

**FALKIRK COUNCIL**

**Subject: SEVERANCE POLICY**  
**Meeting: FALKIRK COUNCIL**  
**Date: 8<sup>th</sup> December 2010**  
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**DIRECTOR OF FINANCE**

**1. INTRODUCTION**

- 1.1 Falkirk Council's Voluntary Severance Scheme has been reviewed in order to take account of changes in pension scheme regulations, to reflect the changing requirements of the Council in the present economic situation and to introduce a more transparent and consistent decision making process.
- 1.2 The proposed policy now includes guidance on managing severance, voluntary redundancy and compulsory redundancy situations.
- 1.3 This report provides a summary of the current scheme and outlines some of the issues that have been considered in the development of the new scheme, which is referred to Members for approval.

**2. CURRENT POSITION**

- 2.1 The current Voluntary Severance Scheme provides for a number of options, which can be confusing and given the discretion available, could give rise to claims of age and gender discrimination. Currently there is no formal redundancy policy in place, however the proposed policy now rectifies this position. The current benefit options available are briefly summarised below:
  - **Compensatory added years** – Up to 10 added years can be offered, however in most cases, a maximum of 5 added years is offered. In awarding compensatory added years, the Council commits itself to on-going costs for a considerable period of time.
  - **Augmentation** – This refers to the granting of an additional period of pension fund membership of not more than 10 years or additional pension of up to £5,000 per year. This option has not been used within Falkirk Council.
  - **Compensatory lump sum** – The maximum compensatory lump sum allowed by the respective Local Government and Teachers' compensation regulations is capped at 104 weeks, although the current local scheme is capped at 66 weeks' pay.
  - **Release of Pension Benefits** – Pension scheme benefits are payable in most circumstances where an employee has attained at least age 55 (for LGPS members age 50 if a scheme member on 5<sup>th</sup> April 2006) and leaves the Council's employment by reason of efficiency or redundancy. This invariably results in costs (usually referred to as the strain payment) to the Council which are often substantial.

### **3. POLICY OPTIONS/AREAS FOR CONSIDERATION**

3.1 In devising a revised scheme, consideration has been given to the following:

- Any package needs to be affordable, but fair, whilst meeting the Council's changing needs and age discrimination legislation.
- Payments offered should be considered by employees and trade unions to provide reasonable compensation to employees on the loss of their employment and, in the case of severance or voluntary redundancy, act as sufficient incentive to encourage employees to seriously consider any offer made to them.
- Using the same method of calculation for all scenarios would simplify the process. Making a lump sum payment based on a number of weeks' pay as opposed to awarding compensatory added years would achieve this and would reduce on-going costs as full payment of the compensatory element would be made in the year in which the severance was implemented. It may be worth noting that there may be on-going costs for early release of pension benefits.
- The discretionary payments regulations set the maximum number of weeks' which can be paid as a lump sum as 104 weeks. The calculation used for payment can be based on anything up to 104 weeks. Given the current financial position, it is not considered appropriate to use the maximum available.

### **4. PROPOSED POLICY**

4.1 The current scheme has been reviewed to take account of pension scheme changes and changes to the Discretionary Payments regulations and, to ensure that arrangements are in place to deal with any possible redundancy situation that may arise. The new draft policy is attached for consideration. The key points and changes within the new revised policy are as follows:

- The proposed policy would cover all situations where any employee, including teachers, cease employment for reasons of both efficiency and redundancy, i.e.
  - Voluntary severance of pension scheme members;
  - Voluntary severance of non-scheme members;
  - Voluntary redundancy;
  - Compulsory redundancy.
- The options available have been simplified and streamlined to ensure they are easier for all to understand but equally attractive to employees, while taking account of cost.
- Except in cases of compulsory redundancy, a saving of 100% of salary costs would be required over a 5 year period for any severance to be approved. Where the severance decision complies with this provision, decisions will be made by chief officers exercising delegated authority. Where a severance decision is recommended which is not within the terms of this provision, the decision will require to be taken by Members. The proposed policy provides for this to be done by a sub committee of the Audit Committee.
- Employees who are granted severance on a voluntary basis will not be allowed to be re-employed by the Council.

- Included within the proposed Severance Policy is a section on the processes to be followed in situations of voluntary and compulsory redundancy.
- As a compulsory redundancy situation is a dismissal, provision is made for an appeal process. Where an employee is dismissed for misconduct or capability, appeals are heard by the Council's Appeals Committee. Given the nature and possible number of appeals, an alternative process has been suggested.
- Compensation would take the form of a lump sum payment and would be based on a formula using the statutory redundancy compensation matrix. Payment of a compensatory lump sum has the effect of increasing costs in the initial year of retirement but reducing or even eliminating future costs. This is substantially different to the current experience with compensatory added years where costs are incurred until the death of the beneficiary or, if later, the death of his or her surviving spouse or partner. The use of the redundancy matrix provides an open and consistent means of calculating the sum. The proposed policy retains the option to make compensatory added year payments in place of a lump sum to a level where the capitalised cost of the compensatory added years is equivalent to the compensatory lump sum. It should be noted that where the severance results in the immediate payment of pension benefit, the strain payment will continue to be paid by the Council.
- In cases of severance or voluntary redundancy trawls, a higher maximum number of weeks would be offered than in situations where compulsory redundancy applies. This approach would be to encourage employees to voluntarily agree to leave employment to minimise the need for compulsory redundancies. The maximum number of weeks proposed for compulsory redundancies would therefore be 54 weeks with 66 weeks for severance and voluntary redundancies.
- The weekly pay used to calculate the lump sum payment will be based on the employee's actual weekly pay, rather than the statutory maximum of £380.

## **5. EQUALITY**

- 5.1 An equality impact assessment has been undertaken on the new policy. Whilst this has highlighted some potential issues in respect of Age and Disability related discrimination, both Human Resources and Law & Administration Services are comfortable the policy complies with the Equality Act provisions.

## **6. TRADE UNION CONSULTATION**

- 6.1 Officers have been in discussion with Trade Unions on this matter for some time. Trade Unions have therefore had an opportunity to review and comment on the draft policy. A number of comments have been taken on board and the policy has been amended accordingly.
- 6.2 Comments, such as the right to a redundancy payment where an employee makes a personal decision to leave prior to the termination date or where he/she rejects a suitable alternative post within the Authority have not been incorporated and Trade Union colleagues are aware of this. The draft policy is in line with legislative requirements in this respect.
- 6.3 The Trade Unions were unable to provide formal feedback in time for the matter to be considered by the Joint Consultative Committee, however they are aware that the policy is now being presented to Council for approval.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 Under the current policy, the cost of compensatory added years remain a long-term liability that needs to be accounted for in future budgets. The proposed policy would shift compensation costs from the long-term to immediate payment. This change would increase current costs but with the benefit of lower long-term costs. The introduction of a minimum saving level which must be achieved taking account of compensation costs, provides Services with a clear minimum saving to be attained, for any severance, which will be essential during the impending period of reduced budget.

## **8. RECOMMENDATION**

- 8.1 It is recommended that Members approve the proposed Severance Policy for immediate implementation.

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**DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES**

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**DIRECTOR OF FINANCE SERVICES**

Date: 23 November 2010

Ref: W:/committee reports/council/2010/committee report. Severance policy Dec 10

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## **LIST OF BACKGROUND PAPERS**

Draft Severance Policy