

CABINET

22 NOVEMBER 2011

Title: Budget Strategy 2012/13 - Proposed Change to the Council's Redundancy Scheme	
REPORT OF THE CABINET MEMBER FOR CUSTOMER SERVICES AND HUMAN RESOURCES	
Open Report	For Decision
Wards Affected: None	Key Decision: Yes
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Accountable Director: Stella Manzie, Chief Executive	
Summary: <p>This report proposes changes to the Council's current redundancy scheme, within its policy. Under the terms of the current scheme the Council can pay up to 2.2 times the statutory minimum, that is, up to 66 weeks. The Council will continue to work hard to seek to avoid redundancies where possible. However the challenge of making further savings for the 2012/13 financial year unfortunately makes redundancies inevitable. The current scheme and level of payments are unaffordable going forward and is out of step with most other London Boroughs.</p> <p>It is proposed therefore to amend the scheme and apply a multiplier of 1.5 from 1 December (paying a maximum of 45 weeks) and apply the statutory minimum (up to 30 weeks) from 1 April 2012.</p> <p>This scheme, if adopted, would also apply to those currently employed by Elevate as part of the terms of the Partnership Agreement which states that any changes to LBBB policies should be adopted by Elevate.</p>	
Recommendation(s) <p>The Cabinet is recommended to agree:</p> <ul style="list-style-type: none">(i) That the Council's policy on redundancy, as required by Regulation 7 of the 2006 Local Government Act (Early Termination of Employment) (Discretionary Compensation) (England and Wales), be amended as follows:<ul style="list-style-type: none">(a) For redundancy notices issued on or after 1 December 2011 and until 31 March 2012, the enhanced redundancy compensation payments to LBBB and schools non-teaching staff be reduced from x2.2 of the equivalent statutory redundancy weeks to x1.5 of the equivalent statutory redundancy weeks (i.e. up to a maximum of 45 weeks' pay depending on age and service).(b) For redundancy notices issued on or after 1 April 2012, the multiplier be further reduced from x1.5 of the equivalent statutory redundancy weeks to the statutory	

redundancy scheme (i.e up to a maximum of 30 weeks' pay depending on age and service).

(c) That where further savings proposals are made for the 2012/13 financial year in advance of the setting of the budget by the Assembly on 22 February 2012, the arrangements in (a) and (b) above be extended for comparable periods of time to those staff affected to enable them to volunteer for redundancy at the enhanced rates;

(ii) That the above revisions to the redundancy scheme be recommended for adoption by Governing Bodies of schools.

Reason(s)

The Council must have a published scheme in place on redundancy payments. The Council's current scheme has focused on sufficient incentive to enable the Council to operate effective change management processes and minimise the number of compulsory redundancies. However, we are now in a tougher financial climate and, in line with councils across the country, we need to revise our scheme to ensure it remains affordable.

1. Introduction and Background

Current Scheme

- 1.1 Councils have powers to enhance compensation payments for staff that are made redundant or retire early. The amount of the award is based on the employee's age and length of continuous pensionable local government service. Regulations introduced in October 2006, allow Councils to pay a maximum lump sum redundancy payment to employees equivalent to 104 weeks' pay. The actual amount to be paid and the accrual rate above the statutory maximum of 30 weeks is at the discretion of each Council. Any scheme adopted must conform to age discrimination regulations, that is, be structured in a way to be non-discriminatory and be consistently applied.
- 1.2 Under the current scheme of the London Borough of Barking and Dagenham, the lump sum payment is calculated on the basis of actual weekly pay and a multiplier of 2.2 is applied to the statutory number of weeks payable. Therefore where the statutory policy offers a maximum of 30 weeks, this Council pays up to 66 weeks. The scheme was amended by Cabinet in November 2006 to incorporate two exceptions to our normal policy, namely where redundant staff receive immediate pension benefits and for those staff whose continuous service commenced on or after 1st January 2007, where we follow the statutory scheme and a maximum of 30 weeks applies.

