

Report to the Cabinet

Report reference: C/112/2006-07.
Date of meeting: 5 February 2007.



Portfolio: Finance, Performance Management and Corporate Support Services.

Subject: Capitalisation of Pension Deficit Payments.

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Recommendations/Decisions Required:

- (1) That the Capitalisation Directions issued by the Department for Communities and Local Government for 2006/07 are for 57% of the amounts requested be noted;**
- (2) That, in view of the £269,227 shortfall on the General Fund capitalisation, this amount be met from the General Fund revenue contributions that had previously been moved to the Pension Deficit Earmarked Reserve;**
- (3) That, in view of the £126,230 shortfall on the Housing Revenue Account capitalisation, £20,520 be met from the HRA revenue contributions that had previously been moved to the Pension Deficit Earmarked Reserve and the balance of £105,710 be met from HRA revenue balances; and**
- (4) That no adjustment be made to the Council's 2007/08 budgets as the amount that can be capitalised in 2007/08 is not necessarily linked to the amount for 2006/07.**

Introduction:

1. The last triennial valuation of the pension fund at 31 March 2004 highlighted a significant deficit on the fund. In order to make good the deficit the annual amount of deficit contributions was increased by £851,649 for 2005/05, £923,659 for 2006/07 and £998,765 for 2007/08. Members decided that given the size of these sums and the availability of capital resources it was appropriate to seek capitalisation directions in order to minimise the effect of these additional costs on the Council Tax.
2. To fund the capitalisations £2.5 million was moved from usable capital receipts to the pension deficit earmarked reserve, this added to £315,000 of revenue funds that had already been set aside for this purpose.
3. A capitalisation direction was obtained for the full amount of the additional deficit payments for 2005/06 and this was charged against the earmarked reserve. However, separate capitalisation applications have to be made every year and for 2006/07 the system has been amended to limit the amount of directions in total.

Capitalisation Directions for 2006/07:

4. The DCLG announced very late on 31 January that capitalisation directions would be issued to cover 57% of the value of the applications made for 2006/07. This is due to the requests for capitalisation exceeding the total set. Applications were made for a variety of purposes:

	Number of Applications	Value £
Equal Pay	35	280,666,854
Pension deficits	16	32,711,444
Redundancy	25	23,258,076
Exceptional	2	2,630,315
Commutation Losses	17	2,219,292
Total	95	341,485,981

5. As DCLG was only prepared to issue £199,477,532 of directions for the above purposes all applications within these categories were allocated 57.19% of the amount applied for. Amounts for the General Fund and HRA have to be applied for separately, the position for 2006/07 is now:

	Applied for £	Approved £	Shortfall £
General Fund	628,827	359,600	269,227
HRA	294,832	168,602	126,230

General Fund:

6. Prior to the substantial increase in the earmarked reserve, with the addition of £2.5 million of usable capital receipts in 2003/04, some revenue amounts had been set aside to assist in dealing with subsequent deficit payments. Amounts totaling £294,480 were taken from the General Fund and it is now proposed to meet the £269,227 shortfall from these amounts.

Housing Revenue Account:

7. The amount taken from the HRA and credited to the earmarked reserve was £20,520 and it is recommended that this amount is now used to meet part of the HRA shortfall. This will leave a balance of £105,710 to be met from HRA revenue balances.

Budget for 2007/08:

8. At this time it is not proposed to alter the Budget for 2007/08, which has been prepared on the assumption that full capitalisation directions will be obtained. The particular problem in 2006/07 is the very high level of applications arising from equal pay claims. The first table above shows that some £281 million of applications were made for this purpose, these represented 82% of total applications.

9. Given that all local authorities are required to have their single status arrangements in place by the end of 2006/07 and that the back pay element of claims will be in 2006/07, it is anticipated that applications arising from equal pay settlements will reduce substantially in 2007/08.

10. On this basis it is still reasonable to assume that a full direction may be obtained for 2007/08. However, the shortfall this year does highlight the need for CSB savings to be identified during 2007/08 in case this situation is repeated.

Other Options for Action:

11. Contained in the report.

Statement in support of recommended action:

12. Budget shortfall still needs to be addressed.

Consultation undertaken:

13. No external consultation undertaken.

Resource implications:

Budget provision: As per report.

Personnel: As per report.

Land: As per report.

Community Plan/BVPP reference: Various.

Relevant statutory powers: Various.

Background papers: Local Government Finance Report.

Environmental/Human Rights Act/Crime and Disorder Act Implications: N/A.

Key Decision Reference (if required): Finalisation of Budget, Declaration of Council Tax, To set the levels of Council Tax for all areas within the District, and Declaration of Rents.