INFORMATION

TO: EMPLOYMENT COMMITTEE
20 JUNE 2012

ANNUAL PERFORMANCE REPORT ON EARLY RETIREMENTS AND REDUNDANCIES
(Director of Corporate Services – Human Resources)

1 INTRODUCTION

1.1 The Council produces an annual report to outline its current policy on severance issues, show the capital costs and savings on early retirements/redundancies and report on ill health retirements. The Council has been doing this since 1999 so, in line with established practice, this report summarises the Council's performance during the last financial year i.e. 1/4/11 to 31/3/12.

2 SUPPORTING INFORMATION

<u>The Council's Early Retirement policy</u>

2.1 The Committee are reminded that the framework for the Council's early retirement policy is based on clearly identifiable principles which were initially set out in the Pensions and Severance Policy agreed in June 1999 and then revised in October 2006. They remain a sound basis for the Council's approach to severance and are:

(i) Most employees should expect retirement to take place at the normal retirement age. No employee should regard early retirement for which the employer's consent is required as his or her automatic right, nor should the exercise of the employer's discretions be expected as a right. Discretions will only be exercised where there is a benefit to the organisation which adequately justifies their use.

(ii) Early retirement is not a substitute for proper performance management and will not be used by management to resolve competence/capability problems.

(iii) On occasions early retirement is a valuable management tool which enables decisions to be made to effect savings and/or improve efficiency in the organisation. It will also avoid the negative industrial relations impact of compulsory redundancies.

(iv) Employees will be treated in a fair and equitable manner.

(v) Each case must be assessed individually, and the costs and benefits to the organisation clearly presented to the decision-makers as part of that case.

Decisions on early retirement must be made with regard to the Council's overriding responsibility to act with prudence, propriety and in accordance with the age discrimination laws.

3 PENSION REFORM

3.1 The report to the Employment Committee in December 2011 introduced the issues which had been raised by the Hutton Report on reforming Public Sector Pensions. Lord Hutton's report made broad recommendations which were subject to consultation and subsequent endorsement by the Government.

3.2 The primary concern driving these reforms was that average life expectancy is increasing thereby raising the cost of providing a pension as it needs to be paid out for a longer term.

In addition the Hutton report explained the need for there to be a fairer balance between scheme member and tax payer contributions. However the Government has recognised that the LGPS, unlike some other public service pensions, is a fully funded scheme (i.e. the scheme is funded through a combination of employee and employer contributions), and agreed that separate discussions should take place to find savings.

3.3 Following discussions between the Government and Unions, the Treasury announced the following proposals for the reform of the LGPS:

- Increases in contribution rates, if any, to be introduced from 1 April 2014 (Current contribution rates are shown in para 3.5)
- Protection for members who are within 10 years of retirement from any changes made
- LGPS to change from a Final Salary Scheme to Career Average Re-valued Earnings (CARE) scheme.

The final Regulations are to be laid before parliament in April 2013, with changes to take effect from 1 April 2014.

3.4 The contribution rates for employees in 2012/2013 are:

Band	Salary Range	Contribution rate
1	£0 - £13,500	5.5%
2	Over £13,500 to £15,800	5.8%
3	Over £15,800 to £20,400	5.9%
4	Over £20,400 to £34,000	6.5%
5	Over £34,000 to £45,500	6.8%
6	Over £45,500 to £85,300	7.2%
7	Over £85,300	7.5%

4 CARE SCHEME

4.1 As indicated above, the current LGPS scheme is a final salary scheme which is based on the number of years service times $1/60^{th}$ of your final pensionable pay.

4.2 A CARE scheme works by building up an amount of pension year on year, based on a percentage of an individuals pensionable pay in each year of scheme membership. To reflect the effects of inflation, the pension they earn will be re-valued upwards each year in line with the Consumer Prices Index.

4.3 The CARE scheme produces a pension based on each year of service so is considered more reflective of the employees total work record and history of contributions. For example a final salary scheme may have cases where an employee has worked for 20 years, 18 of those being at relatively the same salary level and paying contributions on that level, but due to promotion in the final 2 years, they had a salary increase. This would mean the pension would be calculated on the higher salary and would in turn increase the cost to the pension scheme. With a CARE scheme, the pension is calculated using 18 years at the lower salary level and then 2 years at a higher salary resulting in a “flattening” out and the average then being paid as pension, a scheme much more representative of that individuals overall pension contribution.

5 ANNUAL REVIEW

5.1 The number and percentage of early retirements as a percentage of overall retirements over the last 3 years are as outlined below. Comparisons are slightly skewed because of the change of pension rules to make pension payable at 55 and not 50 in redundancy cases (effective from April 2010).

