Finance, Resources, Audit and Governance Committee

Wednesday 21 October 2015

9:30am, Colman Room
South Norfolk House, Long Stratton, Norfolk, NR15 2XE

If you have any special requirements in order to attend this meeting, please let us know in advance

Large print version can be made available

Contact Sue Elliott on 01508 533943 or democracy@s-norfolk.gov.uk
Members of the Finance, Resources, Audit and Governance Committee:

Mr G Wheatley (Chairman)
Mr P Hardy (Vice-Chairman)
Mr L Dale
Mr C Hudson
Mr W Kemp
Mr T Lewis
Mr R Savage

This meeting may be filmed, recorded or photographed by the public; however anyone who wishes to do so must inform the chairman and ensure it is done in a non-disruptive and public manner. Please review the Council's guidance on filming and recording meetings available in the meeting room.
Agenda

1. To report apologies for absence and to identify substitute members;

2. Any items of business which the Chairman decides should be considered as a matter of urgency pursuant to Section 100B(4)(b) of the Local Government Act, 1972. Urgent business may only be taken if, "by reason of special circumstances" (which will be recorded in the minutes), the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency;

3. To Receive Declarations of Interest from Members; (please see guidance – page 12)

4. To confirm the minutes of the FRAG Committee held on 27 July 2015; (attached – page 13)

5. Opting to tax the Council’s Commercial Investment Property Portfolio; (report attached – page 17)

6. FRAG Work Programme; (attached – page 24)
Glossary

General Terms

AGS – Annual Governance Statement – This is a statement prepared by the Council each year to summarise the governance and assurance framework, and highlight any significant weaknesses in that framework.

BAD DEBT PROVISION - To take account of the amount of debt which the Council estimates it will not be able to collect.

Build Insight – The Council’s Approved Inspector company, authorised under the Building Act 1984 to carry out building control work in England and Wales.

CIPFA – the Chartered Institute of Public Finance and Accountancy – the accountancy body for public services.

CoCo - Code of Connection – a list of security controls that the Council has to have in place in order to undertake secure transactions with other government bodies.

CNC - a joint venture established with Norwich City Council, Broadland Council and Kings Lynn and West Norfolk Borough Council to deliver the Council’s building control functions, ensuring buildings and developments comply with building regulations.

CNC CS – CNC consultancy services, the private company administered by CNC.

CREDITOR - A person or organisation which the Council owes money to for a service or goods.

CSO – Contract Standing Orders – outline the Council’s rules when entering into contracts and buying large value goods.

GNDP – Greater Norwich Development Partnership – a partnership with Norwich City and Broadland Councils that manages delivery of the Government’s growth strategies.
GNGB – *Greater Norwich Growth Board* – a partnership with Broadland Council, Norwich City Council, Norfolk County Council and New Anglia Local Enterprise Partnership providing strategic direction, monitoring and coordination of both the City Deal and the wider growth programme for the Greater Norwich area

JCS – *Joint Core Strategy* – sets out the general vision and objectives for delivering the local development framework

**JOURNAL** - The transfer of a transaction to either a different cost centre or a different categorisation within the finance system e.g. transfer of an item of expenditure between HR and Planning or the transfer of expenditure from electricity to water. These are used to correct input errors, share costs/income between cost centres or to record expenditure or income which has not yet been invoiced.

KPI - *Key Performance Indicator*

LASAAC – *Local Authority (Scotland) Accounts Advisory Committee* – this Committee develops proper accounting practice for Scottish Local Authorities

LDF – *Local Development Framework* - outlines the management of planning in the Council

LEDGER - A module within the finance system e.g. Sales Ledger, Purchase Ledger, General Ledger.

