



EMPLOYMENT COMMITTEE – 3 DECEMBER 2020

GOVERNMENT PROPOSALS TO REFORM LOCAL GOVERNMENT EXIT PAY

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to inform the Employment Committee of Government proposals to reform exit pay, anticipated timescales, together with the likely impact on staff aged over 55 who are members of the Local Government Pension Scheme.

Policy Framework and Previous Decisions

2. The Government has undertaken a number of consultation exercises over the last four years on capping exit pay for local government employees. Proposals were principally aimed at senior managers and sought to limit exit packages to £95,000. These were legislated for in the Small Business Enterprise and Employment Act 2015. Further consultation on a public sector exit cap was carried out in 2019, and regulations were laid (published for consideration by MPs) in July this year.

Background

3. The Ministry of Housing, Communities and Local Government has undertaken a further consultation exercise which closed on 9 November 2020, and has proposed further measures, which if implemented, will be much more far reaching than the original proposals. The consultation covered the required changes to compensation and pension regulations to implement both the £95,000 exit payment cap and the public sector exit payments further reform proposals. Currently, no other parts of the public sector apart from Local Government have any 'live' proposals for these further measures.
4. The new exit pay regulations as proposed will have a significant impact on staff aged over 55 in the Pension Scheme who leave the Council's employment through compulsory or voluntary redundancy, or via a settlement agreement.

Phase 1 of changes

5. Total exit payments are being capped at £95,000. The calculation includes pension strain (the cost to the Council of a full pension being paid when the scheme Member leaves earlier, for example, when made redundant). The

strain cost cannot to exceed the overall cap of £95,000. This impacts on all types of compensation including redundancy, pension top-ups, settlement agreements and special severance payments.

6. This change took effect from 4 November 2020, and although associated changes to the Local Government Pension Scheme are still awaited, initial guidance on how these will be implemented has been received from the Ministry of Housing, Communities and Local Government.

Further proposals – not yet implemented

7. There will be a maximum tariff for calculating exit payments of 3 weeks' pay per year of service, with a ceiling of 66 weeks on the maximum number of weeks' salary that can be paid as a redundancy compensation payment. The Council's current scheme caps the number of weeks at 30.
8. Regardless of salary level, a maximum salary of £80,000 will be used on which to calculate a redundancy compensation payment. This figure will be reviewed annually.
9. If a pension scheme member has any pension strain costs (e.g. aged over 55 and being made compulsorily redundant) then instead of being based on actual weekly pay (the Council's current policy), the redundancy payment will be capped at the statutory redundancy level (currently £538 / week). It is worth noting that this proposal would affect anyone meeting the above criteria from grade 10 upwards.
10. The Government is also proposing that in every case where there is pension strain, the value of the statutory redundancy payment paid is deducted from the pension strain. In practical terms, this means that the pension strain that the Council will pay to the fund will be lower, but that the employee will get less than a full pension. However, the member would be able to make up any reduction in strain cost from their own resources.
11. The final element of the proposal is to introduce an element of flexibility for scheme members – to allow them to defer their pension, meaning that they could then benefit from the unreduced redundancy payment. There is further flexibility proposed in relation to the scheme member being able to forego their pension enhancement in order to benefit from the discretionary redundancy element.

Consultation / implementation

12. The Ministry of Housing, Communities and Local Government (MHCLG) has undertaken a consultation exercise, which ended on 9 November. The consultation document related in the main to the impact of the changes, and whether any mitigation should be put in place.
13. The Council has submitted a response, and a separate one has been sent from the Leicestershire Pension Fund. The Council's response to the consultation

exercise sought to address any concerns about likely disproportionate impact on any specific groups, any wider impact on future recruitment and retention, together with a view as to whether any transitional arrangements should be put in place, such as for those members of staff already impacted by restructures.

14. There is no published date as yet for implementation of the further proposals outlined in paragraphs 7 to 11, and it is hoped that when this is announced, there will be a clear set of transitional arrangements.

Resource Implications

15. There are no significant resource implications in relation to implementation although it is anticipated that the Council's Pensions Team will have an increased number of queries to deal with.

Timetable for Decisions

16. The consultation carried out by MHCLG ended on 9 November and responses on behalf of the County Council and the Leicestershire Pension Fund were submitted by this deadline.
17. At the time of writing, the timetable for implementation of the proposals is currently unclear but will be determined by legislation.

Recommendations

18. It is recommended that the Committee:
 - a) notes the Government proposals to reform Local Government exit pay and the likely impact on staff aged over 55 who are members of the Local Government Pension Scheme, recognising that there is no implementation timetable as yet;
 - b) Notes that a response to the consultation exercise has been submitted by the County Council and also separately from the Leicestershire Pension Fund.

Background Papers

19. None.

Circulation under the Local Issues Alert Procedure

20. None.

Equality and Human Rights Implications

21. Once the proposals are finalised and any mitigation put in place, an Equalities and Human Rights Impact Assessment can be carried out. However, this is a national change the Council will be unable to mitigate locally, unless it chooses

to make changes to its redundancy policies. This would be a matter for the Employment Committee to consider.

Officer to Contact

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