

AUDIT COMMITTEE

Date: Thursday, 5 December 2024
Time: 10.30 a.m.
Venue: Mandela Room, Town Hall

AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
To receive any declarations of interest.
4. Minutes - Audit Committee - 3 October 2024 3 - 10
5. Middlesbrough Council Audit Completion Report - 2021/22 and 2022/23 11 - 94
6. Teesside Pension Fund Audit Completion Report - 2021/22 95 - 142
7. Teesside Pension Fund Audit Completion Report - 2022/23 143 - 192
8. Middlesbrough Council Letters of Representation - 2021/22 and 2022/23 193 - 206
9. Teesside Pension Fund Letters of Representation - 2021/22 and 2022/23 207 - 220
10. Approval of the Statement of Accounts for 2021/22 and 2022/23 221 - 660
11. Work Programme (Standard Item) 661 - 664
12. Any other urgent items which in the opinion of the Chair, may be considered.

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Wednesday, 27 November 2024

MEMBERSHIP

Councillors J Ewan (Chair), B Hubbard (Vice-Chair), I Blades, D Branson, D Coupe, G Wilson and L Young.

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Chris Lunn, 01642 729742, chris_lunn@middlesbrough.gov.uk

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday, 3 October 2024.

PRESENT: Councillors J Ewan (Chair), B Hubbard (Vice-Chair), I Blades, D Branson, D Coupe, G Wilson and L Young.

ALSO IN ATTENDANCE: C Andrew (Forvis Mazars)
P Jeffrey (Internal Auditor) (Veritau)
M Kirkham (Forvis Mazars)
M Rutter (External Auditor) (Ernst Young).

OFFICERS: C Benjamin, C Heaphy, A Johnstone, S Lightwing and J Weston.

APOLOGIES FOR ABSENCE: None.

24/26 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

24/27 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor J Ewan	Non Pecuniary	Agenda Item 10 Member of Teesside Pension Fund
Councillor B Hubbard	Non Pecuniary	Agenda Item 10 Member of Teesside Pension Fund

24/28 **MINUTES - AUDIT COMMITTEE - 22 AUGUST 2024**

The minutes of the Audit Committee meeting held on 22 August 2024 were submitted and approved as a correct record.

24/29 **CORPORATE GOVERNANCE IMPROVEMENT PLAN AND SECTION 24 ACTION PLAN PROGRESS REPORT**

A report was presented that set out the key activities and progress since the last update to Committee, in response to the Section 24 recommendations made by the Council’s External Auditors and the Council’s Corporate Governance Improvement Plan.

Overall performance in relation to delivery of activity across the two improvement plans (excluding activity not yet planned to start and not due to be delivered yet), was set out at paragraph 5.2 of the submitted report. Ninety-nine percent of planned activity had either been delivered or was on-track for delivery in relation to the Corporate Governance Improvement Plan, with one planned activity across the ten workstreams measuring as off-track. In relation to the off-track action, further information was awaited from Grant Thornton prior to progressing with a model of finance.

One hundred percent of activity in relation to the Section 24 delivery plan was on-track or had been delivered. It was highlighted that the report stated at paragraph 5.4 that there was one activity showing as off-track. This was an error in the report. The action related to the recruitment of two senior officers which was on track to be completed by March 2025.

A Member asked whether the Senior Management Review had been completed. The Chief Executive explained that the Senior Management Review had not yet been undertaken. Following agreement with the Mayor of the target operating model, the Review would be

undertaken.

A Member highlighted that in relation to cultural transformation and sustainable leadership the impact trend was stated as “Worse”. It was explained that one of the measures for this activity was the number of agency staff employed and unfortunately this had increased in areas including waste services and public health.

It was also noted that the data had not been updated in relation to setting a balanced budget for 2024/2025 to 2026/2027. The Chief Executive clarified that the budget setting process had started and proposals would be presented to the Executive in December 2024.

The Chair asked when the report from Grant Thornton would be received and the Chief Executive explained that whilst the report had formed the basis of the decision not to renew the Best Value Notice, and the Government had stated that the Council could have sight of it, the report had not yet been forthcoming.

AGREED that the Audit Committee noted the progress against the Corporate Governance Improvement Plan and Section 24 Action Plan.

24/30 **BEST VALUE NOTICE - UPDATE**

A report of the Chief Executive was presented to update the Committee on the Government's decision not to renew the Council's Best Value Notice and the planned further report to Council which would set out the next steps.

Government issued a Best Value Notice to the Council in January 2023 which was extended in January 2024. Progress against that Notice had been well documented to the Audit Committee and full Council, through regular reports on the delivery of both the Corporate Governance Improvement Plan and the action plan put in place to respond to the External Auditor's Section 24 report.

As a result of the progress the Council had made to date in addressing the issues raised, the Ministry of Housing, Communities and Local Government had decided that it would not renew the Best Value Notice that was in place. The Chief Executive and Committee Members acknowledged the work that had been undertaken by the Council to reach this position.

A Member raised a query in relation to the financial cost to the Council of the improvement work and the Chief Executive agreed to provide this information.

Work would continue with the Improvement Board until March 2025 and also work in terms of monitoring the Council's financial position in terms of this year's budget and beyond.

A copy of the letter outlining government's decision was appended to the submitted report for information.

A typo was highlighted in the recommendations of the report at paragraph 2.1, second line – the word “review” to be replaced with “renew”.

AGREED as follows that:

1. Audit Committee noted the Government's decision not to renew the Council's Best Value Notice
2. Audit Committee noted the Planned next steps in the Council's ongoing improvement journey.
3. Information in relation to the cost to the Council for the improvement journey would be provided to the Audit Committee.

24/31 **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

A report of the Head of Internal Audit was presented to provide Members with an update on the delivery of internal audit and counter fraud work and on reports issued and other work completed since the last update to the Audit Committee.

The internal audit progress report was contained in appendix 1 of the submitted report. This

included a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

The Auditor highlighted that in relation to audits in progress, it was anticipated that the final report on Agency Staff (Children's Services) would be completed in the next few weeks.

Annex C to the submitted report provided a summary of key issues from audits finalised since the last report to the Audit Committee.

The Audit opinions and priorities for actions detailed at Annex D to the submitted report had been updated, with a new category – Opportunity – added.

A summary of progress against previously agreed actions was included at Annex E to the submitted report and of the 6 actions outstanding, all 6 had had a revised date agreed.

In relation to the planned audit of Members' allowances and declarations of interest, a member asked whether Officers' interests could also be audited. The Auditor agreed to check with Officers to see where there was capacity to add this to the planned work.

Home to School Transport was listed as Category 3 audit priority and a Member commented that this topic was currently being investigated by scrutiny and it might be useful for Internal Audit to feed their findings into the scrutiny review.

The counter fraud progress report was attached at Appendix 2 of the submitted report. A range of work was detailed including activity to promote awareness of fraud, work with external agencies, and information on the level of fraud reported to date.

The counter fraud team and Council officers worked together as part of an annual National Blue Badge Day of Action in May 2024. Checks were made on 53 badges in Middlesbrough town centre to confirm they were being used lawfully and two penalty charge notices were issued. The team had completed four investigations into blue badge misuse in 2024/2025 resulting in warnings being issued to three people.

It was highlighted that investigative work to date in 2024/2025 had helped identify £70k of loss due to fraud, error and debt evasion. The counter fraud team supported the Council to recover losses identified as part of investigations. Counter fraud savings were also tracked by monitoring repayments to the Council and calculating the value of stopping ongoing frauds. To date £68k of counter fraud savings had been identified, which was twice the amount found in 2023/24.

AGREED that the latest update on internal audit and counter fraud work was noted by the Audit Committee.

24/32

BACKSTOP PROGRESS ON THE 2021/22 AND 2022/23 STATEMENT OF ACCOUNTS APPROVAL

The Head of Finance and Investment provided the Audit Committee with an update on Backstop Progress on the 2021-2022 and 2022-2023 Statement of Accounts (SOA).

As previously notified, the external audits of the Council's 2021/22 and 2021/22 draft SOA, had been delayed for some time pending government direction on how to address the national backlog. This applied to over 1,000 sets of unsigned local authority accounts across the country, with many local authorities being in a similar position to Middlesbrough of having more than one set of accounts not being audited.

The government had now set out and laid the legislation (9 September 2024) in relation to the statutory backstop dates. These were the dates by which an external audit for a particular financial year needed to be finalised.

The first backstop date (13 December 2024) would clear the backlog of unaudited accounts up to and including 2022/23. Where auditors had been unable to complete audits, they would issue a 'disclaimed' or 'modified' audit opinion. Auditors were likely to issue hundreds of 'disclaimed' audit opinions and needed to make clear that this is not the fault of the organisation involved but of issues with the local audit system itself.

The five further backstop dates up to and including financial year 2027/28 allowed full assurance on external financial reporting to be rebuilt over several audit cycles. It was the aspiration of the Government and key local audit system partners that, in the public interest, local audit recovered as early in this five-year period as possible. This meant disclaimed opinions driven by backstop dates should, in most cases, be limited to the next two years (up to and including the 2024/25 - backstop date of 27 February 2026), with only a small number of exceptional cases, continuing thereafter.

While there would be modified or disclaimed opinions in relation to the external audit of financial statements, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations, and to issue Public Interest Reports – remained a high priority.

For Middlesbrough Council, the 2021/22 accounts audit was partially undertaken by Ernst & Young (EY) between July 2022 and March 2023. At that point the audit was paused, given the Council's finance team had to close down and prepare the 2022/23 accounts. The audit should have restarted by July 2023 but did not, due to central government considering what to do about the backlog position nationally and there being uncertainty for external auditors about how to continue.

No further work had been carried out on the Council's financial statements for 2021/22 since March 2023, except for a specific piece of work requested by the S151 Officer in relation to the collection fund bad debt provision. EY had however continued their work on the Value for Money assessment and on the Teesside Pension Fund. Both audits were progressing to a conclusion and the issue of the appropriate audit opinion.

Since the issue of the government legislation, EY had indicated that they could not give formal assurance on the 2021/22 council financial statements given the amount of work undertaken to date. As a result of this, the audit opinion on these statements would be 'disclaimed'.

In relation to the 2022/23 external audit process, the position was very similar to 2021/22. The work on the Value for Money assessment and the Teesside Pension Fund, would be completed and reported to Members. Work on the audit of the Council financial statements had not started given the delay on the 2021/22 accounts. As a result, those financial statements would also be disclaimed in line with 2021/22.

The Value for Money interim results for 2021/22 and 2022/23 had been reported to the Audit Committee on 25 July 2024. The results of the Teesside Pension Fund work for these years (including a finalised audit opinion) would be reported to a future meeting of the Audit Committee.

EY had provided further details on the process for disclaiming the financial statements audits for 2021/22 and 2022/23. Given the number of potential disclaimed opinions needing to be issued, this work was being undertaken by a central disclaimer hub rather than the local EY team. The information required would be submitted by the Council as soon as possible.

In terms of the 2021/22 and 2022/23 years, the financial statements and notes had been updated following of the conclusion of EY's work on the revision to the bad debt provision on council tax and business rates. Since these were material adjustments to the accounts, it was necessary for the responsible officer to re-certify the statement of responsibilities within the SOA document. This was actioned by the Director of Finance on Tuesday 24 September 2024 and updated versions of these accounts would be published on the Council website. These restatements were important since they influenced the opening balances for the 2023/24 accounts.

Once the legacy statements of accounts for 2021/22 and 2022/23 had been reviewed by the EY disclaimer hub, disclaimed opinions would be issued by the external auditor to finalise the audit process for these financial years. These would accompany the value for money opinion and the true and fair view on the Teesside Pension Fund accounts. The approval process for the audited accounts would then follow the normal process under the Accounts and Audit Regulations 2015.

The External Auditor, EY, commented that whilst the opinion on the financial statements was

expected to be disclaimed there were still certain actions to be completed, including obtaining representations from management, in order to ensure compliance with the legislation. Whilst there had been a slight delay in obtaining some of the information, the Auditor was confident that the reports on the disclaimer and Teesside Pension Fund accounts would be finalised for reporting to the next Audit Committee meeting.

A Member asked whether the Covid-19 pandemic had impacted on the audit process. The Head of Finance and Investment stated that the pandemic had only caused a minor hold-up. The reason for delay was mainly due to complexity in the local audit and financial markets which had got progressively worse over a period of time and was a national issue. In terms of future, the finance team were very confident that the Council would meet the deadlines in terms of preparation. The statutory dates had moved from the end of May to the end of June. Additional investment had been made into the finance team to ensure there was sufficient capacity.

A Member asked whether the bad debt provision took account of the outstanding business rates. It was explained that the Council had a methodology to state the amount of debt within a financial year and how that would be provided for. A fair provision for the level of debt outstanding was included in the accounts and the auditors would examine that provision to check it was fair. An active team continued to pursue debts from current and previous years and they would only be written off when it was no longer viable to chase them.

The Chair asked whether there would be any saving on audit fees. The External Auditor stated that the Council and taxpayers would not be charged for audit work that had not taken place. Dialogue would take place with the Auditors and the Public Sector Audit Appointments (PSAA) and the views of the Chief Executive and Section 151 Officer would be included in discussion.

AGREED that the position on the 2021/22 and 2022/23 external audit processes, and the subsequent steps required to finalise and approve the accounts for these years before the statutory backstop date of 13 December 2024, was noted by the Audit Committee.

24/33

FORVIS MAZARS PROGRESS REPORT - 2023/24

A report of the External Auditor was presented to provide a progress update on the 2023/2024 audit. The report also included information in relation to national publications and other updates.

The Auditor had reported to previous meetings in relation to the national backlog in local authority financial reporting and audit and the proposed arrangements including backstop dates. EY, the predecessor auditor, had reported their intention to issue disclaimed opinions on the outstanding accounts for 2021/22 and 2022/23 by the backstop date of 13 December 2024. The lack of assurance on balances brought forward to 2023/24 and the limited amount of time available meant a disclaimed opinion on the 2023/24 accounts would be issued by the backstop date of 28 February 2025. The table at page 5 of the submitted report set out the Auditor's intended approach to building assurance and moving towards an unmodified opinion on the Council's accounts.

AGREED that the information provided was received and noted.

24/34

DRAFT STATEMENT OF ACCOUNTS AND THE ANNUAL GOVERNANCE STATEMENT 2023/24

A report of the Section 151 Officer was presented for Members to consider the draft Statement of Accounts and the Annual Governance Statement for the 2023/24 financial year.

Under the Accounts and Audit Regulations 2015, the 2023/24 accounts should have been published by 31 May 2024. However, there was a major issue in terms of a national audit backlog of prior year audits that were still on-going, as previously reported to the Audit Committee. At the statutory publication date, very few local authorities were able to make their draft accounts available. Central Government were in the process of re-setting the external audit process so that local authorities could publish their accounts in a timelier manner going forwards. However, this would take several audit cycles to resolve.

In addition, the S151 Officer, in response to a change to the relevant international accounting standard (IAS 37), requested a review of the methodology in relation to the Collection Fund bad debt provision to ensure that the accounts presented a true and fair view.

At the end of 2021/22 financial year, the total collection fund debt was £47.2m with a provision for bad debts totalling £33.99m, an assumption that 72% of debt outstanding at that point would not be collected. The calculation of the bad debt provision was based upon a profile of the aged debt outstanding but involved an element of officer judgement. Any debt over 5 years old was also provided for at 100%. The change in requirements around IAS37 (which required a determination of any impairment involved on the carrying value of the debt) meant that this was not an appropriate methodology for the provision. It should be based on historical evidence and actual debt recovery levels informed by actual collection performance data.

Since recovery of outstanding debt typically took 10 years and debt was still being actively recovered for debt older than 10 years, the provision of £34.005m (at 31 March 2022) was assessed to be overly prudent. A new methodology based up on long term collection rates (adjusted to account for previous debt write off) over the last 30 years was developed and applied to both 2021-22 and 2022-23 collection fund debt. The change in methodology was then applied to 2021/22 and 2022/23 accounts and resulted in a release of £9.617m from the bad debt provision. Middlesbrough's share of this was £7.160m which was then transferred to the Collection Fund Adjustment Account. At this point, the revised bad debt provision for the Collection Fund totalled £24.388m.

An existing surplus of £1.7m against other changing factors within the collection fund resulted in a total available of £8.9m at the end of 2022/23. Current forecasts for the 2023/24 Collection Fund outturn position were predicting that there would be a net in-year deficit of £0.6m on the Collection Fund. £8.3m was therefore available to the Council at the end of the 2023/24 financial year and for budgeting purposes in 2024/25.

Although the draft accounts for 2021/22 and 2022/23 had not been audited fully, the amendments on the bad debt provision plus some other minor changes in narrative due to the passage of time, meant that the revised statement of accounts needed to be recertified and reissued to comply with statutory regulation. This was done by the Director of Finance on 24 September 2024, and these have been updated on the Council website.

The importance of reissuing these accounts was that the balances on assets and liabilities roll forward and had an impact on the opening position for the 2023/24 financial year. Even though the management accounts and financial statements for the latest full financial year had been complete for some time, it was important to confirm the position on the bad debt provision with EY before the accounts were finalised and released to stakeholders. It was highlighted that whilst the previous year's accounts were unaudited, the figures, totals and narrative that accompanied these had been produced to a high-quality standard and a significant degree of professional compliance.

The draft accounts for 2023/24 had also been certified as a true and fair view of the Council's financial position by the Director of Finance and were opened for public inspection on 30 September 2024, for a period of 30 working days. Any enquiries from members of the public would be responded to and resolved in a timely manner and reported to Members as appropriate.

The Draft Statement of Accounts 2023/2024 was attached to the submitted report and included the following: a Narrative Report, Financial Statements, Notes to the Accounts, Group Accounts, Collection Fund Accounts and Collection Fund Income and Expenditure Account, Teesside Pension Fund Accounts and Notes and the Annual Governance Statement.

Members' attention was drawn to some significant differences between the Council's financial statements, which were part of the Statement of Accounts document and its management accounts which were reported for budget and operational purposes. This related to technical accounting adjustments and timing issues in how certain totals were reported. Two important areas to note were the presentation of reserves and the net worth of the Council's balance sheet.

The total value of usable reserves in the Balance Sheet as of 31st March 2024 was £75.702m. This was much higher than the £12.055m total that had been reported in the budget monitoring process for 2024/25 and lower than the amount recommended by the S151 Officer. The reason for the higher total figure included capital and revenue grants unapplied (those amounts paid over in past financial years but to be expended on committed items), as well as any other committed revenue reserves, such as school reserves and the Better Care Fund from the NHS. In particular, capital grants being rolled forward to future year's capital schemes was a significant value at £51.760m.

The net worth of the Council's balance sheet at the 31 March 2023 was a positive one totalling £279.3m. Assets available exceeded liabilities due by a significant margin. The net worth position overall though had decreased in year of £130.1m (31.8%). The decrease predominantly related to retirement benefits under IAS 19 and a change in the discount rate applied to the liabilities that formed part of the local government pension scheme, making this arrangement comparatively more expensive. Any pensions movements would not affect the Council's financial position for revenue budget purposes as it would influence future pensions payments over the next 20-40 years.

A Member queried the significant increase in the number of employees in receipt of an annual salary over £50K. It was explained that this was due to the latest pay award.

In relation to the accounting standards issued but not yet adopted, it was clarified that the statutory override was still being applied to the valuation of roads.

Members requested further information in relation to: the total cost of the latest pay award and associated pension cost, loss of income from planning fees to the Middlesbrough Development Corporation, costs associated with the Best Value Notice and the value of The Crown building on the Balance Sheet and where it was referenced.

AGREED as follows that:

1. Audit Committee noted the draft Statement of Accounts for 2023/24 had been approved by the Director of Finance for publication on 24 September 2024 and were currently on the Council website and out to public inspection until 8 November 2024.
2. The Head of Finance and Investment would provide Committee Members with further information in response to the queries raised at the meeting regarding:
 - The total cost of the latest pay award and associated pension costs.
 - Loss of income from planning fees to the Middlesbrough Development Corporation.
 - Costs of the measures put in place to address the issues that led to the Best Value Notice in 2023.
 - Value of The Crown building on the Balance Sheet and where it was referenced in the Statement of Accounts.

24/35 **WORK PROGRAMME (STANDARD ITEM)**

A copy of the current work programme for the Audit Committee had been circulated for information. This was a live document that was updated after each meeting.

AGREED as follows that:

1. The information provided was received and noted.
2. A report on Treasury Management would be added to the work programme.

24/36 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

None.

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Middlesbrough Council Completion Report for Those Charged with Governance

Years ended 31 March 2022 and 31
March 2023

27 November 2024

Page 11



Building a Better
working world

Agenda Item 5

Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

27 November 2024

Dear Audit Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit Committee of Middlesbrough Council (the Council) with a detailed completion report covering our approach and outcomes of the 2021/22 and 2022/23 audits.

Given that Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinions on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016) (Ref: Para. A77 & A78).

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing disclaimed audit reports.

In completing our work for these audit years, we have taken into account Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" and Local Authority Reset and Recovery Implementation Guidance (LARRIGs). We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

The Audit Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit.

We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of value for money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw Audit Committee members' and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements.

This report is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully



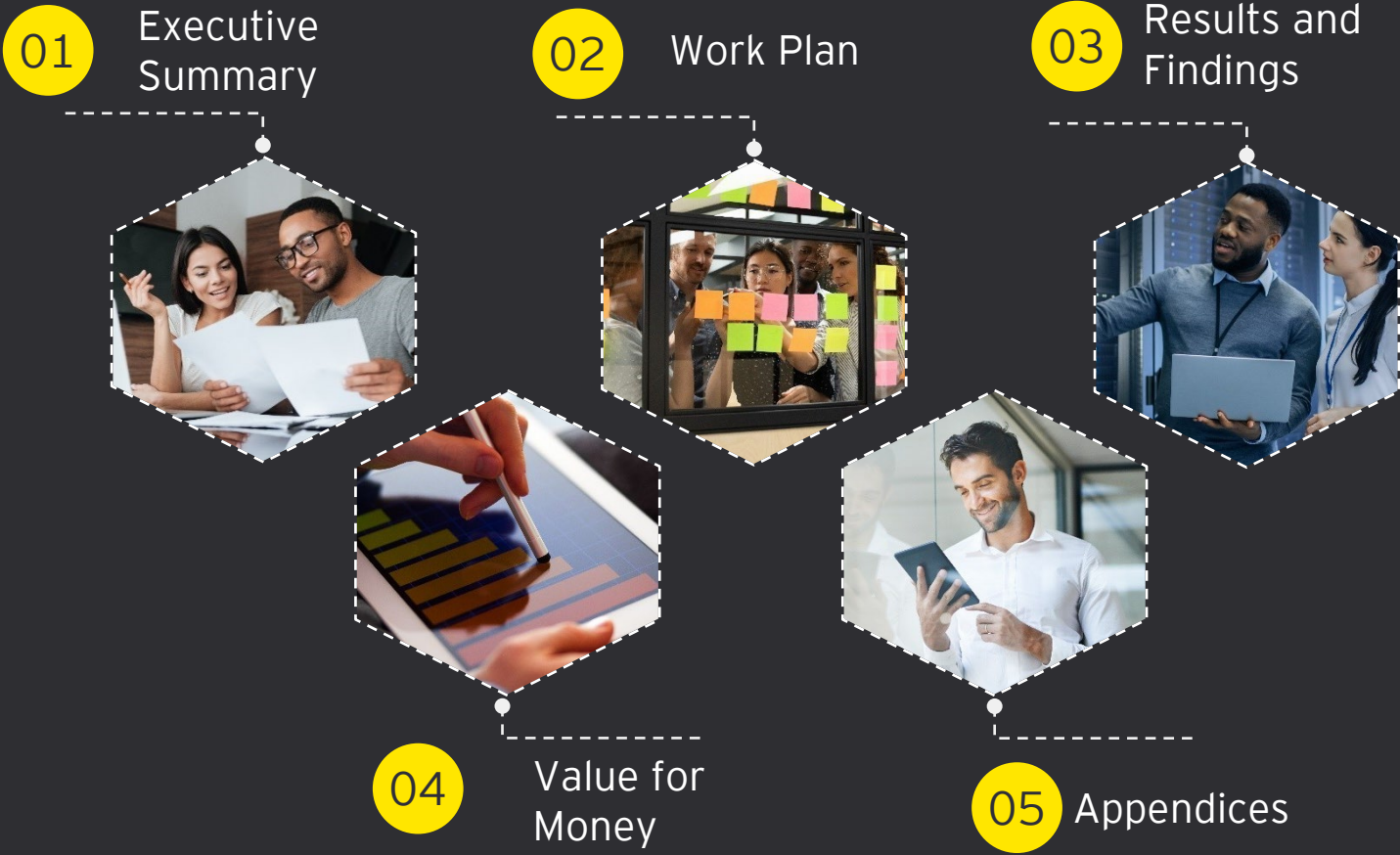
Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Enc.

Contents



Page 14

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Middlesbrough Council. Our work has been undertaken so that we might state to the Audit Committee and management of Middlesbrough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Middlesbrough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary – System wide context

Context for the audit – Ministry for Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of the democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- Lack of capacity within the local authority financial accounting professions
- Increased complexity of reporting requirements within the sector
- Lack of capacity within audit firms with public sector experience
- Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

The Department for Levelling Up, Housing and Communities (DLUHC, now MHCLG) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 “The Accounts and Audit (Amendment) Regulations 2024” (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing disclaimed audit opinions on the Council's 2021/22 and 2022/23 financial statements. The proposed disclaimers of the Council's 2021/22 and 2022/23 financial statements impacts the audit procedures that we have planned and undertaken to gain assurance on the 2021/22 and 2022/23 financial statements and the form of the audit reports.

Executive Summary - Local context

Local Background and Context

The position at this Council has developed over recent years, with increasing delays to the publication of unaudited and audited financial statements.

The statutory deadlines by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 were 1 August 2022 for the 2021/22 financial statements and 1 June 2023 for the 2022/23 financial statements. The Council did not meet these deadlines, commencing the inspection period for the draft 2021/22 financial statements on 30 August 2022 and the inspection period for the draft 2022/23 financial statements on 8 January 2024. As explained by management, the Council made a conscious decision not to finalise and publish the draft 2022/23 financial statements until a review of the Council's Collection Fund bad debt provision had been completed and audit challenges to the revised methodology resolved.

The audit report on the 2020/21 financial statements was issued on 27 April 2023. We commenced our audit of the 2021/22 audit in October 2022 and presented our Audit Planning Report to the Corporate Affairs and Audit Committee on 5 December 2022, however detailed audit testing did not commence until the 2020/21 audit had been completed. We were unable to complete our audit procedures on:

- Page 17
- The valuation of infrastructure assets. Audit work in this area was delayed whilst we were waiting for the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022). Following the publication of this Update to the Code, the Council was required to update their disclosures and provide supporting evidence for us to perform our audit procedures. When we received the additional information, we did not have the required resources available to perform the work needed to complete the audit;
 - The valuation of the pension liability and related balances. Audit work in this area was delayed whilst the Council obtained updated valuations from the Council's actuary reflecting the results of the triennial valuation of the Pension Fund as at 31 March 2022, published on 30 March 2023, and considered the impact on the financial statements. When we received the additional information, we did not have the required resources available to perform the work needed to complete the audit;
 - Bad debt provisions in relation to the Collection Fund. Subsequent to preparation of the draft 2021/22 financial statements the Council proposed significant changes to the methodology used to determine the Council's bad debt provisions for Collection Fund balances and changes to associated financial statement balances. This was in response to an audit observation that the methodology had not been reviewed for some time made as part of the 2020/21 audit. Whilst we have had significant back-and-forth with management on these changes, we did not have the required audit resources to fully conclude on this matter;
 - Changes to opening balances. A number of changes made to the 2020/21 financial statements between the preparation of the 2021/22 financial statements and completion of the 2020/21 audit required amendments to the opening positions in 2021/22. When we received updated balances and supporting workings, we did not have the required resources available to perform the work needed to complete the audit; and
 - There were further areas where audit queries remained outstanding in relation to a number of account areas and our audit work was not therefore completed.

As previously reported by management, the audit of the 2021/22 financial statements was paused between March 2023 and July 2023 to allow the Council's finance team to focus on production of the draft 2022/23 financial statements. Expectations around the timing of backstop dates and the ability to conclude audit work ahead of the anticipated backstop dates, as they were then anticipated to be, impacted on the resumption of detailed audit procedures.

Due to the timing of the completion of the 2020/21 audit, the status of matters set out above in respect of the 2021/22 audit and the delayed publication of the draft 2022/23 financial statements, we assessed that we did not have the audit resources necessary to perform the 2021/22 and 2022/23 audits before the anticipated backstop date.



Executive Summary - Local context

Local Background and Context

In addition, we have identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described in Section 4 of this report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Additionally, other reasons for the Council's financial statements not being prepared, audited and signed to date include:

- The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2021/22 and 2022/23 audit years;
- There were a number of new technical issues and challenges to address during this period including accounting for infrastructure assets and taking into account the results of the 2022 triennial valuation of the Teesside Pension Fund which led to delays in the completion of the 2020/21 audit.

Executive Summary - Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (ISAs) UK and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office' Code of Audit Practice (NAO Code). It has been split into the following sections.

Section 1 - Executive Summary - this section setting out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- Required independence procedures;
- Set a level of materiality;
- Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer;
- Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting;

Identified significant, inherent and other areas of higher risk or focus;

Considered any other matters that may require reporting to regulators, or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money or any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements;
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems or service organisations, which we report as appropriate;
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money or any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

- ▶ The value for money commentary covering the years to 31 March 2022 and 31 March 2023.

Section 5 - Appendices



BOARDROOM



02 Work Plan

Work Plan – Audit Scope

Audit scope

This Completion Report covers the work that we performed in relation to:

- Our audit opinions on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and 31 March 2023 and of the income and expenditure for the years then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the years to 31 March 2022 and 31 March 2023. We include further details on value for money in Section 4.

We also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit also includes the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

Page 21

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of the Council's systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

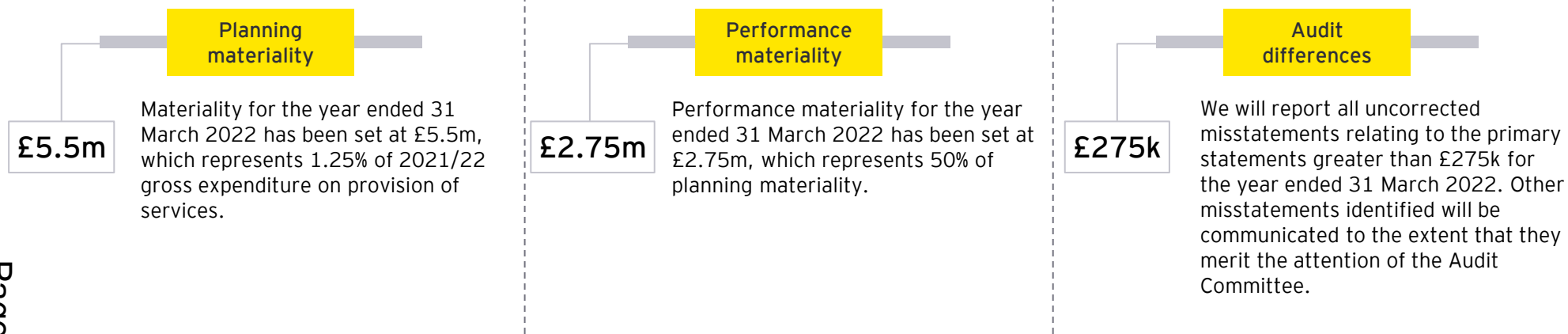
Given that Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016) (Ref: Para. A77 & A78).

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing disclaimed audit reports.

Work Plan - Materiality

Materiality (2021/22)



Page 22

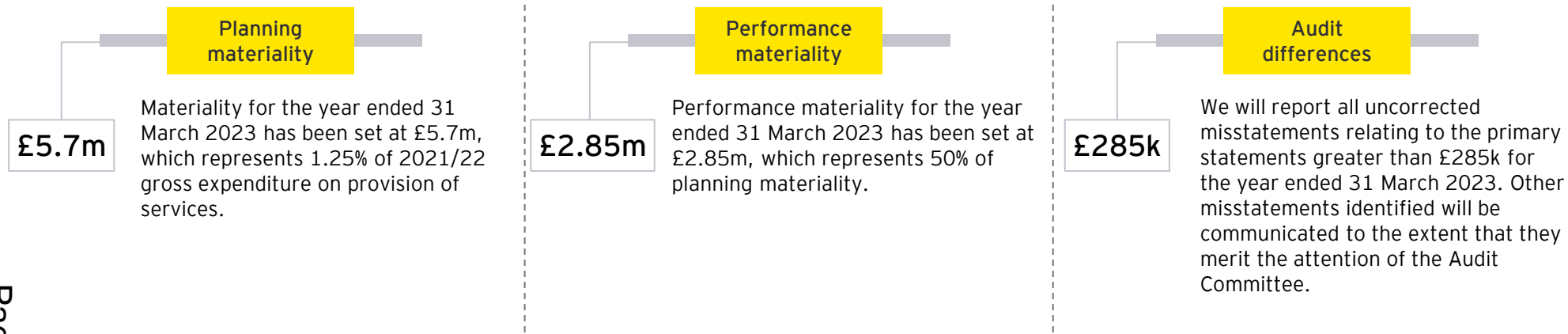
The above materiality levels apply to both our audits of the Group and Authority financial statements.

These materiality levels have been set based on the Council's financial statements. These levels are being used to assess our response to any issues identified in the Council's financial statements.

In our Audit Planning Report on the 2021/22 audit presented to the Corporate Affairs and Audit Committee on 5 December 2022 we reported we had set materiality for our audit at £6.9 million, as 1.5% of the gross expenditure on the provision of services as presented in the Council's draft financial statements for 2021/22. We have revised our materiality assessment down from 1.5% of gross expenditure to 1.25% of gross expenditure due to the deterioration in the Council's financial position since our planning assessment. Our materiality above is also calculated in reference to the revised 2021/22 financial statements.

Work Plan - Materiality

Materiality (2022/23)



Page 23

The above materiality levels apply to both our audits of the Group and Authority financial statements.

These materiality levels have been set based on the Council's financial statements. These levels are being used to assess our response to any issues identified in the Council's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error (applies to 2021/22 and 2022/23)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition (applies to 2021/22 and 2022/23)	Fraud risk	No change in risk or focus	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Valuation of land and buildings held at market value (applies to 2021/22 and 2022/23)	Significant risk	No change in risk, change in focus	Land and buildings are the most significant assets on the Council’s Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements. In 2020/21 we attached this risk to investment property and assets held as assets under construction which would be classified as investment property once completed. During 2021/22, the Council acquired further assets which are valued on a similar basis but not classified as investment property. We therefore attach this risk to all land and buildings valued at ‘market value’ for 2021/22 and 2022/23.
Accounting for infrastructure assets (applies to 2021/22 only).	Significant risk	New risk for 2021/22, removed for 2022/23	At the time of planning our 2021/22 audit we expected to conclude our 2020/21 audit with a limitation of scope included in our audit report with regards to infrastructure assets, as the Council is unable to evidence that infrastructure assets have been appropriately derecognised when replaced. We therefore recognised a significant risk over the accounting for infrastructure assets for 2021/22. This is a sector-wide issue and amendments to the Council’s reporting framework were made prior to conclusion of the 2020/21 audit such that we did not ultimately include a limitation of scope in our audit report on the 202/21 financial statements. We therefore did not recognise this as a significant risk for 2022/23.

Work Plan – Significant, inherent and other risk areas

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings other than those held at market value (applies to 2021/22 and 2022/23)	Inherent risk	No change in risk or focus	Whilst the valuation of land and buildings held at market value involves the most subjectivity and judgement (see significant risk on previous page), the valuation of the Council's other land and buildings still involves a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.
Valuation of defined benefit pension liability (applies to 2021/22 and 2022/23)	Inherent risk	No change in risk or focus	The defined benefit pension liability is the most significant liability on the Council's Balance Sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for these calculations can have a significant impact upon the financial statements.
Valuation of Collection Fund bad debt provisions (applies to 2021/22 and 2022/23)	Inherent risk	New risk	For the 2022/23 financial statements, management undertook a review of the methodology for valuing Collection Fund bad debt provisions which resulted in a significant release of provisions. The 2021/22 financial statements have been also be adjusted to apply back this new methodology as at 31 March 2022.

Page 25

Details of the value for money risks we identified are set out in section 4 of the report.

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards; and
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Work Plan - Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is expected to be well below a 1:1 ratio, see Appendix B. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

page 27

Work Plan - Independence

EY Transparency Report 2024

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2024:

[EY UK 2024 Transparency Report | EY UK](#)



03 Results and findings



Results and findings

Status of the audit

Our audit work is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Completion of subsequent events procedures; and
- Receipt of a signed management representation letter.

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included at the end of this section.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified five risks of significant weaknesses in the Council's arrangements in respect of the year ended 31 March 2022:

- Page 30
- Member and senior officer relationships;
 - Financial sustainability;
 - Contracting and procurement;
 - Oversight of Middlesbrough Development Company; and
 - Provision of children's services.

We identified five risks of significant weaknesses in the Council's arrangements in respect of the year ended 31 March 2023:

- Member and senior officer relationships;
- Asset acquisitions;
- Financial sustainability;
- Contracting and procurement; and
- Oversight of Middlesbrough Development Company.

Further commentary and our conclusions on these risks is provided in Section 4 of this report.

Results and findings

Audit differences

We identified the following audit differences which remain uncorrected within the 2021/22 financial statements:

- Note 39 to the financial statements provides details on the Council's pension liabilities. Within this note, the Council discloses the actual return on scheme assets of £162.002m for the year to 31 March 2021. The corresponding amount within the audited 2020/21 statements was £171.175m, therefore there is a £9.173m variance between the comparators included in the 2021/22 financial statements and the amounts disclosed in the prior period. This is a disclosure only and there is no variance on the amounts reported on the Balance Sheet or charged to the Comprehensive Income and Expenditure Statement.
- Note 3 to the Collection Fund Income and Expenditure Account provides details on provisions relating to the Collection Fund. Within this note, the Council discloses provisions for Council Tax bad debts at 1 April 2021 of £25.005m and for NNDR bad debts at 1 April 2021 of £9.000m. The corresponding amounts within the audited 2020/21 statements were £23.678m and £8.874m, respectively, there is a £1.543m variance between the comparators in the 2021/22 financial statements and the amounts disclosed in the prior period. The amounts stated on the Collection Fund Income and Expenditure Account are consistent.
- We noted a small number of other differences between amounts stated as prior year comparators within the 2021/22 financial statements and the amounts stated within the audited 2020/21 financial statements. None of the other differences exceeded our reporting threshold or otherwise warrant the attention of the Audit Committee.

We identified the following audit differences which remain uncorrected within the 2022/23 financial statements:

The Group Movement in Reserves Statement provides details of the Group's reserves. Within this statement, the Council discloses unusable reserves as at 1 April 2022 of £14.552m. The corresponding amount disclosed within the 2021/22 financial statements is £15.356m, therefore there is a £0.804m variance between the opening balance within the 2022/23 financial statements and the closing balance within the 2021/22 financial statements. This inconsistency manifests in multiple further places within the Group financial statements, including:

- The prior period comparator for taxation and non-specific grant income on the Group Comprehensive Income and Expenditure Statement, which is disclosed as £184.506m compared to the £185.310m disclosed in the 2021/22 financial statements;
- The prior period comparator for short term debtors on the Group Balance Sheet, which is disclosed as £57.794m compared to the £58.597m disclosed in the 2021/22 financial statements; and
- The prior period comparator for the surplus on the provision of services on the Group Cash Flow Statement, which is disclosed as £3.549m compared to the £4.353m disclosed in the 2021/22 financial statements.
- The Group Cash Flow Statement provides details of the movements in the Group's cash during the period. Within this statement, the Council discloses adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities for the year to 31 March 2022 of £6.201m. The corresponding amount disclosed within the 2021/22 financial statements is £6.702m, therefore there is a £0.501m variance between the comparators in the 2022/23 financial statements and the amounts disclosed in the prior period.
- We noted a small number of other differences between amounts stated as prior year comparators within the 2022/23 financial statements and the amounts stated within the 2021/22 financial statements. None of the other differences exceeded our reporting threshold or otherwise warrant the attention of the Audit Committee.



Results and findings

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. We have no matters to report as a result of this work.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

On 21 August 2023, we issued 11 recommendations to the Council under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 as the Council had not made the overall progress we would have expected against the value for money recommendations we made as part of our 2020/21 audit, and our assessment at that time that three further significant weaknesses in the Council's arrangements to secure value for money in its use of resources had been identified. We have since identified a further significant weakness in the Council's arrangements. Details of the significant weaknesses identified, and recommendations issued to the Council are set out in Section 4.

Page 32

Objection

The Local Audit and Accountability Act 2014 allows for an elector to raise an objection to the Council's Statement of Accounts to the external auditor, during the financial statement inspection period, where the objection concerns a matter in respect of which the external auditor could issue a Public Interest Report or seek a declaration that an item of account is unlawful.

We received one objection in relation to the Council's Statement of Accounts for 2022/23, concerning the Council's joint application to the Levelling-Up Fund with Redcar and Cleveland Borough Council for funding to improve accessibility in South Middlesbrough and whether the application for funding had been approved within the Council in accordance with the Council's Financial Procedure Rules. The objection was raised to us as a request to seek a declaration that the associated items of account were unlawful.

It was announced on 18 January 2023 that the Council's application for funding had been successful, however management confirmed to us that no monies were received by the Council and no expenditure to be funded by the application incurred prior to 31 March 2023. Consequently, there are no items of account appearing within the financial statements for the year ended 31 March 2023 upon which an application to the courts for a declaration that such items are contrary to law could be made. On this basis, we decided not to accept the objection.

We have not sought to establish the facts in relation to the application to the Levelling-Up Fund in question and whether the application was approved in accordance with the Council's Financial Procedure Rules in this specific instance but highlight our conclusion within our value for commentary that non-adherence to the Council's Financial and Contract Procedure Rules was pervasive within the Council during both 2021/22 and 2022/23.

We did not receive any objections in relation to the Council's Statement of Accounts for 2021/22.



Results and findings

Non-compliance with laws and regulations

During the course of our audits, we became aware of the following instances of potential non-compliance with laws and regulations which have required us to complete extended procedures in order to assess the risk to the financial statements:

- Failure by the Council to comply with the requirements of The Public Contracts Regulations 2015 in the awarding of at least three of the four stages of the Innovate contract for external social work audit support for children's services. Further details on this matter is provided as part of our value for money commentary in Section 4.
- In May 2021, 5 of the 7 members of the Council's Executive resigned citing a number of concerns over the conduct of the Council's then Mayor. As a result, the Council was unable to comply with the requirements of The Localism Act 2011 for the minimum composition of the Executive to consist of the Mayor and at least two other members and was unable to lawfully make decisions. This non-compliance was rectified within 2 days by the appointment of new members of the Executive. We have assessed that this matter did not impact the financial statements, but note it was an indicator of the continued deterioration in relationships between elected members which is covered further in Section 4.
- In July 2023, the Council's Interim Chief Executive informed us that the Council may have applied monies received under the Public Health Grant on expenditure which was ineligible for such use. The Interim Chief Executive has subsequently informed us that a detailed investigation has been completed and that he is satisfied that no monies were applied inappropriately. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to corroborate the results of management's investigation.
- As detailed in Section 1, the Council did not comply with the statutory deadline by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 for either the year ended 31 March 2022 or the year ended 31 March 2023.
- Local authorities which receive amounts under the Community Infrastructure Levy (CIL) are required by The Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019 to publish an annual Infrastructure Funding Statement by the 31 December following the end of each financial year. This requirement was introduced from the 2019/20 financial year, with the first Infrastructure Funding Statement due by 31 December 2020. The Council did not publish Infrastructure Funding Statements for either the 2019/20 or 2020/21 financial years and was therefore not complying with this requirement. This matter was reported in our Audit Planning Report presented to the 5 December 2022 Audit Committee.