Voluntary Severance Schemes

- 1.3 Over this last two years the Council has invited staff to apply for voluntary severance under the terms of our scheme on three occasions. The objectives over the last two years have been to:
- 1) Minimise compulsory redundancy,
 - 2) Maximise redeployment and

3) Ensure the organisational reviews necessary to deliver budget savings are delivered quickly and with minimal industrial relations difficulty.

- 1.4 These objectives have been achieved and overall budget savings targets have been delivered, but the cost of redundancy (some of which we have been able to capitalise through a capitalisation protocol issued by the government) has been significant. Staff reductions have delivered approximately £12m of annual savings, with a one-off redundancy cost of around £8m.
- 1.5 There are no differences in the terms under which staff leave, having volunteered for redundancy, or where they have been made compulsorily redundant. Our change management policy, which reflects the legal position, requires us as an employer to seek volunteers for redundancy before making people compulsorily redundant and of course, we seek to redeploy people as a means to avoid redundancy.

Reason For Change

- 1.6 Savings targets for 2012/13 will require the council to make further redundancies to reduce costs. The cost of the current redundancy policy can no longer be sustained. Its retention would potentially mean making more staff redundant in order to cover the cost of redundancy payments. The Council needs therefore to adopt a scheme which is affordable, but also reflects its desire for be fair to its employees, those leaving the Council and those remaining.

Comparison With Other Councils

- 1.7 From a financial point of view this Council's redundancy scheme is at the higher end in what it offers as redundancy payments in comparison with the majority of London Boroughs. The table below shows the maximum number of weeks paid under the terms of Boroughs' schemes as at October 2010:

Maximum Number of Weeks	Number of Authorities
104	1
90	1
75	1
66	4 (inc LBBD)
60	4
51	1
50	1
45	5
42	1
40	1
30	12

Many councils have, since last year, amended their schemes, but at that time, twenty five London Boroughs offered smaller settlements than Barking and Dagenham. Newham, who were offering up to 104 weeks at that time, have amended their scheme and now pay the statutory rate.

Application of the Scheme

- 1.8 Officers of the Council have, as you know, set out a number of proposals through which the savings necessary to set a balanced budget for 2012/13 could be achieved. Adoption of those proposals could result in between 120 and 160 posts being deleted from the structure. Select Committees are in the process of reviewing and commenting on those proposals and consultation with those staff affected has begun. Cabinet will begin to consider those proposals at its meeting on 14 December and if approved, redundancy notices will begin to be issued after that date.
- 1.9 We have invited staff who will be affected by these proposals to volunteer for redundancy by 11 November. Those who put themselves forward and are accepted will leave under the terms of the scheme that previously applied. We have indicated that any staff who are given notice of redundancy after 1 December 2011 (and who have not already volunteered), will leave under the terms of any new scheme agreed by Cabinet at this meeting.
- 1.10 We have given a commitment that any staff affected by any further savings proposals (other than those already proposed through the Select Committees) that come forward for the 2012/13 year (prior to setting the budget in February), will equally have the opportunity to volunteer for redundancy and will receive a redundancy payment based on the scheme which allows for up to 66 weeks to be paid.

2. Proposal and Issues

- 2.1 We have taken account of the following in proposing revisions to the current redundancy scheme:
- The need to reduce the cost of redundancy to the Council
 - The desire to minimise the number of redundancies (and continuing the current level of redundancy payments might require that a greater number of posts are deleted going forward)
 - The impact on individuals of redundancy and our wish to be “fair” to people leaving the Council through no fault of their own
 - The need to make significant staffing reductions for the 2012/13 year in particular
 - The schemes in place in other London Boroughs.
- 2.2 The proposal is therefore to phase in reductions in the redundancy payments that this Council would make. We wish to give an opportunity to staff groups affected by savings proposals for 2012/13 to volunteer for redundancy under the terms of the existing scheme. Those staff who do not volunteer, but who are made compulsorily redundant before 31 March 2012 would do so under reduced terms (max 45 weeks), but will still be above the statutory minimum. Staff made redundant after 1st

April next year would under these proposals receive the statutory minimum payment only.

- 2.3 The exception to the above will be any staff who are affected by any further proposals (that have not currently been proposed through the Select Committees) that are made for savings for the 2012/13 year. They will be able to volunteer and receive the maximum payment of 66 weeks, or if they do not volunteer they will receive 45 weeks maximum as a redundancy payment, for a comparable period of time to those staff already identified as being at risk of redundancy.

