HM Treasury

# Consultation on reforms to public sector exit payments

February 2016

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# Contents

# 1 Context for reform

1.1 Since 2010 the government has taken many steps to modernise terms and conditions for public sector workers so that they continue to be fair, but also sustainable in the face of a challenging economic climate. As well as delivering fundamental structural reform of major public service pension provision, the Public Service Pensions Act 2013 provided powers to close or amend statutory compensation schemes for the major public sector workforces with the expectation that new public sector compensation provision would be established in the future.

1.2 . Redundancy provision and exit payments play an important role in enabling employers to reform and reorganise. They support employees during the transition to other employment or retirement following the loss of employment. However public sector arrangements vary significantly, including in the benefits provided for people with similar pay and length of service. Also, such provisions can often be out of line with the wider economy.

1.3 The government announced in the Spending Review and Autumn Statement 2015 that it will continue to modernise the terms and conditions of public sector workers, by taking forward targeted reforms in areas where the public sector has more generous rights than most of the private sector. As part of this, the government committed to consulting on further cross-public sector action on exit payment terms, to reduce the costs of redundancy payments and ensure greater consistency between workforces.

1.4 As work to rebalance the public finances continues, it is right that the government remains focused on delivering maximum value for taxpayers and delivering a modern and reformed state. Some terms have already been modernised in parts of the public sector. The reform of the Civil Service Compensation Scheme in 2010 led to savings for the tax payer which the National Audit Office estimated could amount to almost £500m in the first year[1]. In the NHS, changes in redundancy terms from April 2015 mean the new arrangements can be used more effectively by capping payments to higher paid staff whilst ensuring better protection for the lower paid.

1.5 Such examples demonstrate the value and importance of further reforms to exit compensation. The government is clear that exit compensation payments should continue to provide support to employees but also should be proportionate, fair and provide better value for money for taxpayers who ultimately fund them.

1.6 **The government is therefore consulting on options to make public sector exit compensation terms fairer, more modern and more consistent.** This consultation sets out these options and also outlines existing compensation arrangements across the public sector. Subject to the outcome of this consultation, the government would look to departments responsible for the main public sector workforces to negotiate and agree reforms, and then implement them, including where applicable through changes to secondary regulations. The government would also consider setting a reform framework in future primary legislation depending on progress in implementing the reforms.

1.7 Payments made by employers in relation to injury, ill-health or death during employment are outside the scope of these proposals and the consultation.

1.8 The government's intended policy proposals are summarised below.

[1] NAO: Managing early Departures in Central Government report 2012

| Who is in scope | |
|---|---|
| **Which employees/ schemes** | • Current and future public sector employees<br>• The major workforces covered by existing statutory compensation schemes and other contractual exit arrangements.<br>• Those covered by any new compensation schemes set up for public sector employees. |
| **How will it work?** | |
| **Policy proposals** | The government is proposing to take action on some, or all, of the following elements across all major public sector compensation provision:<br>• **Setting the maximum tariff** for calculating exit payments at three weeks' pay per year of service.<br>• **Capping the maximum number of months' salary that can be used when** calculating redundancy payments to 15 months. Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit to the latter. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a slightly higher limit to those as part of an overall package.<br>• **Setting a maximum salary** for the calculation of exit payments. This limit could be set at various levels and could potentially align with the NHS redundancy scheme's salary cap of £80,000.<br>• **Enabling the amount of lump sum compensation** an individual is entitled to receive **to be tapered** as they get close to the normal pension age or target retirement age of the pension scheme to which they belong, or could belong, in that employment.<br>• **Reducing the cost of employer-funded pension top up payments, such as limiting the amount of employer funded top ups for early retirement, or removing access to them, and / or increasing the minimum age** at which an employee is able to receive an employer funded pension top up. The latter would link the minimum age more closely with the individual's Normal Pension Age in the scheme in which they are currently accruing, or have accrued, pension benefits. |
| **Payments in scope** | • General limits would be imposed on most employer-funded payments made in relation to leaving employment, including compensation packages for exits whether in impending or declared redundancy situations or in other situations where individuals leave public sector employment with employer-funded exit packages.<br>• Any increase in the minimum age at which an employee might be able to receive a pension top up on voluntary or compulsory exit would apply to payments under the major compensation schemes (but not to any payments made in relation to death or injury attributable to duty or ill health retirement). |
| **Transition** | • The government will consider providing a form of transitional protection, whereby exits formally agreed between employer and employee on the terms in place before the new maxima took effect would be paid under the previous terms |
| **Devolution** | • This policy would extend to all employments where compensation policy and practice is within the competence of the UK Government.<br>• As with the current provisions to recover exit payments, the Scottish government, Welsh government and Northern Ireland Executive would determine if and how they wanted to take forward similar arrangements in relation to devolved bodies and workforces. |
| **Compliance and transparency** | • Departments and individual employers responsible for exit compensation arrangements would need to change them in accordance with any changes to primary or secondary legislation.<br>• Compliance and transparency would be ensured through supporting guidance or legislation setting out parameters limiting the calculation of exit payments. |