In addition, there are various further instances of potential non-compliance with laws and regulations which have come to our attention during the course of these audits. A potential non-compliance with laws and regulations arises when information comes to our attention which indicates a potential act of non-compliance, whether or not any non-compliance has actually occurred, and includes where we receive allegations of wrongdoing.

We have evaluated that only those matters highlighted above warrant the attention of the Audit Committee, however we would highlight the volume of potential instances of non-compliance with laws and regulations reported to us through correspondence we receive as your auditor is exceptionally high. This has a consequential impact on the deployment of audit resources and the cost of delivering your audit.



Results and findings

Areas of audit focus

We identified a number of key areas of focus for our audit of the financial statements of the Council. We concluded we would disclaim our audits and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these and other matters set out in this report to ensure:

- There are no further considerations or matters that could impact these issues;
- You concur with the resolution of the issue; and
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

During the audit, we did not identify any significant deficiencies in internal control other than those highlighted in our value for money commentary. Details of our value for money observations are provided in Section 4.

In addition, we have not identified any observations or improvement recommendations in relation to management's financial processes and controls to bring to the Audit Committee's attention other than those set out in our value for money commentary within Section 4.

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention.



Results and findings

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

Other than the matters reported elsewhere in this report, we have no matters to bring to your attention.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Middlesbrough Council ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2022. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement
- ▶ the related notes 1 to 46 to the Authority financial statements and notes 1 to 8 to the Group financial statements, including a summary of significant accounting policies;
- ▶ Collection Fund Income and Expenditure Account and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The audit report on the 2020/21 financial statements was issued on 27 April 2023. We commenced our audit of the 2021/22 financial statements in October 2022, however we were unable to complete our procedures on a number of areas including the valuation of infrastructure assets; pension liabilities; and the bad debt provision in respect of the Collection Fund. Amendments to the opening balances were also required to reflect changes made to the 2020/21 financial statements after the 2021/22 financial statements had been prepared. There were also a number of areas where audit queries remained outstanding.

As a result of these delays, together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2021/22 financial statements before the 13 December 2024 backstop date.

In addition, we identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described below in the significant weaknesses in arrangements section of our report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception:

- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

Under section 24 of the Local Audit and Accountability Act 2014 (as amended), we may designate any audit recommendation as one that requires the Group and the Authority to consider it at a public meeting and to decide what action to take in response. On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24.

- ▶ Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Group and the Authority's arrangements for the year ended 31 March 2022.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that there are three significant weaknesses in the Authority's arrangements which undermine the Authority's ability to achieve and evidence value for money in its use of resources. These are:

- ▶ Continued deterioration in the relationships between elected members and senior officers, and between elected members, characterised by a pervasive lack of trust within the Authority between officers and elected members, and between elected members, which had a significant impact on the effectiveness of the Authority's governance arrangements;
- ▶ Pervasive non-adherence within the Authority to the Authority's Contract and Financial Procedure Rules, including a well established informal and undocumented practice in respect of the application of procurement exemptions which is neither compliant with the requirements of the Authority's Financial and Contract Procedure Rules or as robust; and
- ▶ Significant gaps in the Authority's arrangements for overseeing the activities of its subsidiary, Middlesbrough Development Company, and ensuring it represents best use of the Authority's resources, including a lack of clarity over the roles and responsibilities of individuals (including members and officers), inadequate monitoring and management of the subsidiary's performance and insufficient consideration of the composition and training of the subsidiary's Board.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- ▶ Made enquiries of management and elected members as to their understanding of the culture at the Authority;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

- Reviewed correspondence received during the course of our audit, including from members of the Authority;
- Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee;
- Reviewed the reports of internal audit and officer-led investigations, including in relation to the awarding of contracts for external social work support and the governance of Middlesbrough Development Company; and
- Performed testing of contracts awarded by the Authority during the year ended 31 March 2022 to assess whether they had been awarded in accordance with the Authority's Financial and Contract Procedure Rules.

The impact on Middlesbrough Council

The breakdown in relationships between elected members and officers, and between elected members, leads to an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora.

The pervasive non-adherence to the Authority's Contract and Financial Procedure Rules increases the risk that the Authority enters into contracts which do not represent value for money and achieve less for the resources expended than might have been achievable, and that contracts are awarded in a manner which is not fully compliant with relevant procurement laws and regulations.

The gaps in the oversight of Middlesbrough Development Company limit the Authority's ability to evidence that the resources provided to Middlesbrough Development Company are being deployed in the most efficient manner and may hinder the ability of the Authority to obtain and analyse information about costs and performance to improve the way it manages and delivers services.

The actions the Authority needs to take to address the weaknesses

On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24 of the Local Audit and Accountability Act 2014 (as amended), including the following recommendations related to the significant weaknesses in the Council's arrangements for the year ended 31 March 2022:

- We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan;
- We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions;
- We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented;
- We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;
- We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

- ▶ We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary;
- ▶ We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
- ▶ We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution;
- ▶ how the Authority advertises, competes and awards contracts for the purchase of goods and services, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources and how it ensures that contracts are awarded in accordance with applicable legislation; and
- ▶ how the Authority oversees the activities of its subsidiary, Middlesbrough Development Company, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in the use of resources provided by the Authority to Middlesbrough Development Company.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 28, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

[DATE]

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 27 November 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Middlesbrough Council ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2023. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement
- ▶ the related notes 1 to 48 to the Authority financial statements and notes 1 to 16 to the Group financial statements, including a summary of significant accounting policies;
- ▶ Collection Fund Income and Expenditure Account and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The audit of the 2021/22 financial statements for Middlesbrough Council was not completed for the reasons set out in our opinion on those financial statements dated [DATE]. As a result of the delays to the previous year's audit together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements before the 13 December 2024 backstop date.

In addition, we have identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described below in the significant weaknesses in arrangements section of our report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception:

- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

Page 42 Under section 24 of the Local Audit and Accountability Act 2014 (as amended), we may designate any audit recommendation as one that requires the Group and the Authority to consider it at a public meeting and to decide what action to take in response. On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24.

- ▶ Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Group and the Authority's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that there are five significant weaknesses in the Authority's arrangements which undermine the Authority's ability to achieve and evidence value for money in its use of resources. These are:

- ▶ Significant breakdowns in the relationships between elected members and senior officers, and between elected members, characterised by a pervasive lack of trust within the Authority between officers and elected members, and between elected members, which had a significant impact on the effectiveness of the Authority's governance arrangements;

- ▶ Inadequate arrangements over how the Authority plans and manages its resources to ensure it can continue to deliver services, including significant underestimation of the resources required to meet the Authority's statutory duties with regards to children's safeguarding and social care and overspending against the Authority's approved budget for the year ended 31 March 2023;

- ▶ Pervasive non-adherence within the Authority to the Authority's Contract and Financial Procedure Rules, including a well-established informal and undocumented practice in respect of the application of procurement exemptions which is neither compliant with the requirements of the Authority's Financial and Contract Procedure Rules or as robust;

- ▶ Significant gaps in the Authority's arrangements for overseeing the activities of its subsidiary, Middlesbrough Development Company, and ensuring they represent best use of the Authority's resources, including a lack of clarity over the roles and responsibilities of individuals (including members and officers), inadequate monitoring and management of the subsidiary's performance and insufficient consideration of the composition and training of the subsidiary's Board; and

- ▶ Insufficient arrangements to ensure that the Authority makes informed decisions and properly manages its risks with regards to the acquisition of strategically significant properties, including insufficient due diligence to inform decision making, the provision of incomplete and inaccurate information to decision makers and an absence of clear post-acquisition plans for the property.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- ▶ Made enquiries of management and elected members as to their understanding of the culture at the Authority, including adherence to key financial and contracting controls;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ Reviewed correspondence received during the course of our audit, including from members of the Authority;
- ▶ Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee;
- ▶ Reviewed the Authority's Medium Term Financial Plan and quarterly reporting of financial performance; and
- ▶ Reviewed the reports of internal audit and officer-led investigations, including in relation to the awarding of contracts for external social work support, the governance of Middlesbrough Development Company and the acquisition of a strategically significant property.

The impact on Middlesbrough Council

The breakdown in relationships between elected members and officers, and between elected members, leads to an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora.

The deterioration in the Authority's financial position increases the risk that the Authority will need to identify, develop and implement significant savings plans in order to maintain current levels of service provision. Inaccurate forecasting of the levels of required savings increases the risk of having to reduce levels of service provision in order to protect the Authority's already depleted reserve balances.

The pervasive non-adherence to the Authority's Contract and Financial Procedure Rules increases the risk that the Authority enters into contracts which do not represent value for money and achieve less for the resources expended than might have been achievable, and that contracts are awarded in a manner which is not fully compliant with relevant procurement laws and regulations.

The gaps in the oversight of Middlesbrough Development Company limit the Authority's ability to evidence that the resources provided to Middlesbrough Development Company are being deployed in the most efficient manner and may hinder the ability of the Authority to obtain and analyse information about costs and performance to improve the way it manages and delivers services.

Insufficient due diligence and inappropriately informed decision making increases the risk that the Authority acquires properties for which it lacks a clear understanding of the potential liabilities to which the Authority will become exposed to and that it is unable to realise the potential benefits of ownership from.

The actions the Authority needs to take to address the weaknesses

On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24 of the Local Audit and Accountability Act 2014 (as amended), including the following recommendations related to the significant weaknesses in the Council's arrangements for the year ended 31 March 2023:

- ▶ We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan;
- ▶ We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions;
- ▶ We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities;
- ▶ We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded;
- ▶ We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned;
- ▶ We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;
- ▶ We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to;
- ▶ We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary;

- ▶ We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
- ▶ We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

In addition we make the following recommendations:

- ▶ We recommend that management develop an action plan to address each of the recommendations raised by internal audit in their report into the acquisition of the Crown Pub; and
- ▶ We recommend that management review the processes for identifying and communicating where the facts or conditions set out in committee papers change between the date on which papers are published and the date on which the committee meeting is held, to ensure that where there are changes in circumstances relevant to decisions being made this is shared with decision makers prior to decisions being taken.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution;
- ▶ how the Authority plans and manages its resources to ensure it can continue to deliver services, including how the Authority ensures its financial forecasts are accurate and how the Authority ensures delivery of its services within the resource envelope envisaged;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ how the Authority advertises, competes and awards contracts for the purchase of goods and services, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources and how it ensures that contracts are awarded in accordance with applicable legislation;
- ▶ how the Authority oversees the activities of its subsidiary, Middlesbrough Development Company, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in the use of resources provided by the Authority to Middlesbrough Development Company; and
- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks with regards to the acquisition of strategically significant properties, including how the Authority has assessed the merits and risks of acquisition and communicated these to decision makers.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 33, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Page 46

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London


[DATE]

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 27 November 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.



04 Value for Money



VFM – Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditor's provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this commentary is to explain the work we have undertaken during the period 1 April 2021 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. It includes the significant weaknesses in arrangements we previously reported to full Council in our 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023.

This commentary covers our findings for audit years 2021/22 and 2022/23.

The report sets out the following areas which have been assessed as part of our value for money considerations:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings from our planned procedures; and
- A summary of Council's arrangements over the period covered by this report

Our interim commentary on the Council's arrangements for the period 1 April 2021 to 31 March 2023 was issued to the Council on 10 July 2024, at which point we considered it final. No matters have come to our attention since we issued our value for money commentary which have led to changes in the commentary presented on the following pages.

VFM – Executive Summary

Risks of significant weakness

In undertaking our procedures to understand the body’s arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- Our cumulative audit knowledge and experience as your auditor;
- Reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- Our review of Council committee reports;
- Meetings with the Chief Executive, Director of Finance and Monitoring Officer (inc. current and previous postholders, where applicable);
- Information from external sources; and
- Evaluation of associated documentation through our regular engagement with Council management and the finance team.

We identified a total of 6 significant risks as part of our risk assessment procedures, cutting across each of the three specified reporting criteria. We set out our identified significant risks and the procedures performed to respond to these risks in the table below:

Description of risk identified	Work performed to address the risk of significant weakness
<p>Governance: Member and Senior Officer Relationships</p> <p><i>Applicable to 2021/22 and 2022/23</i></p> <p>As part of our 2020/21 audit, we reported significant weaknesses in the Council’s arrangements to secure value for money during the year to 31 March 2021 arising from strained relationships between the Council’s senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council’s governance processes.</p> <p>The recommendations agreed with management to address these challenges were not agreed until July 2022, sixteen months after the end of the period under audit, therefore they were not in place during the year ended 31 March 2022 and implemented commenced during the year ended 31 March 2023.</p> <p>We therefore consider there to be a risk that these matters continued to have an adverse impact on the effectiveness of the Council’s governance processes.</p>	<ul style="list-style-type: none"> • We held regular discussions with stakeholders covering the relationships within the Council throughout 2021/22 and 2022/23 as part of the finalisation of our 2020/21 audit work, which was ongoing at the time, and commencement of our 2021/22 audit work. • We considered our own observations from direct interactions with officers and members, and from attendance at meetings of the Corporate Affairs and Audit Committee (Audit Committee from October 2023). • We made enquiries of management, and reviewed reports presented to full Council and the Improvement Board, to understand the Council’s progress against the Governance Improvement Plan. • We considered information brought to our attention through correspondence received from various stakeholders. We note that the volume of correspondence we receive in relation to the Council is significantly higher than we would expect for this type of entity. • We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

Page 49

VFM – Executive Summary

Risks of significant weakness

Description of risk identified

Governance: Asset Acquisitions

Applicable to 2022/23 only

In February 2023, the Council purchased the Crown Pub from a private owner for £750,000. Following changes in senior management shortly afterwards, concerns emerged over the governance processes supporting the purchase and management requested that internal audit undertake a review of the acquisition. That review, which covered the events leading up to the purchase, concluded and reported in February 2024.

Given there was sufficient concern from management over the acquisition to request a review by internal audit, we consider there to be a risk that appropriate arrangements were not followed in the acquisition of this property.

Work performed to address the risk of significant weakness

- We reviewed the internal audit report into the acquisition of the Crown Pub for indicators of weaknesses in the Council's arrangements.
- We discussed the findings of the internal audit report with management, and observed the discussion of the internal audit report at the Council's Audit Committee.
- We evaluated whether the above indicates that a material weakness in arrangements was present during 2022/23, and considered the implications for our auditor reporting.

Financial Sustainability: Financial Sustainability

Applicable to 2021/22 and 2022/23

The Council experienced a significant deterioration in its financial position between April 2021 and March 2023, in part due to significant overspends within its Children's Services directorate in both 2021/22 and 2022/23.

A Financial Recovery Plan was implemented in October 2022, and the Council sought additional non-financial support from CIPFA as part of the budget setting process for the Council's 2023/24 budget.

We therefore consider there to be a risk that the Council did not have proper arrangements in place to manage its financial position.

- We held regular discussions with the Council's Section 151 officers, of which there were 3 between 1 April 2021 and 31 March 2023 (the latter being a temporary acting up of one of the Council's Deputy Section 151 officers prior to the interim appointment of the current Section 151 officer in April 2023), Head of Financial Planning and Support and Head of Finance & Investments to understand the Council's financial position and actions being taken to manage financial pressures.
- We reviewed the Council's quarterly Revenue and Capital Budget reporting to the Executive.
- We reviewed the Council's Financial Recovery Plan.
- We reviewed the report "A review of the Council's financial position, affordability, and financial outlook" produced by CIPFA in February 2023, and the Interim Director of Finance's Section 25 report on the Council's 2023/24 budget.
- We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

VFM – Executive Summary

Risks of significant weakness

Description of risk identified

Improving Economy, Efficiency and Effectiveness: Contracting and Procurement

Applicable to 2021/22 and 2022/23

The Council undertakes significant procurement activity, contracting with a wide range of suppliers in support of the delivery of Council activities. Concerns were raised to us by senior management that one of the Council's larger contracts for external social work support, which ran throughout 2021/22 and was extended during 2022/23, may not have been procured in accordance with the Council's policies and procedures.

We therefore consider there to be a risk that the Council did not have proper arrangements in place with regards to contracting and procurement activities.

Work performed to address the risk of significant weakness

- We discussed the contract for external social work support with management to understand the nature of the concerns raised in relation to this contract.
- We reviewed the results of a fact-finding exercise into the external social work support contract performed by the Council's Director of Regeneration, as a member of senior management removed from the day-to-day activities of the contract.
- We utilised our EY Forensics specialists to perform a review of documentation and interviews with officers to confirm the facts in relation to the external social work support contract.
- We also utilised our EY Forensics specialists to perform a review of a sample of contracts awarded by the Council during 2021/22, to assess whether contracts were awarded in accordance with the Council's Financial and Contract Procedure Rules.
- We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

Improving Economy, Efficiency and Effectiveness: Oversight of Middlesbrough Development Company

Applicable to 2021/22 and 2022/23

In February 2019, the Council established Middlesbrough Development Company as a subsidiary (called MHomes Limited at the time). The activities of the subsidiary were limited up to 31 March 2021, however the Council has delivered several significant capital projects through the subsidiary since 1 April 2021.

Subsidiary companies act with a greater degree of separation from both the management and elected members of the Council, and appropriate governance arrangements are required to oversee the activities of the subsidiary and ensure that it delivers value for money with the resources provided to it by the Council.

In January 2023, the Council decided to demise the subsidiary as no longer meeting the strategic needs of the Council. This decision was taken following a draft report from internal audit highlighting that significant investment would be required to bring the Council's arrangements for overseeing the subsidiary up to the expected standard.

We therefore consider there to be a risk that the Council did not have proper arrangements in place with regards to oversight of its subsidiary.

- We reviewed the internal audit report into the governance arrangements in respect of Middlesbrough Development Company for indicators of weaknesses in the Council's arrangements.
- We reviewed the Executive committee paper in support of the decision to demise Middlesbrough Development Company.
- We discussed the findings of the internal audit report and content of the Executive report with management.
- We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

VFM – Executive Summary

Risks of significant weakness

Description of risk identified

Improving Economy, Efficiency and Effectiveness: Provision of Children's Services

Applicable to 2021/22 only

On 24 January 2020, the Office for Standards in Education, Children's Services and Skills (Ofsted) released the results of its inspection of the Council's children's social care services performed between 25 November 2019 and 6 December 2019. The report concluded that the quality of the Council's children's services had deteriorated since the previous inspection in 2015 and were now inadequate.

Following publication of the Ofsted report, management developed an Improvement Plan to address the findings raised by Ofsted and an Independent Children's Commissioner was appointed to oversee progress against the Improvement Plan.

Implementation of the Improvement Plan remained ongoing as of 1 April 2021, therefore we consider that there remains a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2021/22.

Note: In our Audit Planning Report for the year ended 31 March 2022, issued in November 2022, we included the overspends within the Council's Children's Services as part of this risk and our planned audit response. We have since recognised a separate significant VFM risk in relation to financial sustainability (see previous pages), including the overspends within the Council's Children's Services directorate, and therefore narrow the scope of the previously reported risk to focus specifically on the underlying provision of children's services.

Work performed to address the risk of significant weakness

- We reviewed the reports of ongoing focused and monitoring visits performed by Ofsted for indicators of weaknesses in the Council's arrangements.
- We reviewed the 12-month report of the Independent Children's Commissioner, issued in July 2021, and the subsequent notification of withdrawal of the Independent Children's Commissioner issued to the Council in November 2021.
- We made enquiries of management to understand the Council's progress against the Children's Services Improvement Plan.
- We evaluated whether the above indicates that a material weakness in arrangements was present during 2021/22, and considered the implications for our auditor reporting.

VFM – Executive Summary

Reporting

Our commentary for 2021/22 and 2022/23 is set out over pages 12 to 33. The commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2021/22 and 2022/23. We include within the VFM commentary below the associated recommendation(s) we agreed with the Council.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

Page 53

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	<ul style="list-style-type: none"> Member and Senior Officer Relations (2021/22 and 2022/23); Asset Acquisitions (2022/23 only) 	<ul style="list-style-type: none"> Member and Senior Officer Relations (2021/22 and 2022/23); Asset Acquisitions (2022/23 only)
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	<ul style="list-style-type: none"> Financial Sustainability (2021/22 and 2022/23) 	<ul style="list-style-type: none"> Financial Sustainability (2022/23 only)
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	<ul style="list-style-type: none"> Contracting and Procurement (2021/22 and 2022/23); Oversight of Middlesbrough Development Company (2021/22 and 2022/23); Provision of Children's Services (2021/22 only) 	<ul style="list-style-type: none"> Contracting and Procurement (2021/22 and 2022/23); Oversight of Middlesbrough Development Company (2021/22 and 2022/23)

The volume and breadth of significant weaknesses in the Council's arrangements during both 2021/22 and 2022/23, and the fact they cover all 3 of the reporting criteria against which the Council's arrangements are assessed, is of significant concern. Whilst management has taken steps since the end of the periods being reported on to address these weaknesses (see pages 31 to 33), it is likely to take sustained effort over a period of time for the Council to fully address all of the weaknesses in its arrangements identified and demonstrate that it has robust arrangements to secure value for money in its use of resources.

VFM – Executive Summary

Reporting

Our interim commentary for 2021/22 and 2022/23 is set out over pages 12 to 33. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2021/22 and 2022/23. We include within the VFM commentary below the associated recommendation(s) we agreed with the Council.

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Page 54

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Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	<ul style="list-style-type: none"> • Financial Sustainability (2021/22 and 2022/23) 	<ul style="list-style-type: none"> • Financial Sustainability (2022/23 only)
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	<ul style="list-style-type: none"> • Contracting and Procurement (2021/22 and 2022/23); • Oversight of Middlesbrough Development Company (2021/22 and 2022/23); • Provision of Children's Services (2021/22 only) 	<ul style="list-style-type: none"> • Contracting and Procurement (2021/22 and 2022/23); • Oversight of Middlesbrough Development Company (2021/22 and 2022/23)

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VFM – Commentary

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

The Council has a number of Executive and other committees, operating at both Council-wide and service level, which are responsible for approving key decisions. Committee discussions are informed by a standard reporting template which sets out the background to the decision, available alternatives to the proposed decision, the advantages and disadvantages of available options and any financial or legal implications for the Council of the proposed action.

The Council also has an Overview and Scrutiny Board whose role is to scrutinise the performance of Council functions and the decisions taken by Executive committees. The Overview and Scrutiny Board is supported by a number of Scrutiny Panels, with each able to refer decisions back to the Executive for further consideration.

The Corporate Affairs and Audit Committee (restructured into the Audit Committee post 31 March 2023) receives reports on the Council's internal control environment from internal and external audit and monitors the implementation of recommendations to address identified weaknesses.

Page 55
In our value for money commentary for the year ended 31 March 2021, we reported that we had observed evidence which led us to conclude that the culture and governance arrangements at the Council had not been operating as expected and that this was undermining the effectiveness of the Council's governance framework. In addition, we reported our observation that there was a pervasive lack of trust within the Council between officers and elected members, and between elected members, which was having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of officers and members not being adhered to. The recommendations agreed with management to address these challenges were not agreed until July 2022, therefore they were not in place during the year ended 31 March 2022, and management acknowledged at the time that relationships at the Council had continued to deteriorate beyond 31 March 2021.

Also in July 2022, the Council's Chief Executive and Section 151 Officer provided an update to the Corporate Affairs and Audit Committee which articulated that, at that time, they did not feel able to sign the Council's Annual Governance Statement for the year ended 31 March 2021 on the grounds that the statement did not fully reflect the size and scale of the cultural change required at the Council.

Alongside our value for money commentary and management's update on the Annual Governance Statement, the July 2022 meeting of the Corporate Affairs and Audit Committee was presented with a joint paper from the Council's Chief Executive, Section 151 Officer and Monitoring Officer entitled 'Commencing a Corporate Governance Improvement Journey' which sought endorsement from the committee to appoint the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake an initial diagnostic piece of work to better understand the cultural and governance issues which exist within the Council and propose further steps to address these. The committee provided the requested endorsement and the CIPFA review commenced in late July 2022.

Following interviews with over 40 individuals from across the Council, including members of the Executive, political group leaders and senior officers, and a review of other documentation, CIPFA issued the results of their review in September 2022. The review further highlighted the significance of the cultural and governance issues at the Council, concluding:

"It is clear from what we have seen that the issues facing the Council are significant. They are having a negative impact on the culture of the Council and, as identified by the External Auditor, affecting the Council's ability to deliver good governance. In the context of what will be a very difficult 2023/24 budget settlement, and a cost-of-living crisis that is affecting the lives of the citizens of Middlesbrough, the issues identified in this report have the potential to increase the risk that the Council will not be able to deliver its priorities.



VFM – Commentary

The Council has an opportunity to make considerable improvements, but not without acceptance that the issues contained in this report are real, serious and need resolution.”

Alongside their observations, CIPFA recommended the development of an action plan to address the issues raised and the use of cross-party working groups to involve members in this process. The CIPFA report and recommendations, alongside management’s proposal for an Improvement Board to oversee the action plan was presented to, and approved by, a meeting of the full council in October 2022.

An updated version of the Annual Governance Statement for 2020/21 was also produced which included additional narrative highlighting further deterioration in relationships at the Council since 31 March 2021, concerns that there was insufficient acceptance of the significance of the cultural issues at the Council and their impact on the Council’s governance processes and, consequently, that there are significant risks to the Council being able to deliver the necessary improvement. Similar concerns regarding the acceptance of the scale of issues at the Council and the Council’s ability to deliver improvement were also raised to us by multiple elected members of the Council.

The Improvement Board was led by an independent chair from the Local Government Association, and membership included the Council’s Mayor, the Executive Member for Finance and Governance, the Chief Executive, the Monitoring Officer, political group leaders and a representative from CIPFA. The Improvement Board was supported by four task and finish sub-groups focusing on roles and responsibilities within the Council, training and development, the Council’s Constitution and the culture and communications within the Council. The first meeting of the Improvement Board took place on 2 November 2022, at which the Board approved its terms of reference and an action plan based around 30-, 60- and 90- day milestones. Establishment of the task-and-finish working groups and agreement of the 30-, 60- and 90- day milestones was considered ‘phase one’ of the Council’s Corporate Governance Improvement Plan.

In January 2023, the Council was issued with a Best Value notice by the Department for Levelling Up, Housing and Communities (DLUHC) in relation to the weaknesses in the Council’s arrangements reported in our value for money commentary.

In February 2023, the Council reported to the Governance Improvement Board that all of the 30- and 60- day actions had been delivered, along with 6 of the 27 90-day actions. It was also reported that ‘phase two’ of the Corporate Governance Improvement Plan had been substantially completed and that outstanding actions would be incorporated into ‘phase three’. The Board agreed to seek finalisation of the actions for phase three of the Corporate Governance Improvement Plan ready for approval by the Board at the end of March 2023.

Also in February 2023, 17 of the Council’s members wrote to the Council’s Chief Executive to express a loss of confidence in their leadership of the Council, citing the assessment of the Council’s Children’s Services in December 2019 as inadequate, the cultural and governance issues raised in our value for money commentary and a deterioration in the Council’s financial position.

The letter sought the immediate resignation of the Chief Executive, and its signatories included the leaders of several of the Council’s political groups, several committee chairs and more than half of the Council’s Executive. On 10 March 2023, the Corporate Affairs and Audit Committee approved the terms of the Chief Executive’s departure from the Council and he formally left the Council on 24 March 2023. We note that external legal advice was sought by the Council as to whether the terms of the Chief Executive’s departure represented value for money and were proportionate and appropriate prior to being submitted to the Corporate Affairs and Audit Committee for approval. External legal advice was also sought on the correct committee, under the Council’s Constitution, to approve such terms.



VFM – Commentary

Also during March 2023, the Council agreed the early termination of the interim appointment of the Section 151 Officer which had been due to conclude in June 2023. The Interim Section 151 Officer left the Council on 31 March 2023.

Both the Chief Executive and Section 151 Officer posts were subsequently filled by interim appointments in March and April 2023, respectively. Between the departure of the previous Interim Section 151 Officer and the appointment of the new Interim Section 151 Officer, the Council designated the Head of Financial Planning and Support as the Council's Section 151 Officer.

As part of the follow-up of the Best Value notice by DLUHC, senior officers met with representatives of the Department on a fortnightly basis to discuss the Council's progress. As these meetings developed, the Department's interest has expanded beyond the cultural and governance issues which were the focus of the Best Value notice to also include the Council's Children's Services Improvement Plan, the Council's financial position and the high levels of turnover in senior management positions.

Given the Council's response to the recommendations made in our value for money commentary for the period ended 31 March 2021 did not commence until July 2022, and both officers and members have reported a continued deterioration of relationships during 2021/22, it is clear that the significant weakness in arrangements reported in 2020/21 in relation to member and senior officer relationships remained a significant weakness throughout 2021/22.

Page 57
During 2022/23, the Council did take positive actions to respond to our recommendations, including the commissioning of external work by CIPFA to assist in identifying the root causes of relationship issues at the Council and an action plan to address them, implementation of an Improvement Board with an external chair and strong representation from elected members and senior officers, and reporting of these actions through full council. These steps are in-line with those we expected to see from the Council in responding to our previous recommendations.

It is however clear that there was also significant concern amongst a number of stakeholders over the ability of the Council to deliver on these actions, characterised by expressions of a lack of confidence in the acceptance by individuals of the significance of the governance issues identified at the Council and the commitment of all necessary stakeholders towards meaningful change. The events of February and March 2023 demonstrate that strained relationships at the Council remained a significant influence upon the effectiveness of governance as of March 2023, therefore we conclude that this significant weakness was not satisfactorily addressed during 2022/23 and consider a significant weakness to have existed during this period as well.

We therefore conclude that member and senior officer relationships was a significant weakness in the Council's arrangements during both 2021/22 and 2022/23.

We previously reported our conclusion that the Council had not made satisfactory progress in addressing this significant weakness in arrangements reported in our value for commentary for 2020/21 as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

- 1. We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan.**
- 2. We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions.**

VFM – Commentary

Page 58

One of the four areas of focus for the task-and-finish groups supporting the Council's Improvement Board was focused on the Council's Constitution. During the course of our assessment of the Council's arrangement and our response to the risks of significant weaknesses we identified, we noted several areas of poor practice within the Council's Constitution in effect during the periods 2021/22 and 2022/23 and its implementation within the Council including:

- There are multiple references within the Constitution to job titles or grades which are not otherwise used by the Council. We noted differing interpretations within the Council as to how these terms map onto the job titles and grades which are in use within the Council, resulting in a lack of clarity as to how the responsibilities and approval requirements defined within the Constitution in reference to such job titles and grades should be applied;
- Article 17 of the Constitution specifies that the Financial and Contract Procedure Rules (Standing Orders) are part of the Constitution and that "all financial transactions and contract proceedings must be carried out in accordance with the Middlesbrough Borough Council Financial and Contract Procedure Rules". The Financial and Contract Procedure Rules should therefore be a key document for the Council, however it is our assessment that there is a limited understanding of the requirements of the Financial and Contract Procedure Rules within the Council. As a result, non-adherence to the requirements of the Financial and Contract Procedure Rules is pervasive within the Council and practices which do not meet the requirements of the Financial and Contract Procedure Rules are well established and widely adopted. This is a contributory factor to several of the significant weaknesses in arrangements highlighted in this commentary; and

Prior to submitting the terms of the Chief Executive's departure to the Corporate Affairs and Audit Committee for approval, the Council sought legal advice as to the correct committee under the Council's Constitution to make this decision. This advice relied upon Article 16 of the Constitution which states that the Corporate Affairs and Audit Committee has delegated powers to "deal with any matter, which is not an Executive function and that has not delegated to any other committee of the Council". In effect, this Article establishes the Corporate Affairs and Audit Committee as the committee of default or last resort for all non-Executive decisions. In our view, it is not appropriate for the audit committee-equivalent body to take such decisions as it creates a risk of conflicts of interest for the committee between decision making processes and the independent challenge to decisions which such bodies should provide.

These observations were also reported as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendation we issued to the Council in respect of the Council's Constitution:

- 3. We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented.**

In December 2021, the Council contacted the owners of the Crown Pub, a prominent vacant building within the town centre, requesting engagement from the property's owners in respect of the property. The letter sent by the Council to the property's owners noted the poor condition of the property and its detrimental impact upon the town centre, and highlighted the possibility that the Council could pursue a compulsory purchase of the property if arrangements to bring the property back into use could not be established.

In July 2022, a representative of the property's owner contacted the Council to discuss planning principles in advance of a submission for planning permission for the site. Around the same time, the Council submitted an application to the Levelling-Up Fund for £20 million of funding to support the regeneration of the town centre. Included within the £20 million of sought funding was £7.5 million for redevelopment of the Crown pub site.

VFM – Commentary

Between August 2022 and November 2022, there was regular contact between the Council and representatives of the property's owner culminating in a meeting on 29 November 2022 between the Council's Chief Executive and the property owner's representative where potential purchase of the property by the Council was discussed. No other officers attended this meeting and it was not minuted. Following this meeting, the property owner's representative e-mailed the Chief Executive to confirm an openness to selling the Crown Pub to the Council and cited a price of £750,000.

On 24 January 2023, the Council's Executive approved the purchase of the Crown Pub for £750,000. The supporting paper provided to the Executive in support of this decision, which is required by The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 to be published at least 5 clear days before the date of the Executive meeting, included reference to the property being included in the Council's bid to the Levelling-Up Fund and estimated that up to £7 million might be needed for restoration and structural works to bring the property up to the required standard for future use (though no commitment to restoration work was made as part of the Executive decision taken). Between issuance of the supporting paper and the date of the Executive meeting, the Council learnt that its bid to the Levelling-Up Fund had been unsuccessful however this was not communicated to the Executive prior to the decision to acquire the Crown Pub being made.

Following the changes in senior management shortly after the acquisition, the Council's new Interim Chief Executive requested a review of the purchase of the Crown Pub by internal audit. In addition to the failure to notify the Executive that the bid to the Levelling-Up Fund for funding to purchase and redevelop the Crown Pub had been unsuccessful, the internal audit report highlighted a number of other weaknesses in the governance processes supporting the Council's acquisition of the property, including:

It is unclear why the Crown Pub site was identified by the Council as a particular site of interest from December 2021, having not previously been included on lists of priority 'eyesore' sites produced in June 2020 or September 2021. The Council is therefore unable to demonstrate the relative merits of pursuing this site for redevelopment over other sites within the town;

- The Council did not produce a meaningful business case in support of the purchase which would have set out the pros and cons to inform any decision to purchase the property, with internal audit describing the business case which had been produced as *"superficial and did not present a detailed analysis of the case for purchasing the property"*. The absence of a robust business case also meant that the Council did not have a clear plan for the future use of the property, and therefore lacked a detailed assessment of the investment into the property which would be required post-acquisition. The potential structural and redevelopment costs cited in the Executive report were also likely to be inaccurate as the Council did not complete a detailed survey of the property prior to purchase;
- Poor communication between the Chief Executive and other officers resulted in the property owner's initial proposal of a purchase price of £750,000 being understood by officers as having been agreed by the Chief Executive. As a result, the Council did not seek to negotiate on the purchase price despite the Council's own valuation valuing the property at just £460,000. Officers also reported to internal audit feeling that they were being asked to complete the purchase at pace without time to complete proper due diligence on the purchase; and
- Elements of the report submitted to the Council's Executive in support of the decision to purchase the property were assessed by internal audit as *"either missing or misleading"*. In addition to the factors already noted above, this included the report giving an impression that the purchase process was at a less advanced stage than it really was, that a decision by DLUHC on the Council's application to the Levelling-Up Fund was further away than it actually was (the report referred to a decision being due "in the spring") and references being made to the potential future transfer of the property to Middlesbrough Development Corporation without appropriate highlighting of the uncertainty of this (at the time of the report, Middlesbrough Development Corporation had not yet been established and any assets to be transferred to it remained subject to further decision making outside of the Council's control).

VFM – Commentary

In our view, there are clear indicators that the cultural and governance weaknesses at the Council were evident in the way the purchase of the Crown Pub was completed. There are however also further clear indicators of weaknesses in the Council's processes in support of asset acquisitions which we consider to demonstrate a separate significant weakness in the Council's arrangements during 2022/23. We therefore conclude that asset acquisitions was a significant weakness in the Council's arrangements during 2022/23 and make the following recommendations:

- 4. We recommend that management develop an action plan to address each of the recommendations raised by internal audit in their report into the acquisition of the Crown Pub.**
- 5. We recommend that management review the processes for identifying and communicating where the facts or conditions set out in committee papers change between the date on which papers are published and the date on which the committee meeting is held, to ensure that where there are changes in circumstances relevant to decisions being made this is shared with decision makers prior to decisions being taken.**

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council maintains a Strategic Risk Register which is used to record and monitor the most significant risks, both financial and non-financial, identified by the Council. Beneath the Strategic Risk Register, each directorate maintains its own risk register and can escalate risks up to the Strategic Risk Register when sufficiently significant.

The strategic and directorate risk registers are reviewed monthly by the Leadership Management Team and directorate management teams, respectively. The Strategic Risk Register is also reviewed quarterly by the Executive and the Overview and Scrutiny Board.

Internal audit undertake an annual programme of work to provide assurance over the operation of the Council's internal controls. Risks identified and recorded on the Council's risk registers are used to inform the annual internal audit plan. Internal audit also provide a programme of counter-fraud activity to the Council.

How the body approaches and carries out its annual budget setting process

The Council maintains a Strategic Plan which sets out the key priorities for the Council, including those of the Mayor, over a multi-year period. The Strategic Plan forms the basis for the Council's budget setting exercise, along with forecasts from individual directorates for existing plans and services. These are collated with assumptions for cost pressures and future funding levels to produce a draft budget.

The draft budget is reviewed and stress tested for different scenarios by the Council's Leadership Management Team and Executive, before being issued to key stakeholders for consultation.

Management review the responses received from stakeholder consultations and make any necessary amendments to the draft budget, before submitting the finalised budget to meeting of the full Council for approval.



VFM – Commentary

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council delegates budgets to individual cost centre managers, who are responsible for ensuring delivery within the delegated budget. Financial training is provided to all budget holders, who meet regularly with finance business partners to monitor financial performance.

Financial performance against budget and updated forecasts for the remainder of the year are presented to the Council's Leadership Management Team and Executive on a quarterly basis, along with proposals for corrective actions where required.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council's Overview and Scrutiny Board monitors the performance of the Council's services and has the power to invite expert witnesses, such as professionals or service users, to advise the Board. The Council's Constitution includes Codes of Conduct for both elected members and employed officers which set out the expected behaviour of individuals, including the management of conflicts of interest. Failure to adhere to the Codes of Conduct may result in disciplinary proceedings under the Council's HR policies.

Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council. A gifts and hospitality register is also maintained and available for public inspection. Recommendations in relation to elected member training on declarations of potential conflicts of interest and the Council's assurances over the completeness of such declarations were made as part of our commentary on the Council's arrangements for the year ended 31 March 2021 and incorporated into the Council's Corporate Governance Improvement Plan from July 2022.



VFM – Commentary

Financial Sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The impact of changes to the Council's financial plans are modelled through a minimum of 3 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle. The Council aims to meet the costs of its day-to-day activities from available funding, but borrows for capital investment purposes. The impact of planned borrowing (i.e. interest charges) is incorporated into the Council's revenue budget and MTFP.

Under the Council's constitution there is a clear delineation between the responsibility for setting the Council's strategic objectives, which sits with members and the Executive, and the responsibility for delivery of the operational activities which underpin the strategic objectives, which sits with officers.

Budget holders work with finance business partners to maximise the outcomes achieved for the allocated budget. The Council recognises that certain costs, such as social care, are demand-led and mitigations for overspends are addressed to a greater extent at directorate or council level rather than by individual budget holders for these areas.

For the year ended 31 March 2022, the Council reported an overspend of £2.5 million against its budgeted outturn and a further net impact of £0.4 million from the direct impacts of the Covid-19 pandemic which the Council reported separately to its main budget. Within the overall overspend of £2.5 million, the Council reported an overspend of £7.9 million by its Children's Services directorate, equivalent to 19% of the Children's Services budget, which was offset by underspends in other parts of the Council. In October 2021, the Council adopted a Flexible Use of Capital Receipts Strategy under which it released £5 million of capital receipts, against qualifying revenue expenditure intended to transform its services, to its General Fund for the year ended 31 March 2022 to offset the overspends against its budget. The Council also increased the budget of its Children's Services directorate by £6 million, 15% of its prior year budget, for the year to 31 March 2023.

The Council was ultimately able to manage its financial position through 2021/22 without a reduction to its core reserves, and through setting a budget for 2022/23 which included a significant increase to its Children's Services budget was taking steps to address the areas of financial pressure during 2021/22. We are therefore content that the Council had proper arrangements during 2021/22 to manage its financial position, however there were increasing warning signs of the challenges the Council would face during 2022/23.

By September 2022 the Council was forecasting a full-year overspend against budget of £7.7 million for Children's Services and £9.4 million for the Council as a whole. The Council attributed the anticipated overspend to a combination of pressures relating to additional inflation, an increased pay award, and increased demand, placement and agency costs within Children's Services.

In October 2022, the Council implemented a Financial Recovery Plan which sought to make additional savings of £6.9 million and generate additional revenue of £0.5 million to mitigate the majority of the anticipated overspend against budget. The Council was able to deliver £4.8 million of the £7.4 million aggregate impact of savings and additional revenues under the Financial Recovery Plan, which contributed to the final overspend for the year to 31 March 2023 being reduced to £3.5 million. Further flexible use of capital receipts was used to release £0.8 million to the General Fund to partially offset the impact of this overspend on reserves.

The final overspend within Children's Services for the year to 31 March 2023 was £10.7 million excluding the impact of flexible use of capital receipts, equivalent to 21% of its revised budget including reallocations from other directorates during the year totalling £5.5 million as well as the increase from the prior year.



VFM – Commentary

The Council has recognised that the budget baselines for its Children’s Services directorate are not deliverable and sought to ‘reset’ its budget through a £17 million increase to its Children’s Services budget for the year to 31 March 2024, including £5.2 million included in the Children’s Services budget for the year to 31 March 2023 on an initial temporary basis being made permanent, applied on top of general increases for inflation and pay growth. In order to afford this increase, the Council’s budget for the year to 31 March 2024 also includes £9.4 million of required savings and a requirement for an additional £1.2 million from opportunities for additional income generation. This was a significant change and challenge for the Council, which has not had to include savings targets within its budgets for a number of years.

