

## CABINET ITEM COVERING SHEET PROFORMA

**AGENDA ITEM**

**REPORT TO CABINET**

**1 FEBRUARY 2007**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

### **CABINET DECISION**

**Corporate – Lead Cabinet Member: Councillor Coleman**

#### **REDUNDANCY/EFFICIENCY SCHEME AND DISCRETIONARY POLICY STATEMENT UPDATE ON NEW-LOOK LOCAL GOVERNMENT PENSION SCHEME**

1. Summary

This report details the proposed Redundancy/Efficiency Scheme which will replace the Council's existing Early Retirement/Voluntary Redundancy Scheme, and also a Discretionary Policy Statement both of which are required due to recent changes in the Local Government Pension Scheme. In addition a brief summary has been included outlining the key elements of the New-Look Local Government Pension Scheme. This report does not apply to the Teachers Pension Scheme.

2. Recommendations

1. That Cabinet approve the Redundancy/Efficiency Scheme and Discretionary Policy Statement as detailed in the report with immediate effect.
2. The elements of the proposed New-Look Local Government Pension Scheme are noted for information and also a response is provided to the current consultation exercise which will be circulated to all Members for any comment prior to it being submitted.

3. Reasons for the Recommendations/Decision(s)

Authorities have a range of options available to them and a decision needs to be made on what options the Council will adopt.

4. Members Interests

Members (including co-opted members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (paragraph 8) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (paragraph 10 of the code of conduct).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting is being held, whilst the matter is being considered; not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (paragraph 12 of the Code).

**Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc.; whether or not they are a member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting, and if their interest is prejudicial, they must also leave the meeting room during consideration of the relevant item.**

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UPDATE ON NEW-LOOK LOCAL GOVERNMENT PENSION SCHEME**

**SUMMARY**

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**RECOMMENDATIONS**

1. That Cabinet approve the Redundancy/Efficiency Scheme and Discretionary Policy Statement as detailed in the report with immediate effect.
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**DETAIL**

**Background**

1. A number of proposed changes to the Local Government Pension Scheme (LGPS) are currently under discussion, which will result in a New Look LGPS coming into force on 1 April 2008. Amendments have also been made to the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2000, which were originally intended to come into force on 1 October 2006. Following a consultation exercise and tight timescales the final regulations were delayed and the actual Regulations came into force on 29 November 2006 but have retrospective effect from 1 October 2006. These regulations govern the compensation that Authorities can award to an employee whose contract ends on the grounds of redundancy or efficiency. The new regulations set out to ensure that the discretionary powers to award compensation to local authority staff whose employment is terminated early will meet the requirements of the European Employment Directive. The date of 1 October 2006 corresponds with the introduction of the Employment Equality (Age) Regulations 2006.

2. The current and proposed provisions available to local authorities to compensate employees under the Discretionary Compensation Regulations are detailed in the table below:

Current Provisions	New Provisions
The discretionary power to remove the weekly pay ceiling placed on statutory redundancy payments under the Employment Rights Act and to calculate, instead, on pay up to the actual week's pay	Retain the discretionary power to waive the weekly pay ceiling placed on statutory redundancy payments and to calculate, instead, on pay up to the actual week's pay
The discretionary power to award a one-off lump sum payment of up to 66 weeks' pay, based on a service and age-related formula	Provide a discretionary power to award a one-off lump sum payment of up to, but not exceeding, two years' pay (104 weeks), inclusive of any redundancy payment made. Information received to date indicates that any payment of over £30,000 including any pay in lieu of notice will be subject to tax at the individual's current rate.
The discretionary power to award added years on top of the benefits payable under the Local Government Pension Scheme (LGPS) for eligible employees aged 50 or over and under 65.	Remove the power to award added years (although additional membership can still be awarded through the augmentation provisions in the LGPS).

3. The new regulations also contain transitional provisions to the end of the current 2006/7 financial year which means that an employer can choose to use either the 2000 regulations or the 2006 regulations for a person whose employment with them commenced before 1 October 2006 and whose termination date is on or after 1 October 2006 and before 1 April 2007.
4. Each Authority needs to determine its policy and approach to the award and calculation of the discretionary lump sum payment for terminations due to redundancy and efficiency. Guidance received so far indicates that as long as schemes mirror the statutory redundancy payments scheme it will be covered by one of the limited exemptions contained in the Age regulations for redundancy schemes. This enables employers to apply multipliers to the statutory scheme to enhance it. One of the ways in which employers are allowed to enhance statutory redundancy payments is by using the individual's actual weekly salary in the calculation and by also increasing the amounts allowed for each year of service under the statutory scheme.
5. The new Regulations remove the ability for local government employers to award "added years" compensation on termination of employment. Such awards are at present only open to individuals between the ages of 50 and 65. However the provision still remains under Regulation 52 of the LGPS Regulations 1997 for employers to award a member an additional period of membership at any time during active membership of the Local Government Pension Scheme (Augmentation). The granting of additional membership prevents an employer making a one-off lump sum payment of discretionary compensation. However, in the cases of redundancy, a statutory redundancy payment can still be made. Service can be augmented by up to 6 2/3 years at any time during an individual's employment at whatever age, as long as they are an active member of the Local Government Pension Scheme. The augmented service will be included in calculations relating to pension and lump sum entitlement.

