Finance Policy and Financial Regulations

September 2020

Approved by Directors on 22 September 2020

Finance Policy

This document has been adopted by the Board of Directors as the basis for the administration and management of finances. It applies to funds delegated or devolved within the provisions of the Schools Standards and Framework Act 1998.

The aim of the policy is to create a structure within which individual members of staff, Directors and other interested parties can exercise financial management and stewardship in an efficient and effective way.

The Directors regard proper control of the Trust finances as being of the utmost importance. Staff and Directors will manage their affairs in accordance with the expected high standards of public sector administration, based on a distinct set of values, the fundamental principles of which are:

- Openness – an open approach to all interested parties in the disclosure of information that lends itself to necessary scrutiny;
- Integrity, honesty and completeness;
- Accountability – individuals responsible for their actions and decisions;
- Minimum standards – financial management as set out in the following Financial Regulations;
- Advice and Guidance – relating to the financial performance of the School arising from the work of the ESFA, OFSTED, the Directors the Internal auditor and the External Auditors.

CONTENTS

Financial Regulations

1. Introduction

The purpose of this manual is to ensure that the Trust maintains and develops systems of financial control which conform with the requirements both of propriety and of good financial management. It is essential that these systems operate properly to meet the requirements of our funding agreement with the ESFA (Education and skills funding agency)

The Trust must comply with the principles of financial control outlined in the academies guidance published by the ESFA. This manual expands on that and provides detailed information on the Trust's accounting procedures and system manual should be read by all staff involved with financial systems.

2. Organisation

The Trust has defined the responsibilities of each person involved in the administration of Trust finances to avoid the duplication or omission of functions and to provide a framework of accountability for Directors and staff. The financial reporting structure is illustrated below:

The Board of Directors

The Directors have overall responsibility for the administration of the Trust's finances. The main responsibilities of the Directors are prescribed in the Funding Agreement between the Trust and the ESFA and in the Trust's scheme of government. The main responsibilities include:

- ensuring that grant from the ESFA is used only for the purposes intended;
- ensuring that funds from sponsors are received according to the Trust's Funding Agreement, and are used only for the purposes intended;
- approval of the annual budget;
- appointment of the CEO and
- appointment of the CFO and COO, in conjunction with the CEO.

The Finance, Audit and Risk Management Committee

The Finance Committee is a team of at least three Directors and the CFO. This must contain the Chair of the committee, or their deputy. The CEO is also a member of the committee. Quorum is defined within the terms of reference of the Finance, Audit and Risk Management committee. The Finance Committee meets at least twice a term but more frequent meetings can be arranged if necessary.

The main responsibilities of the Finance Committee are detailed in written terms of reference which have been authorised by the Board of Directors. The main responsibilities include:

- the initial review and authorisation of the annual budget;
- the regular monitoring of actual expenditure and income against budget;

- ensuring the annual accounts are produced in accordance with the requirements of the Companies Act 1985 and the ESFA guidance issued to academies;
- authorising the award of all contracts over £22,500
- authorising changes to the Trust personnel establishment and
- reviewing the reports of the internal auditor on the effectiveness of the financial procedures and controls. These reports must also be reported to the full board of Directors.

The CEO

Within the framework of the Trust development plan as approved by the Board of Directors the CEO has overall executive responsibility for the Trust's activities including financial activities.

School Principals/Headteachers

School Principals/Headteachers still retain responsibility for:

- approving new staff appointments in conjunction with the CEO and CFO within the authorised establishment, except for any Leadership posts which the governors have agreed should be approved by them.
- authorising contracts up to £1000 and between £1,001 and £22,500 with approval from the CFO

The CFO (Chief finance officer)

The CFO works in close collaboration with the CEO/School Principals/Headteachers through whom he or she is responsible to the Directors. The CFO also has direct access to the Chair of the Finance Committee. The main responsibilities of the CFO are:

- the day to day management of financial issues including the establishment and operation of a suitable accounting system;
- the management of the Trust financial position at a strategic and operational level within the framework for financial control determined by the Board of Directors;
- the maintenance of effective systems of internal control;
- ensuring that the annual accounts are properly presented and adequately supported by the underlying books and records of the Trust;
- the preparation of monthly management accounts;
- authorising orders between £1,000 and £22,500 in conjunction with budget holders;
- authorising payments/signing cheques in conjunction with other authorised signatory and
- ensuring forms and returns are sent to the ESFA (Education and Skills Funding Agency) in line with the timetable in the ESFA guidance.

The Internal auditor (IA)

The Internal auditor is appointed by the Board of Directors and provides Directors with an independent oversight of the Trust's financial affairs. The main duties of the IA are to provide the Board of Directors with independent assurance that:

- the financial responsibilities of the Board of Directors are being properly discharged;
- resources are being managed in an efficient, economical and effective manner;
- sound systems of internal financial control are being maintained and financial considerations are fully taken into account in reaching decisions.

The Internal auditor will undertake a termly programme of reviews to ensure that financial transactions have been properly processed and that controls are operating as laid down by the Trust board. A report of the findings from each visit will be presented to the Chair of Finance, Audit and Risk Committee. Detailed guidance on the transactions to be checked by the IA is given in the EFSA Guidance.

Other Staff

Other members of staff, primarily the Trust Central Finance Team, School Admin Teams and School Budget Holders, will have financial responsibilities and these are detailed in the following sections of this policy, and the Trust's Financial Procedures document. All staff are responsible for the security of Trust property, for avoiding loss or damage, for ensuring economy and efficiency in the use of resources and for conformity with the requirements of the Trust's financial procedures.

Register of Interests

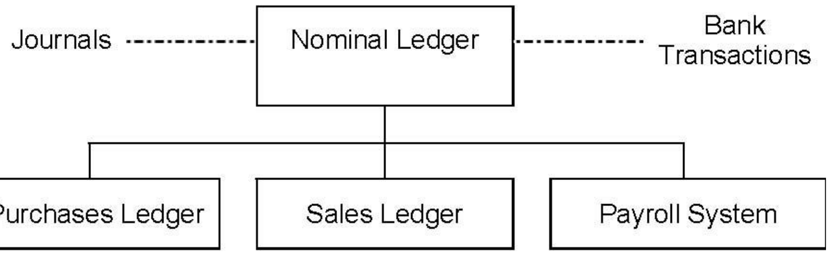
It is important for anyone involved in spending public money to demonstrate that they do not benefit personally from the decisions they make. To avoid any misunderstanding that might arise all Trust Directors, school local governors and staff with significant financial or spending powers are required to declare any financial interests they have in companies or individuals from which the Trust may purchase goods or services. The register is open to public inspection.

The register should include all business interests such as directorships, share holdings or other appointments of influence within a business or organisation which may have dealings with the Trust. The disclosures should also include business interests of relatives such as a parent or spouse or business partner where influence could be exerted over a Director, local governor or a member of staff by that person.

The existence of a register of business interests does not, of course, detract from the duties of Directors, school governor and staff to declare interests whenever they are relevant to matters being discussed by the Board of Directors or a portfolio team. Where an interest has been declared, Directors, school governors and staff should not attend that part of that meeting.

3. Accounting system

All the financial transactions of the Trust must be recorded on the PS financials accounting system. The system is operated by the Finance Teams of the Trust and consists of:



_____________ Automatic Update
--------------------- Manual Update

Payroll is currently operated by Devon County Council and iTrent Personnel System is used by all employees of the Trust.

All school trip income is made via ParentPay and SchoolMoney. Access to these systems is password restricted to individuals with financial responsibilities only, and to areas pertaining to that responsibility. Passwords must not be shared in any circumstances

Access to the component parts of the PS financials accounting system can also be restricted and the CEO is responsible for setting access levels for all members of staff using the system.

Back-up Procedures

The Chief Finance Officer is responsible for ensuring that there are effective back up procedures for the systems. Back-up copies are taken on at least a daily basis and maintained securely with full adherence to data protection law. They are stored in a different location away from the main server.

The back-ups should not be recorded on the same storage media each time as this results in only one copy being available. In order to provide more protection from the loss of data at least three different storage media should be used in rotation and stored in different locations. At least one copy should be stored off-site.

