

EXECUTIVE – 2 DECEMBER 2003

Minute Item No 4

4 The Accounts Commission for Scotland Follow Up Review of the Management of Early Retirement (Agenda item number 6)

The Accounts Commission for Scotland had published a report entitled "Bye Now, Pay Later" on the management of early retirement in Scottish local authorities, police and fire services.

Details were submitted of the outcome of the Accounts Commission's follow-up review of the management of early retirement. The findings of the local audit of the City of Edinburgh Council's Early Retiral/Severence practices and actions proposed to implement recommendations arising from the review were also highlighted.

Decision

- 1) To note the local action plan detailed at Appendix 2.
- 2) That the local "costs/savings" test be revised to require that a maximum period of up to 5 years is used for the calculation of savings, to be applied to all early retiral/severance cases submitted on or after 1 January 2004.
- 3) To note the summary information on retiral activity at Appendices 3-4 to the report and that information on early retirement activity would continue to be provided to elected members on an annual basis.
- 4) To note that the Director of Finance would examine the feasibility of including information on the total net costs falling on the revenue budget in the year and consequential costs falling in future years in the Council's annual report.
- 5) To note that applications for early retiral/severance would continue to be submitted to the Director of Corporate Services for approval under delegated authority and, in the case of early retirement decisions for Chief Officers, this would be done in consultation with the Executive Member for Human and Corporate Resources.
- 6) To note that departments would be informed of the Accounts Commission's findings and that consideration would be given to the need to review relevant policies and procedures as a consequence of the recommendations made.

- 7) To note that the Executive would be kept informed of further developments regarding the Government's proposals on retirement.
- 8) To refer the report to the Resource Management and Audit Scrutiny Panel.
- 9) To note that the Director of Education would report further detailing trends of early retirement/severance relating to teaching staff.

(Reference – report no E/284/03-04/CS by the Director of Corporate Services, submitted)

The Accounts Commission for Scotland Follow-up Review of the Management of Early Retirement

Executive of the Council

2 December 2003

1. Purpose of report

- 1.1 To inform the Executive of the Council of the outcome of the Accounts Commission for Scotland follow-up Review of the Management of Early Retirement. In particular, to highlight the findings of their local audit of this Council's Early Retirement/Severance practices and the actions proposed to implement recommendations arising from the Review.

2. Background

- 2.1 Early Retirement/Severance has long been recognised by Local Government and this Council as an important tool which can be used to help adjust workforce levels in order to respond to changing circumstances and achieve organisational objectives.
- 2.2 In 1997, the Accounts Commission for Scotland published a report entitled "*Bye Now, Pay Later*" on the management of early retirement in Scottish local authorities, police and fire services. The report found that early retirement was widespread and costly and there was considerable scope for tightening up management practice. At the time, it was recognised that this Council was already operating largely in line with the report recommendations. In fact the Commission was given permission to draw upon the Council's early retirement guidance to illustrate good practice.
- 2.3 A follow-up review was recently undertaken to examine how Scottish councils have responded to the 1997 report recommendations and what if any further improvements could be made. As part of the study Councils completed a self-assessment questionnaire. The responses were then validated by appointed auditors from Audit Scotland who also selected a sample of

early retirement cases from departments for more detailed examination. The study explored activity across three categories of early retirement activity where employers can use "discretions", available under the Local Government Pension Scheme, to facilitate early retirement and enhance benefits payable on termination -:

- Efficiency or redundancy early retiral
- Ill-health retiral
- Voluntary early retiral (the "rule of 85")

2.4 As Teaching Staff are covered by a separate pension arrangement they were excluded from this review and the previous study.

3. Outcome of the Follow-up Review

The National Position

3.1 The national report, published in June 2003, concluded that overall the management of early retirement in Scottish Local Authorities has improved. In summary, the numbers of early retirals have fallen; most audited Councils now have policies in place to manage early retirement and consideration is generally given to alternatives to early retirement such as redeployment and retraining. In addition, decisions on efficiency, redundancy and voluntary retirals are now supported by information on the full costs involved.

3.2 However, the report found that there was still scope for improvement. In particular, all Councils should have early retiral policies approved by elected members and reviewed regularly. Also elected members should have an involvement in early retirement decisions for senior staff and receive information annually on the numbers of early retirement decisions made along with details of associated costs and savings (in about half the authorities this was not the case). A summary of the key findings and recommendations is provided at Appendix 1 to this report.