LGA – *Local Government Association* – a lobbying organisation for local councils

LGPS – *Local Government Pension Scheme* - Pension Scheme for all public sector employees

LSVT - *Large Scale Voluntary Transfer* - the transfer of the Council’s housing stock to Saffron Housing Trust

**Moving Forward Together** – The Council’s internal programme to improve performance in a number of key areas

NFI – *National Fraud Initiative* – A national exercise to compare data across public sector organisation to aid identifying potential frauds

NHB – New Homes Bonus - grant paid by central government to local councils for increasing the number of homes and their use

NI – *National Indicator* – a measure used to identify how the Council is performing that is determined by central government
NNDR/NDR – (National) Non-Domestic Rates – commonly known as Business Rates

PI – Performance Indicator – measure used to identify how the Council is performing

PSN – Public Services Network - provides a secure private internet for organisations across Central Government and the Wider Public Sector and standardised ICT infrastructure

RAD - Rent Assisted Deposit scheme.

RFG – Rules of Financial Governance – the Council’s rules governing the day-to-day financial activities undertaken

SLA – Service Level Agreement – an agreement that sets out the terms of reference for when one organisation provides a service to another

MTP – Medium Term Plan – sets out the future forecast financial position of the Council

SOLACE – Society of Local Authority Chief Executives – society promoting public sector management and development

SPARSE – Sparsity Partnership for Authorities Delivering Rural Services – an organisation that benchmarks and supports local rural councils

SUNDARY DEBTOR - A customer who owes the Council money for a service they have received prior to payment, this excludes Council Tax or NDR. The term can also refer to the system used to record money owed to the council e.g. the Sundry Debtors system which is a module within the financial system.
Audit Terminology

APB – Auditing Practices Board – the body that sets the standards for auditing in the UK

COUNT – Count Once, Use Numerous Times – a system used for data collection and analysing, which works to avoid duplication by assuming the principle that a piece of data should be recorded once but used several times in different ways

ISA – International Auditing Standard – Provides external auditors with a required framework that dictates work to be undertaken before awarding an opinion on the statement of accounts

VFM Conclusion – Value for Money Conclusion – the Audit Commission are required to give an annual conclusion on the Council’s arrangements for providing value for money in addition to the opinion given on the statement of accounts.

Accounting Terminology

BRRS – Business Rates Retention Scheme - provides a direct link between business rates growth and the amount of money councils have to spend on local people and local services (the Council retains a proportion of the income collected as well as growth generated in the area)

CFR – Capital Financing Requirement – a calculated figure that establishes the amount of money the Council needs to borrow

Collection Fund – a separate account statement that records the transactions relating to the collection and redistribution of council tax and business rates

GAAP – Generally Accepted Accounting Practice – this provides the overall framework for accounting principles prior to IFRS adoption in local government (also “UK GAAP” – specific to the United Kingdom)

IAS – International Accounting Standards – these were the precursors for international financial reporting standards (see below).


IPSAS – International Public Sector Accounting Standards – these set out the accounting standards for public sector bodies, and are based on the international financial reporting standards.
MRP – *Minimum Revenue Provision* – the amount of money the Council needs to set aside each year to fund activities from revenue balances

Non-current assets – assets from which benefit can be derived by the Council for more than one year (formerly known as Fixed Assets)

RSG – *Revenue Support Grant* - one source of Council funding from Central Government

SeRCOP – *Service Reporting Code of Practice* – outlines how Council should classify income and expenditure across different services

SSAP – *Statement of Standard Accounting Practice* – preceded the financial reporting standards in the UK

The Code – *Code of Practice on Local Authority Accounting in the UK* – main guidance on accounting treatment required for the statement of accounts

Virement – The process of transferring a sum of money from one part of the Council's budget to another, subject to appropriate approval.

WGA – *Whole of Government Accounts* – an exercise undertaken to consolidate all the accounting records of government bodies

**International Accounting and Financial Reporting Standards Reference Numbers**

IAS1 – *Presentation of Financial Statements* – sets out the prescribed format for statements of accounts

IAS19 – *Employee Benefits* – essentially provides the basis for accounting for the pension fund

IAS20 – *Accounting for Government Grants* – establishes the accounting treatment for receiving government grants

IAS40 – *Investment Property* – how organisations should account for properties held as an investment

IPSAS16 – *Investment Property* – how public sector organisations should account for properties held as an investment

IPSAS23 – *Revenue from non-exchange transactions (taxes and transfers)* – this determines how monies from taxes should be treated in the accounts
**Council Systems**

**ALBACS CS** – The Council’s system to make payments to other organisations

**AXIS** - Income receiving system which interacts directly with Integra

**Clubrunner** – System used to manage bookings and activities at the leisure centres

**eXpress** – the electoral registration system

**FAM** – the system used by the accountancy team to record the Council’s assets and associated transactions

**IBS** – the Revenues system, maintains all Council Tax, Business Rates and Benefits records

**IDOX Uniform** – IT platform covering Planning, Building Control, Environmental Services, Land Charges, Licensing, Estates, Street Naming and Numbering and Address Gazetteer.

