AGENDA ITEM NO. 7

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE – 18 OCTOBER 2006

Report of Strategic Human Resources Consultant (Lisa Wyatt-Jones)
This matter is the responsibility of Executive Councillor T Hall (Portfolio Holder for Resources)

PENSION CHANGES AND THE IMPLICATIONS FOR TDBC

EXECUTIVE SUMMARY

As a result of the recently introduced Age Discrimination legislation, the way in which TDBC are able to pay redundancy compensation and retirement in the Interest of Efficiency packages, has changed. The options have been outlined in the report and a recommendation for the Executive has been identified. CMT have formally reviewed the options and support the recommendation. Unison and Staff Side have also been consulted.

1. Background

1.1 Due to the recent Age Discrimination legislation the Government has published draft Regulations relating to discretionary payments to employees whose employment terminates early, either on the grounds of redundancy or early retirement in the Interest of Efficiency.

1.2 As of the 1st October 2006 TDBC will no longer be able to pay Compensatory Added Years on pensions.

1.3 The discretionary power to award a one-off lump sum payment on the basis of up to 66 weeks pay based on age and length of service to enhance a redundancy package, has been revoked.

This is a provision that TDBC has never used; therefore, its removal from the redundancy policy will have no practical implications.

1.4 The LGE (Local Government Employers) have advised that granting augmented service (albeit payable at any age) should not be inherently age discriminatory (compensatory added years for pensions are currently only paid to those age 50+). Augmented service should therefore be applied consistently to all ages on loss of employment through retirement in the Interest of Efficiency or redundancy.

1.5 TDBC can still calculate redundancy payments based on full pay (rather than the statutory maximum levels).

The Government have decided to continue to use the current statutory tables for calculating redundancy payments based on age and service.

For any redundancy or compensatory payment of up to 104 weeks pay, tax is still payable on the amount exceeding £30K.
Employees aged under 18 and over 65 will now be eligible to receive a redundancy payment.

2. Alternatives to Compensatory Added Years

2.1 **Option 1**

2.1.1 TDBC could chose to only pay the Statutory Redundancy rate based on actual pay, and no other compensation.

2.1.2 This would be cost saving and non-discriminatory, but there would be a significant drop in the package for employees 50+ who have been used to redundancy plus up to 6 2/3rds added years. This would make voluntary redundancy more difficult to achieve with the over 50's.

2.2 **Option 2**

2.2.1 Instead of compensatory added years we could pay a compensatory lump sum.

2.2.2 Under the new rules we could grant the maximum of 104 weeks' pay (2 years salary) for leavers on the grounds of redundancy or Interest of Efficiency retirement.

2.2.3 This would be possible at any age – it would also be consistent and not ageist. Any redundancy payment must be off-set to ensure that the maximum 2 years pay was not exceeded.

2.2.4 *This would potentially be very costly if it were to apply to all ages, and is unlikely to be consistent with the other Districts.*

2.3 **Option 3**

2.3.1 TDBC could decide to pay the same lump sum to everybody regardless of age, length of service or salary, e.g. £2,000 fixed sum.

2.3.2 *This would be disproportionate and could mean that a 25 year old with 4 years service on SCP 20 would be entitled to the same payment as a 55 year old with 30 years service on SCP 50.*

2.4 **Option 4**

2.4.1 TDBC could use the statutory redundancy tables (based on actual weeks pay) as a means of calculating double or triple the statutory level of redundancy payments for all employees – to a maximum of 3.46 times: which equals 30 weeks x 3.46 = 104 weeks pay. (Maximum statutory redundancy pay is 30 weeks).

2.4.2 There is a choice of multiplier used for the compensatory lump sum. Therefore, the total cost of all redundancy and retirement in the Interest of Efficiency packages since April 2004 have been calculated to assess the affordability.

2.4.3 The number of Augmented years service that can be bought with the enhanced payment will be less than the previous maximum of up to 6 2/3rd years added pension.

2.4.4 Scheme members could then be given the choice of receiving the compensatory lump sum or using it to purchase augmented service.

The proposal is to use a multiplier of 3, which would provide a fair level of compensation to employees over 50 years old, without being significantly generous to employees under 50 years old.

<u>**Example**</u>

Redundancy

Redundancy package = £10,000

x this by 3 (the proposed multiplier) = £30,000

Employee can either take the £30,000 as a lump sum OR take £10,000 Redundancy and give £20,000 (or part thereof) to the pension fund to augment into added years.

2.4.5 Employees who retire in the Interest of Efficiency will have their package calculated on the basis of the redundancy package and this will be multiplied by the agreed multiplier minus 1, because they will not receive the redundancy payment, just the enhancements which will be tax free up to £30K (which they can use to augment into pensionable years).

<u>**Example**</u>

Retirement in the Interest of Efficiency

Enhancement calculated on the redundancy package = £10,000

x this by 2 (the proposed multiplier minus 1) = £20,000

Employee can either take the £20,000 as a lump sum OR give £20,000 (or part thereof) to the pension fund to augment into added years.

2.4.6 *The benefit of this approach is that is it is quick to implement, easy to calculate & legally compliant (i.e. completely free of any possibility of a discrimination claim because it is consistent as it is based on an increase to the statutory provisions). An older employee with longer service would still receive a higher payment but it would be objectively justified.*

2.4.7 *Notes on Augmented service*

- *A one off lump sum on early retirement will still be payable (we currently pay this to the Local Government Pension Scheme over 1 or 3 years to cover the cost of premature payment of benefits and interest is payable if paid in 3 years) but not an annual fee.*

3. Conclusion

3.1 The regulations are in draft and will not be agreed until after the summer recess, however the following must still take place:-

- Stop paying compensatory added years from 1st October 2006.
- The Executive need to make a decision on an alternative to the compensatory added years.
- The Redundancy policy must be amended to accommodate these changes.
- A Retirement Policy must be produced which accommodates these changes and the Age Discrimination legislation.
- The Executive must be made aware that additional policy changes may be required if the final Regulations are different to the Draft Regulations
- Under the new regulations, any new policy must be workable, affordable and reasonable to prevent loss of confidence in the public service

3.2 Consider taking a joint approach with all the other SCC pension fund employers: - Somerset County Council and other Districts i.e. one consistent policy for all (SCC have provisionally agreed a multiplier of 3 which is the same as the proposal in Option 4, although this is still awaiting ratification).

4. Recommendations

4.1 The Executive is requested to:-

a) consider and support the Option 4 proposal to enhance the redundancy and retirement in the Interest of Efficiency packages by a multiplier of 3 and give staff the choice to augment the additional payment into added pensionable years. Following discussions with the Section 151 Officer, Shirlene Adam has confirmed that the proposed multiplier is within our current budgets.

b) support work on the changes to the redundancy policy and a new retirement policy.

c) consider and support any changes, which are made subsequently to the policies subject to any regulation changes.

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