by the Employment Rights Act 1996:

- where business has ceased or diminished
- where the requirements for work of a particular kind have ceased or diminished

- where there has been a significant change in the place of employment and there is no suitable alternative employment available.

NB. There is provision for transferred redundancies, known as ‘bumped redundancy’.

4.4.1 The same provisions apply whether the employee agrees to retire voluntarily or is made compulsorily redundant.

4.4.2 The provisions are as follows:

For employees aged 50 or Over

Voluntary/ Compulsory Early Retirement on grounds of Redundancy

To be eligible an employee must be:

- 50 or Over
- in the LGPS with at least three months membership, or with transferred service.

The Scheme gives:

- early release of pension
- the payment of the pension lump sum
- a redundancy payment in accordance with the State formula although the specific calculation in each case will be based on the employee’s actual week’s pay rather than on the statutory maximum. This is applicable to employees who have at least 5 years membership of the LGPS **OR**
- an enhanced redundancy payment *as set out* in [\(District Auditor Recommended Change\)](#) Table 2 below where the employee has less than 5 years membership of the LGPS. See section 4.2.4.4 below.

Table 1

For each completed year of service between the ages of

–21 and Under ½ a week’s pay

22 – 40 1 weeks

41 Plus 1½ weeks

This is subject to a maximum of 30 weeks’ pay based on the last 20 years service.

Table 2

For each completed year of service between the ages of

-21 and Under	½ weeks pay
22 – 23	1 weeks pay
24 – 40	1.1½ weeks pay
41 Plus	3 weeks pay

This is subject to a maximum of 45 weeks.

4.4.3 **Regulation 52 : Awarding extra years of LGPS membership – Augmentation Provisions in the event of Compulsory / Voluntary Redundancy**

To be eligible an employee must be:

- aged 50 or over
- in the LGPS with at least five years membership.

In cases of compulsory redundancy or where voluntary redundancies are sought to avoid compulsory redundancy elsewhere, the calculation for augmenting pension service will be a ratio of two extra years for every five years continuous service at Northampton Borough Council, up to a maximum of $6\frac{2}{3}$ years. E.g. 18 years continuous Northampton Borough Council service = 6 and $2\frac{1}{3}$ rd's 'years'.

The number of years granted cannot take the employee's total service to more than 40 years or to more years membership than they could have attained by the age of 65.

(Note: Breaks in service for maternity leave or reasons concerned with caring for Children or other dependants will not prevent the employees service prior to the breaks being included in the calculation of continuous service for the purposes of awarding augmented service, provided the break in service does not exceed 8 years and that no permanent full time paid employment has intervened .)

The Council has exercised it's discretion to enhance early retirement payments on redundancy for employees who satisfy the criteria outlined in this section by the award of augmented service up to the maximum permitted. Employees to whom these provisions apply will receive a redundancy payment based on the statutory redundancy scheme. The Council can not legally pay an enhanced redundancy payment in addition to the award of added years.

4.4.4 For employees under the age of 50

Voluntary/Compulsory Redundancy Payments

All employees who have not less than two years continuous service are entitled to receive a payment in accordance with the statutory provisions of the Statutory Redundancy Scheme. The payment is on the basis of the employee's actual weeks' pay and is not restricted to the statutory limit on a week's pay.

The scheme gives:

A redundancy payment based on the following state formula:

For each complete year of service between the ages of

–21 and Under ½ a week's

22 – 40 1 weeks

41 plus 1½ weeks

This is subject to a maximum of 30 weeks' pay based on the last 20 years service.

However where an employees has 2 years continuous service and has 3 months membership of the LGPS they will receive an enhanced redundancy payment based on the following formula:-

–21 and Under ½ weeks pay

22 – 23 1 weeks pay

24 – 40 1.1\2 weeks pay

41 plus 3 weeks pay

This will be subject to a maximum of 45 weeks pay.

4.4.5 The business case for any proposed early retirement(s) on grounds of redundancy and/or redundancy payment(s) must be demonstrated. The business case must include:-

- The costs of the proposed early retirement/redundancy payment(s)
- The on going savings to be achieved
- The timescales within which the savings will be made

The business case must clearly show that there are significant on-going savings which are achievable after all the costs associated with the early termination of employment have been met. The Business case must be endorsed by the Director responsible for the service area where proposed changes will be implemented or the Chief Executive where the proposals will be implemented on a Council wide basis. The business case will be submitted to the Section 151 Officer and another Director who will

independently examine the merits of the business case and make written recommendations to the Chief Executive. The decision to approve the proposed early termination of employment and the associated severance payments will be made by the Chief Executive. A record of approved and rejected proposals will be maintained by the HR service.