	2009/2010		2010/2011		2011/2012	
Ill Health	3	3.5%	3	5%	7	8%
Redundancy (Over 50/55)	4	5%	20	31%	31	36.5%
Normal Retirements	75	91.5%	41	64%	47	55.5%
Total	82	100%	64	100%	85	100%

In all cases, the Employment Committee will have received a detailed report on the business case to enact the redundancies & early retirements (including the savings accrued from the deletion of the post) and approved accordingly.

5.2 In previous years the trend has been that the number of normal retirements increases year on year. However, the number of normal retirements decreased in 2010/11 and remains at relatively the same level in 2011/12.

5.3 Since 2001 the Council has not been bound by the normal state retirement age of 65, and has allowed individuals to continue in employment after that age where appropriate. Therefore new legislation introduced in October 2011 to remove the default retirement age had no significant impact on current Council practice and has not affected the number of people retiring.

5.4 Ill Health Retirements

The total number of employees leaving as the result of Ill Health Retirements (IHR), including schools, has increased slightly in 2011/2012 but still remains at a low level. The number IHR's is recorded as a local Performance Indicator (LO69) and measured as a proportion of the Council's workforce who are in the LGPS or Teacher's pension scheme (3,545 employees, or approximately 90% of staff).

	2009-10			**2010-11**			**2011-12**		
	Target	Outturn	No.	Target	Outturn	No.	Target	Outturn	No.
L069 % Ill Health Retirements	0.14	0.09	3	0.12	0.08	3	N/A	0.2	7

5.5 The number has remained at a low level because of two key factors:

- management by Occupational Health.
- the process to obtain retirement on medical grounds being very stringent because the employee has to be assessed by an independent Occupational Health Practitioner and judged to be permanently incapable of discharging the duties of their current post and have a reduced likelihood of being capable of undertaking gainful employment before normal retirement age

5.6 Whilst the process cannot predict the number of people who are seriously ill, it does ensure that only those who fit the strict eligibility criteria are granted IHR and ensures the cost to the Council is kept to a minimum.

Impact of "Balancing the Budget" measures

5.7 The number of Early Retirements is recorded as a Best Value Performance Indicator (BV14) and measured as proportion of the Council's workforce who are in the LGPS.

5.8 The number of over 55 redundancies rose in 2010/11 compared to the previous 2 years due to the restructures carried out during the year. 2011/2012 saw another programme of change, which meant the number of over 55 redundancies rose again but this time more steeply. This steep rise was because of the significant restructure across the organisation but particularly in the provision of Home Care to Council residents and the closure of Ladybank Residential home where the age profile of those employees involved was that 50% of them were over the age of 55.

Because of this, the BVPI, which measures the number of redundancies which have resulted in access to pension as a proportion of the Council's workforce who are in the LGPS, has seen a sharp increase. The term used by the BVPI is Early Retirement, however as the Council rarely approve an early retirement, the figure really relates to those retirements which have resulted from a redundancy so is profoundly affected by the number of Council restructures which happen in year.

5.9 The BVPI figure for Early Retirements is as follows:

	2009-10			**2010-11**			**2011-12**		
	Target	Outturn	No.	Target	Outturn	No.	Target	Outturn	No.
BV14 % Early Retirements	0.20	0.12	4	0.20	0.23	10	N/A	0.67	24

Please note, projected targets had been set in 2009/10 and 2010/11 however it was decided not to continue with a using targets for these two BVPI calculations as they are indicators which the Council has little control over and, in times of budget restrictions and consequent downsizing, little ability to improve upon.

These figures are calculated, as with IHR, as a proportion of the Council's workforce who are in the LGPS or Teacher's pension scheme.

6 CONCLUSION

6.1 The Council's approach continues to be one where the expectation of early retirement as a right does not apply. The level of Ill Health Retirements continues to be at a low level whilst the level of normal retirements remains stable. The number of over 55 redundancies has risen since 2010 in line with the Council's need to make significant budget reductions. If the Council continues with this rigorous approach to the use of discretions, the cost of early retirements will continue to be kept at a minimum level.

7 EQUALITIES IMPACT ASSESSMENT

7.1 No adverse equalities impact are anticipated; the policy is constructed on a fair and equitable basis and applies to all employees.

8 STRATEGIC RISK MANAGEMENT ISSUES

8.1 Identified in the individual reports to the Employment Committee which recommended redundancies / early retirements.

Background Papers
None

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