The local Audit of the City of Edinburgh Council

3.3 As part of the Review Audit Scotland also prepared a local report with specific feedback on this Council's position along with an action plan highlighting a few areas for further improvement. The report findings confirm that the Council has continued to manage early retirement in line with the recommendations made by the Commission in 1997 and 2003. In particular Audit Scotland was pleased to note -:

- a) the number of early retirals in this Council have fallen during the period 1998-2002¹ -:

¹ There have been 3 voluntary retirements since 2000 which reflects the introduction of the "rule of 85" provision in 1998.

- the number of ill-health retiral has reduced by almost two-thirds
 - the number of efficiency retirals has reduced from 78 to 2
 - the number of retirals due to redundancy has reduced from 101 to 27;
- b) the Council approved Early Retiral/Severance policies in 1998 and subsequently updated them in 2001;
- c) all requests for early retiral are supported by a local "costs/savings" analysis and information on the number of terminations and the overall costs and savings are provided annually to members on a departmental basis;
- d) redeployment and retraining of staff is generally considered as an alternative to early retirement; and
- e) information on the number of terminations and the overall costs and savings are provided annually to members.

4. Action Plan for Further Improvement

4.1 As the Council is already operating largely in line with the 2003 recommendations, no significant changes to existing arrangements are necessary at this time. However, Audit Scotland's local action plan does provide an opportunity for the Council to refine and enhance certain aspects of the early retirement/severance arrangements and improve the information on early retiral activity which is provided to elected members on an annual basis. A copy of the action plan is attached at Appendix 2 to this report for information.

4.2 The key actions proposed are summarised below -:

- a) to ensure that costs and savings are calculated on a comparable basis, in future both will be determined over a period of up to a maximum of 5 years (previously costs were calculated over up to 5 years and savings up to 10 years). The revised arrangements will apply to all early retiral/severance cases submitted on or after 1 January 2004;
- b) elected members will continue to receive an annual report with summary information on early retirement decisions made in the year and associated financial implications. In advance of the 2004 report, consideration will be given to what scope exists to refine and improve the information presented. In the meantime Appendices 3 and 4 respectively provide information on -:
- Council-wide retiral activity (1996 to date); and
 - Early retirement decisions made in 2003/4;
- c) the Director of Finance will examine the scope to refine early retiral information that is included in the Council Annual Report;

- d) applications for early retiral/severance will continue to be submitted to the Director of Corporate Services for approval under delegated authority and, in the case of early retirement decisions for Chief Officers, this will be done in consultation with the Executive Member with Special Responsibility for Corporate Resources; and
- e) Departments will be reminded of their obligations under Council Policy to ensure that alternatives to early retirement such as redeployment and retraining continue to be considered in all cases.


5. Future Developments in Retirement/Pensions Issues

- 5.1 The Government is currently consulting widely on proposals to introduce legislation in 2004 which will outlaw age discrimination in employment and vocational training with effect from 1 October 2006. One possible outcome could be that compulsory retirement ages set by employers would become unlawful unless they can be objectively justified. This is likely to mean that an increasing number of employees will wish to continue to work beyond the current normal retirement age of 65.
- 5.2 The Government is also looking at other ways to ensure people make adequate provision for their retirement and encourage greater participation of older workers in the labour market. The Local Government Pension Scheme is also reviewing the Scheme to identify how best to continue to meet members needs in the future and support the Government's aims. Proposals being considered include increasing the age when Pension Scheme members can retire voluntarily to age 65 from age 60 and increasing the minimum age for early retirement on grounds of "redundancy" and "efficiency" to age 55 from age 50. It has been clearly stated that any proposals for change would only apply to new Pension Scheme members in the first instance.
- 5.3 It must be stressed that all the above proposals are still in the early stages of development. However, it does seem likely that employees will work longer in the future and, as a consequence, the incidence of early retirement will reduce even further. The Executive of the Council will be kept informed of further developments on these issues.

6. Recommendations

- 6.1 The Executive of the Council is recommended to -:
 - a) note the contents of the report and in particular the local action plan detailed at Appendix 2 ;
 - b) approve that the local "costs/savings" test be revised to require that a maximum period of up to 5 years is used for the calculation of savings, to be applied to all early retiral/severance cases submitted on or after 1 January 2004;

- c) note the summary information on retiral activity at Appendices 3 - 4 to the report and that information on early retirement activity will continue to be provided to elected members on an annual basis;
- d) note that the Director of Finance will examine the feasibility of including information on the total net costs falling on the revenue budget in the year and consequential costs falling in future years in the Council's annual report;
- e) note that applications for early retiral/severance will continue to be submitted to the Director of Corporate Services for approval under delegated authority and, in the case, of early retirement decisions for Chief Officers this will be done in consultation with the Executive Member with Special Responsibility for Corporate Resources.
- f) note that departments will be informed of the Accounts Commission's findings and that consideration will be given to the need to review relevant policies and procedures as a consequence of the recommendations made;
- g) note that the Executive will be kept informed of further developments regarding the Government's proposals on retirement; and
- h) refer the report to the Resource Management and Audit Scrutiny Panel.