**Integra** – general ledger used to record all accounting transactions, including purchases made by the Council and income received by the Council

**LALPAC** – system used to record licensing details
**Working Style of Cabinet Policy Committees**

**Member Leadership**
Members of the Committees will take the lead in understanding the direction provided by Cabinet and delivering work to Cabinet requirements. Whilst recognising political allegiances, members will work in a collaborative manner with officers and cabinet portfolio holders to consider the relevant issues when developing Council policy.

**Collaborative Working**
All meetings of the Committees will be constructive and conducted in a spirit of mutual respect and trust. Officers will commit to supplying meetings with information relevant to making informed decisions on policies and matters. Members will commit to thoroughly reading and understanding papers, raising questions that are pertinent to the issues at stake. Members will, where feasible, agree definable actions to be taken forward by officers to develop policy, rather than having items for noting or simply to discuss.

**Frequency and Nature of Meeting**
Each Committee will have at least 3 formal, public meetings per year. In assessing items delegated by Cabinet for review, the Committee may decide that it wishes to meet on a more or less frequent basis.

The Committee may also hold informal meetings should it require in order to progress specific items in detail. However, if the Committee is meeting to determine whether to refer items for Cabinet approval, the meeting should follow the Council’s Standing Orders and thus be subject to a formal agenda, be held in public and the meeting recorded.

Informal meetings may be held in any manner suitable for conducting business (e.g. via meeting, conference call, circulation of information via e-mail, or site visits); while relevant information will be supplied by officers where appropriate, these meetings will not be subject to a formal agenda or minutes. Where business of the Committee is undertaken through informal meeting, all members of the Committee will be provided opportunity to participate. Members will expect to be able to participate in a free and frank exchange of views when deliberating subjects.

**Training**
Members commit to undertaking development – for example, attending formal training sessions, or reading relevant background material, in order to properly equip themselves to deliver their expected role fully.
Accountability
The Policy Committees will be accountable to Cabinet. They will not be able to make decisions themselves, but can recommend decisions to Cabinet. Cabinet may review whether the Committees are discharging their duties effectively, and may receive progress reports on how the Policy Committee is working to discharge its duties.

Work Programmes
The Work Programmes for the Policy Committee will be established by Cabinet. Members of the Committee will not be able to raise items to be included in the work programme. Where topics have been identified for inclusion in the work programme, the Committee will work to identify how it will discharge its responsibilities, including the resources required to do so.

Managing Time
However the Committee is meeting, it will attempt to conclude the business of each meeting in reasonable time. The Chairman will be responsible for ensuring the meeting stays focused on pertinent issue, and does not become side-tracked on issues that are not relevant to the policy under consideration, or those that should be discussed by a separate committee.
DECLARATIONS OF INTEREST AT MEETINGS

Members are asked to declare any interests they have in the meeting. Members are required to identify the nature of the interest and the agenda item to which it relates.

- In the case of other interests, the member may speak and vote on the matter.
- If it is a pecuniary interest, the member must withdraw from the meeting when it is discussed.
- If it affects or relates to a pecuniary interest the member has, they have the right to make representations to the meeting as a member of the public but must then withdraw from the meeting.
- Members are also requested when appropriate to make any declarations under the Code of Practice on Planning and Judicial matters.
- In any case, members have the right to remove themselves from the meeting or the voting if they consider, in the circumstances, it is appropriate to do so.

Should Members have any concerns relating to interests they have, they are encouraged to contact the Monitoring Officer (or Deputy) or another member of the Democratic Services Team in advance of the meeting.
Agenda Item 4

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 Thursday 27 July 2015 at 9.30 am.

