Summary: This guidance is for all LSC staff. It sets out the VAT position of the Learning and Skills Council (LSC) and provides guidance on the principles to follow and the VAT treatment of LSC transactions. It covers VAT classifications, common expenditure issues and LSC income.

This document should not be distributed to any parties external to the LSC.
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**Introduction**

1. The information in this guidance is for use only within the LSC. **It must not be distributed to organisations outside the LSC and must not be used to provide advice to organisations outside the LSC.**

2. The LSC must not provide any VAT advice to other organisations. If advice is sought, organisations must be directed to seek their own advice from their local HM Revenue & Customs enquiries office, the national VAT advice service or their own VAT advisor.

3. Although we cannot provide advice to other organisations we should discuss VAT issues with external organisations where they have charged VAT incorrectly. The outcome may then be subject to a ruling by HM Revenue & Customs.

4. The information in this guidance is not exhaustive and is subject to change from time to time. If in doubt about a VAT issue please contact the VAT advisory team (as indicated in Annex 8).

5. Terms such as grant, contract, supply etc have specific meanings in VAT terms. A glossary is provided at Annex 7.

6. A list of the source documentation is provided at Annex 9.

**VAT Status of the LSC**

7. The LSC is a Non-Departmental Public Body (NDPB) set up under the Learning and Skills Act 2000. Its VAT status is different to that of the former Further Education Funding Council and the Training and Enterprise Councils.

8. The LSC’s VAT status is also different to that of the Department for Innovation, Universities and Skills (DIUS) which provides the LSC’s grant-in-aid. Where programmes are transferred from DIUS to LSC responsibility, care must be taken to assess the VAT implications. Generally, the DIUS can reclaim VAT costs where the LSC cannot. This means the programme costs potentially increase to provide the same level of provision.

9. The LSC is not a charitable body and therefore cannot claim reduced VAT for fuel or advertising.

10. The VAT status of the LSC is specifically referred to in Section 5A of Group 6 to Schedule 9 of the VAT Act 1994. This document is referred to later in the guidance and is copied at Annex 1.

11. The LSC is registered for VAT; the registration number is 770 3271 43.
12. For VAT purposes the LSC is an 'eligible body' and the definitions are in Annex 2.

LSC Funding

13. The LSC receives its main funding from the DIUS in the form of grant-in-aid. This grant funding is considered 'non-business' for VAT purposes and is outside the scope of VAT.

14. As the DIUS grant funding is outside the scope, the LSC cannot reclaim any VAT incurred on any expenditure attributable to either the delivery of programmes or their administration. VAT costs incurred are, therefore, generally irrecoverable and must be paid for from within the overall LSC budget.

15. Other funds received by the LSC are covered later in the guidance in the section on Income.

Scope of VAT – General Principles

16. A transaction comes within the scope of VAT only if the transaction involves a 'supply' of goods and/or services. Annex 3 includes guidance on the definition of supply.

17. Grant payments, salaries and the reimbursement of expenses are generally outside the scope of VAT. More specific examples of LSC transactions that are outside the scope of VAT are provided in the relevant sections within this guidance and Annex 4.

18. Payments to organisations/individuals that are not registered for VAT are outside the scope of VAT. [The supplier standing data on CODA should reflect this].

19. If in any doubt at all contact the VAT advisory team (as indicated in Annex 8) for advice.

VAT Classifications

20. Having determined that a transaction is within the scope of VAT, the next step is to identify what VAT classification applies. The only VAT classifications that the LSC are permitted to use are:

   a. Standard Rated
   b. Exempt
   c. Zero Rated.
21. These classifications are described in detail in Annex 4.

22. Other VAT rates must not be used/accepted (for example 5 per cent) as they do not apply to the LSC.

Common Expenditure Issues

Specific Programme Guidance

23. General guidance on specific programme areas is shown in Annex 5. Where expenditure is not within these parameters, advice should be sought from the VAT advisory team.

Contracts and Funding Agreements

24. Care should be taken when issuing new contracts and funding agreements with providers. The LSC must not provide any VAT advice to other organisations.

