retiring nature
a management handbook on early retirement in local government
The Audit Commission promotes the best use of public money by ensuring the proper stewardship of public finances and by helping those responsible for public services to achieve economy, efficiency and effectiveness.

The Commission was established in 1983 to appoint and regulate the external auditors of local authorities in England and Wales. In 1990 its role was extended to include the NHS. Today its remit covers more than 13,000 bodies which between them spend nearly £100 billion of public money annually. The Commission operates independently and derives most of its income from the fees charged to audited bodies.

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The Context
Most local government staff currently retire before normal retirement age. But the cost can be high.

Reviewing the Early Retirement Policy
Councils should be clear about why they are using early retirement and what they expect to gain.

Is Early Retirement the Best Outcome?
Early retirement should be the last – not the first – choice. There are alternatives.

Making the Early Retirement Decision
Proper processes are important, particularly when it comes to ill-health.

The True Cost of Early Retirement
Few councils know the true long-term cost commitment of an early retirement decision. There are easy ways of calculating it.

Best Value and Early Retirement – The Corporate Agenda
Best value needs an effective performance management system if corporate objectives, like early retirement, are to be delivered.
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Preface: Best Value and Early Retirement

Soon after the May 1997 General Election, the Government stated its intention to end the system of Compulsory Competitive Tendering (CCT) that has been in place for nearly 20 years. It is now developing plans to introduce a new duty on councils: a duty of ‘best value’. The Government has recently consulted with local government, the Audit Commission, and others on how this duty should be framed and reported. Once the responses to the consultative document have been reviewed, a White Paper will set out the Government’s proposals and a Bill drafted for Parliament to consider.

The Government’s consultation document made it clear that the ending of CCT and the introduction of best value should not be seen as a ‘soft option’. Indeed, it sets local government a more challenging agenda, perhaps than any before:

...the duty of best value is one that local authorities will owe to local people, both as taxpayers and users... it is intended to apply to all local authority services. The principles emphasise that the quality of services as well as their cost matters, and although there will be no compulsion to put services out to tender there should be no presumption that services should be delivered directly if other more efficient and effective means are available...

Setting performance targets, as part of regular service reviews, and reporting achievement publicly against those targets in Local Performance Plans, will be fundamental in demonstrating whether best value is being obtained. And although the Government would support authorities in tackling performance failure, it would not hesitate to intervene more directly if authorities were reluctant to put matters right quickly and effectively.¹

Since its creation in 1983 the Audit Commission has encouraged local government to review its performance, compare performance with others and set targets for improvement. And the Audit Commission has always recognised that top quality people management is key to delivering improved performance. It has been encouraging local government to improve the quality of human resource management by producing a series of national reports, management handbooks and local audits which cover all aspects of the topic.

Best value is about continuous improvement

Paying the Piper\(^I\) and Calling the Tune\(^II\) published in 1995, reported the Commission’s findings on people management in local government. In 1996 these reports were followed with one on recruitment and training – On Merit.\(^III\) These national reports were supported by management handbooks describing good practice in these areas. To extend this work on human resource management, Retiring Nature – on the management of early retirement in local government – was published in November 1997. Retiring Nature reported that almost 40 per cent of all retirements from local government in recent years have been on grounds of ill-health and that fewer than 25 per cent of retirements were at normal retirement age. The report suggested that the incidence of early retirement should be reduced, to help control the burgeoning cost.

This handbook expands upon the good practice described in Retiring Nature. By using practical examples, good-practice case studies, and standard pro-formas it gives hard pressed specialist and non-specialist managers the tools they need to improve their management of early retirement.

Best value is about continuous improvement. To achieve continuous improvement of quality and services, people need to improve constantly too. But best value is also about cultural change:

*The commitment of local government to the cultural changes which best value is designed to bring about is therefore vital.*\(^IV\)

Such change cannot be achieved without changing the performance management culture in local government. The work produced by the Audit Commission will provide managers with an invaluable starting point to ensure that they:

- recruit the right people;
- ensure their skills remain up to date;
- pay the right salary for the job;
- introduce performance management systems which complement the performance management process of best value; and
- manage early retirement so that it is the exception that it was designed to be, rather than the norm which it has become.

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\(^II\) Calling the Tune: Performance Management in Local Government, Audit Commission/HMSO, 1995.


The advice in these earlier management handbooks remains highly relevant to councils facing up to the challenge of best value. Inevitably, there will be areas which, following the experiences of the best value pilots, can be enhanced. In future years, therefore, the Audit Commission will be updating these handbooks and publishing them in the form of ‘diagnostic tools’ for use by both auditors and local authorities in carrying out service reviews.

Many people from the local government world and the actuarial profession have given freely of their time to comment on and improve this handbook. Special thanks are due to Janet Paske, independent consultant, Keith Neale (County Treasurer) and Bill Fulton (Pensions Manager) from Essex County Council, Roger Blackmore (Treasurer) from Tameside Metropolitan Borough Council, Graeme Muir from actuaries Hymans Robertson, Ted Drake from actuaries Watson Wyatt, Bob Gibbs from the LGMB and Bob Holloway from the DETR local government pensions unit. As ever, responsibility for the handbook rests entirely with the Audit Commission.

The Audit Commission publishes handbooks to assist managers provide value for money. The guidance in this handbook refers, at times, to material drawn from Acts of Parliament and Statutory Instruments. The handbook does not set out to provide a definitive interpretation of such sources. Authorities that are unsure about how to interpret any of this material should seek their own legal advice. Detailed interpretation of the regulations will be available from the DETR Local Government Pensions Unit.

This handbook is aimed at local authorities in England and Wales. While the general good practice advice may be relevant to Scotland and Northern Ireland, different legislative and historic circumstances apply.
The Context

Most local government staff are allowed to take retirement early. In 1995/96, over three-quarters went before their normal retirement age. Almost 40 per cent of retirements were on the grounds of ill-health.
Background

1. This handbook is complementary to the Audit Commission's national report on the planning and control of early retirement, *Retiring Nature* (1997). The report acknowledged that local government has been subject to many external pressures over recent years, including in some cases, severe financial constraints. One of the responses has been to allow individuals early retirement, together with, in almost all cases, enhancements to their accrued pension, using an authority's discretionary powers and the Local Government Pension Scheme (LGPS) (Appendix 1).

2. The level of ill-health retirements has also risen so that, in 1995/96, 39 per cent of all retirements from local government in England and Wales were on the grounds of ill-health. This has contributed to more than three out of every four retirements in 1995/96 being before normal retirement age [EXHIBIT 1].

3. But early retirement costs money, because the accrued pension is paid early and because of the added years' enhancements. Although there are off-setting savings in cases of redundancy, such cases are only a relatively small proportion of the total and savings are not always realised.

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EXHIBIT 1

Routes to retirement 1995/96

Normal/late retirements now account for only 24 per cent of retirees.

Source: Audit Commission analysis of pension fund data (1997)
4. Such practices are clearly expensive. Calculating the exact cost of early retirement for any one individual is impossible because their life expectancy is unknown. However, by looking at retirements in aggregate it is possible to forecast the costs of discretionary enhancements and early payment with a high level of accuracy. This is what actuaries do. The recent impact of early retirement can be estimated by considering:

- the components of the retirement benefit package; and
- the average cost.

The components of the cost

5. The cost of early retirement comprises a number of elements:

- the outflow from the pension fund for early payment of the accrued pension and associated lump sum, for the years up to normal retirement age (this is referred to as the ‘strain’ on the fund);
- the loss of investment income to the fund on the money paid out early; and
- the direct cost of the added years’ enhancements to the pension, and of the associated lump sum, until the death of the retiree and the ending of any claim that their dependants may have.

6. In accounting terms, all early retirement costs on ill-health grounds are met by the pension fund but discretionary added years for redundancy and efficiency early retirements are charged directly to an authority’s revenue account [EXHIBIT 2]. However, the charge to the pension fund must be paid for. For most councils this charge will come from the revenue account through the employer’s contribution rate (unless other means are found – for example, if investment returns are greater than expected – and even then, the contribution rate will be higher than it would have been if enhancements had not been granted).

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EXHIBIT 2
Accounting for early retirement costs

Early retirement is accounted for in different ways, depending upon the cause.

Source: Audit Commission
1. **The Context**

The average cost

7. Actuarial methodology uses estimates for variables such as life expectancy, investment returns and salary inflation relative to prices to determine 'factors' of full 'capitalised' cost (or net present value) of a decision taken as a result of which pension payments will continue until the death of the pensioner (and their dependants). For each early retirement, the actuaries can estimate the additional cost, over and above those costs to the fund of retirement at normal retirement age, which are already allowed for in the pension fund. Over 32,000 LGPS employees were allowed early retirement in 1995/96. The average capitalised cost, calculated using these actuarial factors, is over £35,000 per retirement ([Exhibit 3]).

8. Staff leaving because of ill-health and on grounds of efficiency are likely to be replaced, but in some redundancy cases the costs will be offset by a reduction in the salary bill. For a genuine redundancy, with no replacement, there is an immediate saving which is greater than the annual pension. But in a significant number of redundancy cases, councils operate what they term a 'bumped' redundancy system, whereby an individual seeking early retirement is in effect 'transferred' to a post to be declared redundant elsewhere in the authority (most often of a lower grade). When the latter post is made redundant, the savings from the redundancy are much reduced if there is a wide disparity between the grades of the retiree and the redundant post.

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...a great deal of the expenditure on early retirement is unlikely to result in savings...

---

Exhibit 3

Average capitalised costs of early retirement (1995/96)

An average early retirement costs over £35,000 more than a normal retirement.

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Source: Audit Commission analysis of pension fund data (1997) based on cost calculations by local government actuaries, Hymans Robertson

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1 The capitalised cost of a series of payments is the amount of money, in today's terms, which would be equivalent to the sum total of the stream of payments over the years in question. It takes account of the fact that £1 today is worth more than £1 in a year's time.
9. Thus, a great deal of the expenditure on early retirement is unlikely to result in savings. *Retiring Nature* showed that most of the non-manual staff who retired early must have been replaced, in some cases with different responsibilities, so that the overall local government paybill has continued to rise.

10. Recent changes give councils even greater discretion to increase the cost of early retirement to the taxpayer. From April 1998 the LGPS Regulations allow authorities to award enhancements, with payment for them coming from the pension fund.\(^1\) However, employing authorities still have to pay for this by agreeing a repayment schedule with their administering authority; this must be either a lump sum payment or an amendment to the employer's contribution rate.

11. *Retiring Nature* showed that pension funds are under pressure. In order to maintain proper asset cover, the employer's contribution rate is being increased by most councils in England and Wales. *Retiring Nature*, and the local audits, have led to greater scrutiny of the costs of early retirement. Authorities are having to consider alternatives. This handbook outlines the good practice already in existence. By providing checklists and a costing methodology it should help all authorities plan and control their early retirements more effectively.

**Aims of the handbook**

12. This handbook thus aims to help local authority officers dealing with early retirement matters to take forward the recommendations in the national report. These recommendations were aimed at ensuring that an authority’s early retirement policy is affordable and publicly acceptable.

13. The handbook is targeted mainly at councils as employers, including both administering and scheduled authorities. In particular, it:

   • outlines what information should be provided to councillors to help them decide if their council's early retirement policy is appropriate (Chapter 2);
   • provides indicators to help councillors and officers assess how their policies and procedures compare with others (Chapter 2);
   • outlines possible alternatives to early retirement (with good planning and an up-to-date policy framework it is expected that many early retirements can be avoided) (Chapter 3);
   • outlines issues which decision-makers should consider when making an early retirement decision (Chapter 4);
   • provides information on the law in relation to discretionary enhancements to an individual’s pension (Chapter 4);
   • provides one methodology for calculating the true cost of an early retirement (Chapter 5); and
   • suggests how a performance management system can be used to achieve corporate objectives under best value (Chapter 6).

\(^1\) As allowed from April 1998 under the LGPS Regulations 1997, SI No. 1612.
14. The Audit Commission has focused on the LGPS. However, councils will wish to apply the principles covered in this handbook to all staff and groups for whom they have responsibility. For example, councils now need a policy on teachers' redundancy and efficiency retirements. This is because Section 50 of the 1997 Education Act gives local education authorities (LEAs) the powers to deduct the costs of premature retirements (including the cost of any enhancements such as added years) from school budgets when the LEA has not agreed to the retirements.

15. The first five chapters of the handbook follow the same format. After a brief outline of its contents, each chapter explains how the recommendations in the Audit Commission's report can be put into practice. Each chapter ends with a checklist for action which can be used as a reference point for deciding whether an authority is already meeting the good practice identified by the Commission. Chapter 6 shows how best value corporate objectives can be turned into actionable targets.

16. The appendices provide supplementary information and pro-formas, plus tables of factors to calculate the true cost of an individual retirement. The Glossary provides a list of common early retirement terms used throughout the handbook.

17. Where possible, the Commission has drawn on the experience identified at fieldwork authorities and used this to show how good practice can be implemented. Good practice case studies are explicitly identified in each section. Reference is also made to good practice recommended by the local government employers' group, the United Kingdom Steering Committee on Local Government Pensions (UKSC).

18. The findings and recommendations in this handbook are based on in-depth fieldwork, supplemented by the findings of a detailed questionnaire sent to a larger sample of authorities. Statistical evidence is from pension funds' data (with permission from the authorities concerned) the research for which was carried out for the Audit Commission by the local government actuaries, Hymans Robertson. Thanks are due to the UKSC and the Institute of Personnel and Development. Responsibility for this Handbook rests with the Commission itself.

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I Including teachers, police and the fire service, even though they each have different pension schemes.

II IPD, Key Facts on Redundancy, February 1997.
Reviewing the Early Retirement Policy

Early retirement needs to take place within an open and accountable framework. Decisions should be based on evidence (for example, of ill-health, or a genuine redundancy situation). Councillors should be fully appraised of the costs that their council is incurring when it lets people take early retirement.
Chapter 1 showed that early retirement can have a significant impact on an authority in both the short and the long term. In the short term there could be a significant loss of expertise, as more experienced staff are allowed to leave and the immediate cost to the revenue account of the added years' enhancements. In the long term, the added years' enhancements will continue to be a drain on the revenue account until the retiree (or their spouse or dependants, where appropriate) dies. In addition, the cost of early payment of the accrued pension is met by the pension fund and this may eventually increase the employer's contribution rate.

Early retirement, when used appropriately, can be a useful change management tool. However, indiscriminate use of the discretion available under the scheme is costly. Early retirement must be used wisely, in the light of full information and as part of a planned human resource strategy.

This chapter covers early retirement policies for redundancy and efficiency. It identifies important questions all councils need to address:
- how is added years' discretion used?
- who pays for early retirements? and
- when are they paid for?

This chapter also discusses the importance of monitoring ill-health retirements and reviewing the policy framework when they exceed the actuary's expectations or are high compared with other authorities.

An early retirement policy is an important element of an authority's people management strategy. It 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, or 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.\(^1\)

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\(^1\) UKSC Circular 58, October 1997.
24. An early retirement policy cannot stand alone. It forms part of an authority’s wider human resource policies. Therefore, when considering an authority’s early retirement policy, councillors need to look at all relevant factors, including:

- the external and internal pressures on the organisation;
- trends in the staff profile;
- an outline of the current early retirement policy, with an explanation of the authority’s discretion;
- the position of, and outlook for, the revenue account and pension fund;
- summary facts on the use made; and
- the impact of the current early retirement policy.

