



Redundancies and capitalisation

Why is capitalisation important?

If there are redundancies, UNISON wants to get the best deal it can for members. Councils can provide a better deal by capitalising.

What is capitalisation?

Capitalisation is when revenue costs are met from capital funds (existing capital receipts, capital receipts from the sale of assets, or borrowing). The rules say that councils can spend revenue on capital projects but they can't spend capital on revenue projects unless they get permission from the secretary of state. This is called capitalisation. As an example, in England in 2008/09, the secretary of state allowed 28 councils to capitalise over £36m of their redundancy costs. Technically this is called being issued with a "capitalisation direction". Eighteen of those councils also capitalised pension costs. There are separate arrangements in Scotland that have not been finalised, for 2009 onwards, but they will involve applications being made to the Cabinet Secretary for Finance.

See Capitalisation directions 2008/09 table overleaf

What can be capitalised?

It may be possible for a council to capitalise redundancy costs and payments into pension funds.

1. Redundancy payments

The guidance says:

It is unlikely that the secretary of state would grant a capitalisation direction for anything other than statutory redundancy costs. This means that a direction is unlikely to be issued for enhanced costs. Nor is a capitalisation direction likely to include the lump sum element of the pension payment arising from compensatory added years, or any payments the authority makes into its pension fund in order to eliminate deficits resulting from premature retirements. Statutory redundancy costs are those costs required and calculated in accordance with Part 11 of the Employment Rights Act 1996 (see in particular section 162).

2. Payments into pension funds

The guidance says:

In respect of an application for the capitalisation of a lump-sum payment into a pension fund to remedy a deficit, the cause of the deficit will need to be explained and the application will need to be accompanied by the LGPS pension fund's last triennial actuarial valuation report. Applications should also be supported by the relevant pension fund's funding strategy statement.

What are the rules?

The guidance says that separate 'affordability tests' will normally be applied to applications for capitalisation of redundancy costs and payments into pension funds.

Affordability test

The costs to be capitalised must exceed both (a) 5% of available reserves and (b) 0.25% of budgeted expenditure for the year in which the expenditure is incurred.

Applications to capitalise payments into pension funds are also likely to have the following conditions applied:

(a) capitalisation is unlikely to be allowed unless the council is able to demonstrate that it has taken all the steps allowed under the Local Government Pension Scheme, including 'spreading' and 'stepping' options

(b) capitalisation is unlikely to be allowed if the funding difficulties arise from a decision by the council itself either to make provision over a shorter period than is recommended by its fund's actuary, or to exceed a limit on early retirements agreed as part of the actuarial valuation inputs

(c) in addition, any directions issued are likely to require the capitalised payment into the fund to be met only out of capital receipts and not by borrowing.

Capitalisation directions – 2008/09	Redundancy	Pensions
Boston Borough Council	£127,782.55	£139,277.45
Carlisle City Council	£410,103.00	£1,129,504.00
Chester City Council	£313,861.00	
Chorley Borough Council	£155,000.00	£375,000.00
Dacorum Borough Council	£443,312.12	£1,089,200.18
Ellesmere Port and Neston Borough Council	£725,000.00	
Gloucester City Council	£719,000.00	£741,000.00
Gravesham Borough Council	£122,531.00	
Great Yarmouth Borough Council	£1,000,000.00	
London Borough of Barking & Dagenham	£1,076,000.00	£2,110,000.00
London Borough of Barnet	£1,300,000.00	
London Borough of Merton	£820,000.00	
Newcastle City Council	£3,900,000.00	
North East Derbyshire District Council	£156,000.00	£261,000.00
North Tyneside Council	£4,000,000.00	
North Tyneside Council	£1,500,000.00	
Northampton Borough Council	£420,000.00	£590,000.00
Northumberland County Council	£2,400,000.00	£4,400,000.00
Oldham Council	£5,026,451.00	£9,826,770.00
Oxford City Council	£310,474.00	
Redcar and Cleveland Borough Council	£1,900,800.00	£6,604,280.00
Sheffield City Council	£4,000,000.00	
South Somerset District	£256,222.00	£274,646.00
South Tyneside Metropolitan Borough Council	£1,854,974.00	
Uttlesford District Council	£100,000.00	£1,135,731.00
Waveney District Council	£338,123.00	£1,227,674.00
West Somerset District Council	£170,083.13	£305,503.79
Woking Borough Council	£1,350,000.00	£1,000,000.00
Worcester City Council	£519,000.00	£410,000.00
Wyre Forest District Council	£650,000.00	£1,350,000.00

When do applications have to be made?

In principle, applications may be submitted at any time but the Department for Communities and Local Government 'strongly encourages' applications by 15 December in the financial year in which the expenditure is to be incurred.

Two gate process

Communities and Local Government uses a 'two gate' process.

Gate 1

Applications are considered against the criteria for capitalisation and applicants will be sent a 'minded to' letter (normally within 15 working days) confirming which items appear to meet the capitalisation criteria. At this stage no formal capitalisation direction is issued and there is no guarantee of how much the council can capitalise but the council is through to the Gate 2 assessment.

Gate 2

After 30 December, final decisions are taken on all applications made by 15 December and which have passed Gate 1. The overall total capitalisation is considered in the context of the macroeconomic implications. Formal directions should be issued by 29 January 2010.

Applications for the current financial year received after 15 December will be considered on or after 29 January, taking account of the level of capitalisation which has already been agreed and any macroeconomic risks.