

Report of: Assistant Chief Executive, Governance and HR

Meeting of:	Date	Ward(s)
Audit Committee	6 June 2016	All

Delete as appropriate	Exempt	Non-exempt
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SUBJECT: Review of Voluntary Redundancy Scheme**1.0 Synopsis**

1.1 The Council has run council wide voluntary redundancy schemes in the last six financial years. The last scheme (2015/16) provided for an increased incentive payment of £5,000 in addition to the entitlement they would receive under the council's standard compulsory redundancy scheme. This report investigates the take-up and financial impact of the scheme and invites the committee to consider whether it would be appropriate to continue to offer an increased additional payment in the 2016/17 scheme.

2.0 Recommendations

- 2.1 To note the information in the report concerning the voluntary redundancy schemes run over the past six years.
- 2.2 To note the extra costs of the increased enhanced payment.
- 2.3 To agree that the scheme be offered in June/July 2016.

3.0 Background

- 3.1 The council has run a voluntary redundancy scheme in each of the last six financial years. Invitations to apply were issued to all directly employed council staff. The redundancy calculations have been based on the council's standard terms and conditions with an additional enhancement of £5,000 last year, and of £500 in the previous years. The standard redundancy payments scheme applies only to employees with two or more years' continuous service with a body listed in the Redundancy Payments (Continuity of Employment in Local Government) Modification Order.
- 3.2 Calculation of payments under the council's standard scheme is based on the statutory scheme but actual salary rather than the statutory weekly maximum is used for this calculation. The calculation is as follows:
- 0.5 week's pay for each full year of service aged under 22
 - 1 week's pay for each full year of service between the ages of 22 and 41
 - 1.5 week's pay for each full year of service worked from the age of 41 and over.

This is subject to a maximum 20 years of service (30 x a week's pay is therefore the maximum available).

- 3.3 The scheme has been agreed each year with the trade unions which support the principle of making voluntary redundancies before making any compulsory redundancies. This is also likely to impact positively on staff engagement levels. The council's Organisational Change procedure states that the council will seek to avoid compulsory redundancy by considering voluntary redundancy if this is appropriate.

4.0 How the scheme works

- 4.1 A copy of the draft scheme for 2016/17 is in Appendix 1.
- 4.2 The scheme is usually open for applications for a 4 week period either before or after the main summer break. However the 2015/16 scheme was run in the autumn due to uncertainties as to savings proposals until a later stage than normal. As general plans for savings for 2017/18 are already known, there is no need to delay this year's scheme. Applicants complete an online application form by the specified deadline and all applications completed are submitted to the relevant line manager and departmental management team for consideration. The Corporate Director or Assistant Chief Executive makes the final decision. Applications by Chief Officers are considered by CMB. There is no appeal of this decision.
- 4.3 Each individual case is assessed in the interests of the efficiency of the service and longer term financial considerations. Applications can only be accepted where it is appropriate to delete the employee's post. However, an unsuccessful employee may be placed on a central register of employees willing to take voluntary redundancy should another employee facing