Annual statement on the impact of early retirement

25. The overall impact of a series of individual decisions is not always easy to appreciate. Hence councils should support the policy review mechanism by producing an annual statement showing the total impact of all decisions made in the past year. The annual statement should cover current and past trends in early retirements and their associated costs, disaggregated by added years and early payment. Appendix 2 contains a pro-forma designed for this purpose. The 1997 regulations require authorities to publish their policies on the use of the new early retirement powers given to them. It may be appropriate to produce the policies and annual statement as one document.

Using discretion

26. Once councillors and officers have a good understanding of the pattern of early retirement, and the future needs of the council, they can determine their approach to:

- changing the culture of expectation;
- the basis on which added years are awarded;
- the age at which discretion is used;
- different regimes for redundancy and efficiency retirements;
- evaluating each case on its merits;
- using discretion in the award of redundancy payments and added years’ enhancements;
- making the cost of early payment apparent; and
- using the ‘rule of 85’ (see below).

Each of these areas are considered in more detail below.

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1 This is only an example, but highlights the key facts of which councillors need to be aware.
Changing the culture of expectation – AVCs

27. Local government staff can make Additional Voluntary Contributions (AVCs) to enhance their final pension. Actively encouraging their take up could help facilitate a cultural change and an end to the idea that enhanced early retirement will be automatically awarded.

Basis on which added years awarded

28. Authorities usually award discretionary added years using a sliding scale based on the number of years of service to the authority or the number of years of contributions to the LGPS. Use of a standard scale prevents allegations of favouritism and makes it easy to administer the retirement policy. However, a council’s discretion could be challenged in law, since under Article 119 of the Treaty of Rome, pensions count as pay. Policies based only on length of service have been found in other contexts to discriminate against women.

29. Councils should consider whether they wish to use the number of years of contributions to the LGPS, years of service to local government, or years of service to that council as the basis for awarding added years. Where they use the number of years of contributions to the LGPS they can incur considerable costs in the case of individuals who have given only a limited contribution (in terms of time) to the authority. For example, an individual who transfers 20 years of service into the LGPS from another employer and works at a council for only three years could accrue added years dependent on either three years’ service or 23 years of contributions to the pension scheme. However, when adopting such a policy councils need to address the issue of employment mobility. Policies that militate against people with a varied career pattern could encourage stagnation.

30. There is wide variation between councils in the award of added years [EXHIBITS 4 and 5, overleaf]. For example, an employee whose post had been made redundant and who worked for seven years in local government (or paid contributions for seven years) could be awarded between one and seven added years, depending on the particular council’s policy. The Audit Commission study team found that the average number of added years awarded to an individual who had worked for seven years was four. One way to compare an individual council’s discretion on added years is to benchmark its policy against other authorities.
31. The fieldwork suggested that some councils allow discretionary added years for staff with less than five years service, although the regulations specifically exclude such cases. Auditors will deal with such issues where they arise at the local level.

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Age at which discretion is used

32. Although the LGPS regulations allow authorities to use their discretion for staff who are 50 years or older, authorities can raise the age at which early retirements and/or enhancements are allowed. Two out of 12 fieldwork authorities restrict the award of added years to people who are 55 or older.

Different regimes for redundancy and interests of efficiency

33. Authorities do not always have the same levels of added years given for redundancy and efficiency cases. Depending on an authority's interpretation of 'interests of the efficient exercise', it may wish to have a different scheme in place for each type of retirement, reflecting the background reasons in each individual case: redundancies, for example, are generally outside the control of the individual, whereas efficiency retirements may reflect inadequate performance.

Evaluating each case on its merits

34. Some authorities do not have a scale of added years automatically awarded on the basis of years served/contributions to the LGPS; for example, Essex County Council chooses to consider each efficiency case on its merits, subject to the statutory maximum [CASE STUDY 1].

CASE STUDY 1

Essex County Council evaluates each efficiency proposal on its merits

The County Personnel Officer vets each application where the award of added years is being proposed by the employing directorate. This is to ensure that it is not more properly a redundancy or ill-health retirement, or a case that should be addressed through the disciplinary/capability procedures.

The County Personnel Officer then considers what enhancements are appropriate in the circumstances, being more generous if the retirement is due to factors outside the individual's control. A set of guidelines is used as the basis for using discretion in these cases to assist consistency of treatment and to reduce the possibility of a challenge of unfairness.

The County Treasurer exercises a final scrutiny prior to payment to ensure that the employee is broadly eligible for such early retirement terms and that the level of added years awarded does not exceed the statutory limits.
Using discretion in redundancy payments and added years’ enhancements

35. Some authorities have decided that they cannot afford to pay both statutory/contractual redundancy payments and award added years. Employees are therefore given the option of either retiring on the grounds of efficiency with added years' enhancements, or retiring on the grounds of redundancy with no added years' enhancements. The latter is potentially cheaper as there is no open-ended commitment – for the lifetime of the individual – to pay the added years' pension. However, as a redundancy situation is prescribed by statute, this is unlikely to be a lawful use of the regulations.

36. In redundancy cases there is a trade-off between the added years that can be awarded and the redundancy payment. Any awards above 6 added years are deducted from the redundancy payment on a pound for pound basis. One fieldwork authority restricts early retirees to the maximum redundancy payment and 6 added years, as this limits the long-term pension cost to the council.

Making the cost of early payment apparent

37. Once the cost of early payment is apparent, and employees understand that their pension is not actuarially reduced (as happens in the private sector), they will realise that their employer is still being generous in enhancing their pension, even without the award of discretionary added years.

Using the ‘rule of 85’

38. From April 1998, all individuals aged over 50 are allowed to retire early. However, if they are 60 or under, the employer must consent. This provides councils and staff with greater flexibility than previous regulations. An ill-health, efficiency or redundancy situation no longer needs to exist. The price of this flexibility is that the pension should be actuarially reduced, so neutralising the cost of early payment, except in cases where the age of the individual plus his or her years of contributions to the LGPS total 85 or more. In cases of efficiency where the authority does not wish to bear even the cost of early payment but the employee is willing to leave, there may be an opportunity to allow people to go voluntarily. However, indiscriminate application of this rule may result in rising early retirement costs.

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II Authorities may choose not to abate a pension where the ‘rule of 85’ would otherwise require it on compassionate grounds, and such circumstances need to be outlined in a policy kept under review by the administering authority.
39. Devolving decision making and budgets usually improves the quality of decision making. This is also true where early retirement is concerned. Authorities should decide which part of the council should bear the cost. 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 departments or direct service organisations (DSOs) which do not retire people early, having to subsidise those departments which do not exercise restraint. In cases of corporately driven reorganisation, however, there may be an argument for the corporate centre meeting some, if not all, of the early retirement costs.

...accountability for a decision should lie with those taking it...

40. Good practice differs for authorities subject to local government reorganisation. If an employee has been made redundant due to local government reorganisation prior to vesting day of the new authority, or within 18 months afterwards, any costs should be held at the centre in the 'un-apportionable central overheads' budget. Redundancies within this period which are not for reasons of local government reorganisation should be paid for by the relevant department.

Pay for early retirement in a reasonable time

41. 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 five 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 five 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 [CASE STUDY 2, overleaf].

42. Where the fund is significantly below 100 per cent funding level – say, less than 90 per cent (the minimum funding requirement for private sector pension funds) – then a tighter time-scale of three years – the inter-valuation period – would be more appropriate. UKSC also advised councils to give urgent consideration to the introduction of a lump sum payment – alternatively phased over three years – to cover the strain on the pension fund from early retirement. When a council’s funding level is greater than 100 per cent, then it may prefer to allow the funding level to drop nearer to 100 per cent than make a payment into the pension fund (provided that the excess has not already been taken into account by the actuaries in setting the contribution rate). Even when this is so, the department making the early retirement should be expected to pay the cost via a budget adjustment.
CASE STUDY 2

Paying for the cost of early retirement – Essex

Background
The Essex pension fund experienced a fall in funding of 13 percentage points between 1992 and 1995 – from 97 to 84 per cent.

In conjunction with the fund’s actuary, Essex carried out an analysis of the pension fund and concluded that the fall in funding level could be explained by a number of factors. The largest items subject to management decisions were ill-health and early retirement.

Reasons for the increase in deficit, 1992 to 1995:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Act 1993 – reduction in Advance Corporation Tax credit from 25 per cent to 20 per cent.</td>
<td>4 per cent</td>
</tr>
<tr>
<td>Early retirement (redundancy and efficiency)</td>
<td>3 per cent</td>
</tr>
<tr>
<td>Ill-health retirement above previous estimate</td>
<td>2 per cent</td>
</tr>
<tr>
<td>Phasing-in of contributions</td>
<td>1 per cent</td>
</tr>
<tr>
<td>Salaries rose higher relative to prices</td>
<td>1 per cent</td>
</tr>
<tr>
<td>Longevity</td>
<td>1 per cent</td>
</tr>
<tr>
<td>Other factors</td>
<td>1 per cent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13 per cent</strong></td>
</tr>
</tbody>
</table>

Action
In order to recover the adverse funding position, the County Council, in its role of pension fund administrator, decided to require participating employers to pay the cost of discretionary early retirement into the fund within three years of the early retirement taking place. This is now paid either as a lump sum at the time of the retirement or in a series of 36 monthly instalments.

The outcome
The requirement to pay the cost of early payment may have contributed to a drop in the number of redundancy and efficiency retirements.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of redundancy and efficiency retirements</th>
<th>Number of ill-health retirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995/96</td>
<td>311</td>
<td>287</td>
</tr>
<tr>
<td>1996/97</td>
<td>219</td>
<td>282</td>
</tr>
</tbody>
</table>

In 1996/97, an additional £3.3 million was paid into the pension fund by the participating employers to cover the costs of early payment for redundancy and efficiency retirements, with a further £1 million due in each of the next two years to cover the outstanding balance.
43. The 1997 Regulations implemented in April 1998 allow authorities to increase their contribution rates during the inter-valuation period. The change means that if an administering authority believes that the early retirement assumptions in the last valuation understate what is happening at one of its employing authorities, it may ask its actuary to review the contribution rate. If the actuary agrees that the valuation understates the true position, the employer’s contribution rate can be increased prior to the next triennial valuation. Even so, this increase will typically be paid over the next 10 to 15 years, transferring the cost of such decisions to the next generation. Instead, councils should adopt a valuation certificate that facilitates payment within three to five years.

44. If an individual genuinely merits ill-health retirement, the terms are prescribed by statute. A council’s concern is, therefore, restricted to ensuring that the medical assessment has been properly made and redeployment and retraining alternatives fully explored. In this respect a key indicator for authorities to monitor on an annual basis is the level of ill-health retirements. At each valuation, the actuaries will have made an assumption of the probable incidence of ill-health retirements in determining the fund’s future liabilities. When the level of such retirements goes beyond this, an authority is generating additional liabilities which may need to be paid for through increases in future contribution rates.

45. For the fund illustrated below (TABLE 1), there is already an allowance of £2.64 million in the fund for ill-health retirements. If the cost of ill-health retirements is no more than the sum which the actuary has allowed for, there will be no adverse impact on the funding level, and hence no increase in the employer’s contribution rate from this cause.

### Monitoring ill-health early retirements

#### TABLE 1

<table>
<thead>
<tr>
<th>Membership category</th>
<th>Pensionable payroll (£m)</th>
<th>Allowance for ill-health retirements (per cent pensionable pay)</th>
<th>Projected annual cost of ill-health retirements (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male officer</td>
<td>66.21</td>
<td>1.3%</td>
<td>0.88</td>
</tr>
<tr>
<td>Female officer</td>
<td>71.94</td>
<td>1.1%</td>
<td>0.76</td>
</tr>
<tr>
<td>Male manual</td>
<td>23.60</td>
<td>3.2%</td>
<td>0.76</td>
</tr>
<tr>
<td>Female manual</td>
<td>13.89</td>
<td>1.5%</td>
<td>0.21</td>
</tr>
<tr>
<td>Overall</td>
<td>175.64</td>
<td>1.5%</td>
<td>2.64</td>
</tr>
</tbody>
</table>

The allowance for ill-health depends upon gender and the nature of the employee’s job.

*Source: Hymans Robertson*
46. Administering authorities will need to ask for this information (including the costs allowed for ill-health retirements) from their own actuary, for all their employing authorities, so that each can review their own performance. Actuaries should provide an annual estimate for each scheduled employer.

47. Since April 1998 administering authorities must ask their actuaries to review their fund’s circumstances, if the authority believes that there has been an understatement in the previous valuation assumptions. If the annual monitoring shows up a greater level of ill-health retirements than allowed for in the valuation, the employing authority can ask the administering authority to ask the actuary to review the fund’s situation immediately and if necessary adjust the council’s contribution.

48. Another way to check that ill-health is being properly managed is to use the Audit Commission analysis to benchmark performance (EXHIBIT 6 and TABLE 2). If an authority has a level of ill-health retirement (as a percentage of all retirements) greater than the lower quartile for its authority type, it should carry out a review of its ill-health retirement procedures to check that the system is working effectively.

EXHIBIT 6
Ill-health retirements as a percentage of all retirements in 1995/96

In some councils nearly 70 per cent of retirements occur on the grounds of ill-health.

Source: Audit Commission analysis of pension fund data (1997)
### TABLE 2
Ill-health retirements as a percentage of all retirees in 1995/96

Note: Since the Commission’s database predates the recent reorganisations, there is no separate category for English and Welsh unitary authorities.

*Source: Audit Commission analysis of pension fund data (1997)*

<table>
<thead>
<tr>
<th></th>
<th>No. of employing authorities in sample</th>
<th>Lower quartile %</th>
<th>Median %</th>
<th>Upper quartile %</th>
</tr>
</thead>
<tbody>
<tr>
<td>County councils</td>
<td>22</td>
<td>27.8</td>
<td>30.8</td>
<td>34.9</td>
</tr>
<tr>
<td>English districts</td>
<td>143</td>
<td>16.7</td>
<td>29.7</td>
<td>42.4</td>
</tr>
<tr>
<td>Welsh districts</td>
<td>8</td>
<td>14.0</td>
<td>27.4</td>
<td>34.2</td>
</tr>
<tr>
<td>London boroughs</td>
<td>9</td>
<td>31.5</td>
<td>41.4</td>
<td>55.2</td>
</tr>
<tr>
<td>Metropolitan authorities</td>
<td>25</td>
<td>41.1</td>
<td>47.8</td>
<td>58.9</td>
</tr>
</tbody>
</table>
Reviewing the Early Retirement Policy

In determining its policies for early retirement, an authority needs to review its options. Specifically, decisions are needed at different levels in the authority, by councillors and chief officers.

