FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE

Minutes of a meeting of the Finance, Resources, Audit and Governance Committee of South Norfolk Council held at South Norfolk House, Long Stratton, on Wednesday 21 October 2015 at 9.30 am.

Committee Members Present: Councillors: G Wheatley (Chairman), P Hardy, C Hudson, W Kemp, T Lewis and R Savage

Officers in Attendance: The Director of Business Development (D Lorimer) and the Commercial Property and Conferencing Manager (C Hewitt)

97 MINUTES

The minutes of the meeting held on 27 July 2015 were confirmed as a correct record and signed by the Chairman.

98 OPTING TO TAX THE COUNCIL’S COMMERCIAL INVESTMENT PROPERTY PORTFOLIO

The Director of Business Development presented the report which detailed a proposal for the Council to Opt to Tax all of its commercial investment property portfolio. She explained the legislation which allowed the Council to enjoy a favourable VAT partial exemption where the input VAT relating to those activities classed as exempt for VAT purposes did not exceed 5% of the total input VAT incurred by the local authority. Members were advised that some of the commercial investment properties owned by SNC were already opted into the VAT regime while others were not. It was clarified that properties not opted for VAT purposes were classified as exempt business activities and the reclaimed input VAT on those properties contributed to the Council's partial exemption threshold.
The Committee was informed that the Council’s VAT partial exemption was at risk due to its significant capital works programme, in particular as a result of the investments in the Leisure services which fell into the partial exemption calculation, and that action was needed to mitigate this risk as, if the 5% threshold was exceeded, an element of recoverable VAT which the Council currently recovered would be lost as the Council would not be able to reclaim the input VAT relating to its exempt activities during that financial year. Members were made aware that the forecast of this loss would be worth at least £255,000 to the Council over the next 3 years.

Members considered the proposals detailed within the report, which sought to mitigate the risk of the Council exceeding its 5% partial exemption threshold by opting to tax all commercial investment properties. The Committee was informed that this would mean VAT would be charged on rental income on those commercial properties which were not currently opted to tax, which would have the effect of increasing the rents payable by 20% at those properties. It was noted that tenants who were VAT registered already would not be affected by this change, as they would be able to reclaim the VAT charged. Concerns were raised, however, regarding smaller businesses who were not VAT registered as they would be liable for the effective 20% increase. Officers advised that it was the Council’s intention to offer these existing tenants some form of taper relief to soften the blow and help them to manage the impact more easily.

During a lengthy discussion, concerns were raised regarding the impact on small businesses not registered for VAT and it was proposed that the Council considered offering 100% taper relief, for those affected, for the remainder of their tenancies. After deliberation, it was felt that although members agreed that the Council should make every effort to protect and support small businesses, 100% taper relief should instead be considered only for a maximum period of three years as many of the tenancies were a rolling period tenancy and therefore had no end date. Members also expressed concerns that the effect of opting to tax would raise the rental prices by 20%, making the properties less attractive to current and new tenants, although it was suggested that, in this case, it would be sensible to review the rental prices to ensure they remained competitive. The Committee discussed the various rental properties and it was agreed that the occupants of some of the smaller units would be more likely to be adversely affected, namely those occupying Diss Business Centre, due to the nature and size of their businesses.

After further discussion, the Committee agreed that, without further research into the nature of each individual business and its current VAT status, it was not possible to make a full recommendation to Cabinet but that they agreed, in principle, with opting to tax all of the Council’s commercial investment properties. However, it was decided that officers would put a scheme in place to ensure that small, non VAT registered businesses were not disadvantaged and were offered assistance for a period of up to three years. Several options were considered by the Committee and it was agreed that these would be presented to Cabinet along with the recommendation that the decision be delegated to the Chair of the Finance, Resources, Audit and Governance Committee, the Portfolio Holder and the Director of Business Development.
It was then:

RESOLVED:

To

1. Advise Cabinet to agree, in principle, to opt to tax the currently un-opted properties, with a suitable scheme in place, to ensure that small businesses, who were not registered for VAT, were not disadvantaged;

2. Delegate the decision to the Chair of the Finance, Resources, Audit and Governance Committee, the Portfolio Holder and the Director of Business Development.

99 FINANCE, RESOURCES, AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

Members noted the Finance, Resources, Audit & Governance Committee’s Work Programme.

It was noted that Rob Murray would no longer be continuing as the Council’s Audit Partner and that his replacement from Ernst and Young might not be able to attend the next meeting of the Committee.

The meeting concluded at 10.43 am

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Chairman