

Agenda Item No 4(b)

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

27 May 2020

Report of the Director of Finance & ICT

TAX STRATEGY

1 Purpose of the Report

To note and approve the Council's Tax Strategy.

2 Information and Analysis

The Tax Strategy sets out the overall framework for the Council's management of its tax affairs, including tax compliance, policies and procedures, tax risk, tax planning and relationship with the tax authorities.

The Finance Act 2016 Schedule 19 sets out what should be included in a Tax Strategy. Whilst not required to publish a Tax Strategy by this legislation, the Council chooses to do so and to follow its principles, as it wishes to demonstrate transparency in its commitment to managing its tax affairs, taking into consideration its public purpose and balancing the interests of its stakeholders.

The key components of the Tax Strategy are:

- The Council's approach to risk management and governance arrangements in relation to taxation.
- The Council's attitude towards tax planning.
- The level of risk in relation to taxation that the Council is prepared to accept.
- The Council's approach towards its dealings with HMRC.

In line with the Council's governance framework and consistent with its wider values, the Council is committed to being fully compliant with all tax laws, rules and regulations. It will conduct its tax affairs in an open, honest and timely fashion.

The Council will not seek to gain a tax advantage through tax avoidance but will seek to manage its tax affairs in an efficient manner, whilst following both the letter and the spirit of the law.

In order to achieve this, the Council undertakes to:

- Take all reasonable steps to ensure that it is fully compliant with tax legislation and pays the right amount of tax at the right time.
- Maintain an open, honest, and collaborative relationship with the tax authorities.
- Respond to all queries and enquiries in a timely fashion.
- Where the correct tax treatment is ambiguous and where it is appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
- In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.

The Council's overall management of tax risk and supporting governance framework is the responsibility of the Council's Director of Finance & ICT.

The Audit Committee independently contributes to the Council's process of ensuring internal control systems are maintained and approves the Annual Governance Statement.

It is proposed that the Council's Tax Strategy will be reviewed and reported to Audit Committee on an annual basis.

A copy of the Strategy is shown at Appendix One.

3 Considerations

In preparing this report the relevance of the following factors has been considered:- financial, human resources, legal and human rights, equality of opportunity, health, environmental, transport, property, crime and disorder and social value considerations.

4 Background Papers

Papers held in Technical Section, Finance & ICT, Room 137.

5 Officer's Recommendation

That Audit Committee approves the Council's Tax Strategy.

PETER HANDFORD

Director of Finance & ICT

Tax Strategy



**Peter Handford BA(Hons) PGCert FCPFA
Director of Finance & ICT**

Approval and Authentication

Version	Name/Body	Job Title	Signature	Date
1.0 March 2020	Peter Handford	Director of Finance & ICT		24 March 2020
	Audit Committee			

Introduction

The Tax Strategy of Derbyshire County Council sets out the overall framework for the Council's management of its tax affairs, including compliance, policies and procedures, tax risk, tax planning and relationship with the tax authorities.

Whilst not required to publish its Tax Strategy, the Council chooses to do so, as it wishes to demonstrate transparency in its commitment to managing its tax affairs, taking into consideration its public purpose and balancing the interests of its stakeholders.

The Tax Strategy is, by design, a brief document, presented as a series of linked elements. It will be reviewed and reported to Audit Committee on an annual basis.

Background

The Council is a Local Government body. It is exempt from Corporation Tax and is a Section 33 Body under the VAT Act 1994, which entitles it to recover VAT attributable to non-business activities and to exempt business activities, providing this is an insignificant proportion of the total tax incurred.

The Council is the administering authority of the Derbyshire Pension Fund under the Local Government Pension Scheme (Administration) Regulations 2013, which is also exempt from Corporation Tax and is a Section 33 Body.

Derbyshire Developments Limited is a private limited company, wholly owned by the Council. It is assessable to Corporation Tax and VAT in accordance with current legislation.