The CEO should also prepare a disaster recovery plan in the event of loss of accounting facilities or financial data. This should link in with the annual assessment made by Directors of the major risks to which the Trust is exposed and the systems that have been put in place to mitigate those risks. This risk forms part of the Trust Risk Register.

Transaction Processing

All transactions input to the accounting system must be authorised in accordance with the procedures specified in this manual. The detailed procedures for the operation of the payroll, the purchase ledger and the sales ledger are included in the following sections of the manual. All journal entries must be documented, and authorised by the relevant account holder. Monthly reconciliation of the bank accounts should be completed by the Finance Manager, checked and signed by the CFO.

Recharges between schools and departments must be by journal and authorised by the CFO or budget holder, prior to being input to the accounting system.

Detailed information on the operation of the PS financials accounting system can be found in the user manuals held in the Trust Office and online.

Transaction Reports

The Trust Finance Team review the following reports to ensure that only regular transactions are posted;

- Transaction-level detail, inc orders posted
- Bank and Credit Card statements and reconciliations
- Monthly payroll reports
- Summary record of debtors/creditors reports

Supplier set-up is limited to the Trust finance team and school admin teams to ensure robust checking and consistent application of checks, i.e. creditworthiness, validity of bank details, intermediaries' legislation and impact.

Reconciliations

The Finance Manager is responsible for ensuring the following reconciliations are performed each month and that any reconciling or balancing amounts are cleared:

- sales ledger control account;
- purchase ledger control account;
- payroll control account;
- VAT control account (quarterly when returns submitted)
- all suspense accounts and
- bank balance per the nominal ledger to the bank statement.

Any unusual or long outstanding reconciling items must be brought to the attention of the CFO. The CFO will review and sign all reconciliations as evidence of review.

4. Financial planning

Schools

- Each School within the Trust has a School Improvement plan (SIP), which includes a statement of its educational goals to guide the planning process.
- The SIP outlines the school's educational priorities and budget plans for the next three years, showing how the use of resources is linked to the achievement of the school's goals.
- The SIP states the school's priorities in sufficient detail to provide a basis to construct budget plans for the next financial year.
- New initiatives or changes to staffing structures should be carefully appraised in relation to costs and benefits before being approved by LGB.
- School SIPs should state intended expenditure on any significant changes from the previous financial year. The school SIP should have a clear identifiable link to the school budget.

The role of the Trust

- The medium-term financial plan is prepared as part of the strategic planning process and supported by 3-5 year budgets. The Strategic Plan indicates how the Trust's educational and other objectives are going to be achieved within the expected level of resources over the planning period.

- The Strategic Plan provides the framework for the annual budget. The budget is a detailed statement of the expected resources available to the Trust and the planned use of those resources for the following year.

Strategic Plan and Strategic intents

The strategic plan is concerned with the future aims and objectives of the Trust and how they are to be achieved, including matching the Trust's objectives and targets to the resources expected to be available. The plan is 'big picture' within which more detailed plans may be integrated. The strategic plan of the Osprey Learning Trust is reviewed annually and includes:

- contextual information.
- the Trust's vision and values.
- a review of the growth plan.
- definition of strategic priorities.
- our objectives, success criteria, 'lead' for action and timescales.

The Budget Cycle

The budget cycle is as follows:

- Autumn term (Sept – Dec)
  - Implementation of current budget plan
  - Monitoring expenditure (continuous-monthly)
  - Reconciliation and closure of previous financial year

- Spring term (Jan – Mar)
  - Monitoring and reviewing of year's budget
  - Revised Budget where appropriate
  - Pre-planning new financial year
- Summer term (Apr – Aug)
  - Planning for forthcoming year
  - Preparation and submission of financial budget plan
  - Review of current year's budget
  -

All requirements of the ESFA, in particular relating to carry forward of unspent funds, will be taken into account in preparing and submitting the budget.

Annual Budget

The CFO is responsible for preparing and obtaining approval for the annual budget. The budget must be agreed by the LGB for each school, and approved FAR committee (Finance audit and risk) and Trust Board

The annual budget will reflect the best estimate of the resources available to the academy for the forthcoming year and will detail how those resources are to be utilised. There should be a clear link between the development plan objectives and the budgeted utilisation of resources.

The budgetary planning process will incorporate the following elements:

- realistic forecasts of the likely number of pupils to estimate the amount of Genera Grant.
- latest estimate of other ESFA funding e.g. pupil premium, or other specific funds for cohort size.
- review of other income sources available to the academy to assess likely level of
- review of past performance against budgets to promote an understanding of th costs including lessons learned.
- identification of potential efficiency savings.
- review of the main expenditure headings in light of the improvement plan ob curriculum resource needs and the expected variations in cost e.g. through pay in inflation and other anticipated changes .
- provision to sustain capital assets.
- all carry forward balances.
- any unspent grants from the previous financial year.
- any funds held in Trust.

The Trust must approve a balanced budget, which can draw on unspent funds brought forward from previous years. This requirement applies to the Trust as a whole, not to constituent academies, allowing financially struggling academies access to relevant, focussed support. A school may therefore (with FRA approval) make a strategic decision to set a deficit-budget in response to specific documented need, eg. school improvement and/or acknowledged deficiencies in the funding model. Approval will be based on a consideration of the circumstances, actions to redress the position and must be supported by appropriate plans, monitoring and reporting.

School recovery plans should include appropriate performance indicators demonstrating the effective allocation of resources with remedial action identified and planned.
Where schools are in surplus, this may be held back as a contingency or alternatively allocated to areas of need in accordance with the SIP
The approved budget is entered onto the finance system at the start of the new financial year and monitored monthly. The ‘original’ (Board-approved) budget will be frozen on the system and remain unaltered.

Other Grants and specific funding

In addition to the GAG funding from the ESFA, the Trust may be awarded additional grants from time to time relating to specific projects e.g. Sport England Funding, Football Foundation Funding, Charitable Grants etc. All applications for additional external funding must be approved and supported by the CFO (with FAR approval if appropriate). All external funding and grants will be spent in accordance with the terms and conditions imposed, accurately recorded as income specific to a certain project and audited externally annually.

Funds held in Trust

Where funds are held in trust the CFO is responsible for ensuring accurate recording of the income and expenditure, as well as ensuring the funds are recognised separately.

Designated funds

Where designated funds are established, the CFO is responsible for recording of allocations, ensuring full accountability (to include, e.g. funds designated by schools for cyclical replacement of IT etc.).

Monitoring and Review

Monthly reports will be prepared by the CFO. The reports will detail actual income and expenditure against budget both for assigned budget holders and at a summary level for the CEO, Principals/Headteachers and the FAR committee.

Reports include:

- an income and expenditure account, with variances to budget and re forecast.
- balance sheet.
- cash flow forecast.
- summary reports highlighting variances and action required.
- relevant KPIs.

Accounts are shared with the Chair of Directors and FAR committee every month, and other Directors at least six times a year (appropriately summarised). The Board and FAR committee consider the accounts at each meeting, ensuring appropriate action is taken to maintain viability including addressing variances

Any potential overspend against the budget must in the first instance be discussed with the CEO. Account managers will not be allowed to overspend their budget without the approval of the CEO.

The monitoring process should be effective and timely in highlighting variances in the budget so that differences can be investigated and action taken where appropriate. If a budget overspend is forecast it may be appropriate to vire money from another budget or from the contingency. The School Principals/Headteachers will authorise virements from one cost centre to another to the value of 1% of the total School budget. Any such virement will be recorded and reported to the next meeting of the FAR Committee.

Virements in excess of 1% of the School budget will require the prior approval of the FAR committee.

5. Payroll

The main elements of the payroll system are:

- staff appointments;
- payroll administration and
- payments.

Staff Appointments

The Directors have approved a personnel establishment (staffing structure) for the Trust. Changes can only be made to this establishment with the express approval in the first instance of the CEO who must ensure that adequate budgetary provision exists for any establishment changes.

The Principals/Headteachers have authority to appoint staff in conjunction with the CEO and the CFO within the authorised establishment except for Leadership, whose appointments must follow consultation with the local governors. The Principals/Headteachers maintain personnel files for all members of staff which include contracts of employment. All personnel changes must be notified, in writing, to the CEO immediately.

