**VAT and Voluntary Aided Schools**

**Capital Works at VA Schools - Introduction**

There are fundamental differences between Voluntary Aided (VA) and maintained schools. The School Standards Framework Act states that the Governing Bodies of maintained school incur all their expenditure as agent of the Education Authority; this allows the Education Authority (Council) to recover VAT that the Governing Body has incurred on its behalf. However Governing Bodies of VA Schools only incur revenue expenditure as agent of the Council. As the Council does not own the buildings of a VA school the governing body has responsibility for capital expenditure in relation to them, and their playgrounds. Thus where a VA school incurs Capital expenditure the supply is actually direct to the Governing Body rather than the Council.

This leads to different treatments for VAT, as VAT is only recoverable by the body which properly received the supply that the VAT was on. In the case of SCC expenditure the authority is able to recover VAT it incurs from HMRC. Governing bodies are generally however not registered for VAT and are unable to recover the VAT they are charged.

Even if the governing body is registered for VAT then these schools provide education as part of the statutory requirements of SCC, and this is a non-business activity. As the schools are mainly involved in a non-business activity, even if VAT registered in their own right, they are unable to recover VAT relating to this activity (i.e. VAT on capital works).

As you are aware when a VA School incurs capital expenditure a proportion of that cost is met by Devolved Formula Capital from the Department for Children Schools and Families, this funding is typically calculated to cover irrecoverable VAT charges, the remainder is funded by ‘governors contributions’ (normally around 10% although this can vary).

It is important to note that Voluntary Controlled (VC) schools differ from VA Schools, as in VC Schools full responsibility for the premises is taken over by SCC.

So to decide whether VAT is recoverable on expenditure relating to works at a VA school there are a number of criteria to review:

1. Are the works capital in nature? – Even if the Council would not normally be responsible for works to a building, or playground, if the works do not meet the criteria to be treated as Capital i.e. if they can be treated as revenue expenditure, then the school will be entitled to recover VAT where it spends Council funds.
2. Whose responsibility are the works? – If the works are the responsibility of the Council then even if Capital in nature the school will be able to recover VAT where it spends Council funds.

If the criteria are not properly met i.e. if the money spent is Governing Body money, or the works are of a Capital Nature and Governor responsibility then VAT recovery will not be available to the school.

It should be noted that where works are commissioned centrally by the Council, i.e. the Council enters into a contract directly with a supplier and spends its own money, then any VAT issues will be dealt with centrally, and in these cases VAT will normally be recoverable by the Council.

A flow chart is provided at the end of this section to help guide you as to whether VAT recovery may be appropriate.

**Capital Works at VA Schools – Is the expenditure Capital in nature?**

It is necessary to determine whether expenditure is of a capital nature in accordance with proper accounting practices, as expenditure of a revenue nature will always be the LA’s responsibility and VAT would therefore be recoverable.

Capital expenditure is generally expenditure on the purchase, improvement, or replacement of an asset which will be made use of for more than a year (fixed assets). Most organisations however have a level below which they will not treat expenditure as being capital. This prevents them having to declare small value items such as staplers, waste bins etc. as fixed assets on their accounts.

In the case of the Council, the capitalisation limits are £20,000 for new buildings (which in many cases for VA Schools can be zero rated so that VAT is not incurred), and £6,000 for other new assets. The Council does not set a limit for improvement works, which would include extensions, or ICT works or equipment, and so VA schools should use the general limit from within the VA Schools Blue Book ([www.teachernet.gov.uk/vabluebook](http://www.teachernet.gov.uk/vabluebook).) of £2,000.

In practice this will mean that any item of expenditure under £2,000 can automatically be treated as a revenue cost and VAT recovered upon the cost.

It is important to note that this de minimis limit should not be used to artificially disaggregate capital expenditure to recover VAT. For example construction works should not be split so that if invoiced separately, this could be treated as revenue expenditure as individually below the de minimis limit.

This does not mean that all expenditure above £2,000 is automatically Capital, for example repair works costing £5,000 may still be revenue costs if they do not extend the original life of the asset, and a table is included at the end of this section to help differentiate common Capital and Revenue Costs.