3. Position of Schools' Staff

- 3.1 Council employees working in Schools ("schools-based staff") such as Cleaners and Catering staff will be covered by the proposed change in the redundancy matrix. In respect of staff employed by the schools themselves, the regulations covering the terms of their employment indicate that School Governors can determine the amount paid as redundancy. Generally the policies of the Council are adopted by schools in respect of employment,
- 3.2 Cabinet are asked to agree policy in respect of Schools based staff and request that the Corporate Director of Children's Services commend the Council Redundancy Scheme to the Schools Governing Bodies to agree for each School. If a School determines not to adopt the Council scheme in this respect then they will need to agree their own. The deadline for Schools to determine their approach will be 15th March.

4. Options Appraisal

- 4.1 The Council can set the multiplier within its redundancy scheme at a level it chooses between the statutory minimum and a rate that delivers a maximum of 104 weeks as a payment. The current multiplier of 2.2 is considered to be unaffordable going forward. The lower the multiplier, the lower the cost to the Council of the redundancy payments that it makes. The proposal being made reflects the position adopted by other Councils in London and achieves, we believe, the balance between affordability and fairness.

5. Consultation

- 5.1 This proposal was shared with the Trade Unions at the CJCC meeting on 14 October. Written confirmation of our proposals was sent to them after that meeting. We have a further meeting planned for 8 November to consider their feedback. This report will also be considered at EJCC on 14 November. A verbal report giving feedback from those two meetings will be provided at the Cabinet meeting.
- 5.2 All staff have been advised in writing about the implications of the proposed changes to the scheme.

6. Financial Implications

Implications completed by: Jonathan Bunt, Divisional Director, Finance

- 6.1 In order to address the scale of Local Government funding cuts announced in the Comprehensive Spending Review Mid October 2010, the Authority must find significant savings in order to reduce the budget deficit.
- 6.2 Savings made in 2011/12 totalled £28m, including £8m of savings from the 2010/11 emergency budget. A further £19m of savings are planned in 2012/13 and £11.6m in 2013/14 respectively. This totals c£60m over the 4 year period. As employee expenditure is a significant amount of total expenditure across the Council, it is anticipated that a large element of the savings will come from staffing reductions.
- 6.3 Under the terms of the current scheme the Council can pay up to 2.2 times the statutory minimum, that is, up to 66 weeks. Staffing reductions of £12m to date has resulted in the Council incurring redundancy costs of £8m. For last year alone, the redundancy liability totalled c£6.2m.
- 6.4 The Department of Communities and Local Government allows Local Authorities to request authorisation so redundancy costs can be treated as capital. By doing so, the Authority is then able to finance the cost of redundancies over a period of 20 years. The effect of capitalising these costs reduces the impact on the in year revenue budgets.
- 6.5 The only caveat to the capitalisation process is that Authorities are only able to capitalise the statutory element of the redundancy payment. The non statutory element (currently 2.2 times the statutory minimum, capped at 66 weeks) must be funded through revenue budgets.
- 6.6 Of the £6.2m redundancy costs paid in 2010/11, the statutory element that was capitalised totalled £2.7m. The balance was funded through revenue budgets and other revenue provisions.
- 6.7 Due to the level of savings required for 2012/13 and 2013/14 alone, the Council is now under significant pressure to reduce the cost of redundancy payments, and bring this scheme more in line with other London Boroughs. The current scheme is no longer sustainable from a financial perspective.
- 6.8 To date it is estimated that a further 120 to 160 posts will be reduced from the staffing establishment for 2012/13. It is difficult to accurately calculate the impact of changes at this stage, however the examples provided in paragraphs 6.9 to 6.11 illustrate the impact of the policy change for two employees – one paid at PO2 and the other paid at Scale 5. The actual impact of the above proposals will depend on a number of factors such as age of employee, number of years of service and salary. These factors will only be known until the actual redundancy process begins.
- 6.9 The table below has been produced to illustrate the impact of the proposals on an employee, paid at PO2, aged 40 with 10 years' service. The table below shows that based on the current scheme, the employee would receive £14.1k. When the scheme changes and is capped at 45 weeks, this reduces the weeks paid for this individual from 22 weeks to 15 weeks, taking the payment to £9.6k. From April

2012, the redundancy payment for the individual is reduced to £6.4k. This amounts to a reduction of £7.7k on just one individual alone.

