

PENSIONS COMMITTEE - 2 JULY 2007

ANNUAL REPORT ON REDUNDANCY, SEVERANCE AND EARLY TERMINATION 2006/07

SUMMARY

This report details the numbers, costs and savings of redundancy, severance and early terminations for 2006/07 and assesses the effectiveness of the Council's existing early termination policies.

Details of any requests for the early release of Local Government Pension Scheme benefits under Flexible Retirement or for the augmentation of Local Government Pension Scheme service are also reported.

RECOMMENDATIONS That:

- (1) the numbers, costs and savings of redundancy, severance and early terminations occurring in 2006/07 be noted; and
- (2) the review of the effectiveness of the Council's existing early retirement policies be noted.

1. Introduction

Since 1998, when the Audit Commission recommended closer involvement of Members in decision making and monitoring, a report has been submitted to Members on the numbers, costs and savings from early retirements at the end of each financial year together with an assessment of the effectiveness of the Council's existing early retirement policies.

In January 2007, following changes in legislation, Members of the General Purposes Committee agreed a number of revisions to the Council's early termination policies which became effective from 1 April 2007. Members also agreed that the annual monitoring report submitted to Pensions Committee would be enhanced to include all information in respect of early termination, rather than just pensionable retirements from the Local Government Pension Scheme (LGPS). This report now includes terminations in respect of Teachers Pension Scheme (TPS) members and terminations where no pension was payable. It also includes details of any requests for the early release of pension benefits under Flexible Retirement and the augmentation of LGPS service.

The Council's current Financial Terms for Redundancy, Severance and Early Termination became effective from 1 April 2007. Due to the monitoring period of this report, however, the data is reflective of the Council's 'old' policies which ceased to operate on 31 March 2007.

2. Background to Early Terminations in Bexley

Early termination from the Council may occur for one of the following reasons:

- redundancy
- efficiency (termination on the grounds of the efficient exercise of the authority's functions)
- voluntary retirement prior to age 60 ('Rule of 85')
- ill-health retirement

Compensation is payable under the Council's Financial Terms for Redundancy, Severance and Early Termination to those terminated on the grounds of redundancy or efficiency. Pension benefits may also be payable depending upon the age of the employee and the relevant pension scheme regulations.

Due to differences in the way the Local Government Pension Scheme (LGPS) and the Teachers Pension Scheme (TPS) operate, the cost and funding of early terminations, where a pension is also payable, varies according to the pension scheme to which the employee belongs.

Benefits payable on ill-health retirement are determined by the relevant pension scheme regulations. Whilst the Council has discretion regarding the level of payments made in early termination situations, this is not the case for ill-health retirements. For the purposes of this report, therefore, information is provided separately for ill-health retirements.

3. Ill-Health Retirements

Local Government Pension Scheme Ill-health Retirements

LGPS ill-health retirements are chargeable to the Pension Fund. Whilst the precise number cannot be predicted an allowance is made for a certain number in the Fund's actuarial valuation.

In 2006/07 there were 10 LGPS ill-health retirements. This compares to 6 in 2005/06. For 2006/07 the numbers in each service area were as follows:

<u>Service Area</u>	<u>LGPS*</u>
Finance & Business Services/Law & Admin/CE	1
Children and Young People's Services	4
Adult Social Services	1
Environment and Regeneration Services	3
Bexley Trading Services	<u>1</u>
Total	<u>10</u>

*Over a three-year period the actuary assumed a yearly average of 23, whereas the Council's average was 7– well below the assumed level. (An actuarial review is currently underway which will include a revision of these assumptions for the future).

Teachers Pension Scheme Ill-health Retirements

Ill-health retirements are fully funded by the TPS. In 2006/07 there were 4 TPS ill-health retirements compared to 3 in 2005/06.

4. Funding Early Terminations

The costs of early termination are borne by the employing department and will vary depending upon the reason for the termination and whether the employee also becomes eligible for immediate payment of their pension.

If the termination occurs in a school the cost is borne by the School unless the Council agree to provide some or all of the funding – for example if it was the Council's actions that led to the termination, such as the closing of a school.