**Capital Works at VA Schools – Is the expenditure Capital in nature: Examples**

The following indicative table is provided to assist in determining how some examples of commonly incurred premises expenditure might be treated. Where expenditure is shown as capital, the remainder of the guidance will still need to be considered in order to determine the responsibility.

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| **Capital** | **Revenue** |
| **Roofs** |
| Structure. New (not replacement) structure. | Repair/replacement of small parts of an existing structure |
| Structure. Replacement of all or substantial part of an existing structure to prevent imminent or correct actual major failure of the structure. | Replace small areas of rotten or defective timber, make good minor areas of spalling concrete where reinforcing bars are exposed.Replace/repair small areas of rotten/defective joists, rafters, purlins, etc.Not complete trusses. |
| Screed/insulation in a new building/extension | Repair/replacement of screed/insulation where defective. |
| Screed/insulation. Replacement/repair of substantially all. Improve effectiveness of insulation. | Work to improve insulation standards, during work to repair/replace small areas of roof.Repair/replacement/increasing thickness of insulation in an existing roof. |
| Finish on new build. Replacement of all/substantially all on existing roof. | Replacement of roof finish on existing building. Re-coating chippings to improve life expectancy.Replace missing/damaged small parts. |
| Bargeboard/edge trim/fascia on new build | Repairs/replacement/repainting. |
| Bargeboard/edge trim/fascia, replacement of all/substantially all on existing roof. | Repairs/replacement/repainting. |
| Drainage on new build/extension.Replacement of all/substantially all on existing roof. | Clearing out gutters and downpipes. Replacement/repair of individual gutters/pipes.Repainting gutters/pipes. |
| Other items e.g. flashings, rooflights/windows on new build/extension. Replacement of all/substantially all items on existing roof. | Repair/replacement/cleaning of individual items |
| Provide new covered link etc. between existing buildings | Minor repairs, maintenance to existing covered link. |
| Rebuild or substantially repair structure of existing covered link. Add porch etc to existing building | Minor repairs, maintenance to existing structure. |
| Rebuild or substantially repair structure of existing porch. |  |

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| **Capital** | **Revenue** |
| **Floors** |
| Structure and damp proof course (dpc) in new building | Repair/replacement of small parts of an existing structure |
| Structure and dpc – replacement of all or substantial part of an existing structure to prevent imminent or correct actual major failure of the structure |  |
| Screed and finish in new build, replacement of all/substantially all on existing floor – e.g. replacement of most carpet/tiles in a room. | Replacement and repair of screed and finishes/replacement of mats/matwells. Maintenance e.g. revarnishing wooden floors. |
| **Ceilings** |
| Suspension | Repair/replacement inc from water damage & necessary decoration |
| Membrane |  |
| Fixed | Repair/replacement inc from water damage. |
| Access panels | Repair replacement |
| Specialist removal/replacement of damaged/disturbed Asbestos based materials, planned or emergency | Inspection/air testing. Applying sealant coats to asbestos surfaces for protection |
| **External Walls – masonry/cladding** |
| Structure. Underpinning/propping for new build. External finish on new build | Repairs/preventative measures e.g. tree removal. Repairs/replacement of small parts of an existing structure e.g. repointing/recladding a proportion of a wall where failure has occurred. |
| External finish on existing build where needed to prevent imminent (or correct actual) major failure of the structure e.g. repointing/recladding work affecting most of a building/replacement build. |  |
| **Windows and Doors** |
| Framing – new build | Repair/replacement of individual frames. Repainting frames. |
| Framing – structural replacement programme | Repair/replacement of individual windows. Repainting frames. |
| Glazing – new build | Replacing broken glass |
| Glazing – upgrading existing glazing |  |
| Ironmongery | Repair/replacement |
| Improved security | Upgrading locks etc. |
| Jointing including mastic joints |  |
| Internal and external decorations to new build | Internal and external decoration to include cleaning down and preparation. |

