



To Finance and Corporate Services Scrutiny Board

Date 29th March 2017

Subject Report on the outcome of the 2016/7 Early Retirement Voluntary Redundancy programme

1 Purpose of the Note

- 1.1 The purpose of this Briefing Note is to update the Scrutiny Board with the outcome of the recent Early Retirement Voluntary Redundancy (ERVR) scheme. The report outlines the current arrangements for exit payments and updates the Board in relation to future proposals based on the impending changes to public sector exit payments that were the subject of a government consultation last year and what the potential future impact of changes on the Council are likely to be.

2 Recommendations

- 2.1 The Scrutiny Board is asked to
- note the outcomes from the recent ER/VR round
 - note the potential impacts of changes to the national framework for pensions and redundancy arrangements
 - forward any recommendations onto the appropriate Cabinet Member

3 Information/Background

- 3.1 In the last six years the Council has had its government funding cut by more than £95m per year and will need to make further savings rising to an additional £36m per year by 2020. The workforce is by far the biggest area of Council spend and has a significant impact on Council's budget. In a bid to meet the financial challenges, the Council has run a number of ERVR programmes, the last one was launched in November 2016.

4 Outcome of the 2016/7 ERVR Round

- 4.1 Applications for ER/VR were invited from across the Council and all staff were eligible to apply. The scheme closed on 31 January 2017. Applications were considered by the Directorate Management Teams and approved by the respective Executive Directors.
- 4.2 In total, 307 applications were made of which 91 (86 people) proposals have been approved, around 30% of applications, which is consistent with previous rounds. All the exit costs are calculated in accordance with Coventry City Council's terms and conditions currently in force and detailed in section 5 and Appendix 1.
- 4.3 There were over 200 people who applied for ERVR who were turned down. The process was clear that there would be certain groups who were less likely to be accepted, but no groups were excluded in this round. The process sought to involve greater line management involvement in an attempt to manage people's expectation and line managers were asked to meet with all applicants personally to inform them of the decision. Experience tells us that some applicants are deeply affected by being turned down.
- 4.4 This is the sixth ERVR programme and the workforce is now about half what it was a decade ago. ERVR is a blunt tool and can cause upset and distraction across the workforce. In the future, it is recommended that Council wide programmes are avoided and instead appeal for volunteers for redundancy on a localised scale, ahead of structural changes aligned to business needs likely to result in workforce reductions.

5. Redundancy Compensation

- 5.1 The current arrangements for compensation in the case of redundancy are set out in Appendix 1.
- 5.2 Redundancy payments are triggered when an employee with more than two years continuous service leaves on the grounds of redundancy. The entitlement is calculated using age and length of service. The maximum number of years' service, which can count for the redundancy calculation is 20 years. The greater amount is paid from:
 - A payment equivalent to 1.5 times the entitlement to statutory redundancy weeks (statutory redundancy weeks are based on age and length of service)

OR

 - A payment equivalent to statutory redundancy weeks plus a 6 week lump sum based on current salary.

5.3 Where an employee is over 55 years of age at the point of redundancy and is a member of the Local Government Pension Scheme (LGPS), the employee's leaving is automatically treated as an early retirement under the scheme. When calculating the value of an exit package, a local authority needs to calculate and include the costs to the authority as well as payments/benefits to the employee. This means that 'pension strain' costs will need to be added to the redundancy cost for the total cost of the exit package. Pension strain is an additional one-off sum that an employer is required to pay to the Pension Fund in order to allow the early release of pension benefits without actuarial reduction.

6. Resource Implications

6.1 The proposed deletion of all the posts from the latest round will realise a saving of £2,161,000 per annum. These savings will be used to meet the Councils savings targets for 2017/18 that were built into the medium term financial strategy as part of the 2015/16 budget setting process. Approximately £240,000 of the estimated saving relates to posts funded from external or trading income and the saving available for this element will depend on the precise way in which service redesign is undertaken.