Jim Inch
 Director of Corporate Services
 18/11/03

Appendices	Appendix 1: Summary of Accounts Commission national report findings and Recommendations Appendix 2: Local Action Plan Appendix 3: Summary of Council Retiral Activity 1996 to date Appendix 4: Summary of Early Retirement/Severance Decisions - Financial Year 1 April 2002 - 31 March 2003
Contact/tel	J Inch, Director of Corporate Services
Wards affected	All
Background Papers	Accounts Commission report on the Follow-Up Review of the Management of Early Retirement and the Local Report

**ACCOUNTS COMMISSION FOLLOW-UP REVIEW ON THE MANAGEMENT OF EARLY
RETIREMENT**

SUMMARY OF KEY NATIONAL FINDINGS AND RECOMMENDATIONS

Findings

- the numbers of early retirals have fallen between 1998 and 2002
- the use of voluntary retirals has increased over the same period
(note: this is due to the introduction of the "rule of 85" retiral provision which did not exist prior to 1998)
- ill-health retirals have decreased in total terms, however they remain around 55% of all early retirals from pension funds
- most audited bodies have policies in place to manage early retirals
- the change in the regulations that requires authorities to repay to the pension funds any strain that granting an early retiral has placed on the fund, has ensured that the full costs associated with early retirals are taken into account in the decision-making process
- in general where decisions are made by management under devolved powers, information on the number and associated financial impact on the councils is not disclosed to elected members
- most audited bodies consider alternatives to early retirement including retraining and redeployment of staff

Recommendations

- Early retirement policies should be approved by elected members and be reviewed regularly
- Members should receive a report at least annually that details the number of early retiral decisions made in the year, along with the associated costs and savings attached to these decisions
- Local authorities should rigorously appraise individual cases to ensure the expected savings associated with a retiral outweigh the costs
- To improve accountability and assist in monitoring, the costs of early retirement should be charged to the appropriate service budget
- Elected members should have an involvement in approving early retirement decisions for senior staff

Bye now, pay later?

A follow up review of the management of early retirement

Action Plan

Action Plan

Ref.	Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
1.	In accordance with good practice and to make costs and savings comparable savings should be projected over 5 years when considering each retiral case. Para. 5.4	Medium	L Duncan Corporate Svs	Yes	The period currently used to calculate savings (i.e. up to a maximum of 10 years) was introduced at a time when "strain on the pension fund" costs were also calculated over a lengthy time period. As "strain" costs are now calculated over a maximum period of 5 years, it is appropriate that the same time period be used to calculate savings. It is proposed that the revised arrangements will apply to early retiral/severance cases submitted on or after 1 January 2004.	Jan. 2004
2.	Consideration should be given to providing members with an annual report detailing total net costs to both the revenue budget and the pension fund for early retirement decisions made during the year. Para. 5.6	Medium	L Duncan Corporate Svs	Yes	The Council has, in the past, provided elected members with an annual report summarising the number of cases across the retiral categories including the "costs/savings" associated with early retirement decisions (eg early retiral "added years", enhanced compensation, rule of 85 cases). It is proposed to include the following information in a report to be considered by elected members in December 2003 -: <ul style="list-style-type: none"> a summary table of activity in each retiral category from 1996 to date information on net costs to the revenue budget/pension fund of early retirement decisions made in 2002/3 (for cases where information is available) 	Dec. 2003

Bye now, pay later?