### How to respond to this consultation

1.9 This consultation will run for twelve weeks and will close on 3 May 2016. Responses should be sent by email to: exitpaymentreforms@hmtreasury.gsi.gov.uk with the subject heading "Consultation on Exit Payment Reforms"

1.10 Alternatively please send responses by post to:

Consultation on Exit Payment Reforms,
Workforce, Pay & Pensions Team,
HM Treasury,
1 Horse Guards Road,
London SW1A 2HQ.

1.11 When responding please say if you are a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

### Confidentiality

1.12 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1988 (DPA) and the Environmental Information Regulations 2004.

1.13 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

1.14 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

### Consultation Principles

1.15 This consultation is being run in accordance with the government's Consultation Principles. The Consultation Principles are available from the Cabinet Office.

# 2 The current system

2.1 In the current system a number of government departments and many individual employers are responsible for providing exit compensation packages. Public sector exit compensation arrangements are very diverse. Some of these redundancy arrangements are more generous than others.

2.2 Key features of the main public sector compensation schemes or arrangements are summarised below[2].

**Box 2.A: Civil Service**

The Civil Service Scheme provides that an individual may be given a lump-sum payment of one month's pay for every year worked, which is capped at 21 months for voluntary redundancy and 12 months for compulsory redundancy. The maximum and minimum salary that can be used to calculate this payment is £150,000 and £23,000 respectively. Furthermore, an individual may be eligible for a pension 'top-up' funded by the employer if they are made redundant after the age of 50 (if joined pre April 2006) or 55 (if joined post March 2006).

**Box 2.B: NHS**

The NHS awards a lump-sum of one month's pay for every year worked, which is capped at 24 months. The maximum and minimum salary that can be used to calculate this payment is £80,000 and £23,000 respectively. NHS exit payment arrangements include employer funded pension 'top-up' provisions, payable from age 50 or 55, but these are limited to the value of the cash lump sum that might otherwise be payable to the individual.

**Box 2.C: Local Government**

Local government lump-sum redundancy arrangements vary considerably between employers. However, they must operate within a framework set by regulations. The regulations provide that the maximum lump-sum pay-out is 104 weeks' (24 months) pay, although most local authorities currently provide for less than this. Employees aged 55 or more who are made redundant and who are members of the Local Government Pension Scheme are currently entitled to immediate access to unreduced pensions under the Local Government Pension Scheme rules.

[2] Entitlements to exit payments are often complex and dependent on specific circumstances. The information provided here is intended as an indicative 'snapshot' of current compensation arrangements.

**Box 2.D: Teachers**

Exit schemes for teachers in schools under local government control fall under the regulations that apply to other local government employees and are normally composed of multiples of statutory redundancy. Whilst the schemes vary, the DCLG framework provided for by regulations again states that the maximum redundancy pay-out is 104 weeks' (24 months) pay. Some schools have also funded pension top-ups to members of the Teachers Pensions Scheme made redundant when over the age of 55.

**Box 2.E: Armed Forces**

The Armed Forces maintains two schemes. Which of those applies usually depends upon an individual's entry point to the service. Both involve a formula based around their length of service and how early the person is leaving before the potential end date of their engagement. This reflects the special characteristics of the Armed Forces, where most individuals exit by the age of 40. From around that age most individuals are entitled to some form of continuing payment on account of early departure.

Under a redundancy scheme made in 2006, most individuals who joined the Armed Forces after April 2005 typically receive a lump-sum of their final salary multiplied by their years of service up to a maximum of 27 months' pay, but with a maximum lump sum of 1/8th of annual salary if also eligible for a continuing early departure payment.

