

Cabinet - 24 January 2014

Report of the Interim Chief Executive

Electoral Division affected: None

Proposed Voluntary Redundancy Terms

Contact for further information:

Steve Browne, (01772) 534121, Environment Directorate,
steve.browne@lancashire.gov.uk

Executive Summary

At its meeting on 7 November 2013, the Cabinet asked the Interim Chief Executive to develop a proposal for a voluntary severance package which would ensure a fair approach for all staff over the next four years.

The report describes the voluntary redundancy arrangements that have been in place over the period of the financial strategy 2010/11 to 2013/14.

To the end of March 2013 some 1,486 employees left the council under its voluntary severance package at a total cost of £63.717m (including pension strain). Further staff will leave under the current arrangements prior to March 2014.

The report sets out the indicative timetable for downsizing the council's establishment and the commitment to achieve this by voluntary means, subject to sufficient volunteers coming forwards by April 2016.

The meaning of voluntary redundancy (VR) is clarified. To date, in addition to VR, de-facto compulsory redundancy has occurred on the basis of "voluntary" terms.

The cost of the voluntary severance package has been estimated on the basis of 2,500 full time equivalent posts (FTEs). The statutory minimum cost of compulsory redundancy, based on this number of FTEs is estimated to be £56.5 million. The estimated cost of the proposed voluntary severance package is in the range £75 million to £79 million.

The current multiplier used in the calculation of the voluntary redundancy payments is 1.8 weeks pay for each year's service, up to a maximum reckonable service of 30 weeks.

It is proposed that the current arrangements continue to apply up to 31 March 2014. After that date the following terms would apply throughout the period 2014 to 2018:

- 1 April 2014 to 31 March 2015, a multiplier of 1.6
- 1 April 2015 to 31 March 2016, a multiplier of 1.4

- 1 April 2016 to 31 March 2018; statutory minimum, no multiplier and a maximum of £450 per week for each week used in the calculation.

Whilst the offer of VR is open to all employees, it may be necessary to decline an application due to the needs of the service. Should this occur and an employee subsequently face compulsory redundancy, it is proposed that the severance terms for an employee in these circumstances would be those pertaining at the time of the originally declined leaving date.

Recommendation

Cabinet is asked to:

- (i) To recommend the proposed voluntary severance package set out in the report to Full Council for approval;
- (ii) Approve the strategy for financing the proposed Voluntary Redundancy scheme as set out in this report and instruct the County Treasurer to reflect the implications of this strategy with the Treasury Management Strategy and within the detailed budget proposals and forecasts to be presented to the Cabinet and County Council during February 2014.

Background and Advice

At its meeting on 7 November 2013, the Cabinet asked the Interim Chief Executive to develop a proposal for a voluntary severance package which would ensure a fair approach for all staff over the next four years.

- The report sets out the proposed severance terms that would apply to from 1 April 2014 to 31 March 2018. It is proposed that the voluntary severance terms would apply to all employees of the county council.

During the period of the financial strategy period 2010/2014 some 1,486 employees have left the council under its voluntary severance package at a total cost of £63.717m (including pension strain).

During the period, 2010/12, the severance package multiplier was 2.2 weeks for every year's service, up to a maximum reckonable service of 30 weeks. An additional incentive of 3 months' pay in lieu of notice was also available during 2011/12.

From 1 April 2012 the multiplier was reduced to 1.8 and this remains the basis of the current severance package.

Affordability

It is considered that the present severance package is unaffordable. In considering the overall financial position of the council and its downsizing reserves, the County Treasurer advises that it would be prudent to limit the maximum cost of the voluntary severance package over the next financial strategy period to £80 million.

Equally important is the timing of the reduction in employee numbers, as the earlier these are achieved the greater the related cost savings.

Context

- The delivery of the £300m savings to the council's budget by April 2017 will inevitably require a significant reduction in the size of the workforce.
- The Cabinet is committed to achieve the reduction in the workforce by voluntary means.
- If we cannot get enough volunteers, the scale of savings required will mean that compulsory redundancies will be unavoidable.