To provide assurance to its members over the scale of required savings, the Council requested an independent review by CIPFA of its financial position, budget affordability, and financial outlook. This review concluded that “CIPFA expect that the Council will produce a balanced budget for 2023/24”, however it also concluded that “It is not possible for CIPFA to have confidence in the delivery against the savings targets identified for Childrens Services”. The review also raised concerns over the low levels of reserves held by the Council, noting “The Council needs to be very clear that there is no or very limited scope for central funding of overspends” and “Failure to deliver the planned savings will place the Council at the risk of having to issue a Section 114 Notice with expenditure likely to exceed financial resources available to the Council”. It is our understanding that circulation of a draft version of the CIPFA report within the Council was a significant factor in the decision by 17 of the Council’s members to write to the Council’s Chief Executive to request their resignation, as noted earlier in this commentary.

The Council ended the 2022/23 financial year with a General Fund balance of £12 million and unrestricted usable reserves of £2.8 million. With planned savings and additional income generation of £10.6 million built into the 2023/24 budget, the Council has minimal financial headroom available to absorb future financial pressures or the non-achievement of planned savings and, as at 31 March 2023, there was a very real risk that the Council would need to issue a Section 114 Report within the following financial year (though this did not ultimately occur). A Section 114 Report arises when the Council’s Section 151 Officer believes that the expenditure of the Council will exceed the resources available to it for the current financial year, or that the Council is unable to set a balanced budget for the following financial year, and would require the Council to cease all new expenditure other than that supporting functions which are required by statute to be delivered.

The Council is in a strained financial position and faces significant financial challenges, including high levels of demand for its social care services and the impact of inflation. Whilst the Council has taken steps to address these challenges, including a ‘reset’ of its Children’s Services budget and implementation of both financial recovery and savings plans, these actions have not been able to stabilise the deterioration in the Council’s financial position. Without more significant intervention during 2023/24, the Council was, at 31 March 2023, highly likely to deplete its limited remaining reserves over the following 12-18 months and, in effect, run out of resources.

We are therefore unable to conclude that the Council has had proper arrangements in place to manage its financial position during 2022/23 and conclude that the absence of such arrangements represents a significant weakness in the Council’s arrangements to secure value for money. We have previously reported our conclusion that the Council did not have proper arrangements in place to manage its financial position as part of our report ‘Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014’ report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

- 6. We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities.**



VFM – Commentary

7. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.
8. We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following three years. Key inputs to this exercise include the Local Government Finance Settlement, service demand led pressures & savings, grant funding changes, inflation and other spending and income policy adjustments.

The Council's finance team work with the heads of individual directorates to identify cost pressures, including due to changes in demand for services, and model the impacts of different scenarios on the Council's finances. Significant changes are discussed by the Leadership Management Team and Council Executive prior to being implemented in the MTFP.

Financial resilience is tested against various scenarios within the financial strategy, medium term financial plan modelling, capital strategy and treasury management strategy. Responses to financial pressures are developed in conjunction with service directors and key assumptions are tested before they are incorporated into the MTFP through regular presentations to, and discussions with, the Leadership Management Team and Executive.

Performance against the current year's budget is monitored on a quarterly basis during the year and used to identify cost pressures which will continue to apply in future periods and require reflecting in subsequent MTFPs.

How the body plans to bridge its funding gaps and identifies achievable savings

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding. Where possible, the Council looks to use its revenue reserves as appropriate to smooth the impact of any savings targets over the 3-year MTFP period rather than seeking large savings over short periods of time. Budget gaps of £0.858 million in the 2022/23 budget and £12.059 million in the 2023/24 budget were identified.

Individual directorates are required to identify potential savings within their service area, which may arise from reductions to expenditure or increases to income. Savings may also be identified through the Council's finance team, as they are not always directly related to service delivery. Where proposed savings may have a significant impact on service delivery, the Council holds a public consultation prior to incorporating the saving into financial plans. The delivery of savings programmes is subsequently included within the budget monitoring reporting process.



VFM – Commentary

The level of savings identified and incorporated into the Council's budget exceeds the required level of savings to provide additional buffer against the non-achievement of planned savings. No required savings were identified within the 2022/23 budget, however identified savings within the 2023/24 budget exceeded required savings by £1.5 million.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council develops its Capital Strategy and Investment Strategy alongside the MTFP and incorporates the revenue impact of planned capital expenditure and borrowing into the MTFP.

The Council operates a finance business partner model to facilitate regular communication between finance staff and the Council's directorates to ensure that other plans being prepared by the Council are consistent with the Council's financial planning.

The Council also requires that all decisions which are deemed significant enough to warrant approval by the senior management team or elected members are approved by the Council's Director of Finance to ensure that the financial implications of significant decisions are considered and reflected in the Council's financial planning.

Page 65

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal activities. The Council's assessment of the minimum reserves which should be held in the General Fund has increased as a result of known financial pressures and uncertainties. A minimum reserve balance of £11 million applied during 2021/22, an increase from £9.4 million in 2020/21, and was increased to £12 million in the Council's budgets for 2022/23 and 2023/24.

The Council's MTFPs produced during 2021/22 and 2022/23 included a balanced budget for the following year and indicative budgets for the two subsequent years. The 2022/23 MTFP forecast a balanced budget in 2023/24 and a budget deficit of £2.3 million for 2024/25. In the Council's 2023/24 MTFP the deficit for 2024/25 had increased to £2.7 million and a similar £2.7 million deficit was forecast for 2025/26. Plans to address these deficits form part of the Council's MTFPs for future periods.



VFM – Commentary

Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers services

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council uses the North East Procurement Organisation (NEPO), a regional procurement hub for North East local government authorities, for all of its tendered procurements. NEPO also maintain a public contracts register which lists all of the Council's current contracts. The Council also has a central procurement unit, which provides support to individuals within the Council overseeing procurement activity through the NEPO.

The Council has a Strategic Procurement Strategy and Contract Management Framework which are used to provide a framework for the commissioning of services and evaluation of the services received under awarded contracts. The monitoring of the performance received from suppliers is integrated into the Council's overall processes for monitoring the delivery of its services to service users, as detailed below.

In February 2020, the Council's Executive approved the commissioning of external social work audit support for children's services as part of the Council's Children's Services Improvement Plan. The Council awarded this contract as a direct award to the preferred supplier under the permitted exemption within the Financial and Contract Procedure Rules for "social care services under the National Health Services and Community Care Act, 1990 or the Children Act, 1989". The contracted services were assessed by the Council's procurement team as falling within this definition, however this was not confirmed by the Council's legal team.

In July 2020, the Council directly awarded a second contract to the same supplier to provide an external team of social workers to assist the Council with the ongoing Children's Services Improvement Plan. The documented rationale for direct award of the second contract was a combination of the social care-basis used for the first contract and a further permitted exemption under the Financial and Contract Procedure Rules "for work, supplies and services which are patented or of a proprietary or special character and for which it is not possible or desirable to obtain competitive prices". The Council's Executive gave retrospective approval for the contract on 14 July 2020, and in November 2020 approved a further 24 month extension of the contract.

Also in November 2020, the Council awarded a third contract to the supplier for a second external team of social workers for an intended duration of 6 months. The Council asserts that this contract was approved through the 'Gold Command' process in place during the Covid-19 pandemic, however we have been unable to find reference to it in relevant minutes from that period. We have also been unable to establish the basis on which the contract was deemed exempt and directly awarded to the supplier. This contract was also subsequently extended, however no formal approval for this extension was documented.

In August 2022, the Council awarded a fourth contract to the supplier for a third external team of social workers. No formal approvals or exemptions were sought prior to entering into this contract. Concerns about the awarding of this contract were raised by the Council's procurement team, with a subsequent investigation by the Council confirming that the Council's policies and procedures had not been followed in the awarding of the contract.

Subsequent to the contract awards and extensions documented above, the Council continued to extend the second, third and fourth contracts until April 2023 (second contract) and May 2023 (third and fourth contracts). The Council estimates that total expenditure under these four contracts to May 2023 was £4.3 million. This significantly exceeds the thresholds under which direct award of contracts is permitted under both the Council's Financial and Contract Procedure Rules and The Public Contracts Regulations 2015. Whilst this amount relates to the four contracts in aggregate, three of these contracts individually exceed the £663,540* threshold at which the Council is required undertake a competitive tendering exercise under The Public Contracts Regulations 2015. It is therefore our view that in addition to failing to comply with its own Financial and Contract Procedure Rules, the Council has failed to comply with applicable procurement law in the awarding of these contracts.

* Threshold represents the level effective from January 2022. Lower thresholds applied prior to this date.

VFM – Commentary

Where a contract is awarded under the reduced requirements of The Public Contracts Regulations 2015 (commonly referred to as being under the 'Light Touch Regime'), The Public Contracts Regulations 2015 place restrictions on the subsequent modifications which may be made to the contract whilst remaining within the scope of the reduced requirements. Such modifications may include extension of the original contract or a change in the scope of the contract. The Council has been unable to demonstrate that it has controls in place to monitor and assess whether modifications to its contracts made after the initial award fall within these criteria, therefore we consider there to be an increased risk that the Council may have other contract arrangements which are not in accordance with The Public Contracts Regulations 2015.

The majority of activity in procuring these contracts occurred within the Council's Children's Services directorate and was unknown to the Council's procurement team. Accordingly, the Council had not recorded any of these contracts on its contracts register. Since the Council's procurement team became aware of these contracts, a control has been implemented to reconcile larger items of expenditure recorded by the Council to known contracts in order to identify any additional unrecorded contract arrangements which may exist. Prior to late 2022 however, the Council had no such control in place and hence is unable to demonstrate that these contracts are an isolated occurrence.

A review of those contracts which the Council had recorded on its contract register as awarded between 1 April 2021 and 31 March 2022 found that of a sample of 12 contracts entered into by multiple directorates, 7 were awarded using some form of exemption. In each case, the application of the exemption had been approved by the Service Head and Head of Commissioning and Procurement however there was no further documented approval. Under the Council's Financial and Contract Procedure Rules, all exemptions require approval by the Section 151 Officer. Other than in a limited number of specified circumstances, the Financial and Contract Procedure Rules also require that exemptions are approved by the Council's Monitoring Officer. There is no requirement under the Financial and Contract Procedure Rules for exemptions to be approved by the Head of Commissioning and Procurement.

It is evident to us that the Council has a well established informal and undocumented practice when it comes to application of procurement exemptions which is neither compliant with the requirements of the Financial and Contract Procedure Rules or as robust. Whilst the procurement of the four social care contracts, or at least aspects of them, appear to have also occurred outside of this informal practice, the widespread non-adherence to the Council's formal policies and procedures is likely to have been a contributory factor as to why this occurred.

In our view, non-adherence to the Council's Financial and Contract Procedure Rules was pervasive within the Council during both 2021/22 and 2022/23 and significantly increases the risk that exemptions were applied inappropriately and that the Council is not able to demonstrate that it was securing value for money in its procurements. We consider that this is a significant weakness in the Council's arrangements to secure value for money. We have previously reported our conclusion that the Council did not have proper arrangements in place with regards to contracting and procurement as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

9. **We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;**
10. **We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to; and**

VFM – Commentary

11. We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has a Partnership Governance Policy which governs how the Council develops and manages its partnerships. All new partnership arrangements are considered to be projects and subject to the approval processes of the Council's Programme and Project Management Policy.

Each partnership arrangement has a dedicated lead manager who is responsible for managing the partnership's performance and governance. A register is maintained of all Council partnerships and the performance of significant partnerships is included in quarterly performance reporting to the Executive and Overview and Scrutiny Board.

In September 2022, the Council concluded its first review into the partnership arrangements recorded on its Partnership Register since its Partnership Governance Policy was introduced in 2019/20, and intends for this to become an annual exercise.

A number of the Council's elected members also hold positions in local and regional partner organisations to promote effective cross-working between partnership members.

In February 2019, the Council established MHome Limited as a subsidiary company with the intention of using it as a housing delivery vehicle. Following a change in political administration in the May 2019 election, the subsidiary was rebranded as Middlesbrough Development Company and the Council changed the proposed focus of the subsidiary away from housing delivery and towards urban regeneration projects. This corresponded with a change by the Council itself towards a more expansive capital programme focusing on redevelopment of Middlesbrough town centre. During 2021/22 and 2022/23, Middlesbrough Development Company oversaw two large capital projects on behalf of the Council, the development of Boho Village and the redevelopment of the former Tollesby Shops site, along with a number of smaller scale projects to restore empty homes and 'eyesore' sites. The activities of Middlesbrough Development Company are funded through a combination of loan and grant funding provided by the Council.

In May 2021, 5 of the 7 members of the Council's Executive resigned citing a number of concerns over the conduct of the Council's Mayor and the Council requested the Council's internal auditor investigate the concerns raised. We reported on the results of these investigations within our value for money commentary on 2020/21, however follow-up work by internal audit in relation to the governance of Middlesbrough Development Company was deferred in anticipation of additional good practice guidance being published by CIPFA.

In May 2022, CIPFA published 'Local Authority Owned Companies: A Good Practice Guide' and the Council requested that internal audit undertake an assessment of the governance of Middlesbrough Development Company against this good practice guidance. The Council's internal auditor undertook this review as an advisory piece of work, and did not therefore seek to offer an overall rating on arrangements, however a draft version of their report shared with senior officers in January 2023 raised some significant concerns over the Council's oversight and governance of the subsidiary. The Council's internal auditor issued the final version of their report at the end of July 2023, in addition within their Annual Head of Internal Audit Report for 2022/23 they noted their review found 'a number of weaknesses', including in relation to:

VFM – Commentary

- A lack of clarity in respect of roles and responsibilities (including officers and members);
- The composition and training of members of the Board;
- Performance management; and
- Documentation of Board meetings.

As a result of the concerns raised in the draft report the Council's Executive agreed in January 2023 to recommend to the directors of Middlesbrough Development Company that the subsidiary body be wound up. Within the covering report submitted to the Executive to inform this decision, the Council stated:

“As the activities of the company have turned from theoretical to actual, and the practicalities of taking and implementing board decisions have become more complex, a number of weaknesses have been identified in the board arrangements and the relationship with the Council that would need addressing. Veritau, the Council's internal auditors were asked to provide a view on the overall governance situation, and the improvements that would be required to meet the highest standards of good governance. Early conclusions from this work include:

- a. the roles and responsibilities within the company are insufficiently defined for a local authority trading company, with potential conflicts of interest arising through lack of clarity and lack of separation. The role of the shareholder is particularly unclear; and,*
- b. some of the operational aspects of the company do not reflect local authority regulations, or frameworks - such as procurement, risk, performance management and project management.*

The relationship with the company would also require further work from the Council's perspective, as there needs to be a suitable governance structure put in place within the Council structures to review performance, or provide the necessary oversight and accountability for it to function effectively. Specifically issues around Information Governance, Data Protection and other legal requirements are not governed by an appropriate agreement with the Council - which could cause unnecessary risks in the future. Additional work is also required to provide improved transparency around Value for Money and alignment of investments with Council priorities.

It is clear from the review that revising the arrangements to follow the higher standards of governance set out by Local Partnerships, and CIPFA in their recently published Local Authority Owned Companies – A Good Practice Guide, and to minimise any future risk to the Council would require a significant investment of time and money to achieve. The board of the company would need to be reshaped, the staffing structure bolstered, and the arrangements the Council employs to monitor and support it would need to change.

The key gaps identified in issues such as procurement and risk management would require additional staffing to be brought in to manage processes to the standard required by local authorities (and advocated by CIPFA), as would bolstering arrangements around performance management and project management. The current staffing/operation of the company is geared towards commercial expertise and would not therefore have the capacity or experience to adopt the policies and frameworks to align with the Council's approach. Recent examples of issues around Information Governance have highlighted this further, where the company needs to register with the Information Commissioner's Office independently from the Council.”

Whilst the Council has taken the decision to recommend winding-up the subsidiary, this has not yet occurred and the subsidiary remains responsible for the regeneration projects previously assigned to it. Up to the point at which the decision was taken to recommend winding-up the subsidiary, the Council had provided £11.9 million in funding to the subsidiary and the estimated lifetime budget of its projects was £13.3 million.

VFM – Commentary

Management assert that the financial statements of Middlesbrough Development Company are subject to external scrutiny via the subsidiary's external auditor, however we have been unable to corroborate that external audits of the subsidiary's financial statements have taken place. Within the Council's draft Statements of Account for both 2021/22 and 2022/23, the following disclosure is made:

“Under Section 477 of the Companies Act 2006 (in respect of the current annual turnover of the company which is a deficit and the number of employees at 1) MDC is exempt from the requirement of the Act for the audit of its accounts for the financial year. However due to the need to consolidate the accounts into the Council's group arrangements, the company directors have decided to appoint an external auditor and undertake an audit process.”

The disclosure within the Council's draft 2021/22 Statement of Accounts included cross-reference to the Middlesbrough Development Company website, which is no longer available, and the draft 2022/23 Statement of Accounts included cross-reference to the Council's own website for copies of the Middlesbrough Development Company financial statements. The financial statements of Middlesbrough Development Company published on the Council's website contain an unsigned audit report for the year ended 31 March 2022 and are explicitly presented as unaudited for the year ended 31 March 2023. The accounts filed by Middlesbrough Development Company with Companies House for the year ended 31 March 2022 were unaudited financial statements, and the financial statements for the year ended 31 March 2023 are shown on the Companies House website as overdue as of June 2024. In our view, the disclosure within the Council's Statement of Accounts is therefore misleading to readers of the Council's financial statements.

In our view, the concerns raised by the Council's internal auditor and the subsequent assessment by the Council that “a significant investment of time and money” would be required to meet the standards of governance set out within the CIPFA good practice guidance are indicative that the Council did not have proper arrangements in place to oversee the activities of its subsidiary and ensure that Middlesbrough Development Company delivered value for money with the resources provided to it by the Council during either 2021/22 or 2022/23. Given the material levels of funding provided by the Council to Middlesbrough Development Company, we consider that this is a significant weakness in the Council's arrangements to secure value for money. We have previously reported our conclusion that the Council did not have proper arrangements in place with regards to its oversight of Middlesbrough Development Company as part of our report ‘Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014’ report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

12. We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
13. We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

VFM – Commentary

How the body evaluates the services it provides to assess performance and identify areas for improvement

Business intelligence dashboards are used by both Council leadership and service line management to monitor key performance indicators across the Council's services and track the implementation of previously agreed actions, including progress against the milestones set out in the Council's Strategic Plan.

In January 2020, the Council's provision of children's social care services was rated inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted), who noted that 'leaders have not sufficiently focused on the significant areas of weakness to ensure that the needs of children and care leavers are properly met'. In response to the Ofsted findings, the Council implemented a Children's Services Improvement Plan which remained in effect at the commencement of 2021/22. Delivery against this plan was overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board, which was described by the Independent Children's Commissioner in July 2021 as "highly effective".

In July 2021, the Independent Children's Commissioner issued a 12 month review on the Council's implementation of the Children's Services Improvement Plan which was very positive on the progress being made by the Council, concluding that:

“Considerable progress has been made and there is evidence of real impact. Most impressively in the face of significant demand and need, the LA has tackled legacy issues which had inflated the volume of cases in higher tiers of provision. Significant reductions in the care population have been achieved through a focus on permanency and supporting families locally and important reductions in children on child protection plans and within social care generally have taken place. The LA knows itself well and has clearly moved beyond having “the necessary building blocks” in place to an organisation impacting on outcomes and progressing impressively on their improvement journey.

On this basis, I would recommend to the Minister that no further direct engagement of an appointed Commissioner is required and continued monitoring and support to improvement is afforded by the Advisor and core DfE team.

The appointment of the Independent Children's Commissioner was formally concluded in November 2021.

Throughout 2021/22 and 2022/23, the Council received regular focused and monitoring visits from Ofsted. The findings reported by these visits consistently recognised that the Council was making progress in addressing the findings of the 2020 Ofsted report, most significantly in the Council's understanding of the challenges it faces, whilst acknowledging that the Council was starting from a “very low base” and a range of improvements were still required. A full reinspection of the Council's provision of children's social care services in March 2023 resulted in an upgrading of the Council's rating from ‘inadequate’ to ‘requires improvement to be good’ across each of the categories assessed.

Whilst we note that the Council's Children's Services were not yet consistently delivering the expected levels of performance, especially during 2021/22, this reflects the status of the service at the start of the 2021/22 financial year. The Council's actions during the year to 31 March 2022, as assessed by the Commissioner for Children's Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2021/22 to deliver against the Improvement Plan. The subsequent Ofsted inspection results of March 2023 demonstrate that the Council continued to improve the delivery of its Children's Services through 2022/23.

We do not therefore report a significant weakness in the Council's arrangements during the year ended 31 March 2022 in respect of the provision of Children's Services, and did not recognise this as a risk for the year ended 31 March 2023.



VFM – Commentary

How financial and performance information has been used to assess performance to identify areas for improvement

Financial performance is monitored via management accounts and presented to the Executive and the Overview and Scrutiny Board on a quarterly basis. Reporting includes comparison of both performance to date and full-year forecasts against budgets, with explanations provided for significant variances. Comparison is also made to the position in previous reporting to monitor whether improvement actions have had the desired impact.

Beneath the Council's high-level reporting, budgets and performance are monitored at service line and budget holder levels, with individual budget holders responsible for ensuring delivery against delegated budgets and the accurate forecasting of future performance.

Performance against non-financial metrics, including milestones of the Council's Strategic Plan, are also presented to the Executive and Overview and Scrutiny Board on a quarterly basis.

VFM – Commentary

Arrangements since 31 March 2023

Our commentary on the Council's arrangements to secure value for money in its use of resources is specific to the periods being audited, the financial years ended 31 March 2022 and 31 March 2023. Our appointment as the external auditor of the Council concludes with the audit for the year ended 31 March 2023.

The following additional information relates to the actions the Council has taken to address the significant weaknesses in arrangements reported in our commentary since the end of the reporting periods. This information is provided for context and based on more limited audit procedures than for the period 1 April 2021 to 31 March 2023, and we do not express a view within this report on the Council's arrangements since 31 March 2023 as we are not the Council's external auditor for periods commencing on or after 1 April 2023.

Culture and Governance

The May 2023 election saw a change in both the Mayoral leadership of the Council and the overall political control of the Council, following on from the significant changes in the senior officer leadership of the Council in February and March 2023 noted earlier in our commentary. In light of these changes, the Council concluded that a review and reset of the Corporate Governance Improvement Plan would be appropriate prior to detailed development of 'phase 3' of the Corporate Governance Improvement Plan. The Council also reported that the Governance Improvement Board, which had overseen progress up to February 2023 (no meetings were held after this date) would be replaced with an Improvement Advisory Panel. The Improvement Advisory Panel includes external advisors and experts, including an independent chair.

A revised plan for 'phase 3' of the Council's Corporate Governance Improvement Plan was approved by full Council on 18 September 2023, alongside a proposed action plan to respond to the statutory recommendations issued as part of our 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023 (referred to by the Council as its 'Section 24 Action Plan'). A proposed updated Constitution, including updated Financial and Contract Procedure Rules, was also submitted to full Council at this time.

In January 2024, the Chief Officer Appointments Committee approved extension of the appointments of both the Council's Interim Chief Executive and Interim Director of Finance to 31 March 2025 in order to provide stability to the Council's leadership as it continues with the implementation of the Corporate Governance Improvement Plan and Section 24 Action Plan.

Also in January 2024, the Best Value Notice issued to the Council by DLUHC, which had been for an initial period of 12 months, was extended for an additional 6 months to July 2024. In the notification of the extension the Department acknowledged that the Council has "implemented a range of improvement measures to begin to effectively address the identified concerns", but highlighted that the Department "has ongoing concerns regarding your authority" and the extension was "in response to the need for continuing reassurance on the Council's capacity to transform at sufficient pace".

As of March 2024, the most recent update on the progress of the Corporate Governance Improvement Plan and Section 24 Action Plan presented to full Council, the Council was reporting that 57% of actions under the Corporate Governance Improvement Plan and 61% of the actions under the Section 24 Action Plan had been delivered. A small number of actions, equating to 6% of actions under the Corporate Governance Improvement Plan and 8% of actions under the Section 24 Action Plan, were reported as off-track however all other open actions were reported as being on-track for delivery by their target completion dates.

We also note that both senior officers and members have reported, both directly to us and in public meetings such as the Council's Audit Committee, a noticeable positive change in culture at the Council since 31 March 2023 and more collaborative working between members and officers.



VFM – Commentary

Financial Sustainability

The Council has recognised that it commenced the 2023/24 financial year in a challenging financial position and implemented enhanced scrutiny of its financial outturn and forecasts, with additional monthly reporting to its Leadership Management Team (LMT) and additional finance meetings with each directorate head added to the existing quarterly reporting. Officers have also sought to engage more proactively with elected members on the Council's financial challenges, including introducing quarterly member-led budget challenge sessions.

Through this enhanced scrutiny of its financial position, the Council identified as early as P2 (May 2023) that it was not on track to deliver against its budget for the year ended 31 March 2024. As of Q1 (June 2023), the Council was forecasting an overspend against its budget of £11.6 million. This represented over 9% of the Council's annual budget. The Council only attributed £2.6 million of the anticipated overspend to non-achievement of the savings and additional income generation included within its 2023/24 budget, with the majority relating to cost pressures not allowed for within the budget. The most significant of these included a national pay award above the Council's expectations, demand and inflationary pressures within both adult's and children's social care and rising home-to-school transportation costs. These pressures contain a mixture of factors within the Council's control, such as those related to how it delivers its services, and those beyond its control, such as the national pay award.

The Council implemented a range of measures to address the overspend for 2023/24 projected at Q1, including the use of vacancy control panels to constrain new recruitment to essential posts only, additional restrictions on spending issued by the Interim Director of Finance in July 2023 and an in-year uplift to fees and charges effective from December 2023. These measures helped to reduce the forecast overspend to £8.6 million by the end Q2 (September 2023), £5.5 million by the end of Q3 (December 2023) and £3.6 million by the end of the 2023/24 financial year (March 2024).

The continued overspend against the Council's budget has been assessed by the Council's Interim Director of Finance as critical, with the Council unable in their view to set a balanced budget for 2024/25, whilst maintaining adequate reserves, without exceptional financial support. In January 2024, the Council's Executive approved submission of an application to DLUHC for £15 million of exceptional financial support. In March 2024, full Council approved the Council's budget for 2024/25 inclusive of £13.4 million of exceptional financial support offered by DLUHC in the form of additional Council borrowing. Had the Council's request for exceptional financial support not been accepted by DLUHC, the Council would have been forced to issue a Section 114 notice (see page 21).

The financial position of the Council remains precarious. The Council is reliant upon both the sale of assets and the achievement of significant planned savings for its short-term viability, but requires more significant transformation of the way it delivers its services to become viable over the medium-to-long term. This fact is recognised by management, with the exceptional financial support applied for by the Council including up-front funding for transformation as well as addressing immediate day-to-day budgetary challenges. A detailed proposal setting out the proposed direction, aspirations, investment, and funding requirements of the Council's Recover, Reset, Deliver Transformation Programme was approved by full Council in April 2024.

The Council has also commissioned CIPFA to undertake a review of its financial management practices using the CIPFA Financial Management Model to assist it with identifying areas where its financial management practices could be improved. The results of this review have recently been reported to the Council's management and was presented to the Council's Executive on 24 July 2024.



VFM – Commentary

Middlesbrough Development Corporation

On 13 March 2024, the Secretary of State for Levelling Up, Housing and Communities approved the transfer of a number of the Council's assets to the newly formed Middlesbrough Development Corporation, which will oversee redevelopment of key sites within the town centre. Middlesbrough Development Corporation is a subsidiary of the Tees Valley Combined Authority, and is completely separate from the Council's own subsidiary Middlesbrough Development Company.

Transfer of the Council's assets to Middlesbrough Development Corporation was not a decision within the control of the Council, though we note that the Council's members voted against endorsing the principles behind the formation of Middlesbrough Development Corporation and the transfer of Council assets in February 2023.

The Crown Pub is included within the assets to be transferred to Middlesbrough Development Corporation, therefore future structural and restoration costs for this property will not now fall on the Council.



Page 7

05

Appendices

Appendix A - Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the audit opinions being issued. We present below the draft letter for the year ended 31 March 2022. The draft management letter for the year ended 31 March 2023 is substantively the same, other than amendments to reflect the different financial year to which it relates.

Management Rep Letter

[To be prepared on Middlesbrough Council's letterhead]

[Date]

Ernst & Young
1 More London Place
SE1 2AF

This letter of representations is provided in connection with your audit of the consolidated and parent Authority financial statements of Middlesbrough Council ("the Group and Authority") for the years ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Authority financial statements give a true and fair view of, the Group and Authority financial position of Middlesbrough Council as of 31 March 2022 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and the Authority, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our consolidated and parent Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the parent Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Group and Authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the consolidated and parent Authority financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and parent Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

4. As members of management of the Group and Authority, we believe that the Group and Authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

6. We confirm the Group and Authority does not have securities (debt or equity) listed on a recognised exchange.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Authority's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and parent Authority financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Group or Authority (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:

► Involving financial improprieties

► Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated and parent Authority financial statements

► Related to laws and regulations that have an indirect effect on amounts and disclosures in the consolidated and parent Authority financial statements, but compliance with which may be fundamental to the operations of the Group and Authority's business, its ability to continue in business, or to avoid material penalties

► Involving management, or employees who have significant roles in internal control, or others

► In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

► Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

► Additional information that you have requested from us for the purpose of the audit; and

► Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent Authority financial statements.

3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: [TBC]

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the consolidated and parent Authority financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

6. We have disclosed to you, and the Group and Authority has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material effect on the consolidated and parent Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the notes to the consolidated and parent Authority financial statements all guarantees that we have given to third parties.

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the notes to the financial statements. All assets to which the Authority has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements, we have no other line of credit arrangements.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and the defined-benefit pension balances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

G. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuation of non-current assets have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of non-current assets.
3. We confirm that the significant assumptions used in making the valuation of non-current assets appropriately reflect our intent and ability to carry out future actions on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of non-current assets.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

H. Retirement Benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

K. Going Concern

1. Note 1 to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

L. Subsequent Events

1. Other than the events described in Note 5 to the consolidated and parent Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

M. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent Authority, subsidiary undertakings and associated undertakings.

N. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information contained within the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2021/22 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2021/22 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

O. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and the Group and Authority have reflected these in the consolidated and parent financial statements.

Yours faithfully,

Director of Finance and Section 151 Officer

Chair of Audit Committee

Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ The Council has an effective control environment; and

The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See

<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. See Appendix E.

	2022/23	2021/22	2020/21
	£	£	£
Scale fee - Council (1)	106,328	88,578	88,578
Scale fee - Pension Fund (1)	35,222	21,972	21,972
Total scale fees	141,550	110,550	110,550
Changes in work required to address professional and regulatory requirements and scope associated with risk - Council (2) (4)	81,850	81,850	65,480
Changes in work required to address professional and regulatory requirements and scope associated with risk - Pension Fund (3) (4)	49,199	49,199	39,359
Revised scale fees	272,599	241,599	215,389
Additional specific one-off considerations reflecting a change in audit work - Council (2) (5) (6)	See notes	See notes	148,645
Additional specific one-off considerations reflecting a change in audit work - Pension Fund (7)	54,918	74,041	5,000
Total core audit fees	327,517	315,640	369,034
IAS 19 procedure fees (recurring) - Pension Fund (8)	9,970	9,250	8,500
IAS 19 procedure fees (triennial) - Pension Fund (8)	-	10,000	-
Total audit fees	337,487	334,890	377,534
Non-Audit Fee - Housing Benefit certification work (9)	-	36,800	13,450
Non-Audit Fee - Teachers' Pension certification work (10)	-	7,250	5,250
Total other non-audit services	-	44,050	18,700
Total fees	337,487	378,940	396,234

All fees exclude VAT, see notes overleaf

Appendix B – Fees

Notes

(1) We do not believe that the scale fee reflects the changes in the audit market and increases in regulation since the PSAA tender exercise for the periods 2018/19 to 2022/23. For 2022/23, PSAA increased the base scale fee but in our view this still does not fully cover the additional work required to deliver a high-quality audit. For reference, the scale fees for the 2023/24 audits of the Council and Pension Fund under the new PSAA contract have been set at £321,074 and £102,380, respectively.

(2) We have previously communicated to the Audit Committee additional fees requested from PSAA in respect of the 2020/21 audit of the Council of £81,580 as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and £184,572 as our assessment of the additional fee required to reflect specific one-off considerations necessitating additional audit procedures (aggregate: £266,422). PSAA have now determined the combined additional fee for these matters as £214,125. We do not receive a breakdown of this amount from PSAA by the two descriptions presented so report this pro-rata against the amounts requested.

(3) We have previously communicated to the Audit Committee additional fees requested from PSAA in respect of the 2020/21 audit of the Pension Fund of £39,359 as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and £5,000 as our assessment of the additional fee required to reflect specific one-off considerations necessitating additional audit procedures (aggregate: £44,359). PSAA have not yet made a determination on the final fee amounts.

(4) We determine our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk in reference to hourly rates set by PSAA. PSAA increased these rates by 25% with effect from the 2021/22 audit, however final amounts are subject to agreement with PSAA following the completion of the audits.

(5) We note that there continue to be factors which increase the extent of our audit procedures over and above the levels envisaged by PSAA when determining scale fees. For both the 2021/22 and 2022/23 audits this has included responding to the significant governance issues highlighted in our value for money commentary, the issuance of statutory recommendations to the Council in August 2023, dealing with a significant volume of correspondence and a large number of instances of potential non-compliance with laws and regulations (see section 3). The nature of these issues are such that they require involvement of the most senior members of the audit team, and we have had to undertake a number of internal consultations in relation to our conclusions on these matters.

(6) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by MHCLG and the FRC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2021/22 and 2022/23 audits. In doing so, PSAA will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee. We will submit our assessment of the impact of both the additional audit work required to respond to specific matters (as per point 5 above) and the impact on the level of audit work performed in support of the disclaimed opinions to PSAA, who make a determination on our final audit fees for 2021/22 and 2022/23.

(7) We have encountered a number of challenges in the delivery of our 2021/22 and 2022/23 audits of the Pension Fund, including a higher than expected number of misstatements, the identification of an additional significant risk in respect of revenue recognition (2021/22 only), management's inability to support certain disclosures and general delays in the receipt of audit evidence and explanations. Further details are provided in the separate Audit Results Reports for our 2021/22 and 2022/23 audits of the Pension Fund. The amounts shown are our assessment of the impact of these challenges on our audit fees, however the final audit fees will be subject to determination by PSAA.

Appendix B – Fees



Notes

(8) As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. We perform these procedures each year, however for 2021/22 we also undertook additional procedures in respect of the membership data submitted by the Pension Fund to inform the triennial valuation of the Pension Fund and reported separately on these procedures to the auditors of scheduled bodies. Management may opt to recharge these fees to the relevant member bodies.

(9) Our fee for the 2021/22 Housing Benefit assurance work reflects the fact that the Council requested we perform all of the initial testing, whereas we would normally request the Council to perform the initial testing and reperform a sample of those tests to confirm the conclusions reached. We also had to repeat parts of our work after the Council submitted a second claim form to DWP following identification of errors in the original submission, and return several samples to the Council as they were incorrectly prepared. The fee of £36,800 shown is our current estimate but the final fee will be communicated to management once the work is complete. [Management have advised us that they are not expecting to request we perform the Housing Benefit assurance work for 2022/23.](#)

(10) We agreed with management that we would not provide the certification work in relation to the Council's Teachers Pension return for 2022/23.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' integrity, objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	This Completion report for Those Charged with Governance

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Appendix E – PSAA Statement of Responsibilities

As set out in Appendix B our fee is based on the assumption that the Council complies with PSAA’s Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. *Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.*

27. *In preparing their statement of accounts, audited bodies are expected to:*

- *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- assign responsibilities clearly to staff with the appropriate expertise and experience;*
- provide necessary resources to enable delivery of the plan;*
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- *during the course of the audit provide responses to auditor queries on a timely basis.*

28. *If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.*

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Teesside Pension Fund **Final Audit Results Report**

Year ended 31 March 2022

November 2024

Page 95



Building a Better
working world

Agenda Item 6

Private and Confidential

November 2024

Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Audit Committee Members

We are pleased to provide our Audit Results Report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Teesside Pension Fund (the Pension Fund) for 2021/22.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Teesside Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects.

This report is intended solely for the use of the Audit Committee, other members of the Council and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Audit Committee on 5 December 2024.

Yours faithfully



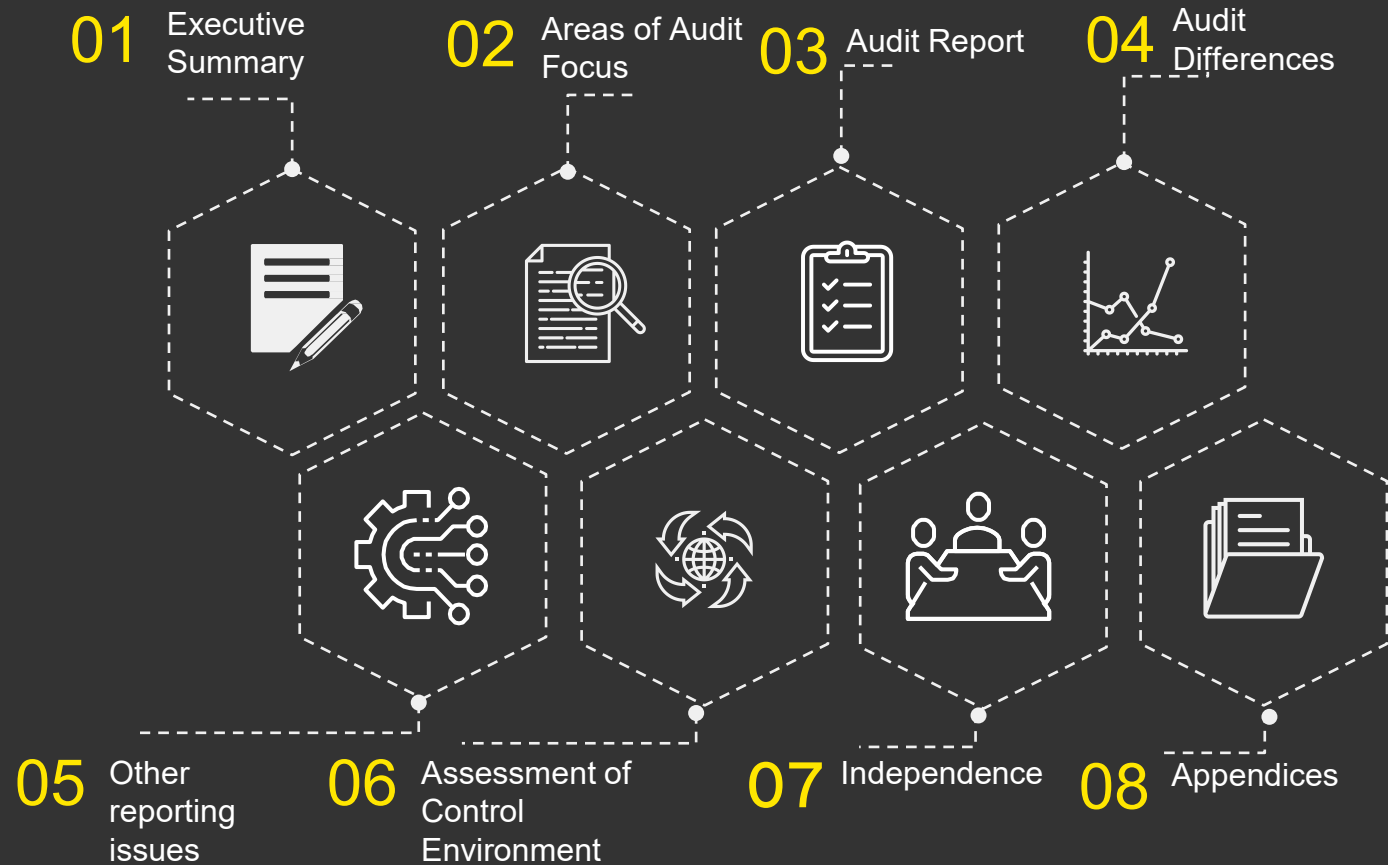
Hassan Rohimun

Partner

For and on behalf of Ernst & Young LLP

Contents

Page 97



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Teesside Pension Fund. Our work has been undertaken so that we might state to the Audit Committee and management of Teesside Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Teesside Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary

Scope update

In our Outline Audit Planning Report tabled at the 5 December 2022 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

The materiality level we communicated in our Outline Audit Planning Report was £50.7m, representing 1% of the Fund's net assets at 31 March 2022. Performance materiality - the amount we use to determine the extent of our audit procedures - was set at £25.3m, being 50% of materiality. The threshold we set for the communication of misstatements to the Audit Committee was £2.5m.

Status of the audit

Our audit work in respect of the Pension Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- ▶ Prior period restatement - the Pension Fund has restated prior period comparative disclosures relating to the geographical location of its investments and financial instruments. The restated disclosures are still going through our internal consultation process on prior period restatements, having only recently been provided;
- ▶ Review of the separate Pension Fund Annual Report - we issue a separate consistency opinion on the consistency of the Pension Fund's separate Annual Report with the audited financial statements. We received the final updated Annual Report on 20 November 2024 and are working with management to complete our checks on the consistency of the Annual Report with the audited financial statements in time to issue the consistency opinion at the same time as our main audit report.
- ▶ Letter of Representation - we will ask management to sign the Letter of Representation with the same date as the financial statements.

In addition, our internal review procedures continue up until the date of our audit report.

Audit differences

Uncorrected misstatements would decrease the net assets of the Pension Fund by £12.1m.

Management corrected identified misstatements with the effect of decreasing the net asset of the Pension Fund by £35.8m.

Further details of identified misstatements, including misstatements within disclosures, are provided in section 4.

Executive Summary

Other reporting matters

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. We agreed with management we would only review the Annual Report once we were collectively satisfied that no further changes would be required to the financial statements. We received a copy of the final Annual Report to perform these checks on 20 November 2024. We are working with management to enable completion of these checks in time to issue the consistency opinion at the same time as our main audit report.

During the course of our audit, we identified two instances where the Pension Fund has not acted in accordance with applicable laws and regulations which we wish to bring to the attention of the Audit Committee:

- ▶ The financial statements of the Pension Fund are published alongside those of Middlesbrough Council within the Middlesbrough Council Statement of Accounts. The statutory deadline by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 was 1 August 2022. The Council did not meet this deadlines, commencing the inspection period for the draft 2021/22 financial statements on 30 August 2022; and

Under the Local Government Pension Scheme Regulations 2013, the Pension Fund is required to distribute annual benefit statements to all members of the fund no later than five months after the end of the scheme year. The Pension Fund has not been able to distribute annual benefit statements to all members as the Pension Fund does not hold current contact information for all members. Management have previously reported this fact to the Audit Committee.

Control observations

During the audit we identified control observations and have made improvement recommendations in relation to management's financial processes and controls in relation to:

- ▶ Recording of asset valuations
- ▶ Production of the financial statements
- ▶ Reconciliation to custodian reports
- ▶ Support for sensitivity disclosures
- ▶ Review of submissions to the Fund actuary; and
- ▶ Retention of Fund membership information

Further details of our observations and our recommendations are provided in section 6.

Independence

Please refer to section 7 for our update on Independence.

