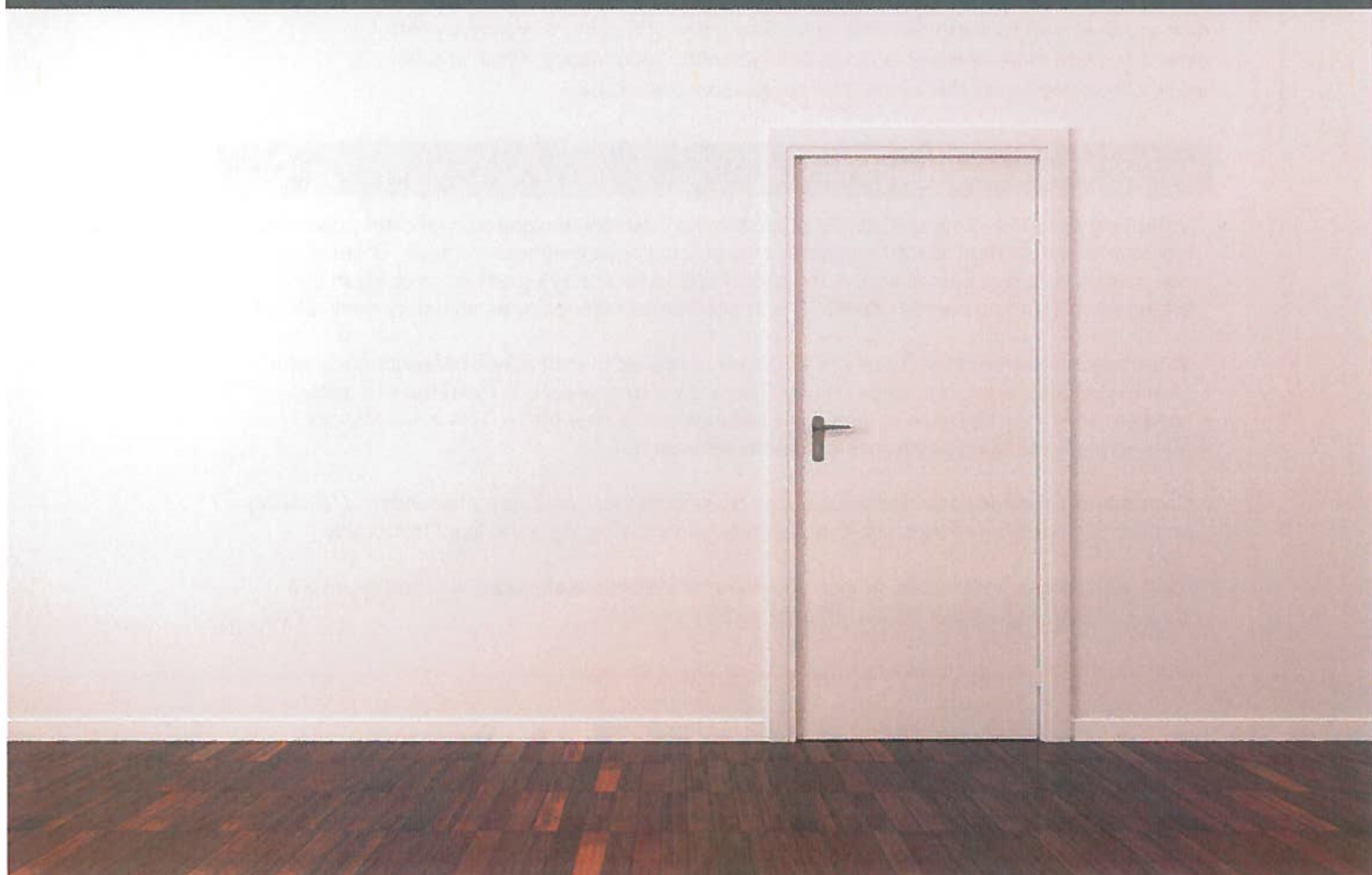


Summary report



Summary

- 1 Public sector organisations have faced continued financial pressure and the requirement to make significant cost savings following the 2010 and 2013 UK Government spending reviews. Between 2010-11 and 2015-16, the Welsh Government's budget allocated by the UK Government reduced by £1.7 billion in real terms¹.
- 2 For most public services, their main controllable cost is their wage bill. As a result, public services have inevitably had to consider ways of cutting staff costs to contribute to wider financial savings targets, whether by reducing pay and/or reducing the number of employees or their working hours. One means of reducing staff numbers is to promote 'early departure' by providing a financial incentive or 'exit package' for employees to exit the organisation, with the expectation that the employing organisation would then realise a longer-term saving.
- 3 The Auditor General's *Picture of Public Services 2011*² report noted that public-sector wage and recruitment freezes and early departures would help bridge the financial gap facing public services in Wales, but that effective workforce planning and communication were needed to manage related risks. Those risks include the potential for skills gaps arising from these schemes – which may then need filling at additional cost – and the general impact on service delivery. The report also noted that there are significant up-front costs involved in such approaches and that it can take time for the savings to outweigh the initial costs.
- 4 In practice, early departures go by a variety of names. This report uses the terms voluntary exit, voluntary redundancy, compulsory redundancy and early retirement to refer to the four main types of early departures (Box 1). However, organisations may use their own terms to describe these four types of departure. Voluntary exit generally offers more favourable terms than voluntary redundancy, which in turn would offer more favourable terms than compulsory redundancy.

Box 1 – Types of early departures

Voluntary exit: Voluntary exit can be offered in the interests of workforce efficiency and where employers wish to reduce staff numbers, or to support organisational changes. There is no compulsion on individuals to accept the offer. Public bodies have greatest flexibility in the arrangements and payments offered. This is sometimes referred to as voluntary early release.

Voluntary redundancy: Voluntary redundancy is offered to staff at risk of redundancy, with formal consultation through trade unions. There is no compulsion on individuals to apply, however, they may be made compulsorily redundant at a later stage. This is sometimes referred to as voluntary severance or flexible severance.

Compulsory redundancy: Individuals may be selected for compulsory redundancy following an offer of voluntary redundancy. The payment terms are typically the least favourable.

Early retirement: Individuals may be able to retire before the standard age and receive a lump sum payment and/or enhancements on their pension.

Source: Wales Audit Office and Civil Service Compensation Scheme Guidance