4.5 Early Retirement on grounds of Efficiency of the Service

(Employees aged 50 or over)

4.5.1 This is a voluntary element of the scheme. An employee cannot be compelled to retire under this provision.

4.5.2 One of the following criteria must be satisfied for agreement to the early release of an employees' pension under this element of the scheme. In addition the financial criteria referred to in section 4.5.3 also needs to be met. The criteria are:

- the employee's ability to perform the job has been affected by changes which mean that it is difficult for them to adjust
- the job requires new skills or competences which the employee does not have and where retraining or investment in future development would not be appropriate
- early retirement would create internal job opportunities, or unblock promotion channels which succession planning could fill through an internal appointment
- structural changes could lead to savings being achieved through appointing a replacement at a lower pay level, or where a replacement removes or avoids a pay protection
- it avoids a redundancy situation by allowing an employee to be redeployed or transferred into the vacancy created

and, overall it is considered to be in the interests of the Council as well as the employee to grant the early retirement. (District Auditor recommended change)

4.5.3 Financial Criteria

The business case for any such proposal must be demonstrated. This must identify the relevant criteria outlined in 4.5.2 above which is applicable to the request. It must also identify the savings to be made and how they will be achieved. The business case must be signed by the Corporate Director responsible for the service area where the application originated. A pro forma will be available to document the required information. The signed document must then be submitted to the section 151 officer and a different Corporate Director who will independently examine the merits of the application and make written recommendations to the Chief Executive to approve or reject the application. The decision to approve or reject applications will be made by the Chief Executive.

Reasons for approval or rejection will be recorded in writing and this information will be maintained within the HR service.

4.5.4 To be eligible an employee must be:

- aged 50 or over
- in the LGPS with at least two years' membership whilst in NBC service.

4.5.5 Requests for early retirement on grounds of efficiency of service where approved will entitle the employees to receive the early release of their pension. The early release of pension without actuarial reduction on grounds of efficiency of the service will only be agreed where the business case demonstrates additional savings over and above the cost of funding the early retirement and any other associated costs and to the extent that such retirement is permitted notwithstanding the abolition of the rule of 85.

4.5.6 **Regulation 31 of the Local Government Pension Scheme Regulations (1997)**

This is commonly known as the Rule of 85.

Employees between the age of 50 and 59 can request early retirement and the early release of pension benefits provided that their combined length of pensionable service and their age totals 85 years. This would be at the employee's initiative and not in response to a request from managers. Employees wishing to be considered for Early Retirement under the rule of 85 should make themselves known to their corporate manager (*or alternatively HR*) so the matter would be dealt with either as redundancy or efficiency whichever is applicable. [\(District Auditor recommended change\)](#). Consideration may *also* be given to early release of pension with actuarial reduction in these circumstances provided that the business case identifies how the costs associated with the early release will be met. In addition consideration of the efficiency criteria outlined in 4.2.5.2 will be relevant to the decision – See 4.2.6.3 below.

4.5.6.1 To be eligible an employee must be:

- aged 50 or over
- in the LGPS.

4.5.6.2 What the Scheme gives:

- if the employee's combined age (in whole years) and LGPS membership (in whole years) reach a total of 85 years or more, the employee will receive his or her entitlement to pension and lump sum (with no added years) without any actuarial reduction.
- if the employee's combined age and LGPS membership do not exceed 84, he or she will receive their entitlement to pension and lump sum (with no added years) but with an actuarial reduction dependent on the date when 85 years would be reached *or when age 65 would be attained, if earlier*.

(NB: Under the pension regulations a request can be made from the age of 50. From the ages of 50 to 59 this subject to management approval, which is discretionary. The efficiency criteria (see above) will be relevant in these cases and will help to inform decisions on such requests. Decisions will also need to take account of wider organisational requirements. Because of the increased burden this scheme will place on the Pension Fund, management/Member discretion will only be exercised where it can be demonstrated to be in the Council's interest.)

The 85 year rule has been abolished with effect from 1 October 2006 as a result of the Amending Regulations 2006. There are however, transitional arrangements:

- ***providing protection for all existing contributors at 30 September 2006 on the benefits they accrue on service up to 31 March 2008.***
- ***Protection for those existing contributors at 30 September 2006 who will be 60 or over by 31 March 2016***
- ***A degree of protection for those existing contributors at 30 September 2006 who will be 60 or over between 1 April 2016 and 31 March 2020.***

4.6 Voluntary Early retirement – Compassionate Grounds

4.6.1 Employees who have left their employment with the Council with a deferred pension may request his\her deferred pension to be paid early on compassionate grounds. If the early release of the deferred pension is agreed the benefits will be paid in full with no actuarial reduction.

