

CABINET

17 July 2007

SEVERANCE POLICY

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

PER121 - Severance Policy - 20 June 2007

EXECUTIVE SUMMARY:

Personnel Committee has requested that Cabinet consider the financial implications of the implementation of the proposed revised Severance Policy as approved by the Committee, and inform the Committee of any objections and/or comments.

The proposed Severance Policy offers enhanced redundancy payments (including that for retirement based on grounds of efficiency of the service) calculated on actual weeks pay and with compensation payments linked to a multiplier of 1.6. It is proposed that there is no augmented pension membership.

The new policy will be less costly than the previous policy in some circumstances but will be more costly in others. However, as previously applied the policy requires that each severance decision is considered on its own merits, which would allow for the ultimate avoidance of any business case proposals that are not considered to be value for money.

In response to a question raised by the Personnel Committee the regulations showing that redundancy cannot be restricted past age 65 are also explained.

RECOMMENDATIONS:

- 1 That Cabinet consider the financial implications of the implementation of the proposed Severance Policy as approved by the Personnel Committee, and inform the Committee of any objections and/or comments.
- 2 That Cabinet note the response from the Head of Organisational Development in relation to the question asked about the legality of restricting severance payments to employees aged over 65.

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SEVERANCE POLICY

REPORT OF HEAD OF FINANCE

1. Introduction

- 1.1. Personnel Committee has requested that Cabinet consider the revised financial implications of the implementation of the proposed Severance Policy as approved by the Committee, and inform the Committee of any objections and/or comments.
- 1.2. The Head of Organisational Development (in consultation with the Chairman) was also requested to investigate the probity and impact of specifically excluding severance compensation for those aged 65 and over and whether this contravened Age Discrimination legislation, and subject to the investigation, this be included in the policy. (Appendix 1)

2. Summary

- 2.1. The proposed Severance Policy offers enhanced redundancy payments (including that for retirement based on grounds of efficiency of the service) calculated using the statutory redundancy tables and based on actual weeks pay and with compensation payments linked to a multiplier of 1.6. It is proposed that there is no augmented pension membership.
- 2.2. Since the Personnel Committee meeting some further financial analysis has been undertaken although this has been limited in the absence of using specific examples where the pension strain can be ascertained. Service and Age determine the factor to be applied to the weekly salary to calculate the redundancy payment. The basis of this factor is determined by statute. The matrix providing the number of weeks severance payment to be made is provided at Appendix 2. This shows the maximum service is 20 years and thereafter there are no additional payments and no additional payments for age 61 plus. The chart at Appendix 3 illustrates how service combined with age determines the severance payment with some marked plateaus; between the ages of 25 and 41 and the ages of 44 to 61.
- 2.3. Thus higher length of service will always lead to higher severance costs and age will only have an impact when it combines with specific higher length of service levels (the unshaded areas in Appendix 2).
- 2.4. For example, a 35 year old with 14 years service, a 44 year old with 12 years service and a 61 year old with 10, would all receive 21.6 weeks pay under the new policy.
- 2.5. When applied to the Council's workforce, Human Resources have advised that restructures tend to apply to the higher grades: pay bands 6 to 11 and tend to apply to those with longer service. Reorganisations also often impact on a number of posts, where potentially higher cost deletions of posts are balanced with lower cost deletions of posts.

- 2.6. Employee 1 in the example provided in the Personnel Committee report could therefore be a typical example. This showed that the new policy was cheaper than the previous policy by £17k, as follows:

Employee 1 – option 3

Grade 5 – Age 52 – service 18 yrs

Previous policy (with augmentation) would cost £96k

New Policy would cost: pension strain £57k + redundancy £22k = total cost £79k

- 2.7. On this basis the new severance policy may be generally cheaper than the previous policy although there will inevitably be individual circumstances where it may be more expensive; an example of this would be when an individual has long service and is aged 50 or over. This is also affected by the automatic release of pension for severance of current staff aged 50 (up to March 2010 when current protection ceases) and when the maximum pension strain cost is incurred of 15 years. This will reduce to a maximum pension strain of 10 years when the automatic age for releasing pension becomes aged 55 (for all new starters from March 2008) and the protection for current staff runs out in 2010.
- 2.8. As illustrated in examples provided in the Personnel Committee report the proposed revised severance policy is more expensive than the previous one for those with low service and on lower salaries.
- 2.9. The workforce profile for the Council shows that 53% are under 45 and 61% of the workforce have 10 years service or less.

