

**REPLACEMENT OF COURT RECREATION GROUND BOWLS PAVILION**

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| <u>Report of the:</u>                         | Head of Corporate Risk                                   |
| <u>Contact:</u>                               | Tony Foxwell   |
| Urgent Decision?(no)                          | No   |
| If yes, reason urgent decision required:      | N/A  |
| <u>Annexes/Appendices</u> (attached):         | None   |
| <u>Other available papers</u> (not attached): | Reports to Leisure Committee March 2014 and October 2014 |

**REPORT SUMMARY**

**The report outlines the current situation regarding additional funding agreed via delegated authority for replacement bowls pavilion and the VAT situation.**

**RECOMMENDATION (S)**

*Notes*

- (1) That the Committee notes the update on the replacement of Court Recreation ground Bowling Pavilion;**
- (2) That the Committee agreed that Court Recreation Ground Pavilion should be opted to tax for Value Added Tax (VAT) purposes.**
- (3) That the sum payable by the Epsom Bowls Club be set at the same level as that payable by other bowls clubs, currently £9240, and this sum be inclusive of VAT.**

**1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy**

- 1.1 The Council has identified 'Quality of Life' and 'Safer and stronger communities' as key priorities. The project has links to both these items.

**2 Background**

- 2.1 The Bowls Hut at Court Recreation Ground has been in existence since the late 1960's and in its current form since 1989 when Epsom Bowling Club raised funds to extend the existing facility to include changing rooms, a disabled toilet and a disabled ramp.

**STRATEGY AND RESOURCES COMMITTEE**  
**29 SEPTEMBER 2015**

- 2.2 The hut is of mainly wooden construction and provides basic accommodation. Unfortunately the hut is showing significant signs of age and deterioration, is becoming uneconomic to repair and susceptible to vandalism.
- 2.3 In March 2014 the Leisure Committee agreed in principle, to replace the bowls hut at an estimated cost of £90,000 to be financed from Personalisation, Prevention and Partnership funding sourced from the County Council.
- 2.4 At its meeting in October 2014, Officers provided the Leisure Committee with a schedule of options, with costs starting at £115,000, to replace the hut with a modular building of the same area on the same site with similar accommodation. These costs went up to £165,000 for a higher specification modular building.
- 2.5 The Leisure Committee agreed to proceed, subject to consultation with stakeholders, with the replacement of the Court Recreation Ground Bowls Hut with a budget modular building at a cost of £115,000. This was to be financed by £110,000 from Personalisation and Prevention Partnership (PPP) funding and £5,000 from S106 contributions. The project was also to include planting outside the hut to improve the visual appearance of the area.
- 2.6 The Director of Operations was authorised, in consultation with the Chairman of the Leisure Committee, to approve minor amendments to the specification of the Court Recreation Ground Bowls Hut which arose as a result of consultation.
- 2.7 The cost of the project after tendering exceeded the original agreed budget and, as a result of concerns that the external funding might be lost as a result of further delay, Officers consulted the Chairmen of Strategy & Resources and Leisure Committee regarding the proposed way forward. This course of action (rather than taking a further report to committee) was considered appropriate in the circumstances.
- 2.8 It is proposed to use additional S106 contributions set aside for outdoor sports facilities to cover the shortfall in the project, which would be a maximum £62,141 (in addition to the £5000 identified in paragraph 2.5 above) and expenditure of up to this amount has been approved.
- 2.9 Officers are continuing to seek to control the actual costs, and it is hoped that the total cost of the project will actually be around £165,000.
- 2.10 The additional funding will secure a good standard of replacement facility, which will reduce future maintenance costs.
- 2.11 The programme has been delayed by a number of factors. For example, alterations to the design, in order to keep down costs, have had implications on planning approval.
- 2.12 The works are programmed to proceed as soon as issues with redesign are agreed. Orders are to be placed imminently with start on site currently planned for January 2016.

**STRATEGY AND RESOURCES COMMITTEE**  
**29 SEPTEMBER 2015**

2.13 Table below provides details of the Section 106 contributions which could be allocated to this project to fund the shortfall:

| Description on S106 Database         | £      |
|--------------------------------------|--------|
| West Park                            | 32,747 |
| 2 East Street                        | 4,157  |
| 1-5 Woodcote House Court             | 4,976  |
| Plot 3, Worlds End, Woodcote End     | 3,413  |
| 76 Rosebery Road                     | 2,520  |
| Pickard House Upper High St Epsom    | 5,301  |
| 47 Upper High Street Epsom           | 1,315  |
| 89 Rosebery Road                     | 155    |
| 96 Grosvenor Road, Epsom, Surrey     | 78     |
| 16A East Street, Epsom               | 2,630  |
| 54/56 South Street Epsom             | 3,534  |
| Ground Floor, 121 East Street, Epsom | 1,315  |
|                                      | 62,141 |