6.2 It should be noted that one-off exit payments are generally met from reserves and on-going revenue budgets which have been specifically set aside for the purpose of meeting these costs. This then allows immediate savings to be made in revenue budgets once posts have been deleted.

6.3 Under the Council's constitution, exit payments over £100k were reported to the Audit and Procurement Committee for approval. There were eight exit payments that met this criterion, outlined in Table 1.

Table 1: Exit packages over £100k

Directorate	Number of Cases Approved	Salary Budget of Approved individuals £000	One-Off Cost (Redundancy plus Pension Strain) £000	Average One-Off Cost £000
People	4	225	564	141
Resources	3	189	516	172
Place	1	35	111	111
Total	8	449	1,191	149

6.4 The Audit and Procurement Committee also requested a report on all of the redundancies for information. Redundancies with exit payments under £100k are outlined below.

Table 2: Exit packages under £100k

Directorate	Number of Cases Approved	Salary Budget of Approved individuals	One-Off Cost (Redundancy plus Pension Strain)	Average One-Off Cost
		£000	£000	£000
People	33	641	892	27
Resources	32	819	976	31
Place	18	252	371	21
Total	83	1,712	2,239	27

7. Future changes to Public Sector exit payments

7.1 The Government announced at the 2015 Spending Review that it intended to reduce the costs of redundancy payments and end six-figure exit payments and ensure greater consistency between public sector workforces. HM Treasury published its response to the consultation in September 2016 and the proposals are outlined below.

7.2 Cap on payments

7.2.1 Once in place, the cap will limit entitlement to termination payment to a maximum aggregated amount of £95,000. Payments to be included in the calculation of the exit payment subject to the cap include:

- * Payments related to voluntary and compulsory redundancies
- * Payments related to other voluntary exits
- * The cost to the employer of offering early access to unreduced pensions in place of, or in combination with, other exit payments
- * Special exit payments and ex gratia payments related to exit from employment
- * Any extra-contractual payments agreed as part of the exit process
- * Payments or compensation in lieu of notice and payments relating to the cashing up of outstanding entitlements (this does not include accrued but untaken annual leave).

7.2.2 Under the impending legislation that caps exit payments at £95k, nine of the exit packages in the latest round of ERVR would have met this criterion. Paying not more than £95k would have saved the Council £433k, however it would have been likely that not all of those (if any) would have chosen to leave the Council voluntarily under those conditions.

7.2.3 Capping redundancy payments creates a particularly difficult issue in relation to the Local Government Pension Scheme (LGPS), where at present, employees who are members of the LGPS and who are aged over 55 are obliged to take their pension if their employment ends on grounds of redundancy or business efficiency. Under these circumstances, pension benefits will still be payable, but will be subject to reduction to the extent that the employer is prevented by the cap from paying the full cost of waiving the reduction (so called pension strain) unless the employee is willing – and can afford – to pay a potentially expensive top-up, assuming this is allowed.

7.2.4 The cost of providing unreduced benefits for even quite modest earners with long service can be substantial. Therefore, although the policy aim of the cap is primarily to avoid substantial cash pay-outs to high earners, the actual scope is likely to be much wider and may bring into scope Grade 6 employees.

7.2.5 For employers, whilst reducing the overall cost of redundancies, caps potentially have a significant effect on levels of take-up of voluntary redundancy packages by older employees and we may expect to impose redundancy through compulsory redundancy.

7.2.6 Draft legislation indicated there may be the option of obtaining Full Council approval to waive the cap in 'exceptional circumstances'. Where a council exercises this option a full record of the reasons for the decision must be kept for at least three years and should be published as part of the annual accounts or in a list published at the start of the financial year.

7.3 Recovery of Exit Payments

7.3.1 There is already draft legislation for recovering exit payments from individuals earning over £80,000 who leave the public sector and then return to work in the same sub-sector within 12 months.