Executive Summary

Areas of audit focus

Our Outline Audit Planning Report identified key areas of focus for our audit of the Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

Fraud risk: Misstatement due to fraud or error

- We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of misstatements due to fraud or error.

Significant risk: Valuation of pooled investment vehicles

- We completed our planned procedures and are satisfied that pooled investment vehicles are not materially misstated.

Significant risk: Valuation of private market investments

We completed our planned procedures and are satisfied that private market investments are not materially misstated.

Significant risk: Valuation of directly held property

We completed our planned procedures and are satisfied that directly held property is not materially misstated.

Significant risk: Recognition of investment income

- We completed our planned procedures and are satisfied that investment income is not materially misstated.

We ask you to review these and any other matters in this report to ensure:

- ▶ there are no other considerations or matters that could have an impact on these issues;
- ▶ you agree with the resolution of the issue; and
- ▶ there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (fraud risk)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focus on manual adjustments made to the financial statements, such as through manual journal entries, and on any significant or unusual transactions which are outside of the Pension Fund's normal business practices.

What did we do?

- ▶ Identified fraud risks during the planning stages of our audit;
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud;
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements, consideration of whether accounting estimates are free from material bias and a review for unusual transactions.

What are our conclusions?

As reported in our Outline Audit Planning Report, our audit planning procedures identified a large unexpected increase in investment income which increased from £13.7m in 2020/21 to £176.4m in 2021/22. Our initial enquiries of management identified this as erroneous and we recognised a significant risk in relation to investment income. This matter has been corrected within the financial statements, and we are satisfied it arose as a result of error rather than fraud. Further details are provided on page 13.

As at 31 March 2022, the Pension Fund's financial statements include a £26.5m investment in a start-up challenger bank. Management assert that the valuation at 31 March 2022, which significantly exceeded the Pension Fund's share of the net assets of the bank at that date, is reasonable and reflects the anticipated future profitability of the bank. We note that at 31 March 2022 the bank was still going through licensing and was not yet actively trading. However, the financial statements for the year ended 31 March 2023 include a significant impairment of this investment to reflect changes in management's expectations for recoverability of the Pension Fund's investment. In our view the Pension Fund should also have impaired its investment as at 31 March 2022 and we are reporting an uncorrected misstatement of £19.9m in relation to this investment.

We have no other matters to report.



Areas of Audit Focus

Significant risk

Valuation of pooled investment vehicles

What is the risk?

The majority of the Fund's investments are held as investments in pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not normally publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.

What judgements are we focused on?

We have identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

What did we do?

- ▶ Documented and walked-through the process and design of the controls over the valuation process;
- ▶ Obtained third party confirmations of the valuation of pooled investments vehicle assets at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- ▶ Reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ Compared the movement in valuation of investments in pooled investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances; and
- ▶ Reviewed the basis of valuation for pooled investment vehicles and ensured it is in line with the accounting policy.

Note: The procedures performed above and our conclusions also relate to a small number of non-pooled investment vehicle investments identified as having different characteristics during the course of the audit.

What are our conclusions?

Our agreement of investment valuations to third party confirmations from investment managers identified a number of errors in the recording of investment valuations, including incorrectly recording investments denominated in foreign currencies without converting amounts to sterling and omission of purchases made in the final quarter of the year.

The net impact of these misstatements is to overstate investment assets by net £35.8m, which management have corrected the financial statements for. However, the size of the gross misstatement, overstatements of investments assets by £71.4m and understatement of investment assets by £35.6m, indicates that controls over the recording of investment valuations are not operating effectively.

In addition, without impacting the overall valuation of investment assets we identified £52.5m of classification errors between the categories of investments disclosed within the notes to the financial statements. Management have corrected the financial statements for these classification misstatements.

Following correction of the majority of identified misstatements (see next page for details of remaining uncorrected misstatements), we are satisfied that the valuation of pooled investment vehicles is not materially misstated.



Areas of Audit Focus

Significant risk

Valuation of private market investments

What is the risk?

The Fund has a growing portfolio of private market investments, which for the purposes of our risk are those classified by the Fund as investments in private equity, infrastructure and other alternative assets.

Valuation of these investments is performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Greater judgement is required to value these investments as prices are not publicly available and market volatility means such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date.

What judgements are we focused on?

We have identified the valuation of the Fund's investments in private market investments as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

What did we do?

The Fund's private market investments are held as pooled investment vehicles therefore the audit response detailed on the previous page as our response to the risk of valuation of pooled investment vehicles includes coverage of private market investments.

In addition, for the subset of pooled investment vehicles which are also private market investments we:

- ▶ Reperformed the translation of the net asset value, where reported in a currency other than sterling, to sterling using independently sourced exchange rates;
- ▶ Using the Fund's % share of the pooled investment vehicle, as confirmed by the investment manager, reperformed the calculation of the valuation of the Fund's assets and compared to the financial statement valuation; and
- ▶ Sought explanations and, where appropriate, supporting evidence for any significant changes in valuation between the date of the audited pooled investment vehicle financial statements and the Fund's reporting date.

What are our conclusions?

Misstatements reported on the previous page include misstatements of applicable private market investments.

Our additional audit procedures over private market investments identified that one of the Fund's external investment managers was providing valuations to the Pension Fund which were based on historic cost, rather than market value which is required for reporting in the Pension Fund's financial statements. The Pension Fund had not identified as part of their review processes that valuations were not being provided on the correct basis. As a result of the incorrect valuation methodology being used by the fund manager investment assets are understated by £7.7m. Management has opted not to correct the financial statements for this matter.

Note: The £7.7m misstatement reported here is in addition to the misstatements reported on page 10.

Based on our audit procedures, we are satisfied that the valuation of private market investments is not materially misstated.



Areas of Audit Focus

Significant risk

Valuation of directly held property

What is the risk?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

What judgements are we focused on?

We have identified the valuation of the Fund's directly held property as a significant risk, as even a small change in assumptions could have a material impact upon the financial statements.

What did we do?

- ▶ Agreed the valuation of the Fund's property portfolio as a whole back to the valuation report provided by the Fund's external valuer;
- ▶ Performed an assessment of the competence, capabilities and independence of the Fund's external valuer as a management specialist;
- ▶ Performed an analysis of property valuations, including consistency with valuations of similar assets and changes in valuations from the prior period, to identify any assets with characteristics that indicate a potentially higher risk of misstatement; and
- ▶ Based on the above analysis, requested our EY Real Estate specialists to review the valuations of a sample of assets sufficient to provide an evidence base on which to conclude on the reliability of the work of management's specialist.

What are our conclusions?

Our analysis of the valuation of the Pension Fund's property assets as at 31 March 2022 identified 12 individual property valuations which we considered to exhibit indicators of having a higher risk of misstatement. Factors indicative of a higher risk of misstatement include: changes in valuations from the prior year; valuations which are out-of-line with similar assets; assets with a high proportion of tenants on expiring leases; and assets whose tenants were more exposed to adverse financial impacts of the Covid-19 pandemic. These 12 assets covered 41% of the total balance by value and we asked our EY Real Estate specialists to review the valuations of these assets.

Our EY Real Estate specialists concluded that, other than a clearly trivial variance on one property, all valuations were within a reasonable range.

We have no other observations to report in relation to directly held property.

We are therefore satisfied that directly held property is not materially misstated.



Areas of Audit Focus

Significant risk

Recognition of investment income

What is the risk?

As part of our audit planning procedures we utilise our data analytics tools to analyse the accounting records of the Pension Fund for unusual or unexpected accounting entries.

These procedures identified a large unexpected increase in investment income, which increased from £13.7m in 2020/21 to £176.4m in 2021/22. Initial enquiries of management confirmed that the balance is materially misstated in the draft financial statements.

What judgements are we focused on?

Management confirmed to us during the planning stage of our audit that investment income was materially misstated. We have therefore focused on the quantification and correction of this misstatement.

What did we do?

- ▶ Reviewed management's quantification of the amounts incorrectly presented as investment income within the draft financial statements, and agreed this to supporting evidence; and
- ▶ Confirmed that the financial statements are appropriately amended to correct this misstatement.

What are our conclusions?

Our audit identified that there was incorrect recognition of investment income relating to dividends received by Border to Coast from underlying equity investments which were recycled within the Pension Fund's pooled investments with Border to Coast, rather than being returned to the Pension Fund. Such amounts should be correctly accounted for as part of the increase in market value of the Pension Fund's investments with Border to Coast rather than as investment income.

Management were previously unaware that this income was being received by Border to Coast and having identified this was the case in the current year both current and prior year amounts were incorrectly recorded as current year investment income.

We were able to trace the incorrect amounts to two journal entries, one relating to the Pension Fund's UK equity investment with Border to Coast and one relating to the Pension Fund's Overseas equity investment. We have not identified any similar entries in relation to equity investments held with other investment managers.

As a result, investment income was overstated by £126.4m. This error did not impact the net assets of the Pension Fund at 31 March 2022.

Based on the testing undertaken and the correction of the identified misstatement we are satisfied that investment income is not materially misstated.



03 Audit Report



Audit report

We include below a copy of the auditor's report we propose to issue.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Statement of Accounts, the Net Assets Statement and the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2022; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to 31 December 2025.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Teesside Pension Fund Accounts and Notes set out on pages 117 to 155, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Teesside Pension Fund Accounts and Notes.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.



Audit report

Our opinion on the financial statements (continued)

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of the Director of Finance's Responsibilities set out on page 29, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with Director of Finance.



Audit report

Our opinion on the financial statements (continued)

Our approach was as follows:

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- ▶ We understood how the Fund is complying with those frameworks by making enquiries of management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension Fund policies, and through the inspection of other documentation obtained in the course of our audit.
- ▶ Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.
- ▶ We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.
- ▶ In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- ▶ The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation of the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Middlesbrough Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
[DATE]



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements which have been corrected by management that were identified during the course of our audit:

31 March 2022	Net Asset Statement	
	(Increase)/ Decrease During the Year	Net Assets at 31 March Debit/(Credit)
Factual differences		
▶ Overstatement of investment income due to incorrect accounting for recycled dividends*	£126.432m (£126.432m)	-
▶ Overstatement of investments due to errors in the recording of investment valuations	£35.823m	(£35.823m)
▶ Misclassification of investments between categories of investments**	-	£52.527m (£52.527m)
Totals	£35.823m	(£35.823m)

* The misstatement of investment income resulted in an overstatement of investment income and understatement of the gain in market value of investments, with no net impact on the net assets of the Fund.

** The misclassification of investments between categories had no net impact on the net assets of the Fund.



Audit Differences

Summary of unadjusted differences

We highlight the following misstatements to the financial statements which management have indicated will remain unadjusted. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

31 March 2022	Net Asset Statement	
	(Increase)/ Decrease During the Year	Net Assets at 31 March Debit/(Credit)
Factual differences		
▶ Understatement of investments due to reporting by investment manager of purchase cost rather than market value	(£7.725m)	£7.725m
Judgemental differences		
▶ Overstatement of investment in start-up challenger bank where carrying value has been assessed as irrecoverable	£19.866m	(£19.866m)
Totals	£12.141m	(£12.141m)



Audit Differences

Summary of disclosure differences

During the course of the audit we identified a number of disclosure errors and made a number of recommendations to management to improve the presentation of financial statements disclosures. The following are the most significant which we consider warrant the attention of the Audit Committee:

- ▶ **Financial Instruments** - Note 14 contains disclosures relating to the Pension Fund's financial instruments. Our testing of these disclosures identified that the Pension Fund had incorrectly identified the level in the fair value hierarchy of a number of its investments. In addition, the Pension Fund had incorrectly included the directly held property within this disclosure - directly held property is not a financial instrument and should therefore be excluded from these disclosures. The aggregate impact of these misstatements was to understate assets reported as level 1 in the fair value hierarchy by £21.6m, understate of assets reported as level 2 of the fair value hierarchy by £291.8m and overstate assets reported as level 3 of the fair value hierarchy by £684.7m. These errors had further impact to multiple disclosures within Note 14 which are specific to those investments classified as level 3 in the fair value hierarchy. The same errors in classification were made in the prior period therefore management have restated the prior period comparatives within the current financial statements to correct this matter in the prior period;
- ▶ **Geographical Location of Investments** - Note 13 contains disclosure of the geographical location in which the Pension Fund's investments are held. Our testing identified that this disclosure was based on the location of the investment manager, rather than the underlying investments, and was therefore incorrectly prepared. In preparing a revised disclosure, management have opted to simplify the previous breakdown of locations to now disclose those investments held in the UK and those held outside of the UK, in-line with the disclosure requirement of the CIPFA Code. The same incorrect basis of preparation had been applied in the prior period therefore management have restated the prior period comparatives within the current financial statements to correct the prior period comparators;
- ▶ **2022 Triennial Valuation** - The triennial valuation of the Pension Fund as at 31 March 2022 was concluded on 30 March 2023, after the draft financial statements were prepared but before completion of the audit. Following audit challenge, management have included disclosure of the results of the 2022 triennial valuation as a non-adjusting subsequent event;
- ▶ **Material Valuation Uncertainty** - The draft financial statements incorrectly asserted that the valuation of the Pension Fund's directly held property at 31 March 2021 was prepared on the basis of a material valuation uncertainty. Following audit challenge, this disclosure has been removed;
- ▶ **Senior Officer Remuneration** - Note 21 contains disclosure of the cost of senior employees' remuneration charged to the Pension Fund. The draft financial statements incorrectly disclosed the associated post-employment benefits amount as £15,000. The correct disclosure is £8,000 and this has been corrected following audit challenge; and
- ▶ **Reconciliation of Scheme Members** - The summary of changes in membership table in the introduction to the Pension Fund's financial statements includes an adjustment of 1,422 members described as 'change in status'. Management have not been able to fully explain what this movement is and we understand it is a balancing figure as the Pension Fund is unable to accurately report other movements. We are satisfied that total membership is not misstated, and that this impacts the breakdown of movements between membership at 1 April 2021 and membership at 31 March 2022.

The above disclosure errors, together with the material levels of misstatement reported on the previous pages and the volume of other disclosure errors not individually warranting the Audit Committee's attention, indicates a poor control environment over the production of the Pension Fund's financial statements.

Significant audit effort has been required to resolve misstatements and disclosure errors which should have been identified and corrected via the Pension Fund's internal review processes prior to publication of the draft financial statements (or provision for audit where relating to subsequently amended disclosures). The increased time and resource taken to identify, address and report on these misstatements will result in additional audit fees .



05 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. We agreed with management we would only review the Annual Report once we were collectively satisfied that no further changes would be required to the financial statements. We have not yet received a copy of the final Annual Report to perform these checks. We are working with management to enable completion of these checks in time to issue the consistency opinion at the same time as our main audit report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Pension Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Findings and issues around the opening balance on initial audits (if applicable);
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have included the significant matter which we wish to bring to the attention of the Audit Committee within this report.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have no significant deficiencies in internal control to bring to the attention of the Audit Committee.

On the following pages, we make recommendations to address other internal control matters identified during the course of the audit or to improve the Pension Fund's processes. There were no prior year recommendations to provide an update on.

Assessment of Control Environment

Area Recording of asset valuations **Rating**

Observation

Our testing of investment valuations identified significant levels of error in the recorded value of individual investments, including investments recorded in the wrong currency and transactions close to year-end being omitted from the financial statement valuations. Gross misstatements identified totalled £107m, which is more than 2% of the Fund's net assets, although we note the net impact of misstatements was smaller but not insignificant. This level of misstatement leads us to conclude that controls over the recording of investment valuations are not operating effectively.

Page 121

Recommendation

We recommend management review the controls in place to ensure accurate recording of investment valuations, including ensuring there is a robust review process, to ensure that investments are not recorded at the incorrect value.

Management response

The Head of Pensions and Governance will implement a process to undertake a quarterly review of the basis of recording investment valuations by a supervising officer. This will be implemented in producing the 2024/25 accounts and will also review the draft 2023/24 accounts that remain subject to audit.

Area Production of the financial statements **Rating**

Observation

Our audit identified a number of material disclosure errors including disclosures being prepared on the incorrect basis and not in accordance with the requirements of the Pension Fund's reporting framework.

We also note that knowledge supporting the production of the financial statements is concentrated with a small number of people (2 officers), which significantly increases the risk of loss of corporate knowledge should there be a turnover in staff.

Recommendation

We recommend management review the controls in place to ensure the financial statements are prepared in accordance with the requirements of the reporting framework, including ensuring there is a robust review process. We also recommend that knowledge of how to prepare material disclosures is formally documented to reduce the risk of loss of corporate knowledge.

Management response

The Director of Finance is due to implement a revised operating model within the accountancy disciplines within the Finance Directorate in the 2025/26 financial year subject to approval of the associated investment in the budget by Council in February 2025. There will be a new role of Chief Accountant who will be required to oversee the production of both the Council and Pension Fund Accounts to ensure compliance with relevant legislation, reporting standards and the code of practice and to build resilience within the Pensions and Accountancy Teams.

Assessment of Control Environment

Area Reconciliation to custodian reports **Rating**

Observation

Our testing of the Pension Fund’s reconciliation of its accounting records against the investment valuations provided by the custodian identified that the reconciliation is performed shortly after each month end, when final valuations are often still to be reported to the custodian by investment managers.

There is no subsequent revisiting of this reconciliation to identify where valuations have changed, which we consider was a factor in why the Pension Fund did not identify the misstatements of investment valuations reported in section 2.

Recommendation

We recommend management review the timing of the reconciliation to custodian reporting to ensure the reconciliation takes place at a time when the custodian records are up-to-date. If this is not possible due to delays in custodian reporting, an additional check back against the accounting records should be introduced to support year-end reporting.

Management response

The Head of Pensions and Investments will introduce a year end closure task to reconcile custodian reports to investment manager valuations. This will be adopted in closing the 2024/25 accounts and a check of the draft 2023/24 accounts will be undertaken prior to the audit.

Area Support for sensitivity disclosures **Rating**

Observation

Note 13 to the financial statements includes various disclosures of the sensitivity of the Pension Fund’s balances to movements in external factors, such as exchange rates or market movements.

Our testing of these disclosures found that management were unable to support the sensitivities disclosed in the financial statements, partly because the reporting to the Pension Fund by the external party which provided them is limited and the external party is no longer trading.

Recommendation

We recommend management review the controls in place to obtain, and retain support for, the sensitivities disclosed within the financial statements to ensure that disclosures made in the financial statements can be supported.

Management response

The Head of Pensions and Investments will ensure that all documentation relevant to the preparation of the financial statements is retained for management and audit purposes.

Page 122

Assessment of Control Environment

Area	Review of submissions to the Fund actuary	Rating	Area	Retention of Fund membership information	Rating
<p>Page 123</p> <p>Observation</p>	<p>Where the Pension Fund's actuary provides IAS 19 valuations to individual participating employers for inclusion in the employer's financial statements, they rely on employer-specific information submitted by the Pension Fund.</p> <p>Our testing of this process identified that information submitted to the actuary is prepared and submitted by one individual, with no review performed by someone other than the preparer.</p> <p>A lack of review process increases the risk of error in the information provided to the actuary, though we note we did not identify any such errors.</p>		<p>Observation</p>	<p>The IT system used to administer the Pension Fund is not able to report the membership of the Fund at a past date. Whilst live membership reports are run at key dates, such as the date of triennial valuations, these are not retained and management are therefore unable to subsequently evidence the membership numbers reported at a point in time.</p> <p>The inability to subsequently evidence the membership of the Fund at key dates increases the risk that errors in membership numbers may go undetected, and we consider this a factor in the Pension Fund having to include what is effectively a balance line in their reconciliation of changes in membership between the start and end of the financial year.</p>	
<p>Recommendation</p>	<p>We recommend management review the process supporting submission of IAS 19 information to the actuary to ensure there is an adequate review to provide assurance that the submission is accurate.</p>		<p>Recommendation</p>	<p>We recommend management put in place a process to retain supporting evidence for membership data obtained at key dates, such as the date of triennial valuations of the Pension Fund.</p>	
<p>Management response</p>	<p>The Head of Finance and Investment and the Head of Pensions and Investments will liaise to establish an appropriate review process to support the IAS 19 position which will improve the assurance and resilience arrangements in relation to this return.</p>		<p>Management response</p>	<p>The Head of Pensions and Investments will put in place a process to ensure that all key data required to evidence key membership at key dates is retained for financial reporting and audit purposes for the 2024/25 accounts.</p>	



Page 124



Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards; and
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hassan Rohimun, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, we have not provided any non-audit services, see Appendix B. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Independence

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2024

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2024:

[EY UK 2024 Transparency Report | EY UK](#)

Confirmation and analysis of audit fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund;
- ▶ The Pension Fund has an effective control environment; and
- ▶ The Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>

In particular the Pension Fund should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. See Appendix D.

	2021/22	2020/21
	£	£
Scale fee (1)	21,972	21,972
Total scale fee	21,972	21,972
Changes in work required to address professional and regulatory requirements and scope associated with risk (2) (3)	49,199	39,359
Revised scale fees	71,171	61,331
Additional specific one-off considerations reflecting a change in audit work (2) (4)	74,041	5,000
Total core audit fees	145,212	66,331
IAS 19 procedure fees (recurring) (5)	9,250	8,500
IAS 19 procedure fees (triennial) (5)	10,000	-
Total audit fees	164,462	74,831
<i>No non-audit services have been provided</i>	-	-
Total other non-audit services	-	-
Total fees	164,462	74,831

All fees exclude VAT, see notes overleaf

Notes

(1) We do not believe that the scale fee reflects the changes in the audit market and increases in regulation since the PSAA tender exercise for the periods 2018/19 to 2022/23. For 2022/23, PSAA increased the base scale fee but in our view this still does not fully cover the additional work required to deliver a high-quality audit. For reference, the scale fee for the 2023/24 audit of the Pension Fund under the new PSAA contract has been set at £102,380.

(2) We have previously communicated to the Audit Committee additional fees requested from PSAA in respect of the 2020/21 audit of the Pension Fund of £39,359 as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and £5,000 as our assessment of the additional fee required to reflect specific one-off considerations necessitating additional audit procedures (aggregate: £44,359). PSAA have not yet made a determination on the final fee amounts.

(3) We determine our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk in reference to hourly rates set by PSAA. PSAA increased these rates by 25% with effect from the 2021/22 audit, however final amounts are subject to agreement with PSAA following the completion of the audits.

(4) We have encountered a number of challenges in the delivery of our 2021/22 audit of the Pension Fund, including a material levels of misstatement, the identification of an additional significant risk in respect of revenue recognition, necessary restatement of prior period disclosures, management's inability to support certain disclosures and general delays in the receipt of audit evidence and explanations. Further details are provided earlier in this report. The amount shown is our assessment of the impact of these challenges on our audit fees, however the final audit fees will be subject to determination by PSAA.

As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. We perform these procedures each year, however for 2021/22 we also undertook additional procedures in respect of the membership data submitted by the Pension Fund to inform the triennial valuation of the Pension Fund and reported separately on these procedures to the auditors of scheduled bodies. Management may opt to recharge these fees to the relevant member bodies.



08 Appendices

Audit approach update

We summarise below our approach to the audit of the Net Asset Statement and any changes to this approach from prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the Net Asset Statement include:

- ▶ Existence: An asset, liability and equity interest exists at a given date;
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Outline Audit Planning Report (November 2022)
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	This Audit Results Report

Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Audit Results Report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Audit Results Report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	This Audit Results Report

Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Audit Results Report
Internal confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Audit Results Report
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Audit Results Report
Representations	Written representations we are requesting from management and/or those charged with governance	This Audit Results Report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Audit Results Report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Audit Results Report

Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors’ integrity, objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group’s policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Outline Audit Planning Report (November 2022)</p> <p>This Audit Results Report</p>

Management representation letter

We include below a copy the management representation letter which we request is printed on the Pension Fund's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with the same date as the date of approval of the financial statements.

Management Representation Letter

[To be prepared on Teesside Pension Fund letterhead]

[Date]

Ernst & Young
2 St Peter's Square
Manchester
M2 3DF

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and for keeping records in respect of contributions received in respect of active members of the Fund.
2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with applicable law the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention from the auditor because *[management to specify reasons for not correcting misstatement]*.

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty].
6. We confirm that we are not aware of any breaches of the Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
7. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Fund (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:
 - ▶ Involving financial improprieties;
 - ▶ Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
 - ▶ Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue in business, or to avoid material penalties;

- ▶ Involving management, or employees who have significant roles in internal control, or others; or
- ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
 - ▶ Additional information that you have requested from us for the purpose of the audit; and
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: *[Date]*

Management representation letter (continued)

Management Representation Letter (continued)

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.

7. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.

10. From [TBC] through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the notes to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than the 2022 triennial valuation of the Fund and the High Court ruling in the case of Virgin Media Limited v NTL Pension Trustees II Limited described in Note 22 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Teesside Pension Fund Accounts and Notes on pages 117 to 155, other than the financial statements and the statement about contributions.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Advisory Reports

1. We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and schedule of contributions.

Management representation letter (continued)

Management Representation Letter (continued)

H. Independence

1. As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

I. Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

2. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS (Management and Investment of Funds) Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2022 and dated 30 March 2023 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Valuation of Investments

1. We confirm that the significant judgments made in making the valuation of investments have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of investments.

3. We confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out any assumed specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of investments.

6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value Fund's directly held property and the scheme liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Going Concern

1. Based on our assessment of going concern, the details of which have been shared with you, we confirm that we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

Management representation letter (continued)

Management Representation Letter (continued)

N. Climate-Related Matters

1. Whilst recognising that the Climate Change Governance and Reporting Regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered, as well as the impact resulting from the commitments made by the Fund, in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Accounting Practice aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

Director of Finance

O. Geopolitical Conflicts

1. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the conflict(s) in Ukraine and the Middle East and related sanctions on our system of internal control. We have disclosed to you all material transactions, events and conditions related to the conflict(s) in Ukraine and the Middle East and related sanctions.

Chair of Audit Committee

PSAA Statement of Responsibilities

As set out on page 36 our fee is based on the assumption that the Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Pension Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- ▶ prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ▶ ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.

▶ assign responsibilities clearly to staff with the appropriate expertise and experience;

▶ provide necessary resources to enable delivery of the plan;

▶ maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;

▶ ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;

▶ ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and

▶ during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

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ED None

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Teesside Pension Fund Final audit results report

Year ended 31 March 2023

November 2024

Page 143



Agenda Item 7

Private and Confidential

November 2024

Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Audit Committee Members,

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee.

This report summarises our audit conclusion in relation to the audit of Teesside Pension Fund (the Pension Fund) for 2022/23.

The audit is designed to express an opinion on the 2022/23 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Teesside Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects.

This report is intended solely for the use of the Audit Committee, other members of the Council and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Audit Committee on 5 December 2024.

Yours faithfully



Rob Jones

Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Teesside Pension Fund. Our work has been undertaken so that we might state to the Audit Committee and management of Teesside Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Teesside Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our Outline Audit Planning Report tabled at the December 2023 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Status of the audit

Our audit work in respect of the Pension Fund opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Review of the separate Pension Fund Annual Report - we issue a separate consistency opinion on the consistency of the Pension Fund's separate Annual Report with the audited financial statements. We have received the final updated Annual Report and are in the process of confirming it is consistent with the final financial statements reflecting all corrected audit differences;
 - Final quality assurance and review / documentation arrangements for our audit files remain ongoing up to the date of approval of the financial statements.
- Letter of Representation - we will ask management to sign the Letter of Representation with the same date as the financial statements.
- In addition, our internal review procedures continue up until the date of our audit report.

Audit differences

Details of identified misstatements, both adjusted and unadjusted, including misstatements within disclosures, are provided in section 04.

Executive Summary

Other reporting matters

During the course of our audit, we identified two instances where the Pension Fund has not acted in accordance with applicable laws and regulations which we wish to bring to the attention of the Audit Committee:

- The financial statements of the Pension Fund are published alongside those of Middlesbrough Council within the Middlesbrough Council Statement of Accounts. The statutory deadline by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 was 1 August 2022. The Council did not meet this deadline, commencing the inspection period for the draft 2021/22 financial statements on 30 August 2022; and
- Under the Local Government Pension Scheme Regulations 2013, the Pension Fund is required to distribute annual benefit statements to all members of the fund no later than five months after the end of the scheme year. The Pension Fund has not been able to distribute annual benefit statements to all members as the Pension Fund does not hold current contact information for all members. Management have previously reported this fact to the Audit Committee.

Page 148

Control observations

During the 2021/22 audit we identified control observations and have made improvement recommendations in relation to management's financial processes and controls in relation to:

- Recording of asset valuations
- Production of the financial statements
- Reconciliation to custodian reports
- Support for sensitivity disclosures
- Review of submissions to the Fund actuary; and
- Retention of Fund membership information

At the date of drafting this report management has not implemented changes to address these recommendations, so they have continued to exist throughout 2022/23 and into the following financial years. Further details of our observations and our recommendations are provided in section 06.

Independence

Please refer to section 07 for our update on Independence.

Executive Summary

Areas of audit focus

Our Outline Audit Planning Report identified key areas of focus for our audit of the Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

Fraud risk: Misstatement due to fraud or error

- We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of misstatements due to fraud or error.

Significant risk: Valuation of pooled investment vehicles

- We completed our planned procedures and are satisfied that pooled investment vehicles are not materially misstated.

Significant risk: Valuation of private market investments

We completed our planned procedures and are satisfied that private market investments are not materially misstated.

Significant risk: Valuation of directly held property

We completed our planned procedures and are satisfied that directly held property is not materially misstated.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue; and
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



02 Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error

What is the risk, and the key judgements and estimates?

The financial statements as a whole are not free from material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks relating to the Fund.

What are our conclusions?

We have identified audit differences during our audit work, related to the valuation of investments. Details of these audit differences can be found on the following pages in areas of audit focus and our outlined in Section 05, including impact on overall financial position. We have not identified any instances of management override of control.

Our response to the key areas of challenge and professional judgement

We responded to this risk through consistent application of professional judgement and conducting the following:

- We assessed fraud risks during the planning stages of our audit;
- We inquired of management about risks of fraud and the controls put in place to address those risks;
- We developed our understanding of the oversight given by those charged with governance over management's process over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We determined an appropriate strategy to address risks of fraud;
- We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, including journals posted around year-end to update investment valuations, assessing accounting estimates and identifying significant unusual transactions;
- We have specifically focused on the yearend valuation journals for Level two and three investments assets in response to the identified specific risk of management override; and
- We considered whether the results of our testing indicated there was indication of management bias.

Areas of Audit Focus

Valuation of Pooled Investment Vehicles (Level 2 and 3)

What is the risk, and the key judgements and estimates?

The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments mean that any error in these judgements could result in a material valuation error for the Pension Fund.

We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

Our work in this area focused on ensuring that the assumptions used by investment managers in relation to the valuation of private equity investments were free from material misstatement.

What are our conclusions?

We have identified the following matters to report:

- Pooled Investment Vehicles reported in the financial statements were £10.1 million lower than confirmations received from fund managers. Of this, £8.1 million relates information from fund managers not being available until after the financial statements were prepared.

Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of level 2 Pooled Investment Vehicles, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We considered whether investments are appropriately classified in the fair value hierarchy
- We obtained third party confirmations of the valuation of the pooled investments at the reporting date from the investment managers.
- We reviewed the relevant investment manager controls reports for qualifications or exceptions that may affect the audit risk;
- We performed an analytical review of changes in valuations between reporting dates, using 'unit' or market price data sourced independently of management;
- For non-coterminous funds (year-end is not 31 March), we have compared the audited value with the closing value using indices to determine if movements are in line with expectations;
- We agreed a sample of purchases and sales of unquoted investment vehicles during the period to supporting evidence; and
- Reviewed the basis of valuation to ensure this is in line with the Fund's accounting policy.

Areas of Audit Focus

Valuation of Pooled Property Investment (Level 3)

What is the risk, and the key judgements and estimates?

The Fund's investments include unquoted pooled property investments. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments mean that any error in these judgements could result in a material valuation error for the Pension Fund.

We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

Our work in this area focused on ensuring that the assumptions used by investment managers in relation to the valuation of private equity investments were free from material misstatement.

What are our conclusions?

We have identified the following matters to report:

- Of the confirmation difference noted on page 10, the portion relating to Pooled Property Investments was £566,000. The two investments totalling £7.3 million noted as being incorrectly classified as level 3 instead of level 1 related to Pooled Property Investments.
- Movements between audited financial statements and the year-end valuations were not significantly different to wider market indices.
- No control observations were noted from our review of investment manager control reports.

Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of Pooled Property Investment, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We considered whether investments are appropriately classified in the fair value hierarchy
- We obtained third party confirmations of the valuation of the pooled investments at the reporting date from the investment managers.
- We reviewed the relevant investment manager controls reports for qualifications or exceptions that may affect the audit risk;
- We performed an analytical review of changes in valuations between reporting dates, using 'unit' or market price data sourced independently of management;
- For non-coterminous funds (year-end is not 31 March), we have compared the audited value with the closing value using indices to determine if movements are in line with expectations;
- We agreed a sample of purchases and sales of unquoted investment vehicles during the period to supporting evidence; and
- Reviewed the basis of valuation to ensure this is in line with the Fund's accounting policy.

Areas of Audit Focus

Valuation of Private Market Investments (Level 3)

What is the risk, and the key judgements and estimates?

Judgement is required to value private market investments as prices are not publicly available and market volatility means that such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date.

Our work in this area focused on ensuring that the assumptions used by investment managers in relation to the valuation of private equity investments were free from material misstatement.

What are our conclusions?

We have identified the following matters to report:

- We further identified that for two investments totalling £18.6 million, fund managers provided valuations on cost rather than on a revaluation basis. This understated the investments reported by £7.3 million.
- The Fund holds investments in a limited company with a reported value of £40.1 million. We noted that the Fund has continued to value this at the cost of the investment, rather than revaluing its investment at 31 March 2023. The value reported was in excess of the Fund's share of the net book value of the company by £30.3 million (£9.8 million total). This has been adjusted by management.
- Movements between audited financial statements and the year-end valuations were not significantly different to wider market indices.

Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of Level 3 private market investments, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We obtained third party confirmations of the valuation of the pooled investments at the reporting date from the investment managers.
- Reperformed the translation of the net asset value, where reported in a currency other than sterling, to sterling using independently sourced exchange rates.
- We reviewed the relevant investment manager controls reports for qualifications or exceptions that may affect the audit risk;
- We obtained the latest available audited accounts and used the net asset value per the accounts and the Fund's percentage of the share value to recalculate the net asset value included in the investment manager confirmations;
- We agreed a sample of purchases and sales of unquoted investment vehicles during the period to supporting evidence;
- We compared movements between the audited financial statement dates and the valuation at year-end, to relevant indices obtained within EY to ensure these are reasonable; and
- Reviewed the basis of valuation to ensure this is in line with the Fund's accounting policy.

Areas of Audit Focus

Valuation of Directly Held Property (Level 3)

What is the risk, and the key judgements and estimates?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon their valuation.

Our work in this area focused on ensuring that the assumptions used by the property valuer were appropriate and that the valuations were free from material misstatement.

What are our conclusions?

We have identified the following matters to report:

- The Fund's valuer is appropriately objective, competent and capable. We note, however, that the principal signatory of the valuation report has performed the valuation since 2012, in excess of suggested timings under RICS recommendations.
- We identified that properties were mostly valued at the upper end of expected valuation ranges. From properties reviewed, expected valuations were not significantly different to underlying lease agreements and wider market indices and costs.
- No audit differences were identified and we have no further matters to report.

Our response to the key areas of challenge and professional judgement

In response to the identified significant risk relating to the Valuation of Directly Held Property Investments, the following approach was adopted:

- We documented and walked through the design and implementation of the controls over the valuation process;
- We obtained the valuation report from the Fund's valuer, Cushman and Wakefield, and reconciled the valuations to those reflected in the Fund's accounts;
- We assessed the competence, capabilities and independence of the external valuer to ensure that they can be relied upon as management experts;
- We performed analysis on the property valuations, considering valuation movements and consistency with the valuations of similar assets, to identify any assets with characteristics that indicate a risk of material misstatement; and
- We engaged EY Real Estate specialists to audit the valuations and the underlying assumptions of a sample of assets.



03 Audit Report

Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and the amount and disposition at that date of its assets and liabilities as at 31 March 2023 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below.

We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Head of Pensions Governance and Investment's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to 31 December 2025.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2022/23, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts 2022/23.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Audit Report

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if :

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities – Teesside Pension Fund, the Director of Finance is responsible for the preparation of the Pension Fund's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Director of Finance.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.

Audit Report

Draft audit report

Our opinion on the financial statements

- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation
- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations to be our fraud risk. To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation of the Local Government Pension Scheme. As such, we have

considered the experience and expertise of the engagement team [including the use of specialists where appropriate], to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Middlesbrough Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Rob Jones (Key Audit Partner)

Ernst & Young LLP

Glasgow

[Date]



04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £2.5 million which have been corrected by management that were identified during the course of our audit:

Adjusted audit misstatements 31 March 2023	Effect on the current period:
	Net Assets Increase/(Decrease)
Errors	£'000
Factual differences	
<ul style="list-style-type: none"> Management have posted a correction of £15.5 million in the current year and for previous years, whereby distributions for non-recallable capital have been recorded as income, rather than a disposal. This is corrected against Profits and losses on disposal of investments and changes in market value. 	
<ul style="list-style-type: none"> The Pension Fund has an investment in a limited company that has not been revalued during the financial year. 	(30,283)
Net impact on the Statement of Accounts	(30,283)

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted differences

We highlight the following misstatements greater than £2.5 million which have not been corrected by management that were identified during the course of our audit:

Unadjusted audit misstatements 31 March 2023	Effect on the current period:
	Net Assets Increase/(Decrease)
Errors	£'000
Factual differences	
<ul style="list-style-type: none"> Differences were noted between confirmations received from fund managers and amounts reported by the Pension Fund. 	10,137
<ul style="list-style-type: none"> One fund manager has reported valuations on the basis of cost rather than a revalued basis. 	7,315
Net impact on the Statement of Accounts	17,452

Audit Differences

Summary of unadjusted disclosure differences

During the course of the audit, we identified a number of disclosure matters and made a number of recommendations to management to improve the presentation of financial statements disclosures. The following are the most significant which we consider warrant the attention of the Audit Committee, consistent with our findings from the 21/22 audit findings reported separately:

- Financial Instruments – Note 14 contains disclosures relating to the Pension Fund’s financial instruments. Our testing of these disclosures identified that the Pension Fund had incorrectly identified the level in the fair value hierarchy of a number of its investments. In addition, the Pension Fund had incorrectly included the directly held property within this disclosure – directly held property is not a financial instrument and should therefore be excluded from these disclosures.
- Geographical Location of Investments – Note 13 contains disclosure of the geographical location in which the Pension Fund’s investments are held. Our testing identified that this disclosure was based on the location of the investment manager, rather than the underlying investments, and was therefore incorrectly prepared. In preparing a revised disclosure, management have opted to simplify the previous breakdown of locations to now disclose those investments held in the UK and those held outside of the UK, in-line with the disclosure requirement of the CIPFA Code.

The above disclosure errors, together with the material levels of misstatement reported on the previous pages and the volume of other disclosure errors not individually warranting the Audit Committee’s attention, indicates a poor control environment over the production of the Pension Fund’s financial statements. Significant audit effort has been required to resolve misstatements and disclosure errors which should have been identified and corrected via the Pension Fund’s internal review processes prior to publication of the draft financial statements (or provision for audit where relating to subsequently amended disclosures). The increased time and resource taken to identify, address and report on these misstatements will result in additional audit fees .

Page 163



05

Other Reporting Issues

Other Reporting Issues

Consistency of other information published with the financial statements

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. We agreed with management we would only review the Annual Report once we were collectively satisfied that no further changes would be required to the financial statements.

We have not yet received a copy of the final Annual Report to perform these checks. We are working with management to enable completion of these checks in time to issue the consistency opinion at the same time as our main audit report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We had no reason to exercise these duties.

Other Reporting Issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

We have included the significant matter which we wish to bring to the attention of the Audit Committee within this report.



06

Assessment of Control Environment

Assessment of the control environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have no significant deficiencies in internal control to bring to the attention of the Audit Committee.

During the course of the 2021/22 financial statement audit, we identified a number of control observations, which are set out in the following pages. Given the timing of the completion of the 2021/22 and 2022/23 financial statement audit being the same, management has not implemented any changes to the control environment to respond to these matters and we have the same observations from our experience in the 2022/23 audit.

