

## **LG Group Transition Costs**

### **Summary**

The LG Group's and the LGA's budget for 2011/12 were approved at the May meetings. At that point the costs of transition to the new structure were still being assessed. This report provides an update on the transition costs that are likely to be incurred.

### **Recommendation**

Members are asked to:

- note the overall level of transition costs;
- confirm that they are content for transition costs for which provision has not already been made to be covered from reserves.

### **Action**

Group Finance Director

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## **LG Group Transition Costs**

### **Background**

1. At its meeting in May, LGA Leadership Board agreed the budget for 2011/12 for the LGA. This is part of the budget for the overall LG Group agreed by the LG Group Executive on 19 May.
2. When the budgets were agreed, we had a working estimate of transition costs for the change to the new staffing structure. For the Group as a whole, the estimate was that these costs would be in the range £7m - £8m. It is now possible for a more accurate estimate to be presented, as almost all decisions on staffing in the new structure have now been finalised.

### **Redundancies**

3. The LG Group ran several rounds of a voluntary redundancy programme as the Group was restructured. Overall, 94 employees took voluntary redundancy at a cost of £3.972m. These costs include employer pension costs of £1.884m that relate to 31 employees over the age of 55, where we are required to pay the additional cost of allowing pension to be taken before the normal retirement age.
4. Not all the change that we wanted to achieve could be delivered by voluntary redundancies, and in addition a total of 48 compulsory redundancies have been required. These will cost the Group a total of £1.060m. This figure includes £0.240m for employer pension costs relating to 5 individuals.
5. In total, therefore, redundancy costs amount to £5.032m.
6. The total annual salary costs of individuals leaving the LG Group on voluntary or compulsory redundancy, including employer on-costs, amounted to £10.187m. The payback period for the redundancy expenditure is therefore just under 6 months.

### **Other transition costs**

7. Almost all the staff who are due to leave the LG Group have agreed departure dates falling in the period March – July 2011. For departures in the current financial year, the salary cost for the period up to departure is also regarded as a transition costs, as the individuals concerned are occupying posts that are no

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longer part of our agreed staffing structure. The total pay costs for the individuals concerned, including employer on-costs, amount to £1.602m.

8. There are around 20 individuals currently occupying temporary posts outside the new staffing structure. A number of these are inward secondees; and some are occupying grant funded posts or are effectively covering established posts within the new staffing structure to which permanent appointments have yet to be made. The additional costs attributable to these individuals cannot yet be determined but are unlikely to exceed £0.75m.
9. Finally, costs have been incurred in the management of the process to select employees for posts in the new structure (£0.195m) and outplacement support for staff leaving the Group (£0.02m).
10. This therefore gives a total figure for expected transition costs of £7.602m, which is around the midpoint of the expected range.
11. Excluding the generic costs and the costs related to individuals still occupying temporary posts, the total specific redundancy and transition pay costs of £6.634m break down between the constituent parts of the Group as follows:

LGA and LGL	£0.827m
LGID	£4.215m
LGE	£0.803m
LGR	£0.788m
12. These costs can all be covered by reserves in the individual companies and, indeed, the 2010-11 accounts already contain charges for the bulk of the expenditure that was either already incurred or definitely foreseeable at 31 March 2011.

**Recommendation**

13. Members are asked to:
  - 13.1 note the overall level of transition costs;
  - 13.2 confirm that they are content for transition costs for which provision has not already been made to be covered from reserves.