

# **Report of the Early Retirement/Voluntary Redundancy Policy Review Panel**

**As agreed by Service Improvement Overview & Scrutiny  
Committee on 29<sup>th</sup> April, 2004**



## **Panel Membership:**

**Councillor Mason (Chair)  
Councillor Mrs. Butler  
Councillor Mrs. Shorrock  
Councillor Jones  
Councillor Paul Barton**

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## **1. EXECUTIVE SUMMARY**

A Panel was set up in February, 2004 to review the Council's early retirement and voluntary redundancy policies and report back to the Service Improvement Overview & Scrutiny Committee by 29<sup>th</sup> April, 2004.

The review had been requested by the Leader of the Council during the budget setting process.

Panel members received a pack of background information during March which included Hyndburn's current policies and comparisons with other Councils. This also included details of the Government's proposed changes to the Local Government Pension Scheme – these changes were later confirmed shortly after the Panel completed its work. The changes are set out at Appendix 'B'.

The Panel met over two full days on 31<sup>st</sup> March and 1<sup>st</sup> April. During this time Panel members met 13 people – a list of witnesses is set out at Appendix 'A'. All these meetings were treated as confidential.

A summary of the key findings of the Panel, based on the evidence it received, is included in Section 3 of this report.

Section 4 of the report explains the options which the Panel considered and discusses the contrasting opinions which were expressed during the review.

The Panel's final recommendations, based on its findings, are set out at Section 5 of the report.

These recommendations are now put before the Service Improvement Overview & Scrutiny Committee for approval. The final recommendations will then be presented to Cabinet.

## **2. INTRODUCTION, TERMS OF REFERENCE AND METHODOLOGY**

### **Background to the review**

The Leader of the Council asked Overview & Scrutiny to carry out this review, following a difficult budget setting process at Hyndburn in February, 2004.

During the budget process Members had become aware of the true costs of a major restructuring exercise which had resulted in a high number of early retirements in the previous year. It became clear that these costs would cause financial constraints at Hyndburn over the next few years.

As a result, it was decided to review Hyndburn's existing policies on early retirement and voluntary redundancy, to see whether any changes needed to be made.

### **Terms of Reference of the Review**

The Chair and Vice-Chair of the Service Improvement Overview & Scrutiny Committee agreed the terms of reference of the review as follows:

“To review the Council's policies in relation to early retirement and voluntary redundancy and to recommend changes where these are in the interests of the Council and Hyndburn residents.

The Panel will pay particular attention to:

- 1) the processes involved (including application processes, assessment of applications and timescales)
- 2) the appropriateness of the level of benefits offered, in the context of the Council's current financial situation”

### **Establishment of Panel**

It was decided to establish a Panel of 5 non-Executive Members to carry out the review and report back to the Service Improvement Committee. It was agreed that the Panel would meet over 2 full days, so that continuity and momentum could be maintained.

2 members of the Panel are also members of the Service Improvement Committee. 2 Panel Members were also members of the Council's other Overview & Scrutiny Committee and 1 Member was a non-Executive Councillor who does not sit on an Overview & Scrutiny Committee.

The Panel was politically balanced, as required by Hyndburn's constitution.

### **Meetings of the Panel**

The Panel met over 2 full days on 31<sup>st</sup> March and 1<sup>st</sup> April, 2004. During this time it considered written evidence which had been prepared in advance. It also received verbal contributions from 13 people in total (Appendix A lists all the evidence considered by the Panel).

The Head of Human Resources acted as advisor to the Panel over the two days. The Overview & Scrutiny Officer provided additional support.

The Panel then held its final meeting a week later, on 8<sup>th</sup> April, in order to decide on its recommendations. This allowed time for a summary of the key points arising from the review to be prepared.

### **Modus Operandi**

At the beginning of the two days, the Chair agreed with other Panel members the method of working they would adopt. This consisted of:

- an agreement that all evidence heard over the two days would be treated as confidential

- an agreement that Panel members would not aim to apportion blame for decisions made in the past. The aim of the Panel was to learn from the past, but with a view to improving things for the future.
- an agreement that the Panel would strive to avoid 'political point scoring' during the two days.