The different funding arrangements, depending upon whether the employee is eligible to be a member of the LGPS or the TPS, are as follows:

Termination of employees in the Local Government Pension Scheme

Element of early termination benefits	Costs of early termination element charged to:		
	Initial Costs	Annual Costs to Age 60	Annual Costs Age 60 onwards
Redundancy/ Severance payment	Department	n/a	n/a
Added years lump sum	Department	n/a	n/a
Added years pension	Department	Department	Department
Basic pension prior to age 60	n/a	50% Department 50% Pension Fund	n/a

In cases of redundancy and efficiency the employee receives unabated pension benefits despite retiring early. This results in a potential strain on the pension fund which is managed on the expectation that employees will remain in the scheme until at least age 60. When the Council considered charging this cost 50% to the pension fund and 50% to the staffing budget this struck a fair balance between accountability and not constraining departments from making necessary organisational change.

All costs of providing added years in the event of early termination are charged to department staffing budgets as they are not covered by pension contributions.

Termination of Employees in the Teachers Pension Scheme

Mandatory compensation is payable on termination of a TPS employee's service whereby the TPS pays an actuarially reduced pension and lump sum and the employer pays the difference so that the scheme member receives unreduced benefits. This is achieved either through a one-off lump sum to the TPS at the time

of termination or through annual payments. As for LGPS employees, the employing department is also required to fund 100% of added year's benefits.

5. Numbers, Costs and Savings of Early Terminations

In the LGPS there were 108 retirements that triggered pension benefits (excluding ill-health retirements). Of these 58 (54%) resulted from early termination. This compares to a total of 62 retirements in 2005/6 (excluding ill-health) of which 13 (21%) resulted from early termination. The significant increase in the number of early terminations this year is explained in Section 6.

Over a three-year period the actuary assumed a yearly average of 17. The Council's average was 28 which reflects the high number of early retirements this year. (An actuarial review is currently underway which will include a revision of these assumptions for the future).

In the TPS there were 36 retirements that triggered pension benefits. Of these 5 were early terminations. This compares to a total of 9 retirements in 2005/6, none of which were early terminations. Any actuarial assumptions made by the Government Actuaries Department are incorporated into the overall contribution rate of the TPS.

There were 30 terminations that did not trigger payments from either pension scheme. The following table summarises the numbers of all early terminations.

Breakdown of All Early Terminations - 2006/07

Type of Early Termination	Numbers	
	Senior Posts subject to Member Level Appointment	Other Posts
Redundancy	1	71
Efficiency (termination in the interests of the efficient exercise of the authority's functions)	2	16
Voluntary – prior to age 60	0	3
Total of early terminations (excluding ill-health)	3	90

Costs/Savings of Early Terminations - 2006/07

The cost of early terminations for those not yet of pensionable age is limited to the cost of redundancy and severance benefits. There are additional costs for those of pensionable age where pension becomes immediately payable on termination.

Whilst compulsory redundancies may be unavoidable, for example due to withdrawal of government funding for a particular service, the majority of early terminations to

date have been voluntary. These are agreed where there are financial or operational advantages to the Council i.e. savings and/or organisational change can be achieved at the same time as improving service delivery.

The table below includes a number of assumptions but provides a good indication of the financial impact. It shows that such terminations provided the Council with significant annual savings

	Initial Costs	Annual Costs/Savings to Normal Retirement Date	Annual Costs Normal Retirement Date Onwards
	£000	£000	£000
Costs Relating to Terminations where no pension benefits were payable			
Costs charged to departmental budgets	704		
Savings to departmental budgets		784	
Net costs/(savings)	704	(784)	
Costs Relating to Terminations where LGPS benefits were payable			
Costs charged to departmental budgets	856	434	88
Costs charged to LGPS Pension Fund		346	
Total cost	856	780	88
Savings to departmental budgets		1713	
Net costs/(savings)	856	(933)	88
Costs Relating to Terminations where TPS benefits were payable			
Costs charged to departmental budgets	164	32	32
Savings to departmental budgets		(158)	
Net costs/(savings)	164	(126)	32
Total net costs/(savings)	1724	(1843)	120

There were no early terminations this year that were funded directly by schools.

