



**CABINET – 20 OCTOBER 2020**

**GOVERNMENT PROPOSALS TO REFORM LOCAL GOVERNMENT**

**EXIT PAY**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PART A**

**Purpose of the Report**

1. The purpose of this report is to inform the Cabinet of Government proposals to reform local government exit pay and the associated consultation together with the likely impact on staff aged over 55 who are members of the Local Government Pension Scheme.
2. The consultation was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in September and responses are required by 9 November 2020.

**Recommendations**

3. It is recommended that:
  - a) The Cabinet 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;
  - b) The Chief Executive be authorised, in consultation with the Director of Corporate Resources, to agree the Council's response to the consultation and submit this to the Ministry of Housing, Communities and Local Government before 9 November 2020; and
  - c) The Cabinet notes that a response to the consultation will also be submitted by the Leicestershire Pension Fund.

**Reasons for Recommendation**

4. The new exit pay regulations as proposed will have a significant impact on staff aged over 55 in the Local Government Pension Scheme who leave the Council's employment through compulsory or voluntary redundancy, or via a settlement agreement. It is important, therefore, that the Council and the Pension Fund responds separately to the Government consultation.

### **Timetable for Decisions (including Scrutiny)**

5. Responses to the consultation on behalf of the County Council and the Leicestershire Pension Fund will be submitted ahead of the deadline of 9 November 2020.
6. A report setting out the changes following the end of the consultation period and the potential implementation of the regulations will be presented to the Employment Committee at its next meeting in December 2020.
7. The response of the Local Pension Fund will be shared with members of the Local Pension Board and the Local Pensions Committee prior to submission ahead of the deadline on 9 November 2020.
8. At the time of writing, the timetable for implementation is currently unclear but will be determined by legislation.

### **Policy Framework and Previous Decisions**

9. 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. 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. A further consultation exercise on additional measures is now underway, and if these are agreed there will need to be associated changes to the Local Government Pension Scheme regulations, and to the Council's internal redundancy policies.

### **Resource Implications**

10. There are no direct financial implications arising from this report.

### **Circulation under the Local Issues Alert Procedure**

11. None.

### **Officers to Contact**

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## **PART B**

### **Background**

12. The Ministry of Housing, Communities and Local Government is now undertaking a further consultation exercise which closes on 9 November, and is proposing further measures, which if implemented will be much more far reaching than the original proposals in 2019. The consultation covers the required changes to compensation and pension regulations to implement both the £95,000 exit payment cap and the current proposals to further reform public sector exit payments. Currently, no other parts of the public sector apart from Local Government have any 'live' proposals for these further measures.

### **Government Proposals**

13. It is proposed that total exit payments will be capped at £95,000. The calculation will include pension strain (the cost to the Council of a full pension being paid when the scheme member leaves earlier, for example, when made redundant). This will affect all types of compensation including redundancy, pension top-ups, settlement agreements and special severance payments.
14. 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.
15. Regardless of salary level, a maximum salary of £80,000 will be used to calculate a redundancy compensation payment. This figure will be reviewed annually.
16. If a pension scheme member has any pension strain costs (for example, they are aged over 55 and being made compulsorily redundant) then, instead of being based on actual weekly pay, which is the Council's current policy, the redundancy payment will be capped at the statutory redundancy level, currently £538 per week. It is worth noting that this proposal would affect anyone meeting the above criteria from grade 10 upwards.
17. The Government is also proposing that in every case where there is pension strain, the value of the statutory redundancy payment that will be 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.
18. The final elements of the proposal are to introduce an element of flexibility for employees who are members of the local government pension scheme. The first option would be to allow a member not to take their pension at the point they leave the Council's employment, i.e. to defer it. This would mean that

they could then benefit from a redundancy payment based on actual pay, as per the Council's policy. The second proposed option is that the scheme member could choose to leave with a reduced pension, so that there are no pension strain costs for the employer to pay. This again would allow the member to receive a redundancy payment based on actual pay.

### **Consultation**

19. The MHCLG consultation exercise started on 7 September and ends on 9 November 2020. However, at the same time, draft legislation is already going through the parliamentary process, and the consultation document relates in the main to the impact of the changes, and whether any mitigation needs to be put in place.
20. The Council will be submitting a response, and a separate response will be sent from the Leicestershire Pension Fund.

### **Implications for the County Council and Suggested Response**

21. Following consultation, if the proposals are implemented, there will need to be associated changes to the Local Government Pension Scheme regulations. However, as 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.
22. The Council's response to the consultation exercise will seek 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.

### **Equality and Human Rights Implications**

23. There are no equalities or human rights implications arising from the recommendations in this report, Once the proposals are finalised and any mitigation put in place, the Council may need to consider amendments to its policies, in which case an equalities and human rights impact assessment will be carried out as appropriate.

### **Background Papers**

24. None.