

This report was considered at the Scrutiny Commission meeting held on 8 June 1999

EARLY RETIREMENT AND VOLUNTARY REDUNDANCY

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1. Purpose

- 1.1 To address concerns and issues raised by Members over recent months, together with the lessons learnt from the recent Early Retirement/Voluntary Redundancy (ER/VR) process and then to consider proposals for a more rigorous procedure.

2. Summary

- 2.1 Early retirement can be an effective change management tool. The Local Government Pension Scheme (LGPS) regulations provide local authorities with the discretion to grant early retirement and enhance benefits.
- 2.2 The report examines where authority for making the formal decision regarding an early retirement should rest, the reporting process and the information that should be considered. The report also sets out clear policies and procedures which need to be agreed to ensure that each case of early retirement is given proper consideration and takes account of the needs of the service. Any policy adopted will not apply to school based staff as they are subject to policies and procedures agreed locally with their Governors.

3. Recommendations

- 3.1 That the Commission notes the lessons learnt from the ER/VR process, together with the various issues arising and taking account of these, recommends the Personnel Committee to adopt the following recommendations:
- (a) that the relevant service committee be responsible for all decisions on early retirement, with the exception of ill health where the decision is delegated to officer level, with the Personnel Committee being responsible for monitoring the early retirement process;
 - (b) that full information on all early retirements, except ill health retirements, be provided at the point of decision to the service committee, with a summary report to the Personnel Committee;

- (c) that decisions on ill health retirement be delegated to officers, with full information being provided at the point of decision, with a summary report to Members of the relevant service committee;
- (d) that the cost of any early retirement decision be borne by the employing service, except where redeployment is involved when the cost should lie with the service initiating the cost reduction;
- (e) that agreement only be given to a request for early retirement, where the pay back period, including pension, is 5 years or the period to the retiree's normal retirement age, whichever is lower;
- (f) that an annual report be submitted to the Personnel Committee at the end of the financial year summarising the number of cases of early retirement, together with the full cost implications for both the Council's Revenue Account and Pension Fund, with the financial implications being reported to Policy and Resources Committee;
- (g) that regular interim reports be submitted to the Personnel Committee, showing the number of cases, together with the cost implications as described in (f) above; and
- (h) that the costs of all early retirements be monitored centrally, under the control of the Treasurer.

4. **Background**

4.1 In October 1997 the Audit Commission published 'Retiring Nature', a management handbook on early retirement in local government. In 1997/98 District Audit reviewed Milton Keynes Council's approach to early retirement in the shorter and longer term to:

- (a) assess the approach adopted for dealing with early retirement arising from local government reorganisation; and
- (b) help develop a robust approach to early retirement over the longer term.

4.2 In particular, the audit focused on:

- (a) The impact of early retirement on the pension fund;
- (b) The early retirement policy framework;
- (c) Managing the costs of early retirement; and
- (d) Making early retirement decisions.

4.3 The Audit Commission agrees that an early retirement policy is an important element of an authority's people management strategy. It recommends that the Council's policy on early retirement should be agreed by the Council as a whole or by the Policy and Resources Committee (or its equivalent), as it has wide implications for staffing and finance. It should not be a decision made solely by Finance, Personnel, or service committees as all need to be confident that the policy is workable, affordable and produces the desired benefits. The UKSC* recommends that the policy be reconsidered regularly, and as and when circumstances, including the funding situation change (*UKSC Circular 58, October 1997).

4.4 When an early retirement decision is taken, both councillors and officers have distinct and separate roles. Early retirement decisions can involve the commitment of large sums of public money which, with the exception of ill-health retirements, may have a significant discretionary element. Therefore all decisions should be subject to proper scrutiny, otherwise the Council will be more vulnerable to allegations of favouritism and inconsistency. During the ER/VR process reports were submitted to the Budget Review Sub-Committee, which looked at the impact and cost of each individual proposal, and to the Personnel Committee, which ensured that the Council's procedures had been correctly followed.

