

**COSTS AND SAVINGS FROM EARLY DEPARTURES FROM COUNCIL
EMPLOYMENT 2012/13**

1. SUMMARY

- 1.1 The purpose of this report is to outline to Elected Members the costs and savings associated with early retirements/redundancies that have taken place between 1 April 2012 and 31 March 2013.
- 1.2 The report has been prepared as a result of Audit Scotland's report on early retirements entitled 'Bye Now Pay Later'. One of the recommendations in the report is that Council is informed of the costs and/or savings arising from decisions delegated to officers to approve early retirements.
- 1.3 This report relates to those employees who left the Council's employment during the reporting period and does not include accruals for future, planned redundancies.
- 1.4 The cost of severance has been offset by the savings achieved and the overall payback period is 1.2 years. The costs of the severance packages are contained within the limit of a 3 year payback period, as stipulated in the Council's Pensions Discretions Policy.
- 1.5 The total savings over 3 years are £4,935,574 and the total costs over 3 years are £2,042,035. This gives a net saving of £2,893,539 for the 3 years. The annual savings after 3 years is £1,622,477. These savings have already been built into the Council's budget.

2. RECOMMENDATIONS

- 2.1 Note that the numbers and costs of severance packages during the financial year 2012-13 and the resulting savings are noted.
- 2.2 Note that this report ensures that the Council is compliant with the Audit Scotland recommendation in its report 'Bye Now Pay Later'.

3. DETAIL

- 3.1 There have been 104 redundancies, including early retirements, in the period 1 April 2012 to 31 March 2013 at a one-off cost of £1,996,547 and an annual ongoing cost of £22,744. The annual salary savings achieved are £1,645,191. The cost of the redundancies will be recouped within a 1.21 year period.

- 3.2 On 21 January 2010, the Council approved the Policy on Discretions. This policy details the range of discretions available to the Council and sets out the discretions which the Council will adopt.
- 3.3 The Policy states that the cost of redundancy must be recouped through salary savings within a 3 year period, otherwise it cannot be approved. It is worth noting that the cost of all redundancies, including compulsory redundancies, will be recouped within a 3 year period.
- 3.4 The total number of severance packages during the year was 104 at a total cost of £1,996,547. This is equal to an overall average cost of £19,198. There were a total of 52 employees who could access their pension at a total cost of £1,537,211 and average cost of £29,562. The ongoing annual cost of these is £22,744. There were 52 employees who received a redundancy payment only at a total cost of £459,336 and an average cost of £8,833. The table below sets out this information.

	Number	Redundancy payment cost £	Strain on the fund cost £	CAY* Cost £	Cost in year 1 £	Ave cost per employee
Accessing pension	52	427,680	1,018,556	90,975	1,537,211	£29,562
Redundancy payment only	52	459,336	n/a	n/a	459,336	£8,833
Total	104	887,016	1,018,556	90,975	1,996,547	£19,198

*CAY = Compensatory Added Years. The cost shown includes the one-off cost of CAY to retirement lump sum and 1 year of CAY to pension.

The strain on the fund cost is the amount paid to Strathclyde Pension Scheme to compensate for the early payment of pension.

Year 1 costs include strain on the fund, cost of compensatory added years to retirement grant (these are one-off costs) and 1 year's cost of compensatory added years to annual pension and redundancy payment.

- 3.5 The savings in salary, with an allowance for 25% oncosts for National Insurance/superannuation amount to £1,645,191. This includes an allowance where there have been some additional/consequential costs, eg redundant posts being replaced at a lower grade and the externalisation of the Home Care service. Compared to the total one off costs of £1,996,547 this equates to an overall payback period of 1.21 years.

- 3.6 The reduction in budget exceeds the savings arising from the departures during 2012-13. This is because the budget reduction will include savings from staff who are due to leave part way through 2013-14 and there will be staff who left prior to the start of 2012-13 where a part year savings was built into 2012-13 but a full year saving is included in 2013-14. It is also worth noting that the information on severance costs disclosed in the Council's financial statements is different from the information in this report. This is because this report is based on staff who actually left during 2012-13 whereas the financial statements are based on a making a financial provision where it is expected staff will leave in and a reasonable estimate of costs can be made. This means the costs for some of the staff who actually left in 2012-13 was provided for in 2011-12 financial statements and the 2012-13 financial statements include a provision for staff expected to leave during 2013-14.
- 3.7 Eleven employees who left during the reporting period 2012/13, have been re-employed by the Council. Seven are employed on a casual, "as needed basis"; 3 are in temporary posts and 1 is in a permanent post.

There is no legal impediment to an employee who has previously been made redundant and received redundancy compensation to become re-employed by the authority in the future. In some parts of Argyll and Bute there is a limited pool of labour or skills available and this can result in the re-employment of past employees. Where an employee is re-employed, their continuity of services is broken and as such the conditions of service are applied to them as if they were a new employee, ie their previous service does not count for the purposes of calculating entitlements, eg annual leave. In addition, those employees who received early access to their pension have a responsibility to advise the pension scheme of their re-employment. In some cases, this will result in their pension being reduced.

4. CONCLUSION

During 2012-13 there were 104 severance packages at a total one off cost of £1,996,547 and an average cost of £19,198. The payback period for these was 1.21 years. Over the first 3 years the savings would be £4,935,574 and the annual ongoing saving is £1,622,477. These savings have already been built into the Council budget.

5. IMPLICATIONS

- 5.1 POLICY None directly from this report.

5.2	FINANCIAL	None directly from this report.
5.3	LEGAL	All policies comply with current legislation.
5.4	HR	All action taken are done so within Council policy and pension scheme Regulations.
5.5	EQUALITIES	None directly from this report.
5.6	RISK	None directly from this report.
5.7	CUSTOMER SERVICE	None directly from this report.

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20 November 2013

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