

Manchester City Council Report for Resolution

Report To:	Executive - 19 January 2011 Personnel Committee - 19 January 2011 Council - 2 February 2011
Subject:	Financial Settlement 2011/12 and 2012/13, Workforce issues
Report of:	Chief Executive, City Treasurer; Assistant Chief Executive (People), City Solicitor

Summary

This report sets out the issues and steps required to achieve a reduction in the numbers of staff employed in the Council's workforce as a result of the Government's financial settlement for 2011/12 and 12/13. It proposes the use of the existing Voluntary Severance Scheme (VSS) as amended (comprising Voluntary Early Retirement (VER) and Voluntary Severance (VS)), in support of *m people* and to secure cost reductions and structural and functional transformation

Recommendations

Executive is requested

1. To confirm that the proposals set out in this report to be considered by Personnel Committee are necessary for the Council to meet its budget requirements.
2. That in the event that the recommendations set out below are agreed by Personnel Committee, Council is recommended to release the required sum from the Council's reserves in 2010/11 and 2011/12 to fund the proposed VSS schemes.
3. To confirm that the City Treasurer be authorised to apply to Government for permission to capitalise some or all of the cost of the scheme should the opportunity arise and to amend the approved revenue and capital budgets to reflect the appropriate accounting treatment.
4. In accordance with paragraph 14 of Part 4, Overview and Scrutiny Procedure Rules of the Council's constitution, and having consulted with the relevant statutory officers, to approve the matter as urgent, in that any delay caused by the call-in process, would seriously prejudice the legal or financial position of the Council or the interests of the residents of Manchester and exempt it from call in.

Personnel

Personnel Committee is recommended;

5. To confirm that the Council’s policy on VSS as set out in PC1477 be amended by increasing the discretionary lump sum payment from a maximum of 30 weeks pay to a maximum of 36 weeks pay for applications received by 11th March 2011.
6. To confirm that such an amendment is workable, affordable and reasonable having regard to the foreseeable costs.
7. Subject to the approval of Council to release the reserves required to implement this proposal, to confirm that the City Treasurer, in consultation with the Executive Member for Finance and Human Resources may release staff who make such applications subject to the criteria set out in the Report.
8. In accordance with paragraph 9 of Part 4, Council Procedure Rules of the Council’s constitution, and having consulted with the relevant statutory officers, to approve the matter as urgent, in that any delay caused by the call-in process, would seriously prejudice the legal or financial position of the Council or the interests of the residents of Manchester and exempt it from call in.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	Potentially the staffing implications impact on all the spines in the Community Strategy, however, workforce reductions will be linked to the ongoing review of services and skills, linked to corporate objectives. The promulgation of a voluntary severance scheme will mitigate the need for compulsory redundancy and help the organisation reduce staff numbers in a managed way; this contributes to the Council’s value for money objectives.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Implications for:

- Equal Opportunities Policy – An Equality Impact Assessment has been undertaken to ensure that the operation of the scheme does not discriminate against any groups.
- Risk Management – The scheme will need to be applied appropriately in order to ensure that important skills necessary for the future needs of the Council’s

services are not lost and, where people are released promptly, disruption to services is managed on a practical level.

- Legal Considerations - The proposed scheme will comply with the Council's legal obligations as an employer which are set out in more detail in the Report. Further advice will be provided at the time of the budget report in relation to the setting of a lawful budget.

Financial Consequences – Revenue and Capital

The detailed financial consequences are set out in paragraphs 31 - 37 of the report. The proposals set out, and their impact on reducing the costs of the City Council will be a key part of the strategy necessary for the Council to set a balanced and lawful budget for 2011/12. In the absence of such proposals being implemented the Council would need to identify alternative means of balancing the budget. It is the view of the statutory officers that the Council has little alternative but to adopt the proposals.

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Background documents (available for public inspection):
Current VS policy: PC1447 and appendices
Personnel Committee Reports June, November 2010; November 2007