Current Redundancy Policy 2.2 times statutory, capped at 66 weeks	<ul style="list-style-type: none"> • 22 weeks at £643 per week • Redundancy payment - £14,146
Policy from 11/11/11 to 31/3/12 1.5 time statutory, capped at 45 weeks	<ul style="list-style-type: none"> • 15 weeks at at £643 per week • Redundancy payment - £9,645
Statutory Minimum, capped at 30 weeks	<ul style="list-style-type: none"> • 10 weeks at £643 per week • Redundancy payment - £6,430

6.10 A further example has been provided to illustrate the impact of the redundancy proposals on a scale 5 employee, aged 40 with 10 years' service. The age and length of service has been kept on the same basis as the example above to ensure a true comparison.

6.11 The table below shows that based on the current scheme, the individual would receive £9.8k. When the scheme changes and is capped at 45 weeks, this reduces the weeks paid for this individual from 22 weeks to 15 weeks, taking the payment to £6.7k. From April 2012, the redundancy payment for the individual is reduced to £4.5k. This amounts to a reduction of £5.35k for the scale 5 employee.

Current Redundancy Policy 2.2 times statutory, capped at 66 weeks	<ul style="list-style-type: none"> • 22 weeks at £446 per week • Redundancy payment - £9,812
Policy from 11/11/11 to 31/3/12 1.5 time statutory, capped at 45 weeks	<ul style="list-style-type: none"> • 15 weeks at at £446 per week • Redundancy payment - £6,690
Statutory Minimum, capped at 30 weeks	<ul style="list-style-type: none"> • 10 weeks at £446 per week • Redundancy payment - £4,460

6.11 At this stage, it is difficult to assess the actual reduction arising from the change in policy. This is due to a number of unknown factors such as age and length of continuous service of the employees affected. However, a simplistic analysis would be to assume that the average salary across the Council is at PO2, with an average length of service of 10 years. On the basis that, between 120 to 160 posts have been identified for redundancy for 2012/13, the difference of the redundancy payment could range between £2.3m to £770k depending on whether the employees opt to volunteer for redundancy prior to 11th November or if they fall under the new statutory minimum policy.

6.12 The simple analysis carried out with the assumptions above, illustrates the effect of the current scheme compared the statutory redundancy policy. The change in the scheme results in a significant reduction of the cost of redundancy payments made. As mentioned above, the scenario provided above is purely for illustrative purposes

as it assumes a number of factors, such as the average pay, average age and the average length of service. These details will only be available once the redundancy process begins and will also depend on the timing of people opt to leave.

- 6.12 As we move onto the statutory redundancy scheme, the Authority should be able to capitalise all future redundancy costs, with effect from April 2012. This will be on the condition of the Department of Communities and Local Government's capitalisation policy continues. This should also reduce the pressure of the revenue budget.

7. Legal Implications

Implications completed by Tasnim Shawkat, Divisional Director of Legal and Democratic Services

- 7.1 This Borough and other London Boroughs have consistently taken the view that enhanced redundancy calculations are not contractual and therefore can be changed without full consultation with staff. Enhanced redundancy calculations are entirely discretionary and therefore subject to the kinds of financial considerations spelt out in this report.
- 7.2 This proposed change also brings all employees into line with one another, as (further to paragraph 1.2 of this report) more recent employees get no more than the statutory minimum currently.

8. Other Implications

- 8.1 **Risk Management** – We are minimising the employment relations risks associated with this proposal by engaging in a dialogue with staff and Trade Unions around what is proposed.
- 8.2 **Contractual Issues** – Discussions are in hand with Elevate to fully explore the implications for staff who have transferred
- 8.3 **Staffing Issues** – The staffing issues are fully explored within the main body of the text

Background Papers Used in the Preparation of the Report:

None

List of appendices:

None