6. There is no change to the earliest age that benefits may be paid on the grounds of redundancy or efficiency, or at which an employer can agree to the early release of pension benefits, this remains at age 50 (but will have to increase to 55 by 2010).
7. Each Employer who participates in the LGPS is also required to formulate, publish and keep under review a Policy statement on certain discretions contained within the Regulations. The proposed Policy Statement is attached at Appendix 4.

## **Current situation**

8. In reviewing the current scheme (See Appendix 2) and incorporating the provisions of the new regulations, the role of the Redundancy/Efficiency Policy in managing organisational change has been considered, together with the options available to the Authority under the pension regulations. Financial implications have also been considered in relation to the immediate cost of releasing an employee and also any ongoing costs, which may be incurred.
9. The proposed Scheme (See Appendix 3) incorporates a number of key elements:
  - In cases of redundancy an enhanced redundancy payment will be made based on the attached table (Table 1 – See Appendix 3). This mirrors the statutory redundancy table using a multiplier of 2.2 to enhance it. This payment is inclusive of the statutory redundancy payment. (Table 2 – See Appendix 3). It is proposed to use a 2.2 multiplier as this provides for the same maximum award as the current Scheme i.e. 66 weeks. Although the maximum award is the same, the awards below this differ from the current scheme as a completely different table is used to calculate the amounts payable. In addition for those employees who are over 50 (this is to be increased to age 55 by 2010) and contribute to the Local Government Pension Scheme (LGPS), their basic pension will be released without any actuarial reductions, providing the employee has 3 months pensionable service or has bought a transfer into the LGPS, as is the case now.
  - In the cases of Efficiency of the Service it is proposed a payment of up to 52 weeks salary will be made. The amount payable will be determined by the efficiency criteria (See Appendix 3A and 3B). The amount payable does not relate to age or length of service as to do so could be challenged under the Employment Equality (Age) Regulations 2006. It is considered important to assess the value of the efficiency gain in releasing the employee and appointing a replacement, and link the enhancement of benefits to that value. It is proposed that 4 categories of efficiency gain (25%, 50%, 75% and 100%) will be used and an assessment of each case will be considered using a set of criteria. In addition for those employees who are over 50 (this is to be increased to age 55 by 2010) and contribute to the Local Government Pension Scheme (LGPS) their basic pension will be released without any actuarial reductions, providing the employee has 3 months pensionable service or has bought a transfer into the LGPS, as is the case now.
  - In the case of redundancy or in the interests of the efficiency of the service it is proposed that an individual will be given the choice as to whether they would prefer to convert the cash equivalent sum calculated under the Compensation Regulations (taking off the equivalent amount of a statutory redundancy payment in the case of a redundancy situation) into a period of membership in the LGPS (Augmentation). This only applies to employees who are active members of the LGPS. In the case of those employees who are over 50 their pension benefits will be payable immediately (subject to three months service being attained or having bought a transfer into the LGPS) and for those under 50 the additional service will be added to their deferred benefit.
  - The Authority will apply its discretionary power to calculate payments in all of the above situations using an individual's actual weekly pay as opposed to the statutory limit of a weeks pay as is the case now.

10. Attached at Appendix 5 is a comparison of the payments an individual would receive in a redundancy situation under the existing Scheme using the current 66 weeks compensation table (Appendix 2) and under the proposed Scheme (Appendix 3, Table 1). A comparison has not been made using added years as this provision is no longer an option for Employers under the revised LGPS Discretionary Compensation Regulations 2006.
11. Formal consultation has taken place with the Trade Unions on the proposed Redundancy/Efficiency Scheme and Discretionary Policy statement. Unison made some initial comments and a meeting was arranged to discuss their concerns. Further details were subsequently provided in respect of the efficiency gain criteria. To date no further comments have been received (See Appendix 1,1A, 1B).
12. For your information attached is: -
  - the letter to the Trade Unions (Appendix 1)
  - Unisons response (Appendix 1A)
  - further letter to Unison (Appendix 1B)
  - the current Early Retirement/Voluntary Redundancy Scheme (Appendix 2)
  - the proposed Redundancy/Efficiency Scheme (Appendix 3)
  - Efficiency of the Service – Explanatory notes (Appendix 3A)
  - Efficiency Criteria Table (Appendix 3B)
  - the proposed Discretionary Policy Statement (Appendix 4).
13. Standard documentation will be applied across all Services, which will be completed and signed by the Head of Service and also by the Head of Finance/Head of Operational Finance. The application is then subject to approval by the Corporate Director of the Service in consultation with the Head of Human Resources and appointed Cabinet Member. Approval is also required for any anticipated pay in lieu of notice together with its justification.

