

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	14 February 2019
REPORT TITLE	Internal Audit Report AC1913 – Voluntary Severance / Early Retirement (VSER) Scheme
REPORT NUMBER	IA/AC1913
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Voluntary Severance / Early Retirement (VSER) Scheme.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Voluntary Severance / Early Retirement (VSER) Scheme.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1913 – Voluntary Severance / Early Retirement (VSER) Scheme.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

People and Organisation

Voluntary Severance / Early Retirement (VSER) Scheme

Issued to:

Steven Whyte, Director of Resources
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Jonathan Belford, Chief Officer – Finance
External Audit

EXECUTIVE SUMMARY

As part of the Council's transformation programme employees are being offered the opportunity to take voluntary severance or early retirement through the Council's voluntary severance / early retirement (VSER) scheme. The VSER scheme applies to all employees of the Council (with the exception of teachers and those covered by Scottish Negotiating Committee for Teachers (SNCT) conditions) with at least 2 years' continuous service, who are leaving the Council prematurely on the grounds of redundancy or efficiency. "Voluntary severance" applies to all qualifying employees, whilst "early retirement" is applicable only to those employees in the Local Government Pension Scheme (LGPS) who, under the pension regulations, are able to access their pension benefits.

The objective of this audit was to provide assurance that the terms of the VSER scheme are complied with and that payments made / enhancements to pensions are accurate.

The Council's VSER policies clearly detail who they apply to, the criteria for assessing applications, and how to calculate applicable voluntary severance and early retirement payments.

A sample of leavers under the scheme were reviewed and the appropriate authorisation had been given and the relevant "cost efficiency" test had been met, whereby VSER costs will be recovered by payroll savings, within five years of staff leaving under VSER. However, in the sample of payments to ten leavers tested, seven underpayments were made. This was due to a historic statutory redundancy payment figure being used. As an additional sum was offered under the scheme the reduced payments made were not lower than the statutory payments due. The Service subsequently undertook a review of individuals who had left under the scheme and identified 44 employees who had been underpaid a total of £16,400.

1. INTRODUCTION

- 1.1 As part of the Council's transformation programme employees are being offered the opportunity to take voluntary severance (VS) or early retirement (ER) through the Council's voluntary severance / early retirement (VSER) scheme.
- 1.1.1 The VSER scheme applies to all employees of the Council (with the exception of teachers and those covered by Scottish Negotiating Committee for Teachers (SNCT) conditions) with at least 2 years' continuous service who are leaving the Council prematurely on the grounds of redundancy or efficiency.
- 1.1.2 "Voluntary severance" applies to all qualifying employees, whilst "early retirement" is applicable only to those employees in the Local Government Pension Scheme (LGPS) who, under the pension regulations, are able to access their pension benefits.
- 1.2 As at 31 August 2018, 218 individuals (187.2 FTE) had left the Council under the scheme since it commenced in February 2017. A further 37 individuals (33.5 FTE) have agreed to leave the Council via the scheme by March 2020. Expected annual savings resulting from staff leaving under the VSER scheme during 2018/19 total £10.378 million.
- 1.3 The objective of this audit was to provide assurance that the terms of the VSER scheme are complied with and that payments made / enhancements to pensions are accurate.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Isla Newcombe, Chief Officer – Organisational Development, Neil Yacimini, Team Leader, and Sandra Buthlay, Senior Accountant.

2. FINDINGS AND RECOMMENDATIONS

2.1 Policy and Written Procedures

2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.

2.1.2 The Council's current VSER policy, covering all employees of the Council except teachers and those covered by SNCT conditions, was presented before and approved by the Finance, Policy and Resources Committee on the 19 April 2016 having been amended to take account of various Local Government Pension Scheme changes. The Council's voluntary severance / early retirement policy for teachers was approved by the Education, Culture and Sport Committee in February 2010. Both policies are clear and comprehensive, detailing who they apply to, the criteria for assessing applications and how to calculate applicable voluntary severance and early retirement payments.

2.2 Applications

2.2.1 Expressions of interest in the VSER scheme are submitted by an employee to their Chief Officer. Each applicant must meet defined criteria, dependant on whether they are applying for voluntary severance or early retirement. The criteria are as follows:

- The employee must have at least two years' continuous service;
- For early retirement the employee must be eligible to claim their pension benefits in accordance with pension fund rules;
- The VS / ER payment and strain on the pension fund must be repaid within five years by associated payroll savings (the cost efficiency test).