Changes to the MAT central team require the agreement of the CEO and the FAR committee.

Payroll Administration

The Trust payroll is administered through Devon County Council's payroll office.

All staff are paid monthly on 25th of each month. A master file is created for each employee which records:

- salary;
- bank account details;
- taxation status;
- personal details and
- any deductions or allowances payable.

The HR Administrators (school and Trust) maintain personnel files for all members of staff which include contracts of employment. The HR Administrators are responsible for obtaining the relevant DBS checks and ensuring these are retained on file. The Trust team, and school administrators update the DCC's iTrent payroll system.

All changes to staff appointments (starters, movers changes and leavers), must be notified to the CEO and the Trust Finance team in writing. Budgets are only updated by finance where changes are independently verified.

All casual, Supply and additional hours, overtime, emergency call outs and travel are input into iTrent once authorised by the relevant budget holder. A paper copy of the signed and authorised claim will be be kept in the Trust office or school admin office for Audit. Any adhoc claims will be submitted by the Trust team once authorised by the CEO.

Payments

After the payroll has been processed by DCC, but before payments are dispatched, a print of salary payments by individual and showing the amount payable in total should be obtained from the system. The print must be reviewed and authorised together with authority to release payment by the CFO.

All salary payments are made by BACS.

The CFO should prepare a reconciliation between the current month's expected gross salary from SIMs and actual gross salary payments, resignations, pay increases etc. This reconciliation should be reviewed and signed by the CEO.

The payroll system automatically calculates the deductions due from payroll to comply with current legislation. The major deductions are for tax, National Insurance contributions and pensions.

The CFO should select one employee at random each month and check the calculation of gross to net pay to ensure that the payroll system is operating correctly.

After the payroll has been processed the nominal ledger will be updated by the Trust Finance Manager. Postings will be made both to the payroll control account and to cost centres. The Finance Manager should review the payroll control account each month to ensure the correct amount has been posted into PsF, into each school location, into the payroll control account and deducted from the bank.

On an annual basis the CFO must check for each member of staff that the gross pay per the payroll system agrees to the contract of employment held on the personnel file in the Personnel office.

Intermediaries legislation

The Trust has a responsibility for ensuring that all payments to individuals are subject to tax and national insurance deductions where appropriate. In order to achieve this, the following guidelines should be followed:

- an assessment must be made as to whether the individual is providing a contract of service (i.e. employed) or a contract for services (i.e. self-employed).
- if considered to be a contract of service, the individual shall be set up as an employee of the school before receiving payment through the payroll.
- where an individual seeks payment from the school for a contract for services, this must be in the form of an invoice.
- careful attention should be paid to repetitive payments to individuals.

Any payments made to a person/company which does not hold a valid Limited Company registration number must be subject to IR35 approval by the CFO

Salary advances

The trust does not award salary advances.

Severance payments

Severance payments must be made in line with the Academies Financial Handbook. Further information is provided on gov.uk (https://www.gov.uk/guidance/academies-severance-payments).

The Trust is able to self-approve the non-contractual element of severance payments up to £50,000. A business case must be presented before agreeing a payment.

Where the non-contractual element is on or over £50,000 prior approval from ESFA must be sought.

The CEO and CFO must sign off and review each business case.

6. Purchasing

The Trust wants to achieve the best value for money from all purchases. This means they want to get what they need in the correct quality, quantity and time at the best price possible. A large proportion of their purchases will be paid for with public funds and they need to maintain the integrity of these funds by following the general principles of:

- Probity, it must be demonstrable that there is no corruption or private gain involved in the contractual relationships of the Trust;

- Accountability, the Trust is publicly accountable for its expenditure and the conduct of its affairs;
- Fairness, that all those dealt with by the Trust are dealt with on a fair and equitable basis.

Routine Purchasing

Account holders will be informed of the budget available to them at the start of the academic year. It is the responsibility of the account holder to manage the budget and to ensure that the funds available are not overspent. Account holders are encouraged to keep their own records of orders placed but not paid for.

School Based Purchasing

Routine purchases up to £1000 per single item can be ordered by account holders without the need for formal quotations. The following course of action shall be taken in respect of higher values:

- **For goods:** When expected to be in excess of £1000 but less than £10 000 three cost comparisons must be collated. Documentary evidence must be collected and stored with the order requisition in the Trust Office or School Admin Office
- **For Services**: Where the value of services is expected to be in excess of £1000 but less than £10 000 three written quotations must be collected (e-mail quotes from service providers are permitted).
- Where the value of goods and services are in excess of £10,000 but less than £100,000 3 formal written quotations should be obtained; This must include a breakdown of the elements of the quotation.
- Between £100,000 to EU tendering threshold 4 written tenders are required. Above £100,000 EU regulations apply.

Trust Based Purchasing

Routine purchases up to £1000 per single item can be ordered by account holders without the need for formal quotations. The following course of action shall be taken in respect of higher values:

- **For goods:** When expected to be in excess of £1000 but less than £10 000 three cost comparisons must be collated. Documentary evidence must be collected and stored with the order requisition in the Trust Office
- **For Services**: Where the value of services is expected to be in excess of £1000 but less than £10 000 three written quotations must be collected (e-mail quotes from service providers are permitted).
- Where the value of goods and services are in excess of £10,000 but less than £100,000 3 formal written quotations should be obtained; This must include a breakdown of the elements of the quotation.
- For services purchased on an annual basis this information needs to be gathered at least every 5 years on a running cycle.
- Between £100,000 to EU tendering threshold 4 written tenders are required. Above £100,000 EU regulations apply.

All orders must be made using an official order form. Orders must bear the signature of the account holder and must be forwarded to the Trust Office or School Admin Office.

Authorised orders are input on PS Financials, allocated a reference number and dispatched to the supplier by the Trust Finance Team or School Admin Office.

Delivery of all goods must be to Trust premises only and not to an employee's home address. On receipt of goods, the department receiving the goods must undertake a detailed check against the delivery note and make a record of any discrepancies and query with the supplier immediately.

If any goods are rejected or returned to the supplier because they are not as ordered or are of sub-standard quality, the relevant finance/admin team should be notified.

All invoices should be sent to the Trust Office or School Admin Office. The invoice will be authorised by the relevant department or budget holder. Invoices should be promptly returned to the Trust Office or School Admin Office for payment.

If an account holder is pursuing a query with a supplier the Finance Department must be informed of the query and periodically kept up to date with progress.

All suppliers are paid by BACS and each payment list will be authorised by two of the authorised signatories.

Exemptions

Where exceptionally, two quotations cannot be obtained (e.g. because of a restricted market or availability of goods) the order needs to be countersigned by the CEO. Anything over £22,500 will go to the Financial, Audit, Risk Committee.

Leases

All leases and finance agreements need to be approved by the CFO up to £22,500 and any lease or financial agreement over £22,500 must be approved by the FAR committee. A copy of the signed agreement will need to be held in the Trust Office.

Form of Tenders

There are three forms of tender procedure: open, restricted and negotiated and the circumstances in which each procedure should be used are described below.

- **Open tender**

This is where all potential suppliers are invited to tender. The budget holder must discuss and agree with the CFO how best to advertise for suppliers e.g. general press, trade journals or to identify all potential suppliers and contact directly if practical. This is the preferred method of tendering, as it is most conducive to competition and the propriety of public funds.

• **Restricted Tender:**
This is where suppliers are specifically invited to tender. Restricted tenders are appropriate where there is a need to maintain a balance between the contract value and administrative costs, a large number of suppliers would come forward or because the nature of the goods are such that only specific suppliers can be expected to supply the Trust's requirements, the costs of publicity and advertising are likely to outweigh the potential benefits of open tendering.

• **Negotiated Tender:**
The terms of the contract may be negotiated with one or more chosen suppliers. This is appropriate in specific circumstances:
the above methods have resulted in either no or unacceptable tenders, • only one or very few suppliers are available, extreme urgency exists, additional deliveries by the existing supplier are justified.

Preparation for Tender

Full consideration should be given to:

- objective of project;
- overall requirements;
- technical skills required;
- after sales service requirements;
- form of contract.

It may be useful after all requirements have been established to rank requirements (e.g. mandatory, desirable and additional) and award marks to suppliers on fulfilment of these requirements to help reach an overall decision.

