Guidance on Hospitality

To: Council Members
   National Directors
   Regional Directors
   Executive Directors
   All Staff

Purpose: This Finance Guidance Letter (FGL) sets out the LSC’s policy on the provision of hospitality to third parties and employees and it provides guidance on the expenditure limits to be applied. There are many tax implications arising from the provision of hospitality and these are also dealt with in this guidance. This guidance does not cover the receipt of hospitality by Council members and staff, this is dealt with in a separate Financial Guidance Letter.

Status: Mandatory

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<tr>
<th>Date Issued:</th>
<th>31 January 2005</th>
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Learning+Skills Council
Executive Summary

Date: 31 January 2005

Subject: Guidance on Hospitality

The document consists of:

A  Sets out the LSC’s policy on the provision of hospitality to third parties and employees and it provides guidance on the expenditure limits to be applied.
B  One Annex

Changes:
1.  General updating for new FGL formats and organisational changes.

Immediate Action Required:
1.  Council members, directors and line managers must ensure that they and their staff are fully aware of this guidance and that the policies are applied immediately.
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1 INTRODUCTION

1. Hospitality offered by public bodies at the public expense is a sensitive issue which can give rise to political and presentational difficulties unrelated to the actual scale of the expenditure. Many of the issues relating to the treatment of hospitality expenditure are driven by the requirements of the Inland Revenue. Other guidance is derived from existing practice within the public sector and adapted for use within the LSC. It is therefore important that these rules relating to hospitality and other similar expenditure are understood and followed.

2. Directors may hold hospitality budgets that may be delegated to their line managers in accordance with budget delegation guidelines. Hospitality is provided out of the administration budget.

3. Council members are regarded as employees of the Council by the Inland Revenue and are therefore encompassed by this guidance.

4. This guidance sets the norm for the treatment of hospitality but may not cover all the circumstances that may arise. In the event that expenditure outside of these limits may be required, further guidance must be sought from the National Director of Resources before the expenditure takes place.

5. Annex A provides a quick checklist of the financial guidance.

2 WHAT IS HOSPITALITY EXPENDITURE?

6. Hospitality expenditure includes the provision of refreshments and meals to visitors and guests of the Learning and Skills Council or to external bodies and the provision of refreshments and meals to LSC employees under specific circumstances, which are detailed in this guidance. It excludes reimbursement of expenditure related to personal travel and subsistence.

7. To claim for hospitality expenditure, employees will need to use a travel and subsistence claim form and identify the expenses and the recipient of the hospitality in the narrative area. A separate column is provided for the monetary amounts.

8. The LSC has set rates for reimbursing hospitality expenditure after discussion and agreement with the Inland Revenue so that no personal tax liability will fall on the participants. All rates include VAT.

9. Hospitality expenditure does not cover the receipt of hospitality by employees or the giving of gifts to other organisations or individuals. Guidance on this is given in the Finance Guidance Letter 8 on Hospitality Received and Gifts.
10. This guidance does not apply to promotional expenditure by the Council where this is being met from the programme marketing budget. This would include advertising, sponsorship or the provision of exhibition stands at theatres, sporting events etc.

3 INLAND REVENUE REQUIREMENTS

11. The Inland Revenue requires that only entertaining expenses which are reimbursed by the employer, incurred wholly, exclusively and necessarily in the performance of the work of employees, may be classed as a non-taxable benefit.

12. The Inland Revenue supplements this general principle, as follows.
   - No allowance can be given for entertaining personal friends or business acquaintances where there is no business obligation to entertain them. Reciprocal entertainment between business acquaintances, even though some business topic happens to be discussed, may be really for social and not business reasons and, if so, this expense is a taxable benefit.
   - The expense of entertaining colleagues, that is, other employees of the same organisation, is a taxable benefit.

