

To: Executive Board – 10 October 2005

**VAT AND PROVISIONS IN ACCOUNTS**

<b>Report of:</b>	Business Manager, Finance and Asset Management	<b>WARDS AFFECTED: ALL</b>
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Contact:	pgardner@oxford.gov.uk	
<b>Lead Member Responsible:</b>	Councillor Hollingsworth	
<b>Scrutiny Committee Responsibility:</b>	<b>Finance</b>	
<b>Key Decision:</b>	No	

**SUMMARY AND RECOMMENDATIONS**

**That the Executive Board:**

- 1. approves the officers' recommendation to retain the provision of £270k in the accounts until at least 2008;**
- 2. considers the additional information provided on accounting provisions.**

**1. Introduction**

- 1.1 At the meeting of the Executive Board on 12<sup>th</sup> September 2005, when considering the first quarter's budget monitoring report, Members asked for a report explaining further the Council's VAT position and the status of provisions within the 2004/2005 accounts.

## 2. VAT

- 2.1 The Council is normally able to reclaim from HMRC all VAT it pays on goods and services it buys. However to do so it has to remain within a partial exemption limit. If in any financial year the limit was exceeded the Council would be unable to recover that part of the VAT it incurred in providing exempt services.
- 2.2 This limit of 5% is measured as the percentage of the total VAT incurred, that relates to exempt services. Exempt services are those that the Council provides where the charge made is exempt from VAT. The main services that fall under this heading are land and property rentals, hire of sports facilities or provision of sports training courses.
- 2.3 In recent years the level of VAT that relates to exempt supplies has been rising slowly but steadily, remaining marginally below the 5% limit. However the sizeable capital spending on improving leisure facilities in 2004/2005 placed the ability to remain under the limit in jeopardy. The Council estimated £360,000 would be needed to meet this liability and provided for this in fixing its budget for the year. In order to alleviate the position and reduce the risk, in 2004 an option to charge VAT at the standard rate on rents charged for many Council owned commercial properties was made. At the end of 2004/2005 the calculation based on actual spending and income reduced the potential liability to £270,000 and provision was made for this in the accounts for the year.
- 2.4 In consultation with our external advisers and with the agreement of HMRC it has now been calculated that the Council's percentage of VAT relating to exempt supplies for 2004/2005 was 4.99%, and that we were below the threshold by less than £1,000. Whilst this means that the £270,000 provided in the accounts is not required immediately, the continuing capital investment in leisure built into the approved programme for 2005/2006 and 2006/2007 suggests that the 5% limit may be breached in either, or both of those years. In addition, if the balance between standard rated and exempt rated leisure activities changes from that used in estimating the VAT position for the current and future years the 5% limit could easily be exceeded. If this were to occur HMRC could reclaim VAT retrospectively to the year in which the capital investment occurred, in our case 2004/2005 and there would be a recurring liability in future years.
- 2.5 In the light of this, the provision has been retained.

### **3. Provisions, Balances and Reserves**

- 3.1 As part of its financial strategy the Council retains sums of money within its accounts for certain purposes. These are divided into three categories, general balances, provisions and reserves.
- 3.2 General balances are retained by the Council to provide working capital and minimum levels are determined each year as part of the annual budget setting process, based on advice given by the Section 151 Officer, in meeting his responsibilities under the Local Government Act 2003. For 2005/2006 these minimum levels were set as £3 million for the General Fund and £2 million for the Housing Revenue Account.
- 3.3 Provisions are made when finalising the accounts each year to meet liabilities that are likely to occur, but where the exact amount or timing of the liability cannot be determined at the time the accounts are completed. There are a number of provisions in existence as detailed below:

	<b>31<sup>st</sup> March 2005</b>
	<b>£000's</b>
City Works Rectification	(33)
Singletree Repair and Maintenance	(90)
Insurance's	(55)
Abbey Place Sinking Fund	(4)
Homelessness	(572)
Housing Benefits	(2,276)
<b>Total</b>	<b>(3,030)</b>

- 3.4 The provision of £2,276k was created to cover potential repayment of Housing Benefit relating to homelessness schemes, the benefit claimed being judged ineligible by DWP.

Another Council with a similar outstanding claim has mounted a legal challenge to the DWP's position. Our claim is unlikely to be resolved until this is concluded.

- 3.5 Officers review prior year provisions with the District Auditor as part of the production of annual financial statements. Any provisions found to be no longer required are released to general balances.
- 3.6 Reserves are sums set aside for specific purposes, where there may not be any known liability at the time the reserve is created, but where the Council wishes to be able to draw upon the resource at some time in the

future to meet its particular objective. The reserves in hand at 31<sup>st</sup> March 2005 are detailed below:

	<b>31<sup>st</sup> March 2005</b>
	<b>£000's</b>
St. Margaret's Institute <i>Set aside to meet Guarantee given for charitable organisation</i>	189
Cemeteries <i>Created to meet future maintenance liabilities</i>	19
Taxis <i>Reserve from Taxi licensing fees for additional licensing requirements</i>	50
CCTV Reserve <i>Funding for City Centre CCTV</i>	32
IT Equipment Reserve <i>Replacement of Housing Business Unit Systems</i>	298
Town Hall Equipment Reserve <i>Replacement of display equipment used when hiring rooms</i>	29
Work of Art Reserve <i>Purchases of works of art for Civic Collection</i>	3
Risk Project Reserve <i>Reserve for 5 years of risk project funded by Insurance Company</i>	4
Shopmobility Equipment Reserve <i>Purchases of Motorised wheelchairs</i>	19
Building Control Reinvestment Reserve <i>Used to improve the service of the Building Control function</i>	80
Westgate Development Contribution <i>Consultants fees for the redevelopment process</i>	154
Customer Services Server Replacement <i>Replace computer equipment within the Business Unit</i>	39
Car Park Security Reserve <i>Improving security at all City Council car parks</i>	169
Employer's Liability <i>Created as a self-insurance fund</i>	750
<b>TOTAL</b>	<b>£1,835</b>

This report has been seen and approved by:  
 Mark Luntley, Strategic Director Financial and Corporate Services  
 Councillor Alex Hollingsworth, Leader of the Council  
 Jeremy Thomas, Head of Legal and Democratic Services

There are no background papers.