¹ Written Statement – The UK Government's Spending Round of 26 June 2013, Welsh Government, June 2013. Accessed at <http://wales.gov.uk/about/cabinet/cabinetstatements/2013/spendinground2013/?lang=en>.

² *A Picture of Public Services 2011*, Wales Audit Office, October 2011.

- 5 The UK Government Financial Reporting Manual (FRoM) introduced new financial accounts disclosures on all early departure 'exit packages' from 2010-11, applicable to the Welsh Government and its sponsored bodies. These require the disclosure of the number of early departure packages by cost band and total cost in each financial year. The 2010-11 CIPFA/LASAAC Code of Practice on Local Authority Accounting³ also adopted this requirement and the Welsh Government has incorporated this requirement in its accounting guidance for Welsh NHS bodies from 2010-11.
- 6 In May 2012, the Welsh Government published *Working Together for Wales – A Strategic Framework for the Public Service Workforce in Wales*. The strategy outlines how the workforce is at the heart of enabling the Welsh Government's future vision for public services and set out the principles by which the Welsh Government will operate in relation to workforce matters. The two main priorities set out in the strategic framework are 'building an engaged, motivated and high performing workforce' and 'attracting and retaining talent'. Well managed, early departures could support these objectives.
- 7 Recently, the National Audit Office⁴ and Audit Scotland⁵ have reported on early departure arrangements across UK central government and the Scottish public sector respectively. The National Audit Office has also reported on such arrangements for senior BBC executives⁶. House of Commons Public Accounts Committee and Scottish Parliament Public Audit Committee reports have reinforced the findings of the NAO and Audit Scotland. These reports have pointed variously to weaknesses and inconsistencies in the management of early departures.
- 8 In Wales, there has been negative publicity about early departures at a number of public bodies. In 2011, a report by the National Assembly's Finance Committee⁷ on the Welsh Government's staff numbers and costs criticised the Welsh Government's early departure arrangements. The report concluded there was little evidence that Welsh Government departments gave adequate consideration around early departures to ensure that no department was unduly affected by staff reduction.
- 9 There has also been recent negative publicity around the use of settlement agreements⁸ and 'gagging clauses' within early departure arrangements. A 2013 National Audit Office report found a lack of transparency, consistency and accountability in the use of settlement agreements in the public sector and little is being done to change this⁹.

3 The Chartered Institute of Public Finance & Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

4 *Managing early departures in central government*, National Audit Office, March 2012.

5 *Managing early departures from the Scottish public sector*, Audit Scotland, May 2013, *Scotland's public sector workforce*, Audit Scotland, November 2013.

6 *Severance payments and wider benefits for senior BBC managers*, National Audit Office, June 2013.