4.6.2 The Council may also consider requests to waive actuarial reduction where this would otherwise be the case in relation to the early release of pension benefits. The Council may do so on compassionate grounds. The circumstances where the council may exercise this discretion are set out below:-

a). In relation to employees who have left employment with the Council with a deferred pension and who request early payment of benefits under Regulation 31 above on or after age 50 and before age 60, or who voluntarily opt for payment of the benefit early on or after age 60 and before the normal retirement date or

b). In relation to current employees who are seeking early retirement to the extent permitted under Regulation 31 above on or after age 50 and before age 60, or who voluntarily retire on or after age 60 and before their normal retirement date.

4.6.3 For current employees to be eligible he\she must be:

- over 50/
- in the LGPS with at least two years contributions, or with transferred service.

4.6.4 Requests from past and current employees for the early release of pension benefits without actuarial reduction on compassionate grounds will be agreed by the Chief Executive following consultation with the Councils

section 151 officer. The decision will be based on a full evaluation of the financial implications for the Council

5. RE-EMPLOYMENT FOLLOWING EARLY RETIREMENT

- 5.1. Any former NBC Council employee who is in receipt of an early retirement pension on the grounds of efficiency, redundancy or at their own request, should not normally be immediately re-employed by the Council either on the basis of a contract of employment or a contract for service with the Council. If there is any doubt about the continuing need for an employee's services then early retirement should not be agreed.
- 5.2. However, it is recognised that there are some, very limited, circumstances when re-employment would be in the interests of the Council. In these cases a report should be submitted to the Corporate Director or his or her nominated senior management representative seeking approval to re-employ for a specified limited period.
- 5.3. Where an employee has been made redundant and receives a severance payment (and therefore without a pension) there should be no re-employment until the expiry of the period for which the number of weeks' severance payment has been given, e.g. if the employee has received a severance payment equal to 16 weeks pay, the earliest re-employment could be considered would be 16 weeks after the date of termination.
- 5.4. Where a former employee has retired on ill health grounds and subsequently applies for a job with the Council, this should be considered carefully bearing in mind the requirements of the Disability Discrimination Act. If it is proposed to appoint any such individual, approval must be given by the Council's Occupational Health Advisers and the relevant Corporate Director or his or her nominated senior management representative.

NOTE If someone in receipt of a Local Government Pension is re-employed their pension will be abated if in total their pension and pay for the job exceed the pay that they received in the job that they were in before they retired.

6. Non-fettering of the Council's Discretions

- 6.1 The above forms the Council's "current" policy. It should be noted that:
 - a. the policy confers no contractual rights, and
 - b. the Council will retain the right to change the policy at any time without prior notice or consultation (although the Council will endeavour to consult with UNISON / the recognised Trade Unions), and
 - c. only the policy which is current at the time a relevant event occurs to an employee / scheme member will be the one applied to that employee / member

7. Review of the Scheme

- 7.1 The provisions of this scheme will be reviewed on a regular basis to ensure their on-going sustainability and affordability. The next review will take place no later than 1 October 2007.

8. Further Information

- 8.1 Advice and guidance on the application of the scheme is available from HR. More detailed written management guidance will also be developed to support the effective implementation of the scheme

MEETING THE COSTS OF EARLY RETIREMENT/SEVERANCE

1. Introduction

1.1 The aim is to ensure that:

- The costs of redundancy payments (including severance payments) and the increased cost of pension liabilities arising from the early payment of retirement benefits and any added years' enhancements are recognised and taken into account when early retirement decisions are made
- Responsibility for meeting such costs rests with the Service responsible for the early retirement decision.
- The costs of early retirement, severance and flexible retirement are taken into account against the financial benefits arising as a result of efficiency savings or workforce reductions.

1.2 When early retirements, severances or flexible retirements arise from budget or policy changes, there is still an obligation on Services (who have claimed the associated savings) to meet the additions of early retirement costs.

2 Ill Health Retirements

2.1 No specific charges against individual Services are made. The cost however has to be met by all Services through the employer's pension contribution set by the Actuary.

2.2 Redundancy

2.2.3 Services will be charged the actuarial cost arising from the early release of pension and any added years' enhancements and the one-off costs of redundancy and severance (or just the latter where there is no entitlement to pension)

2.3 Efficiency

2.3.1 Services will be charged for the actuarial costs arising from the early release of pension and any added years' enhancements.

2.4 Regulation 31 (Rule of 85)

2.4.1 Services will be charged any actuarial costs arising from the early release of pension.

2.5 Voluntary Early Retirement - Compassionate Grounds

2.5.1 Services will be charged any actuarial costs arising from the early release of pension.

3. Phasing

3.1 Wherever possible Services should attempt to meet early retirement and redundancy or severance costs as they arise, i.e. on termination of employment. However it is recognised that in some cases the costs are substantial. Costs in excess of £30,000 can therefore be phased over a period up to a maximum of five years, subject to any redundancy or severance costs being met in full in the year in which the employee is released. The provision to phase costs also applies in cases of flexible retirement.