Assessment of Control Environment – 2022/23 findings

Area	Rating	Area	Rating
<p>Recording of asset valuations</p> <p>Observation</p> <p>Our testing of investment valuations identified significant levels of error in the recorded value of individual investments, including investments recorded in the wrong currency and transactions close to year-end being omitted from the financial statement valuations. Gross misstatements identified totalled £107m, which is more than 2% of the Fund's net assets, although we note the net impact of misstatements was smaller but not insignificant. This level of misstatement leads us to conclude that controls over the recording of investment valuations are not operating effectively.</p>	<p>Rating</p>	<p>Production of the financial statements</p> <p>Observation</p> <p>Our audit identified a number of material disclosure errors including disclosures being prepared on the incorrect basis and not in accordance with the requirements of the Pension Fund's reporting framework.</p> <p>We also note that knowledge supporting the production of the financial statements is concentrated with a small number of people (2 officers), which significantly increases the risk of loss of corporate knowledge should there be a turnover in staff.</p>	<p>Rating</p>
<p>Recommendation</p> <p>We recommend management review the controls in place to ensure accurate recording of investment valuations, including ensuring there is a robust review process, to ensure that investments are not recorded at the incorrect value.</p>		<p>Recommendation</p> <p>We recommend management review the controls in place to ensure the financial statements are prepared in accordance with the requirements of the reporting framework, including ensuring there is a robust review process. We also recommend that knowledge of how to prepare material disclosures is formally documented to reduce the risk of loss of corporate knowledge.</p>	
<p>Management response</p> <p>The Head of Pensions and Governance will implement a process to undertake a quarterly review of the basis of recording investment valuations by a supervising officer. This will be implemented in producing the 2024/25 accounts and will also review the draft 2023/24 accounts that remain subject to audit.</p>		<p>Management response</p> <p>The Director of Finance is due to implement a revised operating model within the accountancy disciplines within the Finance Directorate in the 2025/26 financial year subject to approval of the associated investment in the budget by Council in February 2025. There will be a new role of Chief Accountant who will be required to oversee the production of both the Council and Pension Fund Accounts to ensure compliance with relevant legislation, reporting standards and the code of practice and to build resilience within the Pensions and Accountancy Teams.</p>	

Assessment of Control Environment – 2022/23 findings

Area	Rating	Area	Rating
<p>Reconciliation to custodian reports</p> <p>Observation</p> <p>Our testing of the Pension Fund's reconciliation of its accounting records against the investment valuations provided by the custodian identified that the reconciliation is performed shortly after each month end, when final valuations are often still to be reported to the custodian by investment managers.</p> <p>There is no subsequent revisiting of this reconciliation to identify where valuations have changed, which we consider was a factor in why the Pension Fund did not identify the misstatements of investment valuations reported in section 2.</p>		<p>Support for sensitivity disclosures</p> <p>Observation</p> <p>Note 13 to the financial statements includes various disclosures of the sensitivity of the Pension Fund's balances to movements in external factors, such as exchange rates or market movements.</p> <p>Our testing of these disclosures found that management were unable to support the sensitivities disclosed in the financial statements, partly because the reporting to the Pension Fund by the external party which provided them is limited and the external party is no longer trading.</p>	
<p>Recommendation</p> <p>We recommend management review the timing of the reconciliation to custodian reporting to ensure the reconciliation takes place at a time when the custodian records are up-to-date. If this is not possible due to delays in custodian reporting, an additional check back against the accounting records should be introduced to support year-end reporting.</p>		<p>Recommendation</p> <p>We recommend management review the controls in place to obtain, and retain support for, the sensitivities disclosed within the financial statements to ensure that disclosures made in the financial statements can be supported.</p>	
<p>Management response</p> <p>The Head of Pensions and Investments will introduce a year end closure task to reconcile custodian reports to investment manager valuations. This will be adopted in closing the 2024/25 accounts and a check of the draft 2023/24 accounts will be undertaken prior to the audit.</p>		<p>Management response</p> <p>The Head of Pensions and Investments will ensure that all documentation relevant to the preparation of the financial statements is retained for management and audit purposes.</p>	

Assessment of Control Environment – 2022/23 findings

Area	Rating	Area	Rating
<p>Review of submissions to the Fund actuary</p> <p>Where the Pension Fund's actuary provides IAS 19 valuations to individual participating employers for inclusion in the employer's financial statements, they rely on employer-specific information submitted by the Pension Fund.</p> <p>Our testing of this process identified that information submitted to the actuary is prepared and submitted by one individual, with no review performed by someone other than the preparer.</p> <p>A lack of review process increases the risk of error in the information provided to the actuary, though we note we did not identify any such errors.</p>		<p>Retention of Fund membership information</p> <p>The IT system used to administer the Pension Fund is not able to report the membership of the Fund at a past date. Whilst live membership reports are run at key dates, such as the date of triennial valuations, these are not retained and management are therefore unable to subsequently evidence the membership numbers reported at a point in time.</p> <p>The inability to subsequently evidence the membership of the Fund at key dates increases the risk that errors in membership numbers may go undetected, and we consider this a factor in the Pension Fund having to include what is effectively a balance line in their reconciliation of changes in membership between the start and end of the financial year.</p>	
<p>Observation</p>		<p>Observation</p>	
<p>Recommendation</p> <p>We recommend management review the process supporting submission of IAS 19 information to the actuary to ensure there is an adequate review to provide assurance that the submission is accurate.</p>		<p>Recommendation</p> <p>We recommend management put in place a process to retain supporting evidence for membership data obtained at key dates, such as the date of triennial valuations of the Pension Fund.</p>	
<p>Management response</p> <p>The Head of Finance and Investment and the Head of Pensions and Investments will liaise to establish an appropriate review process to support the IAS19 position which will improve the assurance and resilience arrangements in relation to this return.</p>		<p>Management response</p> <p>The Head of Pensions and Investments will put in place a process to ensure that all key data required to evidence key membership at key dates is retained for financial reporting and audit purposes for the 2024/25 accounts</p>	



07

Independence

Other Reporting Issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have the following matters to report:

- During the audit, we made the following observations on internal control and financial reporting:
 - The Altair system incorrectly calculates some aspects of the pension for elements with CARE involved due to applying incorrect inflation increases, there is no IT control in place to prevent this. XPS rely upon their manual checks of each benefit payment to ensure that it matches to the appropriate inflation increases. However, it was noted that this only applies to members on death so the issue is restricted to a small pool of members. We have not identified any issues through our testing.
 - As reported on page 12, one Investment Fund Manager received a qualified opinion in their controls report due to failure to review a report for one of five clients, which could affect valuation of Investment. We are content that this does not have a material impact on the valuation of the fund.
 - As reported on page 12, one Investment Fund Manager had not provided a controls report. We are content that this does not have a material impact on the valuation of the fund.
 - The Pension Fund's pensions administrator, XPS, did not retain a record of a formal review process over the membership data sent to the Fund's actuary.
 - We noted an absence of a review completed by a separate member of the pensions team of the IAS 19 data submission to the Fund's actuary.
 - We noted that the Pension Fund had not fully disclosed all transactions with the administering authority, Middlesbrough Council, due to a late accrual process. No formal process to identify related parties in relation to the administering authority. The Fund should ensure that the GL is reviewed for completeness on preparation of the statements on account.

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards; and
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However, we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Rob Jones, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, we have not provided any non-audit services, see Appendix B. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Independence

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2024

EY Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2024:

[EY UK 2024 Transparency Report | EY UK](#)

Independence

Confirmation and analysis of audit fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund;
- ▶ The Pension Fund has an effective control environment; and
- ▶ The Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Pension Fund should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. See Appendix D.

	2022/23	2021/22
	£	£
Scale fee (1)	35,222	21,972
Total scale fee	35,222	21,972
Changes in work required to address professional and regulatory requirements and scope associated with risk (2) (3)	49,199	49,199
Revised scale fees	84,421	71,171
Additional specific one-off considerations reflecting a change in audit work (2) (4)	54,918	74,041
Total core audit fees	139,339	145,212
IAS 19 procedure fees (recurring) (5)	9,970	9,250
IAS 19 procedure fees (triennial) (5)	-	10,000
Total audit fees	149,309	164,462
<i>No non-audit services have been provided</i>	-	-
Total other non-audit services	-	-
Total fees	139,309	164,462

All fees exclude VAT, see notes overleaf



08 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the Net Asset Statement and any changes to this approach from prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the Net Asset Statement include:

- Existence: An asset, liability and equity interest exists at a given date;
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement.

Appendix B - Required communications with the Audit Committee

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

Required communications	What is reported?	Our Reporting to you
		When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – 29 November 2023
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report – 29 November 2023
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	This Audit Results Report

Page 180

Appendix B - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	This Audit Results Report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	This Audit Results Report
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	This Audit Results Report

Appendix B - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Audit Results Report
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Audit Results Report
Representations	Written representations we are requesting from management and/or those charged with governance	This Audit Results Report
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Audit Results Report

Appendix B - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	This Audit Results Report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	This Audit Results Report

Appendix B - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	This Audit Results Report
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	This Audit Results Report

Appendix B - Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Audit Results Report
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor's report Any circumstances identified that affect the form and content of our auditor's report 	This Audit Results Report

Appendix C – Management representation letter

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young LLP
G1 Building
5 George Square
Glasgow
G2 1DY

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2023. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for

the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and for keeping records in respect of contributions received in respect of active members of the Fund.

2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with applicable law the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention from the auditor because [management to specify reason].

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

Appendix C- Management representation letter

Management representation letter

Management Rep Letter

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
7. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Fund (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue in business, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others.
 - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees,

former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [DATE].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year-ended 31 March 2023. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.

Appendix C– Management representation letter

Management representation letter

Management Rep Letter

7. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.
10. From 27 April 2023 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

E. Subsequent Events

1. Other than the High Court Ruling regarding Virgin Media Limited v NTL Pension Trustees II Limited described in Note 22 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the annual report on pages 1 to 39, other than the financial statements, the auditor's report and the statement about contributions.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Advisory Reports

1. We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and schedule of contributions/payment schedule.

H. Independence

1. As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

I. Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that the Fund has made no direct investment in derivative financial instruments.
2. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the

Appendix C- Management representation letter

Management representation letter

Management Rep Letter

requirements of the LGPS (Management and Investment of Funds) Regulations 2016 in respect of these investments has been followed.

K. Estimates

Pooled investment vehicles, directly held property and actuarial valuation disclosures ("the estimates")

1. We confirm that the significant judgments made in making the estimates have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate, reflect the expectations of the Fund and to meet the obligations to members of the Fund with regards to payment of retirement benefits.
4. We confirm that the disclosures made in the financial statements with respect to the estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the Fund, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value Investments held by the Fund and the Fund's liabilities to its members to pay retirement benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any

instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Going Concern

1. Based on our assessment of going concern, the details of which have been shared with you, we confirm that we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements

N. Climate-Related Matters

1. Whilst recognising that the Climate Change Governance and Reporting Regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Accounting Practice aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

(Head of Pensions)

(Chair)

Date

Appendix D

PSAA Statement of Responsibilities

As set out on page 36 our fee is based on the assumption that the Pension Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Pension Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- ▶ prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ▶ ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- ▶ assign responsibilities clearly to staff with the appropriate expertise and experience;
- ▶ provide necessary resources to enable delivery of the plan;
- ▶ maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ▶ ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ▶ ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- ▶ during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

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FD None

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Page 191

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Ernst & Young
1 More London Place
LONDON
SE1 2AF

5 December 2024

Dear Sirs,

Middlesbrough Council – Statement of Accounts - 2021/22

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council (“the Council”) for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Middlesbrough Council as of 31 March 2022 and of its financial performance and cashflows for the year then ended in accordance with, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as

amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

B. Non-compliance with law and regulations, including fraud.

1. We acknowledge that we are responsible to determine that the Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation, and maintenance of a system of internal control to prevent and detect fraud and that we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - Involving financial improprieties.
 - Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements.
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties.
 - Involving management, or employees who have significant roles in internal controls, or others.

- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Executive and Overview and Scrutiny Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates: 27 November 2024 for Council, 4 December for Executive and 20 November 2024 for Overview and Scrutiny Board.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2022. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions, or other requirements of all outstanding debt.
7. From 28 April 2023, through the date of this letter we have disclosed to you, to the extent that we are aware, (1) any unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the

aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on these assets, nor has any asset been pledged as collateral, other than those that are disclosed in the notes to the financial statements.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance agreements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements, we have no other line of credit arrangements.

F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuations of land and buildings and the Council's defined-benefit pension balances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

G. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuations of non-current assets have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of non-current assets.

3. We confirm that the significant assumptions used in making the valuation of non-current assets appropriately reflect our intent and ability to carry out the Council's intentions on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of non-current assets.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Contingent Liabilities

We are unaware of any violations or possible violations of law or regulations the effects of which should be considered in the financial statements or as the basis for recording a contingent loss (other than those disclosed or accrued in the financial statements).

K. Going Concern

Note 1 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

L. Subsequent Events

Other than the events described in Note 5 to the financial statements, there have been no events subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

M. Group Audits

1. There are no significant restrictions on our ability to distribute the retained profits or losses of the group activities, because of statutory, contractual, exchange control or

other restrictions other than those indicated in the group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group transactions amongst subsidiary undertakings in the group financial statements.

N. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2021/22 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2021/22 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

O. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation, and disclosure of climate-related matters has been considered and reflected in the financial statements.

Yours faithfully,

Debbie Middleton, Director of Finance and S151 Officer
Middlesbrough Council

Jill Ewan
Chair of the Audit Committee
Middlesbrough Council

Ernst & Young
1 More London Place
LONDON
SE1 2AF

5 December 2024

Dear Sirs,

Middlesbrough Council – Statement of Accounts - 2022/23

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council (“the Council”) for the year ended 31 March 2023. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Middlesbrough Council as of 31 March 2023 and of its financial performance and cashflows for the year then ended in accordance with, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as

amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

B. Non-compliance with law and regulations, including fraud.

1. We acknowledge that we are responsible to determine that the Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation, and maintenance of a system of internal control to prevent and detect fraud and that we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - Involving financial improprieties.
 - Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements.
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties.
 - Involving management, or employees who have significant roles in internal controls, or others.

- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Executive and Overview and Scrutiny Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates: 27 November 2024 for Council, 4 December for Executive and 20 November 2024 for Overview and Scrutiny Board.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2023. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions, or other requirements of all outstanding debt.
7. From 28 April 2023, through the date of this letter we have disclosed to you, to the extent that we are aware, (1) any unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the

aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on these assets, nor has any asset been pledged as collateral, other than those that are disclosed in the notes to the financial statements.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance agreements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements, we have no other line of credit arrangements.

F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuations of land and buildings and the Council's defined-benefit pension balances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

G. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuations of non-current assets have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of non-current assets.

3. We confirm that the significant assumptions used in making the valuation of non-current assets appropriately reflect our intent and ability to carry out the Council's intentions on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of non-current assets.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Contingent Liabilities

We are unaware of any violations or possible violations of law or regulations the effects of which should be considered in the financial statements or as the basis for recording a contingent loss (other than those disclosed or accrued in the financial statements).

K. Going Concern

Note 1 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

L. Subsequent Events

Other than the events described in Note 5 to the financial statements, there have been no events subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

M. Group Audits

1. There are no significant restrictions on our ability to distribute the retained profits or losses of the group activities, because of statutory, contractual, exchange control or

other restrictions other than those indicated in the group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group transactions amongst subsidiary undertakings in the group financial statements.

N. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2022/23 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2022/23 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

O. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation, and disclosure of climate-related matters has been considered and reflected in the financial statements.

Yours faithfully,

Debbie Middleton, Director of Finance and S151 Officer
Middlesbrough Council

Jill Ewan
Chair of the Audit Committee
Middlesbrough Council

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Debbie Middleton

Director of Finance and Section 151 Officer

Email: debbie_middleton@middlesbrough.gov.uk

Ernst & Young
2 St Peter's Square
MANCHESTER
M2 3DF

5 December 2024

Dear Sirs,

Teesside Pension Fund – Statement of Accounts - 2021/22

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund (“the Fund”) for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund for the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and for keeping records in respect of contributions received in respect of active members of the Fund.
2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We

believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with applicable law, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund we believe that the fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention from the auditor because of the relative size of the amounts involved.

B. Non-compliance with law and regulations, including fraud.

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation, and maintenance of a system of internal control to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
7. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- Involving financial improprieties.
- Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements.
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties.
- Involving management, or employees who have significant roles in internal controls, or others.
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators, or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund held throughout the year to the most recent meeting on the 25 September 2024.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year ended 31 March 2022. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.
7. We believe that the methods, significant assumptions, and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in

accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions, or other requirements of all outstanding debt.
9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.
10. From 28 April 2023, through the date of this letter we have disclosed to you, to the extent that we are aware, (1) any unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the notes to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

Other than the 2022 triennial revaluation of the Fund and the High Court Ruling regarding Virgin Media Limited v NTL Pension Trustees II Limited described in Note 22 to the financial statements, there have been no events subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Teesside Pension Fund Accounts and Notes on pages 117 to 155, other than the financial statements and the statement about contributions.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Advisory Reports

We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and the schedule of contributions.

H: Independence

As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

I: Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicle and shared services.

1. We confirm that the Fund has made no direct investments in derivative financial instruments.
2. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in November 2015 investment reform and criteria guidance and that the requirements of the LGPS (Management and Investment of Funds) Regulations 2016 in respect of these has been followed.

J. Actuarial Valuation

The latest report of the actuary Hymans Robertson as at 31 March 2022 and dated 30 March 2023 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on this report.

K. Valuation of Investments

1. We confirm that the significant judgments made in making the valuation of investments have taken into account all relevant information and the effects of the Covid-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of investments.
3. We confirm that the significant assumptions used in making the valuation of investments appropriately reflect our intent and ability to carry out the assumed specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
5. We confirm that appropriate specialised skills or expertise has been applied in making the estimates.

6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value Investments held by the Fund and the Fund's liabilities to its members to pay retirement benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Going Concern

Based on our assessment of going concern, the details of which have been shared with you, we confirm we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

N. Climate-related matters

1. Whilst recognising that the Climate Change Governance and Reporting regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation, and disclosure of climate-related matters has been considered, as well as the impact resulting from the Commitments made by the Fund, in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Practice aligned with the statements we have made in the other information or other public communications made by us.

O. Geopolitical Conflicts

We have disclosed to you any significant changes in our processes, controls, policies, and procedures that we have made to address the effects of the conflicts in Ukraine and the Middle East and related sanctions on our system of internal control. We have disclosed to you all material transactions, events and conditions related to the conflicts in Ukraine and the Middle East and related sanctions.

Yours faithfully,

Debbie Middleton, Director of Finance and S151 Officer
Middlesbrough Council & Teesside Pension Fund

Jill Ewan
Chair of the Audit Committee
Middlesbrough Council

Ernst & Young
G1 Building
5 George Square
GLASGOW
G2 1DY

5 December 2024

Dear Sirs,

Teesside Pension Fund – Statement of Accounts - 2022/23

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund (“the Fund”) for the year ended 31 March 2023. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund for the year ended 31 March 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We understand that the purpose of your audit of the Fund’s financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with applicable law and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and for keeping records in respect of contributions received in respect of active members of the Fund.
2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We

believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with applicable law, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund we believe that the fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with applicable law and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that are free from material misstatement, whether due to fraud or error.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention from the auditor because of the relative size of the individual amounts involved.

B. Non-compliance with law and regulations, including fraud.

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation, and maintenance of a system of internal control to prevent and detect fraud and that we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to the Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with the Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.
7. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- Involving financial improprieties.
- Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements.
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties.
- Involving management, or employees who have significant roles in internal controls, or others.
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators, or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund held throughout the year to the most recent meeting on the 25 September 2024.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year ended 31 March 2023. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.
7. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in

accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

8. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions, or other requirements of all outstanding debt.
9. No transactions have been made which are not in the interests of the Fund members or the Fund during the year or subsequently.
10. From 28 April 2023, through the date of this letter we have disclosed to you, to the extent that we are aware, (1) any unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the notes to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

Other than the High Court Ruling regarding Virgin Media Limited v NTL Pension Trustees II Limited described in Note 22, there have been no events subsequent to the period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the annual report on pages 1 to 39, other than the financial statements, the auditors report and the statement about contributions.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Advisory Reports

We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and the schedule of

contributions/payment schedule.

H: Independence

As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

I: Derivative Financial Instruments and Pooling investments, including the use of collective investment vehicle and shared services.

1. We confirm that the Fund has made no direct investments in derivative financial instruments.
2. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in November 2015 investment reform and criteria guidance and that the requirements of the LGPS (Management and Investment of Funds) Regulations 2016 in respect of these has been followed.

J. Estimates

Pooled investment vehicles, directly held by property and actuarial valuation disclosures ('the estimates')

1. We confirm that the significant judgments made in making the estimates have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate, reflect the expectations of the Fund and to meet the obligations to members of the fund with regards to payment of retirement benefits.
4. We confirm that the disclosures made in the financial statements with respect to the estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the Fund, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.
5. We confirm that appropriate specialised skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value Investments held by the Fund and the Fund's liabilities to its members to pay retirement benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial

statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Going Concern

Based on our assessment of going concern, the details of which have been shared with you, we confirm we are not aware of any material uncertainties related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

M. Climate-related matters

1. Whilst recognising that the Climate Change Governance and Reporting regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation, and disclosure of climate-related matters has been considered in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Practice aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

Debbie Middleton, Director of Finance and S151 Officer
Middlesbrough Council & Teesside Pension Fund

Jill Ewan
Chair of the Audit Committee
Middlesbrough Council

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance (S151 Officer)
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Submitted to:	Audit Committee
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Date:	5 December 2024
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Title:	Approval of Statement of Accounts – 2021/22 and 2022/23
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Report for:	Decision
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Status:	Public
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Council Plan priority:	Delivering Best Value
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Executive summary

In line with the Accounts and Audit Regulations 2015 and the subsequent (amendment) Regulations 2023, all Local Authorities are expected to produce their draft annual Statement of Accounts by the end of May and an audited set published each year by the end of September for each financial year.

As previously outlined to this Committee due to a longer than normal audit on the 2020/21 Statement of Accounts, national issues which led to a delay in the audit process on the 2021/22 accounts, and the subsequent delay in both publishing and commencing the 2022/23 accounts, our external auditors EY (Ernst & Young) have not been able to deliver the audits for these two financial years by the statutory deadline.

This is not an isolated situation. The backlog in the publication of audited accounts has reached an unacceptable level nationally with the number of outstanding opinions as at 30 September 2023 standing at 918.

This backlog undermines accountability in the local government sector and reduces information available to the users of the accounts. In a bid to provide a solution the Accounts and Audit (Amendment) Regulations 2024 provide for statutory 'backstop' dates to help clear the backlog of audits and rebuild assurance.

The first statutory 'backstop' date is the 13 December 2024 and applies to all outstanding audits up to and including the 2022/23 accounts. This covers the two outstanding sets of accounts for the Council where the audit has not yet been completed.

As a result of not being able to deliver the audits in time for the backstop date, this has led to EY issuing a Disclaimer of opinion for the 2021/22 and 2022/23 accounts. This means that EY have not been able to gain sufficient evidence to form an opinion and can only give a disclaimed or 'no assurance' conclusion on the audit of the financial statements for the Council.

The 'no assurance' position applies to both financial years, even though a reasonable amount of work was done on the former year's audit, but not enough to reach a conclusion on most areas. For 2022/23, only basic audit work and checks have been undertaken. Members should note that although this position is unsatisfactory, it is a consequence of the national position in relation to the local audit system and that there was nothing further that Council officers could have done to alter the outcome of the disclaimed opinion.

EY also have responsibilities under their audit contract to deliver an opinion on the value for money arrangements within the Council and to audit the financial statements of the Teesside Pension Fund for both financial years. The conclusions on value for money were reported to this Committee on 25 July 2024, plus the audit of the pension fund accounts for both years has now been completed.

The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit. The Audit Completion Reports for both the Council and Teesside Pension Fund detail the significant findings. They also contain any misstatements (adjusted or unadjusted) within the accounts, and significant issues or deficiencies in relation to internal control, and any other matters that they wish to bring to the attention of those charged with governance in relation to their audit work.

Following consideration of the audit completion reports, and the letters of representation from the S151 Officer to the external auditors for both the Council and the Pension Fund, Members will be asked to approve the audited Statement of Accounts for the financial years 2021/22 and 2022/23. The latest versions of these are attached at **Appendices 1 and 2** to this report.

Members should also note that the aim of the back stop arrangements is to clear the national accounts backlog in a timely and efficient way. However, it may be several audit cycles before full assurance is rebuilt in the opinion on the financial statements and that a conclusion can be given that they give a true and fair view on the financial position, income, expenditure and cashflows of the Council. Again, this position is expected to apply to many other local authorities. Regular updates on this will be given to the Committee and the progress being made by the new council auditors, Forvis Mazars.

1. Purpose

- 1.1 To approve the Statement of Accounts for the Council for the 2021/22 and 2022/23 financial years prior to the statutory date of 13 December 2024, following external audit.
- 1.2 The Committee should note the disclaimed audit opinions given by Ernst & Young (EY) on these two sets of financial statements for Middlesbrough.
- 1.3 The Committee should also note that the work of EY in relation to the value for money commentary and the audit of the Teesside Pension Fund accounts for these two years is complete. In particular, the audit opinion on the pension fund accounts for both years is unqualified, and the accounts give a true and fair view of the financial position.

2. Recommendations

2.1 That the Audit Committee

- Approve the Statement of Accounts for the financial years 2021/22 and 2022/23 set out at Appendices 1 and 2, taking into the external auditor's report on the audit process and management representations on the financial statements presented.
- Note that this is the end of the accounting and financial processes for these two financial years and these accounts are now closed. The latest open audit will now be on the 2023/24 accounts for the Council. Progress on this audit has already been discussed with Members. The back stop date for this audit is 28 February 2025.

3. Background and relevant information

3.1 The external auditors are required by the Public Sector Audit Appointments Ltd (PSAA) to report to Members issues arising from the accounts audit on an annual basis. The Completion Report for Those Charged With Governance details the significant findings from the audit by EY.

Local Audits for 2021/22 and 2022/23

3.2 As previously outlined to this Committee there have been several national and local issues resulting in a delay in finalising the 2021/22 accounts. The audit of the accounts was started towards the end of July 2022 and then paused at the end of March 2023 to allow the council finance team to focus on closing the 2022/23 management accounts. During this time, there had been issues with highways infrastructure assets and CIPFA code compliance (principally affecting the sign off 2020/21's accounts), as well as additional work that was required on IAS 19 on retirement benefits and IAS16 on property, plant, and equipment.

3.3 The previous government introduced some draft proposals to tackle the worsening problems on the timeliness of local audits being completed. Due to the uncertainty around these proposals at first and whether audits could be completed in time, the 2021/22 audit was not restarted during July 2023 awaiting further details on the proposed back stop arrangements.

3.4 As the 2022/23 statement of accounts was being prepared, the Director of Finance requested a review on the methodology that underpinned the bad debt provision of council tax and business rates. Due to the significant financial implications, this work took some time to finalise and validate. Following completion, the 2021/22 and 2022/23 financial statements were restated as the assets and liabilities involved required material changes. The 2022/23 accounts were finally published in late December 2023, with a reworked set of accounts for 2021/22 issued also.

3.5 During the latter part of 2023, further guidance was issued by government around draft dates for clearing the audit backlog and a consultation was launched to get views from all sector partners. Once firm proposals were established by government and in view of

the workload still outstanding on 2021/22 and the restatement of the collection fund totals, it became apparent that it was unlikely that the audit could be completed in time. No further work has been done on 2021/22 accounts bar some review of the collection fund provision adjustments since March 2023. Only basic work and checks have also been done on the 2022/23 accounts due to the delay in the previous year's audit and the audit fieldwork has never fully commenced in respect of this financial year.

National Position and new legislation

- 3.6 Middlesbrough are not alone in this position. The number of outstanding audit opinions as at 30 September 2023 stood at 918 and this included prior year audits for many local authorities. As the backlog of unaudited accounts had reached an unacceptable level, this led to the Department for Levelling-up, Housing and Communities (DLUHC) introducing measures to address these local audit delays. These measures though did not receive approval before parliament was dissolved for the July 2024 general election. As a result, the legislation was not laid until much later than expected.
- 3.7 The Accounts and Audit (Amendment) Regulations 2024 came into force on 30th September 2024 and provided for statutory 'backstop' arrangements in three phases to help clear the backlog of audits and rebuild assurance. The backstop dates were also brought forward by the new government to earlier than previously set out.
- 3.8 The first phase which has a backstop date of 13th December 2024 involves clearing the backlog of historic opinions up to and including the financial year 2022/23. Phase 2 uses various backstop dates to allow assurance to be rebuilt over several years so as not to cause a recurrence of backlog issues. Phase 3 involves reforming the local audit system to address the challenges and ensure timely financial reporting and audit.

Audit Completion Reports

- 3.9 As a result of the position on the two legacy audits for Middlesbrough, the work required to complete these and the earlier back stop dates, EY have determined that they are unable to complete all the necessary procedures to obtain sufficient evidence to provide an opinion on the 2021/22 and 2022/23 accounts and have therefore issued a Disclaimed opinion in respect of both financial years.
- 3.10 The basis of this Disclaimer of opinion can be found in the Audit Completion Report for Those Charged With Governance on the Council. This states that the backstop date and the wider requirements of the local audit system reset meant that EY did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on both sets of financial statements.
- 3.11 Although this position may be an unsatisfactory one, it is a consequence of the backlog of national audits and the back stop arrangements needed to clear these. There is very little control that either auditors or the finance team at the council could have done to change this outcome and this is made clear within EY's report.

- 3.12 Over the period, EY identified other priorities to complete as much of the audit as possible. A significant amount of effort and resources have been deployed to complete the work needed to assess the Council's value for money arrangements for 2021/22 and 2022/23. Also, the work required to complete the audit of the pension fund financial statements has also been finished.
- 3.13 The value for money commentary, including several significant weaknesses, was presented to Audit Committee on 25 July 2024. The findings on this are repeated in the Council's audit completion report covering both financial years. Members will be aware that a governance improvement plan has been in place to address these weaknesses over the last 12-18 months and progress is continuing to be made.
- 3.14 For the pension fund accounts, these are presented in two separate completion reports covering each individual financial year and any issues to report.
- 3.15 The Audit Completion Reports for the Council and Pension Fund will be presented to the Committee before this report by EY but in summary the reports will cover the following areas:
- An Audit Results and Findings section highlighting key issues and any misstatements identified in the audit of the financial statements which were not corrected by management, with notes to those misstatements that have been corrected.
 - Members are specifically required to consider items that are classified as unadjusted differences that officers propose not to adjust in the accounts (pension fund only).
 - The Value for Money commentary on arrangements in place (council only).
 - EY are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit.
- 3.16 Upon consideration of the Auditors Completion Report, Members should then review the letters of representation. These are key assurances needed by EY, in terms of the systems, processes, judgements, and compliance arrangements put in place by management at the Council when preparing the Statement of Accounts and in undertaking the audit. These need to be signed off by the Director of Finance, as the lead officer with financial management responsibility for the Council and Pension Fund, and the Chair of the Audit Committee, on behalf of those charged with governance.
- 3.17 There are four letters of representation required by the auditors for this set of approvals. Two for the Council and two for the pension fund, representing one for each of the financial years where the audit process has not been completed due to the impending back stop date.
- 3.18 The audited accounts for 2021/22 and 2022/23 for both the Council and Pension Fund can then be approved by the Committee and this will mark the end of accounting process for these two financial years. The audited accounts will be published on the website and the 2023/24 accounts will then be the latest open set of council accounts.

3.19 As mentioned earlier, it is likely to take several financial years to move from a set of disclaimed audit opinions to a true and fair view on the financial position. The back stop date for the 2023/24 financial year is 28 September 2025. Forvis Mazars are only in the early stages of this audit and have indicated that it is likely that a disclaimed audit opinion will be required for this financial year also. Further information will be presented to Committee on this set of accounts in due course.

4. Other potential alternative(s) and why these have not been recommended.

4.1 Not applicable due to the statutory nature of the decision being made to approve the accounts for the relevant financial years and this needing to be done by the backstop date of 13 December 2024.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	Although the statement of accounts is the main method of external financial reporting for the Council and the audit process gives assurance to Members and other stakeholders on the values contained within this. There are no specific financial implications on the decision being made, except for the additional external audit fees that are associated with an audit process over a prolonged period.
Legal	The external audit of the statement of accounts for a local authority is a legal requirement under the Accounts and Audit Regulations. Under normal circumstances, these would have been due by 30 November 2022 (for 2021/22) and by 30 September 2023 (for 2022/23). Due to the national audit backlog, the regulations were amended on 9 September 2024 to introduce a statutory backstop date by which older financial year audits must be completed by. For these accounts, this is 13 December 2024. Approval of the reports by the Committee by this date, following consideration of the external auditors reports and comments, plus the necessary representations from management, allow this statutory back stop date to be met.
Risk	The main risk associated with the late completion and publication of the statement of accounts for a local authority, particularly those were a disclaimed (no assurance) opinion is reputational. However, in the current circumstances there are a significant number in of Councils in this position across the country. Most have had their audit process cut short by the backstop arrangements, through no fault of their own. The accounts have been produced in a professional manner and been signed of as representing a true and fair view by the S151 Officer. Government have also asked auditors to

	be clear about this in their reporting and that assurance on audits will be rebuilt over several future reporting cycles.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no direct implications of this decision on any of these areas.
Climate Change / Environmental	There are no direct implications of this decision on any of these areas.
Children and Young People Cared for by the Authority and Care Leavers	There are no direct implications of this decision on any of these areas.
Data Protection	There are no direct implications of this decision on Data Protection.

Appendices

1	Audited Statement of Accounts – 2021/22
2	Audited Statement of Accounts – 2022/23

Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Draft Statement of Accounts – 2021/22	5 August 2022
Audit Committee	Update on Audit of Accounts 2021/22 progress report	5 October 2023
Audit Committee	Draft Statement of Accounts – 2022/23	11 February 2024
Audit Committee	Backstop progress on the 2021/22 and 2022/23 Statement of Accounts audit	3 October 2024

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Middlesbrough Council Statement of Accounts 2021/22



Contents

1. <u>NARRATIVE REPORT AND WRITTEN STATEMENTS</u>	2. <u>CORE FINANCIAL STATEMENTS</u>	3. <u>NOTES TO THE ACCOUNTS</u>	4. <u>GROUP ACCOUNTS</u>	5. <u>COLLECTION FUND</u>	6. <u>TEESSIDE PENSION FUND</u>	7. <u>ANNUAL GOVERNANCE STATEMENT</u>	8. <u>GLOSSARY OF TERMS</u>
<u>Narrative Report</u>	Movement in Reserves Statement	Detailed Notes to the Accounts	Introduction	Income and Expenditure Account	Pension Fund Statement of Accounts	Annual Governance Statement	Glossary of Terms
Statement of Responsibilities – Middlesbrough Council	Comprehensive Income and Expenditure Statement		Movement in Reserves Statement	Notes to the Collection Fund	Notes to the Pension Fund		
Statement of Responsibilities – Teesside Pension Fund	Balance Sheet		Comprehensive Income and Expenditure Statement				
Independent Auditors report - Middlesbrough Council	Cash Flow Statement		Balance Sheet				
Independent Auditors Report – Teesside Pension Fund			Cash Flow Statement				
			Notes to the Group Accounts				
2	38	44	109	119	123	162	192

The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2022 and a summary of its income and expenditure during the 2021/22 financial year. The accounts are, in parts, technical and complex as they have been prepared to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards. The accounts are available on the Council's website: www.middlesbrough.gov.uk under Open Data; Annual Report and Statement of Accounts.

1. Narrative Report



Narrative Report

Review of the Year

Middlesbrough Council is a large and diverse public sector organisation, located in the North East of England. We are proud of our past and excited for the future. Middlesbrough is nestled away in a region that is the country's best kept secret; rivers, beaches, forests and moors are all on our doorstep.

We are the natural centre of the Tees Valley region, an area home to around 670,000 people, and our town centre is being transformed with modern urban living. The oldest part of town, close to the waterfront, is being brought back to life as we approach Middlesbrough's 200th birthday. The leisure and cultural possibilities in and around Middlesbrough are endless; from our beautiful parks to the town's arts and heritage venues, there is much to be proud of.

This Narrative Report is to provide both guidance and context to the accounts of Middlesbrough, presenting a summary of the Council's financial position, financial performance and non-financial activities for the year, its prospects for future years and briefly explaining the key accounting statements. A separate Summary of Accounts document is also available this financial year to ensure that the information in the Statement of Accounts is as accessible as possible, and this is available via the Council's website (www.middlesbrough.gov.uk).

At 31 March 2022, Covid-19 restrictions had been lifted across the country but the threat of some reappearance or a new variant cannot be ignored. Fortunately, it would appear that most of the severe effects of the virus have reduced, and the United Kingdom is starting to recover from this unprecedented public health pandemic. This is due largely to the success of the UK vaccination programme and the lessons learned by Middlesbrough Council will make the Council and its staff stronger and more able to deal with any future emergencies.

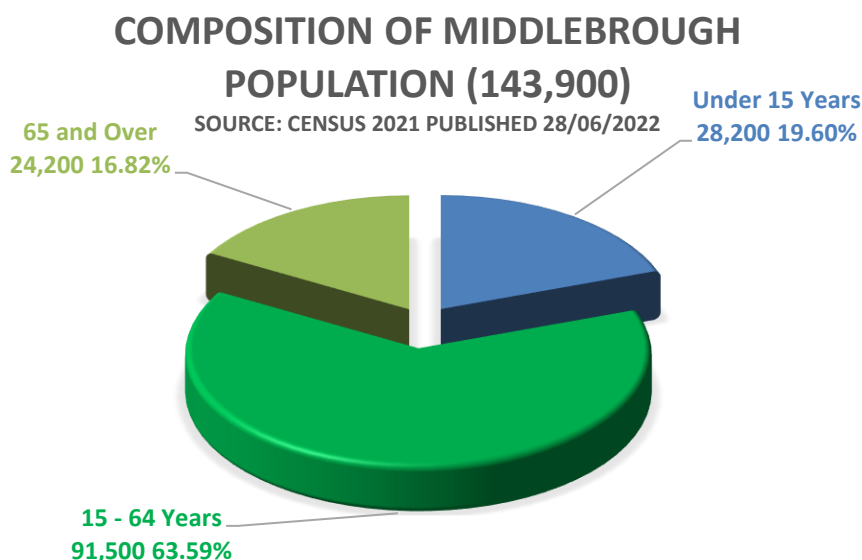
The Narrative Report and the Statement of Accounts will aim to give the appropriate context as to how the Council responded to the pandemic and what impact it has had on the Council's financial position and performance during the year. It will also consider its future prospects given the early stages of the recovery.

Background to the Council

Middlesbrough Council is an evolving town, and the Council came into existence following the abolition of Cleveland County Council in 1996. It is a unitary local authority providing a range of services to the people of Middlesbrough.

The Council works with local residents, businesses, public sector partners and the voluntary and community sector to improve local social, economic and environmental wellbeing for all and to secure the long-term sustainability of the town. It is one of the largest employers in the Tees Valley area, providing work for more than 3,000 people.





The composition of the local population drives the focus of the services provided by the Council most notably through increasing demand for Children’s and Adult Social Care. In recent years, there has been a greater focus on economic growth, particularly in relation to the town centre, and housing.

Economic data from Nomis Official Labour Market Statistics (Latest data 2021) shows the following:

	Middlesbrough	North East	Great Britain
Gross Weekly Pay (Median) Full-Time Workers	£528.80	£546.80	£613.10
Unemployment rate (16 – 64) (as proportion of economically active)	7.3%	6.0%	4.4%

The Council’s various strategies are set around meeting the needs of its residents driven by the demographic profile of the town.

Political Structure in 2021/22

The local government elections of May 2019 created real change in the town as it was the first time since its creation in 1996 that the Labour Party has not held control at the Council. This financial year is the third under the leadership of the independent Mayor, Andy Preston, who has developed a new Strategic Plan and ambitions for the Town, supported by Executive Members.



The Executive is the Council’s principal decision-making body, considering significant issues in connection with, for example, community safety, leisure, education, social services, highways and the environment as well as making recommendations to Council on the annual revenue budget and investment strategy. The Council had an independent led administration during 2021/22 with an independent Councillor as Chair of the Overview and Scrutiny Board, which scrutinises the work of the Executive.

Meetings of the Executive took place every four weeks chaired by the Mayor with each member of the Executive having designated responsibilities (known as portfolios). Meetings returned to in person where required from mid-May 2021 onwards.

Middlesbrough Council consists of 20 wards with between one and three Councillors representing each ward. All councillors serve a maximum four-year term. The political make-up of the Council at 31 March 2022 was:

Elected Members	47
Mayor Andy Preston (Independent)	1
Middlesbrough Independent Councillor's Association	10
Middlesbrough Independent Group	9
Labour	20
Conservative	3
Independent	3
Vacant	1

The Financial year 2021/22 has been another challenging year for the Council, supporting the community through the Covid-19 roadmap to recovery, whilst delivering services as directed by the refreshed Strategic Plan and its priorities.

As the relaxing of the rules continued through the financial year, the Council continued to meet the needs of the local community but also had to deliver Government initiatives with the administration of Business Rate Reliefs and the payment of grants to businesses affected by Covid-19. Work was also on going to support the vulnerable in the community.

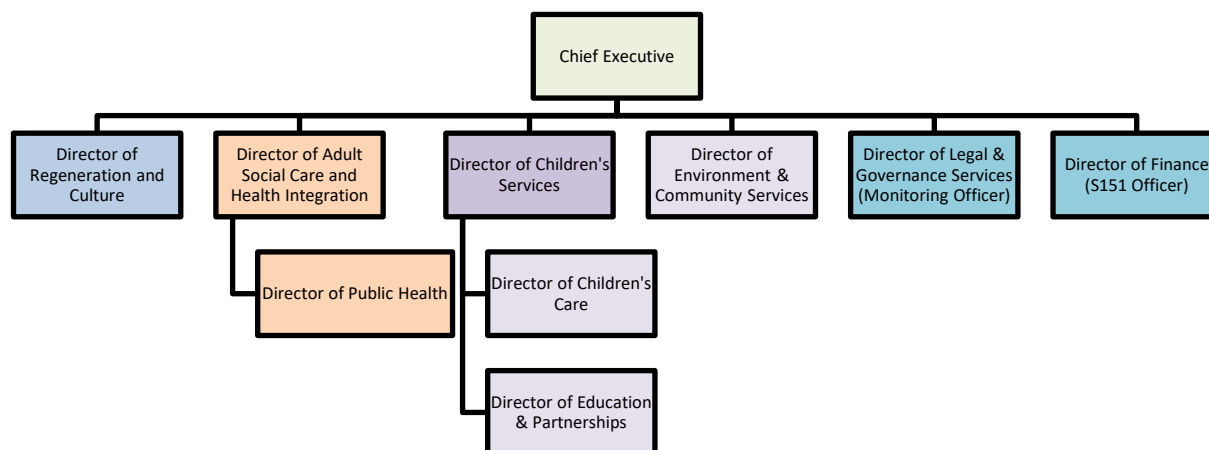
The Strategic Plan was not updated in February 2022, but the plan approved in February 2021 remained in place for 2021/22. The Strategic plan has since been updated and approved at the Executive meeting on 5 April 2022. The Council's Medium Term Financial Plan was continually revised as the financial impact was quantified and central government introduced new funding streams and initiatives.

The Executive members were relatively new to their respective roles, following the changes in May 2021 when five out of the six members of the Executive resigned therefore, 2021/22 was a learning year for the Council whilst still being influenced by the recovery out of the Covid-19 restrictions and the associated implications.

Management Structure

Leadership Team

The senior management structure of the Council at 31 March 2022 is set out below:



The Mayor's Ambitions for Middlesbrough and the Strategic Plan

Andy Preston is the Mayor and first citizen of Middlesbrough for the period 2019-2023. The Mayor's Strategic Plan, now in its second year, was refreshed in February 2021 to reflect the impact of Covid-19 and the UK's exit from the European Union on Middlesbrough and on the Council's strategic priorities.

Mayor's Priorities (2020-2023)

The current Strategic Plan is based around the following key themes, with specific Mayoral priorities within each theme:



- People – Working with communities and other public services to improve the lives of our residents
- Place – Securing improvements in Middlesbrough’s housing, infrastructure and attractiveness, improving the town’s reputation, creating opportunities for local people and improving our finances.
- Business – Promoting investment in Middlesbrough’s economy and making sure we work as effectively as possible to support our ambitions for People and Place.

This Plan is the Council’s overarching business framework, outlining the Council’s contribution to the Mayor’s priorities. There is a ‘golden thread’, which runs from this document through the rest of the Council’s governance and policy frameworks. Progress against the plan is reviewed on a quarterly basis and reported to Executive and Overview and Scrutiny Board.]

Investment Strategy for Middlesbrough

An update of the Medium-Term Financial Plan (MTFP) was presented to Council on 24 February 2021; the report included the £149.1 million Investment Strategy for Middlesbrough for the period 2021/22 to 2023/24, supported by £83.7 million of the Council’s own resources. The investment will support a number of major regeneration schemes plus supporting the town centre and growing affordable housing in the immediate vicinity.

- Middlesbrough Development Company projects;
- Affordable Housing and Housing Growth schemes;
- Town Centre development projects;
- School capital projects
- Disabled Facilities Grant scheme
- ICT related projects and;
- Environment & Community Services projects



Customer Strategy Programme

The vision of the Council’s Customer Programme is to transform delivery of services to the community & customers, providing everyone with excellent service and access to self-serve through an extensive range of channels and platforms.

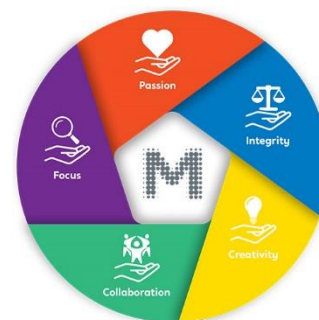
The Council’s ambition is for a customer-owned culture, with self-serve facilities, improved payment facilities and transactional online services. This will be underpinned by a simple, service led and driven website and intranet, with straight-to-the-point e-forms, all underpinned by a knowledge-based customer relationship management system, reducing the need for face-to-face contact. Customers will experience an overall improvement and flexibility in their choice of how to access Council services and the drive for ‘digital by default’ will increase access to Council services as a result.