Committee Members Present: Councillors: G Wheatley (Chairman), L Dale, C Hudson and R Savage

Apologies: Councillors: P Hardy and T Lewis

Substitute: Councillor: M Gray for T Lewis

Cabinet Member Present: Councillor: M Edney

Officers in Attendance: The Director of Business Development (D Lorimer), the Communities and Democratic Services Manager (L Mickleborough), the Accountancy Manager (M Fernandez-Graham) and the Senior Accountant (J Brown)

Also in Attendance: Rob Murray and Tina Meyer (Ernst & Young)

91 MINUTES

The minutes of the meeting held on 26 June 2015 were confirmed as a correct record and signed by the Chairman.
92 AUDITED STATEMENT OF ACCOUNTS 2014/15

The Accountancy Manager presented the Statement of Accounts for 2014/15, advising members that unqualified opinions for both the financial statements and value for money had been issued. The Committee noted that a number of adjustments had been made to the accounts as a result of the audit, which had increased the net worth of the Council by £167,000. Members were advised that there was a re-categorisation of return on assets in the pension scheme, as detailed in the report, and that the change had no effect on the Council’s net worth or its reserves.

In response to a member’s question regarding Business Rates Appeals, the Accountancy Manager advised that the appeals deadline had been 31 March 2015, and that it was not yet known how many appeals would be upheld. The Committee was informed that the auditors were in agreement with the estimate made by the Council to cover appeals which were successful. The Director of Business Development advised members that businesses often lodged appeals as a matter of course, withdrawing them at a later stage.

Queries were raised regarding some of the accountancy terms used within the reports. The Chairman reminded members that the role of the Committee was to ensure that the Council’s accounts were properly prepared and audited by qualified staff, and that it was not a requirement that members of the Committee themselves be fully conversant with technical accountancy terminology. Members affirmed their confidence in the Council’s finance officers and auditors.

There was some discussion regarding various matters, including CNC. Officers confirmed that the Council only held shares in CNC CS Ltd. and that these figures were reflected on the balance sheet.

After a brief discussion it was:

RESOLVED: To

1. Note the adjustments to the Statement of Accounts 2014/15;
2. Delegate to the Accountancy Manager to sign the letter of representation and to make any necessary trivial adjustments to the Statement for sign-off and publication by 31 July 2015.
3. Delegate to the Chair of the Finance, Resources, Audit and Governance Committee to sign the letter of representation alongside the Director of Business Development.
93 ANNUAL GOVERNANCE STATEMENT 2014/15

The Accountancy Manager presented the Annual Governance Statement for 2014/15 and explained to members that the statement was a reflection of the Council’s overall governance arrangements. The Committee was informed that, as in the previous year, an ‘adequate’ audit opinion had been given by the Audit Manager.

There was a short discussion regarding risks and opportunities, after which it was:

RESOLVED: To

Approve the Annual Governance Statement for signature by the Chief Executive and the Leader of the Council.

94 AUDIT RESULTS REPORT

Members considered the Audit Results Report for the year ended 31 March 2015 which was presented by Mr R Murray from Ernst & Young. Mr Murray advised members that the audit was now complete and summarised the salient points in the report.

There was a brief discussion, during which Mr Murray clarified the details regarding the corrected audit misstatements, as detailed in appendix A of the report.

Members noted the report.

95 COUNTER FRAUD ACTIVITY REPORT

Members considered the report on Counter Fraud Activity and noted the work performed by officers to mitigate both the internal and external threats faced. After summarising the salient points, the Communities and Democratic Services Manager invited comments from the Committee.
The Committee discussed the various types of fraud identified by the Council, including improper claims relating to the Council Tax Single Person Discount and Housing Benefit, and the effect of this on the Council’s finances. The Director of Business Development re-assured members that controls were in place to mitigate incidents of attempted fraud and that where these were identified, further investigations undertaken by online cross checking with the Department of Work & Pensions (DWP) and HM Revenue & Customs (HMRC) usually resulted in the discovery of additional fraudulent activity. In response to a suggestion that more regular checks be undertaken by the Council and that, as with Tax Credits, claimants should be required to make an annual statement, the Director of Business Development advised members that the Council were required to act under DWP rules for the provision of Housing Benefits.

