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Shared services – can the cost sharing exemption deliver?

An overview of the opportunities and challenges offered by the proposed VAT Cost Sharing Exemption

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Scope of this briefing

- Shared services in HE
- The cost sharing exemption – scope and potential
- Remaining barriers to be overcome
- Critical success factors
- Next steps

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Shared services in HE

- In the past shared services typically meant sharing of ‘back office’ operations like processing records, payroll, finance and benefits
- Shared services are now being looked at across a wider range of services both front and back office
- Since 2007, HEFCE’s Shared Service programme has funded circa 35 shared services feasibility studies examining the potential for a wide variety of different shared service scenarios across HE
- Following the March 2010 budget, HEFCE announced the allocation of an additional £20M from the University Modernisation Fund for a shared services pilot scheme
- HE already shares many key services (UCAS, JANET, HESA, NorMan, EMMAN, HEDDSTART, M25 Consortium etc) to name but a few
- Shared services is a key component of institutional collaboration
- Shared services may also be a stepping stone towards partial or full integration i.e. merger

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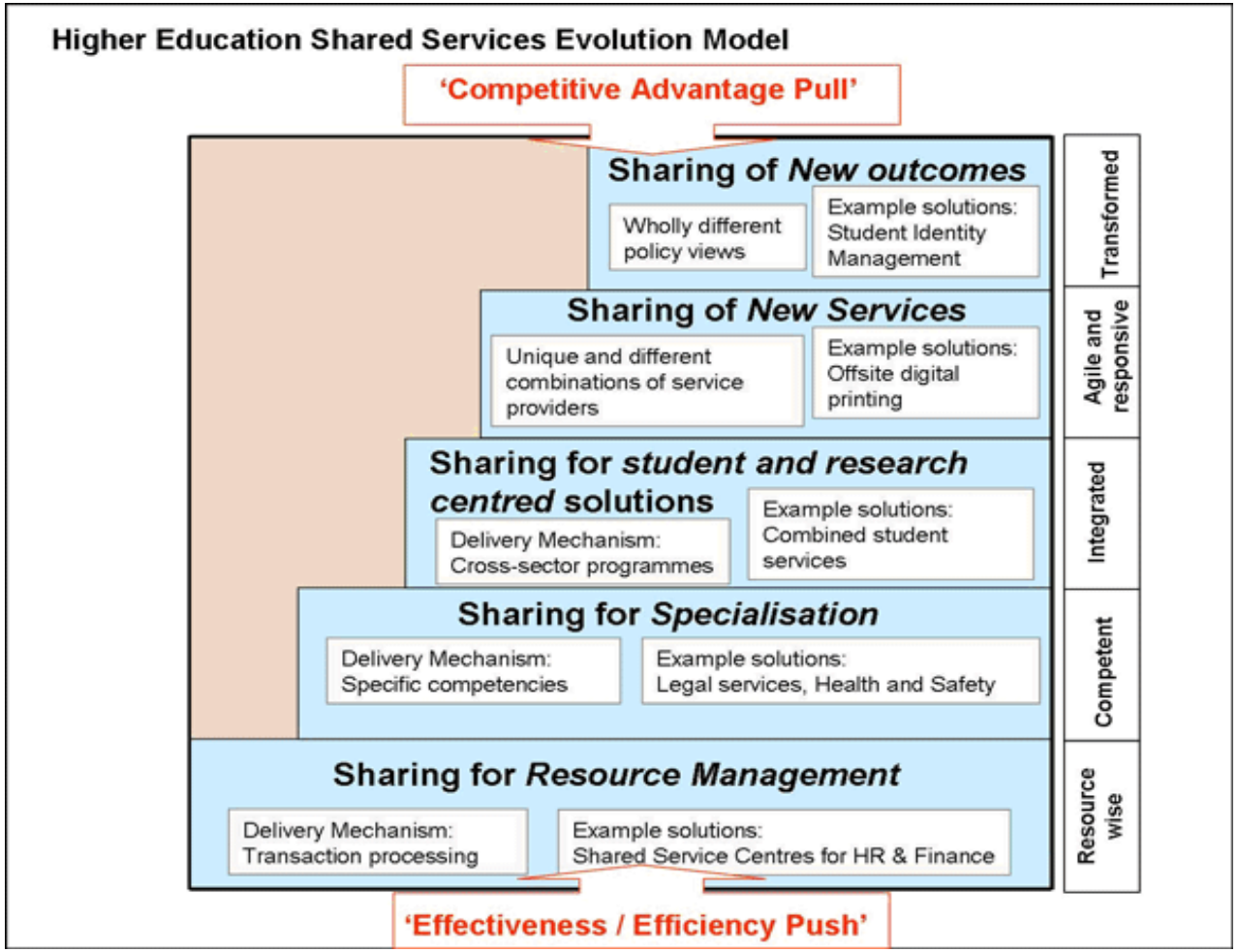
Shared services in HE (source, HEFCE)



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The cost sharing exemption

- HEIs are partially exempt hence incur substantial irrecoverable VAT
- Whilst to make efficiency savings, HEIs may wish to share services and VAT is regularly cited as a barrier
- This may be alleviated by the implementation of the cost sharing exemption (available via the European 6th Directive) subject to the terms of its implementation
- HMRC are consulting on the possible form of its implementation
- Quite distinct from a VAT grouping which, as a Cost Sharing Group (CSG) may not be under the control of one member
- HEIs as partially exempt bodies will likely be eligible to be members of a CSG

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What are the basic conditions of the exemption?

- The Cost Sharing Group (CSG) must be independent
- CSG members must make exempt and / or non-taxable supplies
- The supplies by the CSG have to be made at cost (exact reimbursement)
- The services provided by the CSG must be 'directly necessary' for the members exempt and/or non-business activity
- Cost sharing must not cause a distortion of competition
  - The Advocate General in Taksatorringen stated in paragraph 122 of his judgment: "This means that the group must be entirely transparent and that, from an economic point of view, it must not have the characteristics of an independent operator seeking to create a customer base in order to generate profit."
- HMRC consulted until the end of 9/11 on each of these points and will thereafter advise Ministers regarding the exemption's implementation

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Remaining barriers to sharing – and some success factors

Success factors

- There is already a national, regional or affinity group base, where an internal market already exists and there is less resistance to the idea of sharing
- An existing shared service or collaboration is being built on
- Good project management skills and those of other professionals required to build the business case are utilised
- Buy-in of senior managers is maintained through ongoing dialogue.

Challenges

- Capability, capacity and commitment
- Lack of market and or cultural awareness
- Size, mix and number of participating institutions
- Lack of common processes across institutions
- Institutional stance – collaborate or compete?

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What next?

- Scenario modelling is a critical next step for institutions which requires:
  - Being clear as to levels of exempt / non business and taxable activity
  - Identifying and prioritising potential services for inclusion in a Cost Sharing Group (CSG)
  - Importance of considering partners beyond HE that may be able to a join a CSG - but will need to address process and system alignment
  - Calculating potential business benefits (in terms of cashable and non cashable savings) from the inclusion of such services in a CSG

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