

REDDITCH BOROUGH COUNCIL

**Executive Committee
2026**

21st April

Report

| | | |
|--|--|--------------------------|
| Relevant Portfolio Holder | | Councillor Woodall |
| Portfolio Holder Consulted | | Yes |
| Relevant Assistant Director | | Debra Goodall |
| Report Author | Job Title: Julie Lorraine, Interim Director/Section 151 Officer Contact email: Julie.lorraine@bromsgroveandredditch.gov.uk Contact Tel:0152764252 | |
| Wards Affected | | ALL |
| Ward Councillor(s) consulted | | No |
| Relevant Council Priority | | Financial Sustainability |
| Key Decision NO – Information only | | |
| If you have any questions about this report, please contact the report author in advance of the meeting. | | |

1. RECOMMENDATIONS

The Executive Committee RESOLVE that:-

- 1) The resolutions of the outstanding VAT matters are noted.**
- 2) The net cash gain position of £19,889,753 recovered by the council following the HMRC repayment £20,616,650 received on the 3rd April 2026 offset by payments and receipts already made and received to/from HMRC of £726,897 is noted.**
- 3) The mitigation of the cashflow risk is noted and the corporate risk register duly updated to reflect the positive change to the council's cash holding position.**
- 4) The penalty suspension conditions with HMRC are noted**
- 5) The Audit committee is requested to maintain oversight of the delivery of the actions to satisfy the agreed penalty suspension conditions.**

2. BACKGROUND

- 2.1 As a result of both Technology One ERP system issues and staffing changes, Redditch Borough Council was unable to submit periodic VAT returns between April 2021 and October 2024.

The issues resulting in the inability to submit VAT returns included:

- Incorrect configuration of the cash receipting back office.
- Incorrect inter-entity processing within the TechnologyOne ERP system.
- Incorrect payment and bank statement file processing.
- Failure to align work processes with the configuration of the TechnologyOne VAT module.
- Staff turnover and a consequent period of lack of internal VAT expertise.
- Weak reconciliation processes.

2.2 The Council has sought to regularise the position by agreeing with HMRC a process whereby it would submit nil returns for each of the outstanding periods and then Error Correction Notices to reflect the returns that should have been made.

2.3 The initial Error Correction Notice was prepared based on data downloaded from the TechnologyOne ERP General Ledger. Subsequent work on the system then identified that subsidiary ledgers (Project Ledger and Property Ledger) held on the system do not record VAT information on transactions disbursed to the General Ledger.

2.4 For this reason, a subsequent Error Correction Notice was submitted. Other issues, identified during the preparation of monthly VAT returns, were also addressed by the subsequent Error Correction Notice.

2.5 The Council's advisors PSTax have been instrumental in providing advice, agreeing the process with HMRC, reviewing the data, assisting with the preparation (but not approving) of the Error Correction Notices, VAT Returns and liaising with HMRC on its behalf.

2.6 The Error Correction Notices and subsequent VAT Returns have been prepared manually by an internally resourced team using data downloaded from the TechnologyOne ERP system, alongside a detailed reconciliation process and external data review processes.

2.7 Chronology

| Redditch Borough Council Action | Date |
|--|---------------|
| Technology One System Implemented | February 2021 |
| First Missed VAT Return | April 2021 |
| Last Missed VAT Return | October 2024 |
| Monthly VAT Returns Reinstated | November 2024 |

REDDITCH BOROUGH COUNCIL

**Executive Committee
2026**

21st April

| | |
|--|---|
| Initial Error Correction Notice Submitted | 19 December 2024 (£9.653m to RBC) |
| RBC aware of potential additional submission relating the subsidiary ledgers | HMRC informed August 2025 |
| Subsequent Error Correction Notice Submitted | November 2025 (£10.251m to RBC) |
| HMRC combined into one resolution process (capping provisions applied by HMRC to protect out of time position) | November 2025 (£19,904m to RBC) |
| Pre resolution HMRC invited RBC to propose appropriate suspension conditions. | RBC provided these to HMRC on 13/02/2026. |

