



CABINET REPORT

Report Title

COUNCIL'S SEVERANCE POLICY

AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	3 September 2007
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	People, Performance and Regeneration
Accountable Cabinet Member:	Cllr Brian Hoare
Ward(s)	ALL

1. Purpose

- 1.1 To seek direction from the Cabinet on the revision and content of the Council's Early Retirement and Severance Scheme (including Statement of Discretions) prior to a revised policy being brought for consideration to the October Cabinet and for subsequent approval, rejection or amendment by the Council's General Purposes Committee.

2. Recommendations

- 2.1 To approve a review being undertaken of the Early Retirement and Severance Scheme within the timescales detailed in this report.

- 2.1 To agree the recommended process for consultation with the Council's recognised Trade Unions and other stakeholders affected by a policy change and ensure the results of consultation are considered at each stage.
- 2.2 To provide a steer on the preferred option(s) for inclusion in the redrafting of the scheme, which will then be subject to consultation.
- 2.3 To consider the case for extending the benefits in the current scheme to two staff who have not yet left under the budget / efficiency savings but who remain 'at risk', unless any revised scheme is more favourable to them.

3. Issues and Choices

3.1 Report Background

- 3.1.1. Council approved a revised Early Retirement and Severance Scheme (and Statement of Discretions) on 26 March 2007. This review was required because of changes to the Local Government Pension Scheme (LGPS) that became effective on the 1 April 2007, and to ensure that the Council's scheme was compliant with the 2006 Age Discrimination Regulations.
- 3.1.2 Council resolved in setting the budget on 21 February 2007 that the then severance arrangements should continue for 6 months when they would be reviewed. This would allow staff to leave on benefits comparable with those who left under Root and Branch. The scheme adopted by Council on the 26 March 2007 therefore incorporated a statement that the next review of the severance scheme would take place no later than 1 October 2007.
- 3.1.3 At the time Cabinet and the Leadership Forum (consisting of the then Group Leaders) had reviewed in detail the options available to the Council to change the scheme and essentially those options are unchanged and are reflected in this report. The District Auditor requires Councillors to be presented with an appropriate range of detailed options on which a well founded decision can be made. The options are updated and dealt with in Section 3.3 of this report and will need to be considered by the General Purposes Committee when it makes a final decision.
- 3.1.4 Cabinet should be aware that there will be a 'new look' LGPS introduced on 1 April 2008. Work, including consultation, on the new look LGPS and the transition arrangements for existing LGPS members continues nationally and a date for final publication of the new regulations is not yet known. (For information the current details of the proposed new look LGPS are attached as Appendix 1 as background to this report).
- 3.1.5 It is possible for the Council to change its current severance / early retirement scheme now and incorporate any further changes necessary as a result of the LGPS changes when these are known later in the year / early next year. For this reason the focus of the current review is on the awarding of added years for pensions purposes and the calculation of redundancy payments only.
- 3.1.6 Cabinet should be aware that under pension scheme regulations any changes

made to the current scheme cannot become effective until a period of one month has elapsed from the date of publication of the revised arrangements (i.e following a decision of the General Purposes Committee).

3.2 Issues

3.2.1 Consultation – Any revised policy will require consultation with the District Auditor, the local pension scheme administrator and the Council’s recognised Trade Unions. Consultation will take place with each as a result of the direction given by Cabinet and the consultees will be provided with a copy of the recommended scheme prior to Cabinet on 3 October 2007 and prior to the meeting of the General Purposes Committee which has the power to decide the Council’s severance policy.

3.2.2 In particular, consultation with the Trade Unions is recommended as follows:

- a. inform the Trade Unions of the review (actioned prior to Cabinet);
- b. inform the Trade Unions at the Management and Trade Union Consultation Meeting (MTUCM) on the 5 September 2007 of the option put before Cabinet, Cabinet’s views on those options and invite their comments;
- c. provide the Trade Unions with a draft copy of a revised scheme by 14 September 2007 (subject to completion and preferably earlier) for discussion at MTUCM on 19 September 2007;
- d. agree how the Trade Unions views can be incorporated into the Cabinet report to be considered on the 1 October 2007 and the subsequent General Purposes Committee where a final decision will be made based on consideration of all the options together with a recommended revised scheme.