Individuals who joined the Armed Forces before April 2005 and who are made redundant are typically entitled to an immediate pension once they have completed between 16 and 18 years of service. They are usually also entitled to a cash lump sum.

**Box 2.F: Police (England & Wales)**

In general there are no formal arrangements for police officers to receive exit payments, as, with the exception of chief officers on fixed term appointments, police officers are not made redundant. The Winsor review of police terms and conditions (in 2011-2012) recommended the Police adopt a scheme similar to the Civil Service Compensation Scheme (CSCS), retaining the same tariff rate and redundancy cap. A few police forces have now chosen to use voluntary redundancy terms based on the CSCS provisions for calculating lump sums in cases of voluntary redundancy.

**Box 2.G: Firefighters**

There have been few if any formal redundancies to date among fire fighters. Firefighters currently receive statutory redundancy entitlements. Other fire authority staff fall under local government redundancy arrangements.
Different provisions apply where an individual is leaving employment owing to illness or where a firefighter is aged 55 or over, lack of fitness, and these are outside the scope of this consultation.

**Box 2.H: Judiciary**

As office holders, the judiciary cannot be made redundant. However, although rarely used in the past, compensation can be paid if certain offices are abolished. However, the amount cannot exceed the person's accrued pension or a lump-sum equivalent to their last annual salary. In addition, the Lord Chancellor has discretion to compensate individuals who leave the Immigration Tribunal.

**Box 2.I: Statutory redundancy**

Statutory redundancy pay applies across the wider economy. It sets the legal lower minimum that employers must pay employees on making them redundant. Employees are normally entitled to statutory redundancy pay if they have been working for their current employer for 2 years or more.

Under statutory terms employees are entitled to half a week's pay for each full year they were aged under 22, one week's pay for each full year they were 22 or older, but under 41, and one and half week's pay for each full year they were 41 or older. Where an employee is offered suitable alternative employment before their termination date which starts within 4 weeks of that termination date they are not entitled to a statutory redundancy payment.

Currently there is a cap on weekly pay that can be taken into account of £475 and a cap on an individual's total statutory redundancy payments of £14,250.

Employees are not entitled to statutory redundancy pay if they fall into one or more of the following categories: merchant seamen, former registered dock workers (covered by other arrangements) or share fishermen, apprentices who are not employees at the end of their training, a domestic servant who is a member of the employer's immediate family, or crown servants, which includes civil servants, members of the armed forces or police services (separate arrangements exist for those categories of public servant, as explained above).

# 3 Previous workforce change in the public sector

3.1 Since 2010, the government has taken many steps to make public sector remuneration and other employment terms sustainable. It has ensured the public sector plays its part in putting public finances back on track, while also improving the quality of public services. However, the government believes it is necessary to go further. In some areas public sector exit terms by and large remain more generous than those in the wider economy and also vary greatly in their generosity.

### Pension reform

3.2 At the June 2010 Budget the Coalition government established the Independent Public Service Pensions Commission. This Commission was tasked with setting out recommendations to ensure public service pension provision was sustainable and affordable in the long run in response to rising longevity and the unsustainability of pension arrangements at that time.

3.3 This resulted in a major re-design of pensions to ensure fairness for members and taxpayers and sustainability for public finances. Changes incorporated increases in pension ages, career average revalued earnings designs and a cost cap mechanism to provide backstop protection for employer and tax payer costs. These and other pension changes have been forecast to save a total of around £430bn by 2062.

3.4 From April 2015 the majority of public sector workers are on those new pension terms.

### Pay restraint

3.5 Public sector pay restraint has also played a key role in deficit reduction. Without such measures, much greater savings would have had to come from elsewhere, including from cutting public sector jobs and services.

3.6 The government made clear in its Summer Budget 2015 that public sector workforces would be funded for a pay award of 1 per cent a year for the 4 years from 2016-17 onwards. This 1 per cent figure is an average and is not a limit on individuals' pay, so departments can allocate funding across staff in light of their specific and varying requirements. The Office for Budget Responsibility (OBR) has estimated that this policy will protect 200,000 public sector jobs by 2019-20.