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| **Capital** | **Revenue** |
| **Masonry Chimneys** |
| Structure |  |
| Jointing including expansion and mortar joints/pointing/dpc | Repair/repointing |
| **Internal Walls** |
| Solid walls - complete including various internal finishes, linings and decorations | Repairs and redecoration to internal plaster/linings, pin boards, etc. |
| Partitions - complete structure including linings, framing, glazing, decoration, etc. | Repairs and redecoration |
| Refurbishment and alterations | Minor alterations |
| Glazing to meet statutory Health and Safety requirements | Replacement of broken glass |
| **Sanitary Services** |
| In new buildings provision of all toilet fittings, waste plumbing and internal drainage. | Repair/replacement of damaged sanitary ware, fittings, waste plumbing, etc. |
| Large scale toilet refurbishment | Small areas of refurbishment |
| Provision of disabled facilities and facilities related to pupils with statements | Repair/replacement of damaged fittings, waste plumbing etc. |
| Kitchens in new buildings, complete with fittings, waste plumbing and internal drainage. Internal finishes and decorations.General refurbishment.Large and costly items of equipment. | Maintenance of kitchen to requirements of local authority.Cleaning out drainage systemsRedecorationRepairs/replacement parts. |
| **Mechanical Services** |
| Complete heating and hot water systems to new projects, including fuel, storage, controls, distribution, flues, etc. | General maintenance of all boiler house plant including replacement of defective parts. Regular cleaning. Energy saving projects. |
| Safe removal of old/damaged asbestos boiler and pipework insulation, where risk to Health and Safety. | Monitoring systemsHealth and safety issues |
| Planned replacement of old boiler/controls systems past the end of their useful life. | Replacement of defective parts |
| Emergency replacement of boiler plant/systems |  |
| Provision of cold water services, storage tanks, distribution, boosters, hose reels etc. in major projects. | Maintenance and repair/replacement of defective parts such as servicing pipes. Annual servicing of cold water tanks. |
| Gas distribution on new and major refurbishments, terminal units | Repairs, maintenance and gas safetyAll servicing |
| Mechanical ventilation/air conditioning to major projects. | Provision of local ventilation. Repair / replacement of defective systems / units. |
| Swimming pool plant and its complete installation, including heat recovery systems | Repair/replacement of parts to plant, pumps and controls. Water treatment equipment and all distribution pipework.Simple heat recovery systems. |

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| **Capital** | **Revenue** |
| **Electrical Services** |
| Main switchgear and distribution in major projects | Testing/replacement of distribution boards. The repair and maintenance of all switchgear and interconnecting cables including that in temporary buildings. |
| Control gear, distribution, fixed equipment, protection, etc. | All testing, repair and replacement of small items of equipment |
| Provision of luminaries and emergency lighting | Replacement of luminaries, all testing, adjustments and improvements to emergency lighting. |
| Lightning protection in new build. | Repair/replacement |
| Alarm systems, CCTV, lifts/hoists, etc | Repair and maintenance |
| New installation of communication systems, radio/TV, call, telephone, data transmission, IT etc. and provision in new build | Repair/replacement/maintenance, including all door access systems |
| **External Works** |
| Provision of new roads, car parks, paths, courts, terraces, play pitches, steps and handrails, as part of major project, including disabled access | Maintenance and repairCar park and playground markings |
| Provision of walls, fencing, gates and ancillary buildings as part of major project | Maintenance and repair of all perimeter/boundary/retaining walls, fencing and gates. |
| Drains, soakaways, inspection chambers and sewage plant as part of new projects | Maintenance and repair of drains, gullies, grease traps and manholes between buildings and main sewers. Cleaning of the above and unblocking as necessary. |
| Open air pools - structure, hygiene/safety in new build | Hygiene, cleaning, maintenance and repairs, including replacement parts. Simple energy saving systems |
| Services distribution - heating mains, gas mains, water mains, electricity mains, renewal of any of the above | Annual servicing. |

**Capital Works at VA Schools – Deciding who has responsibility**

The Governing Body’s responsibility extends only to premises expenditure, specifically excluding playing fields, sports pitches, and buildings upon the fields or pitches that are related to their use. The responsibility includes “fixed” furniture (e.g. laboratory tables), fixtures, and fittings that form part of the infrastructure, as well as fencing and perimeter walls. It does not include “loose” items, for example freestanding desks and freestanding educational equipment e.g. laptops, kindles, iPads etc.

