

### Item 3.5

David Ogilvie  
Policy Manager  
Customs & Indirect Tax Directorate  
HMRC  
3C/09 100 Parliament Street  
London SW1A 2BQ

5 October 2018

Dear David,

#### **Re: MTD – local authoriting accounting systems**

Most local authorities compile their VAT returns in spreadsheet format. A VAT Control account will be maintained within the General Ledger System but this is unlikely to contain all data and certainly not full VAT data.

Integrated feeder systems such as for accounts payable and accounts receivable update the general ledger. However, the general ledger alone will not provide sufficient detail to compile an accurate VAT return.

In addition to integrated systems there is information that, either has to be journaled directly into the general ledger accounting system or information that sits completely outside the accounting system and is added manually onto the spreadsheet. Such is the diversity of local authority services many sub systems are required as no one accounting system can accommodate all requirements.

VAT RETURN 2018		1st June - 30th June 2018																			
														<b>June 18 VAT Report</b>							
<b>Inputs</b>														<b>Tax code</b>	<b>Tax code(T)</b>	<b>Base amount</b>	<b>Amount</b>				
Figure from VAT analysis report Pd 3		2,068,079.26		GL for period		1,656,909.92				PE	Purchases Exempt (Input VAT)	£ 17,010.68	£ -								
June invoices paid July		£ 1,302,391.65				0.00				PL	Purchases at Lower Rate (Input VAT)	£ 13,910.98	£ 6,974.85								
Schools		399,860.32								PO	Purchases Outside Scope (Input VAT)	£ 11,359,911.33	£ 65.60								
Culture Coventry Q2 grant paid in advance tax point 1/7/2018		(98,787.40)								PS	Purchases at Standard Rate (Input VAT)	£ 10,106,359.34	£ 2,061,030.07								
Buckingham Group - Invoice paid twice C17024/0003		(92,485.76)								PZ	Purchases Zero Rate (Input VAT)	£ 5,929,656.45	£ 8.74								
Galliford Try wrong tax point entered onto Agresso		(60,859.10)								SE	Sales Exempt (Output VAT)	-£ 2,832,431.96	£ -								
										SG	VAT sales standard gross	-£ 425,208.73	-£ 85,041.68								
										SL	VAT sales lower rate	-£ 24.62	-£ 1.23								
May invoices paid June		(1,123,079.03)								SO	Sales Outside Scope (Output VAT)	-£ 1,132,469.79	£ -								
Input VAT Journals		(2,668.33)								SS	Sales at Standard Rate (Output VAT)	-£ 1,612,765.97	-£ 322,553.25								
										SZ	Sales at Zero Rate (Output VAT)	-£ 134,170.47	£ -								
												£ 21,289,777.24	£ 1,660,483.10								
	box 4	2,392,451.61												<b>June Invoices paid July</b>							
<b>Outputs</b>														<b>Tax code</b>	<b>Tax code (T)</b>	<b>Base amount</b>	<b>Amount</b>				
Figure from VAT analysis report Pd 3		(407,596.16)								PE	Purchases Exempt (Input VAT)	£ 37,875.71	£ -								
Output VAT Journals		(904.85)								PL	Purchases at Lower Rate (Input VAT)	£ 16,077.86	£ 9,112.92								
Schools		406.79								PO	Purchases Outside Scope (Input VAT)	£ 28,724.00	£ -								
	box 1	(408,094.22)								PS	Purchases at Standard Rate (Input VAT)	£ 6,052,034.12	£ 1,293,278.73								
	box 5	1,984,357.39								PZ	Purchases Zero Rate (Input VAT)	£ 3,658,318.50	£ -								
										SE	Sales Exempt (Output VAT)	-£ 222.00	£ -								
										SG	VAT sales standard gross	-£ 23,162.08	-£ 4,632.42								
										SO	Sales Outside Scope (Output VAT)	-£ 1,293.49	£ -								
												£ 9,768,352.62	£ 1,297,759.23								
														<b>SCHOOLS VAT CLAIM: OVERALL SUMMARY</b>							
														<b>PERIOD:</b>	<b>3</b>	<b>DATES:</b>	<b>01/06/2018</b>				
														<b>INPUTS</b>	<b>NET</b>	<b>VAT</b>	<b>GROSS</b>				
<b>VAT EXCLUSIVE FIGURES</b>														<b>Code</b>							
<b>Inputs</b>														0	371,071.63	0.00	371,071.63				
	PZ	5,929,656.45								1	0.00	0.00	0.00								
	PE	17,010.68								2	0.00	0.00	0.00								
	PL	13,910.98								3	1,752.11	1.08	1,753.19								
	PS	10,106,359.34								4	21,932.16	0.00	21,932.16								
										F	2,014,136.07	398,240.29	2,412,376.36								
										E	645.14	27.95	673.09								
	Schools	2,441,474.21								B	784,436.36	0.00	784,436.36								
	Total	18,508,412	box 7							C	31,937.10	1,591.00	33,528.10								
<b>Outputs</b>														<b>TOTAL</b>	<b>3,225,910.57</b>	<b>399,860.32</b>	<b>3,625,770.89</b>				
	SZ	(134,170.47)								<b>OUTPUTS</b>											
	SG & SS	(2,037,974.70)								<b>Code</b>											
	SL	(24.62)								5	17,156.19	0.00	17,156.19								
	17.5%									6	0.00	0.00	0.00								
	15%									7	0.00	0.00	0.00								
	SE	(2,832,431.96)								8	241,566.34	0.00	241,566.34								
										A	975,118.52	0.00	975,118.52								
	Schools	(256,685.41)								D	0.00	0.00	0.00								
	Total	(5,261,287)	box 6							9	(2,037.12)	(406.79)	(2,443.91)								
<b>TOTAL</b>														<b>1,231,803.93</b>	<b>(406.79)</b>	<b>1,231,397.14</b>					
														<b>256,685.41</b>							
<b>TOTAL TO BE RECLAIMED/(PAID)</b>																<b>400,267.11</b>					
NB Advance payment to Coventry Sports Trust continued into 2018/19 £10,770.03																					