Invitation to Tender

If a restricted tender is to be used then an invitation to tender must be issued. If an open tender is used an invitation to tender may be issued in response to an initial enquiry.

An invitation to tender should include the following:

- introduction/background to the project;
- scope and objectives of the project;
- technical requirements;
- implementation of the project;
- terms and conditions of tender and
- form of response.

Aspects to Consider

Financial

- Like should be compared with like and if a lower price means a reduced service or lower quality this must be borne in mind when reaching a decision.

- Care should be taken to ensure that the tender price is the total price and that there are no hidden or extra costs.
- Is there scope for negotiation?
- Technical/Suitability
- Qualifications of the contractor
- Relevant experience of the contractor
- Descriptions of technical and service facilities
- Certificates of quality/conformity with standards
- Quality control procedures
- Details of previous sales and references from past customers.

Other Considerations

- Pre sales demonstrations
- After sales service
- Financial status of supplier. Suppliers in financial difficulty may have problems completing contracts and in the provision of after sales service. It may be appropriate to have an accountant or similarly qualified person examine audited accounts etc.

Tender Acceptance Procedures

The invitation to tender should state the date and time by which the completed tender document should be received by the Trust. Tenders should be submitted in plain envelopes clearly marked to indicate they contain tender documents. The envelopes should be time and date stamped on receipt and stored in a secure place prior to tender opening. Tenders received after the submission deadline should not normally be accepted.

Tender Opening Procedures

All tenders submitted should be opened at the same time and the tender details should be recorded. Two persons should be present for the opening of tenders as follows:

- For contracts over £100 000 –the CEO or the Headteacher/Principal plus a non-staff Director

A separate record should be established to record the names of the firms submitting tenders and the amount tendered. This record must be signed by both people present at the tender opening.

Tendering Procedures

The evaluation process should involve at least two people. Those involved should disclose all interests, business and otherwise, that might impact upon their objectivity. If there is a potential conflict of interest then that person must withdraw from the tendering process.

Those involved in making a decision must take care not to accept gifts or hospitality from potential suppliers that could compromise or be seen to compromise their independence.

Full records should be kept of all criteria used for evaluation and for contracts over £10 000 a report should be prepared for the Finance committee highlighting the relevant issues and recommending a decision. For contracts under £10 000 the decision and criteria should be recorded and retained by the Finance team.

Where required by the conditions attached to a specific grant from the DfE, the department's approval must be obtained before the acceptance of a tender.

The accepted tender should be the one that is economically most advantageous to the Trust. All parties should then be informed of the decision.

7 Income

The main sources of income for the Trust are the grants from the ESFA. The receipt of these sums is monitored directly by the CEO who is responsible for ensuring that all grants due to the Trust are collected.

The Trust also obtains income from:

- The local authority for exceptional arrangements
- parents, for trips, clubs, wrap-around provision, revision guides and catering
- public, for lettings, photocopying services and car park rental

The Trust retains an agreed percentage of each school's total GAG funding allocation to meet the costs of the Trust operations and other costs/services that have been agreed will be funded centrally.

The Trust has the freedom to amalgamate a proportion of GAG funding for all its schools to form one central fund. This fund can then be used to meet the normal running costs at any of the schools within the Trust in accordance with the guidelines that govern the use of GAG funding.

Trips

A Trip Leader must be appointed for each trip to take responsibility for the organisation of the trip in conjunction with the EVC of the school once approval has been given by the Principal/Head Teacher of the school.

All trip income is received via ParentPay or SchoolMoney. In exceptional circumstances cash can be collected at the relevant school office where a receipt will be given.

The School Admin Office will maintain an accurate list of those who have paid and chase any outstanding money. Any student who have not paid in full before the departure date of the trip for non-curriculum trips will not be allowed to attend and the parent notified by the Trip Leader.

Lettings

The Lettings co-ordinator for each location is responsible for maintaining records of bookings of sports or room facilities and for identifying the sums due. Payments must be made in advance for the use of facilities. All invoices and payments are recorded on PS financials. Any outstanding debts will be chased by the Trust Finance Team or School Admin Office.

No debts should be written off without the express approval of the Directors (the ESFA's prior approval is also required if debts to be written off are above the value set out in the annual funding letter).

Custody

Receipts are issued for any cash received where no other formal documentation exists. All cash and cheques must be kept in the Trust office safe or school office safe prior to banking. It has been agreed that the Trust does not accept any cheques except in certain circumstances agreed by the CFO.

Banking should take place at least every month or more frequently if the sums collected exceed the (value) insurance limit of the Insurance Policy. All banking will be input into PS Financials and a deposit slip completed and retained for Audit.

All charity collections are either paid directly into the relevant charity bank account or the Trust College Awards Fund bank account.

8 Cash Management

Bank Accounts

The Trust Finance Team (with the approval of FAR committee) is responsible for selecting the banking institution and negotiating the terms and conditions.

The following procedures must be followed when opening a bank account and operating it:

- the FAR committee must authorise the opening of all bank accounts.
- the Trust will ensure that in the event of changes to key personnel or governors/trustees, that signatories are changed immediately, and the bank notified. Any on-line access to banking will also be removed.
- terms of arrangements, including cheque signatories or BACS authorisations and the operation of the accounts must be formally recorded and agreement minuted.
- the CFO / Finance Manager must ensure there are sufficient funds to cover large payments.

Deposits

Cash deposits must be entered onto a bank paying-in slip the details must include, the amount and name of debtor if paying in a cheque. The deposit slip number must be entered into PSF.

Payments and withdrawals

All cheques and other instruments authorising withdrawal from Trust bank accounts must bear the signatures of two of the following authorised signatories:

- CEO
- CFO
- COO
- Any other school leadership member as deemed appropriate by the FAR committee

This provision applies to all accounts, public or private, operated by or on behalf of the Board of Directors of the Trust.

The CFO must ensure bank statements are received regularly and that reconciliations are performed at least on a monthly basis. Reconciliation procedures must ensure that:

- all bank accounts are reconciled to the accounting system;
- reconciliations are prepared by the MAT Finance team;
- reconciliations are subject to an independent monthly review carried out by the CFO or in his/her absence the Internal auditor and adjustments arising are dealt with promptly.

Petty Cash Accounts and staff expenses

Each location maintains a maximum cash balance of £500. The cash is administered by the Trust Finance team or the school admin office and is kept in the schools' safes.

All petty cash payments to staff are made direct to their bank account. The petty cash slip must be completed in full with a VAT receipt attached and authorised by the relevant budget holder. Bank account details will be maintained on PSF staff ledger under the relevant GDPR regulations.

The only deposits to petty cash should be from the Trust office. Each location will be reimbursed to the value of receipts that have been received and input into PSF.

Payments and Withdrawals

In the interests of security, petty cash payments up to £10 may be reimbursed by cash. Higher value payments should be made by Bacs directly from the main bank account

Administration

The Trust Finance team is responsible for entering all transactions into the petty cash records on a regular basis and regular as well as unannounced cash counts should be undertaken by the Finance Officer to ensure that the cash balance reconciles to supporting documentation.

Cash Flow Forecasts

The CFO is responsible for preparing cash flow forecasts to ensure that the Trust has sufficient funds available to pay for day to day operations. If significant balances can be foreseen, steps should be taken to invest the extra funds. Similarly plans should be made to transfer funds from another bank account or to re-profile potential cash shortages.

Investments

Investments must be made only in accordance with written procedures approved by the board of Directors.

All investments must be recorded in sufficient detail to identify the investment and to enable the current market value to be calculated. The information required will normally be the date of purchase, the cost and a description of the investment. Additional procedures may be required to ensure any income receivable from the investment is received.

9 Fixed assets

The Trust must obtain prior approval from ESFA for the following transactions:

- acquiring a freehold of land or buildings.
- disposing of a freehold of land or buildings.
- disposing of heritage assets, as defined in financial reporting standards, beyond any limits in the funding agreement for the disposal of assets generally.

Other than land, buildings and heritage assets, trusts can dispose of other fixed asset without the ESFA's approval subject to achieving the best price that can reasonably be obtained, and maintaining the principles of regularity, propriety and value for money.