### Recovery of exit payments

3.7 The Small Business, Enterprise and Employment Act 2015 includes provisions to enable the recovery of exit payments made to individuals who return to the public sector after a short period of time. The government is now preparing secondary regulations to implement the policy, so individuals earning over a specified amount will be required to repay all or part of an exit payment to their previous employer if they return to public sector employment within a period of up to a year.

3.8 The first set of secondary regulations to implement recovery will be made by the affirmative resolution procedure in Parliament and the intention is that those regulations will come into force from April 2016.

### Exit payment cap

3.9 The government intends to introduce a cap of £95,000 on public sector exit payments to implement its manifesto commitment to cap six-figure exit pay-outs. Legislation for such changes is currently being considered by Parliament as part of the Enterprise Bill.

### Spending Review 2015

3.10 The Spending Review and Autumn Statement 2015 announced that the government will continue to modernise the terms and conditions of public sector workers, by taking forward targeted reforms in areas where the public sector still has far more generous rights than the private sector. As part of this the government committed to consult on further cross-public sector action on exit payment terms, to reduce the costs of redundancy pay-outs and ensure greater consistency between workforces.

# 4 Policy intention

4.1 The government intends to pursue further reform to public sector exit payment terms to ensure that such payments offer a proportionate level of support for exiting workers and value for money to the taxpayer who funds them. This section sets out the principles for reform and outlines the government's policy proposals. Views are sought on the government's proposals, including on their scope, their impact and the proposed timeframes.

4.2 The government is taking three key principles into account in considering such reform: fairness, modernity and greater consistency.

## Fairness

4.3 Building on the changes already underway, it is important that a fair and appropriate level of compensation is provided for employees who are required to leave public sector jobs, whether on a mutually agreed or voluntary basis, or through compulsory redundancy. It is also important that the level of compensation is seen as fair and appropriate by taxpayers, who ultimately fund these costs. The government therefore believes that compensation arrangements in the public sector should be considered in the context of normal compensation arrangements in the wider economy.

4.4 Some comparisons between private and public sector terms are provided in Box 4.A.

**Box 4.A: Comparison of compensation arrangements**

Analysis based on redundancy pay data reported in the Family Resources Survey suggests non-contractual redundancy pay between 2010-11 and 2013-14 averaged £12,700 in the private sector and £15,800 in the public sector.
Public sector employees have on average a longer tenure than their private sector counterparts. Because length of service is a factor in the calculation of redundancy payments that difference in average length of service may accounts for some of the difference between public and private sectors.

**Employers, employees and other relevant parties with further information on the level and nature of redundancy provision within the wider economy are encouraged to provide details as part of their responses to this consultation. This will inform the Government's response to this consultation.**

## Modernity & flexibility

4.5 Exit compensation terms need to reflect a rapidly changing economy and society, the modernisation and improvement of public services and consequential changes in the public sector workforce. They need to give employees a reasonable degree of certainty over their potential entitlements. However, there also needs to be a considerable degree of flexibility in setting those entitlements and any related limits, so they can be readily updated to reflect overall changes in the structure and financing of public services, in the size and make-up of the various workforces and the broader fiscal environment.

4.6 Improvements in life expectancy also mean people are living for longer, and current exit provisions may not reflect the fact that staff are taking early access to pension yet remaining economically active. This change was reflected in the fundamental reform to public service pension provision undertaken in the last Parliament.

### Greater consistency

4.7 It is important that departments and other bodies responsible for exit arrangements have flexibility to adjust exit terms for their particular workforces. However, given the very large amounts of public money involved and wider public interest in the size and value of such expenditure, it is also important that the government sets an overall framework to curb costs and ensure a reasonable and greater degree of consistency in exit compensation terms between and within different workforces.

### Policy proposals

4.8 The government is proposing to take action on some, or all, of the following elements across all major public sector compensation provision:

- **Setting a maximum tariff for calculating exit payments. This maximum tariff would be three weeks' pay per year of service. Employers could apply tariff rates below these limits.**
- **Capping the maximum number of months' salary that can be used when calculating redundancy payments to 15 months.** Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a slightly higher limit, as part of an overall package. Employers could apply lower limits, as some do at present.
- **Setting a maximum salary on which an exit payment can be based. This could be set at various levels and could potentially align with the NHS scheme salary limit of £80,000.**
- **Tapering the amount of lump sum compensation an individual is entitled to receive as they get closer to their pension retirement age.**
- **Requiring employer-funded early access to pension to be limited or ended, through one or more of a range of measures that would considerably reduce such costs, such as:**
    - capping the amount of employer funded pension 'tops ups' to no more than the amount of the redundancy lump sum to which that individual would otherwise be entitled;
    - removing the ability of employers to make such top ups altogether;
    - Increasing the minimum age at which an employee is able to receive an employer funded pension top up, so that this minimum age is linked more closely with the individual's Normal Pension Age in the scheme in which they are currently accruing pension benefits or to which they would be entitled to belong if they were accruing benefits.

