

# CHESHIRE EAST COUNCIL

## REPORT TO: CABINET

---

**Date of Meeting:** 16 February 2010  
**Report of:** Head of Human Resources and Organisational Development  
**Subject/Title:** Managing Workforce Change – Severance Provision  
**Portfolio Holder:** Councillor Frank Keegan

---

### **1.0 Report Summary**

- 1.1 The purpose of this report is to inform Cabinet of the current position surrounding the severance scheme within Cheshire East and to recommend arrangements to support workforce change from 1<sup>st</sup> April 2010.

### **2.0 Decision Requested**

- 2.1 That the Council's current voluntary severance terms, as detailed in section 11.1 (i) to (iii) continue to apply from 1<sup>st</sup> April 2010 to 30<sup>th</sup> March 2011 and that this practice be reviewed again at 6 months.
- 2.2 That these provisions apply to all redundancies which occur for any reason during the period.

### **3.0 Reasons for Recommendations**

- 3.1 To provide clarity for employees whose future employment with the Council is uncertain due to organisational change.
- 3.2 To continue to offer a scheme that is both attractive to volunteers, particularly younger volunteers, in order to take every reasonable step to avoid compulsory redundancies and to enable the Council to reshape and reduce its workforce as required.
- 3.3 To ensure that the Council continues to strike the right balance in facilitating organisational change, maintaining our constructive industrial relations and employee engagement, alongside managing the costs involved.

### **4.0 Wards Affected**

- 4.1 Not applicable.

## **5.0 Local Ward Members**

5.1 Not applicable.

## **6.0 Policy Implications including - Climate change - Health**

6.1 Not applicable.

## **7.0 Financial Implications for Transition Costs (Authorised by the Borough Treasurer)**

7.1 Not applicable.

## **8.0 Financial Implications 2009/10 and beyond (Authorised by the Borough Treasurer)**

8.1 The strategy for workforce change is required to be reflected in the Council's Medium Term Financial Strategy for 2010/13. The plans for workforce reductions and the severance package over the three-year planning period need to be affordable and sustainable.

8.2 The Budget for 2010/11, the Medium Term Financial Strategy 2010/13 and the Reserves Strategy include an affordable and sustainable package for workforce reductions on the following basis:

- (i) Workforce reductions should be managed through the Council's redeployment process where possible;
- (ii) Workforce reduction proposals based on redundancies, that are clearly linked to approved 2010/11 Budget proposals, are given priority and the associated severance costs, including pension actuarial costs, will be funded from the corporate redundancy package;
- (iii) Workforce reduction proposals that are identified as a result of service reviews and transformation projects, that are not currently included in the Medium Term Financial Strategy, will be funded by the service through the development and approval of a robust Business Case. The total severance cost, including pension actuarial costs, will be funded from achieved savings with a target payback period within three years;
- (iv) Workforce reduction proposals that do not come within categories (ii) and (iii) above will be considered on a case by case basis.

## **9.0 Legal Implications (Authorised by the Borough Solicitor)**

9.1 The recommended voluntary severance terms exceed statutory redundancy requirements, are in accordance with pension regulations and are therefore legally compliant.

## **10.0 Risk Management**

- 10.1 There is a risk that, if the staffing reductions which arise from organisational change are not managed or achieved in a timely way, the Council will overspend its staffing budgets.
- 10.2 In order to; support staff, minimise the disruption caused by organisational change and reduce the effects on staff morale during a lengthy period of organisational change, the Council's preference is very much to achieve any reductions through; redeployment, re-skilling and voluntary redundancy. In regards to offering voluntary terms, the Council needs to strike the right balance in facilitating organisational change, maintaining constructive industrial relations and employee engagement, alongside managing the costs involved.
- 10.3 The Council would need to consider making staff compulsorily redundant if the voluntary terms offered are not sufficient to attract the necessary number of volunteers.