After a short discussion it was:

RESOLVED: TO

Note and accept the Annual Report on Counter Fraud Activity.

96 FINANCE, RESOURCES, AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

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

It was agreed that the meeting scheduled for 4 September 2015 be replaced by an INFORMAL meeting of the Committee, where members would consider the rental properties at the Poringland development.

It was agreed that the next FORMAL meeting of the FRAG Committee would take place on 27 November 2015, and that this would include the Internal Audit Activity Report, previously scheduled for discussion at the September meeting.

The meeting concluded at 10.25 am

__________________________
Chairman
Opting to tax the Council’s commercial investment property portfolio

Report of the Commercial Property and Conferencing Manager
Cabinet Member: Michael Edney, Finance and Resources

CONTACT
Christopher Hewitt
01508 533951
chewitt@s-norfolk.gov.uk
1. Introduction

1.1. The Council proposes to Opt to Tax its commercial investment property portfolio to mitigate a risk to its favourable VAT partial exemption. This will mean that the Council will have to charge VAT on the rent it receives, which will have some financial implications for a small number of its tenants. It is proposed to provide affected tenants with a taper relief to help them to manage the impact of the charge. Finance, Resources, Audit and Governance Cabinet Policy Committee (FRAG) is requested to review and endorse the proposal to opt to tax the properties and provide taper relief, and authorise officers to implement the opting process, advising tenants of the change by letter, in advance of it taking effect.

2. Background

2.1. The Council owns a number of commercial property investments. Some of the properties are opted in to the VAT regime whilst others are not. The reclaimed input VAT on the properties that are not opted into the VAT regime contributes to the Council’s partial exemption threshold. The Council needs to take action to reduce the amount of input VAT that contributes to this threshold in order to minimise the risk of the threshold being exceeded and the resultant loss of the entire partial exemption (worth £255,000 to the Council over the next 3 years).

3. Current Position

3.1. The Council currently enjoys a beneficial VAT regime - called a partial exemption - which enables it to reclaim input VAT on all its activities. However, this arrangement is being threatened by the Council’s significant capital works programme for the reasons described below:

- The statutory activities of local authorities are outside the scope of VAT. This means that they cannot recover VAT incurred in delivering those activities. To address this, section 33 of the VAT Act 1994 allows local authorities to recover:
3.1.1 all the input VAT incurred on goods and services purchased in relation to their non-business activities; and

3.1.2 an “insignificant amount” of input VAT incurred in relation to their exempt business supplies. This addresses the situation where a local authority is engaged in a mix of non-business activities and exempt business activities, and the two cannot be conveniently distinguished.

3.1.3 “Insignificant” means that the exempt input tax should be no more than £625 per month on average (the de-minimis limits), or should not exceed 5% of the total input VAT incurred by a local authority, whichever of the greater. In practice most local authorities use the 5% rule. If the partial exemption limit is exceeded, the local authority must repay all the VAT it has recovered in relation to its exempt supplies during the financial year.

Source: http://www.hmrc.gov.uk/manuals/permanual/pe4325.htm 02/09/2015

3.2. The commercial investment properties that are not opted for VAT purposes are classified as exempt business activities, and hence the reclaimed input VAT relating to them counts toward the 5% threshold. By opting to tax these properties, the income would be considered to be not exempt and the related input VAT would be legitimately reclaimed through the usual mechanism without counting toward the partial exemption threshold. This would leave a little more headroom within the 5% threshold.

3.3. The exempt business activities that are really putting pressure on the partial exemption are the leisure centres. As some of their income is derived from exempt business activities, the input VAT incurred on the leisure enhancement programme contributes very significantly toward the 5% partial exemption threshold. Following advice from the Council’s VAT advisors it seems that it may be possible to look at the value of the input VAT incurred on the leisure enhancement programme over 7 years to keep the value of total exempt input VAT below the 5% threshold over a 7-year period.

