Part 1: Introduction

1.1 The LGPS caters for local authority employees other than teachers, and also covers civilians within police forces and control rooms, and non-uniformed employees within fire brigades. Teachers, police officers and fire-fighters have separate pension arrangements.

1.2 The scheme works by each employee paying a regular contribution to a pension fund from his or her salary or wages. The employer (employing body) also makes a contribution on behalf of each employee. Contributions are invested in a fund that pays for each member's retirement costs. There are 11 funds in Scotland each administered by a nominated local authority within the fund. These authorities are known as the administering authorities. As at 31 March 2002, there were a total of 184,728 employees, 115,377 pensioners and 44,207 ex-employees entitled to deferred benefits within the LGPS in Scotland.

1.3 The scheme was set up with the expectation that employees would remain members until they were 65 and would contribute for at least 25 years. However, there are provisions for employees to retire from the scheme early and still be entitled to immediate payment of their retirement benefits. This is known as early retirement.

1.4 Early retirement is an important management tool. It can help in managing staff levels by facilitating the departure of employees by a number of routes:

- due to efficiency or redundancy at the discretion of the employer
- due to ill-health where the employee is medically unfit to work
- at the employee's request. This requires the approval of management, and the benefits payable may be reduced dependent on their age and length of service ('rule of 85').

1.5 Details of the LGPS rules governing each early retirement route are set out in Appendix 1. These affect local authorities in different ways as summarised in Exhibit 4.

1.6 In December 1997, the Accounts Commission for Scotland published *Bye now, pay later*. The Commission found that early retirement was widespread and costly, and made nine recommendations for employing bodies and administering authorities to improve management practices. Full details of the recommendations are set out in Appendix 2.

1.7 *Bye now, pay later* contained a commitment to monitor how the employing bodies responded to the Commission's recommendations. This report records the results of the follow-up study undertaken by Audit Scotland. The study addressed:

- how the regulations governing early retirement have changed since 1997 (Part 2)
- trends in the volume and cost of early retirement (Part 3)
- local authorities' response to the Commission's recommendations (Part 4).

Exhibit 4

Who pays for the immediate costs of early retirement?

For efficiency, redundancy and voluntary retirals, the additional costs are borne by the employing body.

Type of retiral	Costs to employers
1. Due to efficiency or redundancy at the discretion of the employer.	Additional strain costs relating to the enhanced costs resulting from early retirement are borne by the authority and repaid to the pension fund over a maximum of five years.
2. Due to ill-health where the employee is medically unfit to work.	Ill-health retiral costs are fully borne by the pension fund.
3. Due to 'rule of 85', where an employee aged between 50 and 60 can ask to be considered for voluntary retiral. The employer makes the final decision on these cases.	Costs to the pension fund for the early payment of benefits are borne by the employing authority.

Source: Local Government Pension Scheme (Scotland) Regulations 1998 and Amendment Regulations 2000

Details of Audit Scotland's methodology are set out in Appendix 3. In addition to the national report, each local authority will receive a local report detailing the position locally. Within this report the term 'local authority' is used to cover all councils, police and fire boards. The term 'council' is taken to mean all 32 councils.

1.8 This report does not consider the wider question of the performance of local government pension funds. In common with other pension funds, local government pension funds are likely to be adversely affected by recent falls in stock market values. The impact of these changes will be considered in actuarial reviews of the pension funds, and may result in changes to contribution rates paid by local authorities to fund the scheme. The Commission's report, the *Overview of the 2001/02 local authority audits*, has identified these pension issues as an important area which auditors are expected to keep under review.