<table>
<thead>
<tr>
<th></th>
<th>To be actioned by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Councillors</td>
</tr>
<tr>
<td>1</td>
<td>Does the authority have an early retirement policy agreed by councillors covering:</td>
</tr>
<tr>
<td></td>
<td>• redundancy?</td>
</tr>
<tr>
<td></td>
<td>• interests of efficiency?</td>
</tr>
<tr>
<td></td>
<td>• ill-health?</td>
</tr>
<tr>
<td></td>
<td>• other early retirements?</td>
</tr>
<tr>
<td>2</td>
<td>Has a review of the policy been undertaken including consideration of:</td>
</tr>
<tr>
<td></td>
<td>• the internal and external pressures on the authority?</td>
</tr>
<tr>
<td></td>
<td>• trends in the staff profile?</td>
</tr>
<tr>
<td></td>
<td>• the current policy, if one exists?</td>
</tr>
<tr>
<td></td>
<td>• a position statement of the costs of the current policy?</td>
</tr>
<tr>
<td></td>
<td>• the position of, and outlook for, the revenue and pension fund accounts?</td>
</tr>
<tr>
<td>3</td>
<td>Does the council receive an annual summary of the costs of the policy?</td>
</tr>
<tr>
<td>4</td>
<td>Has the authority considered the following use of its discretion:</td>
</tr>
<tr>
<td></td>
<td>• the age at which discretion is used?</td>
</tr>
<tr>
<td></td>
<td>• the possibility of different regimes for redundancy and efficiency retirements?</td>
</tr>
<tr>
<td></td>
<td>• evaluating each case on its merits?</td>
</tr>
<tr>
<td></td>
<td>• using discretion in the award of added years’ enhancements and redundancy payments?</td>
</tr>
<tr>
<td></td>
<td>• using the ‘rule of 85’?</td>
</tr>
<tr>
<td>5</td>
<td>Does the authority require departments to pay for the cost of enhancements?</td>
</tr>
<tr>
<td>6</td>
<td>Does the authority require the losing departments to pay for the cost of early payment within five years of the retirement (other than for corporate driven or local government re-organisation)?</td>
</tr>
<tr>
<td>7</td>
<td>Does the authority have a copy of the actuaries’ ill-health assumptions?</td>
</tr>
<tr>
<td>8</td>
<td>Does the authority compare the cost of ill-health against the actuaries’ assumptions on an annual basis?</td>
</tr>
<tr>
<td>9</td>
<td>If the incidence of ill-health is above the lower quartile for the authority type, has a review of the ill-health system been undertaken?</td>
</tr>
</tbody>
</table>
Is Early Retirement the Best Outcome?

Retiring staff early not only costs money. Councils need the skills and knowledge of experienced staff – now more so than ever. Early retirement should be the last resort, when all other options have been exhausted.
Introduction

...it should always remain the case that early retirement is the last – not the first – option

Alternatives to early retirement

49. Authorities offer many legitimate reasons for early retirements on the grounds of efficiency and redundancy. These range from tight financial settlements and the need to prepare for competition with the private sector, to organisational re-structuring. While sometimes unavoidable it should always remain the case that early retirement is the last – not the first – option.

50. The challenge for authorities is to make it understood that early retirements are allowed only at the authority's discretion. Authorities need to change the perception that early retirement is an employee's right.

51. Alternatives are available. A survey by Bargaining Report\(^1\) of 83 workplaces covering 200,000 employees shows that both public and private organisations already use many different approaches to reduce redundancies [EXHIBIT 7]. These approaches can also be used to avoid early retirements.

52. In the case of redundancies, alternatives to early retirement include:

- evaluating the business need;
- planning staffing levels in advance;
- taking account of natural wastage;
- reviewing the employment of temporary staff or contractors;
- stopping or restricting overtime;
- requiring employees to retire no later than age 65;
- introducing short-time working;

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EXHIBIT 7

Alternatives to redundancy

There are a number of alternatives; some are more popular than others.

Source: Bargaining Report No. 169 (February 1997)
...authorities should always consider whether the cost of allowing [individuals] to go outweighs the benefits...

- reviewing employment terms;
- encouraging more flexible working patterns;
- offering redundancy to employees under 50;
- restricting external recruitment; and
- reducing the need for external recruitment by retraining and redeployment.

Each of these options is explored below.

**Evaluating the business need**

53. For individuals being considered for retirement in the interests of efficiency or enhancements under the 1997 Regulations, authorities should consider whether the cost of allowing them to go outweighs the benefits. Someone retired on efficiency grounds may be replaced; if so, there will be negligible salary savings to offset against the early retirement costs. Audit Commission analysis of pensions data shows that, on average, these costs were over £35,000 in 1995/96 (about £16,000 for early payment and £18,500 for added years’ enhancements). Councils should consider whether the person is affecting the efficiency of the service to this extent and if so whether culpability procedures are more appropriate. When dealing with any early retirement (in the interests of efficiency) authorities should consider whether dismissal on the grounds of incompetence is the most appropriate route to take. If it is not, redeployment may be an alternative. Early retirement with the pension actuarially reduced and no added years’ enhancements may be another option.

54. Redeployment should be considered for individuals who have problems coping with their current job due to ill-health; they may be able to perform another job satisfactorily, or their current job on a part-time basis.

**Planning staff levels**

55. Planning staff levels provides authorities with more opportunities to achieve staff reductions without the need for early retirements. However, many authorities argue that they are unable to do this because of uncertainty with regard to the end-of-year financial settlement. Despite this, some authorities do set out scenarios for funding for future years. Authorities should consider developing up to three possible scenarios: providing for growth, no change and a reduction in funding. Major changes to the authority’s services should be considered at this point; for example, if a service is being subject to a best value review, are any net savings anticipated? Once assumptions have been made about finance, the impact on staffing can be reviewed. Wolverhampton Metropolitan Borough Council forecasts two years ahead and this has created flexibility for managers [CASE STUDY 3, overleaf].
CASE STUDY 3

Forecasting staffing levels at Wolverhampton Metropolitan Borough Council

Wolverhampton’s Finance Department forecasts its financial position two years ahead and so can assess the changes in staffing levels which may be needed. Savings are identified at the committee level and a budget retained at the centre for severance costs (redundancy pay, added years’ lump sums and pensions).

Although savings were not needed for 1997/98, the Finance Department believes that savings are required for 1998/99. Departmental directors have been informed of this. Directors had the option of spreading the redundancies over 1997/98 and 1998/99. They are required to meet any severance costs in 1997/98 out of their own budgets, with no help from a top slice of all departments’ budgets. Allowing for two years of natural wastage will help to minimise the cost of the reductions needed.

Natural wastage

56. Estimating and allowing for natural wastage can help avoid early retirement. Natural wastage includes normal retirement, resignation and dismissal [EXHIBIT 8]. Across all types of authority, up to 8 per cent of staff are likely to leave each year through natural wastage. Tameside Metropolitan Borough Council has introduced human resource planning to deal proactively with staffing issues [CASE STUDY 4].

EXHIBIT 8
Natural wastage, as at 31 March 1995

Natural wastage can be used to plan staffing levels.

Source: Audit Commission survey (1995)
CASE STUDY 4

Human resource planning at Tameside Metropolitan Borough Council

Tameside wants to be in a position to deal proactively with staffing issues and, since 1995/96, has required its departments to produce human resource plans. These require departments to plan the action necessary to ensure that the requirements of the department's business plan can be met. Departments need to review the previous year’s human resource plan, and then predict its staff profile for the following year in terms of:

- known leavers – retiring at 65, approved early retirements, ill-healths, expiry of fixed-term contracts;
- expected leavers – forecast early retirements, resignations, other;
- expected starters – permanent, temporary, trainees; and
- employees ‘at risk’.

In this way, employees ‘at risk’ can be identified as soon as possible (before the financial year starts) and appropriate action can be taken.

Small numbers of employees work past the age of 65, but the number is increasing...

Reviewing the employment of agency and temporary staff and contractors

57. If natural wastage is not sufficient to reduce staffing levels, then the use of non-permanent staff should be reviewed. It may be inappropriate to continue employing temporary staff whilst permanent staff are being given early retirement.

Stopping or restricting overtime

58. At the local level, managers should review the use of overtime work. Where the work is vital then re-deployed staff may be able to do it during normal working hours.

Requiring employees to retire no later than age 65

59. Small numbers of employees work past the age of 65, but the number is increasing and was 2.9 per cent of the total number of retirees in 1995/96 [EXHIBIT 9, overleaf]. Although low in absolute terms (1,233 in 1995/96) this is more than 1 in 10 of employees who reach normal retirement age. Reasons for late retirement vary – for example, individuals may be kept on to finish a particular piece of work. If necessary, it may be appropriate to avoid late retirements and provide redeployment opportunities for others.
People retiring late from the LGPS

The number of people retiring after the age of 65 has increased almost tenfold since 1990/91.

**Source:** Audit Commission analysis of pension fund data (1997)

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**Introducing short-time working**

60. In some circumstances, working hours could be changed to allow short-time working or job-sharing. This is a complex legal area and needs to be managed effectively to ensure that employees and staff sides agree to such changes. The overriding requirement is that any use of cuts or reductions in pay should be provided for within contracts of employment, either specifically or by the incorporation of terms of collective agreements into contracts.

**Reviewing employment terms**

61. Reviewing staff employment terms has become increasingly common as an way to reduce the overall current staffing bill [CASE STUDY 5].

62. This approach is also appropriate for employees who are not able to cope with their current employment but who are not sufficiently ill to be given early retirement on the grounds of permanent ill-health. For example, people with ill-health may prefer to have their hours of work reduced. This would be in keeping with the 1995 Disability Discrimination Act.

**Encouraging more flexible working patterns**

63. Many people do not wish to work full-time during certain periods of their lives and, for example, would welcome the opportunity to work part-time, or during school-term time only. Some older workers may also be interested in this approach, as they wind down to retirement. Others may want to reduce their working hours to pursue other interests.

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CASE STUDY 5

Reviewing employment terms at the London Borough of Islington

Background
Islington Council needed to make savings of about £15 million in 1997/98.

Action
After negotiations with staff side, the Council agreed changes in employment conditions. These included:

- the notice period for displaced staff will be the longer of the statutory or contractual notice, with a minimum of 4 weeks, up to a maximum of 12 weeks, dependent on service (previously all staff were given 12 weeks);
- where staff are re-deployed to a suitable alternative job at a lower grade, and it is deemed appropriate to grant grade protection, the grade will be frozen until the appropriate wage/salary for the grade of the new job catches up (previously two years' pay protection was allowed, including pay rises, before freezing);
- car allowances for designated car-users will be reimbursed in accordance with the lowest band of the nationally agreed rates (previously the lowest two bands were used); and
- no payment will be made for any untaken annual leave at an employee's last day of service (except where the employee is retired on the grounds of permanent ill-health. Previously this leave was paid for in all cases).

Savings in other non-contractual provisions were also agreed relating to, for example, the staff nursery, overtime and use of agency staff and consultants.

The outcome
£1.95 million is being saved on an annual basis, alleviating the need to reduce staff numbers by redundancy or early retirement measures.

Offering redundancy to employees under 50
64. If staff numbers need to be reduced, authorities could offer redundancy to employees under 50 for whom only the cost of a redundancy payment will be incurred – early retirement is only paid to staff over 50. Depending on the location of the council and the nature and buoyancy of the job market, younger staff may find a redundancy package attractive.

Restricting external recruitment
65. Authorities should be rigorous in evaluating whether a new post is necessary and whether it should be advertised externally [CASE STUDY 6, overleaf].
Wolverhampton Metropolitan Borough Council

Wolverhampton does not allow any department to recruit from an external source to a new post unless it has been agreed by its Personnel Committee. Although it was agreed that this approach is onerous, it does stop departments recruiting from outside without checking whether there is a suitable candidate in the redeployment pool.

Retraining and redeployment

66. Some authorities ensure that people whose jobs are potentially redundant are considered for new posts before any external candidates. The figures suggest there is considerable scope for encouraging greater use of this approach. In 1994/95 local government recruited 75,000 employees (excluding teachers and school-based employees), about 10.6 per cent of the total workforce of 700,000 full-time equivalent non-manual staff [TABLE 3]. This compares with less than 14,500 early retirements (redundancy and efficiency only) in 1995/96. A greater emphasis is also placed on redeployment by the 1995 Disability Discrimination Act which requires that employers strive to keep disabled people in employment.

Initiatives in place

67. Redeployment policies are already in existence for potential redundancy and ill-health cases in almost 90 per cent of authorities. But unless authorities are actively committed to the use of these policies, employees will assume that they cannot get a suitable alternative job internally and will continue to focus on, and expect, early retirement. Bristol City Council has recently succeeded, via discussion with the unions, in getting employees to accept that when an individual’s job is redundant, the individual will no longer be automatically offered voluntary redundancy if the Council considers that there is a suitable alternative post available. If the employee declines the Council’s offer of an alternative job (following an appeal against its perceived unsuitability) they will not be entitled to redundancy pay (or early retirement, if over 50). Although Bristol City Council operates a successful job search support programme, it is recognised that not all employees will be successfully re-deployed, and in these circumstances redundancy payments will be made (and early retirement put in progress) if applicable.

68. Table 3 shows that, typically, local government recruited more than 10 per cent of the non-manual workforce in 1994/95. Authorities need to consider in every instance whether a new person needs to be recruited or whether a potential early retiree could be retrained to do the job to the standard required, at an acceptable cost.
TABLE 3
New appointments in each authority as a percentage of staff (non-manual only) as at 31 March 1995

<table>
<thead>
<tr>
<th>Per cent</th>
<th>County council</th>
<th>District council</th>
<th>London borough</th>
<th>Metropolitan authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower quartile</td>
<td>7.6</td>
<td>8.8</td>
<td>8.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Median</td>
<td>9.1</td>
<td>11.6</td>
<td>12.2</td>
<td>7.5</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>12.6</td>
<td>14.8</td>
<td>16.9</td>
<td>19.1</td>
</tr>
<tr>
<td>No. of authorities in the sample</td>
<td>12</td>
<td>171</td>
<td>11</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Audit Commission survey (1995)

69. This is not just good practice, the law requires it. Legislation requires that (for employees with more than two years' service) consultation with employee representatives on redundancies should be aimed at reducing or minimising redundancies. Employers are also expected to look for alternative work throughout the organisation. Authorities which are serious about redeployment will provide counselling for staff to help them consider their position and decide what is their best way forward.

70. Some authorities maintain a central clearing house through which all new jobs must be channelled, and all staff facing redundancy are considered for these. Some policies guarantee a potential re-deployee an interview if they meet, say, 80 per cent of the essential criteria of the job specification. Others defer external recruitment for a particular post when they are expecting candidates to enter the redeployment pool in the near future. Authorities need to weigh up whether any inconvenience to the employing department outweighs the benefits. When potential re-deployees are interviewed, an independent personnel officer should be present to check that the interview is conducted fairly. Tameside Metropolitan Borough Council has a retraining programme for employees in jobs which are at risk [CASE STUDY 7, overleaf]. Bexley Council has a comprehensive policy, with officers proactively implementing it [CASE STUDY 8, overleaf].

Overcoming obstacles

Potential barriers

71. One of the barriers to redeployment is the effect on pensionable remuneration. Often redeployment means a reduction in salary (although some authorities will provide salary protection, this may be time limited or last for the duration of their employment). The 1995 regulations provided some pension protection and the 1997 regulations extend this. From 1 April 1998, for example, an individual who is redeployed to a job where the pay at their retirement is less than the pay of his or her previous job including price increases, will have their pension based on the latter.