4.5 As part of the audit review undertaken within the Authority in 1997/98 a probity check of 20 recent early retirement cases was undertaken to review the lawfulness and reasonableness of the decisions taken. The probity check did not identify any evidence of a failure to comply with Local Government Pension Scheme or other Regulations in any of the early retirement decisions examined. There was, however, a need for clearer audit trails, evidence and supporting documentation to justify early retirement decisions. Following this, procedures were tightened up with the Treasurer reviewing the content and format of the financial information reported to committee. The revised format was used throughout the ER/VR process in 1998. Since the termination of the ER/VR process, the Council needs to review

its approach to early retirement to ensure that adequate policies and procedures remain in place.

4.6 At its meeting on 16 March 1999 (Minute S56/99 refers), the Commission received a report on the financial effects of the ER/VR process and asked for a further report to be submitted to the next meeting, including a copy of the District Audit Report, if available, and other issues not included in the previous report. Annexed to this report are the District Audit Report, including recommendations (**Annex A**) the lessons officers have learnt from the ER/VR process (**Annex B**) and a letter dated 15 April 1999 to Members, addressing points raised by Members on the ER/VR processes (**Annex C**).

4.7 Early retirement can take the following forms:

- (a) Voluntary Early Retirement - 85 year rule;
- (b) Ill-health Retirement;
- (c) Early Retirement on the grounds of Redundancy; and
- (d) Early Retirement on the grounds of Efficiency.

A brief outline of each route is given and details of the current practice are set out in the Management Guidelines at **Annex D**. Full details of the criteria to be met for each route, together with management guidelines and checklists will form part of the review to be submitted to the Personnel Committee.

4.8 Given the cost of early retirements, alternatives should always be fully explored and considered. In its report, District Audit states that the current practice of the Council is to consider most alternatives before granting early retirement. These alternatives are set out in the Council's Employment Stability Policy, which focuses on alternatives to redundancy. This policy forms part of the review of the Council's policy regarding the planning and control of early retirement.

4.9 Due to the wide implications for staffing and finance, the full policy regarding the planning and control of early retirement will be submitted to the Policy and Resources Committee for agreement after it has been considered by the Personnel Committee.

5. **Issues and Choices**

5.1 **Financial Information**

Following the audit review the Treasurer issued guidance on the financial information which should be provided to support early retirement decisions. All Directors have been required to follow this standard approach. The information required in the cases of all early retirements is set out at **Annex E**. This forms part of the report to the service committee. It is suggested that it remains the responsibility of the appropriate Directorate Finance Manager to provide this information, clearly indicating the appropriate cost centre.

5.2 Who Bears the Cost?

The Audit Commission states that devolved decision making and budgets usually improve the quality of decision making, including decisions relating to early retirement. It also states that accountability for a decision should lie with those responsible for taking it. Usually the costs of an early retirement should be paid for by the part of the authority which employed the individual. This approach will avoid directorates which do not retire people early having to subsidise those areas where, after due consideration, early retirement is considered to be appropriate.

During the 18 months following Local Government Reorganisation (LGR), the costs were held at the centre and charged against the LGR budget. Now this period has ended, it is more appropriate that the costs, including pension strain, of any early retirements should be paid for by the relevant directorate.

The Audit Commission states that it is important that the true long-term cost commitment of allowing an individual to retire early is recognised. The current calculations used by this Authority is in line with the Audit Commission's recommendations and give a clear indication of the long term cost.