3. Conclusion

- 3.1. The new policy will be less costly than the previous policy in some circumstances but will be more costly in others. However, as previously applied the policy requires that each severance decision is considered on its own merits, which would allow for the ultimate avoidance of any business case proposals that are not considered to be value for money.
- 3.2. In response to a question raised by the Personnel Committee the regulations showing that redundancy cannot be restricted past age 65 are also explained.

OTHER CONSIDERATIONS:

4. CORPORATE STRATEGY (RELEVANCE TO):

- 4.1. The policy is linked to the need to continually improve services and to ensure that the staffing resources within the Council meet business needs through the contribution to the recruitment, retention and motivation of staff.

5. RESOURCE IMPLICATIONS:

- 5.1. The policy requires that each severance decision is considered on its own merits, which would allow for the ultimate avoidance of any proposals that are not considered to value for money.

BACKGROUND DOCUMENTS:

Background documents held in the Human Resources Division.

APPENDICES:

Appendix 1 - Redundancy rights past normal retirement age of 65

Appendix 2 – Age/service matrix for severance payments

Appendix 3 – Age/service statutory redundancy tables - chart

CAB 1499

Feedback to Personnel Committee regarding query raised 20.6.07 relating to redundancy rights past normal retirement age of 65

In relation to the question asked about the legality of restricting severance payments to employees aged over 65. The following statements set out the scope of the regulations showing that redundancy cannot be restricted past age 65.

Source – Department of Trade and Industry

The statutory redundancy table (attached) gives a formula for calculating redundancy entitlement based on age and length of service. The table stops at age 61 because for employees age 61 and over, the payment remains the same as for age 61.

The table has been changed since the introduction of the Employment Equality (Age Regulations) in October 2006.

Scope of Age Regulations

The Regulations apply to employment and vocational training. They prohibit unjustified direct and indirect age discrimination, and all harassment and victimisation on grounds of age, of people of any age, young or old.

As well as applying to retirement they

- remove the upper age limit for unfair dismissal and redundancy rights, giving older workers the same rights to claim unfair dismissal or receive a redundancy payment as younger workers, unless there is a genuine retirement;
- remove the lower and upper age limits in the statutory redundancy scheme, but leave the current age-banded system in place. (see the Written Statement about this to Parliament on 2 March below)

The Parliamentary Under-Secretary of State for Trade and Industry (Mr. Gerry Sutcliffe)

We have been discussing the way forward with key stakeholders over the last few months, including the CBI, EEF and TUC. In the course of those discussions the Government became concerned that a system using a single multiplier might not meet our overall policy aims. We have therefore carefully examined the rationale for the current scheme, and come to the conclusion that this provides the best fit with our aims.

Evidence the Government have gathered demonstrates that younger, prime age and older workers fall into three distinct economic categories, with older workers facing a particularly difficult position in the employment market. Young workers tend not to be out of work for long, and see only a small fall in pay when switching jobs. Older workers are much more likely to become long-term unemployed, and to experience a substantial fall in pay when finding a new job. Prime age workers fall into the middle. We therefore believe that it is sensible for the level of support provided through the scheme to reflect these three categories. A system using a single multiplier would leave a significant group of older workers substantially worse off than at present, and we believe this would be unacceptable. Even if a substantial amount of money were injected into the scheme so as to leave older workers no worse off, the enhanced benefits to younger workers are not justified by their position in the employment market.

The Directive provides for the possibility of Member States providing for different treatment on the grounds of age, where this difference of treatment is objectively and reasonably justified by a legitimate aim, including employment policy. We have looked at this question very closely and are confident that retaining the age bands is permitted by the Directive.

The Government have however decided to remove the lower and upper age limits in the redundancy scheme (at 18 and 65 respectively) and the taper at the age of 64 because we believe, as employees are living and working longer, these cannot be justified under the Directive. A small group of amendments to the scheme will be set out in the forthcoming age regulations, which will be laid before Parliament shortly.