### **3. THE PANEL'S MAIN FINDINGS**

#### **3.1 National Context – Audit Commission Reports on Early Retirement in Local Government**

The Panel found that Audit Commission research published in 1997 had warned of the high numbers of early retirements in Local Government. At the time of the study, three out of four local government staff were retiring early and the Commission warned that early retirement had become “an expectation for local government staff rather than the exception”

The Audit Commission drew attention to the expense of early retirement to local authorities. The main areas of cost were:

- pension strain - caused by an employee leaving earlier than the normal retirement age.
- and the cost of 'added years' paid to employees by Councils.

In 1997, the Commission warned that the total extra cost of early retirements in local government was averaging the equivalent of £1 billion a year, diverting resources away from providing services to the local community.

The Audit Commission's report emphasised the importance of changing attitudes, providing clear information about the costs of early retirement and monitoring the impact of decisions carefully.

In 2000, the Commission published a follow up report to assess any changes since 1997. This research showed that the situation had improved considerably, with around two thirds of all retirements now taking place early. This new rate was in line with similar rates in the private sector. However, the Commission warned against complacency and emphasised that many Councils still had more work to do in order to demonstrate best value in their approach to early retirement

#### **3.2 National Context – Proposed Changes to the Local Government Pension Scheme**

##### **Proposed Changes**

(Notification of the changes which the Government has now decided to introduce to the Scheme was received after the Panel had completed its work. Details are set out at Appendix B).

The Panel also considered details of proposed changes to the Local Government Pension Scheme currently being put forward by the Government. These changes, if implemented, were likely to reduce the numbers of early retirements.

The proposals which were of interest to the Panel were:

- plans to increase the age at which Pension Scheme benefits may be paid (other than on ill-health grounds) from 50 to 55. Currently at Hyndburn, employees can be granted early retirement from age 50.
- plans to remove the '85 year rule'. This rule currently enables employees to request early retirement if their combined age and membership of the Pension Scheme totals 85 or more
- the introduction of flexible retirement and other incentives to encourage employees to remain in employment. For example, an employee over age 55 may have the option of working reduced hours and receiving a reduced early pension.
- plans for retirements at age 55 to result in reduced benefits, if payable prior to age 65.

##### **UNISON Response**

The Panel also received information from the public service Trade Union UNISON setting out its response to the Government's proposals. The main points are summarised below:

- UNISON are opposed to the proposal to increase the age at which benefits may be paid from 50 to 55. It argues that the right to retire at age 50 is an entitlement under the current regulations. It also feels that this proposal will mean that employees made redundant between the ages of 50 to 55 would be forced to live in poverty.
- UNISON also opposes the proposals to remove the '85 year rule'. It argues that decisions on this basis are in any case at the discretion of employers. In addition, it is felt that low paid workers will not have any realistic opportunity to retire early if this rule is removed.
- UNISON also makes the point that plans to give employers more discretion over the level of Pension benefits allowed to individuals who have been made redundant is a recipe for abuse and unfairness.

### **3.3 Local Context – Past Practice at Hyndburn**

#### **Culture**

The Panel's evidence suggested that Hyndburn may have suffered in the past from the 'culture of expectation' which had been highlighted by the Audit Commission in 1997. There was a sense that a large number of Officers had retired early over the past few years and that this had led to an expectation that early retirement was an entitlement.

The Panel also noted with concern that the age profile of the authority showed that a large number of employees were approaching age 50. If these employees were expecting to have the opportunity of early retirement in the near future, there was a serious danger of disappointment if the current policies were restricted.

#### **Costs**

Previous decisions at Hyndburn had also led to substantial costs to the authority. The Panel focused in particular on the restructuring exercise of 2002-03 and found that:

- the main costs to the authority had been from:
  - redundancy payments
  - 'added years' granted to employees
  - and the costs of 'pension strain' plus interest which had to be paid back to the Pension Fund
- Pension strain costs were particularly expensive to the authority and costs had to be paid back to the Pension Fund over 6 years. At present, the Council was paying Pension Strain of £300,000 to £400,000 per annum until 2008/09.
- The recent costs at Hyndburn were compounded by:
  - the fact that costs were borne centrally, meaning that service departments did not appreciate the full costs of the decisions
  - the fact that new staff were recruited following the restructure. This meant that the impact of the savings made was reduced.
  - not enough account was taken of the fact that some of the staff who left were in income generating posts.