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1 The Local Government Pension Scheme Regulations 1995, Schedule D1, para. 4.
CASE STUDY 7

Retraining at Tameside Metropolitan Borough Council

Tameside introduced a New Directions policy to prevent wide-ranging redundancies which would otherwise have been necessary. As part of the human resource planning process the authority assessed where future growth areas would occur and provided training for employees in jobs which would be disappearing. Two courses were developed: Skillbuild provided training to enable administrative and clerical staff to obtain an NVQ in Business Administration in preparation for white collar compulsory competitive tendering. Fresh Start helped employees move into new areas of work such as nursery nursing, working with people with learning disabilities or training to enter a profession, such as accounting or trading standards.

CASE STUDY 8

Redeployment at Bexley Council

Bexley Council has a policy to re-deploy employees who are potentially redundant. When an employee is re-deployed their training and development needs are assessed, and reasonable retraining costs met by the former employing department.

Action

Managers are expected to contribute to the authority's initiatives by:

- ensuring that efforts are made to re-deploy their own employees who would otherwise be made redundant; and
- implementing measures to avoid redundancies in other parts of the Council.

Corporate redeployment initiatives are overseen by the Redeployment Group. This consists of departmental personnel officers and an officer from central personnel who meet monthly to review the scope for matching potentially redundant employees with existing or likely vacancies across the organisation.

Employees are asked to provide personal and employment details in conjunction with their manager, who is asked to complete an assessment of the employee's capabilities, skills and potential. These details are added to the register of potentially redundant staff.

The Group has to be informed of any vacancies to which there is an intention to recruit. Potentially redundant employees are given priority over the internal candidates and external candidates where the employee's skills and experience meet the minimum criteria for the job.

Cont.
Staff who are likely to be re-deployed are also helped to complete a personal development plan based on employee preferences (including jobs and area of work), skills required by such new jobs, and areas for improvement (skills that may be relevant to new jobs but which the employee does not currently have to the standard required).

Other measures that are recommended include:

- anticipating the implications of organisational change and employing any new staff on temporary or fixed-term contracts until the new structure is introduced;
- reducing overtime;
- terminating temporary contracts;
- retiring employees who are beyond retirement age; and
- liaising with other organisations such as the job centre, neighbouring authorities, and local employers.

Employees who are recognised as being unlikely to be re-deployed have access to counselling and outplacement services. However, redeployment is considered for all employees until the last day of employment. The counselling aims to help employees to find new work outside the Council.

72. Another barrier to redeployment may be the receiving department’s reluctance to accept the liability for early retirement if the redeployment does not work out. All re-deployees have a statutory minimum period of four weeks in which to try out the new job and decide whether they will stay. Re-deployees should not be included on a new department’s payroll until they have agreed to take the job permanently.

Monitoring redeployment

73. To maintain credibility, councils should monitor the success of their redeployment policy. A key indicator is the number of people who were found alternative work before their contracts were terminated.

74. The checklist overleaf summarises the key recommendations of this chapter and provides an easy reference for officers against which to compare their authority’s practice.
## Check List for Action

### 3. Is Early Retirement the Best Outcome?

<table>
<thead>
<tr>
<th></th>
<th>To be actioned by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Councillors</td>
</tr>
<tr>
<td><strong>1</strong></td>
<td>Does your authority plan staffing requirements two years in advance, taking account of natural wastage?</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>If redundancies are necessary, have the following approaches been considered:</td>
</tr>
<tr>
<td></td>
<td>• evaluating the business case</td>
</tr>
<tr>
<td></td>
<td>• planning staffing levels in advance?</td>
</tr>
<tr>
<td></td>
<td>• taking account of natural wastage?</td>
</tr>
<tr>
<td></td>
<td>• reviewing the employment of temporary staff and contractors?</td>
</tr>
<tr>
<td></td>
<td>• stopping or restricting overtime?</td>
</tr>
<tr>
<td></td>
<td>• requiring people to retire at 65?</td>
</tr>
<tr>
<td></td>
<td>• introducing short-time working?</td>
</tr>
<tr>
<td></td>
<td>• reviewing employment terms?</td>
</tr>
<tr>
<td></td>
<td>• encouraging more flexible working patterns?</td>
</tr>
<tr>
<td></td>
<td>• offering redundancy to employees under 50?</td>
</tr>
<tr>
<td></td>
<td>• restricting external recruitment?</td>
</tr>
<tr>
<td></td>
<td>• retraining and redeployment?</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>When considering an efficiency retirement, does the authority consider</td>
</tr>
<tr>
<td></td>
<td>• whether the capital cost of allowing someone to go outweighs the benefits?</td>
</tr>
<tr>
<td></td>
<td>• whether the person could be re-deployed?</td>
</tr>
<tr>
<td><strong>4</strong></td>
<td>When considering an ill-health retirement, does the authority consider redeployment?</td>
</tr>
</tbody>
</table>
Making the Early Retirement Decision

Allowing early retirement is a big decision – in financial terms and in terms of the impact that the loss of expertise will have on a council. Yet at most councils the decision is 'rubber stamped' without knowledge of the full facts or the true costs. Arrangements should be in place to ensure that councils can demonstrate proper stewardship and informed decision-making.
Introduction

75. The previous chapter suggested ways to avoid early retirement. It showed that early retirement can be the last not the first option. Once all alternatives have been eliminated and a retirement is inevitable, a formal decision needs to be taken and an audit trail – reducing the prospect of fraud and error – should be evident. This chapter deals with making and evidencing that decision. It considers who is best placed to make the decision – councillors or officers with delegated powers. Early retirement decisions on the grounds of redundancy and in the interests of efficiency and on ill-health grounds are analysed separately.

Responsibility for decision-making

76. When an early retirement decision is taken, both councillors and officers have their separate roles. In some councils, councillors are not shown details of early retirement cases on the grounds that they relate to the personal financial circumstances of individuals. But the commitment of large sums of public money means that such arguments are not convincing. It is precisely because such sums are discretionary that the decision should be subject to proper scrutiny. Otherwise, councils are vulnerable to allegations of doing deals 'behind closed doors'. In all but the cases of very senior officers, information could be presented on an anonymised basis in order to protect individuals.

Types of early retirement

77. In about two-thirds of authorities in the Audit Commission’s study, councillors make decisions at the individual level for redundancy and efficiency cases, compared to only one in five for cases of ill-health [EXHIBIT 10]. In more than half of authorities in the Commission's survey, councillors had no immediate involvement in individual ill-health cases, having delegated the decision-making powers to officers. This had been justified on the grounds that certificates from medical practitioners are a medical matter. They should not, however, be the sole basis on which early retirement decisions are made.

78. When designing a scheme of delegation, councillors and officers should consider:

- **salary thresholds**, the level at which members should be directly involved;
- **redundancy**, delegating powers and reporting decisions;
- **efficiency**, evaluating whether the true cost outweighs the benefits;
- **ill-health**, involvement of members and dealing with appeals.

Each is considered below.

Salary thresholds

79. Given the potentially large cost of retiring officers at a more senior level, councillors should have a clear threshold above which all early retirement decisions, on whichever grounds, are made by councillors. The Audit Commission suggests that this is set at £30,000 'reckonable' salary, for redundancy and efficiency early retirements.
EXHIBIT 10

Councillor involvement in individual early retirement cases

Councillors have no involvement in around 30 per cent of redundancy and efficiency cases and almost 60 per cent of ill-health cases.¹

Source: Audit Commission survey (1996/97)

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Redundancy

80. In general it is probably not necessary to involve councillors in the detail of awards made under their early retirement policy on an individual basis, particularly in cases of large-scale redundancies. Officers may instead be given delegated powers to deal with early retirements. In such cases, clear guidelines on enhancements should be used, which have been agreed by councillors. If officers are given delegated powers, councillors should receive a regular report on the total cost of early retirements to make them aware of the costs incurred (see Appendix 2 for an example).

Efficiency

81. In efficiency cases, councillors may wish to take a more proactive approach in deciding enhancements, or to provide guidance separate from that for redundancy as a basis for enhancements.

Ill-health

82. Officers can make ill-health retirement decisions, with delegated powers from councillors. However, ultimately, the pension fund authority can appeal against an employing authority’s decision. It may

¹ In a limited number of cases councillors made decisions for senior officers only. These have been included in the ‘make decisions’ category.
be appropriate to have one group of councillors responsible for the initial decision and one responsible for dealing with appeals.

83. 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 department, 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. Only 5 per cent of authorities in the Audit Commission’s survey currently involve both the service and personnel committees. However, 13 per cent of service committees (alone or combined with others) are involved in early retirements in some way, as are 40 per cent of personnel committees (alone or combined with others).

84. 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 should be satisfied that corporate policies and procedures have been followed and that all efforts have been made to find alternatives to an early retirement.

85. Few of the councils visited by the study teams provided (or even recorded) information on the background to, or cost of, early retirement. When making a decision about an early retirement, three types of information should be provided:

- **reassurance** that all alternatives to the early retirement have been explored and the correct procedures followed;
- a **rigorous** assessment of the financial implications of the early retirement; and
- confidence that any enhancements awarded are **lawful and reasonable**.

Each of these is considered below.

**Reassurance**

86. Chapter 3 described the various ways to avoid the need for early retirements. When documenting the proposals for an early retirement, a report and audit trail should show why alternatives cannot be used.

**Rigorous financial assessment**

87. All too often, even where councillors do take decisions on early retirement, there is little or no information on the true cost or where it will fall. In the absence of such information, councillors cannot be sure that the decision is reasonable given the financial circumstances of the council. In these matters, as with all aspects of council management, councillors must demonstrate that they have exercised due diligence and prudence.
88. When making an early retirement decision the authority should know the financial implications of that decision. This is also the view of the UKSC, which believes ‘it is essential that authorities are made aware of the full additional costs of the early retirement at the point that decisions are made’. Some councillors and officers believe (wrongly) that it is not possible to calculate such costs. Actuaries have developed a methodology to do so (Chapter 5).

89. To make a rigorous financial assessment councils should consider:
- final pensionable remuneration (split between basic pay and any special allowances or enhancements);
- whether the application is on the grounds of ill-health, redundancy or interests of efficiency;
- the range of options on discretionary added years;
- the discretionary added years given, and the value of the added years’ pension and lump sum;
- the cost of early payment and over what time period this is being repaid;
- the cost of any other discretionary or statutory payments as a result of the individual leaving;
- the savings generated by any proposals for redundancy and interests of efficiency cases, and how long they will accrue;
- the capitalised cost of the proposal, split by added years and early payment; and
- which committees will benefit from any savings and are paying the retirement costs.

90. Cherwell District Council has recently introduced formal reporting of early retirement costs to its councillors [CASE STUDY 9, overleaf].

91. In practice the final remuneration on which a pension will be based is not known until the last day of employment. Authorities should ensure that the figures used to forecast the total costs are the realistic estimates.

92. Employing authorities should ensure that correct information is provided to administering authorities, and administering authorities should ensure that their records are accurate. Some pension funds’ databases showed some retirees as having negative or very low salaries. Where there is scope for administrative error, there is scope for fraud.

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1 UKSC Circular 57, May 1997.
CASE STUDY 9

Reporting early retirements at Cherwell District Council

Background
Early retirement provoked concern among councillors, because of the probable, but unknown, cost.

Action
To ensure that decisions are accountable and based on sound information, the Council introduced a system of reporting to councillors that provides the cost information for individual retirements. In particular it provides:

- the capitalised cost to the pension fund and the revenue account; and
- the annual savings anticipated to the revenue account.

The outcome
The first time that the policy was applied, councillors delayed a decision in order to give themselves time to consider the cost of the early retirement of a senior officer. At the second discussion, the information allowed them to take account of both costs and benefits and it was agreed that the benefits outweighed the costs, in that instance.

Exercising discretion lawfully and reasonably

93. Questions can arise as to whether an authority has exercised its power to award discretionary enhancements lawfully. Adequate systems should be in place to ensure that only lawful elements of remuneration are used as the basis. Appendix 3 contains a checklist of key issues which officers should ensure are addressed. They are intended as a guide only; authorities seeking further guidance should contact their internal auditors or legal adviser. The general legal principles governing decision-taking by local authorities require that in exercising their discretion, authorities should:

- take account of all relevant considerations;
- not take account of irrelevant considerations; and
- not reach a decision which no local authority acting reasonably could reach.

...authorities should relate the level of any enhancement awarded to the circumstances of the individual


94. Applying these 'Wednesbury Principles', authorities should relate the level of any enhancement awarded to the circumstances of the individual. They should take account of what an individual has lost as a result of their loss of office, but should also assess that individual's likelihood of future employment, and the level of remuneration if re-employed.

95. Regulations require that, to be eligible for such enhancements, an individual must not have received a job offer from certain employers such as other local authorities, prior to leaving, with a start date within four weeks of leaving. One council attempts to protect itself from such situations by requiring the individual seeking voluntary redundancy and their service director and manager to agree that no job has been secured for the individual.

96. During fieldwork, the Audit Commission encountered a number of instances where an authority's decision to award added years may be subject to challenge. One authority awarded the maximum added years in all cases to 'prevent any legal challenge'. Although legal cases can be expensive, giving employees the maximum enhancements in all circumstances to avoid the cost of going to court may be unlawful – and the more expensive strategy.

97. Local government is increasingly using fixed term contracts. Some authorities promise maximum added years upon non-renewal of a fixed-term contract. To do this may be an unlawful fettering of the council's discretion. The LGMB advises that 'If contracts are not to be renewed, authorities cannot irrevocably commit themselves in advance to use their discretion to grant early retirement with added years or enhanced severance'. A council awarding such contracts should be aware of the full cost of guaranteed enhancements. The enhancements should be counted as part of the total remuneration package and then balanced against what is required in the job specification to check that it is appropriate to local conditions.

98. The need to comply with the Wednesbury Principles, and to assess the position of each individual case on its merits, can appear to conflict with the principle of devolved management and the objectivity of the council's decision-making. Most authorities award discretionary added years on the basis of objective criteria such as the individual's years of service with the council, or the years of contributions to the LGPS. Such an approach is unlikely to be inconsistent with Wednesbury Principles, provided the authorities' scales are used as the starting point, with capacity for review and amendment in each individual case to take account of that individual's circumstances.


II How much should we pay our top managers?, LGMB, 1996.
Making the ill-health decision

99. Ill-health early retirements need to be handled differently from retirements for reasons of redundancy and in the interests of efficiency. The decision to allow someone an ill-health retirement is the responsibility of councillors (or officers with delegated powers), but must be based on independent medical advice. The certificate must confirm that the medical adviser believes that the individual is 'permanently incapable of discharging efficiently the duties of employment because of ill-health or infirmity of mind or body'.

Starting the process

100. Most authorities now have sickness absence policies in place covering ill-health procedures. In general, authorities should require an employee to visit the authority medical adviser once they have been ill for a pre-determined period of time. In an Audit Commission survey of 43 authorities, 80 per cent had a cut-off point of three months or less. Almost 60 per cent used an independent occupational health specialist, 50 per cent employed their own medical adviser and 10 per cent used an independent non-occupational health medical specialist. Occupational health advice is also increasingly available from the private sector.

101. Recent changes to the pensions regulations now require that the administering authority approve the employing authority’s choice of medical adviser. The West Midlands Pension Fund requires advisers to either hold or be studying for an appropriate occupational health qualification [BOX A, CASE STUDY 10].

