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|  <b>Regulatory Policy Committee</b>  | <b>Opinion</b>                               |                   |
| <b>Impact Assessment (IA)</b>   | Collective Redundancy Consultation           |                   |
| <b>Lead Department/Agency</b>   | Department for Business, Innovation & Skills |                   |
| <b>Stage</b>  | Final  |                   |
| <b>IA number</b>  | BIS0347                                      |                   |
| <b>Origin</b>   | Domestic                                     |                   |
| <b>Expected date of implementation (and SNR number)</b>   | April 2013 – SNR5                            |                   |
| <b>Date submitted to RPC</b>  | 09/10/2013                                   |                   |
| <b>RPC Opinion date and reference</b>   | 05/11/2013                                   | RPC12-BIS-1353(3) |
| <b>Overall Assessment</b>   | <b>GREEN</b>                                 |                   |
| <b>RPC comments</b>   |  |                   |
| <p>The IA is fit for purpose. The issues raised in our previous Opinion (28/03/2013) have now been addressed. As such, the IA now appears to reflect more accurately the likely impact on businesses, in particular through a more robust assessment of the businesses that are likely to benefit from the proposal. There are, however, some areas where, for the purpose of clarity, the IA would benefit from improvements prior to publication.</p>   |  |                   |
| <b>Background (extracts from IA)</b>  |  |                   |
| <b>What is the problem under consideration? Why is government intervention necessary?</b>   |  |                   |
| <p>UK law requires that proposed redundancies affecting 100 or more employees cannot take place until a minimum period of 90 days has elapsed, or after consultation is completed, whichever is longer. This goes beyond EU minimum requirements, where there is only a 30 day minimum period before dismissals can take effect. The minimum period starts when the government is notified of the proposals. EU law also requires employers to consult 'in good time'. Most employers argue that the 90 days minimum period is unnecessarily long and undermines productivity, hampering necessary change. There is also evidence of confusion and disagreement between employers and employee representatives about the process and aims of consultation, which prevents effective consultation from taking place. Employers also struggle to retain skilled key employees and experience detrimental impacts on employee morale and productivity. This increases risks that businesses will fail or struggle to succeed in the future, meaning continued uncertainty and risk for employees that remain. The preferred option seeks to remove unnecessary gold-plating, allowing parties to concentrate on the key issues, and discouraging delay or avoidance of consultation.</p> |  |                   |
| <b>What are the policy objectives and the intended effects?</b>   |  |                   |
| <p>The aim of the proposed policy is to create a simple, understandable process that promotes quality consultation and will:</p> <ul style="list-style-type: none"> <li>• allow the parties to engage in consultation that is best suited to their circumstances;</li> <li>• improve business flexibility to restructure effectively;</li> <li>• reduce business burdens; and</li> </ul>  |  |                   |

- balance the needs of employees made redundant with those that remain.

The IA states that collective redundancy rules have remained largely unchanged since 1975 and as such do not reflect modern practices. The changes to the legislative framework would reduce the minimum period between a decision that large scale redundancies may be required and when dismissals can be made. This would not affect subsequent statutory or contractual notice periods following decisions on dismissals. Alongside the proposal to change the legislative framework the Department propose to introduce improved guidance to clarify the requirements of the legislation.

### **Comments on the robustness of the OITO assessment**

The IA says that it is a deregulatory proposal (an OUT) with an Equivalent Annual Net Cost to Business of -£66.43 million. The IA estimates that the proposals will result in savings to employers of £197.5 million per annum as a result of reduced labour costs from enabling earlier dismissals. This is offset by an estimated lost output of £98.8 million per annum. As such the net annual benefit to employers would be £98.7 million. Adjusting this figure, so that it does not include public sector areas and is presented in 2009 prices, provides an annual net benefit to business of £66.43 million.

The OITO assessment is consistent with the current Better Regulation Framework Manual (paragraph 1.9.11) and provides a reasonable assessment of the likely impacts.

### **Comments on the robustness of the Small & Micro Business Assessment (SaMBA)**

The proposals are deregulatory for business and come into force before 1 April 2014, and therefore the SaMBA is not applicable.

### **Quality of the analysis and evidence presented in the IA**

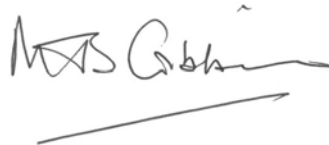
The proposal will reduce the minimum period between a decision that large scale redundancies may be required and when dismissals can be made. Businesses will benefit from this increased flexibility by being able to make dismissals sooner; reducing the impacts associated with ongoing wage costs and reduced staff output. Following comments in our previous opinion (28/03/2013), the IA now provides a more robust assessment of the number of businesses which are likely to benefit from the proposal. In particular, the estimated benefits now take account of the number of businesses that may choose to run consultations for longer than the minimum period or where redundancies do not take effect immediately after the consultation period ends, for example when they arise from pre-planned structural changes. In addition, the assumptions regarding labour cost savings and lost output for firms facing bankruptcy now appear to be more realistic and consistent with one another.

There are, however, a number of areas where, for the purpose of clarity, the IA would benefit from improvements before publication. The IA could set out more

clearly in one place what is included within the estimated benefits, for example by adding more detail to Table 5. For example, the information in paragraphs 94 and 76 (covering some of the circumstances in which businesses would not be expected to benefit from the changes) could be articulated more transparently.

The qualitative narrative could also be strengthened in a number of places. For example, in response to our Opinion (28/03/2013), the IA now assumes that workers' outputs as a percentage of labour costs will now be a normal, rather than linear distribution (Figure 2, page 29). The IA should include a clearer description of why this, in the absence of robust evidence, is the most reasonable distribution.

**Signed**

A handwritten signature in black ink, appearing to read "Michael Gibbons", with a long horizontal line extending to the right from the end of the signature.

**Michael Gibbons, Chairman**