4 HM TREASURY AND PUBLIC SECTOR GUIDANCE

13. Other principles governing hospitality expenditure are derived from guidance issued by HM Treasury. These are:
   a) Public Sector employees should use public funds for hospitality purposes, only if the hospitality is being offered to non-employees.
   b) Public funds can be used for hospitality purposes for employees as working lunches (see Section Working Lunches) and away days or staff conferences. (see Restaurant Meals) The number of non-employees should usually be equal to or exceed the number of employees present, although there may be exceptional circumstances when this cannot happen.
   c) The costs of alcohol may be reimbursed if it is in the context of hospitality offered as part of necessary business meetings on behalf of the LSC with external bodies or individuals.
5 LSC RULES FOR REIMBURSING HOSPITALITY EXPENDITURE

14. Employees are full or part-time staff of any part of the LSC, either at local offices or National Office. Employees also include staff on a contract or temporary basis.

15. Council members are classified as employees of the Learning and Skills Council.

16. At meetings held between employees or Council members and third parties with the objective of furthering the aims and business of the LSC, hospitality can be offered at the rates applicable for entertaining visitors. (See Sections Working Lunches and Restaurant Meals).

17. Council members cannot offer LSC-funded hospitality to other Council members or to LSC employees as the Inland Revenue classify Council members as employees. However meetings between Council members, which are classified by the Inland Revenue in the same way as working lunches for employees (See section Working Lunches), will be reimbursed.

18. The LSC will provide light refreshments or lunch or dinner for those attending Council meetings. Alcohol may be provided with dinner but not with lunch when only soft drinks should be provided.

6 TYPES OF HOSPITALITY ALLOWED BY THE LSC

Working Lunches

19. Working lunches can be provided in circumstances where it is appropriate to the necessary progression of business with non-employees and/or employee-only events, such as lunch time seminars and management meetings, which take place at or near the normal place of employment. In these cases only ‘light’ refreshments will be provided and alcoholic drink should not be available.

20. These meetings must not be held on a regular basis with the same employees present, the meeting must also have a defined agenda demonstrating the need to extend over lunch. If the meeting involves non-employees, they should usually outnumber LSC employees to justify the higher rate of allowance per head. The respective rates are shown below:

21. Working lunches, which have only employees present, should be restricted to a cost not exceeding £4.25 per head. This is currently a limit agreed with the Inland Revenue and may be subject to change following further discussion with them.
22. Working lunches, which involve non-employees, can have an allowed cost per head up to £7.50, which may include sandwiches, baguettes, buffet plus soft drinks.

**Drinks Only Events**

23. The offer of hospitality can cover the provision of drinks-only events, which may be formal or informal. This may range from drinks in a public house or bar, through to a cocktail reception.

24. The provision of this hospitality must be for business purposes only. It should be offered because LSC business and interests could suffer if the entertainment is not offered. Non-employees should usually outnumber employees.

25. Expenditure on drinks must be modest in value and the drinks should be of modest quality. It is not appropriate to purchase the most expensive spirits or wines. Champagne should not be purchased other than in the most exceptional circumstances.

**Restaurant Meals**

26. Subject to the agreement of the relevant budget holder, the cost of restaurant lunches or dinners taken outside of the office may be met when it is considered necessary for the furtherance of business that cannot be effectively dealt with within the normal working day or environment. This may be necessary where, in the case of non-employees, failure to provide some modest hospitality would be discourteous or embarrassing. The provision of this hospitality must be for business purposes only. It should be offered because LSC business and interests could suffer if the entertainment is not offered. Non-employees should usually outnumber employees.

27. Because public expenditure is involved, the choice of restaurant must reflect the fact that the LSC is a public body. It would be inappropriate to select high cost or high profile restaurants or hotels even if the individuals concerned are meeting part of the cost. Modest expenditure on alcohol is allowed for in the guideline rates per head for meals, which are:

- **Lunchtime buffet /self service** – up to £15 per head inclusive of VAT.
- **Restaurant lunch** – up to £25 per head inclusive of VAT.
- **Restaurant dinner** – up to £35 per head inclusive of VAT.

28. Gratuities are regarded by the Inland Revenue as expenditure that is discretionary in nature and not necessarily in the course of business. Gratuities will be treated as a taxable benefit to the diner if they are
given and then reclaimed by the employee. The LSC will therefore not reimburse discretionary gratuities. However, service charges automatically included within the overall cost of a meal by a restaurant are acceptable by the Inland Revenue as a non-taxable business expense and will be reimbursed by the LSC. Although this may appear to be inconsistent, the principle is that if the gratuity is discretionary, the expense reclaimed will be taxable. However, where the gratuity is non-discretionary the expense reclaimed is non-taxable.