Acquisitions and disposals of assets

Acquisitions and disposals may be of freehold, leasehold or other interests. As well as restrictions on the individual titles of land and requirements imposed by land registration, there are also statutory restrictions imposed on disposing of, or making material changes to school land. This may include a requirement to seek government approval.

All proposals concerning land and property must go through the COO, who will advise on the necessary statutory requirements, seek the consents and obtain legal advice where needed.

When FF&E (Furniture, Fixtures and equipment) assets are required to be disposed of, it is the responsibility of Schools to notify the CFO, who should decide on the most appropriate method of disposal in the best interests of the Trust. The disposed asset, date of sale, and any sale value should be recorded on the School Asset register at the point of disposal.

All items for sale or destruction must be authorised for disposal by the Headteacher and, where significant, should be sold following due process:

- taking reasonable steps to advertise the disposal.
- inviting bids for the asset (sealed bids are preferable.)
- negotiating with potential purchasers.

Nb. That licensing and GDPR issues must be considered.

Disposal of equipment to staff is not encouraged, as it may be more difficult to evidence the school obtained value for money in any sale or scrapping of equipment. In addition, there are complications with the disposal of computer equipment, as the school would need to ensure licences for software programmes have been legally transferred to a new owner.

The Trust is expected to reinvest the proceeds from all asset sales for which capital grant was paid in other assets.

Asset register

All items purchased or project undertaken with a value over the academy's capitalisation limit of £1,000 must be entered on the fixed asset register and inventory management system with the following details:

- asset description.
- date of acquisition.
- asset cost.
- source of funding (% of original cost funded from grant and % funded from other sources).
- expected useful economic life.
- depreciation.
- current book value.
- location.

The inventory system should additionally include, the:

- serial number/identifier.
- name of member of staff responsible for the asset.

The asset register helps:

- ensure that staff take responsibility for the safe custody of assets.
- enable independent checks on the safe custody of assets, as a deterrent against theft or misuse.
- to manage the effective utilisation of assets and to plan for their replacement.
- help the external auditors to draw conclusions on the annual accounts.
- support insurance claims in the event of fire, theft, vandalism or other disasters.

Examples of items to include on the asset register include:

- ICT hardware and software (this list can be combined and used to identify software licences to ensure the school is complying with legislation).
- Reprographic equipment – photocopiers, comb binders, laminators.
- Office equipment – printers, shredders, switchboard.
- Furniture.
- AV equipment – TVs, video/DVD players, OHPs, cameras, speakers.
- Cleaning equipment – vacuum cleaners, polishers.
- Catering equipment – ovens, fridges, dishwashers, food processors.
- Technology equipment – sewing machines, craft machinery.
- Premises equipment – lawn mowers, power tools, generators.
- Other equipment – musical instruments, PE equipment.
- Minibuses.

Responsibility for updating the asset register usually rests with the budget account holders, school administrators and the MAT Finance team

Depreciation

The Trust has determined appropriate depreciation rates, based on the assessment of the useful economic life and expected realised value of assets acquired.

Current rates of depreciation are:

Leasehold property	2% straight line
Furniture and fittings	20% straight line
Motor vehicles	25% straight line
Computer equipment	33% straight line

Consideration should be given during the budget cycle to the adequacy of provisions made for equipment replacement having regard to the asset portfolio.

Security of assets

All the items in the register should be permanently and visibly marked as the academy trust's property.

Equipment is, where possible, stored securely when not in use.

An annual count is undertaken by the school Headteacher/Principal (or delegate) who is different from the preparer of the asset register. Where discrepancies between the physical count and the amount recorded in the register are found these are investigated promptly and, where significant, reported to the governing body.

Disposals

Disposals, where applicable, are in line with the Academies Financial Handbook.

Items which are to be disposed of by sale or destruction must be authorised for disposal the Headteacher/Principal in liaison with the CFO and, where significant, should be sold following competitive tender. The academy must seek the approval of the ESFA in writing if it proposes to dispose of an asset for which capital grant in excess of £20,000 was paid.

Loan of Assets

Items of Trust property must not be removed from academy premises without the authority of the Headteacher/Principal.

A record of the loan must be recorded in a loan book and booked back into the school when it is returned.

If assets are on loan for extended periods or to a single member of staff on a regular basis the situation may give rise to a 'benefit-in-kind' for taxation purposes. Loans should therefore be kept under review and any potential benefits discussed with the academy's auditors.

Annex 2d: Procurement - Best Practice Checklist

1. Policies and procedures for procurement should be documented and adhered to, to ensure that the process is being carried out on a fair, open and best value basis. The documentation should describe:
   - roles and responsibilities of those involved in procurement (eg Directors, Headteacher, School Principal, CEO, other senior managers and the central finance office);
   - delegated authority levels, in particular setting out the procedures to be followed for purchases above specified values, to ensure sufficient levels of oversight by the Board of Directors;
   - arrangements to ensure segregation of duties;
   - how purchases are recorded (papers records and computer records (eg accounting system arrangements).

In all cases it is important to ensure that the procedures that are set out are followed, both for routine day to day procurement, and for periodic high value items.

2. Where appropriate, individuals with relevant experience including the end-users (eg ICT managers, teachers) should be involved when putting together invitations to tender, or making key decisions. This will not only aid selection of the best solutions for the Trust, but may also help achieve buy-in by the end-users.

3. An officer should be nominated for coordinating the initial procurement of assets, and stocks of teaching and learning materials, during the Trust's start up period. This person should provide an assessment of the completeness and reasonableness of items procured, to ensure that all essential purchases are made prior to opening, and that they non-essential purchases are challenged.

4. Procurement decisions should be clearly recorded to ensure that the decision has been reached fairly and to provide a clear audit trail:
minutes should be taken of all relevant meetings;
the options available should be recorded;
the basis for scoring/ranking should be set out;
the individuals responsible for scoring/ranking should be identified;
the outcome of the scoring and the final decision should be recorded;
the reasons on which the decision was reached should be clearly documented.

5. All key documents should be retained together by the Trust. This includes:
invitations to tender;
tenders received from bidders;
quotes obtained for smaller purchases;
papers/minutes documenting the procurement decision;
signed copies of the contracts awarded;
invoices.

Where procurement is carried out with the assistance of an external project management company (for example the initial procurement of ICT, furniture and equipment prior to moving into a new building) key documents should be transferred

to, and retained by, the Trust prior to cessation of the contract with the project management company.
6. An asset register of all capital items should be established in an appropriate format and should be updated on a continual basis as assets are purchased.

The register should include:

• asset description
• asset number
• serial number
• date of acquisition
• asset cost
• source of funding (% of original cost funded from ESFA grant and % funded from other sources)
• expected useful economic life
• depreciation
• current book value
• location
• name of member of staff responsible for the asset

Updating of the register as assets are procured should ensure that it is always current and should ease the task of end of year asset verification. It should also simplify the setting of insurance levels and the handling of any claims.

A similar register should also be maintained of “attractive items” (ie items with a cost below the Trust’s capitalisation threshold) such as minor office equipment.

Fitness for purpose should be a key consideration in any procurement decision (eg ICT should be of the correct specification; fixtures and fittings should be of adequate durability).
Opportunities should be taken for bulk purchase discounts, for example by combining similar orders.

When ordering goods an assessment of likely delivery timeframes should be made, to ensure that appropriate staff are available on site to receive then (particularly during school holidays), and that adequate space is available to locate or store the delivery.

Annex 2e: EU Procurement Thresholds

The European Union (EU) has introduced rules to open up public purchasing by making member states remove restrictive practices. Government departments and other public bodies are subject to these rules. They are relatively complex but in general terms include a requirement to follow a prescribed tendering procedure, to operate to a minimum timescale and a requirement to advertise contracts in the Official Journal of the European Union (OJEU) if they exceed certain financial thresholds. The thresholds applying from 1st January 2018 for

Goods and services: £181 302 (excluding VAT);

Public works contracts, for the procurement of construction or civil engineering works: £4 551 413 (excluding VAT). (European public contracts directive 2014/24/EU)

A ‘light touch regime’, with a higher threshold of £615 278, applies for some services that are specifically for education provision.

Where governing bodies are likely to enter into such contracts they will need to seek more detailed guidance and legal advice from the Department.