A typical VAT return spreadsheet may look like this. On the top right hand side are the extracts from integrated AP/AR and cash management systems, one for the current period and one for the subsequent period that will include all invoices with a tax point within the current or previous periods, but paid at a later date. Bottom right shows a manually consolidated return from 80 schools produced from their own accounting system.

Bottom left are VAT exclusive figures that are generated from reports in the top right.

Top left are VAT figures that are generated from reports in the top right plus schools figures from bottom right. In addition journals are added and any manual adjustments necessary for errors that may have been spotted whilst checking data i.e. wrong tax points recorded or items paid in advance.

The centre column proves certain figures on the left to the VAT control account within the general ledger.

## **Example of Items that sit outside accounting packages include:**

### **Schools**

Most LEA schools have delegated funds and operate their own bank accounts. The accounting system of choice tends to be the Schools Information Management System (SIMS) from Capita. One of the modules is an accounting package that also details all VAT transactions. VAT transactions from SIMS are either, summarised and added manually to the LA's VAT spreadsheet or, they are journalled/imported into the LA's general ledger or feeder systems.

### **Income banking Systems**

Examples are Income Manager and Paris. These systems deal adequately with Council Tax, Business Rates, Parking Fines etc and provide the necessary output files into the appropriate systems. However, non-invoiced income (including VATable income) has to be journalled into the general ledger.

### **Social Care Packages**

An example is Mosaic. Mosaic is a new system used in the Social Care and one of its functions is to ensure care providers are paid on a timely basis. As the system was built on the premise that there is no VAT on care services so authorities currently pay any VAT charged by suppliers via a suspense account code that is then journalled into the general ledger system once a month..

### **Purchasing Card Files**

Most authorities operate a purchasing card programme for officers who make small local purchases, book travel, incur online expenditure or incur expenditure whilst out of the office. Some authorities do you use cards on a larger scale to pay their suppliers immediately to improve cashflow. The prime data is held by the card supplier and is provided in electronic format and gives VRNs and line item details for VAT purposes. The electronic file is uploaded directly into the general ledger in a much abbreviated format that excludes much of the VAT data.

### **Various adjustments**

Authorities operate a suspense account or charge cost centres with gross amounts if payments are made against pro-forma invoices, authenticated receipts or against direct debits. Entries are reversed by journal once proper tax invoices are received.

### **Summary**

One area where MTD compliance is going prove to be extremely difficult is the local authority's interaction with its schools. Under delegated powers schools are free to use whatever accounting software package best suits **their** needs (subject to approval from the local authority). Whilst the majority of schools in England use Capita – SIMS (80% according to their website) there is no information available to say that this system will be MTD compliant. **Due to the remoteness of schools from local authority accounting, the Cipfa VAT Committee, on behalf of all local authorities, is requesting a special exemption for Local Education Authority (LEA) schools from MTD compliance**

Whilst Phase 1 of MTD from 1<sup>st</sup> April 2019 should not prove too troublesome, a commitment to digital links is going to be a major challenge for 1<sup>st</sup> April 2020. One major accounting software supplier to local authorities has acknowledged that they will make a commitment to providing MTD compliant packages from April 2020 but there has been nothing from the others.

Local authorities need further clarification on what constitutes a digital link. Notice 700/22 doesn't give that clarification. Is a link from one spreadsheet to another sufficient?

Yours sincerely,

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