7.4 Other Proposals

7.4.1 HM Treasury's response to the consultation indicated that it would continue to push through on further reforms to public sector redundancy payments, although the proposed changes are likely to affect other public sector organisations more than local authorities. These proposals are:

- * Setting a maximum tariff for calculating exit payment at 3 weeks' pay for each year of service
- * Setting a cap of 15 months as the maximum number of months' salary
- * Tapering the amount of pension lump sum the individual is entitled to receive the closer someone is to the normal pension age

* Setting the maximum salary for the calculations of salary to a suggested £80,000 maximum

7.4.2 In respect to Coventry City Council arrangements for redundancy pay, setting a maximum tariff of 3 weeks' pay for each year of service would only affect those employees with short service ie those with two to three years' service, because of the Council's occupational redundancy option of an additional six weeks on top of the statutory scheme. This proposals, if accepted, would require the Council to amend the occupational redundancy scheme.

7.4.3 The maximum amount of weeks paid as redundancy within the Councils current arrangement is equivalent of eleven months' salary and therefore under the 15 month proposed cap and there will be no need to amend current arrangements.

7.4.4 The proposal to taper redundancy lump sums closer to retirement date would affect early retirements. The consultation document does not give any examples of what the tapering may be and HM Treasury are cognisant about the equality impact of tapering arrangements on older employees.

7.4.5 Any proposal to set a maximum salary for the calculation of redundancy will potentially affect our Director population only. At the suggested limit of £80,000, Assistant Directors and above will be affected at current rates of pay.

7.4.6 Whilst this paper discusses the arrangements for Coventry City Council staff on 'Green Book' terms and conditions that cover the vast majority of staff, there are other group eg Soulbury (Teachers) and staff transferring into the Council, who's arrangements will need to be reviewed.

7.5 Proposed changes to the Pension Scheme

7.5.1 The government is currently in consultation with Trade Unions regarding changes to the pension scheme in a redundancy situation. Without knowing what the proposals are, it is difficult to comment on how they will impact on our current arrangements. Any of the following proposals will significantly reduce the overall cost of redundancy and reduce the payback time. The proposals are highly likely to reduce the number of people willing to leave voluntarily under the new arrangements, which are:

* limiting employer funded top ups to no more than the value of the redundancy lump sum that might otherwise be payable, or

* Prohibiting employer funded pension top ups entirely, while giving the option for the individual to decide whether to use any lump sum exit payment to increase their pension entitlement, or

* Changing the age at which individuals would be able to have early access to an employer funded pension top up as part of an exit package to 5 years before the person's Normal Pension Age in the scheme under which they are currently accruing pension benefits (now age 67 or 68 in most cases), or

* Raising the age at which early access to pension benefits are permitted.

7.6 Current Situation

7.6.1 The Government's timetable indicated in the response to the consultation has already slipped with regulations bringing Section 41 of the Enterprise Act into effect having only just been published. It can reasonably be expected later this year.

7.6.2 The government's timetable also stated that it was expecting firm proposals on exit payments around December 2016, but as yet we are not aware of any progress in this, which means that the proposed implementation date of July 2017 is unlikely.

7.6.3 Changes to pension schemes is a sensitive and contentious issue and the government has indicated that if agreement cannot be reached through consultation with Trades Unions, it will consider primary legislation to take reforms forward. As yet we have not heard any more.

