



Updates to the Scottish Public Finance Manual

Purpose

1. The purpose of this paper is to provide the Committee with recent updates to the Scottish Public Finance Manual.

Background

2. The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance on the proper handling and reporting of public funds.
3. In June 2019 the Scottish Government announced amendments to the section of the SPFM on Best Value, Non Salary Rewards and VAT. A summary of the updates is attached at the Annex.
4. The updates on Best Value will be incorporated into SFC's Best Value Improvement Plan and the updates on VAT will be taken on board by SFC's Finance Directorate.
5. The full Scottish Public Finance Manual can be viewed here: <https://www.gov.scot/publications/scottish-public-finance-manual/>

Recommendations

6. The Committee is invited to note the amendments to the Scottish Public Finance Manual.

Publication

7. The paper will be published on the Council website.

Further information

8. Contact: Fiona O'Neill, Assistant Director, Finance, tel: 0131 313 6525, email: foneill@sfc.ac.uk.

Summary of updates to the SPFM

What's Changed?

The sections on **Best Value**, **Non Salary Rewards** and **VAT** have been updated.

Specific areas of interest are:

Best Value chapter:

Update to **The duty of Best Value** paragraph:

The paragraph states that Best Value characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:

- Vision and Leadership
- Governance and Accountability
- Use of resources
- Partnership and collaborative working
- Working with Communities
- Sustainability
- Fairness and equality

Addition of **Local Government** paragraph:

That states Local authorities are not subject to the duty of Best Value in Public Services. However they are subject to a similar duty, under the Local Government in Scotland Act 2003, giving more detail in paragraph.

Non Salary Rewards chapter:

Changes to Cash Bonuses etc. paragraph:

The paragraph has been updated to state that if considering the use of cash bonuses to reward individuals and groups, reference must be made to Minister's Public Sector Pay Policy. Any such scheme which complies with the terms of pay policy may be offered subject to the necessary criteria attached to reward schemes being met. In all such cases the scale of the expenditure must be reasonable for an employer to incur.

VAT chapter:

Introduction of the following paragraphs, with corresponding content: **‘Crown bodies and health authorities,’ ‘Section 33 bodies,’ ‘Non-departmental public bodies,’ ‘Trading funds,’ ‘Considering VAT Implications,’ ‘VAT Status of Suppliers and Supplies,’ ‘Off system purchases’ and ‘Non UK transactions.’**

General update of Scope & Key points

The paragraphs state that public sector organisations should not engage in, or connive at, tax evasion, tax avoidance or tax planning going into detail regarding reasoning and policy. It also talks about using tax advisors and issues that should be considered when contracting with them.

Paragraph eight advises the reader that Public Sector bodies fall within four different elements under the VAT Act; Crown Bodies; Section 33 Bodies; Executive NDPBs and Trading Funds. Paragraphs nine to 22 explains what type of public bodies fall within each of the four classes of bodies. For instance Local Authorities fall within Section 33 of the VAT Act. These sections will further demonstrate how each of the four classifications differ in terms of their legislative powers.

The Key points were replaced with Key Messages to either reflect current matters, or to provide more detail or clarity. Additionally new paragraphs are:

- **Considering VAT Implications**

Emphasises the importance and benefits of early engagement with the VAT Team prior to issuing a purchase order (PO) or issuing invitations to tender (ITT's) if there is any uncertainties with the treatment of VAT. It also informs the reader that it is good practice to consider in association with your VAT Team the VAT implications for all contracts worth in excess of £1 million.

- **VAT Status of Suppliers and Supplies**

This section informs the reader of the implications for non VAT-registered & VAT registered suppliers when charging & reclaiming VAT for both input & output VAT in relation to business and non-business supplies.

- **Off System Purchases**

This new section alerts the reader to the fact that modern methods of procurement such as procurement cards or credit cards need to be considered in terms of the VAT recoverability processes and other impacting compliance issues.

- **Non UK Transactions**

This section provides the reader with greater clarity and explanations surrounding Non UK Transactions such as the treatment of supplies of goods & services provided by or received into the UK, other EU member states and non EU Countries. These are commonly referred to as foreign payments and references such as acquisition & import tax and reverse charge regime will feature and be expanded on in the detailed guidance linked.

Two new **annexes** have been introduced:

- **Annex A** provides guidance on the VAT relationship between GDs, NDPBs, Executive Agencies and Trading Funds. It should be noted that this was in the body of the guidance previously
- **Annex B** gives a simplified diagrammatic view of the position with public bodies