Away Days/Staff Conferences

29. Away days and LSC organised conferences for staff will be funded by the LSC if they are a necessary part of the running of the LSC. These events must be structured as a proper training event, otherwise any provided refreshments may be construed as a benefit in kind. The cost per head of an event should be within the rates below. These rates are the maximum rates in all normal circumstances. Expenditure in excess of these rates requires the prior authorisation of a National or Regional Director. The Council must not provide free entertainment such as sport, art or dance activities separate to the training event. However if it is proposed to have light entertainment as an integral part of the training event, then this is acceptable. Issues requiring clarification should be referred to the National Director of Resources. The guideline rates are:

- £150.00 per person per day for events lasting more than one day, where accommodation is included. A further £10.50 per person per day if the event lasts five hours or more beyond the 24 hour cycle. For example, if the event lasts more than 29 hours the rate per person would be £160.50. If the event exceeds 53 hours and is spread over three days, including two nights accommodation, the rate per person would be £310.50 for the entire three days.

- £75.00 per person per day for one-day events lasting more than five hours but not including overnight accommodation.

30. Room and equipment hire costs and VAT are included in the per head rates above.

31. Travel expenses to and from the event are in addition to the rates above.

Overseas Travel

32. All overseas travel has to be notified to the National Director of Resources and can be authorised by the relevant Regional, National or Executive Director prior to the overseas travel taking place. Part of this process is to identify as closely as possible the business meetings that will be held and to set an agreed budget for hospitality.
33. Overseas entertainment will be reimbursed on actual expenditure subject to receipts being provided and costs being reasonable and within the agreed budget.

34. At the discretion of the National Director of Resources, an advance of traveller’s cheques or foreign currency may be provided to meet overseas hospitality costs.

35. During overseas travel alcohol can be provided as part of the process of entertaining business contacts. Any additional personal expenditure on alcohol is not reclaimable.

7 DISALLOWED EXPENDITURE

36. There are certain types of hospitality expenditure that will not be allowed by the Learning and Skills Council, even though these may be commonplace in the private sector. These items which are disallowed are:

- any form of hospitality not listed in this guidance
- corporate hospitality at events such as sporting occasions, the arts and social gatherings. This includes the provision of tickets, seats or boxes at such events
- offering hospitality to friends or business acquaintances where there is no business obligation to do so or the business element of the meeting is only incidental (see Section 3).

37. Any areas of doubt should be referred to the Chief Executive.

8 REIMBURSEMENT OF HOSPITALITY EXPENSES

38. Reimbursement for hospitality expenses for Council members and employees will be made through a travel and subsistence claim. Hospitality costs must be separated from reimbursement of travel and subsistence and receipts must be provided. The reason for and the recipients of the hospitality should be detailed on the form in the narrative area. A separate column is provided for the monetary amounts.
9 QUERIES

39. Any queries relating to the interpretation of these guidelines should be referred to the Financial Policy team at National Office.
HOSPITALITY CHECKLIST
Always review the policy to understand the application of the guidance limits

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<tr>
<th>HOSPITALITY TYPE</th>
<th>GUIDANCE LIMITS</th>
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<tr>
<td>Working Lunches - Employees Only</td>
<td>£4.25 per head</td>
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<tr>
<td>- Majority Non-Employees</td>
<td>£7.50 per head</td>
</tr>
<tr>
<td>Restaurant Meals - Lunchtime Buffet</td>
<td>£15 per head</td>
</tr>
<tr>
<td>- Lunchtime Meal</td>
<td>£25 per head</td>
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<tr>
<td>- Dinner</td>
<td>£35 per head</td>
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<tr>
<td></td>
<td>All include VAT and alcohol</td>
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<tr>
<td>Away Days/Staff Conferences</td>
<td>£75 per head per day</td>
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<tr>
<td>Includes Room, Equipment Hire and VAT.</td>
<td>£150 per head per day,</td>
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<td>if accommodation included.</td>
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<tr>
<td>Hospitality Overseas</td>
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Glossary

Related Finance Guidance Letters

FGL 8 Hospitality Received and Gifts