25. Suggested paragraphs for new contracts and funding agreements can be found in Annex 8. These have been incorporated into appropriate funding agreements. Variations to these should be cleared with the Accounting Service Centre.

26. For advice on Procurement, please refer to the LSC’s intranet under Procurement.

27. The intranet includes some standard contracts and agreements. Details of national goods and services contracts can be found on the LSC’s intranet under Procurement.

Providers/Suppliers not Registered for VAT

28. Providers and suppliers that are not registered for VAT, do not account for VAT and will not provide a VAT invoice. Payments to all such organisations/individuals are outside the scope of VAT.

29. The fact that they are not registered for VAT should be included on the supplier standing data held in CODA.

30. Examples
   Invoices for consultancy: from a VAT registered consultant the invoice would be standard rated, from a consultant not registered, the invoice would be outside the scope of VAT.
   Invoices for training LSC staff: from a VAT registered supplier the invoice would be exempt, from a supplier not registered, the invoice would be outside the scope of VAT.
Transactions with Trade Unions

31. Some trade unions are not registered for VAT. In these cases, all transactions are outside the scope of VAT.

32. Trade unions may be considered eligible bodies if they are non-profit making and the organisation consists of:

- workers of one or more descriptions; or
- constituent or affiliated organisations; or
- representatives of such constituent or affiliated organisations. The principle purposes of the organisation must include the regulation of relations between workers and employers or employers' associations.

33. The organisation should have the main aim of defending the collective interests of its members and to represent them with third parties. Advice may be sought from the VAT advisory team.

Transactions with Eligible Bodies

34. The definition of eligible bodies for the purposes of providing exempt education is included in Annex 2. For VAT purposes, the LSC is an eligible body.

35. Examples of eligible bodies include schools, colleges, universities, further education (FE) and higher education (HE) institutions, government departments, executive agencies, local authorities, health authorities and bodies providing the teaching of English as a foreign language.

36. Also included are bodies that are precluded from distributing profits and that apply any profits made from exempt supplies of education, research or vocational training to the continuance or improvement of such supplies.

37. Eligible bodies do not include bodies such as tutorial colleges, computer training organisations, secretarial schools and correspondence colleges that operate with a view to making and distributing a profit.

38. The provision of education is exempt when provided by an eligible body.

Education and Vocational Training

39. Most programme expenditure by the LSC for education and training will be in the form of a grant and therefore outside the scope of VAT as there will be no supply.

40. Where the LSC contracts for the supply of education and vocational training (for example, for training LSC staff) that supply is exempt from
VAT under Section 5A of Group 6 to Schedule 9 of the VAT Act 1994 (see Annex 1). The supplier does not have to be an eligible body to be included within this exemption.

Research

41. Research provided by an eligible body to an eligible body is exempt from VAT. For definitions, see the section above on Transactions with Eligible Bodies and Annex 2. If either of the parties to the research is not an eligible body, the supply will normally be subject to standard rated VAT.

42. ‘Research’ is not defined in legislation but is regarded by HM Revenue & Customs to mean ‘original investigation undertaken in order to gain knowledge and understanding’. It does not include merely confirming existing knowledge and understanding.

43. The following are specifically not considered to be research:
   - consultancy and business efficiency advice
   - collection and recording statistics, without also collating, analysing or interpreting them
   - market research and opinion polling
   - writing computer programmes
   - routine testing and analysis of materials, components and processes.

Sponsorship

44. Sponsorship is normally made in return for a benefit and is therefore considered to be a taxable supply. As such it will be subject to VAT at the standard rate. Examples of benefits received by the LSC include:
   - naming an event after the LSC
   - displaying the LSC’s logo or name
   - participating in the LSC’s promotional or advertising activities
   - allowing the LSC to use the name of the organisation being sponsored
   - receipt of discounts or free goods or services, including access to special events
   - receipt of entertainment or hospitality facilities.

45. This list is not exhaustive. What matters is that the agreement or understanding requires the sponsored organisation to do something in return.

46. Sponsorship in the form of donations may also be provided to organisations. This is likely to be in the form of a grant (see Grant Funding) and should only be provided where the funds will be used for activities that support the LSC’s objectives. This would be outside the scope of VAT provided that there is no taxable supply to the LSC.
Insignificant benefits such as the minor acknowledgement of the source of the support are not considered a taxable supply.