Planning assumptions

Table 1 sets out a high level assessment of the scale of cost reductions to be achieved from employees. It addresses the council's current and future gross expenditure, fixed cost elements and the proportion of employee costs based upon known current percentages.

- This analysis indicates that we will need to reduce employee costs by £75m. This equates to 2,500 FTEs and is the basis for estimating the cost of the proposed severance package

Table 1	£m		Employee Costs £m	%	Non- Employee Costs £m	%
Current gross spend	1160		332	29	828	71
Forecast growth	165		33		132	
	1325		365	28	960	72
Likely fixed costs	(247)		(63)		(184)	
Spend against which reductions can be applied	1078		302	28	776	72
Required cost reductions (allowing for potential income)	267.25		75	28	192.25	72

Cost of severance

Statutory redundancy payments are based upon an employee's age and length of service, up to a maximum of 30 weeks pay and capped at a maximum weekly payment of £450. Under statutory provisions the maximum an employee can receive is £13,500.

In addition, employees that are members of the local government pension scheme and have reached the age of 55 can receive their pension benefits, adjusted as appropriate under the provisions of the pension scheme. In these circumstances, there is an additional strain on the pension fund and this cost is required to be met by the employer as a lump sum payment to the fund. Experience to date is that this cost is averaging around £9,000 per employee.

The current voluntary redundancy terms are an enhancement of the statutory provisions as follows:

- There is no cap to the weekly pay on which redundancy payments are calculated.
- The number of weeks pay is enhanced by a multiplier of 1.8.

The estimated cost of 2,500 employees leaving on the basis of current VR terms is £89.2m.

Table 2 provides the estimated total costs of VR based upon the various multipliers.

Table 2 Estimated severance costs for 2500 employees (based upon the profile of employees leaving to date)						
	Redundancy payments £m	Pension strain £m	Total £m	Average cost per employee £		
Current terms 1.8 multiplier	66.5	22.7	89.2	35,687		
1.6 multiplier	59.1	22.7	81.8	32,731		
1.5 multiplier	55.4	22.7	78.1	31,250		
1.4 multiplier	51.7	22.7	74.4	29,775		
1.3 multiplier	48.0	22.7	70.7	28,287		
1.2 multiplier	44.3	22.7	67.0	26,819		
1.0 multiplier	37.0	22.7	59.7	23,864		
Statutory maximum (30 weeks @ £450)	33.8	22.7	56.5	This is a maximum assuming all employees receive the max 30 weeks @ £450		

Equally important, however, is when the VR takes place as this will determine the level of savings that can be achieved during the financial strategy period. At an average saving of £30,000 per year, a reduction in the workforce of 2,500 saves £75m for each full year the reduction in numbers is achieved.

Timetable for a new establishment

Cabinet has already indicated that a key element of achieving the budget strategy will be the development of a completely new organisation aligned to the size of its future resources.

In order to achieve the full budget reductions in the 2017/18, it is considered that the new county council employee structure needs to be in place by 1 April 2016. There is a need to complete the downsizing of the council establishment by that date and the proposed severance terms need to facilitate this.

It is proposed that there would be a phased approach to introduction of the new council structure. This would require the management structure to be in place first to enable the detailed design of the operational services.

The target would be for the management structure of the council (grade 11 and above) to be in place by April 2015.

There is, therefore, a need to establish a momentum within the workforce with respect to those employees to which voluntary redundancy may be appropriate.

There is currently an expectation amongst the workforce that the VR terms will be reduced, given the current financial position and the lower terms offered in other local authorities. It is suggested that both a reduction in the terms and a differential application of the reduction in 2014/15 and 2015/16 would be beneficial in supporting the achievement of this timetable.

Commitment to Voluntary Redundancy

The Cabinet are committed to reducing employee numbers on a voluntary basis.

Subject to sufficient numbers of volunteers coming forwards by 31 March 2016, it is proposed that no employee will be made compulsorily redundant during this period.

This will mean that if employees find themselves without a post prior to April 2016 they will remain subject to redeployment during this period until 31 March 2016.

Whilst detailed arrangements still need to be considered and consulted upon, it is proposed that, as far as possible, recruitment to the new council structure will be on the basis that employees are allowed equal access to posts within the new structure.