The Audit Commission state: that the cost of discretionary early retirement (on grounds of redundancy or efficiency) should be recovered by the time any savings to the employer expire. At the very latest this should be within 5 years or the date of the retiree's normal retirement age, whichever is earlier. A contribution to the fund should be made either at the time of retirement or over this period (with 'interest' added to cover the cost of payment spread over the period). The figure of 5 years is based on the assumption that, within that time, the necessary savings would be secured through normal turnover. Five years represents a sensible payback period for the 'investment' in early retirement. Where the fund is significantly below 100% funding level, say less than 90% (the minimum funding requirement for private sector pension funds), then a tighter time-scale of three years, in inter-valuation period, would be more appropriate. (This Authority's Pension Fund was shown to have a funding level of 92% when its valuation was undertaken in 1998.) Details of this are set out in the letter dated 15 April 1999 (**Annex C**).

It is suggested that

- (a) the service committees meet the direct costs up front, with the cost of the pension strain spread over the payback period;
- (b) in order for agreement to be given to a request for early retirement, the pay back period including pension must be 5 years, or the period to the retiree's normal retirement age, whichever is lower; and
- (c) in order for all costs to be monitored accurately, the Directorate Finance Manager be responsible for passing a copy of each financial appraisal to Corporate Finance, who will monitor the costs across the Council on behalf of the Treasurer.

5.3 **Who Makes the Decision?**

The Audit Commission suggests that, in designing a scheme of delegation, councillors and officers should consider:

- (a) Salary thresholds - the level at which members should be directly involved;
- (b) Redundancy - delegating powers and reporting decisions;
- (c) Efficiency - evaluating whether the true cost outweighs the benefits; and
- (d) Ill-health - involvement of members and dealing with appeals.

Each is considered below.

(a) **Salary Thresholds**

Given the potentially large cost of retiring officers at a more senior level, the Audit Commission suggests that Councillors should have a clear threshold above which all early retirement decisions, on whichever grounds, are made by Councillors. The Audit Commission suggest that this is set at £30,000 'reckonable' salary for redundancy and early retirement decisions. (£30,000 equates to the bottom of grade MK11.)

Given the sensitivity of these decisions, it is proposed that all decisions on early retirements, with the exception of ill-health retirements, be made by the relevant service committee, with regular summary reports to Personnel Committee.

(b) **Redundancy**

The Audit Commission states that it is probably not necessary to involve Councillors in the detail of awards made under a Council's early retirement policy on an individual basis, particularly in cases of large-scale redundancies. This Council has so far decided that all early retirements, with the exception of ill-health retirements, should be decided by Members. In addition, in October 1998 the Personnel Committee agreed the Council's approach to the award of added years to pensions when employees left the Council on grounds of redundancy or early retirement (Minute P19/99 refers). An extract from the policy relating to added years is at **Annex F**. This gives scope to varying the maximum award of 6 2/3 years to up to 10 years in the light of special circumstances and provides for a Special Circumstances Panel, comprising a Member, an officer and a Trades Union representatives, to make their recommendation to the relevant service committee and the Personnel Committee, dependent upon the circumstances of each case.

(c) **Efficiency**

This Authority currently considers efficiency cases under the added-years scheme mentioned in the preceding paragraph, given at **Annex F**.

(d) **Ill-health**

Ill-health retirement decisions are based on an independent medical advisor's opinion. It is normally very difficult for the Council to disagree with medical advice as it could lead to claims of unfair dismissal. This decision is ratified by officers and should be reported to the Personnel Committee on an annual basis. Ultimately, the pension fund authority can appeal against an employing authorities decision. It may be appropriate to have a group of Members, who are not involved in the reporting process, responsible for dealing with ill health appeals. The Audit Commission states that it is sensible for decisions on ill health to be delegated to officers, subject to regular monitoring reports to committee and the Commission is therefore recommended to allow the current practice to continue. Monitoring reports will be submitted to the Personnel Committee on a quarterly basis.

5.4 **Which Committees should be Involved?**

The Audit Commission states that good practice suggests that when someone is retired early, for whatever reason, a report (whether as part of an annual report or about the specific retirement) should be provided to both the service committee responsible for the employing directorate, and to the personnel and finance committees. A report should also be provided to any other committee, which is paying for any part of the early retirement costs.