47. This does not refer to charitable donations. The LSC should not make donations to charities and other similar organisations unless the funds are provided in order to achieve LSC objectives.

**European Transactions**

48. All transactions with organisations outside the UK should be referred to the VAT advisory team.

**Investors in People**

49. Work specifically aimed at the development or implementation of training standards qualifies as an examination service and is exempt when supplied either to or by an eligible body. However, if it is part of a broader package of taxable Investors in People services, the whole programme is subject to standard rated VAT.

50. Investors in People pre-assessments, diagnostics and assessments are not included in any exemption and are therefore standard rated supplies, regardless of who actually receives the supply.

**Property**

51. Generally, the LSC cannot recover VAT incurred on any aspect of property costs. The VAT incurred must be funded from within the appropriate administration budget.

52. Where property is sub-let to other tenants the LSC may ‘opt to tax’ by making a declaration to HM Revenue & Customs. This must be done in conjunction with the VAT advisory team. Once this is in place the LSC must include VAT on the invoice to the tenant and may also recover VAT incurred on relevant costs.

53. The LSC must not include VAT on invoices to sub-tenants unless an ‘opt to tax’ has been declared to HM Revenue & Customs.

**Capital Expenditure**

54. In VAT terms, capital expenditure is to be treated in the same manner as revenue expenditure. The VAT element should be capitalised.

**Employee Expenses**

55. Generally, the reimbursement of expenses to employees is outside the scope of VAT.
56. There may be some instances where the VAT element could be reclaimed but these are minimal. The LSC does not reclaim VAT on employee expenses as the cost of administering the process is not deemed to be cost effective.

**LSC Income**

**DIUS Grant-in-Aid**

57. All DIUS grant-in-aid is outside the scope of VAT as there is no supply for VAT purposes.

**European Social Fund (ESF) and other Grant Funding**

58. ESF income is outside the scope of VAT as there is no supply for VAT purposes.

59. Income from other Government departments and the European Commission (EC) may also follow the same principles but advice should be sought from the VAT advisory team for all new funding streams.

60. Funding from the EC is most likely to be a grant and outside the scope of VAT. For example, European Social Fund (ESF), European Regional Development Fund (ERDF) and Single Regeneration Budget (SRB) funds received by the LSC are classified as outside the scope of VAT as there is not considered to be a direct supply.

61. There may be rare instances where the LSC contracts with the EC and there is considered to be a supply for VAT purposes. All issues should be referred to the VAT advisory team.

62. Grant funding from other organisations should be evaluated in terms of whether or not it represents consideration for a direct supply. For a definition of supply, please refer to Annex 3. All queries should be referred to the VAT advisory team.

**Other Income**

63. The LSC does receive income that is considered to be a supply for VAT purposes. Examples include income received for equipment hire, advertising, administrative staff secondments and consultancy services.

64. The LSC has also opted to charge VAT on certain specified properties. In these cases receipts from room hire, lettings, service charges, lease premiums, lease surrender receipts, assignments, property disposal and any other property related income will be subject to standard rated VAT. A summary of the VAT classifications for income is included in Annex 6.
65. Where expenditure is wholly attributable to taxable income sources, the LSC is eligible to reclaim the VAT incurred on that expenditure from HM Revenue & Customs.

66. The LSC has agreed with HM Revenue & Customs a method for identifying and reclaiming input tax that is only partially attributable to this taxable sundry income.
Annex 1

Section 5A of Group 6 to Schedule 9 of the VAT Act 1994

Group 6 to Schedule 9 of the VAT Act 1994 gives details of VAT exemptions to the VAT Act 1994. Section 5A gives specific exemption for education and vocational training funded by the LSC. This section is reproduced below:

‘The provision of education or vocational training and the supply, by the person providing that education or training, of any goods or services essential to that provision, to the extent that the consideration payable is ultimately a charge to funds provided by the Learning and Skills Council for England or the National Assembly for Wales under Part I or Part II of the Learning and Skills Act 2000.’

This is included in VAT Notice 701/30 Education and Vocational Training. The complete VAT Notice can be accessed through the HM Revenue and Customs internet site.