It is expected that it will take until 31 March 2016 to make all the appointments to the new establishment.

Whilst it is not possible to give assurance with respect to employment after 31 March 2016, the approach does provide employees with a degree of security and clarity within which employees can make their plans, and is fair to all.

To date, employees finding themselves subject to redeployment, but with no post available, have faced termination of their employment after three months, on statutory redundancy terms. In these circumstances, the employees affected have naturally elected for voluntary redundancy on the enhanced terms. Whilst these employees count against the voluntary redundancy statistics, from their own perspective they have been made compulsorily redundant on "voluntary" terms.

The above commitment will mean that voluntary redundancy will be genuinely voluntary for all employees leaving the council under the severance provisions before April 2016.

Retention of skills and capacity

It is important that as part of the downsizing process the council does not lose essential skills that will be needed for the future. It is important to state that voluntary redundancy is not a right for employees. There will be occasions, therefore, when an application for VR will be refused due to the needs of the council's services. The key test is whether the council would have to recruit externally for someone to do the job of the person applying for VR. Internal redeployment and training will be utilised to facilitate the reduction in numbers but the bottom line will always be the needs of the service.

Whilst the offer of VR is open to all employees, as indicated, it may be necessary to decline an application. Should this occur and an employee subsequently face compulsory redundancy, it is proposed that the severance terms for an employee in these circumstances would be those pertaining at the time of the originally declined leaving date. In this way access to the VR terms would be fair to all.

Retraining

In addition to VR it is proposed that employees will be assisted with re-training to enable to find re-employment elsewhere. It is recognised that it is easier to find alternative employment whilst still in a job, than seeking employment from an unemployed position. Downsizing the workforce in this way is beneficial to the individual employee but also a potentially lower cost option for the council.

Suggested way forward

- A commitment to voluntary redundancy as set out above until 31 March 2016, subject to sufficient numbers of volunteers coming forwards by that date. The position will be monitored and no change to the approach will be introduced without prior notification to employees and a decision of Full Council.
- That anyone asking to leave on VR, who is refused and subsequently faces compulsory redundancy, will leave on the VR terms applying at the time of their originally requested leaving date. In this way all employees will have the same opportunity to access the VR terms.
- The severance terms to be applied over the next four years will be as follows:

1 April 2014 until 31 March 2015: A multiplier of 1.6

1 April 2015 until 31 March 2016: A multiplier of 1.4

1 April 2016 until 31 March 2018: Statutory redundancy pay (Maximum 30 weeks pay at a maximum of £450 per week)

Financial

The following Table 3 provides a sensitivity analysis of the cost of the proposed terms based upon the number leaving in each year. It can be seen that the total cost would be in the range £75m to £79m, which is within the parameters proposed by the County Treasurer.

Table 3	Number of VRs	2014/15 cost £m	Average cost per employee £	Number of VRs	2015/16 cost £m	Average cost per employee £	Total £m
Multiplier		[1.6]	32,731		[1.4]	29,775	
	250	8.18		2250	66.99		75.18
	500	16.37		2000	59.55		75.92
	750	24.55		1750	52.11		76.65
	1000	32.73		1500	44.66		77.39
	1250	40.91		1250	37.22		78.13
	1500	49.10		1000	29.78		78.87

The financial parameters set for the proposed voluntary redundancy scheme were to design a scheme within a cost envelope of £80m. While the final cost can only, at this stage, be estimated based on a series of best assumptions the scheme set out above achieves this.

Voluntary redundancy costs represent one of the various calls upon the Council's Downsizing Reserve, which as reported to the Cabinet on 9 January 2014 is currently estimated to stand at £49m at the end of the current financial year. Taking into account the various potential calls for "invest to save" resources identified to date in budget proposals it is estimated that a further £40m needs to be identified in order to fund the whole of this programme of organisational change. It is important to note that over the next four years, additional invest to save resources above those identified to date are likely to be required to assist the Council in reshaping services as part of the overall reshaping of the organisation.

Further work to review other reserves and provisions held by the Council and the earmarking of any one off resources that are identified will continue in order to maximise the level of resources available to support the scheme. However, this approach is unlikely to provide sufficient further funds to achieve the level of resources identified above. Therefore a more strategic approach to ensuring the necessary resources are available is required.