Annex 2f: VAT

Introduction

VAT
The Trust Finance Team is responsible for submitting the quarterly VAT return and ensuring compliance with the HMRC rules for reclaiming correct levels of VAT.

Reference should be made to the HMRC VAT guidance and legislation which will be followed throughout all transactions.

1. These notes provide academies with general guidance on the treatment of VAT. For detailed information academies should refer to the VAT Notices published by HM Revenue and Customs (HMRC) which provide guidance on how HMRC interpret VAT legislation. Where additional advice is required academies should contact HMRC direct on 0845 010 9000, or consult an independent tax advisor.

2. The following list of references may be useful:
Value Added Tax Act 1994 (VATA) - the main legislative source for VAT;
HMRC Notices -these are available at www.customs.hmrc.gov.uk, and include:

- 700 The VAT Guide - the main guide to VAT rules and procedures, which helps businesses with specific problems and contains references to more specialised publications;
- 700/1 Should I be Registered for VAT?
- 700/15 The Ins and Outs of VAT - a brief guide for businesses wanting information about how VAT works in specific circumstances;
- 701/1 Charities - this explains what a charity is, how VAT affects charities, how a charity’s income is treated for VAT purposes, and what VAT reliefs a charity can obtain on its purchases whether or not it is registered for VAT;
- 701/30 Education and Vocational Training – this explains the VAT treatment of education, research, vocational training, goods and services provided in connection with these activities, examination services and school photographs;
- 708 Buildings and Construction - this notice explains when building work and materials can be zero-rated or reduced-rated;
- 742 Land and Property – this explains when transactions involving land and buildings are exempt from VAT. It looks at what constitutes a supply of land, and how to determine the liability of that supply.

- NB: In the event that the legal status of academies were to change there may be significant impact on the VAT advice and guidance provided in this handbook.

Overview of VAT

What is VAT?

3. VAT is a tax on sales. It is payable on the supply of goods and services in the UK, and on imports, where:
the supplies are made by a taxable person (ie a person who is registered for VAT, or who should be registered for VAT);
in the course of a business; and
the supplies are not specifically exempt or zero-rated.

4. There are three rates of VAT:
a standard rate, currently 20%;
a reduced rate, currently 5%; and
a zero rate

Some supplies are exempt from VAT which means that no VAT is payable.
HMRC Notice 700 "The VAT Guide" gives details of which goods and services may be zero/reduced rated or exempt.

How is VAT Paid?

7. Sales of goods and services which are subject to VAT are called taxable supplies. If a business makes taxable supplies over a specified limit, they must register for VAT (unless all of their supplies are zero-rated). Businesses can also register voluntarily if their taxable supplies are below this threshold.
VAT-registered traders must charge VAT on all of their taxable supplies made to customers. This is called output tax (ie tax on the trader's outputs);
In the same way as other consumers, traders will also be charged VAT on any taxable purchases they make from other VAT-registered suppliers. This is called input tax.

8. In general terms:
- if the output VAT on the trader's sales is more than the input VAT on their business-related purchases, the difference must be paid over to HMRC; whilst, on the other hand:
- if the input VAT on business-related purchases is more than the output VAT on sales the difference can be reclaimed from HMRC.

General VAT Position of Academies

9. Generally the provision of educational activities undertaken by academies is, for VAT purposes, referred to as non-business and therefore outside the scope of VAT. In such circumstances academies would not be required to account for output VAT on the income they receive and would not be able to recover VAT on costs and expenses incurred in providing education. However some academies may engage in

business activities which, dependent upon their scale, may bring them within the scope of VAT and may require them to register for VAT.

10. The following sections discuss the circumstances in which academies:
may be required to account for output VAT on their income;
may recover input VAT on their expenditure; and
may avoid paying VAT on certain expenditure through ‘zero rating reliefs’.

Trust Income

VAT Registration

11. Academies, as independent schools, are ‘eligible bodies’ and must register for VAT where the value of their taxable business activities exceeds the VAT registration threshold: Subject to HMRC requirements (HMRC Notice 700/1, and Schedule 1 of VATA 1994). In practice the value of the taxable supplies (sales) made by academies is not generally expected to exceed the registration threshold and therefore VAT registration would not be required, other than on a voluntary basis.

12. Registration, either compulsory or voluntary, provides academies with the benefit of being able to recover input VAT incurred on business-related costs, although in the case of voluntary registration this benefit should be weighed against the potential administrative cost of complying with HMRC requirements. In particular VAT registered academies will be required to submit VAT returns on a quarterly basis, within one month of the end of the relevant VAT accounting period. Academies will also be required to maintain sufficient records to provide HMRC with an adequate audit trail to verify and check the validity of the VAT returns.

13. Academies which are not VAT registered should not be complacent. The liability of many of the typical supplies made by the sector is complex and ever changing, and it is easy for a charity to become liable to register without knowing it. It is essential that activities and income are monitored, and registration is effected at the right time to avoid unexpected VAT liabilities and penalties.

Identifying the Liability to Charge Output VAT

14. To identify the VAT liability of a particular source of income (ie whether the Trust must charge VAT on the income and pay it over to HMRC - subject to being VAT registered) it must be established whether the income is generated in the course or furtherance of a business.
Business Activities

15. The term ‘business’, as defined in VAT legislation, includes any trade, profession or vocation. It also specifically includes the provision of membership benefits by clubs, associations and similar bodies in return for a subscription and admission to premises for a charge.

16. The definition is intended to have a wide meaning in order to capture as many activities as possible. The following criteria set out the general indicators for deciding whether an activity is a business:

- the activity is a serious undertaking earnestly pursued;
- there is continuity;
- the activity has substance measured by the value of taxable supplies;
- the activity is conducted on sound and recognisable business principles;
- the activity is predominantly concerned with making taxable supplies for a consideration;
- the taxable supplies are of a kind which are commonly made by those who seek to profit by them.

17. It is not essential that the activity be carried on with a view to making a profit. If a sufficient number of the criteria are satisfied and there are no indications to suggest otherwise, the activity must be held to be a business. The criteria are not conclusive and a common sense approach should also be taken when deciding whether or not an activity is ‘business’.

Non-business Activities

18. It is not possible to provide a definitive list of business activities. However HMRC does offer a list of activities and sources of income which they consider are ‘non-business’. The following have been selected as indicative of the type of activities which HMRC view as non-business for a charitable institution:

- donations/legacies/voluntary contributions;
- grants;
- voluntary services;
- some advertising;
- investment income;
- transactions in securities;
- some membership subscriptions;

19. The list presupposes an understanding of the terminology used and does not always cater for the complications which may arise from fund-raising events. This may result in income which a charity considered to be non-business being treated by HMRC as ‘business income’ potentially liable to VAT.

20. In general the nature of Trust activities will predominantly be non-business and therefore outside the scope of VAT.

VAT Liability of ESFA Grant Income

21. The majority of income received by academies is in the form of grants provided by the ESFA. These are funds given freely and, although certain restrictions may apply in relation to their use (eg for capital or revenue purposes), there is no supply as such made by academies to the ESFA.

22. The grants are provided to academies by the ESFA to provide education to pupils. The main activity of academies is the provision of education and supplies “closely related” to the provision of education to pupils in the 11-19 age group.

Although there is no specific definition of “education” in UK VAT legislation, it is generally accepted by HMRC that education is:

- “a course, class or lesson of instruction or study in any subject, whether or not that subject is normally taught in schools, colleges or universities and regardless of where and when it takes place”;
- and includes:
- “lectures, educational seminars, conferences and symposia, together with holiday, sporting and recreational courses, certain distance teaching, associated materials”;
- whilst “closely related” supplies include:
- accommodation, catering and excursions provided in connection with a course. Such supplies which are an integral part of the course, provided for the direct use of the pupil and necessary for the education of the pupil are considered to be supplies of education.

23. ESFA grant income provided to academies for the provision of free (non-fee paying) education and closely related supplies qualifies to be treated as non-business income and outside the scope of VAT.

VAT Liability of Private Sector Sponsor Donations

24. The private sector may provide sponsorship in the following ways:
- donations of cash;
- donations of assets;
- donations of services.