VOLUNTARY SEVERANCE SCHEME

Background

1. The Council has embarked on a programme of reforming its services (the Transformation Programme), both to improve the quality of service to its residents and to enable cost reductions. Since the programme was initiated, the government has severely curtailed its funding to the Council and this has significantly increased the requirement for costs reductions. The Council needs to achieve £110M savings in the next year and in the region of £170m over 2 years. The detail of the financial settlement was reported to the Executive at its December 2010 meeting.
2. The Transformation Programme comprises a rigorous review of services linked to corporate plan objectives. The programme utilises lean and value for money principles, to produce future operating models for services.
3. There are also a number of cross-cutting projects – projects which relate to services across the Council - which will contribute towards planned savings. One further element of transformation is to change management culture and to implement a significant reduction in the number of senior managers.
4. As set out in previous reports a new approach to the management of employees, known as **m people**, has been agreed with the Trade Unions and implemented from 4th January.
5. The City Council remains committed to the successful implementation of **m people** and staff development. This will support transformation, bridge skills gaps and/or fill new, more challenging roles by:
 - Concentration on developing our existing workforce
 - Increasing Pace – the process has to have people moving around the organisation positively and quickly
 - Progression paths being clear from entry level jobs to senior positions and by recruiting at entry level help to reduce worklessness
 - Evidence based decisions – a strong body of intelligence of the skills of staff and the skills needed from the target operating models
 - Creating demand for movement – through effectively moving people to new roles creating spaces for others to move into, through appropriate use of Voluntary Early Retirement and Severance and through restricting external recruitment including temporary and interim appointments
 - Managers dealing effectively with poor performance so that poor performance is addressed at source not restructured out to another part of the Council

- Pull not push – the purpose of **m people** will be to enable services to pull in people with the skills needed rather than push away people not required
 - Incentive based – Strategic Directors and Heads of Service are accountable for the delivery of the improvement and efficiencies within their business plans and target operating models. The **m people** process will be the primary means by which they can draw in the skills they need and move people within the organisation
 - All staff on **m people** pathways. A pathway is a way of describing the journey an employee is on. **m people** will not be confined to services currently subject to redesign. Staff from across the Council will be able to apply to opt into a pathway.
6. At the time the original programme was initiated the required savings target was £95m, to be achieved over three years - with a significant proportion of that to be yielded in years 2 and 3 of the programme. The assumption of the original programme was that achieving the transformation would require a reduction of approximately 1000 full time equivalent (FTE) posts.
7. Workforce data indicated that this could be achieved by natural turnover supported by :
- i) a restriction or freeze on external recruitment and managing employee turnover through vacancy clearance
 - ii) reduced dependence on agency staff, temps and contractors
 - iii) successful implementation of m people, through flexible contracts of employment and staff development, to support transition to bridge skills gaps and/or fill new, more challenging roles.

Current position

8. These strategies have been successfully pursued but employee turnover has slowed significantly since 2009. In addition, the outcome of the 2010 local government settlement for the Council is a greatly increased cost reduction target, which is front loaded. Although the headline cuts are 8.9%, the Council calculates this will require savings of 25% of the current budget over the next two years.
9. The savings figures are now going to be much more than could have been anticipated. The Council needs to find £110M in the next year and in the region of £170m over the next 2 years to ensure that it has a legally balanced budget and a robust medium term financial strategy. The Council cannot achieve those savings without a substantial reduction in current staffing levels.
10. The necessary reduction is likely to be in excess of 2000 FTE posts. Given the national reductions within the public sector and the reduction in the numbers of staff leaving, natural turnover is now predicted to be much lower than anticipated when the transformation programme started. In effect, the number of reductions

in posts has doubled, and the opportunities to move people into alternative posts looks to have halved on current projections. This has coincided with timeframes being compressed.

11. The Council needs to consider all possible options open to it to ensure that the required level of saving can be made. The Council still intends to aim to avoid compulsory redundancies, however, if all other options do not offer or cannot deliver the required saving, the Council will be forced to reconsider its position, including in relation to compulsory redundancies, in order to ensure that it will have a balanced budget and robust medium term financial strategy.
12. Details of the proposed budget and medium term financial strategy will be brought to the Executive in February but whatever the details of the distribution of spend between services it is a necessity that savings in staffing costs of the order of magnitude described are achieved as soon as possible.

Proposed Approach

13. One option that needs to be considered is the benefit of offering the opportunity for voluntary early retirement and voluntary severance to all staff. This would be used alongside the continued firm management of vacancies, and performance to ensure that the authority maximises the skills and experience of existing staff. This is underpinned by **m people** which through its trial periods has shown that it can be highly effective.
14. The **m people** principles include two related areas, offering appropriate support to employees through change processes and enabling them to make effective career choices. This has always included supporting them to make decisions which enable them to consider other job and life options, including leaving Council employment. The Council's agreed voluntary severance scheme (VSS) complements this approach.
15. It is now proposed to formally use the VSS scheme with a proposed amendment to further these principles. This will minimise the possibility of compulsory redundancies as a result of the funding settlement. The proposal has been discussed with the trade unions and there will be ongoing consultation as set out below. This ongoing dialogue will support the reduction of staffing numbers in a controlled way, which also supports ongoing service imperatives.
16. It will be necessary, as required by law, to consult with the Trade Unions and to notify the Secretary of State for the Department for Business, Enterprise and Regulatory Reform in writing (using form HR1) of the planned workforce reductions.
17. An HR1 is required when a redundancy situation arises. Redundancy under the Employment Rights Act is defined to include 'the requirement for employees to carry out work of a particular kind has ceased or diminished or is expected to cease or diminish'; and under TULR(C)A includes any dismissal which is 'not connected with the individual worker concerned'. Caselaw has confirmed that redeployment can

amount to dismissal by way of redundancy as can business re-organisation without a reduction in numbers