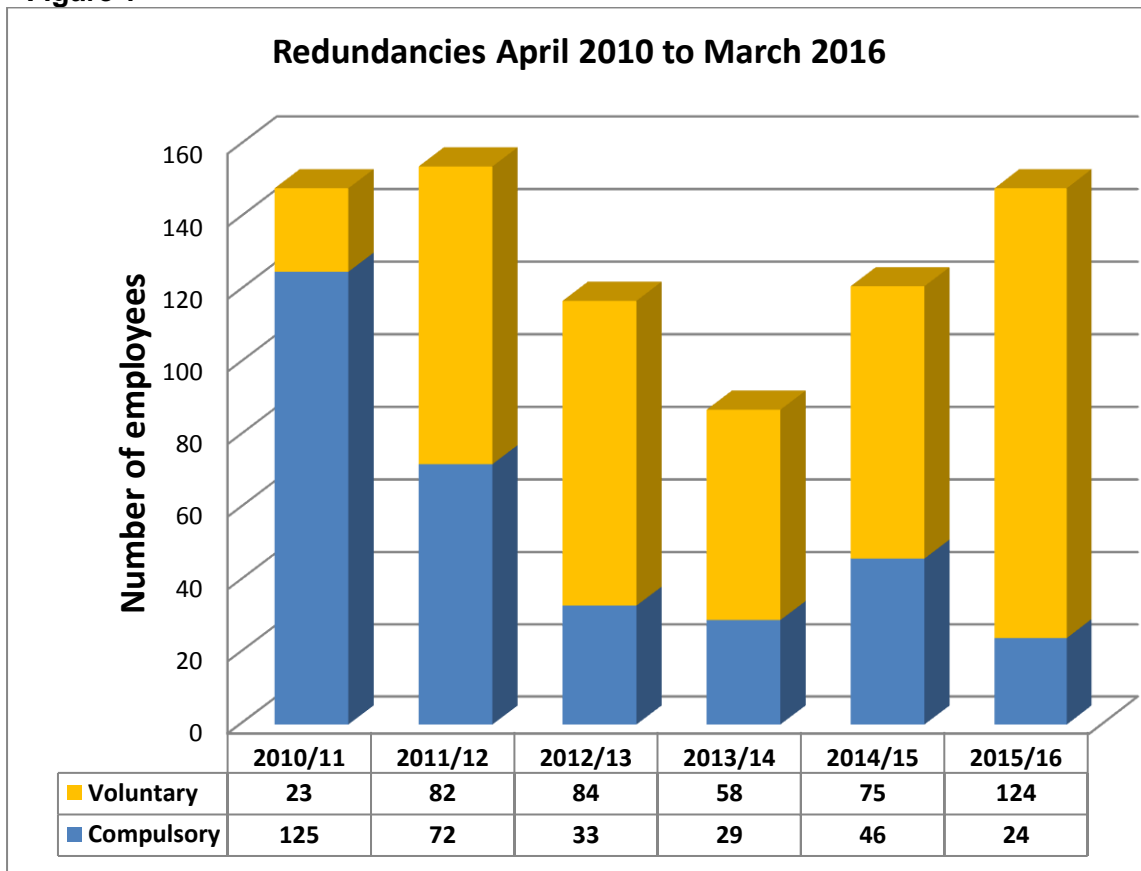
compulsorily redundancy in the future be a suitable candidate for their post. This is known as a ‘bumped’ redundancy.

- 4.4 The proposed timing for this year’s scheme is:
- Monday 13 June 2016 – open for applications
 - Friday 8 July 2016 close
 - w/c Monday 18 July 2016 – DMT’s to make decisions on applications
 - w/c Monday 1 August 2016 – employees advised on outcome of applications
 - Employees to leave on 31 March 2017 (unless another date exceptionally agreed by the Assistant Chief Executive (Governance and HR)).

5.0 Take-up of the scheme

- 5.1 Between April 2010 and March 2016 (inclusive) 775 staff exited the council by way of redundancy, 446 of whom were volunteers. Typically, in the region of 25% of voluntary redundancy applications are accepted. The remainder are declined or put on the central register.

Figure 1



- 5.2 The balance of redundancies has shifted over the last six years from a position where the majority were compulsory to the current situation where the majority

of redundancies are voluntary. In 2010/11 only 16% of redundancies were voluntary whereas in 2014/15 - 62% of redundancies were voluntary.

5.3 The distribution between departments is as follows:

April 2010 to March 2016	Chief Executive's	Children's Services	Environment & Regen	Finance & Resources	HASS	Public Health	Total
Compulsory Redundancy	50	118	68	62	28	3	329
Voluntary Redundancy	43	56	129	94	118	6	446
All Redundancies	93	174	197	156	146	9	775

6.0 Equalities Analysis

6.1 The average age of an employee leaving via voluntary redundancy is 51 compared to 46.09 for those leaving via compulsory redundancy and 44.3 for existing council employees. Older employees are usually more expensive to make redundant as the compensation calculation takes into account length of service and age. If an employee is aged 55 or over on their last day of service they are entitled to access their pension where applicable. This has additional financial implications known as a "pension strain".

The average age of an employee leaving has increased from 47.3 in 2010/11 to 51.71 in 2015/16.