Our Values

Our Values are a critical element of the Council’s strategy to create a brighter future for Middlesbrough. Our Values are at the heart of everything we do and form the foundation for how we operate, behave and make decisions.

Our Values:

- Passionate - We believe in Middlesbrough and are proud about the Town;
- Integrity – We are open and transparent and treat everyone with respect;
- Creativity – We have the courage to try new ideas and new ways of working;
- Collaboration – We work with others to make Middlesbrough better; and
- Focus – We are clear about what we will deliver to meet the needs of the Town.



Performance

The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance, together with associated action and a quarterly reporting process gives them the necessary information to discharge these responsibilities.

As part of continuous improvement in performance and risk management, the Council's Leadership Management Team (LMT) has implemented monthly reviews of corporate performance utilising a Directorate Performance dashboard, drawing data from a range of performance systems. The output from these sessions is reflected through the quarterly updates to the Executive and Overview and Scrutiny Board.

The Council uses a narrative update approach to measure performance during each quarter of the financial year and any issues. Although most priorities are broadly on track in terms of the Mayor's initial ambitions, these have needed to be flexible and revised due to the pandemic and the changing levels of the virus in the Middlesbrough area. The recovery aspect of the Covid-19 response has now been integrated as part of the Council's strategic priorities going forward in the newly agreed 2021-24 plan.



The Strategic Plan for 2021-24, set out nine strategic priorities for this period, which are supported, by an associated set of outcome measures and a work plan, which will see delivery of sustained improvement, up to and beyond 2024.

Below are the main priorities that were monitored by the Executive during 2021/22. These were set in February 2021 and were part of the Strategic Plan for 2021-24.

Children and young people

The Council has completed four out of the seven initiatives with the remaining three all on track to be delivered to the approved deadlines. The Council have and continue to try to show Middlesbrough's children that they matter and work to make our town safe and welcoming and to improve outcomes for all children and young people.

Attainment and attendance levels have increased with a reduction in exclusions for all children across Middlesbrough.

By delivering the Youth Justice Plan, the Council has reduced re-offending, provided safe and effective use of custody and reduced the number of first-time entrants.

The Council has also closed the gaps for the most vulnerable and focused on Key Stage 4 outcomes to ensure high achievement for all from the early years.

The Council has targeted young people who are Not in Education, Employment or Training (NEET) and provided support for them to progress into education, employment and training opportunities.

Work continues on the delivery of the Children's Services Improvement Plan and the Council has made progress to ensure the best start in life for Middlesbrough children by reducing early health inequalities, with a focus on the first 1001 days of life. The Council is also on track to develop a universal town-wide Children and Young People's strategy that will aim to improve the lives of all children.

Vulnerability

Delivery and extension of the 50 Futures programme to provide meaningful work experience opportunities for Middlesbrough residents who find it most difficult to gain employment has been completed.

The 'Dementia Friendly' Middlesbrough programme to improve the wellbeing of individuals with dementia and their carers has been delayed. This is mainly due to Covid-19 and the requirement for face-to-face session. Although delayed, this is still a strategic initiative that will be delivered as soon as possible.

The Council has another five initiatives that will work to address the causes of vulnerability and inequalities in Middlesbrough, and safeguard and support the vulnerable. These are all on track to be delivered as planned and progress has been made in the following areas:

- Locality Working pilots in Newport and North Ormesby wards to address key priorities and issues for residents.
- 'Age Friendly Communities' to reduce the prevalence and impact of loneliness and isolation in Middlesbrough.
- Integrated model of support for Middlesbrough, bringing together services for domestic abuse, homelessness and substance misuse and development of mental health partnership provision.
- Increase digital inclusion for children, young people and adults across Middlesbrough.
- Improved support for addiction recovery through employment, housing and social/community re-integration.

Crime and anti-social behaviour (ASB)

Three of the four initiatives to tackle crime and anti-social behaviour are on track and we are still working with our partners to ensure local people feel safer. We have made progress in the development of the Community Safety Strategy to reduce crime and anti-social behaviour across Middlesbrough and continued work to increase CCTV in public areas/Council facilities to prevent and detect crime and ASB.

Delivery of a targeted education and enforcement programme in conjunction with Police and Fire Safety Partners to reduce crime and ASB, is still on track to be delivered in 2023.



Year-end data reflects a worsening position on the number of street warden enforcement actions however, the introduction of a mobile incident management system now allows the service to record more accurately the level of activity undertaken which shows significant improvements as a result of improved ways of working, processes, systems and performance management, as demonstrated below:

Street Warden Activity	2020/21	2021/22
Interventions	2,178	3,775
Enforcement Actions	1,444	2,232

Climate change

The Council is keen to ensure our town acts to tackle climate change, promoting sustainable lifestyles. We are on track to deliver a town-wide programme of education and increase recycling levels in Middlesbrough in 2022.

We are continuing work with partners to identify community growing sites, which will provide skills development to 'Grow Your Own Food' and are still on track to complete this initiative in 2023.

Work is underway to plant 20,000 trees across the town by 2023, improving air quality and we have achieved Tree City Status, demonstrating responsibility and management of town tree stock.

The development of an Urban Farm to improve the physical environment and provide additional training opportunities for vulnerable residents across Middlesbrough is almost complete.

There were two of the seven initiatives for climate change that were not on track and the Council needs to progress in the coming year. These were to deliver the Green Strategy to meet Government targets for greenhouse gas emissions and to explore the potential to designate sites across the town as a local wildlife/nature reserve.

Covid-19 recovery

The Council is committed to help local communities, businesses and the Council's operations to recover from the Covid-19 pandemic, taking opportunities to make improvements where possible.

Significant progress has been made in the delivery of the Council's Covid-19 Recovery Plan, enabling individuals, families, communities and businesses across Middlesbrough to make progress post pandemic.

Physical environment



The Council is working closely with local communities to protect our green spaces and make sure that our roads, streets and open spaces are well designed, clean and safe. To that end, we have planted 30,000 m2 of wildflowers across Middlesbrough to benefit local wildlife and improve the appearance of the town.

We have also implemented a community grant scheme, providing funding to improve the physical environments of residential alleyways to create a usable community space.

The Council is committed to implement an annual pothole maintenance programme across the town, consistently improving road conditions and is on track to be completed in the next 2 years.

Town centre

We have made a commitment to transform our town centre, improving accessibility, revitalising unused assets, developing iconic new spaces and building more town centre homes. We have started to repurpose Captain Cook Square and House of Fraser for leisure and commercial use and have installed a town-wide lighting scheme, highlighting key buildings and landmarks.

All other town centre initiatives are on course to be delivered in the next 2 years and include the development of central Middlehaven for 60,000 sq. ft. of commercial space, 400+ housing units, restoration of the Old Town Hall and Captain Cook Pub, commercial and residential development of west and south side Middlehaven sites and the development of new homes and apartments to expand the urban living offer in the town.

Culture

We are also investing in our existing cultural assets, creating new spaces and events and improving access to culture for all.

We have made improvements to Teesaurus Park, re-establishing its purpose as a visitor attraction and recreational facility and we continue to expand our programme of festivals and events to raise the cultural profile of Middlesbrough.

Quality of service

The Council places communities at the heart of what we do, and we continue to endeavour to deliver value for money and enhance the reputation of Middlesbrough. To do this, we have several initiatives and three out of the eight are completed, with the remainder on track for delivery during the 2022.

We have delivered a ward-based cash collection strategy, supporting vulnerable groups with payment solutions to improve Council Tax collection levels and stimulated investment in our local economy through procurement opportunities and the promotion of our buy local initiative.

We have also provided the asset disposal policy framework, ensuring best value is achieved and the benefit of disposals are shared with local communities.

We continue to encourage community participation in the development of Council plans and initiatives, securing additional funding and improve the condition of the Council's operational estate and highways infrastructure and improve the corporate website into a 'digital platform', increasing online transactions where appropriate, and making the site even easier to use.

Directorate Achievements

Regeneration and Culture

- Acquisition of the Cleveland Centre
- Successfully letting 100% of the available space at Tees Advanced Manufacturing Park with a further 90,000 sqft phase planned and approved for delivery.
- Confirmation of a £4.25m grant from the Department of Culture, Media and Sport for building improvements at the Central Library and other external cultural buildings within the town.
- Recognition from the Financial Times as Middlesbrough being one of the top three small cities of the future in Europe for foreign direct investment.
- Securing of three new leisure leases within Captain Cook Square, furthering the Council aspirations to transform the precinct into a quality leisure destination.
- Completion of the phase 1 works at the Council's new Civic Centre, Fountain Court, paving the way for the refurbishment works with staff occupancy of the building expected commence in the autumn of 2022.
- Initial utilization of the Towns Fund grant for initiatives including:
 - Completing £12 million of campus investments and upgrades at Middlesbrough College - £1.175 million Towns Fund
 - Completing the Cargo Fleet Nature Reserve - £100k Towns Fund
 - Commencing the 'Bright Ideas' Housing development at St Hilda's
 - Commencing £12 million investment in Centre Square Building Six, with Axa as a pre-let tenant - £2 million Towns Fund
 - Completing the heritage restoration of Captain Cook Public House
 - Commencing £1 million investment in Middlesbrough's parks and play areas.

Environment and Community Services

- Installation of a Hostile Vehicle Mitigation system at various key sites throughout the town as a counter terrorism measure;
- Creation on a Nature Reserve at Cargo Fleet in line with the Council's Green Strategy initiative;
- Restoration of the Grade II Listed Captain Cook Public House;
- Installation of an additional 50 CCTV cameras to improve Community Safety, combat antisocial behaviour and reduce environmental crimes throughout the town.

Public Health

- Secured over £3.2 million external funding for 2021/22 to supplement and enhance our local substance misuse and associated vulnerabilities work streams;
- Created 85 new roles across the local South Tees Addictions & Vulnerable Groups system;
- Implemented the Project ADDER (Addiction, Diversion, Disruption, Enforcement and Recovery) programme local delivery plan, increasing the number of people identified and engaged and the scope and quality of support initiatives being delivered;
- Launched the South Tees Individual Placement and Support (IPS) employment service, which immediately started supporting people into employment who were otherwise struggling to find opportunities;
- Successfully launched the South Tees Changing Futures programme with a range of partners collaborating across multiple work streams;
- Trained 150+ Police Officers, Street Wardens and other professionals to carry naloxone – at least 15 kits have been used – saving lives;
- Developed links with partners across Mental Health, Social Care, GPs, VCS, young carers and targeted youth work, probation, youth offending services, sexual health service, children' hubs, licensed premises and many more to build harm minimisation capacity and better connect vulnerable people to services



- The HeadStart team provided support for transition from year 6 to 7.
- The Headstart Team continue to build capacity and awareness of mental health issues across all Middlesbrough schools and have supported 1693 pupils and students with social and emotional learning group interventions and trained 300 HeadStarters (Peer Supporters) in emotional resilience;
- Delivered a 7-day week community Asymptomatic Test Site service across 3 locations and carried out 14,608 tests and identified 94 positive cases;
- Delivered an award-winning community vaccine programme;
- Developed Restart Long Covid-19 Rehab and Prevention programme and made close links with the CCG for referrals, and other local authorities promoting best practice (nominated as a finalist in the MJ awards in June 2022)
- Developed and running a Work Well offer – to coordinate Council, Job Centre and educational work placements;
- The Live Well Centre is at maximum capacity supporting private, voluntary and Councils to deliver a variety of services, including an expansion to floor 5 for family and child addiction support services;
- Launched the Middlesbrough Alcohol Centre of Excellence in October;
- Provided free hot meals and activities to thousands of children and young people as part of the Holiday Activities and Food Programme;
- Best Start Pathway launched Middlesbrough wide in February 2022, the Pathway targets support at parents through the antenatal period until the child reaches two years;
- A monthly Sensory Drop-in Clinic has been launched at the Live Well centre to support Adults who are Deaf, Hard of Hearing, Blind and Visually impaired;
- Successfully implemented MUST service in all elderly care homes across Middlesbrough to combat malnutrition;
- Developed and launched Eat Well Early Years award across South Tees in February 2022;
- Supported 892 people in Middlesbrough to lose weight through the Tier 2 Adult Weight management services from January – June 2022;
- The Sport England Local Delivery Pilot, You've Got This, continued to pursue the vision of "Active Lives As A Way Of Life", collaborating with over 50 partner organisations to embed physical activity within their practice.

Children's Services

- South Tees Youth Justice Service has been able to maintain service levels, offer new services concerning prevention and diversion, sustain continuous improvements in performance, and continued to achieve positive outcomes for the young people they work with.
- Nine school Ofsted inspections in academic year 2021/22; no downgrades.
- Robust support for families means that 92% of eligible 2-year-olds now attend nursery provision.
- Continued delivery of school improvement support has meant schools have benefited from on-going professional development ensuring the successful roll out of the statutory Relationship Sexual Health Education curriculum, subject leader deep dive support in preparation for Ofsted inspection and statutory moderation.
- Improved the school attendance of vulnerable children via the VCAP attendance project.
- Launched the PROCLAIM initiative with 10 schools to help them develop their expertise in supporting children suffering from trauma.
- Successfully worked with schools to reduce the number of suspensions of looked after children.
- Ensured 98% of children received their first choice of primary school and 84% received their first choice of secondary school.
- Special Education Needs and Disability (SEND) has successfully implemented the new Inclusion and Outreach Model launched in Jan 22 to support greater inclusion and support across all schools and settings for children and young people.
- Development of additional provision across the local area for children and young people with SEND to support with increasing demands.
- Increase in the number of registered Alternative Provision providers across the local area to ensure greater choice and opportunities for children at risk of exclusion and require an alternative pathway.
- Community Learning service implemented remote delivery for teaching and learning across all programmes including Adult Learning, Study Programme and Apprenticeship Provision.
- Routes to Work team awarded a Civic Award for improving employment opportunities for Residents.

- Since April 2019, 50 Futures Work Experience programme has engaged 284 Middlesbrough residents, 23.5% of residents have moved into Employment/Apprenticeships and 63% of residents have made positive progress to support them to move closer to the labour market.
- Although not without significant challenges, staff across Children's Services have shown strong progress against the services' improvement plan. This is reported on a six-weekly basis to the Multi-Agency Strategic Improvement Board and endorsed by Ofsted and the DfE. Colleagues in finance have been supportive in understanding these challenges and working with us to make the best use of our financial resources.
- Although there remains further work to be done the numbers of children in our care continued to reduce safely over the financial year including the number of external residential placement which has now reduced from 65 to 51 (21.5% reduction).
- Our finance business partners have played a vital part in this work in terms of modelling financial spend against the reductions taking into account the significant increased costs charged by independent providers.



Adult Social Care

- We continued the delivery of adult social care services throughout the Covid-19 pandemic. This has required resourcefulness and resilience from staff as they have had to work in flexible and evolving ways in the face of an unprecedented operational challenge.
- The service continues to score more highly than the England average on almost all included measures in the most recently published Adult Social Care Outcomes Framework survey, a statutory return submitted by service users.
- We established the Rekindle Digital Support service, which promotes and enables digital inclusion for residents of Middlesbrough.
- We further developed the Staying Included agency that supports some of our most vulnerable and lonely Middlesbrough residents to overcome barriers, helps people to achieve their goals and to reconnect with the things they value most.
- Our hospital social work team based at James Cook University Hospital has now established a seven-day service having piloted this during the acute phase of the pandemic.
- We developed a complex needs accommodation pilot working with safeguarding, housing and public health services.
- We continued to operate the Disabled Facilities Grant, which has supported vulnerable individuals to access a range of initiatives including the winter warmth scheme.



Legal and Governance Services

- Introduction of the Salary Sacrifice Electric Car Scheme in order to provide benefits to both staff and the organisation which also supports the Council's Green Agenda;
- Implement a new Council Website to provide residents & customers 24/7 access to services including the ability to self-serve.

Finance

- 2021/22 was a second consecutive year of strong asset growth. The value of the Pension Fund assets increased by 11% over the year, ending above £5 billion for the first time. Looking over the last three years this represents an increase in asset value of around £1 billion. During the year the Fund has also carried out a process of gradual partial de-risking, mainly by selling equities (shares in companies listed on stock markets across the world) and investing some of the proceeds in other asset classes. Over the year, the Fund's allocation to equities reduced from 76% to 60%, much closer to its current long-term strategic target of 55%.
- The Grants Team within Commissioning supported community and voluntary sector organisations through the award of 311 community grants totalling £534k. In addition, a further 41 Covid-19 related grants were processed totalling £399k supporting initiatives such as Covid-19 Champions within communities.
- The Strategic Procurement Team have progressed 260 projects throughout the year resulting in the award of £58 million of contracts.

- The Valuation and Estates Team secured the purchase of the Cleveland Shopping Centre and have supported the management of the retail sector ensuring the centre is stabilised, seeking to support existing retail and tenants and begin the process of bringing new tenants into the centre.
- Throughout the second year of the pandemic, the Commissioning Team have provided advice and guidance to Social Care providers concerning matters relating to Covid-19, in particular in regard to the application and interpretation of Government guidance, infection, prevention and control measures and have assisted in processing £3.1m of Covid-19 related grants to Adult Social Care providers throughout 21/22.
- Disbursement of government funded grants to businesses continued up to the end of 2021-2022, with a further £9 million being administered by the Revenues and Benefits Service. Additionally, many thousands of separate payments were also made to vulnerable individuals and families in the town under the Covid-19 Local Support Grant and its successor the Household Support Fund. Despite the continuing pressures faced, the Service was independently accredited as providing Customer Service Excellence for the 26th year in a row – service was assessed as being over and above the required standard in 10 aspects of its activity. The Service has also been shortlisted for the LGA awards.
- The delivery of the Council's holistic Welfare Strategy to support Middlesbrough's most vulnerable residents who are in need of financial assistance, advice and support, which provides a menu of support mechanisms that are designed to respond to situations such as the recent cost of living crisis, consequences of the pandemic, and any other external factors that impact the financial pressures on residents and businesses. The strategy is designed to provide a single point of contact as a means to access this vital support giving residents better financial stability, which will also ultimately result in improved collection rates for council tax and sundry debts.
- Despite significant resource issues within the Accounts Payable team, the Council in partnership with Oxygen Finance has implemented the Supplier Incentive Programme, which provides immediate payment to small local suppliers and gives other suppliers the opportunity to be paid early provided the Council can secure a discounted price. This should not only generate savings but will assist small, vulnerable local suppliers with their cash flow.
- All necessary system updates to the Council's main financial Enterprise Resource Planning (ERP) system have been tested and implemented on time with minimal disruption to services.
- Improvements to accounts receivable system workflow and reporting to ensure more effective invoice creation and monitoring of debt.

Governance

The Council's governance arrangements that underpin the Council's processes and financial systems are set out in the Annual Governance Statement that follows the financial statements and notes to the accounts. (see Section 7).

Future Challenges/Uncertainties

Governance Arrangements

The draft audit results report for 2020/21 reported that there are significant weaknesses in governance arrangements and there was evidence, which led them to conclude that the culture and governance arrangements at the Council have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2022, Ernst Young identified multiple instances where the Council took significant decisions without following the Authority's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members.

This presents an increased risk that the Council may take decisions, which do not deliver economy, efficiency and effectiveness in the Council's use of its resources that must be addressed in the coming months.

We must now start work on developing a comprehensive improvement plan to address the cultural and governance issues, which exist within the Council. All elected members and officers need to work together to address these serious matters and Ernst Young have recommended that this should include the involvement of external specialists.

We must also provide additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council must also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider improvement plan.

The Authority should also consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.

This poses a significant risk to the Council and action must be taken without delay. The development of a comprehensive improvement plan will be of the highest priority for Middlesbrough Council.

Children's Services

Following the disappointing Ofsted review in 2019, a comprehensive Ofsted Improvement Plan was developed and implemented to improve services and outcomes within Children's services. The outcomes from this have been successful however; the significant and continued transformation work taking place within Children's Services will deliver further improvements during the coming years.

Amongst the objectives for improvement, the Council committed funding to the following areas:

- Specialist agency teams in Referrals & Assessments to improve the "front door model" and to examine placements in order to reduce high-cost placements;
- Workforce remodelling - experienced social worker recruitment and retention/agency worker reduction strategy;
- Transformation associated with increasing internal residential provision and improvements in practice to reduce future numbers of children looked after;

The Council is continuing to minimise the use of agency staff where it is appropriate, but the Ofsted Improvement Plan acknowledged there was a need to use agency staff. The use of agency staff is likely to continue in 2022/23, principally to support the continued ongoing transformation within Children's Services, however this will be minimised as far as possible.

The Council has created a specific earmarked reserve in 2021/22, the Social Care Transformation Reserve, to help support the on-going effects of the significant and continued transformation work taking place within Children's Services.

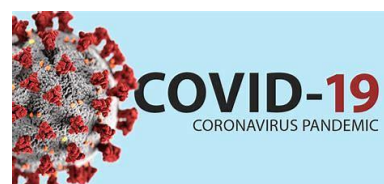
Cost of Living Crisis

The cost-of-living crisis is a significant issue for the UK and Middlesbrough residents alike. This refers to the fall in disposable income and is caused predominantly by high inflationary increases to fuel, food and energy costs beyond the increase in wages and benefits.

The cost-of-living crisis, including inflationary rises means that the Council will need to continually review service provision, having regard to the Middlesbrough residents' needs. The situation not only affects how the Council ensures we get value for money from scarce public funds but also needs to provide customer focussed support for residents who are struggling to manage their finances. As ever, it is important that we manage our Medium-Term Financial Plan appropriately and monitor our financial performance, to carefully plan and respond to the ever-changing external environment.

Covid-19

During 2021/22, the pandemic continued to pose some challenges and uncertainties for local authorities going forwards. There is reference to Covid-19 and its impact throughout this narrative report and the draft Statement of Accounts. At the time of issue, the legal restrictions in the UK in relation to social distancing, mask wearing and opening up remaining business were relaxed, mainly attributable to the UK's vaccination programme.



In addition to the success of the vaccination programme, natural immunity and increased understanding about how to manage risk, the population now has much stronger protection against Covid-19 than at any other point in the pandemic. This is enabling the UK to begin to manage the virus like any other respiratory infections.

Brexit

The principal impact on the Council will be the form of legislative changes moving from EU to UK statute, but these will only become apparent once the UK government has introduced these updated laws. A small amount of funding has been allocated by the government to each local authority in recognition of the additional workload that will face Council's during the initial phase of the exit from the EU.

The Local Government Finance Settlement

Government funding for local government as a whole has fallen substantially since 2010. Since changes were made to the Local Government Finance System in 2013/14, Middlesbrough Council had suffered a significant reduction in Government funding, with a reduction of £41.7 million (51%) from £81.2 million received in 2013/2014 to £39.5 million in relation to the Revenue Support Grant in 2021/22.

The Spending Review announced additional funding for local government. These were subsequently included in both the provisional local government settlement of 17 December 2020 and in the final settlement published on 4 February 2021. Whilst the additional funding was welcomed, a large proportion of the funding announced was for 2021/22 only, and therefore does not assist with tackling recurring funding pressures going forward. This level of uncertainty means that future funding remains one of the most significant risks to the Council. A large proportion of the additional funding available to local government (over 85%) is expected to come from increases in council tax made by local authorities.

A new Local Government finance system was expected to be implemented commencing from the 2022/23 financial year following the outcome of the Fair Funding Review. The new system was intended to be based upon 75% retention of Business Rates by Local Government and an end to the Revenue Support Grant system. It is not yet clear what the detailed arrangements for Local Government Finance will look like going forwards. The timescale for implementation of these proposals has been delayed initially due to Brexit and then subsequently due to Covid-19.

Council officers will continue to work with the Government and take part in any consultations, providing information and opinions on the approach to funding for the next financial year and beyond.

Financial Review 2021/22

Revenue Budget

In preparing the 2021/22 revenue budget and Medium-Term Financial Plan, the following principles, consistent with budget strategies in previous years and statements made by Executive have been adopted:

- to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate;
- to minimise the effect of Council Tax increases on residents whilst maintaining service provision;
- to make services fully accountable for their own budgets and spending, including additional pressures. Calls on the Medium-Term Financial Plan should only be made when local and directorate resources are exhausted, and all requests are required to be approved by the Council's Corporate Management Team;
- to maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
- services will receive, in full, the impact of contractual inflationary increases (including pay awards). No inflation will be provided for general supplies and services, which are expected to be met from efficiency savings;
- to support budgetary investment in economic growth to drive increase in income through Council Tax and Business Rates;



- on termination of a specific grant, a business case for any continued funding will be prepared, which will need to be assessed against other pressures on the Medium-Term Financial Plan;
- all specific reserves require approval by the Director of Finance, where specific reserves exist these will be reviewed regularly by the Director of Finance as part of the Medium-Term Financial Plan refresh to ensure that they are still required - uncommitted funds may need to be used to fund pressures elsewhere;
- any revenue budget where there has been a significant underspend for two or more years will be reviewed with a view to reallocating funds;
- the Investment Strategy will be reviewed regularly to ensure an ongoing need for allocated funding with a view to reallocating funds which are not required;
- any new schemes for approval within the Investment Strategy must be firstly approved by the Council's Corporate Management Team; and
- a consistent framework for budgeting for staff costs will be implemented.

In setting the revenue budget for 2021/22, service budget reductions totalling £3.5 million were approved by the Council on 24 February 2021 together with a 2.75% increase in Council Tax (1.99% increase in general council tax and an increase in the adult social care precept of 0.76%).

The revenue budget for 2021/22 was set at £116.492 million, funded as set out below:

	£m
Revenue Support Grant	12.221
Business Rates Top Up Payment	27.299
Local Share of Business Rates	17.593
Council Tax	60.611
Collection Fund Balance	(1.232)
Total net revenue budget in 2021/22	116.492

Budget Outturn 2021/22

The Budget Outturn position was reported to Executive on 14th June 2022 and summarised the Council's financial outturn in respect of the revenue budget and capital programme. It also covered the impact of the pandemic on the Council's financial position.

Revenue

The Council's total net revenue expenditure for 2021/22 was £118.955 million, an initial net pressure of £2.462 million against the net budget of £116.493 million. The table below summarises the initial revenue position by Directorate.

Directorate	Full Year Budget £'000	Initial Final Outturn £'000	Initial Over/(under) spend £'000
Regeneration and Culture	3,569	3,522	(47)
Environment and Community Services	19,385	21,368	1,983
Public Health	(2,820)	(3,870)	(1,050)
Education and Partnerships	737	360	(377)
Children's Care	40,037	48,332	8,295
Adult Social Care	39,682	38,706	(976)
Legal and Governance Services	10,121	10,638	517
Finance	818	(816)	(1,634)
Central Budgets	4,964	715	(4,249)
Revenue outturn	116,493	118,955	2,462

It was agreed by the Council's Executive to transfer £1.363 million from the Central Pay and Prices Contingency budget within Central Services to fund the impact of significant inflationary increases affecting the Environment and Community Services Directorate. It was further agreed to transfer £0.230 million of the Public Health grant underspend to a Public Health Reserve to fund improvements in the sexual health service in future years.

The Council has implemented the Flexible Use of Capital Receipts Strategy, agreed at Full Council on 20th October 2021 with due regard to the Local Authority Accounting Code of Practice. The Strategy has been monitored throughout the financial year as part of regular budget monitoring arrangements and has been reported accordingly as part of the current quarterly budget monitoring reports to Executive.

The flexible use of capital receipts has improved the Council's financial position across a number of Directorates (mainly Children's Services) by a total of £5.017 million. This will allow the Council to increase the level of reserves that the Council holds, at this time of high financial uncertainty with minimal impact on the Council Tax payer. This will help support the significant and continued transformation work taking place within the Council, principally within Children's Services, which will deliver improvement and efficiencies.

Once these have been taken into account, the final year-end revenue outturn position for 2021/22 including Covid-19 support expenditure pressures of £0.390 million results in a £1,923,000 underspend. The details of this are shown below, including the split by Directorate:

Directorate	Full Year Budget £'000	Full Year Outturn £'000	Over/(under) spend £'000	Transfer to Pay & Prices Budget £'000	Transfer to Reserves £'000	Flexible Use of Capital Receipts £'000	Final Over/(Under) Spend £'000
Regeneration and Culture	3,569	3,522	(47)	0	0	(11)	(58)
Environment and Community Services	19,385	21,368	1,983	(1,363)	0	(263)	357
Public Health	(2,820)	(3,870)	(1,050)	0	230	0	(820)
Education and Partnerships	737	360	(377)	0	0	0	(377)
Children's Care	40,037	48,332	8,295	0	0	(4,217)	4,078
Adult Social Care	39,682	38,706	(976)	0	0	0	(976)
Legal and Governance Services	10,121	10,638	517	0	0	(526)	(9)
Finance	818	(816)	(1,634)	0	0	0	(1,634)
Central Budgets	4,964	715	(4,249)	1,363	0	0	(2,886)
Revenue outturn	116,493	118,955	2,462	0	230	(5,017)	(2,325)

As with previous financial years, the significant revenue budget pressure experienced during 2021/22 continues to be in relation to Children's Services where additional costs on Children's Care (mainly residential agency placements, safeguarding, in-house foster carers, independent fostering agency payments and family and friends' allowances) resulted in an initial overspend of £8.295 million over budget.

The number of external residential placements has reduced significantly compared to 2020/21 due to various initiatives the Council has introduced however, as the cost of these placements has increased this has resulted in an overspend of £3.130 million which is a significant proportion of the Children's Care overspend. This is due to price increases within the market and new placements initially being made at a higher cost whilst reduced cost, long-term permanent placements are sought.

Safeguarding, care planning and assessment costs have seen £1.743 million overspend at the end of 2021/22 due to significant spend on agency staffing, Section 17 payments and support packages for families to keep the young people out of care. These form part of a longer-term strategy to reduce/avoid higher Children Looked After costs.

Fostering placements have increased since last year and this has contributed to the Children's Care overspend by £1.823 million. Despite an overspend here, the higher foster placements should be seen as positive as the cost per child is less expensive than other demand budgets, and the service is working to further increase capacity over the next few years.

The Environment and Community Services Directorate has been affected significantly by the rising cost of fuel, utilities and food and drink supplies. These increased costs have affected services like street lighting, recycling, catering, waste collection and transport services and has resulted in an overspend of £1.983 million.

The over spend position corporately for the Council has been mitigated by using centrally held budgets, the use of flexible capital receipts strategy and planned savings. All directorates have applied stringent financial controls on expenditure budgets and have successfully made savings, including staff savings and a focus on income generation resulting in additional commercial rent income.

Following the use of capital receipts and transfers between the Central Pay and Prices Contingency budget within Central Services, the overall position was a net underspend of £2.325 million, which was initially transferred to the General Fund Reserve. Following the creation of specific ear marked reserves and the movement in reserves illustrated in the table below, the General Fund Reserve at the end of 2021/22 was £11.183 million, which is in line with the Director of Finance recommended minimum level of £11.0 million.

Reserves and Provisions

The Council has tried to maximise reserves to fund the potential pressures that will arise in future years due to the on-going effects of the significant and continued transformation work taking place within Children's Services, and that which will take place within Adult Social Care regarding the Fair Cost of Care and Social Care Reforms.



A number of transfers to reserves have been approved and these are summarised below:

- Public Health Directorate underspend relating to sexual health service to the Public Health Reserve (£230,000)
- Covid-19 expenditure incurred during 2021/22 to the Covid-19 Recovery Reserve (£390,000)
- The remaining balance on the Covid-19 Recovery Reserve to a new specific earmarked Car Parking Pressures Reserve (£782,000) and the General Fund Reserve (£3,340,000)
- Final year-end outturn underspend on non-Covid-19 elements (following Flexible Use of Capital Receipts and transfer to Public Health Reserve) to the General Fund Reserve (£2,324,000)
- General Fund Reserve to a new specific earmarked Social Care Transformation Reserve (£5,665,000)
- Transfer of the following Reserves into the new specific earmarked Social Care Transformation Reserve:
 - Children's Services Improvement Reserve (£175,000)
 - Children's Services Demand Reserve (£732,000)
 - Social Care Demand Reserve (£500,000)

The table below sets out a summary of the balance of reserves and provisions at the start of 2021/22 and as at year-end:

Reserves and Provisions 2021/22	Opening Balance £000's	Use in Year £000's	Additional Contributions £000's	Transfers Between Reserves £000's	Transfers to General Fund (2021/22 Underspend) £000's	Transfers from General Fund £000's	Closing Balance £000's
General Fund	10,500	0	695	3,340	2,313	(5,665)	11,183
Covid-19 Recovery	4,512	(390)	0	(4,122)	0	0	0
Social Care Transformation	0	0	0	1,407	0	5,665	7,072
Other Earmarked Reserves	25,720	(45,806)	45,337	(2,748)	0	0	22,503
Dedicated Schools Grant (DSG)	(3,291)	(44)	0	0	0	0	(3,335)
School Balances	4,864	(4,864)	4,802	0	0	0	4,802
Provisions	5,805	(3,579)	4,548	2,123	0	0	8,897
TOTAL	48,110	(54,683)	55,382	0	2,313	0	51,122

Covid-19 and the financial impact on 2021/22

The Covid-19 pandemic has had a significant impact on the Council's financial position during 2021/22 and will continue to do so in a number of areas in years to come. This has made the management of the Council's finances more difficult due to the constantly evolving situation and the level of uncertainty regarding the financial effects of Covid-19 in future years. Despite this, the Council is well prepared for these risks as part of its financial planning over the medium term.

The Government recognised the impact of Covid-19 on local authorities, and they made a number of announcements about supporting local authorities financially. The main funding provided during 2021/22 is summarised below:

- Covid-19 Expenditure Pressure Grant, which provided general support funding totalling £5.310 million for 2021/22.
- Sales, fees and charges (SFC) – the SFC compensation scheme for lost income was continued for the first three months of 2021/22, using 2020/21 budgeted income as the baseline. Middlesbrough received a total of £0.801 million funding in 2021/22 from the scheme.
- A further allocation of Contain Outbreak Management Fund (COMF) funding of £1.370 million was provided during 2021/22 to local authorities to support public health activities, such as local enforcement and contact tracing.
- Local Tax Income Guarantee – the Government also confirmed that Government funding would be provided to compensate councils for an element of the 2020/21 Collection Fund deficit.
- Local Council Tax Support Grant – The allocation for Middlesbrough was £2.592 million in 2021/22.
- The Government provided councils with Section 31 Grant Funding for the lost income caused by the Covid-19 Business Rates Reliefs provided by the Government to businesses.

Additional Expenditure

There were approximately £4.5 million of additional costs associated with Covid-19 in 2021/22 and these covered a wide range of areas and services. The table below shows the additional expenditure per Directorate:

Directorate	Covid-19 Expenditure 2021/22 £000's
Regeneration and Culture	998
Environment and Community Services	482
Public Health	0
Education & Partnership	390
Children's Care	1,838
Adult Social Care	230
Legal and Governance Services	274
Finance	261
Total 2021/22 Covid-19 Expenditure	4,473

Regeneration and Culture made payments SLM Leisure Trust, the Council's provider of leisure facilities. Following the reopening of leisure facilities SLM struggled to operate to their normal subsidy, which affected their income.

There were additional costs for a wide range of areas within Environment and Community Services, including £0.145 million relating to increased costs of waste collection and disposal, and £0.158 million relating to Fleet Services due to a Covid-19 outbreak in the workshop and additional vehicle hire required.

Additional education psychologist costs were the main additional costs for Education and Partnership directorates. This included providing additional capacity for mental health support to young people and various additional costs relating to early years support.

Additional children's social care costs were mainly due to delays in placements of children (£0.208 million) and increased staffing and agency staffing costs (approximately £1.5 million) to deal with an increased number of cases and case backlogs caused by Covid-19.

In Adult Social Care, there was additional staffing required to deal with the effects of the Covid-19 recovery. There were also costs related to rough sleepers and homelessness of £0.117 million. This was in addition to £0.247 million charged to the Covid-19 COMF grant in 2021/22.

There were several direct costs associated with Covid-19 including additional signage and leaflets providing necessary messages to the public (£0.055 million), and other costs of approximately £0.116 million relating to the storage of Personal Protective Equipment (PPE). There were increased payments to providers of Bed & Breakfast accommodation of approximately £0.043 million, due to the requirements to house people during the Covid-19 pandemic.

There were also additional staffing costs and IT equipment/licences in order to deal with backlogs and difficulty in recruiting staff of approximately £0.235 million in 2021/22.

Reduction in Income

The Council has experienced a loss in income totalling £1.973 million across a broad range of areas during 2021/22. The list below highlights the main reasons:

- Car Parking (£0.263 million)
- Cultural activities (Town Hall, Middlesbrough Theatre, Museums, Parks) (£0.198 million)
- Catering income from schools (£0.187 million)
- Adult Social Care - In house day centre care provision (£0.406 million)
- Libraries and Community Hubs – room hire, book sales, and fines (£0.085 million)
- Council run Nurseries and Children’s Centres (£0.221 million)
- Bus station – departure charges and loss of income from toilets (£0.091 million)
- Capital Finance – Rent and Interest (£0.080 million)
- SLM – loss of profit share in 2021/22 (£0.172 million)

The overall financial impact of the Covid-19 pandemic on 2021/22 is summarised in the table below:

	Grant Allocation 2021/22	Actual 2021/22	Cost to Council 2021/22
	£m	£m	£m
Extraordinary costs incurred	0	4.473	0
Commercial income losses	0	0.080	0
Non-SFC income losses	0	0.172	0
Unachievable Change Programme savings	0	0.055	0
Total Covid-19 Main Grant (2021/22)	5.310	4.780	(0.530)
Sales, Feed and Charges (SFC) income loss grant (2021/22)	0.801	1.721	0.920
NET COST OF COVID-19 TO COUNCIL 2021/22			0.390
	Grant Allocation 2021/22	Actual 2021/22	Cost to Council 2021/22
	£m	£m	£m
OTHER COVID-19 GRANTS			
Clinically Extremely Vulnerable (CEV)	0.198	0.198	0
Test and Trace	0.540	0.540	0
Contain Outbreak Management Fund (COMF)	1.059	1.059	0
TOTAL OTHER COVID-19 GRANTS	1.797	1.797	0
Note that remaining grant not utilised in 2021/22 was carried forward to 2022/23			

Cash flows for the future will also be affected by borrowing and although the ratio of short-term to long-term borrowing has remained fairly stable during 2021/22, it is expected that this position will change somewhat during 2022/23. A large borrowing requirement will be required during 2022/23 and cash balances are expected to reduce as reserves containing residual Covid-19 monies are spent.

Council Tax and Business Rates Income



Income from Council Tax and Business Rates (NNDR) is accounted for within the Collection Fund. Because of the way that this works in relation to the General Fund, the financial impact of any reduction in income does not immediately affect 2021/22 financial position, it is effectively a shortfall to be resolved in 2022/23 and will be reflected in an updated Budget and Medium-Term Financial Plan (MTFP).

In 2020/21, there were significant pressures on Council Tax and Business Rates income and the overall financial impact was approximately £2.496 million. It is normal practice that any arising deficit would need to be fully funded in 2021/22. However, the Government announced that this can be spread over the subsequent three years i.e. £0.832 million in each of the 2021/22, 2022/23, and 2023/24 financial years.

During the year, there were a number of issues caused by Covid-19 that resulted in significant losses in these areas. These are accounted for in the Collection Fund, a separate legal fund outside of the revenue budget:

- There was an increase in people claiming Local Council Tax Support due to the economic impact of the pandemic. This led to a reduction in the level of council tax collected as those on support only pay 20% of their regular bill. Although the government provided some support for this hardship issue, there was still an effect on the collection rate and income generated.
- Housing growth levels may have reduced due to the disruption caused by the pandemic, and this will lead to lower income level if less than budgeted.
- The Government provided continuing support for businesses during the first quarter of 2021/22, but this reduced throughout the remainder of 2021/22. Following the reduction in the level of this support, businesses may struggle to pay their business rates, and therefore there is a risk that Business Rates revenue reduces in the future if businesses fail or are unable to pay.
- Following a detailed balance sheet review, the s151 officer has revised the methodology to calculate the Collection Fund Bad Debt provision in order to comply with International Accounting Standard 37 (IAS37), which has adopted a long-term data driven methodology to forecast debt write off. This has led to a reduction in the Bad Debt provision in 2021/22 of £7.920m.
- Government agreed to pay 75% of income losses below an identified threshold due to the pandemic. The Council did not qualify for either of these due to improved collection rates later in the year.



The final outturn position after the various pressures on the Collection Fund was as follows:

Funding	Total Deficit/ (Surplus) £000	Share with preceptors %	Share of Deficit/ (Surplus) £000	S31 Grant	Final Deficit £000
Council Tax	(9,224)	83.51	(7,703)	0	0
Business Rates	13,826	49.00	6,775	(5,833)	942
Total	4,602		(929)	(5,833)	942

Group Accounts

The Council has only one significant group relationship - a wholly owned subsidiary: Middlesbrough Development Company (MDC), formed in 2019 and which is involved in housing growth and resolving eyesore sites within the Borough. As the Council control both the operating and financial activities of the company it has been consolidated into the Council's Group Accounts on a line-by-line basis, after first realigning accounting policies with the Council where appropriate and then eliminating any intra-Group transactions.

The purpose of the group accounting information is to provide a comprehensive position for Middlesbrough Council incorporating the company. The Group Accounts show the full extent of the Council's assets and liabilities, providing transparency on the overall financial position. These cannot be fully appreciated from the Council's single entity accounts alone.

The Group Accounts (at Section 4) include the following information:

- Group Comprehensive Income and Expenditure Statement, which shows the income and expenditure of the Group in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.
- Group Movement in Reserves - shows the movement in the year on reserves held by the Group.
- Group Balance Sheet - reports the Council Group financial position at the year-end.
- Group Cash Flow Statement - shows the changes in cash and cash equivalents of the Group during the year.
- Notes to the Group Accounts – information provided where the balances are materially different to those in the single entity accounts.

At 31 March 2022, MDC had received funding of £6.6 million to spend on approved projects and the day-to-day administration of the company. Of this, £5.9 million had been spent on capital projects, principally Boho Village and Newbridge Court. £0.3 million had been spent on operational costs leaving a cash balance of £0.4 million as a contingency amount for future capital spend. Of the total funding given to the company by the Council, just under £4 million was in the form of a commercial loan and £2.6 million was from S106 capital grant funding. The loan is repayable to the Council over a 35-year term and was approved by the Director of Finance in October 2020 following a due diligence exercise on the Boho Village project.

The above assets and liabilities, plus day-to-day expenditure, have been added to the Council's balance sheet and income and expenditure statement. The net effect on the Council's reserves is an increase of £2.3 million, representing £2.6 million as an unusable reserve to offset future depreciation charges minus £0.3 million for operating costs. The operating deficit will be offset by future income streams generated by MDC.

Capital

The table below summarises the capital outturn position for 2021/22 for each directorate.