25. Donations received from the private sector are, in line with the categorisation of grants received from the ESFA, classified as either “restricted” or “unrestricted”. For VAT, as for accounting purposes, “restricted” means that the funds must be used for the given purpose.

26. Where the donations are:

given freely by the sponsor; and do not result in the sponsor receiving any benefit;

there is, for VAT purposes, no supply made by the Trust to the sponsor. The donation is therefore non-business and outside the scope of VAT.
27. However, where a sponsor receives a tangible benefit in return for making the donation, the supply will be taxable and academies may be liable to account for VAT on the value of the donation received. For example, a sponsor may provide sponsorship for an event and receive a benefit through advertising etc at the event. This income is business income and subject to VAT at the standard rate.

VAT Liability of Other Income

28. Academies may also make supplies which result in income that is subject to VAT at the standard rate. Typically, these would include:

- sales of goods from tuck shops, eg confectionery;

- sales of crisps and ice cream from vending machines;
- sales of school uniforms;
- car parking fees;
- advertising income;
- charges for accommodation and catering to staff and other non-students (subject to certain criteria in relation to special needs);
- commission for allowing third-party organisations to sell goods at an educational establishment;
- land and property transactions (which may be taxable or exempt) etc.

29. Income generated by Academies from the above activities will, in most cases be treated as business income and will fall within the VAT regime to be treated either as taxable or exempt.

Summary Table of General VAT Liability of Academies Income

Trust Expenditure

Recovery of Input VAT on Purchases

30. When a purchase is made from a VAT-registered supplier the purchaser will be charged VAT (input tax) on any taxable items. As noted earlier, and as a general rule, it these purchases are made in the course of the purchaser's business, and provided they are VAT registered, they will be able to reclaim the input VAT from HMRC by deducting it from the output tax they collect and remit to HMRC on their own sales.
Recovery of Input VAT Paid on Non-business Activities

31. Input tax

Fund	Source	VAT liability	Business / Non-business
Unrestricted "General"	• Earned income • Unrestricted donations • Bank interest	• Exempt or taxable • Outside the scope of VAT • Exempt / Outside the scope of VAT	• Business • Non-business • Business / Non-business
Restricted "ESFA"	• ESFA GAG and other revenue grants	• Outside the scope of VAT	• Non-business
Restricted "General"	• Grants/sponsorship monies received for restricted purposes attached e.g. other ESFA grants, other grants such as NoF, Lottery etc.	• Outside the scope of VAT / Taxable	• Non-business / Business
Restricted "Fixed Asset"	• ESFA Capital grants or sponsorship monies received for capital projects.	• Outside the scope of VAT / Taxable	• Non-business / Business

incurred on capital and revenue expenditure which is attributable, either directly or indirectly to non-business activities is not recoverable by academies. Consequently, academies will not to be able to recover input VAT from HMRC incurred on expenditure relating to the provision of education.

32. Contrary to the generally held perception, there are no specific reliefs available to academies, either as an educational institution or as a charitable body which allows Academies to recover input VAT on non-business activities.

33. Input VAT incurred on expenditure classified in the accounts as "charitable expenditure" i.e. direct costs, support costs, management and administration cost, is directly attributable to fulfilling the charitable objectives of Academies in providing free education and is not recoverable.

Recovery of Input VAT Paid on Business Activities

34. Input tax incurred on capital and revenue expenditure which is attributable, either directly or indirectly, to a business activity is potentially recoverable by academies.

35. The general principles relating to input VAT recovery are set out below as follows:

- input tax directly attributable to a taxable supply is recoverable in full;
- input tax directly attributable to an exempt supply is not recoverable;
- unattributable input VAT or residual VAT, i.e. VAT on overheads etc which cannot be directly attributed to a specific supply will need to be apportioned through the use of an approved partial exemption method. There are various methods available to attribute this input VAT and each Trust will, if necessary, need to evaluate which methods best suits its activities.

36. Academies may therefore be required to perform a two-stage calculation, firstly to apportion VAT incurred on costs between non-business and business activities and secondly carry out a partial exemption calculation to apportion the business input VAT between taxable and exempt supplies. HMRC approval will be required where it is necessary for an Trust to adopt a method which requires a business/ non-business split followed by the partial exemption calculation.

37. The accounting system structure should be set up to allow reports to be generated to extract and quantify:

- input VAT attributable to taxable business supplies;
- input VAT attributable to exempt business supplies; and
- input VAT attributable to non-business supplies.

38. The use of a partial exemption method may become more relevant where academies set up a trading arm or a separate trading company.

Relief from VAT on Trust Expenditure

39. Academies, as charities, qualify for certain zero rating reliefs which means that they are not required to pay VAT on the purchase of certain goods and services that would otherwise be VATable. HMRC Notice 701/1 and Group 15 Schedule 8 of VATA 1994 refer. The main VAT reliefs are as follows.

- Construction Services
- It is expected that academies will be involved in the following types of construction project (Notice 708, Groups 5 & 6 Schedule 8 VAT Act 1994);
- construction of new buildings;

- alterations to existing buildings;
- refurbishment of existing buildings;
- demolition of existing buildings.

The general principle is that the supply of construction services is standard-rated unless there is a specific exception. The following supplies made by contractors are generally standard rated:

- the construction of new non-residential / charitable buildings e.g. schools, canteens, sporting pavilions etc;
- car parking facilities;
- storage facilities;
- facilities for playing sports (certain exemptions exist for sports bodies.)
- the conversion, reconstruction or alteration of an existing building (other than the conversion of a non-residential building to a residential building);
- any enlargement of, or extension to, an existing building except where the enlargement or extension creates an additional dwelling or dwellings;
- the construction of an annexe to an existing building (unless the annexe is intended for use solely for a relevant charitable purpose).

However, zero rating relief is available on the supply of the following:

- The Construction of a Dwelling. A dwelling consists of “self-contained living accommodation where there is no provision for direct internal access from the dwelling to any other dwelling or part of a dwelling and the separate use, letting or disposal of the dwelling is not prohibited by the terms of any covenant, statutory planning consent or similar provision and statutory planning consent has been granted in respect of that dwelling and its construction or conversion has been carried out in accordance with that consent.” Zero-rating applies to all construction services provided in the course of construction of a dwelling, which includes the supply of building materials and services provided by bricklayers, plumbers, electrical contractors and other traders traditionally connected with the construction of new dwellings. Zero-rating does not extend to the supply of professional services, e.g. architect, surveyor or any person acting as a consultant or in a supervisory capacity. Professional services are standard-rated unless they are provided as part of a single supply of construction services. The most common example where the professional services are treated as an indivisible part of the zero-rated supply of construction services is a ‘design and build’ contract.
- The Construction of New Buildings Intended Solely for Use for a Relevant Residential Purpose. Academies are unlikely to be involved in the construction of accommodation for students. However academies should be aware that there is VAT relief on construction costs for dwellings and qualifying buildings used for a ‘relevant residential purpose’. Relevant residential accommodation for students or schoolchildren is accommodation with or without catering, cleaning etc which is the sole or main residence of at least 90% of its residents. Following recent VAT cases, it has been held that if a building is used for up to 10% of the time available for a non-qualifying purpose this will not compromise the relief e.g. holiday or conference lettings.

