



Report to Bill Chapple, Cabinet Member Environment and Climate Change

Date: 14th July 2019

Reference number: for cabinet member decisions only

Title: VAT on non-household waste charges at Household Recycling Centres

Relevant councillor(s): Bill Chapple

Author and/or contact officer: Martin Dickman, Neighbourhood Service Director and Roger Seed, Waste Contracts Team Leader.

Ward(s) affected: All wards

Recommendations:

- 1. To implement VAT charges for non-household waste in line with HMRC instruction as soon as possible.**
- 2. To add the VAT to the existing prices rather than incorporate into the current price level, with this change implemented from 1st August 2020.**

Reason for decision: These recommendations would bring the Council in line with HMRC rules and by adding the price to the current charges would ensure as much as possible of the income is used to cover the costs of the service.

Executive summary

1.1 In April 2019 Buckinghamshire Council introduced charges for non-household waste at its Household Recycling Centres (HRCs). These charges were introduced to meet budgetary pressures to cover the ongoing costs of managing the service. In terms of the application of VAT, at the time there was conflicting advice between Finance and Legal, as such the Service took a view that VAT would not be applied given internal Legal advice and having benchmarked with Durham County. However earlier this year HMRC informed the Council that all non-household charges must include VAT therefore steps needed to be put in place to implement this VAT change.

Content of report

- 1.2 Charges for non-household waste were introduced in April 2019 following a number of service changes agreed by Cabinet in January 2019 which were designed to deliver significant financial savings. One of the decisions was dependent on the financial savings being sufficient to enable Burnham HRC to remain open, with a key dependency being income from non-household waste charges.
- 1.3 In September 2019 a review report to Cabinet showed that the savings from the service changes were below the expected levels, due largely to lower than anticipated income levels from waste charging. However the report went on to show that income levels were expected to be delivered in the medium to long term as such this shortfall was deemed to be a low risk.
- 1.4 The report to Cabinet was therefore clear in recommending that Burnham HRC remained open, but made it clear that income levels from non-household waste charges were and will continue to be critical in maintaining the current service level across the county.
- 1.5 It is of note that the Waste Acceptance and Access Policy (WAAP) that was produced ahead of April 2019 to capture the detail of service changes included a statement that indicated that prices could and likely would change over time. This was anticipated to be around normal indexation increases, though could include a change in law stating that prices *“will be reviewed annually and in line with legislation changes”*.
- 1.6 Early in 2020 officers were notified of a HMRC decision that all non-household waste charges should in fact be subject to VAT, whether this could be considered a legislation change is a moot point. Nevertheless officers felt that given the significance of the financial impact of this change it should be formally reported. Furthermore it is clear that the HMRC decision is final with little prospect of the Council being able to successfully challenge this. Given this position, it is clear that VAT must be introduced to pricing across the nine HRC sites.
- 1.7 VAT has now been deducted against the income received during the first full financial year of the charges. This VAT charge amounted to around £71,000 and has been funded by a drawdown against the Council’s own financial Waste Reserve. VAT will also be deducted against any income received during the first few months of this financial year (2020/21), again this will be met from the Waste Reserve. The use of the Waste Reserve is not a long term solution, so the key question for consideration is whether VAT is added to existing prices or retrospectively considered as part of the existing charges, which by default has been happening to date.

1.8 This report recommends that VAT is added to existing prices, primarily because VAT was never considered as part of the costs for the non-household waste prices when they were originally developed. These costs were only based around the cost of dealing with these waste streams which includes the costs of haulage and disposal and an element of the overall costs of running the Household Recycling Centres, so not adding VAT to the prices would undermine the basis of this calculation.

1.9 It is recognised of course that with VAT at 20%, the change to the prices will be significant but is preferable to the alternative in the circumstances. To illustrate the price changes Table 1 below shows a selection of the current prices alongside the new prices (with VAT). Also shown on this table for comparison is the alternative option (touched on above and discussed in more detail in paragraph 1.11) that shows the prices if VAT was included as part of the existing pricing point. Whilst this table shows a selection of prices, of note currently over two-thirds of transactions total less than £10.00 in value and around 90% are less than £20.

Table 1: Selection of non-household waste items showing prices both with and without VAT where VAT is either part of existing prices or added to existing prices.

Item	VAT <u>added to</u> existing prices		VAT <u>incorporated into</u> existing prices	
	Price	Price	Price	Price
	Ex VAT	With VAT	Ex VAT	With VAT
Bags of cement/ rubble (per 25 litre bag)	£2.50	£3.00	£2.08	£2.50
Bathroom cabinets - fitted	£5.00	£6.00	£4.17	£5.00
Toilet cistern	£10.00	£12.00	£8.33	£10.00
Kitchen worktops	£7.50	£9.00	£6.25	£7.50
Floorboards or laminate flooring	£2.50	£3.00	£2.08	£2.50
Door (external)	£10.00	£12.00	£8.33	£10.00
Asbestos (1m x 1m)	£3.50	£4.20	£2.92	£3.50
Plaster or gypsum (per 25 litre bag)	£6.00	£7.20	£5.00	£6.00
Plasterboard sheet	£7.00	£8.40	£5.83	£7.00
Car or motorcycle tyre	£4.00	£4.80	£3.33	£4.00
Boiler	£20.00	£24.00	£16.67	£20.00
Shed - whole (max. 2m x 2m)	£17.50	£21.00	£14.58	£17.50

1.10 Adding VAT to the prices may have an impact of reducing the number of householder transactions for disposing of non-household waste and therefore there could still be a reduction in income against original projections. Whilst this is a

consideration it is felt to be of a lesser impact than incorporating the VAT charge into the existing price.

