Frequently Asked Questions

Proposed change to contracting arrangements with CGL

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What is the proposal?

Change Grow Live (CGL) is a registered charity delivering health and welfare services and as such cannot recover VAT on its supplies or charges, which increases the cost of delivering our services. As a charity we believe it is incumbent upon us to maximise the use of the public funds entrusted to us on frontline delivery and as such have identified a solution to this issue.

CGL is able to contract through its wholly owned, non-charitable, trading subsidiary, CHANGE GROW LIVE SERVICES LTD (CGL Services), which means that CGL Services is then able to charge VAT on the contract, which should be recoverable by yourselves, but allows CGL to reclaim VAT charged by our suppliers, allowing us to focus our spend on areas that improve service delivery rather than paying unnecessary VAT. We are not the first organisation to take this approach.

The delivery of all services under the contract will continue to be undertaken by the charity CGL (on a subcontract basis) and CGL would maintain the appropriate regulatory status. CGL would also provide a parent company guarantee, if required, for the delivery of the services under the contract as CGL Services does not have a trading history. This means that, commercially, there will be little change for the Commissioner. Staff will continue to be employed by CGL and will not transfer to CGL Services.

Why make this change?

Several external factors have contributed to severe pressure being placed on service delivery and therefore CGL needs to be innovative in finding ways to maximise service deliver and ensure it continues to deliver effective service outcomes.

1. **Reduction in social welfare budgets.**
   The same volume and quality of social welfare provision is being demanded at a significantly reduced budget.
2. **Inflation and legislative changes.**
   Goods and services required to deliver CGL services have become increasing more costly. Staff costs, which make up the bulk of the service costs, as a result of minimum wage increases and the apprenticeship levy are particularly acute.

3. **Foreign exchange rates.**
   The pound has become significantly less valuable against other currencies. As significant IT resources are invoiced in dollars the devaluation of the pound has resulted in increases in these costs.

What is the direct benefit to service users?

Service users will benefit as the savings from VAT reduces the need to make savings on front line costs as the pressures described above become increasingly more acute. This will ensure that as service budgets become increasing challenged CGL will be able to avoid disinvesting in the service in order to meet budgetary constraints.

What is the benefit to commissioners?

In a climate of declining service budgets the scheme will ensure vital social welfare services to remain viable and the delivery of effective outcomes to continue.

What is the impact on commissioners?

The contract will be novated from CGL to CGL Services and a parent company guarantee may be entered into between the commissioner and CGL.

This would mean that the underlying commercial position for the commissioner is the same as before the novation. VAT will be charged on invoices on top of the charge for the services. Commissioners can then recover the VAT charge and so this does not represent an additional cost to the commissioner.

What is the impact on staff?

None. Staff will continue to be employed by CGL, although as noted above, recovering VAT reduces the need to maintain viability by reducing staffing levels which are our biggest area of cost.

Why is CGL unable to reclaim VAT?

As a registered charity, regulated by the CQC the majority of CGL’s services are deemed exempt from VAT as they are classed as health and welfare services by HMRC. Therefore, CGL is not allowed to charge VAT on these services which then means that CGL is unable to reclaim the VAT it pays to its suppliers in the provision of those services.

What is VAT exempt?

VAT exempt means that the products or services supplied by an organisation do not carry a VAT charge. Examples of VAT exempt products and services include; education and training products, insurance and finance products along with books, newspapers and magazines.

Who will deliver the services?

There will be no change to the organisation delivering the services, this will remain CGL. There will be a management services agreement between CGL and CGL Services that requires CGL Services to subcontract all service delivery under contracts with commissioners to CGL.

How will the services be regulated?

There will be no change in the regulation. CGL, as the organisation delivering the services and whom will still remain legally responsible for the delivery of the services will maintain its current regulatory status with CQC.

All services which novate will be required to notify CQC of the change and submit an amended SOP.

Is this normal and reasonable for a charity?

The Charity Commission guidance says that charities can consider different structures to minimise paying unnecessary tax. Many charities have trading subsidiaries to minimise tax cost and ensure they maximise funds for delivery of their charitable purposes.

How is this arrangement viewed by the Charities Commission and HMRC?

