

EAST RENFREWSHIRE COUNCIL1 March 2023Report by the Director of Business Operations & PartnershipsWORKFORCE MANAGEMENT**PURPOSE OF REPORT**

1. This report seeks Council approval on the level of discretionary enhanced compensatory payments made to employees who leave the organisation via means of redundancy or an early retirement efficiency.

**RECOMMENDATIONS**

2. Council are asked to approve the reduction in discretionary enhanced compensatory package, setting the compensatory lump sum at up to 52 weeks and the number of added years up to 2 added years. These changes would take effect with implementation of the budget savings for 2023/24 and apply thereafter.

**BACKGROUND**

2. As part of the budget process, the Council is currently taking decisions to reduce costs in targeted areas to deliver the savings required. It is certain that this will result in staff being affected although no formal decisions have yet been made.

3. Over a number of years the Council has made significant efficiency savings and the expected reduction in budgets cannot be met from efficiency savings alone to meet the expected reductions in funding from 2023/24 onwards. It is clear that the Council will be looking to reduce its employee headcount in certain areas over at least each of the next three years.

4. The Council will continue to do everything it can to avoid compulsory job losses for Local Government Employees including stringent review and management of vacancies, offering voluntary redundancy opportunities in affected areas, redeployment and offering suitable alternative employment opportunities.

**CURRENT SITUATION**

5. Currently reductions in the workforce are managed as a result of attrition and targeted restructuring. Employees leave the council for a number of reasons (resignation, retirement) and when a vacancy arises the manager will review and determine whether the post needs replaced or whether it can be given up for a saving. Targeted restructures have been achieved using enhanced compensatory payments for voluntary redundancy and voluntary early retirement for Local Government Employees (LGE) with employees being redeployed where appropriate.

6. There are 3 elements to be considered in making decisions about redundancy and early retirement and these will be set out in the sections below. The Council has discretion to

amend policy and practice for the first 2 but not Strain on the Fund, which is set in pension legislation:

- Discretionary compensatory lump sum
- Added years for pension purposes
- Strain on the fund costs

7. The current levels of compensatory lump sum and added years for LGE is detailed below. Due to the budget pressures there is a requirement to review the affordability of the enhanced compensatory packages on offer and consider East Renfrewshire Council's position relative to other Scottish local authorities. All voluntary enhanced payments must make a business case within 3 years to be considered for approval and this process is informed by HR and overseen by the Head of Accountancy and Director of Business Operations and Partnerships.

### Discretionary Compensatory Lump Sum

8. All employees, with over two years' service, are entitled to a statutory redundancy payment if their employment is terminated due to closure of business, closure of the employee's workplace or diminishing need for employees to do the available work. The statutory redundancy payment is calculated by a predetermined formula based on age and length of service and provides up to a maximum of 30 weeks' pay as compensation. If employees are over the age of 55 (certain preservations above age 50) they will in addition to a redundancy payment be granted access to their pension including any discretionary award of compensatory added years.

9. The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Amendment Regulations 2009 allows authorities to substitute a discretionary special termination compensation payment of up to 104 weeks in place of the statutory redundancy payment. This is at the discretion of the Council and allows local authorities to offer more favourable terms than are laid out in statute. Within East Renfrewshire Council this has been limited up to 78 weeks and was restricted to situations where there was imminent danger of compulsory redundancies if voluntary redundancies were not forthcoming that met the business case with approval granted by the Director of Business Operations and Partnerships and the Head of Accountancy.

### Added Years for Pension Purposes

10. The Local Government Pension Scheme Regulations provide discretion to local authorities to award added years for pension purposes to employees retired early on redundancy or efficiency grounds. The added years provisions are subject to a maximum which is the least of the following:

- Double the length of service
- Service up to age 65
- Service up to 40 years' service
- 6 2/3 years for redundancy or 10 years for efficiency

11. The Council currently offers based on the pension scheme maxima of up to 6 2/3rds added years, for both redundancy and efficiency, linked to establishing a business case identifying that there are financial benefits in progressing the redundancy. The sliding scale (subject to scheme maxima) for all early retirement in redundancy or efficiency situations is as follows:

After 5 years service	1 added year
After 10 years service	2 added years

After 15 years service	3 added years
After 20 years service	4 added years
After 25 years service	5 added years
After 30 years service	6 2/3 added years

### Strain on the Fund

12. In Local Government the further complexity that needs to be considered in redundancy situations is the requirement that employees who are pension scheme members over 55 (certain preservations above age 50) must be given access to their pension. This is pension legislation and is not a Council decision. This incurs a cost to the employer which is called Strain on the Fund (SOF).

13. SOF is the charge made by Strathclyde Pension Fund to employing authorities (i.e. the Council) for the costs incurred by early payment of pension benefits to employees who leave the pension scheme before retirement age in various circumstances. The strain arising depends on:

- (a) size of member's accrual pension and lump sum;
- (b) how early the pension is paid relative to the member's Funded Retirement Date;
- (c) member's age at date of retirement.

This means the pension received by the employee at the age they become redundant will be the same as the pension they would have been due to receive at the employee's Funded Retirement Date e.g. age 65, 66, 67. The Council is required to fund the gap.