6. Assessment of Existing Policies

With the exception of ill-health retirements, Bexley's policies for managing early retirements are set in the context of managing organisational change. Over the years a number of decisions have been taken which have substantially changed the structure of the authority and methods of service delivery and the Council continues

to respond to various pressures and opportunities by reorganising and streamlining services. The Council's policies in these circumstances are designed to maintain employee commitment and motivation by avoiding redundancies and early termination as far as possible through retraining and redeployment, whilst at the same time ensuring that where redundancy or early termination is inevitable, a reasonable package of financial benefits exists to help 'soften the blow' of job loss. This approach has met with a measure of success with organisational change generally being implemented smoothly and with minimum disruption to services.

In past years, the numbers of redundancies and early terminations have been relatively low. This year, however, there has been a significant rise in numbers to support the Council's requirement for expenditure reductions and Value for Money programme. The majority of these have been achieved as a result of volunteers, particularly those wishing to take advantage of the element of the Council's prevailing scheme that provided for the award of 'added years' pension service. (This provision has since been withdrawn from the LGPS Discretionary Compensation Regulations and therefore from the Council's Financial Terms for Redundancy, Severance and Early Termination).

Employee relations during times of change have been generally good, which has assisted managers to achieve change. The Council's policy has been a significant factor in maintaining good relations with remaining employees and redeployment continues to be sought for staff affected by reorganisations.

It is anticipated that the Council's revised Financial Terms, effective from 1 April 2007, will be similarly effective and an assessment will be provided to this Committee in next year's annual report.

7. Early Release of LGPS Benefits under Flexible Retirement

Flexible Retirement derives from the 2006 LGPS Regulations and permits an employee to draw their pension benefits whilst continuing to work at reduced hours or grade. In January 2007 Members agreed a Flexible Retirement policy allowing the early release of benefits with due consideration to the impact on business and service delivery and providing that any strain on the pension fund is adequately addressed through the relevant staffing budget.

Delegation was given to the appropriate Designated Officer, in consultation with the Deputy Chief Executive and Director of Finance and Business Services to agree to the early release of pension benefits under flexible retirement for posts below Member Level Appointment. Posts subject to Member Level Appointment must be agreed by Members.

This is a new provision under the Regulations and as yet there have been no requests for consideration.

NB: Whilst a similar provision for 'Phased Retirement' is permitted under the TPS Regulations, employer consent to the release of benefits is not required under those Regulations.

8. Requests to Augment LGPS Service

In November 2006 Members agreed a revised policy for the Augmentation of LGPS service. In summary, Members agreed to allow a maximum of 5 years service to be awarded to a member of the Scheme either at recruitment, as a retention measure or on termination of employment.

The Deputy Chief Executive and Director of Finance and Business Services, in consultation with the appropriate Designated Officer, has delegated Authority to agree to augmentation of LGPS pensionable service in accordance with the Policy. Posts subject to Member Level Appointment must be agreed by Members.

There have been no requests for consideration under the revised policy.

9. Regulatory Changes Affecting the Council's Published Policy on Redundancy and Early Termination

The Council's Financial Terms for Redundancy, Severance and Early Termination are derived from both Pension Scheme Regulations and Discretionary Compensation Regulations for the LGPS and the TPS. These financial terms detail the Council's policy on compensation and the exercise of its discretions that the Council is obliged to publish under the regulations. As a result of changes to relevant regulations, these terms were amended significantly in January 2007 by General Purposes Committee. These revised terms did not become effective until 1 April 2007 and have not, therefore, been applied in the cases reported to this committee. The terms applied in the cases reported were last published through this committee in November 2005.

In April 2007 this Committee received a report regarding further changes proposed for the LGPS from April 2008. These proposals are being further developed but no significant variations have been proposed from those previously reported.

There are no current proposals for changes to the TPS.

10. Equal Opportunities/Access Issues

Bexley's policies and arrangements for early retirements apply to all affected employees regardless of race, gender, age, disability, or level in the organisation. This information is monitored in respect of early retirement situations to ensure that no discriminatory practices exist.

11. Summary of Financial Implications

The funding of early retirements is explained in section 2 above. There are no other financial implications arising from this report.

Local Government Act 1972 – section 100d
List of background documents

Pensions Committee July 2006 - Local Government Pension Scheme (LGPS) –
Annual Report on Early Retirement 2005/06

Pensions Committee November 2006 – Local Government Pension Scheme –
Augmentation Policy

General Purposes Committee January 2007 - Redundancy, Severance and Early
Termination Policy

Pensions Committee April 2007 – Local Government Pension Scheme – Regulations
Update

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