The Chartered Institute of Public Finance & Accountancy

Ministry for Housing Communities and Local Government

Business Rates in Multi- occupied Properties

A Submission by:

The Chartered Institute of Public Finance and Accountancy

the people in public finance

February 2018

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Introduction

1.1 The focus of this short submission is a broad commentary on overall direction of policy. That commentary provides an indication from CIPFA where there will be an impact on the funding and accounting of local authorities

2. CIPFA's Understanding

2.1 The following text summarise CIPFA's understanding of the matter and its intention is to provide sufficient background for context.

2.2 Mazars occupied offices on the second and sixth floors in the eight-storey Tower Bridge House in London. An initial decision by the Valuation Officer was reversed by both the Valuation Tribunal and the Upper Tribunal.

2.3 Mazars successfully claimed that together the two floors constituted a single hereditament for the purposes of setting business rates. The Supreme Court reversed that decisions and agreed with the Valuation Officer that the two floors should in fact be treated as two separate hereditaments and therefore rated separately.

2.3 The impact of this decision:

- changed a long standing understanding of rating methodology[1]

- resulted in public debate by increasing business rates (referred to as a 'staircase tax') and effecting small business rate relief awards[2]

2.4 We understand and accept that this legislation will be amended to reinstate policy intention. Our initial calculations would indicate that the net impact would be a reduction in available resources to local authorities.

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[1] Autumn Budget 2017 https://www.gov.uk/government/topical-events/autumn-budget-2017

[2] BBC September 2017 http://www.bbc.co.uk/news/business-41202376

3. CIPFA's Comments

3.1 It is understood that, at this time, a full analysis has not been carried out and consequently, the impact of the policy intention cannot be fully quantified

3.2 Clearly, it will be difficult to assess the potential financial impact on each local authority.

3.3 The level of doubt associated with this item including the lack of definitive timescale for when this change to legislation will occur may indicate the requirement to disclose a contingent liability in local authority financial statements.

3.4 While there are so many unknown factors the creation of a contingent liability will cover the financial reporting requirements and until the consequences are known this will not impact the general fund. However, when more details are available and the decision to make a provision in the accounts is made this will have an impact on the general fund.

3.5 If the policy intention is to enable a cost-neutral impact upon local government there are several options available. As highlighted in paragraph 3.4 above local authorities are required to account in accordance with the Code[3] of practice, which may result in an impact from this policy on the general fund. A previous example of how the tension between funding, policy intention and accounting has been addressed are those within the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2014 which allowed authorities to temporarily offset the effect of provision for non-domestic rate liabilities in their accounts.[4]

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[3] CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

[4] Statutory Instrument 1375 http://www.legislation.gov.uk/uksi/2014/1375/made