3.4. The arrangement described in paragraph 3.3 above is subject to an application to the HMRC and in evaluating the application they must be satisfied that the Council is doing all it can to keep exempt input VAT beneath the threshold.
Therefore, although the value of input VAT from the non-opted commercial investment properties is relatively low, and insignificant in comparison to the input VAT being incurred on the leisure enhancement programme, by opting to tax the commercial properties we make it more likely that HMRC will approve the Council’s application to view the leisure enhancement input VAT over 7 years.

4. Proposals

4.1. It is proposed to opt to tax all commercial investment properties. As a local authority, we are advised that this does not require HMRC prior approval and that it is simply necessary to advise them that we are doing it. We are awaiting HMRC confirmation of this.

4.2. Some of the Council’s investment properties are already opted for VAT purposes and are not affected by this proposal.

4.3. By opting to tax a property, we are then obliged to charge VAT on the rental income. This has the effect of increasing the rent payable by 20%.

4.4. For tenants that are VAT registered this does not increase the cost to them, although it will have a cashflow implication for them, as they can only reclaim input VAT in arrears. Nevertheless, with adequate notice, affected VAT-registered tenants should be able to manage the impact quite easily.

4.5. For tenants that are not VAT-registered the impact is greater, as they cannot reclaim their input VAT and therefore would simply see the cost of their rent increase by 20%. For these tenants, it would be sensible to provide some form of taper relief to help them manage the cost impact on their business. However, it is not proposed to offer any such relief to new non-VAT-registered tenants who take a lease in the knowledge that VAT is (or will become) payable on the rent.
4.6. The Council has 18 un-opted commercial investment assets. Of these, investigations have revealed that 13 properties are let to tenants that are registered for VAT and hence the impact for them will be relatively low. Of these properties, two are let on leases that prohibit the Council from charging VAT on the rent. It is proposed to opt to tax these properties, but to re-credit the tenant for any VAT charges, so that the Council has the benefit of being able to reclaim input VAT outside of the partial exemption, but protecting the tenant from the VAT liability. This will mean that the Council will have to pay the VAT charge of £3,630 p.a..

4.7. Of the other 5 assets, 3 are ground rent investments on Ayton Road in Wymondham, for which we have not been able to establish the VAT status of the individual tenants. The other 2 assets are the Main Building and Old Barn Annexe at Diss Business Centre. Diss Business Centre has a number of tenants, some of whom are VAT-registered and some of whom are not. The properties will have to be opted in their entirety, affecting all tenants, and these two properties therefore need to be treated as being let to non-VAT-registered tenants (which they are, in part).

4.8. It is proposed to opt to tax the properties with effect from 1 January 2016. This will allow us to give adequate notice to all affected tenants, notify HMRC of our intention to opt to tax and make the required invoicing and accounting changes to allow us to account for the new VAT status. Seeking to change the VAT status of a property part way through a monthly or quarterly rent period would create quite significant additional work, which is best avoided.

4.9. It should be noted that if a rent invoice is raised in relation to a period prior to the effective opting date, but the payment is received after the opting date, then SNC will need to pay across the output tax to HMRC even though it will not have received it from the tenant. By opting to tax with effect from 1 January 2016 (the first day of a new rent period for most leases), we give ourselves the maximum possible time to collect rents due (invoiced and due at the beginning of the rent period), minimising the risk of having to pay VAT ourselves on any late rent payments received after the opting date.

4.10. As detailed above, opting to tax properties that are let to non-VAT-registered tenants will have a negative financial impact on the tenant, by effectively increasing the cost of their rent by 20%. It is proposed to offer affected tenants taper
relief to help them manage the impact of this increased cost on their business finances. It is proposed to offer the following:

- a 75% relief during the first year after opting (2016)
- a 50% relief during the second year after opting (2017)
- a 25% relief during the third year after opting (2018)
- zero relief from the start of the fourth year after opting and thereafter (2019 onward)