BOX A

Occupational health qualifications

The Diploma in Occupational Medicine (Dip OM) is targeted at GPs with a sessional interest in occupational health

The Associateship, Membership and Fellowship of the Faculty of Occupational Medicine (AFOM, MFOM, FFOM) are for full time occupational physicians who have undergone up to four years specialist training.

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1 The Local Government Pension Scheme Regulations, SI 1612, 1997.
CASE STUDY 10

Use of a medical adviser at the West Midlands Pension Fund

Background
The West Midlands Pension Fund wanted to make sure that people being proposed for ill-health retirement by the scheme employers were subject to fair medical assessment.

Action
The administering authority now requires that any individual being considered for ill-health retirement is seen by a medical practitioner who is studying for or holds an appropriate qualification in occupational health. Additionally, applications for ill-health retirement are referred to a consultant physician engaged by the administering authority in order to identify whether there are grounds for appeal against the employer's decision.

The outcome
A rigorous and consistent approach to assessment is one of the reasons given for the low level of ill-health retirements compared to other funds using the same actuary.

EXHIBIT

Rates of ill-health retirements from the West Midlands Pension Fund

Source: Audit Commission presentation of data from local government actuaries, William M Mercer
Controlling inappropriate use of early retirement

102. Administering authorities have the right to appeal against any medical decision made by a medical adviser for an employing authority. They should make use of this procedure if they believe that the ill-health retirement is not justified on the grounds of illness. Authorities should ensure that there is a committee with responsibility to deal with these appeals. At one administering authority, the treasurer was sufficiently concerned to call a meeting of the investment panel to draw its attention to a particular situation, even though technically it had no terms of reference to deal with this. He was concerned that the retirement on ill-health was not warranted and wanted councillors to be aware of this.

103. One indication that the system is being used inappropriately is when managers contact the pensions section and ask for estimates of an individual's pension entitlement under both efficiency and ill-health scenarios. A possible ill-health retirement should be explored by managers and occupational health prior to any exploration of efficiency retirements. Kent County Council only provides an ill-health retirement estimate when an individual has been reviewed by the occupational health adviser and a certificate of ill-health has been issued.

Making the most of the medical adviser

104. Retiring Nature recommended that administering authorities ensure their approved medical advisers are aware of and following the advice given by the Association of Local Authority Medical Advisers (ALAMA) working party.\(^1\) This contains general guidelines on approaches to medical assessments and some guidelines specific to particular diseases [BOX B].

105. Some authorities are unclear as to what they should provide, and request from, their medical advisers. When sending an employee for an assessment, an authority should provide its medical adviser with:

- reasons for the referral;
- details of the individual's sickness record; and
- their job description.

106. During the Audit Commission's research, several officers mentioned that the medical advice they received was not helpful to an employer as it was not clear about the prognosis and the employment implications. The resulting lack of understanding of an employee's medical situation causes delays in resolving the situation. The medical adviser should provide the following information to the authority as part of their assessment:

- confirmation of the medical consultation, including details of any additional information used to form a judgement;

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• a diagnosis;
• a prognosis; and
• employment implications.

**Action following the receipt of a medical certificate**

107. Once the medical adviser’s report is returned, officers can consider the options available. If redeployment is suggested then this should be discussed with the individual and attempts should be made to find suitable alternative work. In this case, the individual should not be given an option of early retirement until redeployment options have been exhausted (see Chapter 3). Only if suitable alternative employment cannot be found should the individual be allowed early retirement.

108. The checklist overleaf helps officers to see at a glance the key issues which an authority may need to address when reviewing its decision-making process.

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**BOX B**

**Summary of ALAMA guidelines for medical advisers**

**General guidelines**
- The criterion for ill-health retirement must be known.
- An opinion should not be given until all the relevant facts are known.
- Managers should not be pressurised into making a hasty decision.
- The workplace should be assessed and, if necessary, the job description reviewed.
- Advice should be based on objective medical evidence.

**Specific guidelines are given for:**
- anxiety disorders;
- obsessive-compulsive disorder;
- stress;
- eating disorders;
- depression;
- bipolar affective disorder (manic-depressive psychosis);
- chronic fatigue syndrome;
- alcohol abuse;
- schizophrenia;
- back pain;
- diabetes; and
- cardiovascular disease.

*Source: ALAMA guidelines*
## 4. Making the Early Retirement Decision

<table>
<thead>
<tr>
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<th>To be actioned by</th>
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<tr>
<td></td>
<td>Councillors</td>
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</tbody>
</table>
| 1 | Are there clear guidelines on who makes decisions relating to officers retiring:  
  - who earn £30,000 or more?  
  - on grounds of redundancy?  
  - in the interests of the efficiency of the service?  
  - on the grounds of ill-health? | ✔ | ✔ | ✔ | ✔ |
| 2 | Are the personnel and relevant service committees informed of the costs of any early retirement decisions, where they are not directly involved? | ✔ | ✔ | ✔ | ✔ |
| 3 | Where service committees are not informed until after an early retirement, does the director of the department retiring an employee early agree to the costs prior to the retirement being agreed? | ✔ | ✔ | ✔ | ✔ |

**Redundancy/interests of efficiency only**

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<td>Councillors</td>
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<td>4</td>
<td>Does the report requesting the early retirement explain what actions have been taken to avoid the need for an early retirement?</td>
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<tr>
<td>5</td>
<td>Is the basis for the pensionable remuneration correct?</td>
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<td>6</td>
<td>Are all the capital costs and benefits of an early retirement decision given to the decision-maker?</td>
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<td>7</td>
<td>Is the decision-maker confident that any enhancements proposed are lawful?</td>
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### CHECKLIST FOR ACTION

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<th></th>
<th>To be actioned by</th>
<th>Councillors</th>
<th>Treasurer</th>
<th>Central personnel (and/or departmental personnel as appropriate)</th>
<th>Departmental director</th>
<th>Chief Legal Officer</th>
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<tr>
<td><strong>Ill-health only</strong></td>
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<td>8</td>
<td>Has the medical adviser been approved by the administering authority?</td>
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<td>9</td>
<td>Is the medical adviser qualified in occupational health?</td>
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<td>10</td>
<td>Is the following information provided to the authority’s medical adviser:</td>
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<td>• reason for referral?</td>
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<td>• details of sickness record?</td>
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<td>• job description?</td>
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<td>11</td>
<td>Is the medical adviser asked to return the following information: confirmation of the medical consultation?</td>
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<td>• Diagnosis?</td>
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<td>• Prognosis?</td>
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<td>• Implications for employment?</td>
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<td><strong>For administering authorities only</strong></td>
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<tr>
<td>12</td>
<td>Does the council have a committee which has the powers to deal with potential abuses of the pension fund?</td>
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<tr>
<td>13</td>
<td>Is it policy for ill-health estimates to be refused until the ill-health retirement has been agreed?</td>
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<tr>
<td>14</td>
<td>Are all medical advisers aware of and applying the ALAMA guidelines?</td>
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</table>
The True Cost of Early Retirement

Few councils calculate and report the true cost of an early retirement. Such costs are easy to estimate, once actuaries have provided the necessary information.
109. *Retiring Nature* showed that few authorities calculate or use the full cost of early retirement when making the decision. Currently, the true long-term cost commitment of allowing an individual to retire is recognised by only a few authorities. Many councillors and officers believe that the cost is covered by the pension fund and that in any case it is not possible to calculate such costs.

110. However, actuaries have developed a method for determining the long-term cost of an early retirement decision. Using estimates for variables such as life expectancy, investment returns and salary inflation relative to prices, it is possible to determine ‘factors’ of full ‘capitalised’ cost (or net present value) of a decision taken today as a result of which pension payments will continue until the death of the pensioner (and their dependants.) For each early retirement, the actuaries can estimate the additional cost, over and above those costs to the fund of retirement at normal retirement age, which are already allowed for in the pension fund.

111. Methodologies such as this are now available from all actuaries. Councillors can now adopt a more proactive role in ensuring that all the financial information is considered in reaching an early retirement decision (other than for ill-health). This may take the form of a review of every early retirement being considered (see Chapter 4 for good practice) or an annual report showing the costs of early retirement in the year (see Chapter 2).

112. Determining the long-term costs will:
   - allow authorities to compare the true long term costs of early retirement (for efficiency and redundancy cases) with any projected savings;
   - allow authorities to plan for the additional ‘hidden’ costs to be paid from revenue, via higher employer’s contributions to the pension fund, either through the contribution rate or a lump sum;
   - allow authorities to establish what recompense to make to their pension funds when the ill-health assumptions in their fund valuations do not reflect actual levels of ill-health early retirement; and
   - enable council members to review the affordability of the early retirement policy.

113. The remainder of this chapter explains one such methodology.

114. One of the local government actuary firms – Hymans Robertson, has developed the methodology used by the Audit Commission and described below. Hymans Robertson has made available to the Audit Commission their methodology and ‘factors’ – or assumptions. By applying a formula, in conjunction with the unique details of an individual early retirement – the full-capitalised cost can be estimated.

115. Each actuary makes different assumptions. At a council that does not use Hymans Robertson for their actuarial work, the true cost figures could be higher – by as much as 50 per cent in some cases; they are unlikely to be lower. This methodology should be seen as a useful starting point for councils that have no better way of calculating the true cost of early retirement. Administering authorities should ask their own actuary to provide them with a methodology relevant to their pension fund. This should be provided to each employing authority in the fund. Clearly the final calculations for paying a pension should be carried out by the
There are many issues affecting the funding level of a pension fund. However, Hymans Robertson's methodology—or one provided by an employing authority's own actuary—provides a good 'ball park' estimate of the cost of early retirement.

116. Some authorities may already have factors for their fund. If an authority does not have the factors then the actuary to the pension fund will be able to provide them. There are many issues affecting the funding level of a pension fund, and an approximation for early retirement costs will be sufficient until the next valuation. In the absence of more detail from actuaries, the factors provided in Appendix 4 could be used to give a guide to the costs of allowing someone to retire early.

Carrying out the calculation

117. The basic equation to calculate the total capitalised cost of allowing someone to retire early is shown in [BOX C].

118. Factor 1 calculates the capitalised cost of paying the accrued pension before the normal retirement age, allowing for the loss of investment income. Factor 2 calculates the capitalised cost of the lifetime award of added years. Factor 3 is used to annualise the cost and calculate the capitalised lump sum saving which may be associated with a redundancy situation. The following worked examples [BOXES D–F] show the steps needed to apply the factors.

119. For redundancy retirements, genuine savings should be taken into account. In efficiency cases there should be negligible savings if the regulations are being used correctly, as the individual will be replaced. If the individual is not replaced, it is more correctly a redundancy retirement. Hymans Robertson has also provided factors to cover the treatment of any savings generated by an early retirement (Appendix 4). The factor used should reflect no more than five years of savings, even if the potential retiree has more than five years until their normal retirement age. This is because, on average, the savings will not last for more than five years. The potential retiree would probably have left voluntarily or moved to another post within this time. Appendix 4 contains further discussion on this issue.

120. The savings to be taken into account should include salary costs, the employer's National Insurance contributions, and any other relevant employee-related costs, such as leased cars. Accommodation savings should not be included unless there is a real saving to the council, for example, where an office becomes vacant and is put up for sale or rent. The assumptions used should be clearly stated when the case for the early retirement is made.

Formula for calculating the capitalised cost of early retirement

\[ \text{Factor 1} \times \text{accrued pension} + \text{Factor 2} \times \text{added years' pension} + \text{added years' lump sum.} \]
BOXD

Worked example – Interests of efficiency

Step 1: information
A male officer aged 57 with 20 years reckonable service applies for early retirement on the grounds of efficiency. His current reckonable salary is £25,000 and his normal retirement age is 62. He is given five added years. No salary savings are expected as his post is being refilled.

Step 2: look up factors
The officer’s normal retirement age is 62. To find Factor 1 look up the number of years to normal retirement column in Appendix 4, Table 1. As the number of years is five, Factor 1, shown in the column for ‘redundancy and interest of efficiency’ is 3.5.

To find Factor 2, look up the officer’s age in Appendix 4, Table 2. The officer’s age at retirement is 57. Factor 2 in the ‘male, redundancy and efficiency’ column is 14.8.

To find Factor 3, look up Appendix 4, Table 3. As there are five years to normal retirement age, Factor 3 would be 4.8.

(Note: if there are more than five years to normal retirement age then 4.8 should be used.)

Step 3: apply formula
(i) Capitalised cost of early payment of normal retirement pension and lump sum, for period from retirement until normal retirement age = Factor 1 × accrued pension
= 3.5 (Factor 1) × 20 (reckonable service)/80(LGPS pension accrued rate) × £25,000 (reckonable salary)
= £21,875 = capitalised cost of early payment

(ii) Capitalised cost of added years’ pension and lump sum
= Factor 2 × added years’ pension + added years’ lump sum
= (14.8 (Factor 2) × 5(added years)/80(LGPS pension accrual rate) × £25,000 (reckonable salary)) + (3 × 5(added years)/80(LGPS pension accrual rate) × £25,000 (reckonable salary))
= £27,812 = capitalised cost of added years

Total capitalised cost of early retirement = £49,687 (i+ii)
(If the officer had retired early on the grounds of redundancy the redundancy payment should be added.)

(iii) Annualised cost of early retirement
= Total capitalised cost/Factor 3
= £49,687(total capitalised cost)/4.8 (Factor 3)
= £10,351

It will therefore cost the council £10,351 each year for the next five years to grant this early retirement.
### Worked example – Redundancy

#### Step 1: Information
A male officer aged 55 with 16 years reckonable service is offered early retirement on the grounds of redundancy. His final reckonable salary is £25,000 and his normal retirement age is 64. He is given three added years. An annual saving of £27,000 (including pension and National Insurance contributions) will be achieved.

#### Step 2: Look up factors
The officer’s normal retirement age is 64. To find Factor 1 look up the number of years to early retirement in column 4, Table 1. As the number of years is nine, Factor 1, shown in the column for redundancy and efficiency is 5.9.

To find Factor 2, look up the officer’s age in Appendix 4, Table 2. The officer’s age at retirement is 55. Factor 2, in the male redundancy and efficiency column is 15.4.

To find Factor 3, look up Appendix 4, Table 3. As there are five+ years to his normal retirement age, Factor 3 is 4.8.

#### Step 3: Apply the formula
(i) Capitalised cost of early payment of normal retirement pension and lump sum, for period from retirement until normal retirement age

\[
\text{Factor } 1 \times \text{accrued pension} = 5.9 \times \frac{16 \text{ (reckonable service)}}{80 \text{ (LGPS pension accrued rate)}} \times 25,000 \text{ (reckonable salary)} = £29,500 = \text{capitalised cost of early payment}
\]

(ii) Capitalised cost of added years’ pension and lump sum

\[
\text{Factor } 2 \times \text{added years’ pension + added years’ lump sum} = 15.4 \times \frac{3 \text{ (added years)}}{80 \times 25,000 \text{ (reckonable salary)}} + 3 \times \frac{3 \text{ (added years)}}{80 \times 25,000 \text{ (reckonable salary)}} = £17,250
\]

Total capitalised cost of early retirement = £46,750.

A redundancy payment is also due.

(iii) Although the officer has nine years until his normal retirement age (NRA), this calculation assumes only five years of benefits. To ensure comparability of costs and benefits the annualised cost calculation uses Factor 3 for five years to NRA.
Annualised cost of early retirement = Total capitalised cost / Factor 3
= £46,750 / 4.8 (Factor 3)
= £9,740

It will therefore cost the council £9,740 each year for the next five years to grant this early retirement.