The following table provides guidance on what ICT expenditure is regarded as premises related:

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| **Premises (GB Responsibility)** | **Non-Premises (LA Responsibility)** |
| **Note: VA Schools are allowed to use capital grant funding to pay for ICT equipment, but VAT will not then be recoverable** |
| **ICT** |  |
| * Building of an ICT Suite as a single project - including construction works and all equipment, furniture & fittings installed.

*These become part of the premises.** Installation of:
	+ ICT cabling;
	+ WiFi systems, incl. ethernet & routers;
	+ Security systems, incl. proximity cards

*Where these are purpose built for premises, and not removable for use elsewhere.* | * PCs, servers, interactive electronic whiteboards, projectors, printers and fax machines installed individually (not as part ICT suite)
* Laptops, kindles, iPads and other ‘hand held’ equipment used on the premises.
* Laptop trolleys (storage / connection facilities)
* Electronic tills and biometric identification scanning devices

*All of the above are not part of premises as removable and available for use elsewhere.* |

**Capital Works at VA Schools – Flowchart**

**Is the value of the work under £2,000?**

**LA responsibility expenditure**

Is the work in respect of the school premises?

*(“Premises” excludes: playing fields / sports pitches, and related buildings on such areas)*

**Is the expenditure on “loose” items of equipment?**

**Is the expenditure capital in nature?**

**GB responsibility expenditure**

**Is the work funded by 90% DFC plus 10% delegated budget/Governors contribution, or by any other monies awarded to the Governing Body?**

**No VAT is recoverable by the Local Authority**

**Has the LA placed a central order directly with a supplier using its own funds?**

**No VAT is recoverable by the Local Authority**

**VAT is recoverable by the Local Authority.**

**NO**

**YES**

**YES**

**NO**

**VAT recovery is dependent upon recipient of supply and ownership of funding.**

**VAT may be recovered via the Local Authority when paid from the delegated budget or other Local Authority funds.**

**YES**

**NO**

**NO**

**NO**

**NO**

**YES**

**YES**

**YES**

**Zero rating on Capital Works – New Buildings/Annexes**

Although recovery of VAT is not allowed in relation to Governor responsibility capital projects this does not mean that all works at a VA school will necessarily incur VAT.

The aiding body of most, if not all, VA schools and by extension the governing body will be registered charities. There are a number of reliefs available to charities in relation to VAT, the most important for VA schools being the ability to have some new building works zero rated.

The buildings which can be zero rated are those that form either a separate new building or an independent annexe to an existing building, which will be used by a charity for a wholly (or substantially wholly) non-business charitable activity (other than as an office, new offices will be standard rated).

HMRC accept that the making available of a building by a charity to a local authority for the purposes of providing education is not a business supply and thus these works can be zero rated at VA schools. To receive zero rating the school needs to provide the building contractor with a certificate certifying that it is a charity and that it will be using the buildings for its charitable purposes.

There are a number of important points to bear in mind with this;

* The building must have wholly (or substantially wholly) charitable use, this means that if any areas of the building are to be let, or have paid for community use, then the building might not meet the criteria. This would also prevent the school using the building itself for a business use, i.e. if the school ran paid for adult education classes then if taught in the new building these would be seen as business use of the building.

In this instance the ‘substantially wholly’ is the important part, if it can be demonstrated that business use of the building will be below 5% of the total usage then HMRC will allow the zero rating, if it exceeds this limit then the building is taxable. This 5% can be calculated using any fair and reasonable measure.

* The building must be either a separate building or an independent annexe, this means it should not have internal access to any existing building, and it must be suitable for independent use i.e. if all other buildings were closed the new building could still be used for its intended purpose.

This generally means that it should have its own toilet facilities, and main entrance. Having separate supplies of utilities is not a necessary condition of this however so electricity received from a single line onto the school site will not prevent zero rating applying.

Although an annexe can make use of party walls integration with an existing building should really go no further than this, it is important that any existing structures cannot be seen as being enlarged or extended by the presence of the new works.

The rules regarding new buildings and annexes for charities can be quite complex and it is suggested that if you are planning a project on these lines that you contact the Taxation Specialist at an early stage to discuss the project and the possibilities for zero rating.