

**REPORT TO:** Cabinet

**MEETING DATE:** 14 November 2017

**BY:** Depute Chief Executive (Resources and People Services)

**SUBJECT:** Annual Pensions Report - 2016/17

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## **1 PURPOSE**

- 1.1 To summarise the early retirement activity within the financial year 2016/17, in accordance with External Audit requirements and Council Policy.

## **2 RECOMMENDATIONS**

- 2.1 That Cabinet note the content of the report with regard to the pension activity in the financial year 2016/17.

## **3 BACKGROUND ANNUAL PENSION REPORT**

### **3.1 Council's Retirement Activity in Financial Year 2016/17**

There are currently four types of pensionable retirements available to the Council for all employees excluding Teaching employees (see paragraph 3.2), they are:

- **Due to Efficiency or Redundancy at the discretion of the Council**  
This allows the individual, aged over 55 years (50 if in the Scheme before 5 April 2006), at the discretion of the Council to retire early drawing their pension without any actuarial reduction being applied. In this case the strain costs relating to the early release of the pension are borne by the Council.
- **Ill-Health retirement**  
This occurs where an employee is confirmed by Occupational Health as being permanently incapable of discharging efficiently their duties because of ill-health or infirmity of mind or body. The employee is permitted early access to an enhanced pension in accordance with the superannuation regulations and requires no exercise of Council discretion. The costs are fully borne by the pension fund.
- **Rule of 85**

This is where an individual aged between 50 and 60 can ask to be considered for voluntary retirement if their service and age combined comes to 85 or over. In this instance there is no enhancement to the pension the individual receives, however there may be costs to the Council for the early release of the pension if the employee is below age 60, and the employee in this circumstance requires Council approval. The Council bears the strain costs to the pension fund for the early payment of the benefits. Under the 2014 Regulations the Council can now choose in certain circumstances to either turn these provisions on or off, therefore not bearing strain costs for those below age 60 who meet the criteria.

- **Flexible Retirement**

This is a discretionary element of the pension regulations which allows employees who meet certain criteria to draw their pension and continue working on a reduced hour's basis. To qualify the employee must be over 55 years old and have a minimum of 2 years pensionable service and they must reduce their working hours by a minimum of 40%. They must however have the Council's agreement as there can be costs to the Council for the early release of the individual's pension. If agreed the employee then continues working on the reduced hours and may opt to rejoin the pension fund while drawing the pension benefits they have already accrued.

3.2 A summary of the pension activity in the financial year 2016/17 is as follows:

Department	Health & Social Care	Resources & People	Partnership & Communities	Totals
<b>Compulsory Severance</b>	1	2	1	4
<b>Voluntary Severance</b>	-	-	-	-
<b>Medical Retirement</b>	2	3	10	15
<b>Rule of 85</b>	-	-	-	-
<b>Flexible Retirements</b>	-	5	5	10
<b>Teachers Retirement Policy</b>	N/a	-	N/a	-

- 3.3 Details of the Council's financial commitments relating to pensions are included in the 2016/17 Financial Statements. As a result of ongoing pension costs arising from decisions taken in earlier years, in addition to the "up-front" strain costs now due in the year they accrue, during 2016/17 the Council spent £1.021 million (£1.065 million in 2015/16) on early retirements for Local Government Workers and £0.298 million (£0.298 million in 2015/16) for teachers.
- 3.4 The Council has a liability to pay pension costs in the future. At 31 March 2017 this liability has increased and was actuarially assessed at £178.238 million (and in 2015/16 at £114.995 million). This liability is reviewed through an actuarial valuation which takes place every 3 years. A stability mechanism is currently in place with the Lothian Pension Fund based on the current valuation results, which takes into consideration the Lothian Pension Fund performance and assessed liabilities, and means in practice the employer pension contributions the Council makes will be fixed until 2017/18, however future years will be subject to the outcome of actuarial valuations.
- 3.5 In addition to the above figures, the Council also makes 'ex gratia' pension payments to 114 former employees who worked less than 16 hours per week and were aged under 50 at 31 December 1993 and were unable to join the LGSS pension scheme under the statutory rules at the time. The value of these payments during 2016/2017 was £64,031 (and in 2015/16 it was £66,664). The Council took the decision to remove this discretion at Cabinet on 9 June 2009. No new ex gratia pension payments will arise and the existing estimated value of future liabilities based on the actuarial mortality estimate is £0.632m and will therefore reduce over time.

## **4 POLICY IMPLICATIONS**

- 4.1 The Council is required to report its pension activity annually to elected members in accordance with the Audit Scotland requirements.

## **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

### **6.1 Financial**

- 6.1.1 Early retirement decisions taken in earlier years have created a significant liability for current and future Council Tax payers. There are no immediate budgetary implications associated with this report.

## 6.2 **Human Resources**

6.2.1 Finance and Human Resources continue to ensure that any retirements are in accordance with Council Policy and within the Standing Orders and the supporting Scheme of Delegation and also that managers are aware that any pensionable retirement meets the strict efficiency or redundancy requirements and generates the necessary savings.

6.3 **Other** - none

## 7 **BACKGROUND PAPERS**

7.1 Policy on Enhanced Compensation for early Retirement on Grounds of Redundancy and Efficiency– December 2010

7.2 Lothian Pension Fund Website: [www/lpf.org.uk](http://www/lpf.org.uk)

7.3 Local Government Pensions Scheme (Scotland) Regulations 2014

7.4 Policy Statement on Application of Regulatory Discretions approved at Cabinet on 13 September 2016.

7.5 Flexible Retirement Policy – December 2013

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