Directorate	Original Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Regeneration and Culture	40,145	35,668	(4,477)
Environment and Community Services	10,090	10,140	50
Public Health	0	0	0
Education and Partnerships	3,035	1,363	(1,672)
Children's Care	4,945	4,745	(200)
Adult Social Care and Health Integration	3,033	2,501	(532)
Legal and Governance Services	2,823	2,238	(585)
Finance	312	244	(68)
Total	64,383	56,899	(7,484)

Following a review of schemes, the Council approved a revised capital budget for 2021/22 of £64.383 million as part of its medium-term investment strategy. The Council spent £56.899 million (88%) of this revised budget at the year-end.

The underspend is a combination of delays in commencement of contracts, supply chain issues, delays in receiving relevant documentation, changes in contractor appointments, and Covid-19 related issues (£3.514 million). Delays on Middlesbrough Development Company scheme (£0.317 million) due to delays in diversion of cabling, delays relating to the effects of Covid-19 (£0.423 million), transfer of funding into 2022/23 due to delays in commencement of works (£0.843 million) and delays in the rollout of information technology updates (£0.402 million).

The Council's total under borrowed position i.e. external debt compared to the underlying need to borrow, was £54.6 million at 31 March 2022. As cash balances reduce during the 2022/23 financial year to more normal levels with the level of reserves planned to be spent, plus the borrowing requirements within the Investment Strategy, around £30 million of this under-borrowing will be needed to maintain the Council's overall liquidity position.

Balance Sheet

The Balance Sheet shows the value of assets and liabilities of the Council and sets out the revenue and capital reserves available for future investment. It also allows for comparison with the previous financial year-end and can be used to make judgements around the organisation's financial position.

A summary of the Balance Sheet at the 31 March 2022 is set out below:

31-MAR-2021 (£000)		31-MAR-2022 (£000)
466,872	Long Term Assets	490,646
77,391	Current Assets	95,231
(92,923)	Current Liabilities	(94,033)
(499,612)	Long Term Liabilities	(400,296)
(48,172)	Net Assets	91,548
(53,520)	Usable Reserves	(76,996)
101,692	Unusable Reserves	(14,552)
48,172	Total Reserves	(91,548)

The key headline messages to note in relation to the Balance Sheet at 31 March 2022 are as follows:

- Long-term assets continue to increase due to the Council's current ambitions on its investment strategy and the purchase of the Cleveland Centre.
- Current assets are higher than last financial year mainly due to the receipt of the Energy Rebate grant at the end of the financial year.
- Current liabilities have increased slightly during the financial year, mainly due to the Energy Rebate grant to be paid to residents in 2022/23 but off-set by a reduction in short term borrowing.
- Long-term liabilities have decreased mainly due to the current valuation of the pension fund, resulting in an improved position.
- Usable reserves have increased significantly mainly due to the receipt of capital grants in year, to be used to fund schemes within the Council's investment strategy.
- Unusable reserves reflect the technical accounting adjustments required to comply with proper accounting practice. Most of the movements are unrealised in nature and do not have an immediate impact on the Council's revenue budget or medium-term financial plan. The year-on-year change at 31 March 2022 reflects unrealised pension and capital accounting losses, plus the transfer of any negative dedicated school grants for a 3-year period. Under regulation, these DSG losses cannot be charged to the General Fund account.

In previous years, the Council's balance sheet was in a negative net worth position (i.e. the liabilities were greater than the assets held). This has been reversed during 2021/22 mainly due to the latest actuarial pension fund valuation which has improved due changes in assets held by the Fund, plus a higher corporate discount rate which reduces the net present value of the funds liabilities. This means that council assets now are greater than liabilities by £91.548m.

The deficit on the pension liabilities for current and former Middlesbrough employees has significantly reduced mainly due to the financial assumptions on the discount rate. This measures the present value of future liabilities and given the current inflation rates, the discount rate has increased. The pension fund is still in a deficit position and although the loss on the pension fund will not crystallise at any one point in time but will be made up of benefits over the next 20-30 years, it erodes the current financial position of the balance sheet in line with IAS19 principles on retirement benefits.

It is also worth reiterating that both long-term assets and liabilities, subject to specialist valuation and professional expert techniques, are less reliable in the current year than in the past, due to the inherent level of uncertainty created by Covid-19. Where professional judgement has been involved, regular discussions have been held with valuers and actuaries about the issues involved and prudent conclusions have been made by the Council when considering these results. The balance sheet values are slightly depressed as a result but should recover in the future. The Council is comfortable with these issues in the short term and until a greater degree of normality has returned where any negative net worth should unwind. No specific measures are being undertaken within the Medium-Term Financial Plan to cater for this.

Annual Statement of Accounts

The Statement of Accounts is the main method of external financial reporting produced by the Council. It is a complex and technical document, which comprises a number of sections and financial statements following the CIPFA Code of Practice on local authority accounting. These are as follows:

Narrative Report - this introductory section provides information on the format of the Statement of Accounts as well as a review of the financial position, performance and cash flows of the Council for the financial year 2021/22.

Statement of Responsibilities - these details the responsibilities of the Council and the Director of Finance (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

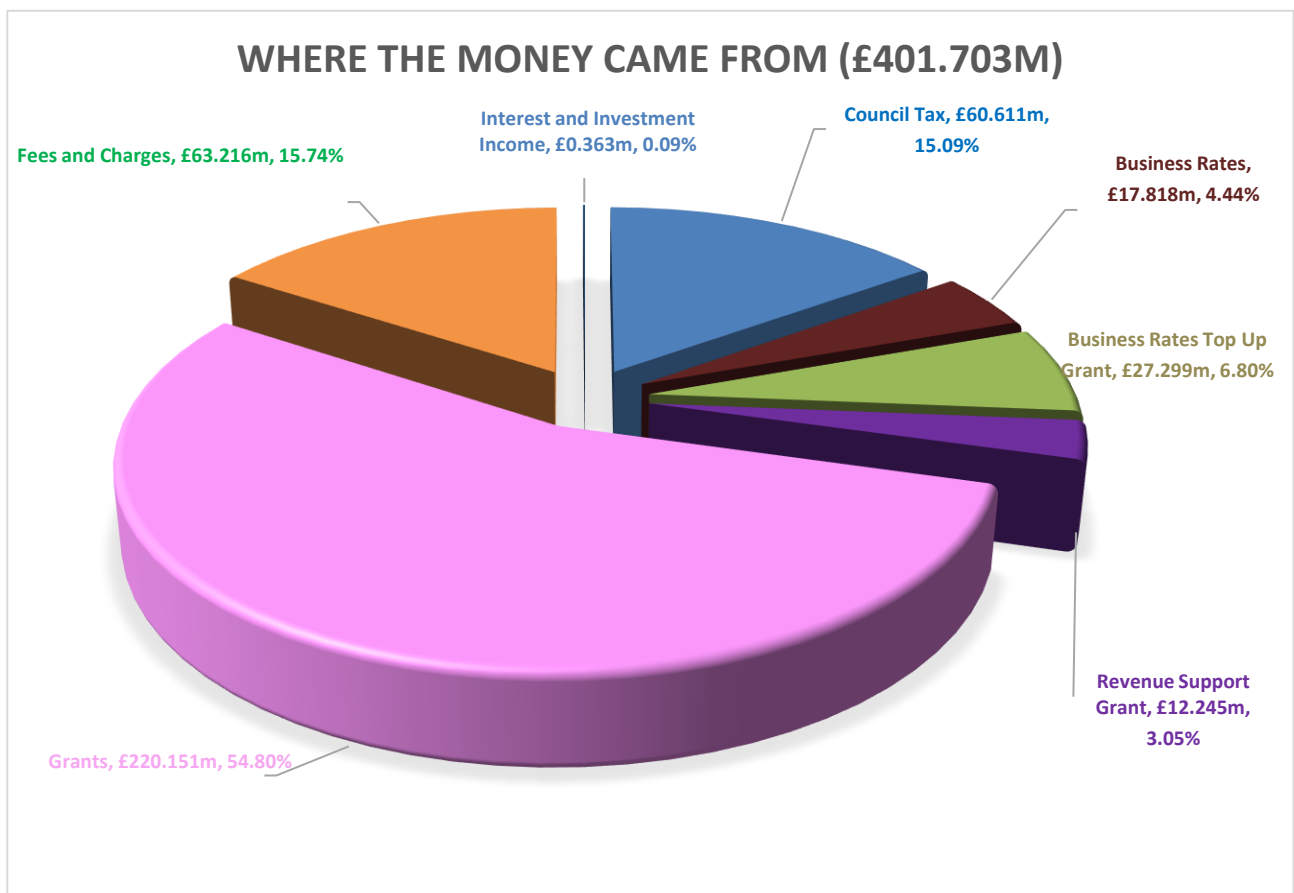
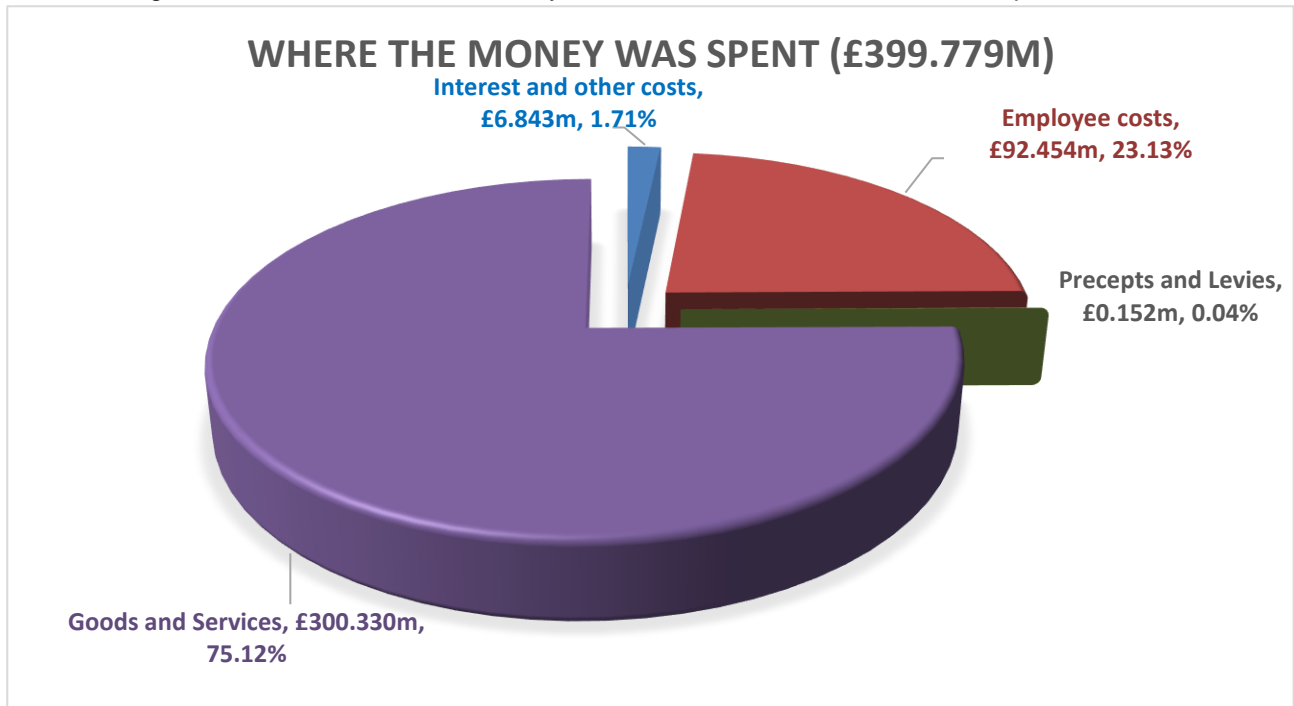
Independent Auditor's Report to the Council - the external auditor, Ernst & Young LLP have prepared this report, following their audit of the accounts for the financial year.

Annual Governance Statement - the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. This Statement explains how the Council has complied with the Code of Corporate Governance during the 2021/22 financial year.

The **Core Financial Statements** comprise:

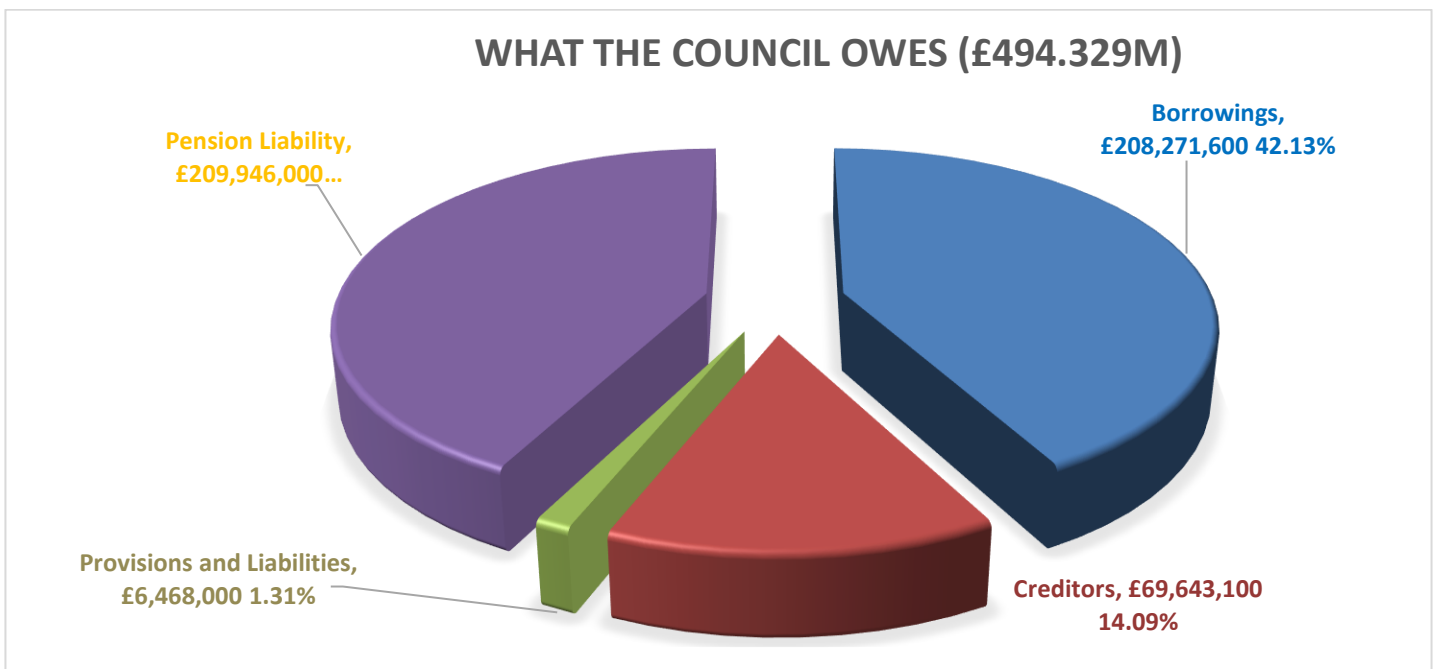
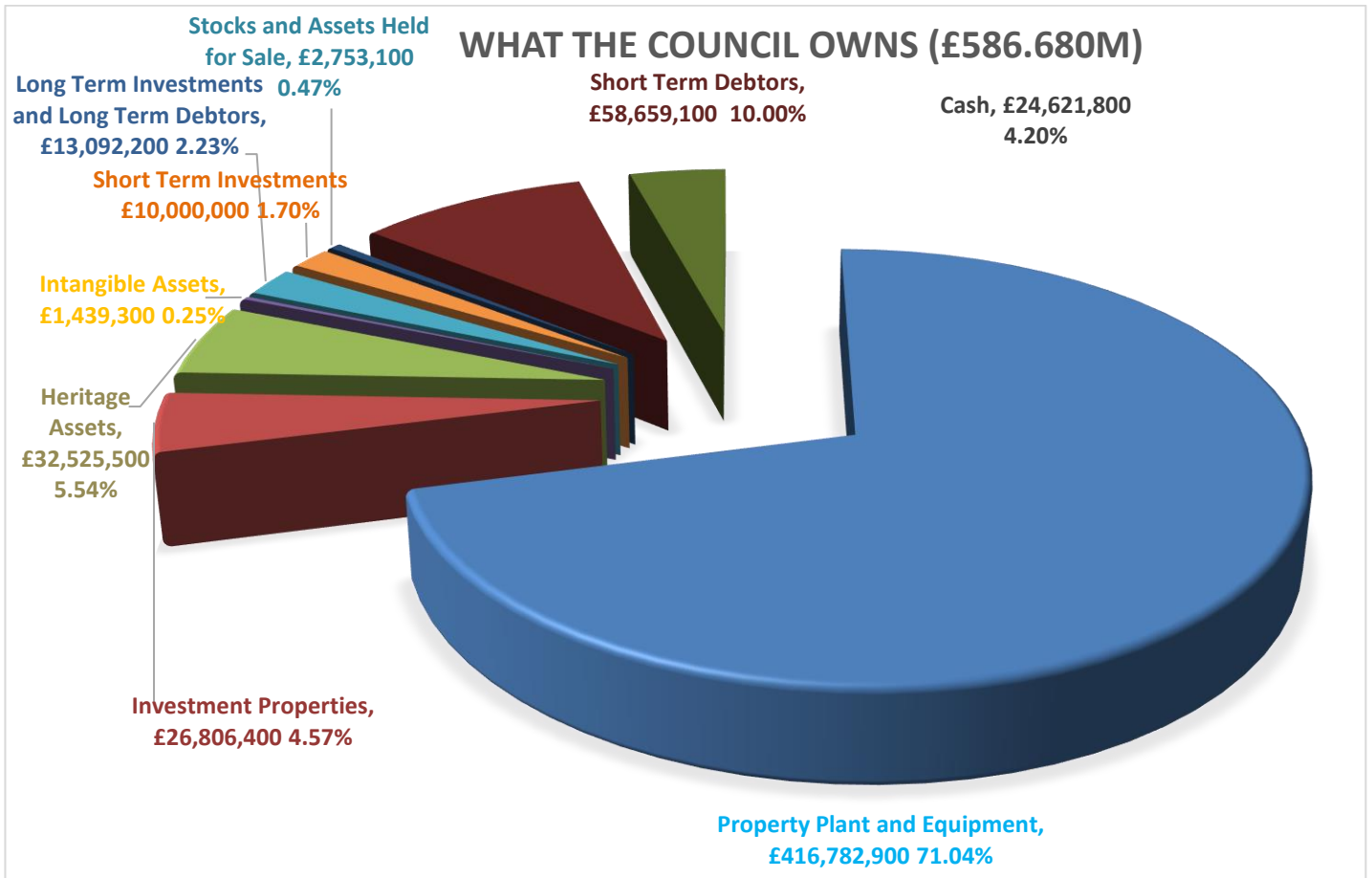
- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.
- The charts below and overleaf illustrate where the money has come from and how it has been spent.
- The totals in the financial statement are higher/lower than those set out below (expenditure by £63m and income by £55m) due to technical adjustments to comply with proper accounting practice, but which are not funded by the taxpayer. More details on this are set out in the notes to the accounts.

The following charts illustrate where the money has come from and how it has been spent:



- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets owned and liabilities incurred by the Council. The total net assets (assets less liabilities) are equivalent to the revenue and capital reserves held by the Council.

The following charts gives summary information on what the Council owns and owes:



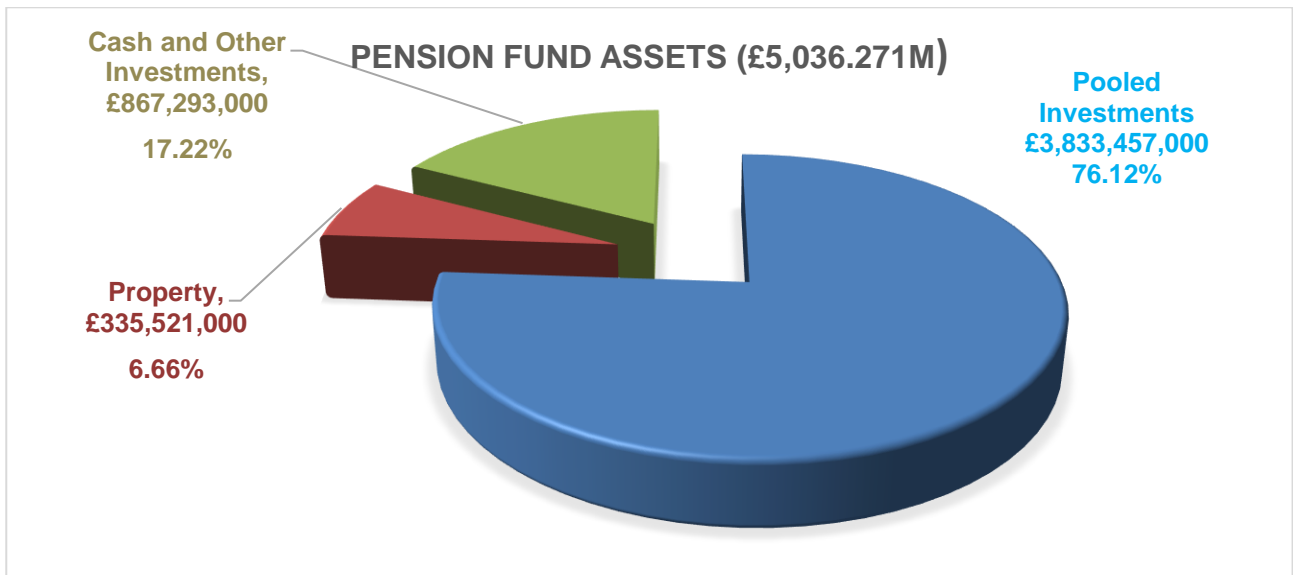
- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (arising mainly as a result of technical and accounting adjustments).
- The **Cash Flow Statement** - this summarises the changes in cash and cash equivalents of the Council during the reporting period. Cash flows are analysed between operating, investing and financing activities.

Accounting Policies Note - this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.

Notes to the Accounts - provides supporting and explanatory information as to how the accounts have been prepared and support the understanding of the accounting policies applied in the accounts to present a true and fair view of the financial position.

Pension Fund Accounts - the Teesside Pension Fund is administered by Middlesbrough Council and is independently managed and completely separate from the Council's own finances. This statement forms an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2021/22, assets, and liabilities as at 31 March 2022.

The following chart summarises the assets of the Fund at 31 March 2022:



A **Glossary** - to explain the technical jargon in the Statement of Accounts and help make the document more understandable to the reader.

Statement of Responsibilities – Middlesbrough Council

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to nominate that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer (Director of Finance);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets, and;
- approve the statement of accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing the statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I certify that the statement of accounts present a true and fair view of the financial position of the Authority at 31 March 2022 and its income and expenditure for that year.

Debbie Middleton FCPFA, BA(Hons)
Director of Finance
Middlesbrough Council

5 December 2024

Statement of Responsibilities – Teesside Pension Fund

Statement of Responsibilities

Middlesbrough Council Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through a Pension Fund Committee;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Chief Finance Officer of the Council (Director of Finance); and
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonably prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2022 and of its income and expenditure for that year.

Debbie Middleton FCPFA, BA(Hons)

Director of Finance

Middlesbrough Council

5 December 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Middlesbrough Council ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2022. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 46 to the Authority financial statements and notes 1 to 8 to the Group financial statements, including a summary of significant accounting policies;
- Collection Fund Income and Expenditure Account and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The audit report on the 2020-21 financial statements was issued on 27 April 2023. We commenced our audit of the 2021-22 financial statements in October 2022, however we were unable to complete our procedures on a number of areas including the valuation of infrastructure assets; pension liabilities; and the bad debt provision in respect of the Collection Fund. Amendments to the opening balances were also required to reflect changes made to the 2020-21 financial statements after the 2021-22 financial statements had been prepared. There were also a number of areas where audit queries remained outstanding.

As a result of these delays, together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2021-22 financial statements before the 13 December 2024 backstop date.

In addition, we identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described below in the significant weaknesses in arrangements section of our report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception:

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

Under section 24 of the Local Audit and Accountability Act 2014 (as amended), we may designate any audit recommendation as one that requires the Group and the Authority to consider it at a public meeting and to decide what action to take in response. On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24.

- Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in December 2021, we have identified the following significant weaknesses in the Group and the Authority's arrangements for the year ended 31 March 2022.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that there are three significant weaknesses in the Authority's arrangements which undermine the Authority's ability to achieve and evidence value for money in its use of resources. These are:

- Continued deterioration in the relationships between elected members and senior officers, and between elected members, characterised by a pervasive lack of trust within the Authority between officers and elected members, and between elected members, which had a significant impact on the effectiveness of the Authority's governance arrangements;
- Pervasive non-adherence within the Authority to the Authority's Contract and Financial Procedure Rules, including a well established informal and undocumented practice in respect of the application of procurement exemptions which is neither compliant with the requirements of the Authority's Financial and Contract Procedure Rules or as robust; and
- Significant gaps in the Authority's arrangements for overseeing the activities of its subsidiary, Middlesbrough Development Company, and ensuring it represents best use of the Authority's resources, including a lack of clarity over the roles and responsibilities of individuals (including

members and officers), inadequate monitoring and management of the subsidiary's performance and insufficient consideration of the composition and training of the subsidiary's Board.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- Made enquiries of management and elected members as to their understanding of the culture at the Authority;
- Reviewed correspondence received during the course of our audit, including from members of the Authority;
- Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee;
- Reviewed the reports of internal audit and officer-led investigations, including in relation to the awarding of contracts for external social work support and the governance of Middlesbrough Development Company; and
- Performed testing of contracts awarded by the Authority during the year ended 31 March 2022 to assess whether they had been awarded in accordance with the Authority's Financial and Contract Procedure Rules.

The impact on Middlesbrough Council

The breakdown in relationships between elected members and officers, and between elected members, leads to an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora. The pervasive non-adherence to the Authority's Contract and Financial Procedure Rules increases the risk that the Authority enters into contracts which do not represent value for money and achieve less for the resources expended than might have been achievable, and that contracts are awarded in a manner which is not fully compliant with relevant procurement laws and regulations.

The gaps in the oversight of Middlesbrough Development Company limit the Authority's ability to evidence that the resources provided to Middlesbrough Development Company are being deployed in the most efficient manner and may hinder the ability of the Authority to obtain and analyse information about costs and performance to improve the way it manages and delivers services.

The actions the Authority needs to take to address the weaknesses

On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24 of the Local Audit and Accountability Act 2014 (as amended), including the following recommendations related to the significant weaknesses in the Council's arrangements for the year ended 31 March 2022:

- We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan;
- We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions;
- We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented;

- We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;
- We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to;
- We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary;
- We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
- We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution;
- how the Authority advertises, competes and awards contracts for the purchase of goods and services, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources and how it ensures that contracts are awarded in accordance with applicable legislation; and
- how the Authority oversees the activities of its subsidiary, Middlesbrough Development Company, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in the use of resources provided by the Authority to Middlesbrough Development Company.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 28, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
9 December 2024

Auditor's Report – Teesside Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Statement of Accounts, the Net Assets Statement and the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022 and the amount and disposition at that date of its assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to 31 December 2025.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Teesside Pension Fund Accounts and Notes set out on pages 117 to 155, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Teesside Pension Fund Accounts and Notes.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or

otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of the Director of Finance's Responsibilities set out on page 29, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with Director of Finance.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Fund is complying with those frameworks by making enquiries of management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension Fund policies, and through the inspection of other documentation obtained in the course of our audit.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.
- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Middlesbrough Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
5 December 2024

2. Financial Statements



Core Statements - Movement in Reserves Statement

This Statement shows the movement in the different reserves held by the Council over the financial year. These reserves can be analysed into usable reserves, those that are available to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

2021/22	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 01-APR-2021	(10,500)	(35,044)	5	(51)	(7,930)	(53,519)	101,693	48,173
<u>Movement in reserves during 2021/22</u>								
Total Comprehensive Income and Expenditure	(2,318)	0	0	0	0	(2,318)	(137,402)	(139,720)
Adjustments between accounting basis & funding basis under regulation (note 6)	2,304	0	(5)	28	(23,485)	(21,158)	21,158	0
Transfers to/(from) other reserves (note 7)	(669)	669	0	0	0	0	0	0
Net Decrease / (increase) in year	(682)	669	(5)	28	(23,485)	(23,476)	(116,244)	(139,720)
Balance at 31-MAR-2022 carried forward	(11,182)	(34,375)	0	(23)	(31,415)	(76,995)	(14,551)	(91,547)

2020/21	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 01-APR-2020	(9,400)	(19,311)	(145)	0	(13,078)	(41,934)	53,283	11,349
Reporting of Schools budget deficit to new Adjustment Account at 1 April 2020	0	(2,783)	0	0	0	(2,783)	2,783	0
Revised Opening Balance	(9,400)	(22,094)	(145)	0	(13,078)	(44,717)	56,066	11,349
<u>Movement in reserves during 2020/21</u>								
Total Comprehensive Income and Expenditure	37,313	0	0	0	0	37,313	(490)	36,823
Adjustments between accounting basis & funding basis under regulation (note 6)	(51,363)	0	150	(51)	5,148	(46,116)	46,116	0
Transfers to/(from) other reserves	12,950	(12,950)	0	0	0	0	0	0
Net Decrease / (increase) in year	(1,100)	(12,950)	150	(51)	5,148	(8,803)	45,626	36,823
Balance at 31-MAR-2021 carried forward	(10,500)	(35,044)	5	(51)	(7,930)	(53,520)	101,692	48,172

Core Statements - Comprehensive Income and Expenditure Statement

This Statement brings together both income and expenditure relating to all of the Council's day to day services for the year and also shows how this is financed from a combination of local taxation, government grants and other income. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2022							
2020/21					2021/22		
Gross Expenditure	Gross Income	Net Expenditure / (Income)	Cost of Services by Service Area	Note	Gross Expenditure	Gross Income	Net Expenditure / (Income)
£000	£000	£000			£000	£000	£000
17,803	(11,877)	5,926	Regeneration and Culture		19,151	(3,222)	15,929
18,333	(26,097)	(7,764)	Public Health		15,804	(25,582)	(9,778)
83,763	(79,831)	3,932	Education and Partnerships		78,451	(71,856)	6,595
50,792	(5,022)	45,770	Children's Care		60,120	(6,463)	53,657
96,461	(56,889)	39,572	Adult Social Care		100,622	(57,191)	43,431
54,600	(8,564)	46,036	Environment and Community Services		49,259	(497)	48,762
82,004	(69,630)	12,374	Finance		65,561	(59,471)	6,090
18,204	(4,474)	13,730	Legal & Governance Services		17,213	(1,774)	15,439
473	(5,989)	(5,516)	Central Costs		10,901	(12,572)	(1,671)
0	416	416	Covid-19 Overspend		5,700	(5,310)	390
422,433	(267,957)	154,476	Total Cost of Service		422,784	(243,940)	178,843
415	0	415	Other Operating Income and Expenditure	9	152	(5,162)	(5,010)
37,191	(27,210)	9,981	Financing & Investment Activities	10	22,583	(14,229)	8,354
0	(127,559)	(127,559)	Taxation and Non-Specific Grant Income	11	0	(184,506)	(184,506)
460,039	(422,726)	37,313	(Surplus) or Deficit on Provision of Services		445,519	(447,836)	(2,318)
			<i>Items not re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(641)	(Surplus) on revaluation of Property Plant and Equipment				(4,271)
		4,317	Actuarial (Gains)/Losses on Pension Fund	39			(129,886)
		(4,166)	Depreciation written out to the Revaluation reserve	23			(3,245)
		(490)	Other Comprehensive Income and Expenditure				(137,402)
		36,823	Total Comprehensive Income and Expenditure				(139,720)

Core Statements - Balance Sheet

The Balance Sheet shows the value of assets and liabilities held by the Council. The net assets are matched by the Council's revenue and capital reserves.

31-MAR-2021		Note	31-MAR-2022
£000			£000
396,851	Property, Plant & Equipment	23/24	416,783
32,443	Heritage Assets	25	32,526
25,536	Investment Properties	26	26,806
1,873	Intangible Assets	27	1,439
309	Long Term Investments	29	309
9,860	Long Term Debtors	32	12,783
466,872	Total Long-Term Assets		490,646
0	Short Term Investments	29	10,000
2,297	Short Term Assets Held for Sale	28	125
2,313	Inventories	33	2,628
47,971	Short Term Debtors	32	57,856
24,810	Cash and Cash Equivalents	34	24,622
77,391	Total Current Assets		95,731
(32,089)	Short Term Borrowing	29	(22,648)
(58,306)	Short Term Creditors	35	(69,643)
(2,528)	Short Term Provisions	36	(1,742)
(92,922)	Total Current Liabilities		(94,033)
(15,532)	Net Current Assets / (Liabilities)		1,198
(3,277)	Long Term Provisions	36	(3,429)
(186,667)	Long Term Borrowing	29	(185,624)
(1,450)	Other Long-Term Liabilities	29	(1,297)
(308,118)	Pension Liability	39	(209,946)
(499,512)	Total Long-Term Liabilities		(400,296)
(48,172)	Net Assets/(Liabilities)		91,548
(53,520)	Usable Reserves	37	(76,996)
101,692	Unusable Reserves	38	(14,552)
48,172	Total Reserves		(91,548)

Debbie Middleton FCPFA, BA(Hons)

5 December 2024

Director of Finance

Core Statements - Cash Flow Statement

This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities. It is an integral part of the Comprehensive Income and Expenditure Statement and the Balance Sheet for the Council.

31-Mar-21		31-Mar-22
£000		£000
(37,313)	Surplus / deficit on provision of services	2,318
59,998	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 46)	44,217
301	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(4,761)
22,986	Net Cash Flows from Operating Activities	41,774
(4,368)	Investing Activities (Note 46)	(31,322)
(16,053)	Financing Activities (Note 46)	(10,638)
2,565	Net Increase or decrease in cash and cash equivalents	(186)
22,245	Cash and cash equivalents at the beginning at the reporting period (Note 34)	24,810
24,810	Cash and cash equivalents at the end at the reporting period (Note 34)	24,623

3. Notes to the Accounts



Notes to the Accounts

Note	Description	Page
	Notes to the Accounts	
1	Accounting Policies	46
2	Accounting Standards Issued but not yet adopted	58
3	Assumptions made about the future and other major sources of estimation uncertainty	58
4	Critical Judgements in applying Accounting Policies	59
5	Events after the Balance Sheet Date	59
	Notes Supporting the Movement in Reserves Statement	
6	Adjustments Between Accounting Basis and Funding Basis under Regulations	60
7	Earmarked Reserves	64
	Notes Supporting the Comprehensive Income and Expenditure Statement	
8	Expenditure and Funding Analysis	66
9	Other Operating Income and Expenditure	66
10	Financing and Investment Activities	67
11	Taxation and Non-Specific Grant Income	67
12	Grant Income	68
13	Dedicated Schools Grant	70
14	Officers' Remuneration	71
15	Members' Allowances and Expenses	73
16	Trading Operations	73
17	Audit Fees	74
18	Agency Services	74
19	Related Parties	74
20	Pooled Budgets	76
	Notes Supporting the Balance Sheet	
21	Capital Expenditure and Capital Financing	78
22	Capital Commitments	79
23	Property, Plant and Equipment	79
24	Revaluations and Impairments of Property, Plant and Equipment	84
25	Heritage Assets	85
26	Investment Properties	87
27	Intangible Assets	88
28	Assets Held for Sale	88
29	Financial Instruments: Balances	89
30	Financial Instruments: Fair Value and Risks	90
31	Financial Instruments: Income and Expenditure	94
32	Debtors (Short and Long Term)	95
33	Inventories	95
34	Cash and Cash Equivalents	95
35	Short Term Creditors	96
36	Provisions	96
37	Usable Reserves	97
38	Unusable Reserves	97
39	Pension Schemes Accounted for as Defined Benefit Scheme	100
40	Pension Scheme Accounted for as a Defined Contribution Scheme	103
41	Leases - Council as Lessor	104
42	Leases - Council as Lessee	104
43	Contingent Liabilities	105
44	Contingent Assets	106
45	Trust Funds	106
	Notes Supporting the Cash Flow Statement	
46	Cash Flow Statement - Investing and Financing Activities	107

Notes to the Accounts

Note 1 Accounting Policies

General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2021/22 financial year and its position at the 31 March 2022.

The Council is required to prepare a Statement of Accounts for each financial year under the Accounts and Audit Regulations 2015 (updated for the Coronavirus Amendment Regulations 2021) and in accordance with proper accounting practices. These proper accounting practices under Section 21 of the Local Government Act 2003 principally comprise:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) supported by International Financial Reporting Standards (IFRS).
- Statutory guidance issued under Section 12 of the 2003 Act.

The Statement of Accounts has been prepared using the 'going concern' concept (see below) and using the accruals basis of accounting such that transactions are recorded on the basis of when they fall due and not necessarily when settled in cash.

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income amounts.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. A summary of this is in the following table.

Asset Class	Measurement Basis
Property, Plant and Equipment – Land & Buildings	Current value based on Existing Use Value (EUV) for operational assets where there is an active market, or if there is no market-based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, Depreciated Replacement Cost (DRC).
Property, Plant and Equipment – Infrastructure, Community Assets and Assets under Construction	Depreciated historical cost/Historical cost
Property, Plant and Equipment – Surplus Assets	Fair value.
Property, Plant and Equipment – All Other Assets	Depreciated historical cost.
Investment Properties	Fair value.
Pension Assets	Fair value.
Pension Liabilities	Actuarial Basis

The Council's over-arching accounting policies are set out in more detail below. Further details on the accounting treatment adopted for specific transactions and balances is included in relevant disclosure notes.

Basis of Preparation - Going Concern

The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which the Council operates. If the Council were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. These provisions confirm that, as Councils cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The end of the financial year 2021/22 saw a continuing pandemic, which is likely to be with us in some form for years to come but with a lower level of restrictions that were in place than at the end of the previous financial year. The UK vaccinations programme continues to be a major success and life has returned to some type of normality during the latter part of the 2021/22. Most Council services are now operating at normal levels. However, services such as leisure (provided by SLM, the Council's external provider of leisure facilities) and culture are still affected by Covid-19, and it is emerging what demand led services within social care may look like in the future. Car parking income and the impact on the retail sector of the town continue to be a cause for concern. There is also ongoing concern regarding income to the Council in the form of Business Rates and Council Tax income.

The financial impact on the Council arising from additional costs and lost income continued to have a major impact during 2021/22. The Council has carried out a detailed assessment of the likely impact of the pandemic on its financial position and performance during the current year and is examining the potential ongoing effect in 2022/23 and future years. This is an essential part of the refresh of the Council's Medium Term Financial Plan.

This review includes consideration of the following:

- Loss of income on a service-by-service basis, due to a reduction in demand, and increased collection losses.
- Additional expenditure on a service-by-service basis with the provision of new and expanded services in response to the ongoing recovery (such as support to the social care market).
- Changes to government policy, e.g. support to the local businesses, additional funding for local authorities, and additional responsibilities that sit alongside this.
- The impact on the Council's investment strategy, e.g. delays caused by supplier availability and/or resources.
- The impact of all of the above on the Council's cash flow and treasury management processes, including availability of liquid cash and timing of borrowing plans.
- Rises in interest rates given the response of the economy to increased central government levels of debt and other inflationary pressures.
- The estimated overall impact on the Council's General Fund and Medium-Term Financial Plans and savings proposals.

There has been a range of interventions during 2021/22 by central government to continue to support individual local authorities' financial positions due to the pandemic:

- Covid-19 Expenditure Pressure Grant, which provided general support funding totalling £5.310 million.
- Sales, fees and charges (SFC) – the SFC compensation scheme for lost income continued for the first three months of 2021/22, using 2020/21 budgeted income as the baseline. Middlesbrough received a total of £0.801 million funding from the scheme.
- A further allocation of Contain Outbreak Management Fund (COMF) funding of £1.370 million was provided to support public health activities, such as local enforcement and contact tracing. £0.311m grant funding has been carried forward to 2022/23.
- Local Council Tax Support Grant – The allocation for Middlesbrough was £2.592 million in 2021/22 and was to support the pressure on collection rates.
- Section 31 Grant Funding for the lost income caused by the Covid-19 Business Rates Reliefs provided by the Government to businesses.

The total impact of Covid-19 on the General Fund (after all government funding and other offsets) was a cost

pressure of £0.4m in 2021/22, which will be funded from earmarked reserves. By way of context the Council's General Fund Reserve balance as at 31 March 2022 was £11.2m, this is above the minimum level for 2022/23 advised by the Chief Finance Officer of £11.2m.

Although no specific funding is indicated from central government for 2022/23 for Covid-19, areas such as council tax & business rates collection and income reductions are still volatile and could become worse than forecast in the medium-term financial plan. If this is the case, the Council has the ability to borrow from government or other local authorities to maintain liquidity and can use additional earmarked reserves still in place to manage any deteriorating financial position. We also expect that if infection rates do rise again, and restrictions are re-introduced at a local level that funding will be provided by central government.

The level of usable revenue reserves at present of just under £50m still gives a reasonable buffer against any unexpected shocks and changes in demand or government funding over the period. The Council will maintain a minimum liquidity position of £15m at all times over the period to the end of March 2024 to ensure the cash position is not compromised. The current medium term financial plan has a current savings target because over the next three years due to the current cost of living crisis and the effect of the high level of inflation in the economy at present. Directorates have put forward savings plans to address this, and these are being reviewed by the Chief Finance Officer and Leadership Management Team. A range of other savings measures are also being considered.

The Council has previously undertaken a review of the CIPFA Financial Resilience Index and compared its position against the other eleven North East local authorities plus against our CIPFA statistical family group. The conclusion continues to be that the financial position at present is stable and well managed. The areas to concentrate on going forwards are reducing demand on children's care, increasing the housing supply in the area to maximise council tax receipts, and to grow our level of reserves going forwards. These elements will be key facets of the Council's approach over the Medium-Term Financial Planning period and reviews of the financial position against other local authorities will be undertaken on a regular basis to inform this review.

Following the financial year the Council received a governance qualification in relation to its ability to achieve value for money which resulted in statutory recommendations being introduced in August 2023. A Best Value Notice was also issued by DLUHC in January 2023 which was successfully resolved in early September 2024.

The Councils' financial resilience was tested during 2023-24 when early monitoring highlighted a significant overspend which would have been a significant drain on the Councils' reserve position. A number of strategies were implemented to restrict expenditure which reduced the overspend from a potential £11.527m to £3.594m which was funded through reserves. When this reduction in reserves was combined with the budget gap for 2024-25 it became clear that further action was required. The Council made a successful application to DLUHC for Exceptional Financial Support (EFS) of £13.4m in order to fund transformation through 2024-25 which aims to deliver modernisation of services in order to balance the c£8m budget gap for the period to 2026-27. With the aid of EFS the Council set a balanced budget for 2024-25

In addition to the above, a review of the collection fund bad debt provision was also undertaken during 2023-24 and this combined with the above enabled a balanced budget for 2024-25 to be set for the Council and for its level of revenue reserves to be restored and protected to achieve financial recovery. Through the implementation of a new Transformation Programme, the Council will be able to be returned to a financially sustainable position by 2026-27.

For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern until at least 30 September 2025.