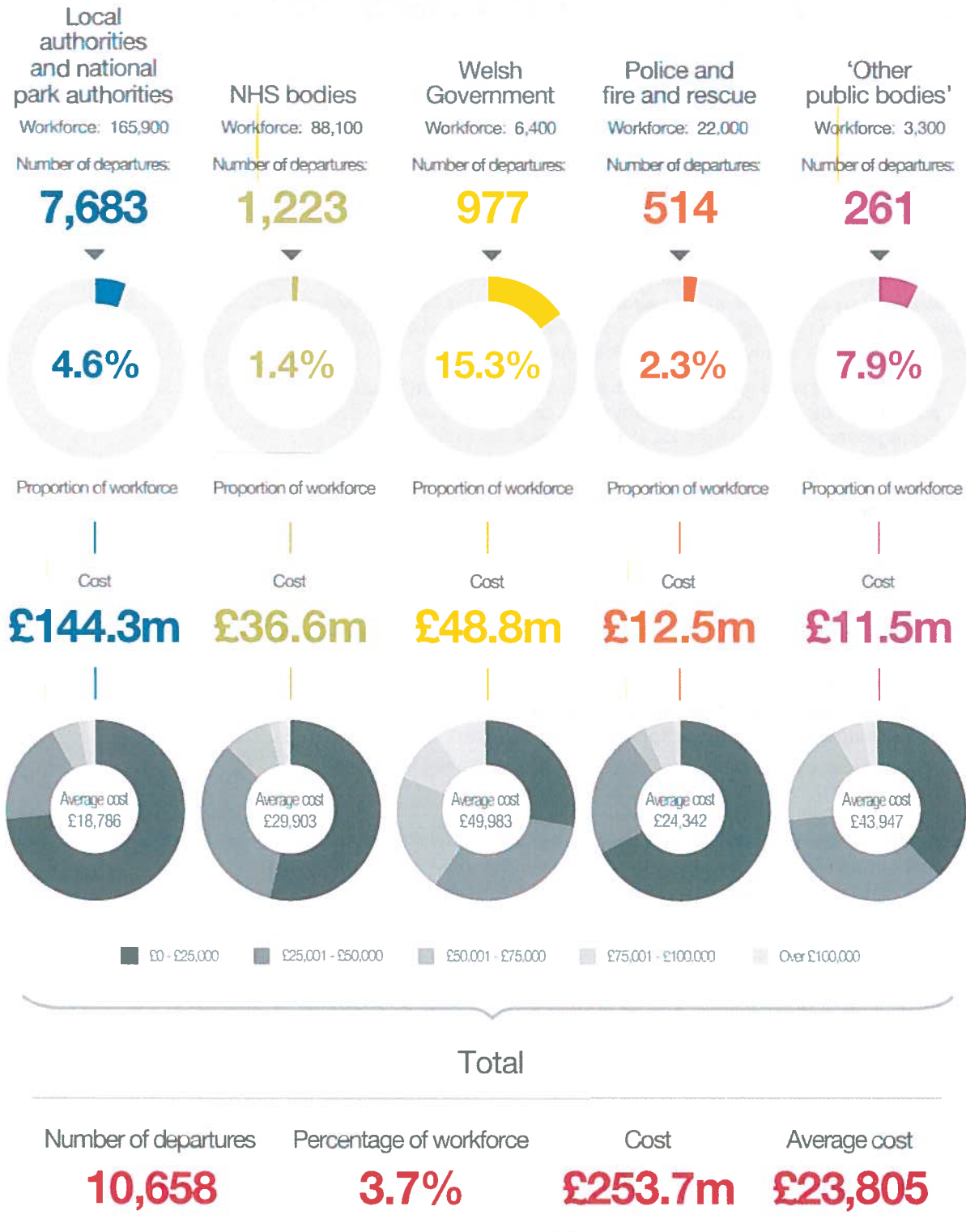
7 *Inquiry into Welsh Assembly Government staff numbers and costs*, National Assembly for Wales Finance Committee, March 2011.

8 Settlement agreements were previously known as compromise agreements until Section 23 of the Enterprise and Regulatory Reform Act came into force on 29 July 2013.

9 *Confidentiality clauses and special severance payments*, National Audit Office, June 2013.

