WIRRAL COUNCIL

COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE

17 NOVEMBER 2011

SUBJECT	**CAPITALISATION OF STATUTORY REDUNDANCY PAYMENTS**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	**COUNCILLOR STEVE FOULKES**
KEY DECISION	**YES**

1.0 EXECUTIVE SUMMARY

1.1 The Department for Communities and Local Government (DCLG) has given Wirral permission to treat statutory redundancy payments as capital spend, rather than revenue spend, in 2011/12. There are a number of conditions attached to this permission and the Council had to reply by 7 October 2011 accepting these and the amount to be capitalised.

1.2 In making use of this permission the Council needs to approve a variation in the Capital Programme for 2011/12.

1.3 Cabinet on 13 October 2011 agreed the following:-

(a) That the DCLG be advised that Wirral will utilise the permission to treat as capital £4 million of revenue expenditure in 2011/12.

(b) That the Capital Programme be increased for the Finance Department by £3 million and for the Children & Young People Department by £1 million and this be referred to Council.

(c) That the release of £3 million from the provision for the Early Voluntary Retirement / Voluntary Severance Scheme costs to balances be agreed.

2.0 RECOMMENDATION

2.1. That the report be noted.

3.0 REASONS FOR RECOMMENDATION

3.1 The DCLG has requested a response to the use and amount of the Capitalisation Direction by Wirral in 2011/12.

3.2 In accordance with the Council Constitution any variations to the Capital Programme must be agreed by Council.

4.0 BACKGROUND AND KEY ISSUES

CAPITALISATION

4.1 Capitalisation is the relaxation of the normal accounting requirement that long-term borrowing or capital receipts should only be used to fund capital expenditure. The Local Government Act 2003 allows the Secretary of State to issue capitalisation directions permitting specified items of expenditure that would normally be classified as revenue expenditure to be treated as capital expenditure.

4.2 The Government recognises that capitalisation provides financial flexibility to Councils in managing one-off unexpected costs and thereby easing the pressure on Council Tax and on services. For 2011/12 the Government increased the total sum available from £200 million to £300 million.

PROCESS

4.3 Capitalisation is subject to an application process with applications assessed against criteria set out in the guidance note supporting the 'Capitalisation Directions (excluding equal pay 2011-12 : Policy and procedures':-

4.3.1 The Directions:-
- a) allow revenue expenditure to be capitalised but subject to strict criteria.
- b) are for one-off costs such as statutory redundancy payments.
- c) apply only for the year of submission (can be made annually).

4.3.2 The Criteria (Affordability Tests) for the application are that it:-
- a) must be for a sum in excess of 10% of eligible reserves.
- b) must be for a sum in excess of 0.5% of revenue expenditure.

4.3.3 The timescales:-
By 12 May 2011 local authorities must have made submissions.
By 22 July 2011 the Government issued a formal decision. By 7 October 2011 local authorities must confirm the amounts they intend to use.
By 12 July 2012 local authorities must state how much was actually capitalised.
Note: The October return is to allow for a Phase 2 when approvals not required will be re-allocated to local authorities who have to prove exceptional difficulties.

THE WIRRAL APPLICATION

4.4. The Council Budget 2011/12 reported to Cabinet on 21 February 2011 included the effect of the Early Voluntary Retirement / Voluntary Severance (EVR/VS) Scheme. At that time the statutory redundancy payment element, potentially eligible for capitalisation, was estimated at £3 million. The Schools Forum on 12 April 2011 considered a report on School Redundancies which could potentially incur up to £1 million of eligible costs.

4.5. The Wirral application was based upon £4 million of statutory redundancy payments. These are incurred under the Employment Rights Act 1996 Part 11. Not eligible are enhanced costs, lump sum pension payments for added years or the elimination of pension fund deficits resulting from premature retirements. The costs would be incurred in 2011/12 The application included confirmation of meeting the Affordability Tests.

4.6. The Financial Out-turn 2010/11 reported to Cabinet on 23 June 2011 included an update on EVR/VS costs. As details of the costs to be incurred in 2011/12 were known by 31 March 2011 the total cost of £8.7 million was required to be included in the 2010/11 accounts. A provision was established to cover these payments which required the funding from balances set aside in 2011/12 to be brought forward to 2010/11. As a bid had been submitted to the Government to seek to capitalise the statutory redundancy element a successful outcome would release a comparable sum to balances.

GOVERNMENT DECISION

4.7. On 22 July 2011 the DCLG advised that Wirral would be permitted to treat as capital, expenditure which:-

a) is incurred by the Authority on statutory redundancy payments;
b) does not exceed a total of £4 million; and
c) is properly incurred during the financial year that began on 1 April 2011.

4.8. Wirral was required to inform the DCLG by 7 October 2011 whether the Direction will be used in its entirety and, if not, specify how much will be unused. The Authority has to provide a written return by 12 July 2012 of how much was actually used.

5.0 RELEVANT RISKS

5.1 The use of the Direction enables costs to be spread over a longer time period releasing resources in the short term provided that the conditions detailed in the Direction are complied with.

6.0 OTHER OPTIONS CONSIDERED

6.1 The options are to either meet the full cost from the revenue budget in the year that they are incurred or to use the Direction to treat the costs as capital expenditure and meet the costs over a longer time period.

7.0 CONSULTATION

7.1 This report concerns the announcement of a Government decision. There has been no consultation required.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no implications arising directly from this report.

9.0 RESOURCE IMPLICATIONS

9.1 By using the Direction to classify the statutory redundancy payment element of the EVR/VS Scheme as capital expenditure this would release £3 million of the previously identified provision for EVR/VS costs to General Fund balance. The element relating to Schools represented an unmet financial pressure in 2011/12 the cost of which can now be met from the capital programme.

9.2. The increased capital financing costs will be £400,000.

9.3. There are no staffing, IT or asset implications arising directly from this report.

10.0 LEGAL IMPLICATIONS

10.1 In order to use the Capitalisation Direction the Council must comply with the conditions specified by the Department for Communities and Local Government as detailed in section 4.7.

11.0 EQUALITIES IMPLICATIONS

11.1 There are no direct implications arising from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no direct implications arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no direct implications arising from this report.

FNCE/245/11

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REFERENCE MATERIAL

Capitalisation Directions (excluding equal pay) 2011-12 : Policy and procedures - A guidance note. Department for Communities and Local Government March 2011.
Letter from the Department for Communities and Local Government dated 22 July 2011.

SUBJECT HISTORY

Council Meeting	**Date**
Cabinet – Council Budget 2011/12 Cabinet - Capitalisation of Statutory Redundancy Payments	21 February 2011 13 October 2011