The Construction of New Buildings Intended Solely for Use for a Relevant Charitable Purpose in Either or Both of the Following Ways:

- -a building used by a charity otherwise than in the course or furtherance of a business. It is important to stress that, to obtain relief the building must be used by Academies and must be used for a qualifying non-business purpose. Buildings which are used to make business supplies are not eligible for the relief. However, by concession, where the business use, (e.g. third party lets and conferences), is incidental to the non-business use i.e. does not exceed 10% of the total use of the building, zero rating relief is still available. The amount of usage may be measured either by time, floor space or head count, (e.g. no more than 10% of the staff are used for business purposes). Customs & Excise approval should be sought if the 10% is measured by a method other than by time.
- -used as a village hall or similar building providing social or recreational facilities for a local community. There is no formal definition of a village hall. In Customs & Excise's view, a village hall is a communal building situated in a small community and controlled by an elected committee. It provides a facility for the whole community to enable various groups to carry out a range of local activities. Included are buildings such as sports pavilions which are constructed and used similarly to a village hall. Excluded are civil engineering works such as tennis courts, bowling greens or running tracks; buildings such as swimming pools or cinemas (which are not used in the same way as village halls); and leisure and sports centres run by charities on commercial lines. (VATA 1994 Schedule 8 Group 5 Note 6)
- Approved Alteration to Listed Buildings; The supply of services in the course of an approved alteration, i.e. works, other than any works of repair or maintenance, or any incidental alteration to the fabric of the protected building which results from the carrying out of repairs, or maintenance work, of a protected building, which is designed to remain as or become a dwelling or a number of dwellings, or is intended for use solely for a relevant residential or relevant charitable purpose after the reconstruction or alteration, is zero-rated. Zero-rating extends to materials incorporated into the building. The services of an architect, surveyor, or any person acting as consultant or in a supervisory capacity are excluded from zero-rating. It is worth noting that, to qualify for relief, the planning permission consent must not only be requested but also obtained before work commences.
- Reconstruction. It is important to note that the definition of 'alteration' does not include reconstruction, reinstatement or rebuilding. However, substantial reconstruction of a protected building (listed building) which remains or becomes a qualifying building may be zero-rated.

b. Property Transactions (The Supply of Land)

The basic rule for property transactions is that disposals and grants of interests in land are exempt from VAT (Notice 742, Group 1 Schedule 9 VAT Act 1994). This means that VAT is not charged on the letting, sale etc of land but generally input tax is not recoverable that relates to making that supply. The hiring of facilities is not a supply of land and VAT is chargeable on the charge made for such hire.

Uniquely in UK VAT, there is a provision which allows the supplier, vendor or landlord to exercise a degree of choice. This is referred to as the ‘election to waive exemption’ or the ‘option to tax’, and must be notified in writing to Customs. In certain circumstances, Customs’ permission may be required to allow the option to be exercised. However, once made the option to tax cannot be revoked for a period of 20 years, subject to certain provisions which allow the option to be revoked within the first three months. The option to tax cannot take effect on residential property, (e.g. qualifying buildings such as dwellings), relevant residential buildings and relevant charitable buildings.

The exercise of the option to tax will transform what would usually be an exempt supply into a standard rated supply. Output VAT will be charged on the supply and directly attributable input VAT incurred in making the supply will be recoverable.

c. Donated Goods

The supply to, and the supply by, a charity of goods donated for sale, letting or export are zero-rated. This relief also applies to a ‘profits-to-charity persons’, defined as a taxable person who has agreed in writing to transfer all their profits from exploiting this relief to a charity.

d. Exports
Exports of any goods by a charity to a place outside EU member states are zero-rated.

e. Assets used for a Business and Non-business Purpose

It is common practice to apportion the VAT incurred on the purchase of assets using a method agreed with HMRC. HMRC also accept that a taxable person acquiring an asset which is used for both business and non-business purposes may recover the VAT incurred on the purchase of that asset in full. However, the taxable person must account for output tax on the non-business use. HMRC do not accept that this ruling extends to the purchase of services.

f. Aids for the Handicapped

Zero-rating relief is available on a wide range of goods and services supplied to charities, which make them available to handicapped persons by sale or otherwise for their domestic or personal, use e.g.:

- chair lifts or stair lifts designed for use in connection with invalid chairs;
- hoists and lifts designed for use by invalids;
- equipment and appliances designed solely for use by handicapped persons;
- parts and accessories designed solely for use in or with all these goods;
- certain construction work, including facilitating access and providing bathrooms, lavatories and washrooms for the disabled;
- installation of lifts to facilitate the movement of handicapped persons in a residence or day care centre;
- installation of emergency alarm systems linked to control centres;
- zero-rating also extends to the repair, maintenance and installation of most of the above.

Disabled Access

Zero-rating is available for the supply to a charity of construction services in relation to ramps or the widening of doorways or passages for the purpose of facilitating entry to, and movement within, any building.

h. Disabled Bathrooms, Washrooms and Lavatories etc

The supply to any charity of a service of providing, extending or adapting a washroom or
lavatory facilities to make them suitable for use by the disabled, e.g. in a building used for a relevant charitable purposes.

Fund-raising Events

Fund-raising events may be exempt from VAT, but exemption may not be available either because the charity, its trading subsidiary, or the event itself does not meet the criteria for exemption, or because the event is run by a non-qualifying body. When an event is likely to be taxed at the standard rate its promotion needs to be structured carefully if a full VAT charge on any income generated is to be avoided.

Zero Rating Certificates

40. To qualify for zero rating Academies must provide the supplier with suitable certification before the supply is made. It is the responsibility of the person who issues a certificate to make sure it is correct. If the certificate is incorrect, Academies may be liable to a penalty equal to the amount of VAT which would have otherwise been charged. Although the intention of issuing a certificate is to take the onus for determining the liability of a supply away from the supplier and place it on the Academies, the supplier should still take reasonable steps to satisfy himself that the certificate has been correctly issued. Examples of zero rating certificates are provided in HMRC Notice 708 Buildings and Construction.
Reduced Rate VAT

41. VAT on the supply of fuel and power used for a ‘qualifying use’ is charged at a reduced rate of 5% . To reiterate, ‘qualifying use’ includes use by a charity otherwise than in the course or furtherance of a business.

42. Where a supply is used partly for a qualifying use and partly not, an apportionment should be made to determine the extent to which the supply is used for a qualifying use. However, if at least 60% of the goods are supplied for qualifying use, the whole supply qualifies for the reduced rate.

43. The reduced rate covers the supply of coal, coke, other solid fuels, various forms of gas, oils, or electricity, heat or air conditioning. It does not extend to the supply of heated water.

Trading Companies and VAT Grouping

44. The use of trading subsidiaries by charities to protect profits from direct taxation is becoming increasingly popular as charities exploit their resources in trades outside their primary purpose. Academies could set up a separate trading company through which to channel its trading activities.

45. For VAT purposes it is possible to group companies to form a single body under a VAT group registration. Academies, as a body corporate, and their subsidiary companies could form a VAT group, providing certain control requirements are fulfilled. The benefits of VAT grouping are such that transactions which take place between members of a VAT group can be disregarded for VAT purposes and therefore improve administrative efficiency. However, a group VAT registration creates a joint and several liability for VAT debts incurred by group members, therefore each Trust should consider the financial impact of guaranteeing to fund the debts of their subsidiaries before forming a VAT group.

46. The trading company may not, for VAT purposes, be an eligible body, therefore the VAT zero rating reliefs available to academies may not be available to the trading company, and supplies which if made by Academies would be exempt or non-business, may be taxable if made by the trading subsidiary.

47. Academies may by structuring the activities of the group effectively be able to maximise the zero rating reliefs available and increase the level of recoverable overhead VAT.

Accounting for VAT

48. Trust accounting systems should have the ability to account for the various VAT rates applicable to income and expenditure.

49. The sales ledger should be able to code income into the following VAT categories; standard rated, zero rated, reduced rate, exempt, outside the scope of VAT and outside the scope of VAT with the right of recovery. The “outside the scope of VAT” category which may also be referred to as non-business, primarily deals with income received from the DfES and sponsors. The accounting system should be capable of generating reports to identify, at cost centre level, the amount of income generated from each VAT type for each funding source together with the relevant VAT amount to establish a sufficient audit trial to identify individual invoices to support the VAT treatment.

50. The purchase ledger should be able to identify each VAT category i.e. standard rated, zero rated, reduced rate, exempt and outside the scope and the VAT amount applicable to each invoice at the point of input. The system should be capable of producing VAT reports to identify, for each cost centre, the net amount purchased and input VAT amount incurred by expenditure type on, for example, non-business activities and taxable and exempt business activities.

51. The accounting system should, for VAT purposes, be set-up to cope with the possible setting up of subsidiary trading companies which may generate taxable

income and which may also use the Trust's accounting system to record their transactions.

52. Academies should appoint a VAT liaison officer from within the finance department to manage and monitor the VAT registration process, the treatment of VAT within the accounting system and the training of staff responsible for inputting transactions into the accounting system. Advice from professional VAT advisers should be sought where necessary. It may also be useful to consider receiving input from professional VAT advisers at periodic meetings held by academies in the early stages of development.