The Audit Commission states that the committee employing the potential early retiree should receive a report as it needs to be satisfied that it can afford the package being recommended in cases of a redundancy or interests of efficiency. The Personnel Committee, on the other hand, needs to be satisfied that corporate policies and procedures have been followed, that the decision is reasonable and lawful and that all efforts have been made to find alternatives to an early retirement.

It is suggested that a full report of each case be submitted to the appropriate service committee in order for the decision to be made. These reports, including the financial appraisal, will be the responsibility of the appropriate Strategic Director. Regular summary reports will be submitted to Personnel Committee. The Head of Human Resources and the Treasurer will be jointly responsible for these reports. An example of such a report is given in the Management Guidelines at **Annex D**.

It is proposed that all reports regarding early retirement should be passed to either the Strategic Director Resources or the Treasurer and the Head of Human Resources to ensure that all financial and staffing issues are included in the report.

Prior to a report being submitted to Committee, each case should be discussed fully with the appropriate Human Resources Officer to ensure that the correct procedures are followed.

5.5 **Specific Responsibility**

In the District Audit report it is stated that consideration should be given to assigning more specific responsibilities for pension matters. Currently general pensions issues are dealt with by officers in Payroll, Human Resources, Directorate Finance and Corporate Finance, with advice sought from the Pension Section at Buckinghamshire County Council. District Audit states that, given the increased size of the authority, consideration should be given to designating a dedicated pensions manager (possibly a part time post) or explicitly including responsibility for pensions matters within the job description of an existing or planned post. This would help to increase the clarity of decision making around early retirement decisions by:

- (a) Providing a lead contact to liaise with the administering authority and actuary were necessary;
- (b) Providing a focal point for development and maintenance of an early retirement policy; and
- (c) Helping to ensure uniform and adequate information is provided in support of early retirement decisions.

At this stage, responsibility for pension matters is held by the Head of Human Resources and the Treasurer. No change is proposed to this arrangement at present, though the position needs to be kept under review.

6. **Implications**

6.1 Environmental

None

6.2 Equalities

All policies relating to the policy and control of early retirement must comply with the Council's Equalities Policy. Regular monitoring reports of early retirees will be submitted to the Personnel Committee on a regular basis.

6.3 Financial

The total amount of the pension strain is currently £2.5 million, to be paid by 2004/05. Further granting of early retirements will increase the demand on resources, since the cost of the pension strain will need to be met from the service cost centre. Therefore a rigorous assessment of the financial implications of any potential early retirement must be made. Detail of the financial information to be provided in each case is given in the Management Guidelines at **Annex D**. Detail of the summary information to be reported on a regular basis to the Personnel Committee is given at **Annex G**.

6.4 Legal

All decisions relating to early retirements must be both lawful and reasonable. The policies relating to the early retirements that will be submitted to Personnel Committee in September will set out the processes to ensure this.

6.5 Staff and Accommodation

It may be necessary to designate a post or half a post with specific responsibility for pension matters.

7. Conclusions

- 7.1 There must be clear procedures to be followed for each different early retirement route, including probity checks for officers to follow prior to submitting a report for decision. These must clarify the criteria that must be met for agreement to be given, together with the steps that officers and Members must follow in each case. These will form the basis of the report to Personnel Committee in September.

Background Papers: Retiring Nature – a management handbook on early retirement in local government by the Audit Commission

Planning and Control of Early Retirement – Milton Keynes Council by District Audit

Pensions – Award of Added Years Policy

Minute S56/99 of the Scrutiny Commission on 16 March 1999

Disabled Adaptations Staff Resources and Early Retirement/Voluntary Redundancy Savings report to Neighbourhood Services Committee on 8 September 1998

Review of Disabled Adaptations report by Assistant Treasurer (ACS) dated November 1998

Letter to All Members of Scrutiny Commission and Personnel Committee from Strategic Director (Resources) dated 15 April 1999, together with annexes