Net savings in annualised terms = savings – annualised cost
= 27,000 – 9,740
= £17,260

The council will therefore make net savings of £17,260 for each of the next five years (assuming constant pay and no replacement, pay enhancement to remaining staff, etc).

Net saving in capital terms = net saving in annualised terms × Factor 3
= 17,260 × 4.8
= £82,848

So there is a net saving of about £83,000 to the employer in retiring this man early with three added years. However, the authority will have to pay the cost of the early retirement, over £46,000, and will receive no services for this expenditure. If the officer had not been retired early, the early retirement costs would have been spent on a salary and the person paid would have provided some services.
**Worked example—Ill-health**

**Step 1: Information**
A female manual worker aged 47 is medically certified as permanently incapable of continuing in her job. She is retired on the grounds of ill-health with a final reckonable salary of £12,500. She has 12 years of reckonable service and is given 8 added years. Her earliest normal retirement age is 60.

**Step 2: Look up factors**
To find Factor 1 look up the number of years remaining to normal retirement age in Appendix 4, Table 1. This is 13; the figure in the ill-health column is 6.8.

To find Factor 2, look up her age in Appendix 4, Table 2. Factor 2 in the female ill-health column is 17.3.

**Step 3: Apply the formula**
(i) Cost of payment of normal retirement pension and lump sum

\[
\text{Factor 1} \times \frac{\text{accrued pension}}{\text{pension accrued rate}} \times \text{reckonable salary}
\]

Capitalised cost of early payment = £12,750

(ii) Capitalised cost of added years

\[
\text{Factor 2} \times \frac{\text{added years' pension + added years' lump sum}}{\text{pension accrued rate}} \times \text{reckonable salary}
\]

\[
= 17.3 \times \frac{8(\text{added years})\times 8 (\text{added years})}{80} \times \frac{\text{reckonable salary} + 3 \times 8 (\text{added years})}{80} \times \frac{\text{reckonable salary}}{12,500}
\]

\[
= £25,375
\]

Total capitalised cost of early retirement = £38,125

Annualised savings/costs are not calculated in this example as the retirement is on ill-health grounds and only the total cost is relevant.

121. The checklist should help officers to identify quickly what, if anything needs to be done to bring their authority up to the standard found in good practice authorities.
# The True Cost of Early Retirement

<table>
<thead>
<tr>
<th></th>
<th>To be actioned by</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Does the authority have the factors for its fund?</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Are these factors used to calculate the early payment and added years costs of early retirements:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• on redundancy grounds?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• in the interests of efficiency of the service?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• on ill-health grounds?</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Are the net savings calculated (where appropriate)?</td>
<td></td>
</tr>
</tbody>
</table>
The new best value regime will focus on service outputs. Although some issues are, by their nature, inputs – and are therefore perceived by the public to be primarily internal issues for management to tackle – they nonetheless affect all service departments. Councils will need to ensure that they have performance management systems that turn corporate concerns into measurable actions.
Introduction

122. The Government’s proposed duty of ‘best value’ will impact upon all aspects of local authority service delivery. The preface to this handbook described how best value will present local government with a more challenging agenda than any that has gone before. It means a new culture that embraces continuous improvement in service delivery. Without well-trained and experienced people developing new skills and honing existing abilities, it is difficult to see how best value can ever be delivered.

123. There is no contradiction between improving service quality and keeping cost to a minimum; both are at the core of best value. To achieve these complementary objectives, local government will need top quality human resource management, effective finance and staff planning systems, and a corporate commitment to best value that not only recognises that people are a council’s greatest resource; but also assumes that their accumulated skills, knowledge and experience will be used to best effect and not lost to the authority.

Local government will need top quality human resource management... and a commitment to best value... that recognises that people are a council's greatest resource

124. It is for local people to determine whether a council is delivering best value. A council’s achievement is measured by local people judging outputs. A council’s service delivery could be further improved if early retirement levels were to fall from the current level of 75 per cent, thereby releasing money for front-line services. If councils are to convince local people that they are delivering best value, they need to plan and control early retirement. This means developing corporate targets and integrating them into the council’s performance management system.

125. This chapter explores the likely structure of the best value process. It suggests that to deliver best value, a system of performance management is needed that will cascade objectives and targets throughout a council. It will not always be appropriate to have internal management issues addressed publicly through the best value regime. But, even so, the best value regime – coupled with internal performance management systems – provides councils with a model for tackling internal corporate issues.

The best value process

126. At the time of publication, Parliament had not finalised the form that the duty of best value will take. However, the consultation paper on best value outlines a number of key stages, or processes:

- a corporate view of what an authority wants to achieve and how it performs, measured against key indicators and the aspirations of the local community;
- an agreed programme of fundamental performance reviews, with a presumption that it will look first at areas where performance is worst, and complete a full cycle of reviews over a four- to five-year period;
- fundamental performance reviews, each of which challenge the purpose of a service or group of services, compare the authority's
performance with others, consult the community, and provide for competition where appropriate;
• the setting of targets for improved performance and efficiency, together with clear identification of how these improvements are to be achieved; the publication of these targets and of reports of performance against those targets in due course, in local performance plans;
• an independent audit/inspection of the integrity of the service reviews and performance targets, and certification of the monitoring information; and
• referral to the Secretary of State in cases of serious or persistent failure, with a view to intervention.

127. A model for the performance review cycle has been envisaged by the Government's consultation paper [EXHIBIT 11]. This model focuses on the level of information required by the public to judge – locally and nationally – that an appropriate process is in place and that performance is improving.

EXHIBIT 11
Performance management and best value

The focus of best value will be on monitoring councils at a local and national level to ensure continuous improvement in service delivery.

128. To deliver this regime, councils need a set of internal performance management tools that can deliver:

- outcome targets – for example, improved recycling, or low cost, high quality housing repairs; and
- corporate targets – for example, better control of budgets and financial planning, and reduced levels of early retirement.

129. Some of these are service outcomes of interest to the public, others are service inputs which, in general, are not (although the public is also interested in topics such as early retirement because it relates directly to their own experience). The section below considers how performance management tools can be used to deliver improvement of outcome and process.

Performance management systems

130. There are a number of approaches to best value that are currently being piloted:

- service area – looking at a conventional departmental service provision (for example, housing);
- user group – focusing upon the needs of a group of citizens such as a tenants' group or a group of people with special care needs; and
- geographical – focusing upon all the services delivered to people within a particular area.

131. Whichever approach predominates at individual councils at any one time, there will always be a series of strategic corporate issues to address that cross service departments, user groups and geographical areas. For example, a council may hold to the corporate values of ensuring equality of treatment of staff, and that its activities enhance rather than damage the environment. In these respects, the issue will resonate with all staff, user groups and activities. Good human resource management in general, and effective control of early retirement in particular, are issues that require clear corporate direction, supported by departmental and personal action plans.

132. Therefore, councils need to introduce a range of performance management tools that will identify the action that needs to be taken and ensure that an individual is made personally responsible for taking that action. *Calling the Tune* described one set of performance management tools which councils may find it appropriate to consider when designing a performance management system [*EXHIBIT 12, overleaf*].
EXHIBIT 12

The performance management cycle

*Calling the Tune* suggested one type of performance management system.

![Diagram of the performance cycle]

*Source: Audit Commission, 1995*

133. This model envisages that action plans and individual targets would flow out of the corporate targets and objectives. Under best value, authority-wide objectives and measures will need to be translated into practical actions at service level. Each stage of the best value process needs to be mirrored by internal performance management systems that are designed to deliver the top level objectives. A set of internal performance management tools can be mapped onto the statutory regime of best value [EXHIBIT 13].

EXHIBIT 13

Best value and performance management tools

For objectives to become actions, they need to become personal targets.

![Diagram of best value and performance management tools]

*Source: Audit Commission 1998*
Early retirement as a corporate objective

A council, aware of the need to exercise better control, might adopt an authority-wide objective for managing early retirement

134. The next section considers how best value and performance management tools can be used to address early retirement.

135. Many councils now want to address early retirement at a corporate level. The management of early retirement is an internal process. In the normal course of events, the public may not be interested in how a council is managing its internal processes, but good or bad performance will be reflected in other aspects of output. For example, excessive early retirement would result in high cost across the council. Inattention to personnel problems could leave service delivery in the hands of an inappropriate officer. However, if there were particular concerns, nationally or locally, the public may have a specific interest. Consequently, there could be a nationally determined performance indicator. Where this is not the case, the public locally may want a locally determined indicator; a council could develop such an indicator following consultation. Even if there was little public interest a council, aware of the need to exercise better control, might adopt an authority-wide objective for managing early retirement. At this level, the objective would be stated in general terms: for example, 'to change the culture of expectation for early retirement'. This would be a good formulaic way to capture the wide range of issues that need to be addressed.

136. To result in action the objective would need to be turned into a quantifiable target: for example, 'to reduce ill-health retirements to below 25 per cent of all retirement' would result in greater focus and could constitute a public or internal target. Finally, as part of the process of fundamental performance review, such a target would have to be turned into specific action points for managers. One such action point may be 'refer sick staff to medical adviser after four weeks of absence due to ill health'.

137. Corporate targets can be cascaded down through the council [EXHIBITS 14 AND 15, overleaf]. The example of housing is service specific, and may merit a published performance indicator. By contrast, the example of early retirement is an example of an internal corporate objective that need not be published, but still wants addressing across all departments.

138. The strategic environmental example illustrates an issue that is worthy of a published indicator and which all service departments should reflect when setting their low-level targets. As before, the early retirement example illustrates an issue that may not justify an indicator, but needs to be addressed by all departments.
EXHIBIT 14
Mapping internal performance management processes on the best value statutory framework – illustration for housing and early retirement
Corporate values need to become individual targets.

Source: Audit Commission, 1998

EXHIBIT 15
Mapping internal performance management processes on the best value statutory framework – illustration for environmental protection and early retirement
Corporate values need to become individual targets.

Source: Audit Commission, 1998
Conclusion

139. Best value is designed to ensure the continuous improvement of services. Hence most measures, objectives and targets will reflect continuous improvement of outcomes. However, to deliver these improvements, internal processes will need to change. Such processes are, generally, of little interest to the public, which will judge such matters on the basis of outcomes alone – that is, the services that they experience and the cost that they are expected to pay. Even so, councils still need to develop corporate targets for their internal management.

140. Without good management of early retirement, costs cannot be minimised and service levels maximised. More importantly, local government will need highly skilled, experienced and motivated staff. These skills have taken many years to develop. To allow such experience to go, disposing early of those people who are needed more than ever, seems likely to disadvantage a council that wishes to deliver best value.
Appendix 1

Outline of the Local Government Pension Scheme terms

A1.1 The Local Government Pension Scheme (LGPS) was originally established by the 1922 Local Government and Other Officers' Superannuation Act. Currently the main regulations regarding the payment of pensions and discretionary payments are:

- the Local Government Pension Scheme Regulations 1997;
- the Local Government (Discretionary Payments) Regulations 1996; and

Benefits of the LGPS

A1.2 On retirement, employees receive an annual pension equal to one-eighth of their final pay for each year of service in the scheme, plus a lump sum equal to three times the first year pension.

The 1997 regulations define 'pay' as:

'all salary, wages, fees, and other payments to him for his own use in respect of his employment; the money value of any benefits provided for him by reason of his employment; and any other payment or benefit specified in his contract of employment as being a pensionable emolument.'

There are certain exceptions, such as payments for non-contractual overtime.

Routes to retirement

A1.3 Normal retirement must occur by the age of 65 unless permission is otherwise granted.

A1.4 Voluntary early retirement is possible from 1 April 1998. Between the ages of 50 and 60 the employer's consent is needed; after 60 it is not. However, if the individual's age and the years of contributions total less than 85, the pension is abated to meet the cost of paying the accrued pension early.

A1.5 Late retirement occurs after the age of 65. It is not common, but is increasing and is allowed only at the employer's discretion. The fund administrators have no discretion over this.

A1.6 Ill-health retirement occurs at any age where an employee is certified by the employer's medical practitioner as being permanently medically incapable of performing the duties of that employment because of ill-health.

A1.7 Early retirement on the grounds of redundancy occurs where an employee aged 50 years or over is in a job which is redundant. Redundancy under the age of 50 is covered by different regulations and is not included in the scope of this handbook.
A1.8 Early retirement on the grounds of efficiency occurs where an employee aged 50 years or over has ceased to be employed 'in the interests of the efficient exercise of the authority's functions'.

A1.9 Agreement from the employee is not needed for an early retirement to take effect but agreement from the employer is required. For all early retirements the minimum contribution level is currently two years to be eligible for early payment of the pension, and five years for eligibility for the statutory enhancements.

Added years
A1.10 When early retirement is given on the grounds of redundancy or efficiency, the employing authority may use its discretion to award enhancements in the form of 'compensatory added years' (also known as discretionary added years) to an individual's pension entitlement. The enhancements have the effect of increasing the lump sum and annual pension. If an employee is medically retired they automatically receive the maximum enhancements appropriate to their circumstances. No more than ten added years can be awarded in any circumstances, but less may be awarded, depending on the individual.

A1.11 For redundancy and efficiency enhancements the cost of the added years is charged to the employing authority's revenue account. For ill-health retirements the added years' costs are met in the first instance by the pension fund.

A1.12 Authorities may, from April 1998, also increase LGPS membership (up to 6 years) of individuals without the need for the circumstances above. Recompense has to be made to the fund via the administering authority either through a lump-sum payment or through increased contributions.
Appendix 2

**Information for councillors**

A2.1 For cases involving senior staff (say, those earning more than £30,000 a year) councillors should be provided with sufficient information at the point of decision to enable them to evaluate the full costs and benefits of allowing an early retirement. Information (anonymised if necessary) should consist of:

- age of applicant;
- normal retirement age;
- final pensionable remuneration (split between basic pay and any special allowances or enhancements);
- whether the application is on grounds of ill-health, redundancy, or in the interests of efficiency;
- a table showing, for a range of added years (from zero to the maximum allowable under the regulations), the capitalised cost of the added years pension and associated lump sum;
- for reference, a copy of the council's policy for added years in relation to reckonable service on a sliding scale, for redundancy and efficiency;
- for ill-health retirements, a copy of the medical certificate supported by an opinion from a specialist occupational health physician;
- for redundancy applications, any proposals for restructuring for a 'bumped' redundancy, which may reduce the potential savings in salary and on-costs;
- for redundancy applications, a report from the appropriate chief officer that all alternatives to the proposed redundancy have been investigated;
- where statutory redundancy pay is given, a statement that the individual does not have another job to go to; and
- for efficiency applications, justification in terms of the benefits, financial and non-financial, which would arise as a result of allowing the early retirement application (that is, the advantage of allowing the retirement over retaining the applicant in post).

A2.2 Where proposals have been considered by officers under delegated powers (that is, for applications from lower-paid staff) councillors should be given a summary of the above information at the point of decision when significant numbers are involved.

