Committee:	**Dated:**
Establishment Committee	17 September 2015
Subject: Calculation of redundancy payments	**Public**
Report of: Director of HR	**For Decision**

Summary

This report summarises the history of an agreed fixed formula for enhanced redundancy payments and asks Members to consider the reintroduction of the fixed formula for a period of 2 years. Members should note that the government is currently consulting on introducing a clause in the Enterprise Bill, announced in May this year, to cap ‘exit payments. There is no date for this as yet but it is suggested it could be as early as April 2016.

The reintroduction of the fixed formula is dependent on the current regulations for exit payments and affordability, should there be any changes to the regulations by legislation effective before 2017, or significant changes in affordability the position will be reviewed and the formula may be withdrawn. The formula will apply for anyone who leaves for any of the redundancy categories A – D, after 1st October 2015, even if their notice has been given prior to 1st October, up to 30th September 2017, unless the agreement is terminated earlier for reasons of affordability or changes to legislation.

Recommendations

Members are recommended to agree to the reintroduction of the fixed formula, shown in Appendix 1, for the calculation of enhanced redundancy payments for the period 1st October 2015 to 30th September 2017, subject to this continuing to be affordable and in line with legislation.

Main Report

Background

1. In January 2011 Members agreed a standard formula for all staff being made redundant, whether on a compulsory or voluntary basis. This was agreed for a period of 12 months from April 2011 to March 2012. In February 2012 Members agreed to extend this to 31st March 2013.

2. At the JCC in early 2013 trade unions asked members to extend this permanently and Members agreed to consider the request. While this was under consideration they agreed to extend the application of the formula to the end of June 2013.

3. After due consideration Members decided not to extend the formula permanently and given the economic circumstances, to pay only statutory redundancy without any enhancements except that of paying actual week's pay in the calculation without the statutory cap.

Current Position

4. Members are aware that every department is required to make service based savings. Many of the proposals involve reducing staff, and while most departments are intending to make those reductions by natural wastage, avoiding compulsory redundancies, inevitably there will be some redundancies over the next 2 years.

5. The use of the standard formula in 2011/12 was well received by both departments and staff. It gave some certainty to staff and minimised any discrimination claims arising from the potential for department to apply different formula.

Proposals

6. It is proposed that members consider reintroducing the formula for a fixed period of 2 years, from 1st October 2015 to 30th September 2017. As before this would apply to all leavers due to any of the redundancy categories A – D, in that period. The Chamberlain is currently consulting on a document that defines how savings made by departments would be attributed. There are proposals for some savings to remain in departments rather than be taken centrally.

7. It is proposed therefore that as before where the whole or any portion of the saving made from making a post redundant is taken as a corporate saving, then that whole or part cost of redundancy is borne centrally. Where in whole or part the saving is retained by the department that whole or part cost will be borne by the departments.

Corporate & Strategic Implications

8. The formula will increase the cost of redundancy over the current arrangements for those under 55 years old. Those over 55yrs who are made redundant are entitled under the regulations to receive their unabated pension and redundancy payments. This cost, however would, in general, be less than redeployment with protected pay for 3 years.

9. The government is currently consulting on a proposal to cap enhanced payments for redundancy. The proposal is that any enhancements would be capped at £95,000. The calculation of this is made up of the redundancy payment and any pension strain[1] cost caused by the early payment of unabated pensions.

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[1] Unabated Pension = the pension and any lump sum accrued to date of leaving is not reduced. If there is an extra cost due to early payment incurred by the City pension fund this is covered by the City (the pension strain).

10. The maximum redundancy payment for someone under the age of 55 is 26.5 weeks' pay. If the formula is introduced an employee in receipt of the maximum payment would need to be earning over £125k p.a. in order to hit the £95k limit. This would apply therefore to most of those in the Chief Officer pay scale and some senior officers with high levels of Market Force's Supplements.

11. For those over 55 it would depend on the cost of the unabated pension. The City of London have had 5 cases in the last 5 years where the total package for over 55s (pension strain + redundancy) exceeded the £95k. The most recent case was a Grade F redundancy whose package with pension strain costs totalled £133k.

12. Advice currently being circulated to Finance Directors in Local Government suggests that the cap could affect staff on grades E and above with 30 years' service. The shorter the service the more senior they would have to be to be affected, the advice suggests that this would affect staff with 10 years services in grades I and J and the Chief Officer grades. It would also affect people on lower grades but with higher levels of Market Forces Supplements.

Appendices

Appendix 1 – Proposed Redundancy Formula.
Appendix 2 - Advice provided to the Chamberlain by AON Hewitt on the government proposals.

Janet Fortune
Head of Corporate HR and Business Services

T: 020 7332 1245
E: janet.fortune@cityoflondon.gov.uk