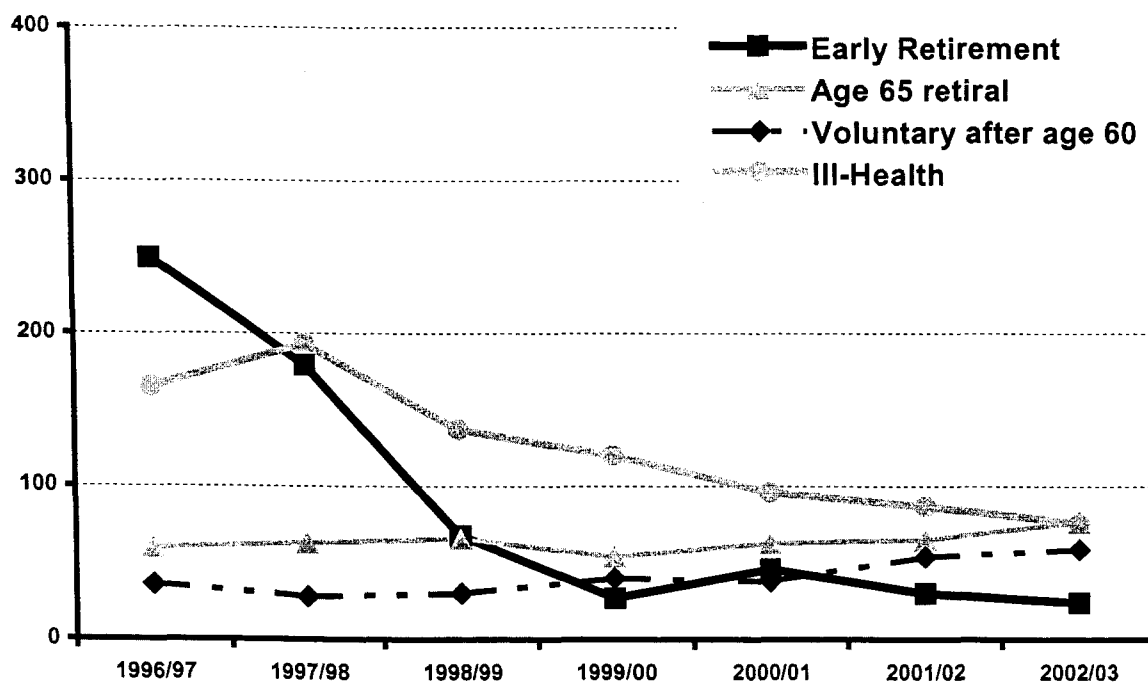
A follow up review of the management of early retirement

Action Plan

Ref.	Recommendation	Importance	Responsible Officer	Agreed	Audited Body's Comments	Action Date
2. Cont.					Thereafter, the Council will examine scope to refine the costs/savings information provided by departments in support of each case with a view to presenting improved annual reports as per the recommendation, from mid-2004 onwards.	mid 2004
3.	<p>The Council's annual report should include:</p> <ul style="list-style-type: none"> ▪ the total net costs falling on the revenue budget in the year, and ▪ consequential costs falling in future years, including reimbursement to the pension fund for the strain on the fund. <p style="text-align: right;"><i>Para 5.6</i></p>	Low	D McGougan Finance		The Director of Finance will examine the feasibility of including this information in the Council's annual report in advance of the preparation of the 2003/4 report	2004
4.	<p>In accordance with Council policy, alternatives to early retirement such as retraining or redeployment should be considered for all appropriate applications.</p> <p style="text-align: right;"><i>Para 5.13</i></p>		L Duncan Corporate Svs	Yes	<p>Departments will be informed of the Accounts Commission findings and reminded of their obligations under Council Policy.</p> <p>The Council will examine the need to review the Procedure for Redeployment of Surplus Employees and Procedure for Managing Sickness Absence .</p>	<p>Nov./Dec 2003</p> <p>2004</p>

THE CITY OF EDINBURGH COUNCIL

SUMMARY OF RETIRAL ACTIVITY BY CATEGORY APRIL 1996 TO MARCH 2003



SUMMARY TABLE

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Total
Age 65 retiral	60	63	66	54	63	65	77	448
Voluntary after age 60	36	28	30	40	38	54	59	285
Interest of Efficiency	92	78	8	5	1	2	2	188
Redundancy	157	101	60	20	44	27	20	429
Ill-Health	165	193	137	120	96	87	76	874
Early Retirement	249	179	68	27	46	30	24	623
Rule of 85	0	0	0	2	1	1	2	6
Other	16	11	15	13	5	6	4	70
Total	775	653	384	281	294	272	264	2923