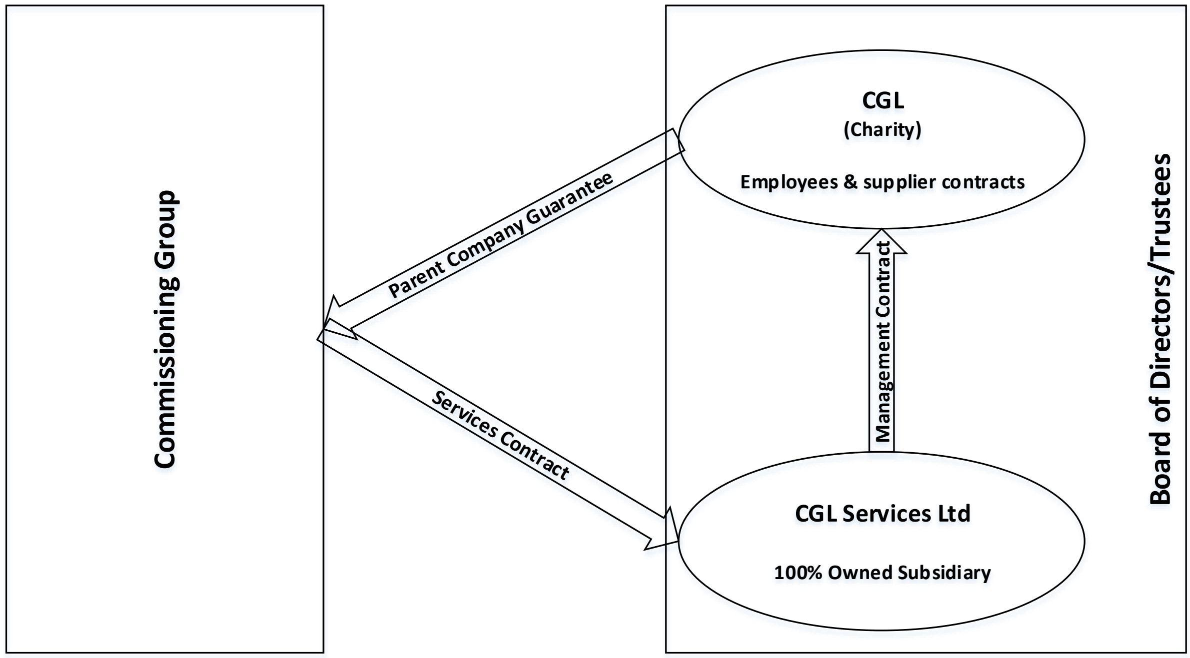
Charities Commission guidelines recognise that charities should take appropriate steps to minimise paying unnecessary tax and this structure follows that guidance.

This is not an arrangement that requires HMRC approval but we have notified them of it. We understand from our tax advisers that HMRC accept that this structure follows the rules and they have not challenged other examples of it.

What corporate governance controls will be placed over the new subsidiary?

The board of directors and company secretary of the subsidiary the same as those who are on the board of trustees of CGL the charity. CGL can also offer a company parent guarantee to ensure that the commissioner is in the same commercial position as before the novation.

The following diagram summaries this arrangement;



Where CGL is an outsourced provider operating as a subcontractor on behalf of a lead contractor how would this scheme operate?

This would depend on the VAT status of the lead contractor, if it does not charge then this approach would not generate any savings and no change will be made. If the lead contractor does charge VAT then CGL will negotiate the novation of its contract with the lead contractor not the commissioner, subject to any consents that may be required in the contract between the commissioner and the lead contractor.

How would the scheme operate in a PBR environment?

There would be no change to this. CGL and CGL Services would continue to deliver this and payment would be in accordance with the existing contract as it novates/transfers.

Perceived political risk of not contracting directly with the charity

The services will continue to be delivered by CGL the charity, although the direct contract will be with CGL Services, the wholly owned subsidiary of the charity. There may also be a parent company guarantee from the charity, further emphasising this structure and support. If the commissioner does not want this approach for political or other reasons then clearly the savings will not be delivered and other efficiency savings may need to be found to compensate.

Are these savings likely to continue indefinitely?

Savings will vary during the course of existing contracts due to potential changes to VAT rules and the varying VAT position of the mix of supplies into CGL. These savings will only be realisable within the duration of the existing contract.

However, for re-tenders or bids for a new services, budgets will be based on prices net of VAT. This will allow CGL to offer the same level and quality of service but at a more competitive price. This ensures services are able to continue to benefit from the scheme as contracts are renewed or replaced by CGL.
