

Rights to redundancy payouts

By Philip Landau

Redundancy payments aren't comparable to bonuses but they can come in useful all the same.

If you're dismissed because of redundancy, it usually means your employer needs to reduce the number of staff it employs.

This may either be because your place of work is closing down, or what is more likely in banking circles, because there is longer the need (or expected to be the need) for you to carry out the particular kind of work that you do.

Normally your job must have disappeared. It is not a plausible redundancy if your employer immediately takes on a direct replacement for you.

Assuming that your employer can justify a redundancy situation (and has gone through the necessary selection and consultation process), you may then be entitled to a redundancy payout. You are also usually paid in lieu of your contractual notice. And the good news is that the first £30k of any redundancy payment can be made tax free.

Even in banking, you may though not get anything close to £30k. Your rights to a payout are minimal – you need to be employed for more than 2 years to be eligible for a statutory redundancy payment. The amount you then receive is based on a formula depending on your age, length of service and weekly salary (the latter is presently capped at only £310 a week). The total statutory maximum you can walk away with is £9.3k.

Fortunately, most investment banks are more generous than this. Some of the major organisations offer one month's gross salary for every year worked, which can add up to a tidy sum for long term employees.

Others refuse to disclose how they reach their redundancy calculation preferring to rely on their discretion to make an enhanced payment. Such employers will usually, however, be bound by 'custom and practice' if they have a history of making enhanced payments based on an unwritten formula. Although some of the smaller banks and niche financial institutions do not have the same scale of redundancies, they are often as generous as the larger employers and sometimes more so, especially if you are liked and have been good at your job.

Are you able to challenge the redundancy payment offered to you? The simple answer is, yes. One challenge (as stated above) can be made on the basis that you have not been offered what is the custom and practice of payments previously made to other staff. Another common challenge is your employer has unfairly selected you, rather than other staff for redundancy.

Often, there may be a challenge based on lack of consultation or ability to justify the redundancy in economic terms. Your performance may have been great last year- so why are you faced with redundancy? This can be a very grey area and because of this, can often be resolved with an enhanced payment. This is especially if the argument is coherently put by you (or your legal adviser – me!).

Your employer will often insist that you sign a 'compromise agreement' which is legally binding document preventing you from making a claim to the tribunal in return for the enhanced redundancy payment they have agreed to-whether this has been challenged or not.

As always, you are best off seeking early legal advice. I am always amazed how many employees accept the redundancy terms and then seek legal advice afterwards when they realise they could have negotiated a better payout.

For further information, please contact:

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or call 020 7357 9494 for a free consultation on this or any other employment law issue.