WIRRAL COUNCIL

CABINET

25 NOVEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

CHANGE IN VAT RATE JANUARY 2011

1. EXECUTIVE SUMMARY

1.1. The Chancellor of the Exchequer in his 22 June 2010 Budget announced an increase in the standard rate of VAT to 20% from 4 January 2011. This report sets out the implications for the Council of the increase in the standard rate.

2. BACKGROUND

2.1. The Chancellor of the Exchequer announced in his 22 June 2010 Budget an increase in the standard VAT rate from 17.5% to 20% from 4 January 2011. This was one of a series of measures announced to assist in eliminating the national structural deficit.

3. IMPLICATIONS FOR THE COUNCIL

3.1. Any VAT paid or received by the Council for goods and services is effectively passed to Her Majesty's Revenue & Customs and so is cost neutral to the Council. This is with the proviso that the Council complies with appropriate VAT legislation and regulations applying to local authorities.

3.2. Council charges for services comprise both VAT inclusive and VAT exclusive charges.

a. VAT exclusive charges are based upon a set charge plus VAT. These charges will therefore increase in line with alterations to the standard rate. Any increase in fees may have an impact upon levels of demand as service users will have to meet any increase and so it is difficult to quantify in monetary terms.

b. VAT inclusive charges are a charge including VAT and so the income to the Council from these charges will reduce due to the increased VAT element, unless the overall charge is increased. The cost of absorbing this increase is 2.1% of any VAT inclusive income which is estimated at £100,000 in a full financial year. This mainly affects income raised from off-street car parking and from leisure centres.

3.3 The financial systems will need to be amended to process and account for invoices and payments at the appropriate rates. Alterations will be required to cash machines as well as any advertising of charges to apply the correct VAT rate.

3.4. The scale of charges for car parking is such that any 'pence' changes create difficulties in matching the exact VAT increase rate as the technology is based upon coins of a 5p minimum. A review of fees and charges is currently being undertaken and this may result in recommendations regarding changes to fees and charge levels.

4. FINANCIAL IMPLICATIONS

4.1. The operation of VAT is largely cost neutral to the Council. The increase in the standard rate of VAT, without a corresponding increase in VAT inclusive charges, will reduce the income to the Council by 2.1% of the VAT inclusive income. The impact for the remainder of 2010/11 is estimated to be £25,000 with the full year effect being £100,000. Reductions in income may also result from reductions in demand for services arising from price increases.

5. STAFFING IMPLICATIONS

5.1. There are no direct staffing implications from this report.

6. EQUAL OPPORTUNITY IMPLICATIONS

6.1. There are none arising directly from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1. There are none arising directly from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising directly from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1. There are none arising directly from this report.

10. PLANNING IMPLICATIONS

10.1. There are none arising directly from this report.

11. MEMBER SUPPORT IMPLICATIONS

11.1. There are none arising directly from this report.

12. BACKGROUND PAPERS

12.1. Budget 2010 – HM Treasury – June 2010.

13. RECOMMENDATIONS

13.1. That the change to the standard rate of VAT from 4 January 2011 be implemented on all VAT exclusive charges.

13.2. That the loss of income on VAT inclusive charges of £100,000 be noted.

IAN COLEMAN
DIRECTOR OF FINANCE.

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