D2N2 Local Enterprise Partnership (D2N2 LEP) is a private limited company, managed by a Board made up of Derby, Derbyshire, Nottingham and Nottinghamshire councils and private sector representatives. The Council is the Single Accountable Body for the D2N2 LEP. The D2N2 LEP is assessable to Corporation Tax and VAT in accordance with current legislation.

Governance

The Council's governance framework comprises the systems, processes and values by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

Specific controls and procedures are in place at an operational level, to ensure compliance with relevant tax legislation and to mitigate tax risk.

The Council's overall management of tax risk and supporting governance framework is the responsibility of the Council's Director of Finance & ICT.

The Audit Committee independently contributes to the Council's process of ensuring internal control systems are maintained and approves the Annual Governance Statement.

Overriding Principals

In line with the Council's governance framework and consistent with its wider values, the Council is committed to being fully compliant with all tax laws, rules and regulations. It will conduct its tax affairs in an open, honest and timely fashion.

The Council will not seek to gain a tax advantage through tax avoidance but will seek to manage its tax affairs in an efficient manner, whilst following both the letter and the spirit of the law.

In order to achieve this, the Council undertakes to:

- Take all reasonable steps to ensure that it is fully compliant with tax legislation and pays the right amount of tax at the right time.
- Maintain an open, honest, and collaborative relationship with the tax authorities.
- Respond to all queries and enquiries in a timely fashion.
- Where the correct tax treatment is ambiguous and where it is appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
- In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.

Management of Tax Risk

Tax risk falls into three broad categories:

- **Compliance Risk**
Procedures or processes are deficient in ensuring that the right amount of tax is paid at the right time.
- **Transactional Risk**
Transactions are entered into without fully considering and evaluating the immediate or wider tax implications.
- **Reputational Risk**
The wider damage that risks may have on the Council's relationship with its stakeholders, including the tax authorities, staff, and the general public.

As with any organisation of this size and complexity, it is impossible to completely eliminate tax risk. However, with careful management, the incidence and impact of tax risks can be significantly reduced.

Policies and Procedures

The Council has a number of policies and procedures covering various aspects of its financial management. All such policies and procedures are formulated to ensure that the Council is fully compliant with its tax obligations. Such procedures are subject to regular review to ensure that they are, and remain, fit for purpose.

The Council has regular support from its external tax advisor, which includes access to a fast response helpline, as well as regular VAT and Employment Taxes Forums for Local Government.

For large, complex or unusual transactions the Council will engage additional specialist legal and tax advice when required, to ensure that the tax implications are identified and fully considered before approval is given.

Attitude to Tax Planning and Tax Risk

The Council will claim such reliefs and incentives as it is properly entitled to, and will take reasonable steps to minimise its tax liabilities, where it is appropriate and responsible to do so.

The Council has a low risk appetite in relation to tax matters and does not use artificial tax structures or undertake transactions whose sole purpose is to create an abusive tax result. When evaluating tax planning the Council's reputation and corporate and social responsibilities are always considered.

Relationship with Tax Authorities

The Council is transparent about its approach to tax and where it is appropriate to do so will discuss the interpretation of tax legislation with HMRC, in real-time, particularly where the tax treatment is unclear. HMRC will be kept up to date regarding major changes or transactions within the business, so that any potential tax risks can be addressed at an early stage.

The Council seeks to develop and maintain a strong and mutually respectful relationship with HMRC. In March 2019 the Council was again given a 'Low Risk' tax status by HMRC. This followed the Council's HMRC Customer Relationship Manager meeting with key Council personnel to gain a greater understand of the Council as an organisation and to understand the day to day systems, controls, processes, checks and governance the Council adopts in meeting its statutory obligations to ensure the completeness and accuracy of its monthly and annual returns made to HMRC. Customers assessed as Low Risk benefit from no intervention work undertaken by HMRC (with the exception of significant issues and mandatory and national projects) for a given period across all taxes.

**Peter Handford
S151 Officer
Derbyshire County Council**

Published on 24 March 2020 based on the Finance Act 2016 Schedule 19.