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**VAT Recovery – Updated position report**

Relevant Portfolio Holder		Councillor Craig Warhurst
Portfolio Holder Consulted		Yes
Relevant Assistant Director		Debra Goodall
Report Author: Debra Goodall	Job Title: Assistant Director of Finance and Customer Services Contact email: debra.goodall@bromsgroveandredditch.gov.uk	
Wards Affected		ALL
Ward Councillor(s) consulted		No
Relevant Council Priority		
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 Audit, Governance and Standards Committee is asked to RESOLVE that:-**

- 1) The actions being undertaken to resolve the outstanding VAT matters are noted.**
- 2) The net cash gain of £19.9m is noted.**
- 3) The improvement of this on the cashflow position is noted and the corporate risk register duly updated to reflect the positive change to the council’s cash holding position.**
- 4) The Audit, Governance and Standards Committee maintains oversight of the delivery of actions to satisfy any agreed penalty suspension conditions.**

**2. BACKGROUND**

2.1 Redditch District Council did not submit periodic VAT returns to HMRC for a period of three and a half years between April 2021 and October 2024 as a result of issues with the TechnologyOne ERP system and key staffing changes.

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The significant issues contributing to this included:

- TechnologyOne System issues from implementation
  - Incorrect configuration of the cash receipting back office.
  - Incorrect inter-entity processing
  - 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 managed the position by agreeing with HMRC to submit nil returns for each of the outstanding periods and then Error Correction Notices (ECNs) to reflect the returns that should have been made.

2.3 An initial ECN was prepared in December 2024 using data downloaded from the 'General Ledger' in the ERP. Subsequent work on the ERP identified that subsidiary ledgers (Project Ledger and Property Ledger) did not record VAT information on transactions disbursed to the General Ledger. Further issues, identified during the preparation of monthly VAT returns, were addressed by submission of a second ECN in November 2025.

2.4 The Council appointed specialist advisors (PSTax) to provide support and assurance. PSTax were instrumental in providing advice, agreeing the process with HMRC, reviewing the data, assisting with the preparation of ECNs, VAT Returns and liaising with HMRC. Accountability, approval and submission of all ECNs and VAT returns rests with the Council.

2.5 To date, all ECNs and VAT Returns have been prepared manually by an internally resourced team using data downloaded from the ERP, with detailed reconciliation and external data review processes.

2.6 Chronology

<b>Redditch Borough Council Action</b>	<b>Date</b>
Technology One System Implemented	February 2021
First Missed VAT Return	April 2021
Last Missed VAT Return	October 2024

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Monthly VAT Returns Reinstated	November 2024
Initial Error Correction Notice Submitted	19 December 2024 (£9.653m to RBC)
RBC aware of potential additional submission relating to 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**

- 2.7 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 should HMRC deem the failure not to be “deliberate” and if the organisation agrees to meet conditions.
- 2.8 With the assistance of PSTax, Redditch Borough Council and HMRC reached agreement on the suspension of the penalties, subject to the council meeting the following conditions.
- i) The council must meet all 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 to focus on adopting 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, following a robust quality assurance process providing 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 to formally approval submission of the return. This process will be reviewed annually and should remain in place until such time as the section 151 Officer determines that independent assurance is no longer needed.
- 2.11 PSTax were commissioned to develop and deliver the training needed to the finance team and wider staff group. Session dates from May 2026 were agreed with CLT and mop up sessions 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:
- i 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.
  - ii An escalation process has been agreed where any issues of inaccurate data entry or coding will be reported to the relevant Assistant Director.
  - iii non-compliance with the required VAT processes can and will result in the removal of system access privileges.
- 2.13 The Internal Audit Plan for 2026/27 will include a review of key VAT processes and the actions outlined above to provide independent assurance that the necessary internal controls are now in place and operating satisfactorily.
- 2.14 Ultimately, the expectation is that the ERP system will ensure accurate VAT processing without manual intervention.

**3. FINANCIAL IMPLICATIONS**

- 3.1 Two ECNs have been submitted to deliver a total VAT repayment of £19.904m.
- 3.2 It should be noted that the VAT repayments represent an improvement to the Council's cash position and this may be of interest to the Committee in consideration of the impact on the Council's Treasury

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Management decisions. The associated accounting entries, however, have already been reflected 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 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 recognises cashflow pressures as a potential risk and the cash receipt from HMRC mitigates this risk significantly.

**7. APPENDICES and BACKGROUND PAPERS**

None.