Group 6 to Schedule 9 can be found in paragraph 17.1

Definitions of education and vocational training can be found in paragraphs 5.1 and 5.3 in VAT Notice 701/30 Education and Vocational Training.

Training that is exempt under Section 5A is training funded by the LSC in accordance with the Learning and Skills Act 2000. When training LSC staff, courses must be in accordance with the Learning and Skills Act to be exempt from VAT, otherwise they will be subject to VAT at the standard rate.
Annex 2

Definition of Eligible Body

An eligible body is:

1. a school within the meaning of The Education Act 1996, the Education (Scotland) Act 1980, the Education and Libraries (Northern Ireland) Order 1986 or the Educational Reform (Northern Ireland) Order 1989, which is:
   a. provisionally or finally registered or deemed to be registered as a school within the meaning of the aforesaid legislation in a register of independent schools; or
   b. a school in respect of which grants are made by the Secretary of State to the proprietor or managers; or
   c. a community, foundation or voluntary school within the meaning of the School Standard and Framework Act 1998, a special school within the meaning of section 337 of the Education Act 1996 or a maintained school within the meaning of the Education and Libraries (Northern Ireland) Order 1986; or
   d. a public school within the meaning of section 135(1) of the Education (Scotland) Act 1980; or
   e. omitted
   f. a self-governing school within the meaning of section 1(3) of the Self-Governing Schools (Scotland) Act 1989; or
   g. omitted
   h. a grant-maintained integrated school within the meaning of Article 65 of the Education reform (Northern Ireland) Order 1989;

2. a United Kingdom university, and any college, institution, school or hall of such a university;

3. an institution –
   a. falling within section 91(3)(a) or (b) or section 91(5)(b) or (c) of the Further and Higher Education Act 1992; or
   b. which is a designated institution as defined in section 36(1) of the Further and Higher Education (Scotland) Act 1992; or
c. managed by a board of management as defined in section 36(1) of the Further and Higher Education (Scotland) Act 1992; or

d. to which grants are paid by the Department of Education for Northern Ireland Under Article 66(2) of the Education and Libraries (Northern Ireland) Order 1986;

4. a public body (*see below*);

5. a body which –

   a. is precluded from distributing and does not distribute any profit it makes; and

   b. applies any profits made from supplies of a description within this Group to the continuance or improvement of such supplies;

   c. a body not falling within paragraphs (a) to (e) above which provides the teaching of English as a foreign language.

Public body means:

1. a government department within the meaning of Section 41(6) VAT Act;

2. a local authority;

3. a body which acts under any enactment or instrument for public purposes and not for its own profit and which performs functions similar to those of a government department or local authority.

*The LSC is an eligible body under 3 above.*
Annex 3

Definition of Supply

1. VAT applies to transactions where there has been a specific ‘supply’ of goods or services. If all of the following conditions are met a ‘supply’ has taken place and the transaction is within the scope of VAT:
   
   a. it is a supply of goods or services in return for a consideration
   b. it takes place in the UK
   c. it is made by a taxable person/organisation (i.e. registered for VAT or required to do so)
   d. it is made in the course of any business carried on by that person/organisation.

2. A transaction which does not meet all of the above conditions is outside the scope of VAT.

3. In relation to LSC expenditure a ‘supply’ is where the LSC contracts for goods or services. It does not include transactions where the LSC provides grant funding to an organisation to further that organisation’s aims rather than supply something specific. Grant funding may include considerable requirements by the LSC in terms of monitoring and assurance information but, in itself, the provision of this information does not constitute a supply.

4. In order to decide whether a transaction is a supply or a grant the following questions should be considered:
   
   a. have you received anything in return for the funding?
   b. are there conditions attached which go beyond the requirement to account for the expenditure of the funds?
   c. if you do not benefit, does any particular third party (rather than the general public) benefit instead?
   d. what do the terms and conditions of the contract indicate?

If in any doubt at all contact the VAT advisory team (as indicated in Annex 8) for advice.
Annex 4

VAT Classifications

Outside the Scope

These are transactions where there is no ‘supply’ (see Annex 3 for the definition of supply). VAT is not chargeable.