2.2.2 Internal Audit selected a sample of ten individuals (two voluntary severance, eight early retirement) who had left through the VSER scheme in the current financial year to ensure that appropriate approval was given and that the VS / ER cases met the requirements of the cost efficiency test. Each application tested was approved by the employee's Chief Officer, Chief Executive and a Council Co-Leader, and payback of associated costs was less than 5 years as required by the VSER policy.

2.3 Calculations

2.3.1 Per the Employment Rights Act 1996 the Council is required to provide a statutory minimum amount of severance pay to those being made redundant. This amount is based on the employee's age, number of years of continuous service (capped at 20 years) and weekly pay. The maximum weekly wage for the purposes of calculating the statutory payment is capped at £508 per week in 2018/19 (£489 per week in 2017/18). The Council is legally required to provide the statutory redundancy payment, however organisations can offer higher redundancy payments if they so choose. Council voluntary severance and early retirement leavers receive an additional payment above the statutory amount. The weekly wage used in the calculation of the VS / ER payment is increased by 33% of the difference between the statutory maximum weekly pay and the employee's actual weekly pay.

2.3.2 The VSER policy includes "ready reckoner" tables which identify the multiplier to be used when calculating VS / ER payments, dependant on length of service and age. These multipliers were examined and it was confirmed that all comply with the minimum requirements of The Employment Rights Act 1998.

- 2.3.3 Payments made to the sample of ten individuals selected for testing were tested to ensure that they were accurate, complying with both the VSER policy and the legislative requirements.
- 2.3.4 Seven had been underpaid a total of £2,227 (average of £318 per person) because the database used in the calculation had not been updated with the 2018/19 statutory amount. As an additional sum was offered under the scheme (as referred to in 2.3.1 above) the reduced payments were not lower than the statutory payments due.
- 2.3.5 The Service has confirmed that the database will be updated with the correct statutory amount for 2018/19 and that they intend to undertake an investigation to determine the extent of the issue and to contact former employees where applicable. A recommendation has been made for tracking purposes.

Recommendation

The Service should perform a review of individuals who have left under the scheme, determine where any underpayments were made, and make necessary payments as required.

Service Response / Action

Agreed. All underpayments have been rectified and employees contacted to make them aware of the situation. In total, 44 employees were underpaid a total of £16,400.

Implementation Date

Implemented

Responsible Officer

Team Leader

Grading

Significant within audited area

- 2.3.6 Where an employee retires early, the Council is responsible for settling any additional costs known as 'strain on the fund' as a result of early release of pension benefits. Seven strain on fund payments were made to leavers described in paragraph 2.2.2. The strain on fund payments were recalculated by Internal Audit and found to be accurate.

2.4 Payments

- 2.4.1 Testing was performed to ensure that all employees who left in the sample of 10 leavers described in paragraph 2.2.2 were paid VSER payments in their final month of employment and that they subsequently received no further payments from the Council. This was found to be the case.

2.5 Staffing

- 2.5.1 To ensure savings are realised, vacated jobs should not be refilled. The sample of VSER leavers described in 2.2.2 were reviewed and in all cases there was no recruitment against the related job number after the former employee left under the scheme.
- 2.5.2 Per the Council's VSER policy an individual who leaves via the scheme will be ineligible to apply for or accept paid work with the Council for a period of at least 2 years from the last date of employment. This provision can only be waived in exceptional circumstances where the individual agrees to repay the enhanced element of their redundancy element and pay the strain on the pension fund costs incurred by the Council, or where a material change occurs within a Service and a significant benefit will be gained through the reemployment of the individual.
- 2.5.3 During recruitment, applicants are assessed to determine if they are former employees and will be rejected accordingly if they have left under the VSER scheme in the last 2

years. None of the sample of 10 individuals described in 2.2.2 had been rehired as at the date of testing.

2.6 Reporting

2.6.1 Regular updates are provided to the Strategic Transformation Committee on costs incurred against the Transformation Fund earmarked reserve and related savings, with VSER savings approved and achieved to date included within the position reported.

AUDITORS: D Hughes
A Johnston
J Grigor

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.