Barbara Barrett, People Directorate

Coventry City Council Enhanced Redundancy Compensation Pay

Appendix 1

Age	Complete years of service																		
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
17*	1.50																		
18	1.50	2.25																	
19	1.50	2.25	3.00																
20	1.50	2.25	3.00	3.75															
21	1.50	2.25	3.00	3.75	4.50														
22	1.50	2.25	3.00	3.75	4.50	5.25													
23	2.25	3.00	3.75	4.50	5.25	6.00	6.75												
24	3.00	3.75	4.50	5.25	6.00	6.75	7.50	8.25											
25	3.00	4.50	5.25	6.00	6.75	7.50	8.25	9.00	9.75										
26	3.00	4.50	6.00	6.75	7.50	8.25	9.00	9.75	10.50	11.25									
27	3.00	4.50	6.00	7.50	8.25	9.00	9.75	10.50	11.25	12.00	12.75								
28	3.00	4.50	6.00	7.50	9.00	9.75	10.50	11.25	12.00	12.75	13.50	14.25							
29	3.00	4.50	6.00	7.50	9.00	10.50	11.25	12.00	12.75	13.50	14.25	15.00	15.75						
30	3.00	4.50	6.00	7.50	9.00	10.50	12.00	12.75	13.50	14.25	15.00	15.75	16.50	17.25					
31	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	14.25	15.00	15.75	16.50	17.25	18.00	18.75				
32	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	15.75	16.50	17.25	18.00	18.75	19.50	20.25			
33	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	17.25	18.00	18.75	19.50	20.25	21.00	21.75		
34	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	18.75	19.50	20.25	21.00	21.75	22.50	23.25	
35	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	20.25	21.00	21.75	22.50	23.25	24.00	24.75
36	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	21.75	22.50	23.25	24.00	24.75	25.50
37	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	23.25	24.00	24.75	25.50	26.25
38	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	24.75	25.50	26.25	27.00
39	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	25.50	26.25	27.00	27.75
40	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	25.50	27.00	27.75	28.50
41	3.00	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	25.50	27.00	28.50	29.25
42	3.75	5.25	6.75	8.25	9.75	11.25	12.75	14.25	15.75	17.25	18.75	20.25	21.75	23.25	24.75	26.25	27.75	29.25	30.75
43	4.50	6.00	7.50	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	25.50	27.00	28.50	30.00	31.50
44	4.50	6.75	8.25	9.75	11.25	12.75	14.25	15.75	17.25	18.75	20.25	21.75	23.25	24.75	26.25	27.75	29.25	30.75	32.25
45	4.50	6.75	9.00	10.50	12.00	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	25.50	27.00	28.50	30.00	31.50	33.00
46	4.50	6.75	9.00	11.25	12.75	14.25	15.75	17.25	18.75	20.25	21.75	23.25	24.75	26.25	27.75	29.25	30.75	32.25	33.75
47	4.50	6.75	9.00	11.25	13.50	15.00	16.50	18.00	19.50	21.00	22.50	24.00	25.50	27.00	28.50	30.00	31.50	33.00	34.50
48	4.50	6.75	9.00	11.25	13.50	15.75	17.25	18.75	20.25	21.75	23.25	24.75	26.25	27.75	29.25	30.75	32.25	33.75	35.25
49	4.50	6.75	9.00	11.25	13.50	15.75	18.00	19.50	21.00	22.50	24.00	25.50	27.00	28.50	30.00	31.50	33.00	34.50	36.00
50	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	21.75	23.25	24.75	26.25	27.75	29.25	30.75	32.25	33.75	35.25	36.75
51	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.00	25.50	27.00	28.50	30.00	31.50	33.00	34.50	36.00	37.50
52	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	26.25	27.75	29.25	30.75	32.25	33.75	35.25	36.75	38.25
53	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	28.50	30.00	31.50	33.00	34.50	36.00	37.50	39.00
54	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	30.75	32.25	33.75	35.25	36.75	38.25	39.75
55	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.00	34.50	36.00	37.50	39.00	40.50
56	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.75	35.25	36.75	38.25	39.75	41.25
57	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.75	36.00	37.50	39.00	40.50	42.00
58	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.75	36.00	38.25	39.75	41.25	42.75
59	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.75	36.00	38.25	40.50	42.00	43.50
60	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.75	36.00	38.25	40.50	42.75	44.25
61+	4.50	6.75	9.00	11.25	13.50	15.75	18.00	20.25	22.50	24.75	27.00	29.25	31.50	33.75	36.00	38.25	40.50	42.75	45.00

No of weeks Enhanced Redundancy Pay