The Panel also found that, in the past, the financial information provided to Members had not been clear enough to enable them to make an informed decision on the costs and benefits of early retirements and voluntary redundancies.

### **3.4 Local Context – Current Practice at Hyndburn**

The Panel received details of the current policies and processes in place at Hyndburn and compared these against authorities in Lancashire (and other parts of the North West) and against good practice as recommended by the Audit Commission. Details of the options considered are discussed in detail in section 4 of this report.

The Panel's main findings were:

#### **Current policies**

- Hyndburn was able to grant added years to employees taking early retirement or redundancy. Added years were set at 6 and two thirds, or up to a maximum of 10 years.
- currently, requests for early retirement can be granted from age 50 onwards.
- redundancy payments are currently in excess of the minimum set by the statutory entitlement scheme

#### **Current processes** (introduced 1<sup>st</sup> January, 2004)

- proposals for early retirement/voluntary redundancy are currently considered first by the Service Manager concerned. He or she makes a recommendation to the Managing Director who then makes the final decision, in consultation with the Leader
- costs are normally borne by the service budget concerned, although the Managing Director has discretion to make funds available when required.

#### **Comparisons made by the Panel**

The Panel sought information from all Lancashire authorities and received responses from the following 7 Councils: Rossendale, Preston, Burnley, Lancashire County, Blackpool, South Ribble and Fylde. The information received is considered in more detail in section 4 of the report.

The Panel also received evidence from North West Employers based on a survey of a selection of Councils in the region. The information received is considered in more detail in section 4 of the report.

Evidence was also collected on Best Value Performance Indicator BVPI 114 which compared the rate of early retirements at Hyndburn against Lancashire authorities and nationally. These figures were only available for the previous 3 years and showed that in 2002-03 Hyndburn had one of the highest rates of early retirements, whereas in the previous 2 years rates had been fairly low. In 2001-02, in particular, Hyndburn's figures had been well below average.

The Panel also took into account the recommendations made by the Audit Commission and by the Council's External Auditor on good practice in this field. These recommendations are considered further in section 4 of the report.

## **4. PROPOSALS FOR CHANGE CONSIDERED BY THE PANEL**

The review examined in detail a number of proposals for change; these are discussed below. The Panel's recommendations are summarised in section 5 of the report.

### **4.1 Changes to Processes Considered**

#### **The time and circumstances when early retirement and voluntary redundancy can be considered**

The Panel considered whether to retain the current practice by which proposals for early retirement and voluntary redundancy can be made at any time of the year.

An alternative approach considered was to recommend a set period during the year when proposals could be put forward. This would tie the process closely into budget setting and would enable decision makers to appreciate the financial impact of their decisions more clearly. Many of those who contributed to the review supported the idea of explicitly linking the decision making process into the budget process in some way.

There was also some discussion about the circumstances in which proposals could be put forward. In particular, Members considered whether it would be more appropriate for the Council to specifically ask for proposals at times when it would be in the Authority's interests. At all other times, proposals would not be permitted unless there were overriding circumstances (e.g. compassionate grounds). However, there was some concern that this option could be too inflexible.

#### **The way in which decisions are funded**

Panel Members considered the current process (introduced in January, 2004) by which decisions should normally be financed by the Service department, with discretion to the Managing Director to make funds available if necessary.

This process replaced a previous system whereby all decisions were funded corporately. The Panel heard evidence suggesting that the previous approach had 'blurred' the true financial implications of decisions made in the past. The Panel also noted that the Audit Commission recommends that costs should normally be absorbed by service departments, except for example where a corporate exercise triggers redundancies.

Some members of the Panel were however concerned that the current approach could disadvantage smaller services.

#### **Member involvement in decisions on early retirement and voluntary redundancy**

The Panel considered whether it wished to change the current process (introduced in January, 2004) whereby decisions were delegated to the Managing Director, in consultation with the Leader. The Panel heard that decisions had previously been made by Cabinet.