**3 Opt to Tax**

- 3.1 To date income from Epsom Bowling Club at Court Recreation Ground has been treated as exempt from VAT under HMRC land and property tax rules. This means that although the Council can recover VAT on expenditure at the Pavilion no VAT has been charged to the club.
- 3.2 The work on the Pavilion is scheduled to cost around £165,000, and the Council will recover VAT incurred on all this expenditure to the value of around £33,000.
- 3.3 Under special VAT rules, councils are permitted to recover VAT incurred on expenditure relating to generating exempt income, provided that it does not exceed 5% of the total input VAT recovered. Currently, for this Council, this equates to a limit of approximately £100,000. Recovery of VAT on expenditure at Court Recreation Ground could cause the Council to exceed the 5% limit. There is no option not to recover the VAT.
- 3.4 If the limit is exceeded the Council will have to repay HMRC the entire amount of VAT recovered on expenditure incurred to generate exempt income. This would be the estimated £33,000 recovered on Court Recreation Ground as well as approximately £100,000 related to other properties.

**STRATEGY AND RESOURCES COMMITTEE**  
**29 SEPTEMBER 2015**

- 3.5 The risk of exceeding the 5% limit could be avoided if the Council exercised its option to tax the Pavilion at Court Recreation Ground. Once a property has been opted to tax, all income generated from that property is subject to VAT. The standard rate of VAT is currently 20%.
- 3.6 If this option is exercised, the income from lettings at the pavilion will no longer be exempt from VAT and so expenditure incurred relating to that income would fall outside of the Council's partial exemption calculation. This would avoid exceeding the partial exemption limit and having to repay HMRC the input tax recovered.
- 3.7 If the option to tax was not exercised the liability to the Council could be approximately £130,000.
- 3.8 Currently Epsom Court Bowling Club pays £8,020 rent per annum for use of the Pavilion. There are three other Bowling Clubs at Recreation Grounds in the Borough, each of which pay £9,240 per annum. The reason for the difference is that the Epsom Court Bowling Club contributed to the cost of the old pavilion.
- 3.9 Once the pavilion in Court Recreation Ground has been fully renovated it is proposed that the amount payable by Epsom Bowling Club be increased to £9,240, the same as paid by the other Clubs. This is the basis on which discussions have taken place with the Club.
- 3.10 In other cases, the payment is split as £7,000 for the use of bowling green (which equates to the estimated cost of upkeep each year) and £2,240 for the use of the Pavilion. If the building is opted to tax then the Council will have to pay VAT over to HMRC on any income received which relates to the Pavilion.
- 3.11 If VAT is simply added to the revised charge of £9,240 then Epsom Bowling Club would have to pay a total of £9,688 per annum. Alternatively, the Club could be charged £9,240 inclusive of VAT.
- 3.12 If the Council decided to keep the total actually payable by the Club at £9,240, then the charge for the pavilion would need to be set at £1,867, and the overall net sum kept by the Council would be £8,867. The balance, £373, would be payable to HMRC as VAT. It is understood that, in effect, this is the position in relation to one of the other bowls clubs.
- 3.13 The charge may increase from £9,240 when Leisure Committee consider the fees and charges paid by Bowls Clubs, but it is important to set the basis on which charges are to be levied.
- 3.14 VAT would also be payable by any other hirers or users of the Pavilion.
- 3.15 **Chief Finance Officer's comments:** The financial implications are detailed in the body of this report.

**STRATEGY AND RESOURCES COMMITTEE**  
**29 SEPTEMBER 2015**

**4 Legal Implications (including implications for matters relating to equality)**

- 4.1 Each of the new build options provides accommodation which complies with modern disability access requirements.
- 4.2 **Monitoring Officer's comments:** There are no other legal implications arising from this report

**5 Sustainability Policy and Community Safety Implications**

- 5.1 The new build option would be compliant with modern energy efficiency requirements.

**6 Partnerships**

- 6.1 Surrey County Council provides PPP funding for the project.

**7 Risk Assessment**

- 7.1 The project has slipped in programme but is now planned to be completed before the bowling season in May 2016

**8 Conclusion and Recommendations**

- 8.1 That the Committee notes the update on the replacement of Court Recreation ground Bowling Pavilion.
- 8.2 In light of the significant additional financial implications of not doing so, it is considered essential that the Council opt to tax the pavilion.
- 8.3 As a result of the recommendation to opt to tax the pavilion there is a need to consider how the Club would be charged. As discussions have taken place on the basis that the sum actually paid would be the same as other bowls clubs, it is recommended that the Club be charged £9240 inclusive of VAT.

**WARD(S) AFFECTED: Court**