18. Legal advice has confirmed that, given the scale of the workforce reduction the Council would be vulnerable to claims from employees if consultation was not carried out and an HR1 was not filed at this point. The Council will reconsider its position in relation to compulsory redundancies if VSS does not bring sufficient staffing reductions. Failure to achieve the necessary savings through a voluntary scheme would seriously increase the likelihood of the Council being forced into a compulsory scheme operated on the basis of the statutory minimum requirements.
19. The filing an HR1 also triggers government departments and agencies and the 'Jobcentre Plus' Rapid Response Service to be alerted and prepared to take any appropriate measures to support the employees in question. Notification will coincide with the start of formal consultation on redundancy with the Trade Unions.
20. The Rapid Response Service is free to employees and employers and will include any or all of the following for people who choose to take up a VSS option:
 - Information on benefits system / overview of services provided by JCP
 - Matching people with current vacancies
 - CV /job preparation workshops
 - Skills assessment - focus on transferable skills relevant to other employers / sectors
 - Job focused training
 - Individual support for those who might face more barriers with moving back into work
 - Advice from specialist agencies e.g. self-employment, business start-up, debt advice etc
 - Training for individuals through the Skills Funding Agency

The support is for a time limited period - from when a person has opted for severance up to 13 weeks after they have left the authority

21. The Council will also provide support to staff through a variety of strategies. Helping Hands is a Council-run service available to provide advice to people who are interested in self employment and/or starting their own business. This service will be available to staff who leave the authority. Helping Hands also provides advice on entitlement and access to benefits, existing or potential future benefits, getting back into employment and managing finances. Advice and guidance on employability skills, benefits advice and volunteering is available through the "Let's Get Going Scheme".
22. For those individuals who may be looking to spend more time with their families or simply have spare time to care, temporary, permanent or respite foster caring may be an option. The Fostering and Adoption Service provides training and support for prospective foster carers and adopters to help care for Manchester's Looked After Children.

23. The Council provides Pre-Retirement Seminars, aimed at enabling participants to prepare for the change in lifestyle and to plan for the future. Advice on savings and investment, income tax, pension and benefits, as well as health and well-being are covered in this seminar. Staff who opt for VSS will be able to access such seminars.

Workforce Reduction Scheme

VER

24. Payments relating to early retirement are governed by the Local Government Pension Scheme and the Teachers Pension Scheme for a minority of staff, and relevant regulations. In circumstances where the City Council is looking to reduce the workforce, employees over the age of 55 may apply to access their pension benefits.

VS

25. The existing policy on enhanced payments in respect of severance is based on the Local Government (Early Termination etc) Regulations 2006, which provide Councils with a discretionary power to increase statutory redundancy payments and make discretionary termination payments. The Council's current policy is to exercise its discretion to base calculations for voluntary severance payments on employees' actual pay at three weeks' pay per year of service, to a maximum of 30 weeks.
26. It is proposed to amend the Council's policy on discretionary payments to increase the maximum amount payable to 36 weeks actual pay based on three weeks pay per year of service up to 12 years. This will incentivise staff under the age of 55 years to consider the option of Voluntary Severance, and is likely to provide a wider age spread of staff taking up the offer. It will also be of financial benefit to the Council as it will reduce the Council's pension liabilities. It is estimated that such a change in the policy will cost an additional £5m. Details of the financial implications are set out below.
- 27 Any such change of policy must be published and may not be implemented for a period of one month from the date of publication.
28. If the proposal is accepted, staff will be invited to consider application for early release, during a time limited period (January to March 2011) Applications will be considered individually with a presumption in favour of acceptance on the basis that:
- a. The total cost of the severance package does not exceed the equivalent of 18 months salary including any capital costs associated with early pension payment (see paragraph 32).
 - b. The post holder under consideration (rather than the post they occupy) does not have a unique skill set and releasing them will not have an adverse impact upon business continuity, income generation or the ability to recover savings.

29. The task of service and directorate management will be to assess how any risks under b. above can be mitigated in order to agree the release of the individual in a timely and appropriate way. This will include an assessment of how they can reach out, under **m people**, to replace skills or reorganise the team/service to allow the person to leave immediately, or through forward service and succession planning, at a deferred leaving date.
30. The current scheme does raise the question of potential age discrimination because the Council's policy on enhanced payments in respect of severance does not mirror the statutory redundancy payments scheme. However the response would be that the scheme can be objectively justified, given the urgent financial imperatives being faced by the Council, the clear and objective criteria, that the scheme is applied regardless of age and the fact that the current scheme has been agreed with the trade unions for some years.