A2.3 In addition, at year end, an annual report should be presented to the appropriate committee, summarising the number of cases and the full cost implications for both the council's revenue account and the pension fund. Where appropriate, comparison should be made with estimated early retirement levels for the year in question and with the actual numbers of early retirements in previous years. The report should also summarise all retirements by type of retirement in percentage terms and as a function of the total number of staff, again compared with previous years.
A2.4 Tables A1 and A2 show a suggested pro forma for the annual report, for the cost of early payment and pension enhancements.

### TABLE A1
Annual report of the cost of early payment of pensions ('strain' on the pension fund)

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D=B-C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redundancy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interests of efficiency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other early retirements</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Number of early retirements in year</th>
<th>Total capitalised costs of financial strain of these early retirements</th>
<th>Payments (other than per cent contributions) made to pension fund to discharge financial strain liabilities</th>
<th>Outstanding liability in pension fund for financial strain due to these early retirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redundancy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Interests of efficiency</strong></td>
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<tr>
<td><strong>Other early retirements</strong></td>
<td></td>
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</tbody>
</table>

*From April 1998, under the new regulations.*

### TABLE A2
Annual report of the cost of pension enhancements

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F=B+E</th>
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</thead>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interests of efficiency</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Other early retirements</strong></td>
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<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Number of early retirements in year</th>
<th>Cost of added years' pension given</th>
<th>Cost of added years' lump sum given</th>
<th>Total capitalised costs of added years' pension and lump sum given</th>
<th>Annual cost of other added years in payment this period</th>
<th>Total annual cost of added years' pension in payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Redundancy</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td><strong>Interests of efficiency</strong></td>
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<tr>
<td><strong>Other early retirements</strong></td>
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Appendix 3

Probity checklist

A3.1 Local authorities may only make severance payments in accordance with their statutory powers. These are powers under:

- the Employment Protection (Consolidation) Act (1978) and Local Government (Compensation for Redundancy) Regulations 1994 (in redundancy situations only);
- the Superannuation Act (1972) and detailed in regulations; and
- local legislation, for example the London County Council Act (General Powers) (1921).

A3.2 The main case law affecting severance payments is the Court of Appeal decision relating to Allsop vs. North Tyneside (1992). This checklist is provided to give general guidance only. Councils should always seek specialist advice on these matters.

Key questions – all retirements

- Check that the early retirement has been approved in accordance with the council’s procedures.
- Confirm that the employee’s date of birth has been verified from the birth certificate either on entry to the LGPS or prior to retirement.
- Agree the pensionable remuneration used in the calculation of benefits with payroll records. Pensionable remuneration is the amount payable under the contract of employment for normal working hours. It does not include -
  (a) payments for non-contractual overtime;
  (b) any allowance to cover the cost of office accommodation, professional fees or telephone calls;
  (c) any travelling or subsistence allowance or any other allowance paid in respect of expenses incurred in relation to the employment;
  (d) any payment made in consideration of loss of holidays;
  (e) any payment in lieu of notice to terminate a contract of employment;
  (f) any payment made as an inducement not to terminate employment before payment is made;
  (g) the money value to the employee of the provision of a motor vehicle or any payment made in lieu of such provision (although a limited number of people have protected rights in this respect);
  (h) salary enhancements made retrospectively once early retirement discussions have begun; or
  (i) salary enhancements to compensate individuals for consultancy or other work paid in advance of the retirement date but carried out after the retirement.
• Check the period of contributory service used in the calculation of benefits with the LGPS records to see whether there have been any breaks in service, such as for periods of industrial action or prolonged sickness.

• Up until 31 March 1998, for married male employees who joined the LGPS prior to 1 April 1972, check that the lump sum calculation has been based on one eightieth for each year of reckonable service before 1 April 1972. However, if the employee had elected to buy back all or part of the pre-1972 service by means of an increased percentage contribution on pensionable pay, the lump sum should be based on three eightieths for each year bought back at the date of retirement. The period remaining to be bought back at the date of retirement may be purchased by way of a capitalised amount deducted from the lump sum payment using data supplied by the fund’s actuary. For ill-health retirements the contract is deemed to be fully paid up as at the date of retirement. From 1 April 1998 new rules apply which reduce the length of pre-1972 service by 11 per cent if it has is not been bought back through increased contributions.

• Where additional service is being bought by an employee by way of increased percentage contribution on pensionable pay, check that the benefits are based on the period actually purchased as at the date of retirement. For ill-health retirements, any contracts to buy additional service is deemed to be fully paid up.

• For part-time employees, check that benefits have been calculated by using the full-time equivalent for pensionable pay, and that reckonable service has been calculated by converting hours worked to a proportion of the full-time equivalent.

• Pay particular attention to the calculation of any benefits and savings used to justify the early retirement. Are the figures and assumptions used in the calculation reasonable and correct?

**Key questions – interests of efficiency and redundancy only**

**A3.3** For early retirements where the Local Government Redundancy Regulations have been applied:

• Pay particular attention to the calculation of any benefits and savings used to justify the early retirement. Are the figures and assumptions used in the calculation reasonable and correct?

• Is the employee aged 50 or over?

• Check that the date of retirement was on or before 30 June 1997, the number of weeks’ pay paid as compensation ranges from 5 to 66 weeks, and is correct, and that no added years or additional redundancy payments have been awarded.
• Check that any redundancy has been calculated in accordance with the Redundancy Payment Regulations 1978, 1984 and 1994 modifications as follows:

<table>
<thead>
<tr>
<th>Continuous service between the ages of:</th>
<th>Lump sum redundancy payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 but under 22 years</td>
<td>Half week's pay for each complete year of service</td>
</tr>
<tr>
<td>22 but under 41 years</td>
<td>One week's pay for each complete year of service</td>
</tr>
<tr>
<td>41 to 64 years</td>
<td>One and a half week's pay for each complete year of service</td>
</tr>
</tbody>
</table>

Notes:
For staff made redundant after their 64th birthday, the redundancy payment should be reduced by one twelfth of the payment for each complete calendar month following the employee’s 64th birthday.

Where pay varies (for example under the provisions of a bonus scheme) the amount of a week's pay should be calculated by averaging earnings over the 12 weeks preceding the issue of the redundancy notice.

• If the practice is to pay redundancy sums based on the employee's actual earnings, check that the council has taken a decision to dispense with the upper earnings limit prescribed by statute.

• Where more than 6 added years have been awarded, check that 30 per cent of any redundancy payment has been clawed back for each year in excess of 6 from the added years' lump sum and, where appropriate, the balance is being recovered from the enhanced pension.

• If the redundancy and added years' lump sum exceed £30,000, check that the tax has been deducted from the excess amount.

The maximum number of years to be used in calculating a redundancy lump sum is 20.
Appendix 4

Factors for calculating early retirement costs

Technical background

A4.1 The factors in this Appendix are based on factors supplied by Hymans Robertson; some have been simplified. The actuaries make simplifying assumptions, two of which are explained below:

Market value adjustment

A4.2 Strictly, the impact of any early retirement on the pension fund liabilities depends on the market conditions at the time of the retirement i.e. the total cost of the early retirement is affected by the value of a fund's assets at the time. Hymans Robertson believes a market value adjustment (MVA) is an unnecessary complication because the figures are approximate. It could also be argued that the total cost of the pension is not paid at that point in time. The basis for judging the impact on the funding level of the pension fund is the triennial valuation and interim MVAs are therefore unnecessary. However, Watsons, another local government actuary, recommends the use of an MVA to reflect the cost of the early retirement at the time of the retirement.

Spouse's pension

A4.3 The second simplifying assumption is to include a reserve for a spouse's pension of 50 per cent. Actuaries use a standard allowance for this in their pension liabilities. In most cases the existence of a spouse at the point of early retirement should be easy to determine and, in one London borough, was estimated to add 13.5 per cent to the cost compared with an unmarried person.

A4.4 An authority should decide, in collaboration its actuaries if necessary, how it wishes to proceed in future.

Calculating savings in assessing early retirement costs

A4.5 Different actuaries have different views on how to calculate savings when assessing early retirement costs. All believe that savings should be assumed for each year up to a potential retiree's normal retirement age, when the NRA is not more than five years away. After this, the more cautious actuaries take the view that benefits will not extend beyond five years as, on average, the potential retiree would have moved on anyway. At the other end of the spectrum, some actuaries believe that savings should be counted for all years to the potential retiree's normal retirement age.

A4.6 The following factors are based on those calculated by the actuaries, Hymans Robertson. They exclude the lump sum element of any payments (although such elements are included in the worked examples in the text).
TABLE 1: Factor 1: Capital cost of early payment

<table>
<thead>
<tr>
<th>Years to normal retirement age</th>
<th>Redundancy and interests of efficiency factor</th>
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TABLE 2: Factor 2: Capital cost of added years

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### TABLE 3: Factor 3: Savings factor

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### Appendix 5

**Checklists for action**

**Chapter 2: Reviewing the Early Retirement Policy**

<table>
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<th><strong>Checklist</strong></th>
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<td></td>
<td></td>
<td>Councillors</td>
</tr>
</tbody>
</table>
| 1 | Does the authority have an early retirement policy agreed by councillors covering:  
   - redundancy?  
   - interests of efficiency?  
   - ill-health?  
   - other early retirements? | ![ ] | ![ ] | ![ ] |
| 2 | Has a review of the policy been undertaken including consideration of:  
   - the internal and external pressures on the authority?  
   - trends in the staff profile?  
   - the current policy, if one exists?  
   - a position statement of the costs of the current policy?  
   - the position of, and outlook for, the revenue and pension fund accounts? | ![ ] | ![ ] | ![ ] |
| 3 | Does the council receive an annual summary of the costs of the policy? | ![ ] | ![ ] | ![ ] |
| 4 | Has the authority considered the following use of its discretion:  
   - the age at which discretion is used?  
   - the possibility of different regimes for redundancy and efficiency retirements?  
   - evaluating each case on its merits?  
   - using discretion in the award of added years' enhancements and redundancy payments?  
   - using the 'rule of 85'? | ![ ] | ![ ] | ![ ] |
| 5 | Does the authority require departments to pay for the cost of enhancements? | ![ ] | ![ ] | ![ ] |
| 6 | Does the authority require the losing departments to pay for the cost of early payment within five years of the retirement (other than for corporate driven or local government re-organisation)? | ![ ] | ![ ] | ![ ] |
| 7 | Does the authority have a copy of the actuaries' ill-health assumptions? | ![ ] | ![ ] | ![ ] |
| 8 | Does the authority compare the cost of ill-health against the actuaries' assumptions on an annual basis? | ![ ] | ![ ] | ![ ] |
| 9 | If the incidence of ill-health is above the lower quartile for the authority type, has a review of the ill-health system been undertaken? | ![ ] | ![ ] | ![ ] |
Chapter 3: Is Early Retirement the Best Outcome?

<table>
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<th>Does your authority plan staffing requirements two years in advance, taking account of natural wastage?</th>
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<th>If redundancies are necessary, have the following approaches been considered:</th>
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<td>• evaluating the business case</td>
</tr>
<tr>
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<td>• planning staffing levels in advance?</td>
</tr>
<tr>
<td></td>
<td>• taking account of natural wastage?</td>
</tr>
<tr>
<td></td>
<td>• reviewing the employment of temporary staff and contractors?</td>
</tr>
<tr>
<td></td>
<td>• stopping or restricting overtime?</td>
</tr>
<tr>
<td></td>
<td>• requiring people to retire at 65?</td>
</tr>
<tr>
<td></td>
<td>• introducing short-time working?</td>
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<tr>
<td></td>
<td>• reviewing employment terms?</td>
</tr>
<tr>
<td></td>
<td>• encouraging more flexible working patterns?</td>
</tr>
<tr>
<td></td>
<td>• offering redundancy to employees under 50?</td>
</tr>
<tr>
<td></td>
<td>• restricting external recruitment?</td>
</tr>
<tr>
<td></td>
<td>• retraining and redeployment?</td>
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</tbody>
</table>

<table>
<thead>
<tr>
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<th>When considering an efficiency retirement, does the authority consider</th>
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<tr>
<td>3</td>
<td>• whether the capital cost of allowing someone to go outweighs the benefits?</td>
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<tr>
<td></td>
<td>• whether the person could be re-deployed?</td>
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<table>
<thead>
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<th>When considering an ill-health retirement, does the authority consider redeployment?</th>
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## Chapter 4: Making the Early Retirement Decision

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<tr>
<td>1</td>
<td>Are there clear guidelines on who makes decisions relating to officers retiring:</td>
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<tr>
<td></td>
<td>- who earn £30,000 or more?</td>
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<td>- on grounds of redundancy?</td>
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<td>- in the interests of the efficiency of the service?</td>
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<tr>
<td></td>
<td>- on the grounds of ill-health?</td>
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<tr>
<td>2</td>
<td>Are the personnel and relevant service committees informed of the costs of any early retirement decisions, where they are not directly involved?</td>
</tr>
<tr>
<td>3</td>
<td>Where service committees are not informed until after an early retirement, does the director of the department retiring an employee early agree to the costs prior to the retirement being agreed?</td>
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</table>

### Redundancy/interests of efficiency only

| 4 | Does the report requesting the early retirement explain what actions have been taken to avoid the need for an early retirement? |
| 5 | Is the basis for the pensionable remuneration correct? |
| 6 | Are all the capital costs and benefits of an early retirement decision given to the decision-maker? |
| 7 | Is the decision-maker confident that any enhancements proposed are lawful? |
Chapter 4 (cont.)

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<th>Appendix 5 • Checklists for Action</th>
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### Ill-health only

**8** Has the medical adviser been approved by the administering authority?

**9** Is the medical adviser qualified in occupational health?

**10** Is the following information provided to the authority's medical adviser:
- reason for referral?
- details of sickness record?
- job description?

**11** Is the medical adviser asked to return the following information:
- confirmation of the medical consultation?
  - Diagnosis?
  - Prognosis?
  - Implications for employment?

### For administering authorities only

**12** Does the council have a committee which has the powers to deal with potential abuses of the pension fund?

**13** Is it policy for ill-health estimates to be refused until the ill-health retirement has been agreed?

**14** Are all medical advisers aware of and applying the ALAMA guidelines?
### Chapter 5: The True Cost of Early Retirement

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<td>1</td>
<td>Does the authority have the factors for its fund?</td>
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<td>2</td>
<td>Are these factors used to calculate the early payment and added years costs of early retirements:</td>
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<tr>
<td></td>
<td>• on redundancy grounds?</td>
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<td></td>
<td>• in the interests of efficiency of the service?</td>
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<td>• on ill-health grounds?</td>
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<tr>
<td>3</td>
<td>Are the net savings calculated (where appropriate)?</td>
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### Appendix 6

#### Glossary

**Accrued pension**
- Reckonable service × final pensionable remuneration/80.

**Accrued lump sum**
- 3 × accrued pension.

**Compensatory added years' (CAY) pension**
- Additional equivalent years of services awarded in cases of redundancy, in the interests of efficiency, which have the effect of adding to the accrued pension.

**CAY lump sum**
- 3 × CAY pension.

**Final pensionable remuneration**
- Typically, an individual's final salary but may include other benefits provided to the individual. The remuneration is currently based on the best year of the last three years of employment.

**Normal retirement age (NRA)**
- The age, between 60 and 65, when 25 years' qualifying service will have been completed. The maximum NRA is always 65, even if 25 years of contributions have not been made.