14. In summary there are currently 3 options considered for LGE staff offered voluntary redundancy payments shown in the table below. Option 1 and 2 apply to those who can access their pension (over 55 or 50 if certain preservations apply) and Option 3 applies to those who are either under 55 or 50 in the pension scheme or to those not in the pension scheme.

<p>Option 1</p> <p>Employees in pension scheme, aged over 55 (or 50 if certain preservations apply)</p>	<p>For employees who can access pension and opting for added years they receive up to maximum 30 weeks redundancy + added years + pension with the Council funding the redundancy payment and added years.</p> <p>The Council are required to pay a lump sum directly to the employee in respect of added years and there is an additional ongoing annual cost to the Council.</p> <p>The Council must meet the Strain on the Fund costs.</p>
<p>Option 2</p> <p>Employees in pension scheme, aged over 55 (or 50 if certain preservations apply)</p>	<p>For employees who can access pension opting for no added years they receive up to maximum 78 weeks redundancy (compensatory lump sum) + pension, with the council funding the redundancy payment.</p> <p>The Council must meet the Strain on the Fund costs.</p>
<p>Option 3</p> <p>Employees not in the pension scheme or those aged under 55 (or 50 if certain preservations apply)</p>	<p>Redundancy-only payment for employees who cannot access pension. They receive up to maximum 78 weeks (compensatory lump sum) only with the Council fully funding this.</p>

## PROPOSED CHANGES TO DISCRETIONARY PAYMENTS

15. Given the current financial situation the enhanced discretionary provisions have been reviewed for affordability and Council is now asked to agree a future approach. Employees who typically come forward for voluntary redundancy are 55 and over (22.9% of our workforce) which means there will be a requirement to give the employee access to their pension which incurs a SOF cost. At the same time consideration must be given to ensuring the offer remains attractive to encourage employees to volunteer for redundancy to minimise the need for compulsory redundancies as the Council meets challenging budget requirements in future years.

16. A benchmarking exercise was undertaken with 18 of the 32 Scottish local authorities responding. Table 1 shows the compensatory lump sum offered (this covers 17 councils as 1 council offers a one off lump sum payment) and Table 2 shows the compensatory added years.

Table 1: Compensatory Lump Sum Benchmarking - 2022

Compensatory Lump sum (Number of week's pay)	Number of Councils
Up to 30 weeks	3
Up to 40 weeks	1
Up to 45 weeks	1
Up to 52 weeks	2
Up to 60 weeks	3
Up to 66 weeks	6
Up to 75 weeks	1
Up to 78 weeks	1 (ERC)

Table 2: Compensatory Added Years Benchmarking - 2022

Number of Added Years	Number of Councils
None	7
Up to 2 years	4
Up to 3 years	2
Up to 4 years	0
Up to 5 years	4
Up to 6 2/3 years	1 (ERC)
Up to 10 years	1

17. Further benchmarking from 2018 was requested and shared on compensatory lump sum benchmarking with the Trade Unions. Data was unavailable for compensatory added years.

Table 3: Compensatory Lump Sum Benchmarking - 2018

Compensatory Lump sum (Number of week's pay)	Number of Councils
Up to 30 weeks	2
Up to 40 weeks	2
Up to 44 weeks	1
Up to 45 weeks	3
Up to 52 weeks	1
Up to 60 weeks	3
Up to 66 weeks	11
Up to 75 weeks	1
Up to 78 weeks	1 (ERC)

18. Taking account of benchmarking from other local authorities and the current financial situation it is proposed that the discretionary enhanced compensation redundancy payment is reduced from up to 78 weeks to up to 52 weeks and the discretionary added year's element is reduced from up to 6 2/3 added years to up to 2 added years as shown:

Up to 10 years' service	No added years
11 - 20 years' service	1 added year
21- 30 years' plus service	2 added years

19. It is suggested that the discretionary enhanced termination compensation payments of up to 52 weeks' pay and up to 2 added years are applied for all situations related to the changes that will be implemented from 2023/24 onwards.

## FINANCE AND EFFICIENCY

20. Failure to ensure that displaced employees are managed out of their original posts through either redeployment or redundancy will prevent the financial benefits of organisational change being achieved. Benchmarking has also demonstrated that there is scope to reduce costs of redundancy and early retirement whilst remaining competitive with other local authorities. Affordability of future packages will be critical to business cases being made for voluntary exit from the Council, which is a necessary precursor to meeting future budget challenges

## CONSULTATION

21. The Trade Unions have been made aware of the proposed changes to the discretionary enhanced compensatory payments. They are not supportive of these changes and expressed concern at benchmarking responses being obtained from only 18 local authorities. The Trade Unions disagreed with the proposal as this would mean the enhancements offered were worse than the average of other councils. They requested better alignment with other councils i.e. offering up to 66 weeks for the discretionary enhanced compensatory payment – this remains an alternative option that Council could consider. They also seek clarification on the commitment to “no compulsory” redundancies.

**RECOMMENDATION**

22. Council are asked to approve the reduction in discretionary enhanced compensatory package, setting the compensatory lump sum at up to 52 weeks and the number of added years up to 2 added years. These changes would take effect with implementation of the budget savings for 2023/24 and apply thereafter.

**REPORT AUTHOR**

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