4.9 Further detail on these options is set out below.

### Tariff terms

4.10 As Chapter 2 sets out, there is currently a wide variety of different terms and practices for determining the amount of compensation an individual is eligible to receive if made redundant.

These include the maximum number of years or months worked that will be taken into account in redundancy lump sum compensation calculations: for example, currently the equivalent of 104 weeks' pay for the NHS, 91 weeks' pay for the Civil Service and 104 weeks' pay for local government and teachers. They also include the number of weeks' salary per year of service on which a compensation payment can be based: this can range from 1 week's pay per year of service for some local government employees up to 4 weeks' or more pay per year of service for a few others and 1 month's pay per year of service for the Civil Service and NHS. In some schemes a salary cap applies for determining the amount of compensation that can be awarded on exit (such as the £80,000 maximum in the NHS).

4.11 The government is therefore considering setting maximum tariff terms that can be offered to ensure there is greater fairness and consistency across different public sector workforces.

4.12 **One option is to set a maximum of 3 weeks' salary per year of service when calculating an exit payment**. This could deliver significant savings in exit costs across public sector workforces.

4.13 **A further option being considered is capping the number of months used to calculate redundancy payments at 15 months.** Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit to the latter. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a slightly higher limit to those as part of an overall package.

4.14 **The government is also considering whether it should set a maximum salary for the purpose of calculating exit compensation and whether such a maximum salary could potentially be aligned with the £80,000 maximum salary introduced by the NHS in April 2015.**

4.15 **The entitlement to a lump sum compensation payment for those close to retirement age could be subject to a taper** to reflect the fact that there is a shorter period of time between redundancy and eligibility to receive a pension. This could be set with reference to a scheme's normal pension retirement age (NPA), or where applicable a target retirement age. Such tapering would need to be fair to both those nearing pension age and those above that age who leave with an exit payment.

### Employer funded pension top-up

4.16 A major and costly element of an exit package can be an employer funded top up of pension, paid in the event of early retirement. When an employee leaves employment after reaching their minimum pension age[1] they are entitled to draw their accrued pension from that point, but the monthly payment they receive is reduced to reflect the fact that their pension payments are likely to be paid for a longer period of time. Many public sector exit compensation arrangements allow for an employer to make a payment to the employee's pension scheme to offset this reduction, so that it is either paid on an unreduced basis or, on relatively rare occasions, with increases on top of that.

4.17 Some exit compensation arrangements, such as those for the Civil Service, have been reformed in recent years to reduce the level of employer funded pension top ups in some circumstances. Others, such as the NHS, have been reformed to further limit the extent to which employers are prepared to fund the cost of an unreduced pension, in the NHS case by limiting the employer-funded pension top up to no more than the value of the cash lump sum that might otherwise be payable. The government is already proposing to include the value of such

[1] The Minimum Pension Age is specified in pension scheme rules and represents the minimum age at which an individual can access their pension in normal circumstances.

pension top ups within the £95,000 cap on the value of an exit payment that can be funded by an employer.

4.18 **The government is considering whether employer funded pension top up provisions across the public sector should be limited further by applying one or more of a range of restrictions. These are:**

- Apply the NHS approach more widely, and limit employer funded top ups to no more than the value of the redundancy lump sum that might otherwise be payable, or
- Prohibit employer funded pension top ups entirely, while giving the option for the individual to decide whether to use any lump sum exit payment to increase their pension entitlement, or
- Change the age at which individuals would be able to have early access to an employer funded pension top up as part of an exit package to 5 years before the person's Normal Pension Age in the scheme under which they are currently accruing pension benefits (now age 67 or 68 in most cases), or
- Stipulate a minimum age, such as 55 or 58, across all schemes for an individual to be eligible for an employer funded pension top up payment.