The Panel discussed whether more Members should be involved in the process, particularly in the light of evidence which suggested that Members had not received adequate information in the past about the costs of early retirement and voluntary redundancy.

However, the Panel also heard that under modernised local government structures, it was considered good practice for day to day decisions to be delegated to Officers within the broad policies set by Members.

The work on comparisons between Hyndburn and other Councils gave a mixed picture on this subject. The information collected from 7 authorities in Lancashire suggested that delegation to Officers was the norm, whereas the evidence provided from research by North West Employers indicated that decision by a Member Panel was the most common arrangement. The Panel acknowledged however that other authorities may also be reviewing their early retirement/voluntary redundancy policies.

The Panel also considered whether a 'trigger' should be set at which proposals must be referred to Cabinet for approval.

## **Considerations to be taken into account when assessing proposals**

The Panel were not aware of any considerations or criteria which were widely used to assess proposals for early retirement and voluntary redundancy.

They therefore considered some of the factors which they felt should be taken into account by decision makers, in order to ensure that a consistent approach is adopted.

## **Monitoring reports to Members**

The Panel found considerable evidence to suggest that Members had not received adequate information in the past about the financial implications of decisions on early retirement and voluntary redundancy at Hyndburn.

It was also noted that the Audit Commission recommends that annual monitoring reports are provided to Members on the operation of existing policies and the ongoing financial impact of decisions.

## **Consultation with the External Auditor**

The Panel found that the External Auditor is frequently consulted on proposals for early retirement and voluntary redundancy, but that this currently tends to take place on an ad-hoc rather than consistent basis.

The Panel therefore considered whether to recommend that the Auditor is always consulted on proposals for early retirement/voluntary redundancy, or whether to specify circumstances where the Auditor should have an input.

## **4.2 Changes Considered to the Benefits offered by Hyndburn's policies**

### **Statement of the Council's position**

The Panel noted that the Audit Commission recommends that policies on early retirement and voluntary redundancy should make clear that this will only be granted in exceptional circumstances and is not an entitlement.

### **Changes to the 'added years' offered at Hyndburn**

The Panel considered whether to recommend changes to the 'added years' which can currently be granted at Hyndburn. At present the Council can grant six and two thirds added years, or up to a maximum of 10 years.

The evidence considered by the Panel suggested that this policy may be out of step with other Councils. At the local level, of the 7 Councils researched only 1 authority offered up to 10 added years to its employees. Nationally, the Audit Commission research found in 2000 that only 28% of Councils offered up to 10 added years.

The Panel also discussed whether the wording of the policy should state that added years could be granted *up to* six and two thirds, rather than implying that six and two thirds was the usual amount granted.

### **Changes to the minimum age when applications can be considered**

The Panel considered whether to retain the current policy whereby early retirement and voluntary redundancy can be granted from age 50.

Evidence on the proposed changes to the Local Government Pension Scheme indicated that this may be moved by the Government to age 55. The Panel also heard evidence suggesting that adopting a rigid approach to this issue could potentially increase the need for compulsory redundancies in the future.

The Panel also heard that research carried out by North West Employers showed that Hyndburn was broadly in line with other Councils in allowing proposals to be made from age 50.

## **Calculation of redundancy payments**

The Panel discussed the current process for calculating redundancy payments, which exceeded that provided for by the statutory minimum.

Of the information provided to the Panel, only 1 other Council locally currently set its redundancy calculations at the statutory minimum of £270 per week.

## **5. THE PANEL'S RECOMMENDATIONS**

### **Recommendation 1 – Timing of decisions on early retirement and voluntary redundancy**

The Panel recommends that in October or November Strategic Directors may choose, where this is in the interests of the authority, to offer the opportunity for employees to be considered for early retirement/voluntary redundancy through their service managers.

In making this recommendation, the Panel wished to clearly tie decision making into the budget setting process. They expect this process to take place only when Strategic Directors choose to make the opportunity available and do not wish it to be an annual occurrence.

A service manager may still put forward an individual, or individual's, proposal to the Managing Director at other times if he or she is able to accommodate early retirement/voluntary redundancy within the service budget.

### **Recommendation 2 – Funding of decisions**

The Panel recommends that the present process whereby Service Managers should normally fund decisions from within their service area should be retained.

