
Report To:	Policy & Resources Committee	Date:	25 March 2014
Report By:	Acting Corporate Director Environment, Regeneration & Resources	Report No:	2014/P&R/AP/04
Contact Officer:	Alan Puckrin	Contact No:	712764
Subject:	Early Release – Earmarked Reserve		

1.0 PURPOSE

- 1.1 The purpose of this report is to provide an update to Committee in respect of the current status of the Early Release Voluntary Severance Earmarked Reserve.

2.0 SUMMARY

- 2.1 At the last meeting of the Policy & Resources Committee, it was remitted to the Acting Corporate Director Environment, Regeneration & Resources to report back in respect of Early Release Earmarked Reserve following questions regarding the extent of the funding available.
- 2.2 The Council has had an established Earmarked Reserve for Early Release/Voluntary Severance for many years. The Earmarked Reserve meets the Council's one-off costs in respect of Strain on the Fund costs which is paid directly to the pension fund, Added Years and redundancy payments paid to the employees. These payments are made in line with the Terms and Conditions of the employee, many of which are set nationally and in line with their contractual rights.
- 2.3 The balance in the Earmarked Reserve is kept under regular review. A decision was taken when agreeing the 2014/16 Budget to transfer £2million originally earmarked for this Earmarked Reserve to the Loans Charge Earmarked Reserve.
- 2.4 Appendix 1 shows the one off costs incurred by the Council to facilitate the early release of employees since 2009. From this it can be seen that the average payback period for releases is just over one year which represents good value for money and is well within Council Policy of three year payback period. The Council Policy was last reviewed in September 2013 and reflects the recommendations and good practice published in May 2013 by Audit Scotland – Managing Early Departures from Scottish Public Sector Report.
- 2.5 The Council faces significant financial challenges for the foreseeable future and the Committee is asked to note that the current unallocated sum of £2.45million may require to be topped up at some point over the next few years. This is reviewed on a regular basis and reported through the regular Revenue Reports.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee note the position in respect of the Council's Early Release Earmarked Reserve.

Alan Puckrin
Acting Corporate Director Environment, Regeneration & Resources

4.0 BACKGROUND

- 4.1 The Council operates an Early Release Policy and funds the one-off costs associated with Early Releases from an Earmarked Reserve. The Council's Early Release Policy was last reviewed in September 2013 and reflects good practice in line with Audit Scotland guidance.
- 4.2 At the last meeting of the Policy & Resources Committee, Members asked for a report back on the need for the level of funds allocated to the Early Release Earmarked Reserve. This report fulfils that remit.

5.0 CURRENT POSITION

- 5.1 It is projected that as at 1st April 2014, the balance in the Council's Early Release Earmarked Reserve will be £2.45million. This is after using some £1.76million in 2013/14 in the release of employees.
- 5.2 Appendix 1 gives details in respect of the amount of one-off expenditure incurred by the Council for the last five financial years relating to early releases. From this it can be seen that the largest factors in the one-off costs relates to Strain on the Fund costs, which is a payment made by the Council to the pension fund for pension contributions foregone by the early release, and redundancy.
- 5.3 In addition to the one-off costs incurred, it can be seen that there are ongoing revenue costs related to the added years awarded and over the five year period these total £625,000.
- 5.4 The payback associated with the early releases for the last five years averages just over one year which is well within the parameters of the Council's agreed Policy and represents good value for money for the Council. The Council Policy was last reviewed in September 2013 and reflects the recommendations and good practice published in May 2013 by Audit Scotland – Managing Early Departures from Scottish Public Sector Report.
- 5.5 The Council's Early Release Policy has been amended to reduce the number of added years from six to three with effect from 30th September 2013 and this will reduce the costs of early releases further.
- 5.6 In addition the Council has taken positive steps to reduce the impact of reducing its workforce by service redesign, natural turnover and redeployment opportunities as well as recruiting temporary staff into vacancies where appropriate to protect permanent staff and reduce the financial impact of early release. Early release is used when all other avenues have been exhausted and to date all staff released have done so on a voluntary basis.
- 5.7 During the last five years, 2009/14, the Council has made £23.46million savings, less than half of this achieved by employee savings. A further £7.5million savings are planned and approved for the remainder of this spending review 2014/16.
- 5.8 Based on the information in Appendix 1, it can be seen that the remaining funding in the Early Release Earmarked Reserve of £2.45m will be able to fund the release of approximately £2.2million of salaries. This level of funding needs to be seen in the context of the previously reported £25million funding gap which the Council potentially faces over the period 2016/19 and therefore assumes that less than 10% of this funding gap will be achieved via the early release of employees.
- 5.9 On the basis of the above, Officers would advise that it is highly likely that at some point during the 2016/19 budget period, the Council may require to allocate further one-off resources to the Early Release Earmarked Reserve. This is reviewed on a regular basis and reported through the regular Revenue Reports.