Other options considered

1.11 In terms of how VAT is applied, the only other option is for the prices to be considered as inclusive of VAT from now on. This would have the benefit of removing the impact of a price change for householders and furthermore it can probably be agreed that the current pricing structure has becoming well established across the county over the last 12 months. However as mentioned before VAT was not part of the original calculation for non-household waste charges and removing VAT at 20% from the current income will have a significant impact on meeting the savings required and committed to in the Cabinet papers from 2019; as such the only option that can realistically deliver the service savings is for VAT to be added to the current prices. Retrospectively deducting the VAT costs will leave the Council with budgetary pressures, one that cannot be sustainably met from using financial reserves. This financial impact is shown in more detail in the next section. If the option of incorporating the VAT into existing prices was seen as the preferred option the Council would have to consider how it would meet the shortfall in income for the HRC service.

Legal and financial implications

1.12 It has been made clear by HMRC that the implementation of VAT charges is compulsory. How this is managed by the Council is the only consideration that is available e.g. adding or incorporating the VAT price to the existing pricing structure. Applying VAT in addition to the existing charges will help towards achieving committed savings and avoid a shortfall in HRC service income. To help illustrate the impact of this Table 2 below shows the reduction of income due to VAT that would occur in the current financial year 2020/21 if prices were to be incorporated into existing prices rather than added to them. Two forecasts are shown, a baseline forecast for 2020/21 using income data from 2019/20 and a revised 2020/21 forecast taking into the account the impact of the Covid-19 pandemic. The Covid-19 impact is already having a significant impact on reduced income in the current year (given all nine sites were closed for 7 weeks). This Covid impact alone is likely to cause a budget pressure of £290,000; the VAT issue would only worsen this position still further.

Table 2: Comparison of income from non-household waste charging with VAT either added to or incorporated into existing prices

1. Impact of VAT <u>added to</u> existing price	Baseline Forecast	Covid19 forecast	Budget pressure
Annual income without VAT	£430,000	£140,000	£290,000
VAT @ 20% (added to total income below)	£86,000	£28,000	
Income with VAT	£516,000	£168,000	
2. Impact of VAT <u>incorporated into</u> existing price	Baseline Forecast	Covid19 forecast	
Annual Income without VAT	£358,333	£116,667	
VAT @ 20% (included in total income below)	£71,667	£23,333	
Income with VAT	£430,000	£140,000	
Shortfall on income from VAT	£71,667	£23,333	
Shortfall on income with impact of Covid19			£313,333

Corporate implications

1.13 From a Buckinghamshire householder perspective an increase in prices of 20%, even if it is explained that it is due to an unavoidable VAT issue, might be cause for some alarm and as such could have a negative reputational impact on the Council. This is perhaps all the more so during the current Covid 19 pandemic.

1.14 The implementation of charges will require some changes to signage at the sites and on the Council’s website and other media outlets, this will cost less than £1,000 to implement and can be fully implemented within two to three weeks of a Decision.

1.15 There will be changes needed on the terminals that produce receipts for customers to show that VAT is charged. The message will be similar to the following: *“Thank you for visiting Buckinghamshire’s Household Recycling Centres, All totals inclusive of VAT at 20%, VAT Registration No. GB33 7784 854”*.

Consultation and communication

1.16 The changes to the HRC services that brought in non-household waste charges were the subject of significant and extensive consultation; as such the impact around the principle of charging is well understood. This specific change on VAT has not been

subject to any consultation however an initial high-level EQIA was completed and found no significant impacts.

- 1.17 If recommendation no.2 is supported communication messages indicating VAT is being increased as an unavoidable requirement will be disseminated on the Council's website and other media feeds, e.g. to be picked up on Google searches. Revised pricing posters will be sent out to all nine HRC sites.

Next steps and review

- 1.18 Once a decision on the approach to charging of VAT is confirmed this will be implemented across the nine HRC sites more or less as soon as possible. Minor signage and payment processes will need updating which would be implemented within a short period of time. Given the process changes the aim would be to bring the change in line with the end of month accounts, this would allow a start date of 1st August 2020.

Background papers

A copy of the WAAP policy and initial Cabinet report (January 2019) that introduced the charges as referenced in this report can be found at:

[https://buckinghamshire.moderngov.co.uk/cestdocuments.aspx?MID=4761&DF=07%2f01%2f2019&A=1&R=0&F=embed\\$View%20the%20decision%20for%20item%2012.\\$htm](https://buckinghamshire.moderngov.co.uk/cestdocuments.aspx?MID=4761&DF=07%2f01%2f2019&A=1&R=0&F=embed$View%20the%20decision%20for%20item%2012.$htm)

Details of the follow up Cabinet report (September 2019) can be found at:

[https://buckinghamshire.moderngov.co.uk/cestdocuments.aspx?MID=4772&DF=09%2f09%2f2019&A=1&R=0&F=embed\\$View%20the%20decision%20for%20item%209.\\$htm](https://buckinghamshire.moderngov.co.uk/cestdocuments.aspx?MID=4772&DF=09%2f09%2f2019&A=1&R=0&F=embed$View%20the%20decision%20for%20item%209.$htm)