Examples
Grant-in-aid to FE colleges
Grants to public bodies and other organisations
Salary payments
Reimbursement of expenses
Invoices from any organisation/individual that is not VAT registered.

Exempt

A supply of goods or services is exempt if specified as such in the Schedule 9 of the VAT Act 1994. This includes Section 5A of Group 6 to Schedule 9 of the VAT Act 1994 as outlined in Annex 1.

Where a supply could be either zero-rated or exempt, zero rating takes priority.

Examples
Supplies and services that are directly related to exempt education and vocational training
Education, research and training provided by an eligible body Annex 2 [Note: there are very specific definitions for research – if in doubt contact the VAT advisory team]
Examination services
Postage costs, if paid direct to the Post Office Company
Insurance
Eye tests

Zero-Rated

The supply of goods and services is zero-rated if it is a taxable supply in all respects (that is, not outside the scope or exempt) but no VAT is charged. In all respects it is treated as a taxable supply (except that an invoice for a zero-rated supply does not constitute a VAT invoice).

Where a supply could be either zero-rated or exempt, zero rating takes priority.

Examples
Most food (other than that supplied in the course of catering)
Water and sewerage services
Books and printed matter [Note: there are very specific definitions for printed matter – if in doubt contact the VAT advisory team]
Public transport (rail, air, bus) where the vehicle is designed to carry not less than 12 passengers

**Standard Rated**

The current standard rate of VAT is 17.5 per cent. No other rate of VAT must be used or accepted. The LSC are not permitted to claim any reduced rates such as those claimed by charitable bodies.

Examples
All transactions that do not fall into the other categories, including:
Taxi fares and car hire (where the vehicle is designed to carry less than 12 passengers
Food and drink supplied in the course of catering
Consultancy Fees
Annex 5

LSC Expenditure – General Principles

This annex is only intended to provide general guidance relating to the main use/purpose of the programme. The classification of VAT entirely depends upon how the funds are used. Where activity does not fall into the general guidance, advice on VAT can be obtained from the VAT advisory team (as indicated in Annex 8).

Learning Participation under 18

School Sixth Forms

To provide mainstream and special educational needs funding for school sixth forms. Payments to school sixth forms are grant payments and are outside the scope of VAT.

16-18 Further Education

This is funding to the FE sector to meet its statutory obligations to provide education to 16-18 year olds. It supports the participation, retention and achievement of young people. This is grant funding and is outside the scope of VAT.

16-18 Workbased Learning/Training (WBL)

This is funding for vocational training of learners under specific programmes:

- Modern Apprenticeships
- NVQ Levels 2 & 3
- Preparatory Training

The standard WBL contract states that providers shall be principals in supplying the training, albeit they may sub-contract all or part of their obligations. WBL is contracted rather than grant funded and is considered to be exempt from VAT as it relates to vocational training.

Entry to Employment

Entry to Employment (E2E) provides core skills for young people, preparing them for progression to further learning and/or employment. Mostly, young people will access E2E through Connexions. Similar to WBL, this will be a contracted supply and exempt from VAT.
Learning Participation - Adults

19+ Further Education

These are payments to Colleges to provide core funding for FE Participation, to increase participation, and improve levels of retention and achievement. This is grant funding and is outside the scope of VAT.

19+ Workbased Learning

WBL provides 19-25 year olds with high quality work-based learning to level 3 through Apprenticeships. WBL is contracted rather than grant funded and is considered to be exempt from VAT as it relates to vocational training.

Train to Gain

A grant to improve productivity in SMEs through the use of Train to Gain Skills Brokers. They engage and support businesses by offering advice, matching any training needs identified with training providers and reviewing the progress made by the learners. Where the LSC contracts directly with training providers, payments will be exempt from VAT. Grants to employers to cover training and wage compensation will be outside the scope of VAT.

Employer Training Pilots

This is expenditure to help develop structures for learning in the workplace and improve productivity and competitiveness. Where the LSC contracts directly with training providers, payments will be exempt from VAT. Grants to employers to cover training and wage compensation will be outside the scope of VAT.

Marketing and Certification

This is for development work aimed at improving the quality of vocational qualifications.