It is also important to note that pension top up payments made by employers in relation to injury, ill-health, physical fitness or death during employment are outside the scope of this consultation.

### Transitional protection

4.19 The government will consider the case for any form of transitional protection. For example, if exits formally agreed between employer and employee on terms that applied before the new maxima took effect should be protected.

4.20 The government does not anticipate going further and for example introducing transitional protection related to the age of individuals or their nearness to pension age.

**Question 1**

Are there alternative options and approaches to compensation provision reform you think the government should be considering? What alternative approaches would you suggest and why?

For employers in particular

**Question 2**

Do you agree with the proposed approach of limiting early retirement benefits with reference to the cost for the employer? What alternative approaches would you suggest and why?

**Question 3**

Do you agree with the proposed options around capping tariff terms? What alternative approaches would you suggest and why?

# 5 Scope & timeline

5.1 These wider exit compensation reforms seek to reduce public sector exit costs and ensure such terms and conditions are more consistent across the public sector. Such reform will maintain the principle of offering important support to existing and future employees. Most of the expenditure is determined under the terms of the major compensation schemes. Therefore, the reforms are intended to apply to the major workforces under existing public sector compensation schemes and other exit arrangements. The major workforces include the Civil Service, Teachers, NHS workers, local government workers, police officers and the judiciary.

5.2 Current statutory provisions provide for the following schemes:

- a scheme under section 1 of the Superannuation Act 1972 (civil servants);
- a scheme under section 24 of that Act (local government workers and teachers);
- a scheme under section 26 of the Fire Services Act 1947 or section 34 of the Fire and Rescue Services Act 2004 (fire and rescue workers);
- a scheme under section 1 of the Police Pensions Act 1976 or section 48 of the Police and Fire Reform (Scotland) Act 2012 (members of police forces);

5.3 Any new public sector compensation schemes established once such reforms were implemented would be expected to reflect any new limits on tariffs for calculating lump sums and on the value of employer funded pension top ups.

5.4 There are various routes to enable implementation of any wider compensation reform. The government will determine how to deliver changes depending on the responses to this consultation and on the specific proposals that are taken forward. The precise process undertaken may vary by workforce.

5.5 However the government anticipates that Departments responsible for the main public sector workforces will negotiate and agree reforms consistent with the outcome of this consultation, and implement them through, for example, changes to secondary regulations governing the major compensation schemes. Subject to the consultation and to this process the government will also consider setting a reform framework in primary legislation.

5.6 The government will expect any wider reforms to apply to existing and future public sector employees, but, as noted in section 4, will consider whether certain transitional protections might be appropriate to protect workers who have already agreed, and had confirmed, exit payments packages when any wider reforms came into force.

**Question 4**

Do you agree that the government has established the correct scope for the implementation of this policy? Are there other factors the government should take into account with regard to scope?

# 6 Devolution

6.1 In both the exit payment recovery and exit payment cap reforms, the government position has been that the reforms would apply to those areas which are the responsibility of the UK government. It would be for the Scottish government, Welsh government and Northern Ireland Executive to determine if and how they wanted to take forward similar arrangements in relation to devolved bodies and workforces.

6.2 The government intends to take the same approach here. Should primary legislation be required in taking forward further reforms, the UK government would request Legislative Consent Motions from the Devolved Administrations where appropriate, which would give the relevant Administration the option of including devolved workforces and schemes under any legislation the UK government brings forward.

6.3 However, if and when a Legislative Consent Motion is required, it would be for the Devolved Administrations themselves to decide whether this is a desirable approach.

# 7 Impact

**The government's initial impact analysis is set out in the following section. Public sector employers, employees and other relevant parties with further information on these impacts are encouraged to provide details as part of their responses to this consultation.**

## Economic and fiscal impacts

7.1 Changes to compensation provision in line with the options set out in this consultation would be expected to have positive fiscal impacts. By setting maximum tariffs and reducing or abolishing employer-funded pension top ups the government should need to spend less on public sector compensation. Such savings should greatly outweigh any administrative costs from having to apply such limits.

7.2 Changes to tariff terms and employer funded top ups as set out in Chapter 4 could deliver significant future savings to exit costs. It is difficult to estimate potential impacts on workforce behaviours arising from changes to exit compensation terms. The government will need to undertake further analysis to assess the overall effects of any proposed changes in greater detail.