Financial Implications

31. The current average salary in the Council (including on costs) is £29,900. The financial implications set out below assume that the weighted average salary of those choosing to leave will be higher, at £30k or £36k including on-costs. Assuming that the Council needs to achieve savings in employee costs of circa £70m, then the salary bill needs to reduce by circa £60m (excluding on-costs) at the assumed average salary of leavers that equates to around 2000 FTE staff.
32. The costs of releasing this number of staff through VER/VS is dependent upon a number of factors, such as the age/length of service/membership of pension scheme, but will be in the region of £65m. In practice any offer will be more attractive to LGPS scheme members aged over 55, who are automatically eligible to receive their pension based on accrued service to-date and without actuarial reduction for 'early payment'. In order to limit the cost of the 'most expensive' cases, an affordability cap of 1.5 times salary will be applied and as such some over 55 may be able to obtain a full/partial severance payment alongside pension whilst others, particularly those aged just 55 but with long service, may not be eligible for a severance payment. The affordability cap will need to be applied with a small degree of flexibility as some 55 year olds may exceed the cost limit solely based on the 'capital' costs of their pension without any severance pay
33. These costs exclude any costs of continuing to pay staff into 2011/12, either by way of their departure falling in the new financial year, or pay-in-lieu being agreed. Each 1 month delay in releasing all the staff will cost the Council £6m.
34. The City Treasurer has identified that there will be sufficient reserves available to fund this level of costs when taken with the contributions ordinarily made to the GM pension scheme in respect of early retirements but it will severely limit the extent of reserves available to deal with any other slippage in delivering savings from either staffing or non-staffing areas. In extreme circumstances the Council will be able to free up a limited amount of extra revenue resources through borrowing for other projects which would have been funded from revenue. In practical terms there will be no Government approved capitalisation for redundancy costs but in the event that

such approvals are available the City Treasurer would propose that an application is made in order to protect the Council's financial flexibility. Approval to capitalise costs leads to increased funding costs in future years but does allow the impact on the Council's revenue reserves to be mitigated. The level of General Reserves remaining will still be in the order of £20m which historically has been assessed as an appropriate minimum level. A re-assessment of the adequacy of this level will be carried out once the detail of the 2011/12 budget is decided.

35. The use of revenue reserves, and/or substitute borrowing will be at a cost to the Council at least to the extent that external long term borrowing will be necessary to replace the cash expended currently being used to temporarily fund the capital programme and thereby avoiding external borrowing. At present interest rates that could amount to £3-4m per annum in a full year, will need to be reflected elsewhere in the Council's budget.
36. In the above scenario the availability of reserves for subsequent years, either to smooth any budget reductions or fund severance costs will be severely limited and the Council's ability to use its resources flexibly for project funding will be severely curtailed.
37. Whilst it is likely that a substantial amount of the monies will be paid out in 2011/12, including payments to the GM Pension Fund for capital costs, accounting rules will require that the costs of any scheme which has been approved and which has staff identified for severance/VER will need to be accounted for in 2010/11.

Implications for Manchester

38. Reducing staff numbers in a managed way should maximise savings and enable m people to invest and develop the workforce, to support achievement of corporate objectives.

Call in

39. In accordance with paragraph 14 of Part 4, Overview and Scrutiny Procedure Rules of the Council's constitution, and having consulted with the relevant statutory officers, the Executive is requested to approve the matter as urgent, in that any delay caused by the call-in process, would seriously prejudice the legal or financial position of the Council or the interests of the residents of Manchester and exempt it from call in.
40. In accordance with paragraph 9 of Part 4, Council Procedure Rules of the Council's constitution, and having consulted with the relevant statutory officers, Personnel Committee is requested to approve the matter as urgent, in that any delay caused by the call-in process, would seriously prejudice the legal or financial position of the Council or the interests of the residents of Manchester and exempt it from call in.
41. As set out above the funding settlement received in December has placed the Council in an extremely difficult financial position in planning its budget for 2011 onwards. In order to ensure that the Council can set a balanced budget in March

2011 it needs to take urgent steps to reduce its costs which must be implemented immediately. Any delay in this process will endanger this process.

Further Comments

42. The Chief Executive will verbally report any further comments received from the Trade Unions at the relevant Executive and Personnel Committee meetings.

Conclusion

43. Adoption of the Voluntary Severance Scheme will assist in reducing staffing numbers in a controlled way, which is viable and supports ongoing service imperatives. However, if the proposed VSS scheme does not meet the necessary savings targets other options including a compulsory redundancy scheme would have to be considered. The Statutory Officers will consider whether it is necessary to formally request the Executive to consider other such options as part of the emerging budget strategy which will be presented to the Executive and the Council next month and in March in order to achieve a balanced budget and a robust financial medium term financial plan

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