Where LSC expenditure is related to marketing, commissioning a website, good practice guides, or running seminars, VAT will be at the standard rate.

Where the LSC is giving grant aid to other organisations to produce and disseminate information on their own services, this is not a supply commissioned by the LSC and thus, is outside the scope of VAT.

External verification visits to improve consistency of quality assurance across NVQ awarding bodies are considered to be a supply of examination services to an eligible body. The supply of verification visits by external contractors should therefore, be exempt from VAT.

Personal & Community Learning (ACL providers)
Although this program is not linked to prior level of achievement nor to offer progression to other learning aims, it is believed that non-accredited learning has intrinsic value for the learners and communities. This is grant aid to Local Education Authorities (LEAs) for the provision of adult learning courses. The grant is outside the scope of VAT.

Family Learning

This expenditure develops the skills/knowledge of both adult and children learners. This programme encourages adults to be more active in the support of their children’s learning and thus enabling them to learn together. This funding is delivered through LEAs and is grant funding outside the scope of VAT.

Family Language Literacy & Numeracy

These payments are to improve the literacy, language & numeracy skills of parents so that they can help/support their children and extend their own skills. This funding is included within the grant funding to LEAs for Community Learning and is outside the scope of VAT.

Neighbourhood Learning in Deprived Communities

It aims to support local voluntary and community sector organisations to develop their capacity to deliver learning opportunities for residents of disadvantaged neighbourhoods. This is delivered through LEAs and is grant funding outside the scope of VAT.

Learners with Learning Difficulties and/or Disabilities

To allow learners with complex needs to attend colleges specialising in teaching people with learning difficulties or disabilities. This is grant funding and is outside the scope of VAT.

University for Industry/Learn Direct

Approved allocations according to Financial Memorandum of grant in aid and as such is outside the scope of VAT.
Learner Support and Development

To provide financial support, bursaries/childcare and transport assistance for youth and adult students, targeted on the most vulnerable and those on low incomes to improve access, participation and achievement. The payment of specific allowances to providers, on the condition that sums are disbursed to learners, represents a grant outside the scope of VAT.

The following programmes are included under Learner Support

School Sixth Form Hardship
16-18 Hardship
16-18 Residential Bursaries
Care to Learn
19+ Hardship
19+ FE students in HEI’s
19+ Residential Bursaries
19+ Childcare
19+ Childcare pilot
LEA Transport Partnership

This programme expenditure represents grant funding outside the scope of VAT.

Dance & Drama Awards

This is a grant to assist talented students in the performing arts by helping them with tuition fees. Being grant expenditure it is outside the scope of VAT.

Adult Learning Grant

This is a grant to help 19+ learners studying full-time with the costs of learning, whether they are in full-time or part-time employment. Being grant expenditure it falls outside the scope of VAT.

Career Development Loans

These are deferred repayment bank loans of up to £8K to help individuals pay for vocational education and learning. The payment of these loans represents a grant outside the scope of VAT.

Educational Maintenance Allowances

The EMA is for recognised, full time academic or vocational courses and pays students up to £30 each week, depending on household income. There are additional costs associated with marketing and sector administration. The programme expenditure associated with courses are Grant support and outside the scope of VAT.
Where LSC expenditure is associated with marketing and administration then VAT will be at the standard rate.

14-19 Reform

Education Business Links

The funding is to provide school children with a range of work experiences throughout their school career.

NEET & NET Learning Agreements

A more tailored provision of advice and training for 14-19 old NET group. This particular group is being targeted to ensure that they will not fall into the NEET group.

Increasing Flexibility for 14 - 16 year olds

To encourage the provision of enhanced vocational and work based learning at key stage 4 of the national curriculum.

Young Apprenticeships Fund

A Key Stage 4 route for pupils of 14 & 15 years, selected pupils can have extended experience of work and pursue vocational qualifications, whilst continuing with their core curriculum.

Area Inspections

Programme expenditure to support action plans and initial activities in respect of area-wide inspections.

Grant expenditure included under 14-19 Reform programme headings will be outside the scope of VAT.

Vocational training included under Increased Flexibility for 14 – 16 year olds will be exempt.