The Panel were however concerned that smaller services may be disadvantaged by this process. To prevent this, they also recommend that smaller services should be allowed to make use of budgets within their wider directorate where necessary (so, for example, a small section within the Community Services Directorate may have access to funding from elsewhere within the Directorate's budgets). This safeguard would ensure an appropriate balance between the employer and employee.

The Panel recommends that the current practice of allowing discretion to the Managing Director to make funds available in exceptional circumstances should also be retained, to facilitate for example, retirement on compassionate grounds.

### **Recommendation 3 – Responsibility for decisions**

The Panel recommends that decisions on early retirement and voluntary redundancy should normally be delegated to the Managing Director, *in agreement with* the Leader of the Council and the Leader of the Opposition Group (or their nominated representatives)

The Panel also recommends that the Cabinet commissions further work on specifying a 'trigger' where in some circumstances wider Member involvement in the decision making process is necessary. This would be, for example, in cases where a wider restructure is proposed which may culminate in a large number of early retirements and voluntary redundancies.

In such cases, Cabinet may wish to consider, for example, whether a Panel comprising a wider range of Members such as the Portfolio Holder, Shadow Portfolio Holder and two non-Executive Members may be appropriate. Such an arrangement would make the decision making process more robust in future.

The process in the previous redundancy round was to report decisions to Cabinet, with the option for call-in by Overview & Scrutiny. One of the outcomes from the further work set out above could be to consider whether this process should also be adopted under the revised procedures.

### **Recommendation 4 – Considerations to be taken into account when making decisions**

The Panel recommends that decision makers must take into account the following considerations when making decisions on early retirement and voluntary redundancy. Ideally, service managers should be expected to complete a proforma which addresses all these points.

The Panel anticipate that these considerations will ensure decisions are made consistently across the Council and that all relevant factors are properly taken into account.

Considerations:

- age/salary/service of the individual
- their role in the organisation, including whether their role is in an area of corporate priority
- the knowledge and skills of the individual, including whether these are 'scarce' within the authority
- whether there is a need to replace the individual
- whether the service intends to recruit additional employees and to what extent this would impact on any savings
- whether their workload can be shared out amongst other employees and any costs implications in doing this (e.g. regradings)
- whether there are alternatives to er/vr e.g. flexible working, redeployment
- what compassionate grounds exist
- any impact on the Council on its ability to generate income
- how the proposal is to be funded (this should be as detailed as possible)
- what the financial position of the Council is at that time (including current Pension Strain commitments)
- whether granting er/vr would prevent a compulsory redundancy

### **Recommendation 5 – Monitoring reports on early retirement and voluntary redundancy**

The Panel recommends that monitoring reports are provided to Cabinet and Overview & Scrutiny every 12 months. These reports would review the operation of existing policies on early retirement/voluntary redundancy and the ongoing financial impact of decisions.

### **Recommendation 6 – Consultation with the External Auditor**

The Panel recommends that the External Auditor must always be consulted in circumstances to be determined by the 'trigger' mechanism discussed at recommendation 3.

(For example, the Panel's view was that the External Auditor should be contacted where reorganisations or redundancies are being considered through the budget process, or on a similar scale).

### **Recommendation 7 - Statement of the Council's position**

The Council's policy should include a clear statement that early retirement/voluntary redundancy is not an entitlement and that decisions will be taken only after careful consideration of the costs and benefits to the authority, and the circumstances of the individual.

### **Recommendation 8 – The 'added years' offered at Hyndburn**

The Panel recommends that the current policy of allowing added years up to maximum of 10 should be retained, in order to allow maximum flexibility for the authority.

However, the Panel recommends further that the policy should clearly state that:

- each proposal will be considered on a case by case basis and there should not be an assumption that added years will be available
- that any added years offered may be set at any level from zero up to a maximum of 10; there should not be an assumption that six and two thirds added years, or more is the norm.
- employees should be advised that when obtaining estimates/calculations they should base their decision to pursue a request on a "no added years" basis – as added years would only be given in exceptional circumstances.

The Panel also wishes to record that it would not support any proposal for a sliding scale of benefits linked to years of service.

