

To: Human Resources  
Pension Contacts

Circular 16/2015  
12 October 2015

At: All Employing Authorities

Dear Colleagues

### **Government Proposal to Cap Severance Costs at £95,000**

This Circular is relevant to you if your organisation plans to operate a severance scheme or make redundancies from 2016 onwards.

On 31 July 2015 HM Treasury issued a consultation proposing legislation to cap the total value on exit payments in public sector employment. The consultation is now closed and the Government has set out its intention to proceed with legislation. The Government's response can be read at

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/464367/Public\\_sector\\_exit\\_payments\\_response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464367/Public_sector_exit_payments_response.pdf)

The legislation made by Westminster will not automatically apply to Northern Ireland however it is likely that DFP will seek the agreement of the NI Executive for a Legislative Consent Motion (LCM) to adopt the Westminster legislation in Northern Ireland.

The proposed cap of £95,000 applies not only to a severance payment received by an exiting employee but also includes any payment which you may make to NILGOSC for the early payment of pension. If a scheme member is made redundant and is aged 55 or over, they will be entitled to receive a redundancy pension. This may result in a 'strain-cost' which must be paid by the employer to NILGOSC and is included in the total cost limited by the proposed cap. For example, the strain cost for a female with 35 years' service, made redundant at age 55, would breach the cap if she earned £27,053 or more. This example does not take into account any severance payment also received, which would mean that an individual could earn less and still breach the cap. In other words it is clearly not just senior staff that would be affected by the cap.

If you feel that such a cap would inhibit your organisation's plans to reduce staff numbers in the foreseeable future you may wish to alert your own parent Department to the problems the legislation would cause you. NILGOSC has alerted its Minister, the Minister of the Environment, to the complications that would be caused by the legislation and the range of employers it will affect across the public sector.

Yours sincerely

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