Note: "Other" = Payment of deferred benefits

THE CITY OF EDINBURGH COUNCIL

SUMMARY OF EARLY RETIREMENT/SEVERANCE DECISIONS - FINANCIAL YEAR 1 APRIL 2002 - 31 MARCH 2003

1. Policy on Early Retirement and Voluntary Severance (award of "added years")

Case Details			Costs to Revenue Budget								Estimated Total Savings				Net Costs	
Department	Grounds	No. of cases	Red. Payment	Cap Cost A Y pension	AY L/sum	Enh. lump sum	Strain PF	Aug cost	Other costs	Total costs	Red pay	Red emp costs	Other sec. savings	Projected total savings	Net cost Rev. Bgt. (ie costs - savings)	Net cost pension fund
										201,557	557,322	133,186	-	690,508	-488,951	0
City Devt.	Redundancy	2	33,017	85,369	7,562	-	75,609	-	-	1,193,922	2,728,597	589,217	-	3,317,814	-2,123,892	0
Corp. Svs	Redundancy	10	148,562	515,231	24,294	-	505,835	-	-	59,725	104,301	12,699	-	117,000	-57,275	0
Corp. Svs	Efficiency	1	-	12,084	2,468	-	45,173	-	-	39,939	8,625	-	31,314	39,939	0	0
Education	Efficiency	1	-	-	-	-	39,939	-	-	628,704	1,509,860	310,775	-	1,820,635	1,191,931	0
Housing	Redundancy	9	84,252	278,429	17,757	-	248,266	-	-	53,579	139,389	31,850	-	171,239	-117,660	0
Social Work	Redundancy	1	11,453	24,332	4,726	-	13,068	-	-	2,177,426	5,048,094	1,077,727	31,314	6,157,135	-3,397,709	0
Sub-total		24	277,284	915,445	56,807		927,890									

2. Policy on Enhanced Lump Sum Compensation for Voluntary Severance

Case Details			Costs to Revenue Budget								Estimated Total Savings				Net Costs	
Department	Grounds	No. of cases	Red. Payment	Cap Cost A Y pension	AY L/sum	Enh. lump sum	Strain PF	Aug cost	Other costs	Total costs	Red pay	Red emp costs	Other sec. savings	Proj. total savings	Net cost Rev. Bgt. (ie costs - savings)	Net cost pension fund
										10,207	189,560	17,246	-	206,806	-196,599	0
City Devt	Redundancy	1	-	-	-	10,207	-	-	-	26,524	208,980	41,796	-	250,776	-224,252	0
Corp Svs	Redundancy	1	-	-	-	26,524	-	-	-	39,519	117,300	29,325	-	146,625	-107,106	0
Cult. & Leis.	Redundancy	1	-	-	-	14,892	24,627	-	-	76,250	515,840	88,367	-	604,207	-527,957	0
Sub-total		3				51,623	24,627									

3. Policy on Retiring Early with "Rule of 85" Benefits

Case Details			Costs to Revenue Budget								Estimated Total Savings				Net Costs	
Department	Grounds	No. of cases	Red. Payment	Cap Cost A Y pension	AY L/sum	Enh. lump sum	Strain PF	Aug cost	Other costs	Total costs	Red pay	Red emp costs	Other sec. savings	Proj. total savings	Net cost Rev. Bgt. (ie costs - savings)	Net cost pension fund
Env Con Svs		1	-	-	-	-	-	75,828	-	75,828	75,828	-	-	75,828	0	0
Finance		1	-	-	-	-	129,167	-	-	129,167	53,408	-	75,759	129,167	0	0
Sub-total		2					129,167	75,828		204,995	129,236		75,759	204,995	0	0
OVERALL TOTALS		29	277,284	915,445	56,807	51,623	1,081,684	75,828	-	2,453,948	5,135,848	1,032,908	107,073	6,275,829	-4,023,438	0

Notes:

- The "Strain on the Pension Fund Capitalised Cost" is not a benefit payment made to the employee but a Pension Fund cost to be met by the Council.
- The "Projected Total Costs" take account of all envisaged costs to be met by the Council over the lifetime expectancy of the employee (calculated over a maximum period of 5 years).
- The "Projected Total Savings" are calculated by general reference to the envisaged future savings over the reckonable period (up to a maximum of 10 years)

Agenda item:

Report title: *The Accounts Commission for Scotland Follow-up Review of the Management of Early Retirement*

In accordance with the Council's constitutional arrangements, the contents of this report have been noted by the appropriate Executive Member.

Without prejudice to the integrity of the report, and the recommendations contained within it, the Executive Member expresses his/her own views as follows:

Signed:



Date: 19/11/03.

For information – Paragraph 8.2 of the Council's Constitutional Arrangements states:

“Officers will continue to prepare reports, with professional advice and recommendations, on matters requiring decisions by the Executive:

- a report seeking decisions on matters of corporate strategy, corporate policy and corporate projects will be submitted direct to the Executive
- a report seeking decisions on matters relating to the special responsibilities allocated to an individual member of the Executive will be submitted, in the first instance, to that member. The member will add his or her own recommendation to it before submission to the Executive. Where the Executive member disagrees with the advice and the recommendation of the officers, the Executive member will also state his or her reasons.”

From - “Capital City Government – The New Arrangements” (Appendix 2 – Constitutional Arrangements) – agreed at Full Council 18 May 2000.