- 10 On behalf of the Auditor General for Wales, a team from the Wales Audit Office examined whether Welsh public bodies can demonstrate that they are securing value for money from the use of early departures to control or reduce workforce costs. Between February and June 2014, we surveyed 58 Welsh public bodies audited by the Auditor General including Welsh Government, local government, the NHS, national park authorities, police, fire and rescue authorities and 'other public bodies'. Our survey sought information on the use of early departures and the wider approach that these bodies had taken to reduce or control workforce costs over recent years. We also requested data about all individual early departure packages agreed between 1 April 2010 and 31 December 2013. Full details of our methods are at [Appendix 1](#).
- 11 This report presents a high-level review based largely on the findings of that survey but supplemented where relevant with other evidence arising from our regular audit work. We have not examined the regularity or propriety of individual early departure packages as part of the work undertaken to produce this report. There have, however, been some isolated but widely reported examples where auditors have reviewed arrangements for certain individual departure packages for senior officers.
- 12 We found that Welsh public bodies have made extensive use of early departures to support workforce cost reduction, alongside a range of other approaches. Between April 2010 and December 2013, 10,658 staff left employment through early departure at a cost of around £254 million ([Figure 1](#)). Figures reported in public bodies' end of year accounts for 2013-14 suggest that, when compared with data reported to us for the period to the end of December 2013, there were around 2,300 more early departures in the final quarter of 2013-14.
- 13 Assuming staff were not directly or indirectly replaced, public bodies would start making cost savings from early departures after 10 months. Once the payback period has elapsed, public bodies can start making a net saving on the salary, national insurance contributions and pension contributions that would otherwise have been paid to departing staff. Based on our survey data, these potential savings amount to around £305 million per year, although public bodies might not realise these savings in full for a variety of reasons. While the exact contribution of early departures is unclear, staff salary costs across Welsh public bodies reduced by around £447 million in real terms between 2009-10 and 2013-14.
- 14 Overall, the governance of early departures appears to have been satisfactory, although not all schemes complied fully with good practice principles. For example, while Welsh public bodies have been largely mindful of the impact of early departures from a workforce planning perspective, some have applied more rigorous business case criteria than others.

Figure 1 – Early departures by sector, April 2010 to December 2013



Source: Wales Audit Office survey of 58 Welsh public bodies

Recommendations

Recommendation

We found that not all public bodies were using business cases for all individual early departures and that where public bodies are using business cases, some are applying more rigorous criteria than others (paragraphs 2.18-2.20).

R1 Public bodies should use business cases to support all individual early departures. Business cases should identify the cost and service delivery implications of the individual leaving and take account of relevant wider workforce planning.

For voluntary exits and voluntary redundancies, local authorities have discretion to set their own early departure arrangements and, in practice, have applied a range of different terms and conditions (paragraph 1.13). Given the Welsh Government's desired reduction in the number of local authorities in Wales, early departures are likely to be a feature of any future merger agreements.

R2 Working with local government, the Welsh Government should seek agreement on some common principles to underpin any early departure arrangements arising from local government mergers.

Scrutiny of early departures is important in ensuring that proposals for both schemes and individual early departures represent value for money. We found that more than three quarters of public bodies had councillors or board members involved in some way in ensuring value for money for their early departures (paragraphs 2.25-2.26).

R3 We recommend that public bodies:

- Ensure that councillors or board members have the opportunity to examine the value for money of early departure schemes through established scrutiny/governance arrangements.
- Ensure that councillors and/or board members approve higher value packages, such as those for senior management.
- Consider using internal audit to provide assurance on overall management of early departure schemes.

We found that around one in five early departures have involved some form of settlement agreement, with seven per cent of these cases including an enhancement payment. However, not all public bodies could tell us whether their early departures involved a settlement agreement or an enhancement payment (paragraphs 2.29-2.32).

R4 Public bodies should ensure where settlement agreements are used, their records clearly identify whether a package includes an enhancement payment and if so, its value and the reason for the enhancement payment.

Recommendation

We found that not all public bodies that ran an early departure scheme undertook some form of equality impact assessment. Equality impact assessments should ensure that those with protected characteristics are not subjected to unfair disadvantage or exclusion (paragraphs 2.27-2.28).

R5 Public bodies should give due consideration to the equality impact of all early departure arrangements, in particular where a public body is running a specific scheme covering multiple possible departures.

We found that, assuming staff were not directly or indirectly replaced, public bodies would, on average, start to have made cost savings from early departures after 10 months. We found that once this payback period elapsed, public bodies stood to save around £305 million per year. However, public bodies might not realise any of these savings in full for a variety of reasons (paragraphs 1.18-1.23).

R6 Public bodies should monitor and report as part of their internal governance arrangements on expected and achieved savings as a result of early departures. This will help inform future cost reduction plans.

We found the quality of data held by public bodies on early departures was inconsistent. Several public bodies were not able to provide us with some key information we requested (paragraph 2.37).

R7 Public bodies should review their record keeping for early departure arrangements, so that they can more readily identify key information including the number and costs of early departures in a given period, payback period information based on salary and employers' National Insurance and pension costs, and settlement agreements.