Table 1

Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Average age of VR leaver	47.3	49.2	52.2	52.7	50.48	51.71

Source: HR Systems 2016

51.70% of voluntary redundancy leavers are aged 55 or over compared to 24.10% of compulsory redundancy leavers and 20.33% of the existing workforce. This trend has increased markedly since 2010/11 and in the 2015/16 scheme 55.08% leavers were over 55.

Table 2

Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
% VR Leavers over 55	17.40%	41.50%	58.30%	58.60%	54.65%	55.08%

Source; HR Systems 2016

All the above data demonstrates that the voluntary redundancy scheme is being well used by older workers to exit the organisation.

6.2 White employees are more likely to leave via voluntary redundancy accounting for 66.29% of voluntary redundancies compared to 55.09% of compulsory redundancies and 52.98% of the workforce as a whole.

6.3 A higher proportion of employees with a disability leave via voluntary redundancy (8.8%) than compulsory redundancy (5.08%). This compares to 5.4% for the organisation as a whole.

7.0 Financial Analysis of take-up

7.1 As indicated in figure 1, there were 124 voluntary redundancies and 24 compulsory redundancies in 2015/16. Of these 81 were under the enhanced 2015/16 scheme. In addition, there were a further 14 voluntary redundancies agreed under the 2015/16 scheme which have had leaving dates agreed to take place by the end of June 2016. In addition, there have been 2 compulsory redundancies since then. It is anticipated that restructures to implement the 2016/17 savings which are not yet complete will generate a further 3 compulsory redundancies.

7.2 The additional costs incurred as a result of the increase of the incentive from £500 to £5000 in the pilot scheme is £427,500. The overall cost of the incentive payments made under the 2015/16 scheme is £475,000.

7.3 The council still has substantial savings to make and this will unfortunately involve further reductions in the workforce. It is therefore proposed that a further scheme be run in June /July 2016 to contribute to 2017/18 savings. Previous schemes have been run in the summer months.

8.0 The Enterprise Act 2016

8.1 The Enterprise Act introduced a £95,000 cap on termination payments for public sector workers, including those in local government. It also includes new and amended regulations to the Local Government Pension Scheme to enact the cap.

Payments in scope include:

- any payment on account of dismissal by reason of redundancy
- any payment on voluntary exit;
- any payment to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect of the cost to a pension scheme of such a reduction not being made; (pension strain)
- any severance payment or other ex gratia payment;
- any payment in respect of an outstanding entitlement; (could include annual leave)
- any payment of compensation under the terms of a contract;
- any payment in lieu of notice;

- any payment in the form of shares or share options.

The commencement date for the introduction of this £95,000 exit cap not yet been published and it is not know if there will be any transitional arrangements regarding settlements already agreed.

- 8.2 In the 2014/15 scheme seven employees would have been affected by the introduction of this cap, mainly because of the additional cost of the pension strain. In the 2015/16 scheme there were no employees who fell within this category.
- 8.3 It is proposed that in the 2016/17 scheme employees taking voluntary redundancy continue to work until the end of the financial year (31 March 2017) as the scheme normally stipulates, as opposed to applying or allowing another earlier date of departure (unless another date is exceptionally agreed by the Assistant Chief Executive (Governance and HR). It will be made clear in the publicity for the scheme that those over 55 with pension scheme entitlements will need to bear this in mind.

9.0 Benefits to the council of a successful voluntary redundancy scheme

- 9.1 The voluntary redundancy scheme is advantageous for both management and employees. It enables employees to come forward and initiate a discussion about their future without fear of committing themselves until all the paperwork has been agreed once exit figures have been finalised. For managers, it means that they can plan reorganisations more effectively knowing in advance about who is thinking of leaving. It provides management with much more flexibility in planning aided by the “bumped” redundancy scheme.
- 9.2 Implementing compulsory redundancies is a significant drain on management time and is very disruptive for the wider workforce. Time is spent on individual consultation and in dealing with appeals which is saved if redundancy can be agreed on a voluntary basis.
- 9.3 The council has made a commitment in its Organisational Change policy to seek to avoid compulsory redundancies by using voluntary redundancy where appropriate. This commitment and its implementation is likely to have a positive effect on employee engagement and reduce the negative impact on service performance which can result from the distress and demotivation sometimes experienced by continuing staff whose colleagues have been made compulsorily redundant.
- 9.4 Use of voluntary redundancy also reduces the risk of legal claims against the council. Implementation of compulsory processes carries with it the risk of disputes and to employment tribunal claims. Even where these are successfully defended, they pose a further drain on management resource and on HR and Legal Services resources and may incur irrecoverable costs, for example in respect of the use of counsel in more complex cases.