3.2 For example, if an early retirement has the total costs of £79,700 (made up of £19,700 redundancy and £60,000 actuarial costs), the phasing, assuming use of maximum flexibility permitted, would be as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Redundancy	£19,700					£19,700
Actuarial		£15,000	£15,000	£15,000	£15,000	£60,000
TOTAL	£19,700	£15,000	£15,000	£15,000	£15,000	£79,700

3.3 When retirements take effect before 1 October, Services will be expected to absorb Year 1 costs in the same financial year and to bring forward proposals for doing so as part of the Mid-Year Review. Where retirements take effect from 1 October, the following financial year will be deemed as Year 1. For trading services, operating on a net nil basis, Year 1 will be the year following the retirement, irrespective of when it occurs. This will allow early retirement costs to be included in subsequent years' pricing.

4. Bumped Redundancies

4.1 The principle is that the Service which benefits from the retirement/severance should also bear the costs. It is acknowledged that in the case of bumped redundancies the benefits may be shared. In such circumstances the costs would also need to be shared, matched to the benefit which each Service receives. The financial arrangements for funding will need to be judged on the specific circumstances of individual cases. Managers will need to include a supporting statement for consideration.

4.2 The impact of organisational restructuring, e.g. outsourcing, or other discontinuation of functions needs to be taken into account as it will necessitate that costs are managed centrally.

GUIDANCE ON THE MANAGEMENT OF TRANSFERRED/BUMPED REDUNDANCIES

- 1.1 All other options should be explored before redundancy is contemplated and the possibility of voluntary Early Retirement on the grounds of efficiency should be considered before a transferred redundancy.
- 2 **The Process**
- 2.1 This may in practice mean that a specific job is no longer needed or that a group of similar jobs is to reduce in number. Selection of employees for redundancy will in the first instance focus on those who are clearly 'at risk' and for whom there are no other reasonable alternative employment options. Volunteers should be sought.
- 2.2 If there are insufficient volunteers at this initial stage (i.e. before compulsion) then a second stage is possible – a transferred redundancy will be the subject of an organisational decision based on the need to match displaced or 'at risk' employees with the requirements of jobs occupied by volunteers. **The Council will not normally therefore seek volunteers generally : volunteers will only be sought where there is a threat of compulsion and a potential match of skills is available.**
- 2.3 The process of matching the jobs of volunteers with displaced or 'at risk' employees is likely to be a complex one involving discussions across the Authority. All potential transferred redundancies must therefore be handled by Corporate Personnel who will be responsible for facilitating the matching process within and across Directorates/Services of the Council.
- 2.4 All cases of proposed transferred redundancy must be supported by the Manager, (or both of the two managers concerned if across sections) and reported to the relevant Corporate Director(s) Proposals should include details of the circumstances of proposed transferred redundancy and resulting redeployment.
- 3 **Criteria**
- 3.1 All proposals for transferred redundancies should be assessed against criteria of cost, level and skill when they are submitted for approval.
- 3.1.2 **Cost**
- 3.1.2.1 Extra costs arising from the proposal should be avoided. Essentially the cost of making the affected employee redundant should be weighed against transferring the redundancy to someone else (including the actuarial cost of the release of pension, excess travel costs etc).
- 3.1.2.2 The cost of any pay protections should be taken into account in the costing exercise. These may occur where the employee is being redeployed to a lower graded job or there could be a saving where the person being made redundant was protected and the new incumbent is less/not protected.

3.1.3 Level

- 3.1.3.1 Transferred redundancies will normally be considered where there is a direct transfer at the same grade or where the transferred employee is currently protected for the same grade of job. This will result in a saving of protection costs either where the redundancy volunteer is on protected salary and the transferred employee is not, or where the transferred employee is returning to their original grade.
- 3.1.3.2 Transferring a redundancy to a higher graded employee will be exceptional. A proposed redundancy which results in a promotion opportunity cannot be targeted for transfer at one employee – it should be subject to a normal competitive selection process. There may, however, be exceptions where the specific skill requirements of the higher graded post can only be met by a specific group of employees – into which the unplaced employee could consequently be placed. In such cases there may be a case for ring fencing the promotion opportunity to suitably qualified and experienced staff. In any event, the proposal must demonstrate that it will result in the appointment of an otherwise unplaced employee.
- 3.1.3.4 Personnel will ensure in each case that the proposals for such ring fencing are cleared through appropriate consultation with the relevant trade unions and that they are specified in the proposal to the Corporate Manager/Corporate Director.

3.1.4 Skill

- 3.1.4.1 There should be a specific skill match between the job that is to be filled and the person proposed for transfer into the job.
- 3.1.4.2 Where selection needs to be made either of the employees to be transferred and/or those to be made redundant, careful consideration needs to be given to issues of cost, level and skills match. If, after considering these factors, there is still a selection process required, then that process should be clarified by Personnel and must satisfy all normal legislative and local procedural requirements.