3.2.3 It should be noted that the current scheme (attached for information as Appendix 2) retains the right of the Council 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)”. This is stated in section 6.1.

3.2.4 The implementation of the 2007/8 budget / efficiency savings raised a number of issues with regard to the application of the severance policy. Following good practice and previous arrangements under the Root and Branch agreement voluntary redundancy in the areas affected was considered as a first step. The results of this were that a number of staff who volunteered to leave were not permitted to do so, their combined redundancy and pension costs were such that their individual ‘pay back period’ for the costs of their severance / early retirement was 3 years or over. In order to secure the Council’s budget savings identified members of staff were not granted VR if their pay back was in excess of 3 years. This caused some distress to a number of the individuals involved even though they were aware that applications to leave would not be granted automatically.

- 3.2.5 The current annual cost to the Council of funding added years pension payments is c.£750k. This includes unavoidable pension strain costs when the redundant employee is over 50 and in the LGPS, these cannot be avoided. However awarding augmented service added years increases this cost and is discretionary and made by individual employers.
- 3.2.6 A national and regional survey last February revealed a clear trend of many Council's reducing or stopping the payment of discretionary added years and the survey also revealed that this Council's provision of 2 added years for every 5 years continuous NBC service (to a maximum of $6\frac{2}{3}$ years) was at the higher end of provision.
- 3.2.7 There is a requirement that any severance scheme retains public confidence, it must be "workable, affordable and reasonable having regard to foreseeable costs". (Regulation 7 Discretionary Compensation Regulations 2006). The Scheme should reflect the assumptions and pressures of the Medium Term Financial Plan. The District Auditor will consider such factors in reviewing the application of the Council's severance scheme.
- 3.2.8 The Council has implemented a number of budget and efficiency savings as part of the 2007/8 budget. A number of areas specifically involved reductions in staff. These have largely been concluded and staff who left the Council did so under the terms of an equivalent scheme. However, in the case of one member of staff her situation is not yet resolved (pending recruitment to a vacant post) and a second member of staff is being retained for a period, by mutual agreement, to implement a major cost saving project for the Council. It is recommended, for fairness, and on an exceptional basis, that these two staff should retain rights under the existing scheme, unless any revised scheme is more favourable to them based on their personal circumstances

3.3 Choices (Options)

- 3.3.1 Section 3.1(5) above recommends the review at this stage is confirmed to a review of redundancy entitlement and the provision of augmented added years. Other provisions (ill health, regulation 31, VR on compassionate grounds, reemployment, efficiency of the service etc) should be reviewed when details of the new look LGPS are finalised. For reference the existing scheme is attached at Appendix 2 together with the current Statement of Discretions at Appendix 3.
- 3.3.2 The choices faced by the Council are as follows:
- a. Option 1. Retain the current scheme following consideration of the medium term plan and affordability.
 - b. Option 2. Revise the scheme and reduce the overall cost to the Council in relation to severance, either by reducing the redundancy lump sum provisions and / or reducing additional augmented added years pension provision. There are a number of detailed ways in which this could be achieved starting from the position that the lowest cost scheme would be to calculate the redundancy lump sum on the basis of the statutory formula and to cease the provision of augmented added years.

- c. Option 3. Change the balance of the costs of severance for example providing greater weighting to the redundancy lump sum and reducing/eliminating the ongoing future costs associated with granting additional pensionable service or vice versa. The redundancy lump sum is currently multiplied by a factor of approximately 1.5 of the statutory formula to a maximum of 45 weeks pay; this could be increased to x 2, which the survey undertaken earlier in the year demonstrated was a multiplier adopted in some other Councils. Regulations set a cap of 104 weeks pay;
- e. Option 4. The Council could investigate whether DCLG has removed some of the barriers which would allow scheme members to convert the cash sum in excess of statutory redundancy into additional LGPS membership. This could provide additional flexibility for individuals at no cost to the Council, but was found not to be feasible 6 months ago.