| | |
|--|---|
| Penalty Suspension conditions agreed | 02/03/2026. Including finance staff training (completed) system-based control improvements (removal of period end and inter entity flexibilities) and wider organisational training |
| Training requirements supported by CLT | 18/03/2026 and agreed and wider staff training, incorporated into mandatory corporate training suite. |
| Repayment from HMRC | Received 27/03/2026 £20,616,650 |
| Consolidated Payments due to HMRC for period to date | Net assessment total of £726,897 confirmed via email 31/03/2026 which had already been settled. Resulting in a net cash gain to RBC of £19,889,753 |
| Internal control improvements agreed by CLT | 01/04/26 fully supported alongside agreed noncompliance and escalation process |
| System control improvement restrictions agreed with Technology One | To be integrated into the tech one project board supplier negotiation process date TBA |

Penalty Suspension

- 2.8 HMRC impose mandatory financial penalties in the event an organisation fails to submit timely and accurate VAT returns. HMRC can, at its discretion, agree to suspend the financial penalties subject to

the failure not being deemed by HMRC to be “deliberate”, and the organisation agreeing and meeting conditions.

- 2.9 With the assistance of PSTax the council and HMRC have reached agreement on the suspension of the penalties, subject to the council meeting the following conditions by the end of May 2026.
- i) The council must meet all of its notification and filing obligations.
 - ii) The adoption of a dedicated internal email mailbox for VAT enquiries from staff.
 - iii) Finance Business Partners are to be kept updated on changes affecting their service areas and a record of the communications is to be retained.
 - iv) All finance staff to attend training provided by PSTAX. The training to focus on best practice. A record of the date, attendees and a synopsis of the training content is to be retained.
 - v) Relevant service based staff to attend training, to ensure they understand the importance of seeking VAT advice when considering or entering into new contractual arrangements and, that they understand the internal processes. A record of the date, attendees and a synopsis of the training content is to be retained.

Current Position

- 2.10 Monthly VAT returns are being submitted on time, and the council has introduced a robust quality assurance system which provides an independent review of prepared monthly returns ahead of submission. The outcome of the monthly review is reported to the Section 151 Officer /Deputy 151 Officer for formal agreement to submit the return. This process will be reviewed annually and should remain in place until such time as the section 151 Officer determines the independent assurance is no longer needed.
- 2.11 PSTax have been commissioned to develop and deliver the training needed to the finance team and wider staff group. Session dates for May 2026 have been agreed with CLT and mop up sessions will be provided to those staff unable to attend the scheduled events.
- 2.12 Control improvements have been agreed with CLT to apply across the organisation including:

- a) mandatory attendance on the training programme for all staff involved in the raising and processing of orders and invoices. Only trained staff will have system permissions granted to them.
- b) An escalation process has been agreed where any issues of inaccurate date entry or coding will be reported to the relevant Assistant Director.
- c) non-compliance with the required VAT processes can and will result in the removal of system access privileges.

3. FINANCIAL IMPLICATIONS

- 3.1 The report contains detailed financial information. It should be noted the VAT repayment reflects a welcome improvement to the council's cash position, but the related accounting transactions have already been accounted for in the relevant prior years.

4. LEGAL IMPLICATIONS

- 4.1 Submitting timely and accurate VAT returns is a statutory obligation. The actions set out in this report alongside the delivery of the agreed penalty suspension conditions reflect obligations the council must meet.

5. OTHER - IMPLICATIONS

Local Government Reorganisation

- 5.1 Resolving the long-standing issues around VAT will enable the council to enter LGR from a sound position of good standing and compliance financial management.

Relevant Council Priority

- 5.2 Financial resilience and good governance underpin the council's ability to meet all of its priorities.

Climate Change Implications

- 5.3 None directly as a result of this report.

Equalities and Diversity Implications

5.4 No adverse impacts as a result of the content of this report

6. RISK MANAGEMENT

6.1 The council recognised the cashflow pressures it faced during the budget process and as a result included the associated risk within the corporate risk register. The cash receipt from HMRC mitigates this risk significantly and the risk register will be updated accordingly.

7. APPENDICES and BACKGROUND PAPERS

None.