

BROMSGROVE DISTRICT COUNCIL

**Cabinet
2026**

17 June

Report VAT RECOVERY UPDATED POSITION

Relevant Portfolio Holder	Councillor Simon Nock
Portfolio Holder Consulted	Yes
Relevant Assistant Director	Debra Goodall
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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 Cabinet RESOLVE that:-

- 1) The actions being undertaken to resolve the outstanding VAT matters are noted.**
- 2) An expected net cash gain position to be recovered by the council, including the further anticipated recovery of the current Error Correction Note, 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, Standards and Governance committee is requested to maintain oversight of the delivery of actions to satisfy any agreed penalty suspension conditions.**

2. BACKGROUND

- 2.1 Bromsgrove 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..

The significant issues contributing to this included:

- TechnologyOne System issues from implementation
 - o Incorrect configuration of the cash receipting back office.
 - o 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 early 2025 using data downloaded from the 'General Ledger' in the ERP and further issues, identified during the preparation of monthly VAT returns, were addressed by submission of a second ECN later in 2025. Subsequent work on the ERP has identified that subsidiary ledgers (Project Ledger and Property Ledger) do not record VAT information on transactions disbursed to the General Ledger.
- 2.4 For this reason, a further ECN is in preparation for submission in June 2026.
- 2.5 The Council has appointed specialist advisors (PSTax) to provide support and assurance. PSTax have been 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.
- 2.6 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.

2.7 Chronology

Bromsgrove District 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
Initial Error Correction Notice Submitted	19 December 2024 (£0.472m to BDC)
BDC aware of potential additional submission	HMRC informed March 2025
Subsequent Error Correction Notice Submitted	June 2025 (£0.503m to HMRC)
BDC aware of potential additional submission relating the subsidiary ledgers	HMRC informed April 2026
Subsequent Error Correction Notice expected to be submitted	June 2026 (value tbc verbally at the Cabinet briefing - to BDC)

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 should HMRC deem the failure not to be “deliberate” and if the organisation agrees to meet conditions.

2.9 With the assistance of PSTax, Bromsgrove District 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 now 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 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:
 - 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 and a further ECN is being prepared which are expected to deliver a total VAT repayment to the Council. The value of this will be confirmed at the Cabinet Briefing. It should be noted VAT repayments reflect 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

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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 “Risk of Cashflow Strain” within the corporate risk register. The cash receipt from HMRC mitigates this risk significantly and the risk register will be updated accordingly.

7. COMMUNITY IMPLICATIONS

7.1 There are no Community implications as a result of this report.

7. APPENDICES and BACKGROUND PAPERS

None.