6.0 IMPLICATIONS

- 6.1 The Council has a robust Early Release Policy which states that payback for early release should be within two years or in exceptional circumstances three years. It can be seen that based on the last number of years that the Council's early releases fall well within these limits.

Financial Implications:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
Earmarked Reserves	Early Release	2014 Onwards	£2,450		

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
N/A					

Legal

- 6.2 There are no Legal implications arising from this report.

Human Resources

- 6.3 Prior to any employee being released, the Head of OD, HR & Communications carries out a value for money assessment in conjunction with the Chief Financial Officer and this assessment is then signed off by the relevant Corporate Director and the Chief Executive. Copies of all decisions are kept for audit purposes.

Equalities

- 6.4 There are no direct Equalities implications arising from this report.

Repopulation

- 6.5 This report has no impact on the Council's repopulation agenda.

7.0 CONSULTATION

- 7.1 No consultation was required in the preparation of this report.

8.0 LIST OF BACKGROUND PAPERS

- 8.1 None.

Financial Year	Employee Numbers	One off Costs				Recurring Costs/Savings		Payback Period Years	
		Redundancy £'000	Employee Benefit Added Years £'000	Total £'000	Cost of Pension Fund Strain on the Fund £'000	Total £'000	Added Years £'000		Savings £'000
2009/10	93	1,245	687	1,932	1,729	3,661	229	(3,272)	1.20
2010/11	87	871	502	1,373	774	2,147	168	(2,290)	1.01
2011/12	62	847	345	1,192	401	1,593	118	(1,946)	0.87
2012/13	20	450	138	588	592	1,180	46	(915)	1.36
2013/14	43	684	191	875	886	1,761	64	(1,477)	1.25
Total	305	4,097	1,863	5,960	4,382	10,342	625	(9,900)	1.12

¹ Between April 2009 and March 2014 the Council has signed up 305 employees for release.

² The Council has incurred one off costs of £10.342m to release employees, £5.960m paid to the employee for redundancy and lump sum pension costs. A further £4.382m has been paid to the Local Government Pension Scheme to compensate for loss of income due to early release of employees.

³ On a recurring basis, the Council will incur annual pension contributions of £0.625m offset by annual savings of £9.9m.

The Council policy for early release of employees states that the release must be value for money within a maximum of 3 years. This means that the employee saving removed over 3 years will exceed the total of the one off costs and recurring costs. The above table demonstrates that the average payback period is just over 1 year. **The Council will benefit from a saving of £29.7m over 3 years to pay for one off costs of £10.342m and 3 years of recurring costs of £1.875m.**

Since 2009/10 the Council has had to make budget savings of £23.46m detailed below. In addition for the period 2014/16, savings of £5.548m have been approved and are due to be delivered along with new Workstream savings of £2.04m. **Total savings applied in period £31.048m.**

2009/10	£5.01m
2010/11	£5.28m
2011/12	£3.39m
2012/13	£1.80m
2013/14	£1.57m
Workstreams	£6.41m
Total	£23.46m