7.3 The wider economic impacts of this reform may be limited. There would be reductions in the spending power of some former public servants and possibly a greater incentive for some of them, particularly at younger ages, to find new jobs quickly. However, there would also be less strain on public sector employers' budgets, so, all things being equal, greater ability to pay remaining employees and provide services.

7.4 The level of savings achieved by reform would vary depending upon the exact policy proposals enacted and on the rate of exits in the public sector over the coming years. However, it is estimated that, if applied across the major public sector workforces, the range of options, including capping the maximum tariff for calculating exit payments from a month to three weeks' salary per year of service and limiting employer funded early retirement pension top ups could result in savings in the hundreds of £millions over the course of this Parliament.

## Social impacts – including distributional and equalities

7.5 Implementing any of the changes set out in section 4 of this consultation will result in some individuals receiving a lower exit payment than they would receive under the current system. However, the government expects compensation to remain generous and sufficient.

7.6 In terms of impacts on groups protected under equalities legislation, using data from the Labour Force Survey (LFS), analysis shows that, compared to the wider working population, the public sector workforce has a greater proportion of: females; people aged between 40-59; people who declare themselves to be Christian; people who declare they are White or Black/African/Caribbean/Black British; people who declare they are married, cohabiting or in a civil partnership; and people who declare they have some form of disability. Therefore, as a consequence of the public sector composition, individuals with some of the above characteristics may be more likely to be affected by this policy.

7.7 Any change to employer funded pension top-ups and/or tapering would have a direct impact on older employees and may affect lower earning individuals. Any changes to the tariff could also mean some long serving individuals would be affected. These would need to be considered further, along with other impacts of the proposed reforms.

### Environmental

7.8 This policy is assumed to have no tangible environmental impacts.

### Costs and benefits – direct and indirect

7.9 The policy would produce a benefit to employers in terms of reductions in redundancy payments which would contribute more widely to the public finances as outlined above. The potential effects include: the reduction in compensation to affected employees (which the government believes is justified on grounds of fairness and affordability), and administrative costs to employers of implementing the necessary changes to their compensation arrangements.

### Regulatory impact

7.10 This policy primarily affects the public sector and so is not expected to increase regulation on private business in the wider economy.

7.11 Depending on final decisions, the policy may also have an impact on bodies employing staff previously from the public sector who are subject to Transfer of Undertakings (Protection of Employment) (TUPE) rules. These impacts cannot be quantified at this stage.

### Enforcement and implementation

7.12 Subject to the outcome of this consultation, the government would look to departments responsible for the main public sector workforces to negotiate and agree reforms, and then implement them, including where applicable through changes to secondary regulations. The government would reserve the ability to set a reform framework in future primary legislation depending on progress in implementing the reforms.

7.13 The government would ensure any reforms do not breach the provisions of the Public Service Pensions Act 2013 on changes to pension schemes for 25 years (the 25 year guarantee): employees would remain entitled to pensions they have accrued during their employment.

### Equalities

7.14 The government will carefully consider impacts around equalities and the economic and fiscal landscape as well as the practical implications of implementing any reforms.

**Question 5**

Are there other impacts not covered in the above which you would highlight in relation to the proposals in this consultation document?

**Question 6**

Are you able to provide any further information and data in relation to the impacts which may be relevant to the government in setting out the above?

**Question 7**

Are you able to provide information and data in relation to redundancy provision in the wider economy which could be used to inform the government's response to this consultation?

# Summary of questions

- Question 1: Are there alternative options and approaches to compensation provision reform you think the government should be considering? What alternative approaches would you suggest and why?

- Question 2: Do you agree with the proposed approach of limiting early retirement benefits with reference to the cost for the employer? What alternative approaches would you suggest and why?

- Question 3: Do you agree with the proposed options around capping tariff terms? What alternative approaches would you suggest and why?

- Question 4: Do you agree that the government has established the correct scope for the implementation of this policy? Are there other factors the government should be taking into account with regard to scope?

- Question 5: Are there other impacts not covered in the above which you would highlight in relation to the proposals in this consultation document?

- Question 6: Are you able to provide any further information and data in relation to the impacts which may be relevant to the government in setting out the above?

- Question 7: Are you able to provide information and data in relation to redundancy provision in the wider economy which could be used to inform the government's response to this consultation?

## HM Treasury contacts

This document can be downloaded from www.gov.uk

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