4.11. The cost to SNC of providing this relief is as follows:

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<tr>
<th>Year</th>
<th>Cost</th>
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<tbody>
<tr>
<td>2015/16</td>
<td>£1,292</td>
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<tr>
<td>2016/17</td>
<td>£4,739</td>
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<tr>
<td>2017/18</td>
<td>£3,016</td>
</tr>
<tr>
<td>2018/19</td>
<td>£1,292</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>£10,340</strong></td>
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4.12. The Council needs to take action to protect its VAT partial exemption and increase the chances of recovering the input VAT payable on the leisure enhancement programme. Opting to tax the Council’s commercial investment properties provides an opportunity to do this, but does have a potentially negative financial impact on the Council’s commercial tenants, which it wishes to support, both as a responsible landlord and as a local authority that seeks to promote economic growth. The provision of taper relief can help affected tenants to manage the impact on their business over a suitable 3 year timeframe, and is projected to cost SNC just £10,340 over the three year period, which is insignificant compared to the cost of losing the VAT partial exemption (estimated at £255,000 over the next 3 years). As rents increase on these properties the cost to SNC of providing the relief will also increase, but it will receive 100% of the rental increase and only ever have to pay a maximum of 20% of that amount out again as taper relief, so overall any rent increases will generate a positive financial outcome for SNC.

South Norfolk Council
5. Risks and Implications arising

5.1. The principal risk arises from not opting to tax the remaining properties within the portfolio. If we do not do this, the VAT partial exemption could be exceeded and removed by HMRC, which would mean that the Council would be unable to reclaim any of the input VAT that it pays on goods and services that it buys. This would represent a significant additional financial cost to the Council.

5.2. If we implement the proposal, there is a risk that the tenants affected by the change will terminate their leases due to the additional cost, although the proposed relief should mitigate this risk.

5.3. There is also a risk that if we opt to tax the portfolio it (Diss Business Centre in particular) could become less attractive to non-VAT-registered tenants once the rent begins to attract VAT, which could put occupancy and/or rent tone under pressure. This is considered to be a minor risk and would have a significantly lower impact than losing the VAT partial exemption.

5.4. If we implement the proposal there is a reputational risk that the Council may be cast as not acting in the best interests of local businesses. However, by providing taper relief and adequate notice, this risk is adequately mitigated.

6. Recommendation

6.1. Finance, Resources, Audit and Governance Committee is recommended to advise Cabinet to agree to opt to tax the currently un-opted properties with effect from 1 January 2016 and provide taper relief as proposed in paragraphs 4.10 and 4.11. Officers will write to all affected tenants by 31 October 2015 to advise them of the changes, giving them two clear months’ notice.
## Agenda Item 6

### FRAG Work Programme

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<th>Meeting Date</th>
<th>Agenda Item</th>
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<tr>
<td>27/11/15</td>
<td>Internal Audit Activity Report</td>
<td>Emma Hodds</td>
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<td>Internal Audit Follow Up Report</td>
<td>Emma Hodds</td>
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<td>Annual Audit Letter</td>
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<td>External Audit Plan 15/16</td>
<td>External Audit</td>
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<td>11/03/16</td>
<td>Certification of Claims &amp; Returns Annual Report 14/15</td>
<td>External Audit</td>
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<td>Internal Audit Activity Report</td>
<td>Emma Hodds</td>
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<td>Annual Report of FRAG Committee</td>
<td>Emma Hodds</td>
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<td>Strategic and Annual Internal Audit Plans 2015/16</td>
<td>Emma Hodds</td>
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<td>Self Assessment of the FRAG Committee</td>
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<td>24/06/16</td>
<td>Internal Audit Activity Report</td>
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<td>Internal Audit Follow Up Report</td>
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<td>Internal Audit Consortium Manager's Annual Report and Opinion for 2015/16</td>
<td>Emma Hodds</td>
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<td>Draft Annual Governance Statement 2015/16</td>
<td>Debbie Lorimer</td>
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<td>Review of Draft Statement of Accounts 2015/16</td>
<td>Debbie Lorimer</td>
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<td>Debbie Lorimer</td>
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<td>Audit Results Report</td>
<td>External Audit</td>
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<td>Annual Report on Counter Fraud Activity 2015/16</td>
<td>Emma Goddard</td>
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