Statutory Scheme

Multiplier 1.6

	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
Age																				
17*	1.6																			
18	1.6	2.4																		
19	1.6	2.4	3.2																	
20	1.6	2.4	3.2	4.0																
21	1.6	2.4	3.2	4.0	4.8															
22	1.6	2.4	3.2	4.0	4.8	5.6														
23	2.4	3.2	4.0	4.8	5.6	6.4	7.2													
24	3.2	4.0	4.8	5.6	6.4	7.2	8.0	8.8												
25	3.2	4.8	5.6	6.4	7.2	8.0	8.8	9.6	10.4											
26	3.2	4.8	6.4	7.2	8.0	8.8	9.6	10.4	11.2	12.0										
27	3.2	4.8	6.4	8.0	8.8	9.6	10.4	11.2	12.0	12.8	13.6									
28	3.2	4.8	6.4	8.0	9.6	10.4	11.2	12.0	12.8	13.6	14.4	15.2								
29	3.2	4.8	6.4	8.0	9.6	11.2	12.0	12.8	13.6	14.4	15.2	16.0	16.8							
30	3.2	4.8	6.4	8.0	9.6	11.2	12.8	13.6	14.4	15.2	16.0	16.8	17.6	18.4						
31	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	15.2	16.0	16.8	17.6	18.4	19.2	20.0					
32	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	16.8	17.6	18.4	19.2	20.0	20.8	21.6				
33	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	18.4	19.2	20.0	20.8	21.6	22.4	23.2			
34	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.0	20.8	21.6	22.4	23.2	24.0	24.8		
35	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	21.6	22.4	23.2	24.0	24.8	25.6	26.4	
36	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	23.2	24.0	24.8	25.6	26.4	27.2	
37	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	24.8	25.6	26.4	27.2	28.0	
38	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	26.4	27.2	28.0	28.8	
39	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.0	28.8	29.6	
40	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.8	29.6	30.4	
41	3.2	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.8	30.4	31.2	
42	4.0	5.6	7.2	8.8	10.4	12.0	13.6	15.2	16.8	18.4	20.0	21.6	23.2	24.8	26.4	28.0	29.6	31.2	32.8	
43	4.8	6.4	8.0	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.8	30.4	32.0	33.6	
44	4.8	7.2	8.8	10.4	12.0	13.6	15.2	16.8	18.4	20.0	21.6	23.2	24.8	26.4	28.0	29.6	31.2	32.8	34.4	
45	4.8	7.2	9.6	11.2	12.8	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.8	30.4	32.0	33.6	35.2	
46	4.8	7.2	9.6	12.0	13.6	15.2	16.8	18.4	20.0	21.6	23.2	24.8	26.4	28.0	29.6	31.2	32.8	34.4	36.0	
47	4.8	7.2	9.6	12.0	14.4	16.0	17.6	19.2	20.8	22.4	24.0	25.6	27.2	28.8	30.4	32.0	33.6	35.2	36.8	
48	4.8	7.2	9.6	12.0	14.4	16.8	18.4	20.0	21.6	23.2	24.8	26.4	28.0	29.6	31.2	32.8	34.4	36.0	37.6	
49	4.8	7.2	9.6	12.0	14.4	16.8	19.2	20.8	22.4	24.0	25.6	27.2	28.8	30.4	32.0	33.6	35.2	36.8	38.4	
50	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	23.2	24.8	26.4	28.0	29.6	31.2	32.8	34.4	36.0	37.6	39.2	
51	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	25.6	27.2	28.8	30.4	32.0	33.6	35.2	36.8	38.4	40.0	
52	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.0	29.6	31.2	32.8	34.4	36.0	37.6	39.2	40.8	
53	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	30.4	32.0	33.6	35.2	36.8	38.4	40.0	41.6	
54	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	32.8	34.4	36.0	37.6	39.2	40.8	42.4	
55	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	35.2	36.8	38.4	40.0	41.6	43.2	
56	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	37.6	39.2	40.8	42.4	44.0	
57	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	38.4	40.0	41.6	43.2	44.8	
58	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	38.4	40.8	42.4	44.0	45.6	
59	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	38.4	40.8	43.2	44.8	46.4	
60	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	38.4	40.8	43.2	45.6	47.2	
61+	4.8	7.2	9.6	12.0	14.4	16.8	19.2	21.6	24.0	26.4	28.8	31.2	33.6	36.0	38.4	40.8	43.2	45.6	48.0	