**Reckonable service**
- The number of years that an employee has contributed to the pension fund, including service with previous authorities or employers which has been transferred into the fund.
Appendix 7

Retiring Nature
Early retirement in local government

An increasing number of local government officers are retiring early...

- early retirement has become more common throughout society
- external pressures such as competitive tendering, loss of services and resource constraints have put pressure on authorities
- the Local Government Pension Scheme (LGPS) regulations give discretion for early retirement on the grounds of efficiency, redundancy or ill-health

...to such an extent that early retirement has become an expectation for local government staff rather than an exception.

- three out of four local government staff retire early today, and there were 32,000 early retirements in 1995/96
- in some councils, nearly 90 per cent of retirements were early
- almost 40 per cent of retirements were on the grounds of ill-health, over two-thirds in some councils

Early retirement is expensive...

- the total capitalised cost commitment of early retirements in the last six years is around £5.7 billion
- employer contribution rates are set to increase to over 12 per cent of the total salary bill, on average, by 1999/2000, and much more in the worst cases
- the Budget changes to Advance Corporation Tax are likely to exacerbate the situation

...and is putting considerable pressure on pension funds, as well as diverting resources which could be spent on services.

- paying a pension early imposes a 'strain' on the pension fund
- most private pensions are 'abated' to cover the cost of early payment, but local government pensions are usually enhanced
- In 1995 half of local government pension funds had assets to cover less than 90 per cent of liabilities

Attitudes need to change...

- early retirement should be seen as one of a range of options to reduce costs, rather than as an automatic right or a response to difficult management challenges
- the culture of expectation among staff also needs to be changed

...and early retirement decisions need to be closely monitored.

- councillors should be given enough information to enable them to take an informed decision
- the full cost of allowing an early retirement should be calculated and made visible before a decision is taken
- there should be an up-front contribution into the pension fund, spread over no more than five years, to cover the cost of early payment
- ill-health retirements need particularly close scrutiny

Councillors and chief officers should respond to the growing concern about the cost of pensions. Greater discipline in approving early retirements is vital to ensure that the LGPS remains viable and to avoid absorbing funds which could otherwise be spent on public services.
Retirement trends

1. Local government staff are retiring earlier (and living longer). Early retirement in local government partly reflects changing social attitudes, and partly the recent history of local government. In recent years, councils have had to react to increasing external pressures - for example, compulsory competitive tendering, local management of schools, loss of services such as further education, and financial constraints. These pressures have resulted in significant changes to internal management and arrangements for service delivery, with particular impact on staffing.

2. Local government can make staffing adjustments by allowing early retirement on the grounds of efficiency, redundancy or ill-health. Local government has made wide use of its discretion in recent years, to the extent that, of the total of 42,000 retirements in 1995/96, 32,000 (over three-quarters) were earlier than normal retirement age - at an average age of 54 [EXHIBIT 1]. Almost 40 per cent of all retirements were on grounds of ill-health. Changes to local government do not explain this extent of early retirement, which continues at a high level even after organisational changes have been made.

---

EXHIBIT 1
Routes to retirement in local government, 1995/96
Over three in four staff retired before normal retirement age.

Source: Audit Commission analysis of pension fund data (1997)
Why is there cause for concern?

3. Early retirement can be expensive. Paying a pension earlier than normal means that, in most cases, the outflow from the pension fund is greater than anticipated. And there is additional cost, because local government pensions are further enhanced with 'added years' of service, nominally to compensate for loss of employment. The volume of early retirement in recent years is putting an increasing burden on pension funds. Discretion that was intended to be used in certain limited circumstances has almost become the norm. Of particular concern is the proportion of ill-health retirements – as much as two-thirds of all retirements in some councils – a figure difficult to understand in any normal experience of employment.

4. The Local Government Pension Scheme was designed on the broad assumption that employees would contribute for 40 years and benefit for perhaps 20. With large numbers of staff retiring early, this balance has now shifted to nearer 30:30, placing great strain on funds. Actuaries have estimated the total capitalised cost commitment (net present value) of early retirement decisions taken over the last six years to be in the region of £5.7 billion (plus the cost of statutory redundancy payments in some cases).

5. The impact of these trends is evident in falling funding levels (the ratio of assets to liabilities as determined by the fund's actuaries) between March 1992 and March 1995. Although there are other factors contributing to this fall, a significant proportion can be attributed to higher than anticipated early retirement. Further, since employee contribution rates are fixed by the regulations, any shortfall in funding levels over and above the investment income, has to be made up by contributions from employers. Actuaries have set employer contribution rates to rise to an average of almost 12 per cent of the total salary bill by 1999/2000, and considerably higher in the worst cases [ Exhibit 2]. Meeting this deficit obliges councils to cut expenditure on services to the public.

EXHIBIT 2
Changes in employers’ contribution rates
Employers’ contribution rates are set to rise significantly.

Source: Audit Commission survey, 1996/97
What needs to be done?

6. Local government faces an unavoidable problem; the costs of early retirement decisions to date are already committed. But the situation can be brought under tighter control for the future, ensuring that costs do not become even more onerous. The culture of expectation among local government staff must be changed so that early retirement is seen as a last resort, not an automatic right or a response to every management challenge. And where early retirement is allowed, enhancements to pensions do not have to be at the maximum provided for by the regulations.

7. Action is needed in three areas:
   - greater accountability for the exercise of discretion, with the direct involvement of councillors in decisions involving senior staff, for whom early retirement can be very expensive;
   - attention to financial prudence, whereby the full cost of an early retirement decision is estimated at the outset and is compared with any potential savings arising from the decision, with the pension fund being reimbursed for the cost of early payment; and
   - tighter management supervision involving, for example, adherence to strict medical criteria for ill-health retirements, and monitoring of the impact of decisions on the pension funds, rather than waiting for the next triennial valuation.

Looking to the future

8. To continue the present level of early retirement may well put impossible pressures on pension funds, possibly threatening the basis of the scheme itself. If councils do not exercise tighter control over early retirement, so that it is used only where fully justified, unpalatable options may need to be considered. These could include reducing the benefits of the scheme to future pensioners, removing some or all of the discretion available, or increasing contribution rates for employees.

9. But if councils follow the good practice already evident in some councils, then most should be able to redeem the situation before it is too late. Councillors should insist on a detailed briefing of the impact of early retirement on their pension funds. Exercising tighter planning and control of early retirement will help to sustain the future viability of the Local Government Pension Scheme.
On current trends, fewer than one in four local government staff will work until their normal retirement age. Three-quarters of them will retire early, at an average age of 54. Nearly 40 per cent will leave on grounds of ill-health [EXHIBIT 1].

Early retirement has become more common throughout society and local government has been under pressure from resource constraints and legislative change.

The Local Government Pension Scheme regulations give discretion for early retirement on the grounds of efficiency, redundancy or ill-health, where there is a genuine need. But retiring early can be expensive. Actuaries have calculated that when someone leaves early it costs, on average, about £35,000 more than if they had gone at normal retirement age. In some cases the cost can be much more [TABLE 1, overleaf].

Councillors are often not advised of the total cost commitment of the early retirement decisions that they are asked to approve. Money spent on early retirement effectively reduces the council's ability to fund front-line services.

These figures are averages for England and Wales. Some councils manage early retirement better than others. The Audit Commission's report, Retiring Nature, describes how early retirement has been used over the last six years, and sets out good practice for councils to follow.

How can councillors tell whether their council has been managing early retirement well? There are some key indicators to help councillors form a judgement. They are set out in detail in the Commission's national report, copies of which have been sent to your chief executive, together with a 4-page executive briefing. There are ten key questions which you should ask as part of a local review of early retirement arrangements.

1. What proportion of staff have been allowed early retirement at your council in recent years?

For the whole of England and Wales the answer is about three-quarters of all retirements. We think that the figure should be substantially lower in
APPENDIX 8 • COUNCILLORS' BRIEFING

TABLE 1

Examples of the total capitalised cost of allowing early retirement, for a range of salaries

| Final pensionable remuneration (£) | 33,400 | 43,400 | 52,800 | 61,500 |
| Age at retirement               | 54     | 55     | 53     | 53     |
| Reckonable service              | 31.5   | 33.6   | 34.4   | 33.8   |
| Added years                      | 5.7    | 6.4    | 5.6    | 6.2    |
| Capitalised cost of added years (£) | 44,800 | 64,000 | 70,100 | 89,500 |
| Capitalised cost of early payment (£) | 54,700 | 63,200 | 106,300 | 122,000 |
| Total capitalised cost of allowing early retirement (£) | 99,500 | 127,200 | 176,400 | 211,500 |

Source: Actual cases taken from the Audit Commission’s database of pension fund records (1997)

most councils. (However, if your council was involved in local government reorganisation, you will need to look at a number of years before and after such major changes.)

2. How many people retire on the grounds of ill-health at your council?

On average, the figure for the whole of England and Wales is 39 per cent of all retirements. Our report recommends that councils should be aiming for a figure of no more than 25 per cent.

3. What is the funding level of your pension fund and how quickly will any shortfall be made up?

A pension fund exists to pay for the expected cost of pensions. Ideally, the funding level should be 100 per cent; that is, the assets and liabilities should be in balance. A figure lower than this means that the forecast assets of the fund are insufficient to pay for the forecast liabilities. The gap may have to be made up by the council through an increase in its contributions, as employers, to the pension fund.

4. What is the employer’s contribution rate to the pension fund set by the actuaries for 1999, compared with 1995?

If this figure is set to rise (for example from 5 to 10 per cent of the total salary bill) then extra money will have to be found from the revenue account. This will mean that the money available to provide services in future years will be less than would otherwise have been the case.

5. When early retirements are proposed, are you told the ‘capitalised cost’ (the long-term commitment) of the extra cost to the pension fund and revenue account?

There are two parts to the cost of an early retirement. For efficiency and redundancy retirements, the fund pays for the early pension, while the cost of any added years falls on the revenue account. And if the fund is in deficit, the revenue account will have to make up the difference. You need full information if you are to make an informed decision when to allow an early retirement.

6. How many added years do you give to people who leave on the grounds of efficiency and redundancy?

Every added year puts the cost up. The maximum that can be given is 10, the minimum zero. If people are given an early retirement because of pressure on resources, then you should consider whether added years are appropriate.

7. Who certifies ill-health retirements?

We recommend that only qualified occupational health specialists should certify an ill-health retirement, and that there should be a second or even third opinion.

8. Are you applying the Association of Local Authority Medical Advisers’ guidelines?

These guidelines are intended to ensure that ill-health retirements are fully justified on these grounds.

9. When you approve an early retirement, do we reimburse the pension fund to cover the cost of the early pension within a reasonable time?

The costs of early retirement should not be put off to the distant future. The report recommends that the cost should be paid into the pension fund within five years, or earlier if the fund is in deficit.

10. Is your council’s early retirement policy up to date?

It is important to update the council’s policy to reflect changing circumstances. The Audit Commission recommends that the policy should have been reviewed within the last nine months (that is, since the actuaries’ most recent valuation report).
Appendix 9

Summary of recommendations from the national report, *Retiring Nature*

Recommendations for councillors and managers

**Accountability**

1. To improve their accountability, councillors need to be informed about early retirement decisions, both individual high-cost proposals as well as the cumulative effect of all decisions.

2. To ensure accountability, the departments that wish to allow an early retirement should pay for the full cost of that early retirement.

3. Councils should regularly update their early retirement policy, taking account of their ability to pay for enhancements.

**Financial prudence**

4. To ensure that the real cost of an early retirement is appreciated, the full cost – including enhancement and strain on the pension fund – should be made available to councillors when the decision is taken.

5. To improve the quality of decision-making, the cost of a discretionary early retirement should be paid by the time the benefits of that early retirement expire; this means by the normal retirement age or within five years, whichever is sooner. Where the funding level of the pension fund concerned is below 90 per cent, a three-year period would be appropriate.

**Management supervision**

6. Councils should tackle the culture of expectation that has led to staff seeing early retirement as a right.

7. Councillors should apply the advice of the Association of Local Authority Medical Advisers (ALAMA) rigorously when making ill-health retirement decisions.

8. Pensions administering authorities should make use of in-house or contracted occupational health advisers who follow the ALAMA guidelines. Employing authorities should pay for the service on the basis of use, with the aim of achieving a standard approach to ill-health retirement across their fund.

9. Councils should develop staff plans with the objective of avoiding early retirement. These should incorporate alternatives to early retirement such as redeployment, retraining, freezing recruitment and, when appropriate, dismissal rather than automatic early retirement.

10. Councils should make effective management of early retirement part of the normal performance management system.
Recommendations for councils, the Government and actuaries

1. Councils and their actuaries should introduce a system for monitoring the pension fund between valuations. This will involve actuaries providing each employing authority with information covering their assets and liabilities, ill-health assumptions, cash value of individual contribution rates, etc. All information should be provided in advance, not retrospectively.

2. Councils with funding levels below 100 per cent should implement a real recovery plan. No council with less than 100 per cent funding should have a negative individual contribution rate.

3. The legislation governing the LGPS was designed to address the needs of the 1970s. It should now be reviewed in the context of the needs of the 1990s and beyond.
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The Audit Commission has produced a number of studies covering issues related to human resources, finance and local government management. The following may be of interest to readers of this report:

- **Worth More Than Money**
  - The Role of the Local Government Finance Director

- **Retiring Nature**
  - Early Retirement in Local Government
  - National Report, 1997, 64 pages, 1862400055, £20

- **The Melody Lingers On**
  - A Review of the Audits of People, Pay and Performance
  - Bulletin, 1997, 40 pages, 1862400105, £10

- **A Learning Experience**
  - Service Delivery Planning in Local Government
  - Occasional Paper, 1997, 28 pages, 1862400028, £10

- **Kiwi Experience**
  - VFM Messages from New Zealand
  - Occasional Paper, 1997, 36 pages, 186240013X, £8

- **Representing the People**
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  - Management Paper, 1997, 40 pages, 1862400113, £7
  - Pack of 10, 18624000245, £50

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  - The Role of Audit Committees in Local Government
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  - People and Pay Management in Local Government
  - National Report, 1995, 64 pages, 0118861336, £10

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The Local Government Pension Scheme (LGPS) dates back to the 1920s, when it was set up to provide officers with a secure pension. Since then, society and working patterns have changed dramatically. The LGPS provisions for redundancy and, latterly, ‘efficiency’ early retirement, have helped councils to adjust to those changes.

But these early retirement provisions, designed to be used under exceptional circumstances, have become the norm. Three out of four staff are now allowed to retire before their normal retirement age, with 40 per cent of all retirements being allowed on the grounds of ill-health. This level of early retirement is committing future taxpayers to a substantial financial burden. Moreover, the practice of retiring most staff in their fifties deprives councils of a wealth of skills and experience – resources that local government now needs more than ever before.

This management handbook is intended to facilitate the move from a culture where staff expect early retirement to one where early retirement is the last, not the first, option. Good practice case studies, checklists, benchmarking data and tools will help councils both to calculate the true cost of early retirement and avoid unnecessary costs and loss of expertise. Outlining the components of an appropriate policy framework, the handbook also provides practical advice on alternatives to early retirement.

Best value is now firmly on the local authority agenda. This regime focuses on improving service delivery outcomes – but there will always be internal strategic issues (like early retirement) that need tackling across all departments. How councils can achieve their objectives within the proposed best value framework is the subject of the handbook’s final chapter.

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