3.3.3 On the basis of the survey of other Councils policies and plans undertaken in February 2007 and the financial circumstances of this Authority, a specific proposal that would reduce the ongoing costs to the Council whilst ensuring a greater measure of affordability of redundancy costs would be to:

- (i) cease or significantly reduce the provision of augmented pension service;
- (ii) multiply the statutory redundancy formula by a factor of either 1.5 or 2 for all staff regardless of pension scheme membership;
- (iii) continue to pay redundancy at actual / average earnings, not the statutory maximum of £310 per week

3.3.4 The current scheme contains a section dealing with costs and affordability which reflects the content of the original 2004 scheme. On 1 April 2007 the local LGPS authority introduced a new requirement that the actuarially estimated lifetime costs of augmented added years would be recharged to employers over a maximum of 3 years and not over the lifetime of the employee / surviving spouse. This has had a significant impact on funding of augmented service as costs in the first 3 years dramatically increase. It has made it extremely difficult to afford a number of requests for voluntary severance. The Council has followed a policy of requiring the total severance costs to be repaid within 3 years, otherwise the cost is deemed as unaffordable. It is proposed that any revised scheme continues with this 3 year policy for the pay back of severance costs in line with financial planning assumptions.

4. Implications (including Financial Implications)

4.1 Policy

- 4.1.1 The purpose of this report is to consider changing the Council's Early Retirement and Severance Scheme adopted on 26 March 2007 as an equivalent scheme to the policy originally adopted in 2004.
- 4.1.2 The Statement of Discretions would also be subject to change to accord with any relevant new severance provisions.
- 4.1.3 Depending on the final changes adopted there may be impacts on policies and procedures involving employee consultation and redundancy.

4.2 Resources and Risk

- 4.2.1 Financial Implications. A reduction or cessation of augmenting pension service would reduce costs to the Council in the first three years of an employee leaving on grounds of redundancy. Some indicative examples are provided in Appendix 4. Any decision to increase the redundancy lump sum would have an impact on year one costs and examples are also contained in Appendix 4. These examples are all based on the same employee details regarding salary, length of service etc and they serve to illustrate the impact of the different options.
- 4.2.2. Risk and other implications. The period of consultation will ensure that 'stakeholders' to this policy have an opportunity to express their views. The Trade Unions were aware that Council had set a 6 month review and will no doubt assess the response of their members to any proposed changes. The Trade Unions have sought to ensure that staff who have left on redundancy after Root and Branch have enjoyed the same benefits as those before them. Although the budget / efficiency savings are largely implemented other groups of staff could find themselves affected at any time; however this is likely to be the case at any time the Council changes its scheme and therefore maintaining parity with past leavers cannot continue indefinitely.

4.3 Legal

Legal Implications. Changes to the scheme must be carefully scrutinised to ensure that the pension regulations are adhered to and the policy is not directly or indirectly discriminatory on the ground of sex, age, race, religious belief etc. This assurance will be obtained through consultation with the local pensions authority, consultation with the Council's Legal team and the completion of an Equality Impact Assessment.

A policy that was not considered to be affordable could be challenged on the basis it contravened the requirement in the 2006 regulations to retain public confidence.

4.4 Equality

This issue is covered in 4.3 above.

4.5 Consultees

NCC Pensions, Trade Unions (and their Regional Officers), District Auditor, Legal and Finance. Responses will be included in subsequent reports.

4.6 How Proposals Deliver Priority Outcomes

The revision of the scheme will ensure there is a further consideration of the costs of severance, the links to the medium term financial plan and in turn achieving the longer term objectives of the organisation as expressed in the Corporate Plan

4.7 Other Implications

None

5. Background Papers

- 5.1 New Employee Early Retirement / Severance Scheme; Report to General Purposes Committee 9 December 2004.
- 5.2 Revision to Council Severance Policy and Statement of Discretions; Consultative Group 20 February 2007.
- 5.3 Early Retirement / Severance Scheme; Council 26 March 2007.
- 5.4 LGE Summary of Local Authority Severance Schemes February 2007.

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