## **11.0 Background and Options**

- 11.1 In July 2008 the Council agreed the severance provisions which would apply to non teaching staff in redundancy cases in the new Council. As follows:
- (i) the removal of the statutory cap and pay the actual week's pay;
  - (ii) in addition to paying the Statutory Redundancy Pay (SRP), the payment of an additional amount equivalent to that payment (i.e. giving a maximum payment of 60 weeks in total); and
  - (iii) the provision for employees to use the additional payment (not the SRP) to purchase additional pensionable service in the Local Government Pension Scheme (LGPS) if they wish to do so and are a member
- 11.2 It was also agreed that these provisions should apply to all redundancies which occur during the period of LGR, whether or not they were as a result of re-organisation or for other reasons.
- 11.3 In order to ensure that change is well managed and to maintain employee engagement and the good industrial relations enjoyed by the Council, it is essential that the voluntary severance scheme is sufficient enough to attract the number of volunteers required to realign the workforce to what will be needed in the future. We will also need to take account of what the Council can afford to offer in the current financial climate.
- 11.4 To this end, under delegated powers Councils can apply severance terms which offer up to a maximum of 104 weeks pay. Whilst I am not

recommending that Cabinet offer this level of scheme, I am recommending that we continue with the current scheme during 2010/11 and beyond and that we review the success and appropriateness of the scheme after 6 months.

- 11.5 I am recommending this for a number of reasons. Firstly the Council's new structures have not yet been fully implemented and in implementing them, we have largely followed the traditional approach of recruiting to the higher tiers first. As a consequence, we have tended to displace higher paid staff first and have offered them terms providing for up to 60 weeks severance. It is my view that we should continue to offer this package, in order to ensure that all employees affected by organisational change, including those employees on lower pay are treated in a fair and consistent way.
- 11.6 In addition I believe that it will be more difficult to attract sufficient volunteers from April 2010 onwards, which could therefore lead to the consideration of compulsory redundancy. This is the case as the pension regulations will change from 6<sup>th</sup> April 2010, whereby pensions will only be released to active scheme members aged 55 or over whose employment ends on the grounds of redundancy, as opposed to those aged 50 or over currently. Over the past year 87% of our volunteers have come from employees aged 50 or over, with the release of the pension obviously being an attractive factor.
- 11.7 Whilst the vast majority of our volunteers came from this age pool in the past, the change in pension regulations will reduce the size of the pool. Reducing from a potential of 39% of the workforce (i.e. those aged 50 and over) to 24% (those aged 55 and over). In addition the predecessor councils and Cheshire East has sought and found many volunteers from this group over recent years, which is likely to mean that the numbers who may volunteer must be somewhat depleted.
- 11.8 For these reasons it will be important that we target the under 55s if we are to find sufficient volunteers. Given this we will need to continue to offer an attractive scheme and I am therefore recommending that we continue to offer up to 60 weeks pay and that this be reviewed at 6 months.
- 11.9 Discussions with managers have established that between now and the end of March 2011 it is likely that the Council will displace a further 300 to 350 employees. This is beyond the numbers already agreed by Cabinet up to the meeting on 1<sup>st</sup> February 2010. How the Council will financially manage severance arrangements for this group of staff is detailed in section 8. We are also currently exploring what the likely numbers will be over the next three years to March 2013, which will be the subject of a further report shortly.

## **12.0 Changes to Pensions Regulations**

- 12.1 Currently an employee who is a member of the Local Government Pension scheme will automatically be paid their accrued pension if they are aged 50 and over are made redundant. As stated, this will increase to age 55 from 6<sup>th</sup> April 2010.
- 12.2 Such early payment of pension is a strain on the pension scheme which the Council is required to fund. The cost of the strain in each case depends upon the circumstances of the employee concerned but generally it is greater between the ages of 50 and 55, decreasing between 55 and 58, with normally little cost for those over age 59. Accordingly from 6<sup>th</sup> April the pension costs arising from newly agreed voluntary severance packages will therefore fall on average when compared to previous packages. This should therefore increase what we can achieve from our available funding in the future.

## **13.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

Name: Paul Bradshaw

Designation: Head of Human Resources and Organisational Development

Tel No: 01270 686027

Email: paul.bradshaw@cheshireeast.gov.uk