Adult Skills Reform

Adult Information Advice & Guidance

To provide a universally accessible, high quality, and free information and advice service through partnerships to encourage adults to enter HE. The LSC contracts with a lead partner, typically the Careers Service company for the provision of information and guidance. This is treated as a grant and is therefore outside of scope for VAT purposes.
Train to Gain Infrastructure

It supports an infrastructure development programme to build capacity and capability to support the implementation of Train to Gain. It will focus on developing the capacity to meet employer needs, including the introduction of the national network of brokers.

Offender Learning

A Project to carry forward agreed plans including education and training for those under supervision of the probation service either on release from custody on licence, or serving a community sentence. (OLASS = Offender Learning and Skills Service)

New Entrepreneur Scholarships

Provides training/support to young people from deprived communities to enable business start ups, work towards qualifications, or enhance employment prospects.

CoVE Revenue

This funding provides non-capital resources including staffing costs and learning materials to enable colleges to become excellent.

Under Adult Skills Reform funding programmes grant funding to education and training providers will be outside the scope of VAT. Contracts for the supply of education and training will be exempt from VAT.

Quality Reform

Local Initiatives Fund

To support the delivery of wider LSC objectives, not directly supported by programme expenditure.

The VAT status of supplies charged to this programme will depend upon the nature of the contract and the provision. For example, expenditure may include education, vocational training or LSC commissioned examination services - which are all exempt, or market research, marketing and systems consultancy - which are liable to VAT at the standard rate, or a grant - outside the scope of VAT.

Raising Disability Access

To ensure the LSC and other responsible bodies fulfil their responsibilities under the Disability Discrimination Act. Expenditure tends to be in the form of a grant to cover capital and/or recurrent costs of disabled learner facilities. These grants are outside the scope of VAT.
Golden Hellos

To increase the number of teachers/lecturers taking up teaching in designated shortage areas. This is grant funding and is therefore outside the scope of VAT.

Capacity and Infrastructure

Sector Skills Pilots

Funding for sector pilots to develop new funding/delivery models aimed at overcoming existing constraints in key industry sectors. Contracts for the supply of vocational training will be exempt from VAT.

National Skills Academies

This programme is for the development of the first round of National Skills Academies which consists of grant funding to education and training providers being outside the scope of VAT.

Union Learning Fund

A programme to help trade unions use their influence to encourage learning at work and boost their capacity as learning organisations. It is mainly to be dispersed to individual unions on a contractual basis. Where they are eligible bodies, see also Transactions with Eligible Bodies. Generally, if they are registered for VAT and an eligible body, payments for education and vocational training will be exempt from VAT.

Aim Higher

To increase the number of people from disadvantaged backgrounds entering FE, achieving Level 3, and progressing to HE. Where the LSC commissions summer schools, master classes and mentoring by undergraduates, the supply should be exempt from VAT.

Capital

FE Capital Buildings

To provide capital grants to maintain and upgrade the learning infrastructure to ensure FE buildings are fit for purpose. These capital grants to the FE sector are outside the scope of VAT.

ACL Capital Buildings

To provide capital to maintain and upgrade the learning infrastructure to ensure that non-FE buildings are fit for purpose in delivery of programmes (eg
community based learning). Expenditure tends to be in the form of capital grants to LEAs, which are outside the scope of VAT.

FE 16-18 Sector Rationalisation

Programme expenditure in the form of capital grants to provide support for costs towards the restructuring of 16-18 provision in the FE sector which is outside the scope of VAT.

Administration

All administrative expenditure will be subject to VAT in accordance with the normal VAT rules.
Annex 6

LSC Income – General Principles

Outside the Scope
- staff lease car contributions
- ESF/SRB Grants
- HEFCE Grants
- OGD Grants

Exempt
- training courses run by the LSC
- staff secondments specifically for tuition and training services
- vending and payphones – commission for hire of space
- sub-letting, room hires and other property income

Zero Rated
- sale of booklets, labour market reports, subscriptions paying for written communications
- advertising revenues - advertisements placed by charities