10.0 Why continue with the £5,000 scheme?

- 10.1 The council is facing a further period of change as a result of reductions in funding from central government. This will inevitably require more redundancies to be made. The benefits of a successful voluntary redundancy scheme have been identified above and to ensure sufficient take-up and reduce the number of compulsory redundancies required and to attract a more representative cross section of the workforce it is considered that the incentive should remain at £5,000.
- 10.2 £5,000 amounts to approximately two months' pay for the average employee. It is considered that this should be a sufficient period to attract employees who are considering volunteering, but are concerned it might take them longer than their notice period to find a new job. As those with less than 2 years' continuous employment are only entitled to this additional scheme payment and not to a payment under the standard scheme, this £5,000 payment will make it more likely that employees in this category will consider applying for voluntary redundancy. It is also anticipated that this will make the scheme more attractive to lower graded staff who in the past have been under-represented amongst volunteers. This will enable fewer compulsory redundancies to be made amongst this staff group.
- 10.3 It is anticipated that with offering £5,000 interest in the scheme will be high and generate additional work within HR and for managers in administering the scheme. It is anticipated that this extra work will be offset by reduced time being spent on compulsory processes as described at section 9 above.
- 10.4 Consultation with the trades unions has taken place concerning the proposal to continue with the additional payment of £5,000 in line with last year's scheme and they have indicated their support for the proposal.
- 10.5 The scheme will revert to an additional payment of £500 for 2017/18 unless a further report is brought to the Audit Committee.

11.0 Legal implications

- 11.1 The council has power to enhance the statutory redundancy scheme and to make severance payments to staff not eligible for that scheme under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England & Wales) Regulations 2006 (as amended) where dismissal is for redundancy or efficiency reasons.
- 11.2 Under the Redundancy Payments (Continuity of Employment in Local Government) Modification Order continuous service with bodies listed in the Order is included in the calculation of an employee's continuous employment for redundancy purposes.

12.0 Financial implications

- 12.1 In terms of the cost of the 2015/16 enhanced scheme. The 95 staff made voluntary redundant cost an additional £427,500 through the increased £5,000 enhancement above the previous £500. The cost alongside where relevant capital costs of early retirement were met in full from the Council Redundancy Reserve. The reserve is planned to be 'topped-up' and this should provide a sufficient resource to fund a 2016/17 VR scheme.
- 12.2 Given the scale of the continuing savings required by the council over the coming years a suitably attractive VR scheme is a useful tool in mitigating the impact of compulsory redundancies on staff and smoothing the achievement of savings.

13.0 Resident Impact Assessment

- 13.1 An equalities analysis of the operation of the scheme over the past six years is included in the body of the report.

14.0 Conclusion

- 14.1 The council's voluntary redundancy scheme has been successful over recent years. In order to maintain and extend its success, the Audit Committee is asked to agree that the additional payment available to volunteers under it remains at £5,000 for the 2016/17 scheme on a pilot basis.

Appendices

Draft Voluntary Redundancy Scheme

Background papers: (available online or on request)

None

Final report clearance:

Signed by:

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Date 25 May 2016

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Appendix 1

DRAFT Voluntary Redundancy Scheme 2016

BACKGROUND

1.1 CONTEXT

The council is faced for a further year with the need to make substantial savings which will inevitably entail some job losses. In order to minimise the need for compulsory redundancies, the council has decided to introduce a voluntary redundancy scheme which will operate for the 2016/17 financial year.

1.2 SCOPE OF THE PROCEDURE

This procedure applies to most non-school council employees. Those who are not eligible for a redundancy payment because they will not have completed 2 years continuous employment at the time of their departure may apply under the Scheme and will be eligible to receive a payment of £5,000 in the event that their employment is terminated pursuant to the Scheme.

