

Safest people, Safest Places

County Durham and Darlington
Fire and Rescue Authority



COMBINED FIRE AUTHORITY

24 NOVEMBER 2016

PUBLIC SECTOR EXIT PAYMENT CAP UPDATE

REPORT OF TREASURER

Purpose of Report

1. To update members on the latest position regarding the government's intention to introduce a £95,000 cap on the maximum level of exit payments in the public sector.

Background

2. The government announced at the 2015 Spending Review and Autumn Statement that it intended to consult further on cross-public sector action on exit payment terms to reduce the costs of redundancy payments and ensure greater consistency between workforces.
3. On 5 February 2016 the government published the consultation setting out proposals for cross-public sector action on exit payments and asked for respondents' views on the proposals. The consultation closed on 3 May 2016.
4. The consultation document set out that the government would consider three key principles to underpin reform: fairness; modernity and flexibility; and greater consistency. It set out a package of proposed maximum levels for the calculation of different elements of exit packages to apply across the public sector, subject to negotiation at workforce level.
5. Around 350 responses to the consultation were received. These gave a range of views on the government's proposed approach. Many responses were opposed to reform in this area, while others expressed support for the government's overall approach and to specific proposals.
6. The government published its response to the consultation on 26 September 2016.

The Government's proposed course of action

7. Having considered the consultation responses as well as further information gathered during the consultation period, Ministers remain of the view that it would be appropriate to reform exit payment arrangements across the public sector consistent with the proposals set out in the consultation.
8. In particular the government has not seen evidence to change their view that applying upper limits across the different elements used to calculate exit terms in the public sector would make public sector exit terms fairer, more modern and more consistent.

9. The government's view is that such reform could achieve significant cost savings of up to approximately £250 million a year, while maintaining a good standard of compensation for individuals; better reflect factors such as improvements in life expectancy; ensure greater consistency between the terms available to different public sector workforces; and bring public sector exit terms more in line with those commonly available in the wider economy.
10. The responses to the consultation strengthened the government's view that the most appropriate way of taking forward these reforms was for the departments responsible for the different public sector workforces to seek to reach agreement on packages of reforms appropriate to those workforces, within an overall, centrally-set framework.
11. The government therefore intends to take forward the proposals set out in its consultation including the imposition of a £95,000 cap on public sector exit payments.

The Government's Proposals

12. The government believes that it is an important principle that exit arrangements are determined at workforce level, including through collective agreement where this is currently the case. This allows exit terms to reflect the particular circumstances and needs of each workforce. Accordingly, the government has no plans to replace existing arrangements for determining exit compensation at workforce level with a single compensation scheme for all public sector workers at this point in time.
13. The government considers that the best way to meet these objectives is to set a common framework of upper limits to the main elements of compensation provision across the main public sector schemes.
14. The government believes that the maximum upper limits on exit scheme terms set out below would strike a balance between fairness to public sector employees and fairness to the taxpayer that funds exit payments. Applying these upper limits across the schemes would mean there was greater consistency between the schemes, and would bring public sector terms more in line with exit terms more commonly available in the wider economy.
15. This framework is set out below:
 - a. a maximum tariff for calculating exit payments of three weeks' pay per year of service. Employers could apply tariff rates below these limits.
 - b. a ceiling of 15 months on the maximum number of months' salary that can be paid as a redundancy payment. Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a different maximum. Employers could apply lower limits, as some do at present.
 - c. a maximum salary on which an exit payment can be based. As a starting point the government will expect this to align with the existing NHS scheme salary limit of £80,000.
 - d. a taper on the amount of lump sum compensation an individual is entitled to receive as they get closer to their normal pension retirement age.

- e. action to limit or end employer-funded early access to pension as an exit term. As part of an overall package the government will consider proposals appropriate to each workforce, including proposals to:
 - i. cap the amount of employer funded pension ‘tops ups’ to no more than the amount of the redundancy lump sum to which that individual would otherwise be entitled
 - ii. remove the ability of employers to make such top ups, or offer greater flexibility to employers to determine the specific circumstances in which they would be available
 - increase the minimum age at which an employee is able to receive an employer funded pension top up, so that this minimum age is closer to or otherwise linked more closely with the individual’s normal pension age in the scheme in which they are currently accruing pension benefits or to which they would be entitled to belong if they were accruing benefits
16. While the government does not wish to set a single scheme across all workforces it is clear that it expects meaningful reform consistent with the terms set out above within each workforce. Should such agreement not be reached according to the timetables set out below, the government will consider options for legislation to set terms across the public sector.

Process and timeline for reform

17. Government departments responsible for the various workforces will take forward the detailed design and analysis of proposals for exit payment reform, within the overall framework and principles for reform.
18. The government expects departments to put forward proposals for reform within three months of the publication of the government response (by 26 December 2016). Departments should then consult on proposals as appropriate and should follow the normal process of discussions and negotiations with Trade Unions and other workforce representatives in order to seek agreement to their reform proposals. The government expects this discussion process to be concluded, agreement reached and the necessary changes made to compensation schemes and other arrangements within nine months of the publication of this response (by 26 June 2017).
19. Should it not be possible to achieve meaningful reform for one or more workforces, the government will consider options for primary legislation to take forward reform.

Implications for the Authority

20. The revised arrangements will restrict the Authority from using early retirement and/or voluntary redundancy as an assistance to workforce reorganisation and reform. The changes to the provision of early access to pensions may significantly restrict the Authority in relation to offering an early retirement option to a wide range of staff who are members of the Local Government Pension Scheme (LGPS). The LGPS currently allows staff early access to their pension if they are made redundant and have reached the age of 55.

21. Once the revised arrangements are introduced the Authority will need to review and amend the relevant policies and procedures in relation to early retirement and voluntary redundancy.

Recommendation

22. Members are requested to:
 - (a) **note** the current position regarding the imposition of a cap on the value of exit payments for public sector employees;
 - (b) **note** the potential implications for the Authority following the introduction of the revised arrangements.