

EXTRACT MINUTES of a meeting of the CABINET held in the Board Room, Council Offices, Coalville on TUESDAY, 24 JULY 2018

Present: Councillor R Blunt (Chairman)

Councillors R D Bayliss, T Gillard, T J Pendleton and A V Smith MBE

In Attendance: Councillors R Adams, J Bridges, J Clarke, N Clarke, J G Coxon, D Everitt, T Eynon, J Geary, G Houlst, J Legrys, S Sheahan and M Specht

Officers: Mr J Arnold, Mrs T Bingham, Mrs C Hammond, Mr G Jones, Mrs B Smith and Miss E Warhurst

21. LEISURE VAT IMPLICATIONS

The Head of Finance presented the report to Members.

She advised Members that the report requested that Cabinet recommended to Council that VAT exemption status in respect of the leisure centres was sought and provided the comments of the Policy Development Group in considering the issue. She stated that following a European Court of Justice ruling last year, HMRC had now accepted that sporting services delivered by Local Authorities should be exempt from VAT as was the case already for non-profit making bodies delivering the same supplies and services, and would allow Councils to choose to apply for the exemption status.

She informed Members that if the Council proceeded to apply for exemption status, savings in the region of £250K per annum would be achieved until such time that services were switched to the new leisure provider, following contract award later in the financial year, and adding that in addition, the Council would also be able to reclaim the VAT that had been paid over to HMRC for the past 4 years, equating to approx. £1m. She advised that the original outsourcing business case had been reviewed in light of the new treatment being available and that additional calculations had also been undertaken in response to questions raised by the Labour Group following PDG on 27 June, which had been outlined in the additional confidential paper that had been circulated prior to the meeting to members. She highlighted that exemption status was only favourable if the Council outsourced the leisure centres and that was because, under the exemption in a business-as-usual scenario, significant capital expenditure would breach the HMRC 'test of insignificance' and substantial VAT liabilities would then arise that would outweigh the benefits of exemption. She informed Members that 4 bids had been received from potential operators by close of play on Friday, 20 July and so there was no reason to believe a contract would not be awarded. She advised that the work required to make an application to HMRC would cost approximately £15k.

The Leader invited Councillor S Sheahan to ask his question.

Councillor S Sheahan thanked the Leader for allowing him to ask the question. He asked:-

"Given that the option of keeping Hood Park Leisure Centre in house, with VAT exemption is only £148,000 more expensive on the 25 year NPV position (£6k pa) would the Administration accept that it is worth exploring further the possibility of keeping Hood Park in house?"

Councillor A V Smith provided the following response to the question:-

“I need to make it absolutely clear to Members that the decision to outsource Hood Park and Hermitage Leisure Centres has already been made. This report is in consideration of a change in VAT treatment alone that will bring financial benefits to the council. We have already engaged the market and we are not unravelling this decision. We have 4 strong bidders from a very well established leisure market place who all operate on behalf of Local Authorities in Leicestershire and will all deliver far better outcomes in terms of facilities and community benefit. To separate out Hood Park is completely unfeasible as the business operation in terms of staffing, operational practices, and marketing are intrinsically linked. As stated in the additional paper circulated this evening, the in-house position has declined further since 2016/17 due to the need for future capital expenditure, and reduced revenue in the face of increased competition, and this pattern continues.”

Councillor R Blunt stated that the administration was committed to the route that had been set within the Leisure project and that the reclaimed VAT would be a windfall for the Council to use to its advantage. He stated that had there been no bids received then it would be a different story, however to change the outcomes at such a late stage would make a mockery of the process.

It was moved by Councillor A V Smith, seconded by Councillor R Blunt and

RESOLVED THAT:

1. The contents of the report and the comments of the Policy Development Group be noted and;
2. It be recommended to Council that the application to HMRC be made for exemption on VAT in respect of sporting services provided by the Council.

Reason for decision: To recommend to Council that an application is made to HMRC to seek exemption from charging VAT on sporting services.