- 1.3 Applications under this Scheme will not be considered unless they are received by the closing date of **Friday 8 July 2016**. It will still be possible for employees directly affected by a specific re-organisation to volunteer for redundancy during the consultation process concerning the specific reorganisation in the ordinary way but the special payment of £5,000 mentioned at 3 below will not be available.

PROCEDURE

2.0 Application for Voluntary Redundancy

- 2.1 To make a formal application for voluntary redundancy, you should complete the Voluntary redundancy application form which is available online at: <http://vr/>. Paper applications or e-mails saying you wish to apply will **not** be accepted. If you do not have access to a computer, please call HR Express on 020 7527 6070. As a courtesy, you should inform your line manager if you submit an application for voluntary redundancy.
- 2.2 Before you apply you should calculate your redundancy entitlement using the online calculator available on izzi. You can also contact the HR team on 020 7527 6070 or email hr.express@islington.gov.uk. If you require pensions figures as part of this calculation you should allow 5 working days for a response.
- 2.3 Requesting redundancy figures is not a formal application and does not commit you or the council to anything; it will simply trigger the production of a personal redundancy payment estimate for you. Your line manager is not notified of your interest in voluntary redundancy at this stage, although you may have already told them as a courtesy that you are interested in it.

2.4 Should you need formal estimate of pension entitlement, you should make this clear in your email requesting a redundancy estimate.

2.5 Once you have received the estimate of your redundancy figures, if you decide to proceed and make a formal application for redundancy you should apply as soon as possible but no later than **Friday 8 July 2016**

3.0 Voluntary Redundancy Pay

- 3.1 Under the council's current severance arrangements you will receive:
- a statutory redundancy payment based on your contractual weekly gross pay, rather than the statutory maximum of £479 per week;
 - immediate and unreduced payment of your benefits if you are a member of the Local Government Pension Scheme and provided that you:
 - have at least 2 years membership **AND**
 - are 55 years of age or over on your last day of service (assumed to be 31 March 2017 for the purpose of this exercise);

In the event that you are accepted for redundancy under this scheme, you will be entitled to a payment of £5,000 whether or not you qualify for a redundancy payment.

3.2 If you apply under this Scheme you will initially be provided with estimated figures with a last day of service of 31 March 2017. More precise figures will be supplied should your application for redundancy be successful.

- 3.3 Figures will be estimated based on:
- your age: as at the last day of service (in this case 31 March 2017)
 - length of local government service: completed years (maximum length 20 years)
 - weekly pay: based on your contractual gross weekly pay.

The amount of week's pay awarded is in accordance with the following:

- **0.5 week's pay** for each full year of service aged under 22
- **1 week's pay** for each full year of service between the ages of 22 and under 41
- **1.5 week's pay** for each full year of service worked from the age of 41 and over.

4.0 Consideration of applications

4.1 Shortly after the closing date of **Friday 8 July 2016**, Human Resources will notify all Corporate Directors, Assistant Chief Executives, Service Directors and Heads of Services of the applications that have been made within their areas. The relevant Departmental Management Team (DMT) will consider your application. Your line manager will also be formally made aware of your application at this stage.

- 4.2 The DMT may accept or reject your application and has complete discretion in this respect (other than as set out at 4.3) based on business considerations. There is no appeal of the decision.
- 4.3 Applications by Chief Officers will be considered by CMB.
- 4.4 Where your application is not accepted because it is not appropriate to delete your post, it may, if the DMT considers appropriate, be entered into a central register of employees willing to take voluntary redundancy should another employee facing compulsorily redundancy in the future be a suitable candidate for their post. This is called a “bumped” redundancy. Suitability will be assessed through the normal interview process for redeployment.
- 4.5 If your application is accepted a confirmation e-mail will be sent out.
- 4.6 You may accept or decline the offer.
- 4.7 If you wish to accept the offer, you must confirm by return e-mail that you accept the offer. Appropriate letters setting out the arrangements for leaving, including notice period and last day of service will then be issued and you will be made redundant.
- 4.8 You should be aware that if you obtain a position with this council or another body covered by the Redundancy Modification Order within a month of receiving your redundancy pay you will need to repay your redundancy payment.
- 4.9 The last day of service for employees leaving under this scheme is 31 March 2017. Employees accepted for voluntary redundancy under this scheme will be expected to continue working until this date.