Standard Rated
- royalties
- completion of statistical returns
- IiP club membership subscriptions/business fairs/recruitment fairs, marketing receipts
- staff secondments to other organisations
- consultancy and advice
- Investor in People – assessment fees
- Advertising revenues – in publications/web sites
- vending and payphones (LSC operated)
- vending and payphones - commission for hire of space (opted properties*)
- catering
- subletting etc, (opted properties*)
- hire of equipment
- sale of surplus equipment
- private phone/mobile phone call receipts

Notes*
The LSC has opted to charge VAT on certain specified properties. Once opted, receipts from room hire, lettings, service charges, building insurance recharges, lease premiums, lease surrender receipts, assignments, property disposal procedure any other property related income will be liable to standard rate VAT.
Annex 7

Glossary

Contract Funding

Contracts cover the procurement of goods and services, and the funding of learning provision at all providers other than FE colleges and public bodies. It is the normal commercial relationship with business and voluntary organisation providers and suppliers.

Education

Education means 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
- regardless of when and where it takes place.

Education includes:

- lectures
- educational seminars
- conferences and symposia
- holiday, sporting and recreational courses
- distance teaching and associated materials (providing the student is subject to assessment by the teaching institution).

The definition of education is included in VAT Notice 701/30 Education and Vocational Training. This document can be reached through the HM Revenue and Customs internet site. The definition of education is in paragraph 5.1.

Eligible Body

See Annex 2 for guidance on eligible bodies.

Grant Funding

For VAT purposes the term ‘grant’ may be used in relation to:

- Grant-in-aid
  - This funding is normally only for FE colleges under a financial memorandum.
- Other Grants
  - Grant funding must be spent on LSC purposes and organisations cannot use the funds (or any related profits/surpluses) for anything else. Providers must spend the funds in a way expected of public servants.
Recurrent grant funding tends to be for other public bodies under a grant agreement. It therefore tends not to be suitable for businesses, voluntary organisations and other non-public bodies.

One-off grant funding can be given to any type of organisation to buy goods or services in support of learning provision.

For grant funding there is generally no ‘supply’ involved in the transaction.

Supply

See Annex 3 for guidance on supply in terms of VAT.

Vocational Training

Vocational training means:

Training, re-training or the provision of work experience for –

- any trade, profession or employment; or
- any voluntary work connected with –
  - education, health, safety or welfare; or
  - the carrying out of activities of a charitable nature.

The definition of vocational training is included in VAT Notice 701/30 Education and Vocational Training. This document can be reached through the HM Revenue and Customs internet site. The definition of vocational training is in paragraph 5.3.
Annex 8

Standard VAT Paragraph for Contract / Funding Schedules

The following are suggested standard paragraphs for Contract/Funding Schedules between the LSC and other organisations.

Any variation from the paragraphs needs to be agreed with the national office.

Contract / Funding Agreement

1  The COUNCIL will pay up to a maximum of £XXX, for ................ for the period XX to XX. This maximum amount includes any VAT or other taxes to be charged. This amount cannot be exceeded except with the prior written consent of THE COUNCIL’s contract manager. The CONTRACTOR is responsible for ensuring the correct treatment for any VAT and other taxes to be charged.

Schedule(s)

2  The COUNCIL is generally unable to recover any VAT charged. The maximum sum payable under this contract, as set out in paragraph XX of Schedule XX, includes the cost of the service and any other VAT or taxes to be charged, where they apply.

Where appropriate:

3  Under the provision of Item 5A to Group 6 of Schedule 9 of the VAT Act 1994, the supply of education or vocational training funded by the COUNCIL, and the supply by the person providing that education or vocational training, of any goods or services essential to that provision, is considered to be an exempt supply for VAT purposes.

Please refer any queries to:

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Treasury Accounting Manager
Accounting Service Centre
Learning and Skills Council
Cheylesmore House 1
Quinton Road
Coventry
CV1 2WT

Tel: 024 7682 5682
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Annex 9

Source Documents

Further and Higher Education Act 1992

Learning and Skills Act 2000

The VAT Act 1994

VAT Notice 701/30 Education and Vocational Training (January 2002)
[Replaces VAT Notice 701/30 Education and Vocational Training (June 2000)]

Tolley’s Value Added Tax, 2007 Second Edition