## **New Look Scheme**

14. Draft Regulations have now been circulated which propose a new look benefit structure for the Local Government Pension Scheme effective from 1 April 2008.
15. Outlined below are the key elements of the proposed New-Look Government Scheme:
  - Normal Pension Age (NPA) of 65 in order to obtain a release of unreduced benefit;
  - Earliest age for release of pension is to be 55 by 2010 for current members except on grounds of ill-health;
  - Earliest age for release of pension is 55 for new joiners after 1 April 2008, except on grounds of ill health;
  - Augmentation of membership/benefits on an objectively justified basis;
  - Final Salary Pension based on 1/60th of salary for each year of pensionable service, with the flexible option to commute pension at the rate of £1 of annual pension for £12 of lump sum up to a maximum tax free lump sum of 25 per cent of capital value of accrued benefit rights at date of retirement;
  - The better of the last year's whole-time equivalent salary or the 're-valued' (in line with the Retail Price Index (RPI)) average of the best three consecutive years salary in the last ten years of service;

- Survivor benefits for life payable to spouses, civil partners and “nominated” dependent partners (opposite and same sex) at a 1/160th accrual rate;
- Survivor benefits payable to children at a maximum accrual of 1/160th;
- Revised ill-health retirement package with no review system - banded approach with a higher level of benefits for total incapacity and a different level of benefits for partial incapacity;
- A death-in-service tax free lump sum of 3 times salary;
- Scope to have post-retirement lump sum death benefit up to a maximum of 10 years;
- Phased retirement arrangements that would enable LGPS members under specified circumstances to draw down some or all of their accrued pension rights from the scheme while still continuing to work;
- Actuarial enhancement for those who continue in work beyond NPA of 65 without accessing their pension benefits;
- A facility to purchase up to £5,000 of added annual pension.
- Tiered employee contribution rates with 5.5 per cent payable on first £12,000 of pensionable pay, and 7.5 per cent paid on the excess over £12,001. Illustrations of how this impacts on different pay bands are as estimated below:

<b>FTE Salary</b>	<b>Contribution Rate</b>
£5,000	5.5%
£10,000	5.5%
£15,000	5.9%
£20,000	6.3%
£25,000	6.5%
£30,000	6.7%
£40,000	6.9%
£50,000	7.0%
£75,000	7.2%

15. Any further comments on these proposals are requested by 28 February 2007. The last consultation exercise with employers on the New Look Scheme took place in September 2006 and Stockton’s response was circulated to all Members. It is proposed to provide a further response to the current consultation exercise and this will be circulated to all Members for any comment prior to it being submitted.
16. The New-Look Scheme is programmed to be fully operational from 1 April 2008. To achieve this, the Government’s timetable and programme of reform requires the new regulations to be in place for 1 April 2007.

## **FINANCIAL AND LEGAL IMPLICATIONS**

### **Financial**

Financial implications will arise on the application of the Redundancy/Efficiency Scheme and will need to be considered in relation to the Council’s Medium Term Financial Planning Process and individual Service budgets.

## **Legal**

The changes to the discretionary policy statement and the revised redundancy/efficiency scheme have been designed to comply with changes in employment law and the amended pension regulations. Legal Services have also been consulted.

### **RISK ASSESSMENT**

The contents of the policy changes in this report are categorised as low to medium risk. The management systems and daily routine activities to administer redundancy and efficiency applications and the application of employee requests relating to the Discretionary Policy Statement are sufficient to control and reduce risk.

### **COMMUNITY STRATEGY IMPLICATIONS**

N/A

### **CONSULTATION INCLUDING WARD/COUNCILLORS**

N/A

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### Background Papers

Local Government Pension Scheme Regulations 1997 as amended  
Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2000  
Local Government Employers Advisory bulletin No. 515 (June 2006)  
Letter to all Members dated 14 July 2006  
Brian Town's letter dated 22 December 2006

### Ward(s) and Ward Councillors:

N/A

### Property

N/A