**Recommendation 9 – The minimum age at which early retirement/voluntary redundancy is available**

The Panel recommends that the current policy of allowing early retirement/voluntary redundancy from age 50 is retained, subject to the anticipated changes to the Local Government Pension Scheme.

The Panel wishes to record its concern that an increase in the minimum age may potentially lead to an increase in compulsory redundancies, with associated costs to the authority.

**Recommendation 10 – Calculation of redundancy payments**

The Panel recommends that, in the interests of financial prudence, the calculation of ‘lump sum’ payments made for voluntary redundancy should be based on weekly earnings not exceeding the top of Scale Point 5 (currently £356.36).

This would replace the current arrangements whereby payments are made on the basis of the current weekly earnings of the individual.

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**CONCLUSIONS**

The Panel in undertaking their role recognised that their brief could have become much wider had they considered the ‘knock on effect’ of their work on other Council policies and procedures.

The Panel supports plans for Flexible Working which it understands is currently subject to consultation within the Authority. However, it recommends that a review of the Council’s Redeployment Scheme may also be appropriate.

## APPENDIX 'A': List of Evidence Considered by the Panel

### Written evidence:

1. Lancashire County Pension Fund – Employees Guide to Local Government Pension Scheme
2. Hyndburn Borough Council Glossary of Terms
3. Advisory Note on Proposed Changes to the Local Government Pension Scheme
4. Hyndburn Borough Council – Calculation of Redundancy Payments
5. Hyndburn Borough Council – Calculation of Superannuation Benefits
6. Hyndburn Borough Council's process for considering early retirements/voluntary redundancies (with effect from 1<sup>st</sup> January, 2004)
7. Comparison of early retirement/voluntary redundancy practices across Lancashire
8. Analysis of Best Value Performance Indicator BVPI 14 – comparison with other Councils
9. Analysis of costs of the last ER/VR exercise at Hyndburn Borough Council
10. Explanation of early retirements and costings - provided by Lancashire Pension Fund
11. Written response to questions raised by the Panel – provided by Lancashire Pension Fund
12. Hyndburn Borough Council employee age profile as at 30/09/03
13. Audit Commission Briefing – Retiring Nature: Early Retirement in Local Government, 1997
14. Ian Falconer, RSM Robson Rhodes – Briefing Paper to the Panel on Early Retirement
15. Local Government Pension Scheme Phase 2 Policy Proposals Discussion Paper – Unison Response

### Verbal evidence: The Panel considered verbal evidence from the following witnesses:

16. Pauline Lucarz, Head of Human Resources, Hyndburn Borough Council
17. Cllr Mrs. Jean Battle, Leader of the Opposition, Hyndburn Borough Council
18. David Welsby, Managing Director, Hyndburn Borough Council
19. Nigel Rix, Director, Hyndburn First
20. Ian Falconer, RSM Robson Rhodes, Auditors to Hyndburn Borough Council
21. Andrew Manson, North West Employers
22. Trade Union representatives at Hyndburn Borough Council representing UNISON, TGWU, UCATT and AMICUS, plus Neville Davis, UNISON Regional Officer
23. Cllr. Peter Britcliffe, Leader of Hyndburn Borough Council
24. Cllr. Mrs. Pam Barton, Shadow Portfolio Holder for Resources, Hyndburn Borough Council

## APPENDIX 'B' - **Developments since the Panel met**

The Council has now received the draft regulations which will amend the Local Government Pension Scheme Regulations 1997 with effect from **April 2005** which are subject to the outcome of statutory processes, this is much earlier than originally expected.

Elected members were made aware of the proposals out to consultation but these have now been firmed up as follows:

Changes:

**Implementation Date:** April 2005 (in order to stabilise costs)

**Age:** Employees will only be able to apply for Early Retirement from the age of 55 (transitional arrangements will not affect employees who will be 50+ years old at 31 03 55 – next year)

**85 year Rule:** To be withdrawn (transitional arrangement will not greatly affect employees who are aged 60+ and who satisfy the 85 year rule by 1 April 2013).

No changes to:

Employees contributions

No actuarial reductions to pensions paid as a result of termination on grounds of redundancy or efficiency of the service.

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