The approach proposed is to release revenue funds totalling £38.5m currently earmarked for the financing of the 2014/15 Capital Investment Programme and instead utilise borrowing to replace this funding.

This will result in an increase in the Council's financing costs of £3.045m in 2015/16 (on the assumption that all the borrowing needs to be applied to capital spend during 2014/15). However, this must be balanced against the need to make significant savings and the fact that the Council has a limited number of options to realise sufficient revenue resources to support the voluntary redundancy scheme.

The payback period for the scheme based on a maximum cost of £80m and taking the additional financing costs into account is estimated to be 1.11 years, which is in line with the payback achieved within the current financial strategy.

The exact timing of the impact of the additional financing costs will depend on both the exact cash flows of the capital investment programme and strategic decisions about when to utilise different sources of financing in order to finance the overall programme.

The Government are making available a competitively based scheme to allow Council's the flexibility to use capital receipts to meet the costs of restructuring such as voluntary redundancy. It is open to the Council to make an application to this scheme. However, a bid for nearly £40m would consume a very significant proportion of the funds available within this scheme and there is no guarantee that an application would be successful. In addition, unless additional capital receipts of c.£40m were generated over a relatively short timescale there would be a requirement either to reduce the overall capital investment programme or replace capital receipts with borrowing with the same revenue cost implications. While this approach is open to the Council it is not recommended.

At this stage the Cabinet are being asked to approve this as a strategic approach to meeting the costs of the voluntary redundancy programme and to ask the County Treasurer to reflect this within the Council's borrowing requirement within the Treasury Management Strategy and the forecast revenue costs in the final budget proposals to be considered by the Cabinet on 6 February 2014 and then by the Full Council on 20 February 2014.

Consultations

The proposals outlined in the report have been discussed with trades unions representatives and will be presented to the recognised trade unions at the JNCF meeting to be held on 15 January 2014.

Legal and Personnel Implications:

Where an employer is proposing to dismiss as redundant 20 or more employees at one establishment within a period of 90 days s.188 of the Trade Union and Labour Relations (Consolidation) Act 1992 (as amended) requires the employer to consult the recognised trade unions about the dismissals. The consultation must begin in good time and in any event where the employer is proposing to dismiss 100 or more employees the employer must consult at least 45 days before the first of the dismissals takes effect. The consultation must include consultation about ways of avoiding the dismissals, reducing the number of employees to be dismissed, and mitigating the consequences of the dismissals and must be undertaken with a view to reaching agreement.

The requirements of s.188 apply even where dismissals are to be on the basis of voluntary redundancy and the section requires the service of a notice on the recognised trade unions setting out prescribed information. A failure to comply with the requirements of s.188 entitles an employee to present a complaint to an Employment Tribunal. If the Tribunal finds the complaint well-founded it has power to make a "protective award" of up to 90 days pay. The Council is also required to notify the Secretary of State of the proposals.

As setting terms and conditions of employment is a Full Council function Cabinet can only recommend changes in the multiplier. Full Council would therefore need to be asked to amend the Council's Annual Pay Policy Statement for 2014/15 and the Redundancy Payments Scheme.

Changes to the level of compensation for early termination of employment must also be made in accordance with provisions contained in the Local Government (Early

Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006. These Regulations require that notice of the changes must be published not less than one month before they come into effect, therefore if the changes are approved by Full Council it is proposed that a revised Redundancy Payments Scheme will be published and will apply to the calculation of payments where formal notice of redundancy has been issued on or after 1 April 2014.

HR Implications

Formal consultation with the Council's recognised trade unions is required as set out above.

It remains a condition of the Council's Redundancy Payments Scheme that, as a condition of an application for voluntary redundancy, employees must agree not to apply for employment with the Council, including casual employment and paid consultancy work, for a period of three years following their termination of employment.

Risk management

In order to achieve the cost reductions necessary to meet the requirements of the council financial strategy there is a need to significantly downsize the workforce. The proposals set out in the report enable the council to take action early to achieve this objective whilst maintain a key focus on service delivery and being fair to all employees

List of Background Papers

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A