Accruals of Income and Expenditure

The Accounts have been prepared using the accruals basis of accounting such that transactions are recorded based on when they fall due and not necessarily when settled in cash. In particular:

- Whether paid on-account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that the grant will be received, and all conditions associated with the grant will be satisfied.
- Amounts recognised as grants and contributions for which conditions have not been satisfied are carried forward in the Balance Sheet as creditors.

- When all conditions are satisfied, the grant or contribution is credited to the relevant service line or taxation and non-specific grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.
- All other income and expenditure amounts are recognised on an accruals basis reflecting the date the service was provided.
- Expenditure in relation to services received by the Council (including services provided by employees) is recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for as income and expenditure respectively, based on the effective interest rate for the relevant financial instrument.
- Where income or expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.
- Accruals are generally recognised where the value exceeds £10,000.

Comprehensive Income and Expenditure Account and the General Fund

The surplus or deficit on provision of services reported in the Comprehensive Income and Expenditure Statement is transferred to the General Fund. Amounts are then transferred to and from the General Fund under statutory provisions or to set aside specific amounts for future policy purposes or to cover contingencies. These amounts are shown in the Movement in Reserves Statement.

Amounts appropriated under Statutory Provisions

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution (Minimum Revenue Provision) in the General Fund, by way of an adjusting transaction to the Capital Adjustment Account through the Movement in Reserves Statement.

The written-off value of asset disposals is appropriated to the Capital Adjustment Account.

Amounts received for an asset sale in excess of £10,000 (or £5,000 for Investment Properties and Intangible Assets) are categorised as capital receipts and credited to the Capital Receipts Reserve. Amounts in the Capital Receipts Reserve can only be used to fund new capital investment or be set aside to reduce the Council's underlying need to borrow.

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year (REFCUS). Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the General Fund to the Capital Adjustment Account is made to reverse the amounts charged so there is no impact on Council Tax.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has been incurred are transferred to the Capital Adjustment Account.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has not yet been incurred are transferred to the Capital Grants Unapplied Reserve until such time that capital expenditure is incurred at which time the expenditure is transferred to the Capital Adjustment Account.

Statutory provisions require the General Fund balance is only charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Accordingly, amounts charged and credited in determining the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement are replaced with amounts actually paid to the pension fund via an appropriation to the Pensions Reserve for the difference.

Amounts set aside

The Council sets aside specific amounts as reserves for future liabilities or to cover contingencies by transferring amounts out of the General Fund to Earmarked Reserves. When expenditure to be financed from

a reserve is incurred, it is charged to the appropriate service and transferred back into the General Fund. Amounts set aside and transferred back are shown in the Movement in Reserves Statement.

Property, Plant and Equipment

Assets that have physical substance and are used in the production or supply of goods or services, or for administrative purposes and that are expected to be held for more than one financial year are classified as Property, Plant and Equipment.

Recognition and Componentisation

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided that it exceeds a de minimus level of £5,000. Expenditure that is below the de minimus or maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense.

Componentisation acknowledges that some assets are made up of different parts and that sometimes these parts have differing useful economic lives and should therefore be depreciated over different periods. Depreciating assets are subject to a review for componentisation where their individual carrying value is above 0.25% of the total carrying value of its asset class (Land and Buildings). On review, assets are componentised when by doing so would produce a depreciation charge of over £100,000 and more than double the difference compared with the depreciation charge if the asset isn't componentised.

Measurement

Purchased assets are initially measured at cost (usually the purchase price). Borrowing costs incurred whilst assets are under construction are not included in cost.

Donated assets are initially measured at historical cost with the difference between historic cost and any consideration paid being credited to taxation and non-specific grant Income in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment is carried in the Balance Sheet using the following measurement bases:

- Land and Buildings are carried at fair value. Fair value is determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) for assets for which there is an active market (e.g. offices) and Depreciated Replacement Cost (DRC) for assets for which there is not an active market (e.g. schools). They are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years;
- Infrastructure and Community Assets and Assets under Construction are valued at depreciated historical cost. In addition, and in relation to highways infrastructure assets specifically there is an assumption that these assets are fully depreciated before being replaced.
- Surplus assets are defined as those that are not being used to deliver services and do not fulfil the criteria to be classified as either Investment Properties or Assets Held for Sale. They are carried at fair value i.e. the price that would be received if an asset is sold or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. They are revalued regularly (every five years as a minimum) to ensure their carrying amount is not materially different from their fair value at the balance sheet date; and;
- All Other Assets are held at depreciated historical cost as a proxy for fair value.

Where assets are carried at fair value the treatment of changes to the valuation are accounted for as follows:

- Increases in valuations are generally credited to the Comprehensive Income and Expenditure Statement as 'other comprehensive income and expenditure' and matched by an increase to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains will be credited to the Comprehensive Income and Expenditure Statement as a reduction in service cost if they arise from the reversal of a loss previously charged to a service;
- Decreases in valuations (up to the amount of any previously accumulated gains specific to that asset) are charged to the Comprehensive Income and Expenditure Statement as 'other comprehensive income and expenditure' and matched by a reduction to the Revaluation Reserve. Where the balance in the Revaluation Reserve is insufficient to absorb the decrease, the remaining amount is charged

- against the relevant service line(s) in the Comprehensive Income and Expenditure Statement; and
- The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date are a constituent part of the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Impairment relates to the reduction on a permanent basis of a non-current asset due to a specific event such as fire, flooding, accidental damage and an act of god and associated perils. Impairment does not relate to general decreases in property value or the use of an asset in a specific way where its value be less than its historic cost and these will be informed via revaluations.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Impairment losses are treated in the same way as downward revaluations for the purposes of allocating between the Revaluation Reserve and the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Discontinued Use

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is charged to other operating expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account to offset this loss. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to other operating expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same part the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Depreciation and Amortisation

Depreciation is provided for on all assets identified as Property, Plant and Equipment and Amortisation is charged on Intangible Assets by the systematic allocation of their balance sheet amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land), community assets and assets that are not yet available for use.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are recorded and depreciated separately.

Depreciation and Amortisation is charged over the useful life of the asset, using a method that reflects the pattern in which the asset's future economic benefits or service potential is expected to be consumed. The standard useful lives for new assets are as follows:

- Operational Buildings 30-60 Years
- Plant and Equipment 5-10 Years
- Vehicles 5-10 Years
- Infrastructure assets 15-65 Years
- Surplus Buildings 30-60 Years

- Intangible Assets 3-10 Years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the amount that would have been charged otherwise. This is based on the historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Post Employment Benefits (Pensions)

Employees of the Council are members of one of two separate pension schemes:

- The Local Government Pension Scheme, administered by Middlesbrough Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE).

Both Schemes provide defined benefits to members (retirement lump sums and pensions), based on total years of service and salaries earned as employees working for the Council.

The arrangements for the Teachers' Pension Scheme are such that the liabilities for the benefits cannot be identified specifically to the Council so the scheme is accounted for as a defined contribution scheme. The assets and liabilities of the scheme are excluded from the Council's Balance Sheet and only the value of actual contributions made are charged to the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme is accounted for as a defined benefit scheme. Accordingly, the net liabilities of the Scheme attributable to the Council (as determined annually by the Scheme's actuary) are included in the Council's Balance Sheet.

Liabilities are determined using the projected unit method. This is an assessment of the likely future payments that will be made in relation to retirement benefits earned to date by employees. Estimates are based on assumptions including retirement profiles, mortality rates and projected earnings for current employees. Estimated liabilities are then discounted to their value at current prices, using a discount rate based on the rate of return on high quality corporate bonds, which have been chosen to meet the requirements of IAS19.

The assets of the Scheme attributable to the Council are included in the Balance Sheet at their fair value as follows:

- Quoted securities - at current bid price and
- Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.
- Property - at market value.

The change in the Scheme's net liability from the previous year is analysed as follows:

Charged in the Comprehensive Income and Expenditure Statement

- Charged to Services
 - current service cost - the increase in liabilities as a result of additional service earned in the year.
- Charged as Central Costs
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to the years of service earned in earlier years.
 - gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees.
- Charged as Financing and Investment Income and Expenditure
 - interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid.
 - expected return on assets - the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return.
- Charged as Other Comprehensive Income and Expenditure
 - actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the

actuaries have updated their assumptions.

- Charged to the Pension Reserve
 - contributions paid - cash paid as employer's contributions to the pension fund in the year.

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable because of a decision by the Council to terminate a staff member's employment before the normal retirement date or a decision by a staff member to accept voluntary redundancy. Termination benefits are chargeable as non-distributed costs in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or makes an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at year end.

Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation's accounts and a financial liability in another's. These transactions can cover investments, cash, debtors, creditors, loans, derivatives and guarantees. For the Council these generally take the form of loans or similar borrowings and lendings. Gains and losses are separately identified in the Comprehensive Income and Expenditure Statement in accordance with IFRS9 on Financial Instruments

Financial Liabilities (Borrowing)

Financial liabilities are recognised when the Council becomes party to the contractual provisions of a financial instrument. These are usually as loans at amortised cost rather than fair value.

Interest payable on these financial instruments is determined as the difference between the initial fair value and the total of the cash amounts repayable over the life of the instrument. These are allocated to the Comprehensive Income and Expenditure Statement in variable instalments over the life of the financial instrument concerned

Financial Assets

The Council holds financial assets that are classified as loans and receivables in that they have fixed or

determinable payments but are not quoted in an active market.

Loans and receivables are recognised when the Council becomes party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently carried at their amortised cost.

Interest receivable is determined as the difference between the initial fair value and cash amounts to be recovered over the life of the instrument and is allocated to the Comprehensive Income and Expenditure Statement in variable instalments over the life of the assets. For short-term assets, this is charged each month and for longer term by year.

Leases

IAS 17 – the current accounting standard in place for leasing identifies two classes of lease. Finance leases are contracts with the rights to use an asset, where substantially all of the risks and rewards of ownership pass to the lessee. All other leases under the standard are classified as operating leases.

The Council as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments being made (e.g. there may be a rent-free period at the commencement of the lease).

Finance Leases

Where the Council has the balance of risks and rewards in its possession, it will recognise a lease of this nature (for any property or equipment) as an asset in the Council's balance sheet at the lower of fair value or the present value of minimum lease payments, with a corresponding long-term liability covering the associated rental payments. The liability will be written down over time as the rental arrangement is repaid, with any interest being charged to financing and investment expenditure in the Comprehensive Income and Expenditure Statement.

The Council as Lessor

Operating Leases

The Council has numerous operating (rental) leases over certain properties and equipment in its ownership where the balance of risks and rewards of the contract remain under its discretion. These assets are retained in the Balance Sheet following normal principles relating to property, plant and equipment. Rental income is credited to the Comprehensive Income and Expenditure Statement against the relevant service line heading on a straight-line basis.

Finance Leases

Where the Council has granted a finance lease on any properties which are retained in the Balance Sheet, the asset will be derecognised from its accounts. A finance lease receivable will then be established representing the proceeds to be received over the lease term. Any amounts in respect of the principal value will reduce the lease debtor outstanding, with any amounts representing interest being credited to the Comprehensive Income and Expenditure Statement.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change

provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of March each year and the date when the Statement of Accounts is authorised for issue. Two types of events are possible:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the accounts are authorised for issue by the Director of Finance are not reflected in the Statement of Accounts.

Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours with insignificant risk of change in value. These deposits should not have a term of more than three months in total. Overdrawn bank accounts are presented in the balance sheet net only where there is a right of offset.

Changes in Accounting Policy

Changes in accounting policies are made when required by proper accounting practices or the change provides more reliable/relevant information to the user of the accounts. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Interests in Companies and Other Entities

The Council has one wholly owned subsidiary; Middlesbrough Development Company, which is involved in housing growth and has been consolidated into the Council's Group Accounts on a line-by-line basis, after first realigning accounting policies with the Council where appropriate and eliminating intra-Group transactions.

Investment Property

Investment properties are those assets held by the Council solely to earn rental income and/or for capital appreciation. These are not depreciated within the accounts. Instead, they are recorded in the balance sheet initially at cost and then subsequently revalued each year at fair value. This is based on the amount at which the asset could be exchanged between knowledgeable parties in an arm's length transaction.

Changes in valuation are charged or credited to financing and investment activities in the Comprehensive

Income and Expenditure Statement.

Support Services and Overheads

The costs of support services and overheads are charged to those that benefit from the supply or service in accordance with the basis of apportionment. The full cost of overheads and support services is shared between users in proportion to the benefits received.

Revenue Expenditure Funded by Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the General Fund to the Capital Adjustment Account is made to reverse the amounts charged so there is no impact on Council Tax.

Rounding

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

Values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match the core statements or other tables due to minor rounding differences only.

Schools

Local authority maintained schools are considered to be under the control of the Council. Consequently, the income, expenditure, assets and liabilities of maintained schools are accounted for in the single entity accounts of the Council.

The table below shows the different type of schools within the Borough but only the Community Schools are owned and included on the Council's balance sheet:

Type of School	No of Primary Schools	No of Secondary Schools	No of Special Schools	Total
Community	4	0	3	7
Foundation	5	0	0	5
Maintained	9	0	3	12
Academies (not under the control of LA)	32	8	2	42
Total	41	8	5	54

Value Added Tax (VAT)

The Comprehensive Income and Expenditure Account excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income within the Council's Income and Expenditure account.



Note 2 Accounting Standards Issued but not yet adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published, but not yet adopted, by the Code of Practice of Local Authority Accounting in the United Kingdom:

- **IFRS 16** has been deferred until the accounts relating to 2024/25 financial year. CIPFA has taken this decision in response to pressures facing councils in producing their Statement of Accounts.

In order to comply with the deadline on submitting the accounts it will be necessary to include the valuation of Highways Infrastructure Assets using the method used to close the 2020/21 accounts. There is an ongoing task and finish group established by CIPFA regarding the methodology for future valuation of such assets which has the potential to require the 2021/22 accounts to be restated. The outcome of this work will be evaluated once the recommendations of the groups work is published. As this is a national issue, it impacts on all local authorities with highways responsibilities.

Note 3 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts includes some estimated figures, which are based on assumptions about the future that are otherwise uncertain. Estimates are made using historical experience, current trends and other relevant and appropriate criteria. These estimations cannot be determined with certainty therefore, actual results could be materially different from the assumptions and estimates used. The items in the Council's Balance Sheet at 31 March 2022 where there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Valuation, where required of Property, Plant and Equipment, Heritage assets and Investment properties.	Valuation of property involves assessment of a number of variables such as market conditions, useful life, cost of reconstruction, assessment of condition, etc. Qualified Chartered Surveyors, or experts in the relevant field undertake valuations however, these can be subject to market uncertainties. Revaluations, in accordance with the local authority accounting code of practice are carried out on a 5-year rolling cycle or where there is evidence of a material change in value.	At 31 March 2022, the Council had land and buildings to the value of £217.141 million, and investment properties to the value of £26.806 million. A 1% change in the estimation of property values would lead to a £2.17 million change in the value of the Council's land and buildings and £268,060 change in the value of the Council's investment properties. These changes to valuations would not have a direct impact on the Council's general fund, since any effect charged to the CIES would be reversed to the Council's unusable reserves.
Pension Liability	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates. The Council has engaged Hymans Robertson as its actuary to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assessments can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £19.849 million. Note 39 provides further details.

Bad Debt Provision	The Council has determined its bad debt provision of £26m based on a range of factors including the age of the debt and the action that has been undertaken by the Council to liaise with the debtor to recover debt. The success of securing the income has been impacted due to Covid-19 and the cost of living crisis.	If collection rates were to deteriorate an increase in the amount for the provision of doubtful debts would substantially increase.
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Note 4 Critical Judgements in applying Accounting Policies

In applying the accounting policies laid out in [Note 1](#), the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts, these are as follows:

- On the grounds of control and significant influence, the Middlesbrough Development Company falls within the group boundary of the Council and therefore has been consolidated within the Council's group accounts.
- All maintained schools are considered entities controlled by the Council but rather than produce group accounts, the income, expenditure, assets and liabilities are recognised in the Council's single entity accounts in line with accounting standards.
- The Council recognises school assets for community schools on its balance sheet because the Council has assessed that the rights and obligations associated with such schools rest with the Council.
- The accounting disclosure requirements for Local Authorities pension obligations are set out in International Accounting Standard (IAS) 19. The Council uses a firm of actuaries to calculate these figures as they involve making a number of complex judgements with regard to future events including the rate of increase in salaries, mortality rates, changes in the discount rate and the expected return on equity investments. Results under IAS 19 can change dramatically depending upon the prevailing market conditions leading to volatility on the net pension asset on the Council's balance sheet and the pension expense in the Comprehensive Income and Expenditure Statement.
- Judgement is required to as to whether the conditions of specific grants received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where the grant conditions require associated expenditure to be incurred, the grant monies will not be recognised as income in the financial year, until this expenditure is incurred. Grant income is not recognised until the conditions of the grant are met.

Note 5 Events after the Balance Sheet Date

There are no events at the authorised for issue date (23 September 2024), that affect any of the values in either the Financial Statements for the Council for 2021/22 or in the Notes to the Accounts.

Notes Supporting the Movement in Reserves

Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are required to be made to Income and Expenditure recognised by the Council within the year, so they match to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure, in accordance with proper accounting practice.

2021/22	General Fund Balance	Capital Receipts Reserve	Revenue Unapplied	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000	£000
Adjustments Affecting Capital Reserves					
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(16,076)	0	0	0	(16,076)
Revaluation Losses on Property, Plant and Equipment (Note 23)	(3,539)	0	0	0	(3,539)
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	459	0	0	0	459
Amortisation of Intangible Assets (Note 27)	(1,272)	0	0	0	(1,272)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0	0
Total Capital Grants (Note 11)	44,289	0	0	0	44,289
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	0	(23,485)	(23,485)
Donated Assets (Note 23)	1,548	0	0	0	1,548
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(14,555)	0	0	0	(14,555)
Non-current assets written off on disposal or sale (Note 23,25,27,28)	(8,325)	0	0	0	(8,325)
Non-current Assets written off - Investment properties	(400)	0	0	0	(400)
Cost of Lease Surrender	0	0	0	0	0
Statutory provision for the financing of capital investment (Note 21)	5,036	0	0	0	5,036
Capital Receipts Reserve used to finance new capital spend (Note 21)	0	13,482	0	0	13,482
Capital expenditure charged against the General Fund (Note 21)	(8)	0	28	0	20
Transfer on receipt of cash	0	0	0	0	0
Total Adjustments Affecting Capital reserves	7,157	13,482	28	(23,485)	(2,818)
Amounts Affecting the Pension Reserve					
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 39)	(42,795)	0	0	0	(42,795)
Employer's pension contribution payable in year (Note 39)	11,081	0	0	0	11,081
Amounts Affecting the Collection Fund Adjustments Account					
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	14,087	0	0	0	14,087
Amounts Affecting the Compensated Absences Adjustment Account					
Reversal of Accrual made at previous year end (Note 38)	695	0	0	0	695
Creation of accrual for current year end (Note 38)	(943)	0	0	0	(943)
Amounts Affecting the DSG Adjustment Account					
Transfer schools deficit to the DSG adjustment account	(465)	0	0	0	(465)
Amounts between Usable Reserves					
Cash proceeds on disposal of Non-Current Assets	13,487	(13,487)	0	0	0
Total Adjustments for the year ended 31-MAR-2022	2,304	(5)	28	(23,485)	(21,158)

2020/21	General Fund Balance	Capital Receipts Reserve	Revenue Unapplied	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:					
With the Comprehensive Income and Expenditure Statement					
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(19,369)	0	0	0	(19,369)
Revaluation Losses on Property, Plant and Equipment (Note 24,23)	(4,644)	0	0	0	(4,644)
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	41	0	0	0	41
Amortisation of Intangible Assets (Note 27)	(2,159)	0	0	0	(2,159)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0	0
Total Capital Grants (Note 11)	7,392	0	0	0	7,392
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	0	5,148	5,148
Donated Assets (Note 23,25)	1,075	0	0	0	1,075
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(7,888)	0	0	0	(7,888)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	4,931	0	0	0	4,931
Non-current assets written off on disposal or sale (Note 23,27)	(6,525)	0	0	0	(6,525)
Cost of Lease Surrender	(1,055)	0	0	0	(1,055)
Total within the Comprehensive Income and Expenditure Statement	(28,201)	0	0	5,148	(23,053)
Amounts arising elsewhere					
Statutory provision for the financing of capital investment (Note 21)	4,743	0	0	0	4,743
Capital Receipts Reserve used to finance new capital spend (Note 21)	0	6,374	0	0	6,374
Capital expenditure charged against the General Fund (Note 21)	58	0	(51)	0	7
Total Amounts arising elsewhere	4,801	6,374	(51)	0	11,124
Total Amounts involving the Capital Adjustment Account	(23,400)	6,374	(51)	5,148	(11,929)
Amounts involving Deferred Capital Receipt Reserve					
Transfer on receipt of cash	0	0	0	0	0
Amounts involving the Pension Reserve					
Reversal of Pension items in the Comprehensive Income and Expenditure Statement (Note 39)	(30,908)	0	0	0	(30,908)
Employer's pension contribution payable in year (Note 39)	10,669	0	0	0	10,669
Amounts involving the Collection Fund Adjustments Account					
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	(13,640)	0	0	0	(13,640)
Amounts with the Compensated Absences Adjustment Account					
Reversal of Accrual made at previous year end (Note 38)	896	0	0	0	896
Creation of accrual for current year end (Note 38)	(695)	0	0	0	(695)
Amounts within the DSG Adjustment Account					
Transfer schools deficit to the DSG adjustment account	(509)	0	0	0	(509)
Amounts between Usable Reserves					
	6,224	(6,224)	0	0	0
Total Adjustments for the year ended 31-MAR-2021	(51,363)	150	(51)	5,148	(46,116)

Note 7 Earmarked Reserves

2021/22	Amounts Transferred			Balance at 31-MAR-2022
	Balance at 01-APR-2021	From General Fund	To General Fund	
	£000	£000	£000	
Schools Balances	(4,864)	(4,805)	4,866	(4,802)
Significant Revenue Reserves	0			
Invest to Save / Change Programme	(445)	(417)	688	(174)
Revenue Grants Unapplied	(11,098)	(11,710)	11,151	(11,657)
Insurance Fund	(306)	(312)	501	(116)
Capital Re-Financing Reserve	(175)	0	175	0
Public Health Reserve	(438)	(230)	0	(668)
Business Rates Reserve	(10,555)	(6,040)	9,751	(6,844)
Covid-19 Recovery Reserve	(4,512)	0	4,512	0
Social Care Transformation Reserve	0	(7,072)	0	(7,072)
Children's Care Demand Reserve	(732)	0	732	0
Total Specific Reserves	(28,261)	(25,781)	27,510	(26,532)
Other Revenue Reserves	(1,920)	(12,358)	11,237	(3,062)
Total Earmarked Reserves	(35,044)	(42,944)	43,613	(34,375)

Details of some of the more significant earmarked reserves are set out below: -

Schools Balances

This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred in the year for all the Middlesbrough Council schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.



Invest to Save / Change Programme - the reserve has been set up to pay for the one-off costs associated with implementing change within services including the funding of investment to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.

Revenue Grants Unapplied – In situations where there are no grant conditions or that conditions have already been met, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year-end. These have been recognised as income in prior years in the Comprehensive Income & Expenditure Statement.

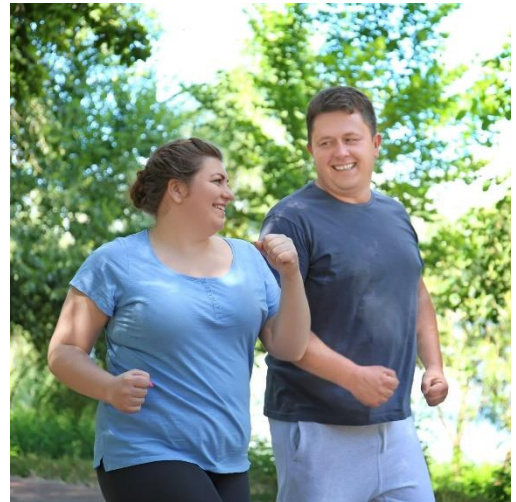


Insurance Fund - the internal Insurance Fund was set up to cover all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers liability, fire, motor, marine, engineers, public liability and money losses.

Public Health – savings achieved in 2020/21 due to the pandemic. Mainly due to less demand on core services. The transfer to reserves will give greater capacity in managing unexpected costs in future years.

Business Rates - the reserve has been set up to cover the financial risks associated with the Business Rates Retention Scheme, due to volatility of the Business Rates tax base and collection rates. It also includes Section 31 grant, which is payable in advance and offsets losses incurred in 2020/21 due to the pandemic on NNDR. This will be spread between 2020-21 and 2022-23 to offset losses on the collection fund account.

Social Care Transformation Reserve - This reserve is to fund potential pressures in Children's Services due to the ongoing effects of the continued transformation work and that which will take place within Adult Social Care in relation to Fair Cost of Care and Social Care Reforms.



Note 8 Expenditure and Funding Analysis

Expenditure and Funding Statement

The Expenditure and Funding Statement shows how revenue expenditure is used and funded from resources raised (government grants, rents, council tax and business rates) by local authorities, in comparison with those resources consumed by authorities in accordance with generally accepted accounting practice. It also shows how this expenditure is allocated for decision-making purposes between the Council's directorates.

Expenditure and Funding Analysis

2020/21				2021/22		
Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Service Area	Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
2,547	3,379	5,926	Regeneration and Culture	3,509	12,419	15,928
(3,050)	(4,717)	(7,767)	Public Health	(3,870)	(5,907)	(9,777)
1,831	2,102	3,933	Education & Partnerships	358	6,236	6,594
42,590	3,180	45,770	Children's Care	44,116	9,540	53,656
37,647	1,925	39,572	Adult Social Care & Health Integration	38,706	4,725	43,431
20,912	25,126	46,038	Environment & Community Services	21,105	27,657	48,762
1,193	11,182	12,375	Finance	(815)	6,906	6,091
8,687	5,043	13,730	Legal & Governance Services	10,112	5,327	15,439
3,687	(9,205)	(5,518)	Central Costs	959	(2,630)	(1,671)
416	0	416	Covid-19 Support	390	0	390
116,460	38,015	154,475	Net Cost of Service	114,570	64,273	178,843
(116,397)	(765)	(117,162)	Other Income and Expenditure	(116,493)	(4,668)	(181,161)
63	37,250	37,313	Surplus or Deficit on Provision of Services	(1,923)	(396)	(2,318)
		9,400	Opening Uncommitted General Fund Balance	10,500		
		(63)	Surplus or (Deficit) on General Fund Balance in year	1,923		
		1,163	Contribution/(use) in year	(1,240)		
		10,500	Closing Uncommitted General Fund Balance	11,183		

Adjustments between Funding and Accounting Basis

2021/22				
Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration and Culture	6,519	1,419	4,481	12,419
Public Health	0	1,055	(6,962)	(5,907)
Education & Partnerships	2,345	4,128	(237)	6,236
Children's Care	4,553	4,475	512	9,540
Adult Social Care and Health Integration	1,235	4,312	(822)	4,725
Environment & Community Services	18,025	5,889	3,743	27,657
Finance	152	2,493	4,261	6,906
Legal & Governance Services	2,541	2,207	579	5,327
Central Costs	72	(1,241)	(1,461)	(2,630)
Covid-19 Support	0	0	0	0
Net Cost of Services	35,442	24,737	4,094	64,273
Other Income and Expenditure from the Expenditure and Funding Analysis	(51,059)	6,729	(20,339)	(64,668)
Difference between General Fund Surplus/ Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services	(15,617)	31,466	(16,243)	(396)

Adjustments between Funding and Accounting Basis				
2020/21				
Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration and Culture	5,498	842	(2,961)	3,379
Public Health	36	763	(5,516)	(4,717)
Education & Partnerships	704	2,668	(1,270)	2,102
Children's Care	190	2,594	396	3,180
Adult Social Care and Health Integration	(467)	2,245	147	1,925
Environment & Community Services	18,882	3,108	3,136	25,126
Finance	904	1,688	8,590	11,182
Legal & Governance Services	3,414	1,328	301	5,043
Central Costs	0	(1,293)	(7,912)	(9,205)
Covid-19 Overspend	0	0	0	0
Net Cost of Services	29,161	13,943	(5,089)	38,015
Other Income and Expenditure from the Expenditure and Funding Analysis	(7,185)	6,298	122	(765)
Difference between General Fund Surplus/Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services	21,976	20,241	(4,967)	37,250

Expenditure and Funding – Analysis by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employees	148,517	150,112
Other Service Expenditure	269,639	253,001
Depreciation and other Capital Charges	35,265	35,410
Interest Payments	6,473	6,843
Precepts and Levies	146	152
Total Expenditure	460,040	445,519
Income		
Government Grants and Contributions	(289,644)	(318,556)
Income from Council Tax and Non-Domestic Rates	(63,170)	(81,160)
Interest and Investment Income	(274)	(363)
Fees, Charges and Other Service Income	(69,638)	(47,837)
Total Income	(422,726)	(447,837)
Deficit on the Provision of Services	37,313	(2,318)

The Council's Fees, Charges and Other Services Income is analysed by type in the table below:

	2020/21 £000	2021/22 £000
Rent Income	(6,361)	(7,112)
Capital		
Parking	(2,545)	(1,598)
Support Services	(1,208)	(1,277)
School Income	(12,199)	(6,221)
Licensing	(857)	(749)
Highways, Buildings and Streetlight Maintenance	(7,116)	(4,148)
Covid-19	1,730	(3,179)
Revenues and Benefits	(3,554)	(1,861)
Museums and Entertainment Venues	(1,020)	(2,684)
Catering	(4,589)	(4,743)
Commissioning	(1,818)	(1,797)
Bereavement Services	(2,395)	(2,324)
Fleet Management	(746)	(921)
Residential Care	(6,159)	(7,069)
Other Income	(20,798)	(2,077)
Total Fees, Charges and Other Service Income	(69,638)	(47,759)

Note 9 Other Operating Income and Expenditure

2020/21 £000		2021/22 £000
146	Levies & Parish Council Precepts	152
269	(Gains) / Losses on the disposal of non-current assets	(5,162)
415	Total	(5,010)

There has been an increase in 2021/22 on gains on the disposal of non-current assets. This figure relates to the amount of capital receipts received in year less disposal of both PPE assets and Assets held for sale.

Note 10 Financing and Investment Activities

2020/21		2021/22
£000		£000
6,473	Interest payable and similar charges	6,843
8,369	Trading Services Activities (Note 16)	8,823
1,013	Charges in relation to Investment Property and changes in their fair value (net gains/losses from fair value adjustments) (Note 26)	(459)
0	Changes in relation to Investment Property and changes in their fair value (disposals) (Note 26)	400
6,298	Net Pension Interest Cost (Note 39)	6,977
(274)	Interest receivable and similar income	(363)
(11,898)	Trading Services Activity (Note 16)	(13,867)
9,981	Total	8,354

Note 11 Taxation and Non-Specific Grant Income

2020/21		2021/22
£000		£000
(56,419)	Council Tax Income	(69,735)
(6,751)	Business Rates Income	(11,425)
(55,919)	Non-ring-fenced government grant (Note 12)	(57,507)
(1,074)	Value of Donated Property, Plant and Equipment Assets (Note 23)	(1,549)
(7,396)	Capital Grants/Contributions (Note 12)	(44,289)
(127,559)	Total	(184,505)

The amount for capital grants/contributions increased in 2021/22 due to additional funding through the Basic Needs Grant, Future High Streets Fund and Towns Fund. There was also an increase in the funding through Tees Valley Combined Authority and Housing Developments (S106).

Note 12 Grant Income

The following grants, contributions and donations were credited to the Comprehensive Income and Expenditure Statement in 2021/22.

Revenue Grants Credited to Taxation and Non-Specific Grant Income

2020/21		2021/22
£000		£000
(12,153)	Revenue Support	(12,245)
(27,299)	Business Rates Top-up	(27,299)
(1,332)	New Homes Bonus	(250)
(14,847)	Business Rates Section 31	(16,986)
(157)	Enterprise Zone Funding	(596)
(131)	Renewable Energy	(131)
(55,919)	Total (note 11)	(57,507)
	Department for Education (DfE)	
(50,646)	Dedicated Schools Grant	(53,987)
(3,712)	Pupil Premium	(4,085)
(661)	Education and Skills Funding Agency	(767)
(748)	Staying Put Agency	0
(384)	Universal Infant Free School Meals	(330)
(739)	Supporting & Strengthening Families	0
(89)	PE & Sport	(250)
(1,189)	Other DfE grants	(2,823)
	Department for Levelling Up, Housing, Communities (DLUHC)	
(1,828)	Independent Living	(1,828)
(4,817)	Adult Social Care Grant	(6,339)
(8,392)	Improved Better Care Fund (IBCF)	(8,391)
(802)	Troubled Families	(846)
(60)	Migration Fund	0
(21,010)	Covid-19	(12,607)
(2,046)	Other DLUHC grants	(3,759)
	Home Office	
(823)	Youth Justice Good Practice Grant	(894)
(276)	Other Home Office	(458)
	Department for Business, Energy and Industrial Strategy (BEIS)	
(1,364)	BEIS grants	(1,223)
	Department for Digital, Culture, Media and Sport (DCMS)	
(645)	DCMS grants	(1,149)
	Department for Work and Pensions (DWP)	
(53,153)	Housing Benefit Subsidy	(44,805)
(633)	Housing Benefit Admin	(726)
(2,049)	Other DWP Grants	(2,088)
	Department of Health and Social Care (DHSC)	
(17,629)	Public Health	(19,894)
(10,526)	Covid-19	(8,535)
(313)	Other DHSC grants	(312)
	Department for Environment, Food and Rural Affairs (DEFRA)	
(8)	DEFRA grants	(6)
	Department for Transport (DfT)	
(44)	DfT grants	(53)
	Cabinet Office	
17	Elections	125

(416)	Other Grants	(445)
	Other Contributions	
0	South Tees Clinical Commissioning Group	(153)
(106)	Tees, Esk and Wear Valleys NHS Foundation Trust	(111)
(273)	South Tees Hospitals NHS Foundation Trust	(221)
(27,571)	Tees Valley Clinical Commissioning Group	(28,829)
(1,744)	Redcar and Cleveland Borough Council	(2,839)
(1,320)	Stockton-on-Tees Borough Council	(1,348)
(986)	Hartlepool Borough Council	(828)
(59)	Darlington Borough Council	(60)
(3,480)	Tees Valley Combined Authority	(4,980)
(202)	Police and Crime Commissioner	(377)
(610)	Other Contributions	(539)
(221,402)	Total Revenue Grants Credited to Services	(216,760)
(277,321)	TOTAL REVENUE GRANTS	(274,267)
	Capital Grants	
	Department for Education (DfE)	
(712)	School Condition Allocation	(1,651)
0	Basic Need	(8,679)
(1,193)	Other DfE grants	(418)
	Department for Levelling Up, Housing, Communities (DLUHC)	
(2,268)	Disabled Facility	(2,268)
0	Future High Streets	(8,170)
0	Towns Fund	(3,717)
0	Other DLUHC grants	(1,283)
	Department of Health and Social Care (DHSC)	
0	Other DHSC grants	0
	Department for Transport (DfT)	
(4,241)	Local transport Plan	(3,403)
0	Other DfT Grants	0
	Tees Valley Combined Authority	
(3,042)	Other TVCA Grants	(8,753)
(78)	Other Grants	(682)
	Other Contributions	
(60)	Housing Development	(4,579)
(729)	Other Contributions	(686)
(12,323)	Total Capital Grants (Note 11)	(44,289)
(289,644)	TOTAL GRANTS 2021/22	(318,556)

There has been an increase in grant funding 2021-22 due to the following

- Receipt of the Basic Needs Grant from the Department of Education. This grant enabled the Council to ensure that an additional 538 places for the September 2022 academic year were available.
- New funding from the Department for Levelling Up, Housing and Communities to reinvigorate the High Street and the surrounding Town Centre.
- An increase in funding from the Tees Valley Combined Authority during 2021-22 to support the construction of the BoHo X scheme.

Note 13 Dedicated Schools Grant

Council Schools' expenditure is funded primarily from the Dedicated Schools Grant (DSG) distributed by the Department for Education (DfE), an element of which is recouped by the DfE to fund academy schools in the Council's area. DSG is ring fenced and can only be used to fund approved expenditure, as defined in The School and Early Years Finance (England) Regulations 2018. DSG is split between an element to fund a range of educational services provided on a council-wide basis and the Individual Schools Budget (ISB) element that is allocated directly to each School.

Details of DSG funded expenditure for 2021/22 is set out below:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2021/22 before Academy recoupment			(160,073)
Academy figure recouped for 2021/22			105,979
Total DSG after Academy recoupment for 2021/22			(54,094)
Plus: Brought forward from 2020/21			3,291
Less: Carry Forward to 2021/22 agreed in advance			
Agreed initial budgeted distribution for 2021/22	(17,232)	(33,571)	(50,803)
In year adjustments	0	0	0
Final budgeted distribution for 2021/22	(17,232)	(33,571)	(50,803)
Less: Actual central expenditure	16,562	0	16,561
Less: Actual ISB deployed to schools	0	37,998	37,998
Balance Carried Forward	(670)	4,427	3,756

It should be noted that any negative DSG balances are classified as unusable reserves from 2020/21 for a 3-year period due to a statutory over-ride currently being in place.

Note 14 Officers' Remuneration

Senior Employees' Remuneration

The Accounts and Audit Regulations (England) 2015 requires the separate disclosure and analysis of remuneration for **senior employees** (defined by the regulations as those employees, who report into the Head of Paid Service – the Chief Executive, or are deemed under regulations as statutory officers of the Council).

2021/22	Salary (including fees and allowances)	Pension contributions paid for by the Council	Total including pensions contribution
	£	£	£
Chief Executive – Tony Parkinson	154,960	17,820	172,780
Director of Finance	91,731	10,549	102,280
Director of Adult Social Care and Health Integration	107,398	12,351	119,748
Director of Environment and Community Services	94,405	10,857	105,262
Director of Regeneration and Culture	97,356	11,196	108,551
Executive Director of Children's Services	125,610	14,445	140,055
Head of Legal and Governance Services – Monitoring Officer	93,141	10,711	103,853
Director of Education and Partnerships	93,141	10,711	103,853
Director of Public Health	95,965	11,036	107,001
Head of Marketing and Communications	54,024	6,288	60,311

2020/21	Salary (including fees and allowances)	Pension contributions paid for by the Council	Payment for loss of Office	Strain to the Pension Fund	Total including pensions contribution
	£	£	£	£	£
Chief Executive – Tony Parkinson	152,670	17,557			170,227
Strategic Director of Finance, Governance and Support/Section 151 Officer (left June 2020)	22,632	2,603			25,235
Director of Finance and Section 151 Officer (started June 2020)	65,788	7,543			73,331
Director of Adult Social Care and Health Integration	105,958	12,168			118,126
Executive Director Growth and Places (Left Oct 2020)	72,190	8,302	66,454	226,101	373,047
Director of Environment and Community Services	88,984	10,233			99,217
Director of Regeneration and Culture	91,765	10,553			102,318
Executive Director of Children's Services*	82,502	9,488			91,990
Head of Legal and Governance Services – Monitoring Officer	90,182	10,348			100,530
Director of Education and Partnerships	90,093	10,361			100,454
Director of Public Health	96,076	11,132			107,208
Head of Marketing and Communications	49,975	5,748			55,723

*Executive Director of Childrens Services paid via Agency prior to taking post permanently in September 2020 – Paramount Consulting £69,925.

Other Employees' Remuneration

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeding £50,000 is shown below in bands of £5,000.

2020/21			Remuneration Band (£)	2021/22		
MBC	School	Total		MBC	School	Total
28	10	38	50,000 to 54,999	38	14	52
16	6	22	55,000 to 59,999	21	7	28
12	2	14	60,000 to 64,999	11	3	14
2	1	3	65,000 to 69,999	5	1	6
3	3	6	70,000 to 74,999	7	5	12
5	3	8	75,000 to 79,999	1	5	6
0	1	1	80,000 to 84,999	2	2	4
1	0	1	85,000 to 89,999	0	0	0
0	0	0	90,000 to 94,999	0	0	0
0	0	0	95,000 to 99,999	1	0	1
0	0	0	100,000 to 104,999	0	0	0
0	0	0	105,000 to 109,999	0	0	0
0	0	0	110,000 to 114,999	0	0	0
0	0	0	115,000 to 119,999	0	0	0
0	0	0	120,000 to 124,999	0	0	0
0	0	0	125,000 to 129,999	0	0	0
1	0	1	130,000 to 134,999	0	0	0
0	0	0	135,000 to 139,999	1	0	1
0	0	0	140,000 to 144,999	0	0	0
0	0	0	145,000 to 149,999	0	0	0
0	0	0	150,000 to 154,999	0	0	0
0	0	0	155,000 to 159,999	0	0	0
0	0	0	160,000 to 164,999	0	0	0
0	0	0	165,000 to 169,999	0	0	0
0	0	0	170,000 to 174,999	0	0	0
68	26	94	Total	87	37	124

Remuneration is all amounts receivable by an employee, including expenses and allowances chargeable to tax and the estimated money value of any other benefits received excluding pension contributions.

Exit Packages

Details of exit packages are set out in the tables below in bands of £20,000 for amounts up to £100,000 and bands of £50,000 thereafter:

Exit Package Cost Band (Including Special Payments) £	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
							£000	£000
0 to 20,000	2	1	34	41	36	42	242	196
20,001 to 40,000	2	0	4	5	6	5	154	146
40,001 to 60,000	0	0	0	0	0	0	0	0
60,001 to 80,000	0	0	1	2	1	2	72	138
80,001 to 100,000	0	0	1	3	1	3	92	207
100,001 to 150,000	0	0	0	0	0	0	0	0
Over 150,001	1	0	0	0	1	0	293	0
Total	5	1	40	51	45	52	853	687

Note 15 Members' Allowances and Expenses

2020/21 £000		2021/22 £000
344	Basic Allowance Paid	341
183	Special Responsibility Allowances Paid	174
5	Expenses	5
532	Total	520

Note 16 Trading Operations

The Council has established a number of trading services which are required to operate in a commercial environment and balance their budgets by generating income from other Council departments or from external organisations. Details of these operations are given below:

2020/21				2021/22		
Income	Expenditure	(Surplus) / Deficit		Income	Expenditure	(Surplus) / Deficit
£0	£0	£0		£0	£0	£0
(3,457)	987	(2,470)	Commercial and Industrial Properties	(4,963)	1,376	(3,587)
(2,518)	2,227	(291)	Building Maintenance, Cleaning and Security	(2,537)	2,165	(372)
(1,354)	1,043	(311)	Parking	(1,624)	856	(768)
(4,569)	4,112	(457)	Schools Catering	(4,743)	4,426	(317)
(11,898)	8,369	(3,529)	Total	(13,867)	8,823	(5,044)

Note 17 Audit Fees

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and non-audit services provided by the Council's external auditors:

2020/21		2021/22
£000		£000
115	Fees payable to our current External Auditors, EY, with regard to their services carried out as appointed Auditor	178
18	Fees payable to the Auditor, EY for the certification of Grant Claims and Returns	19
0	Additional charges due to our current External Auditors, EY for an overrun in respect of 2019/20	75
0	Fees payable in respect of other services provided by Veritau	0
133	Total	272

The increase in the level of fees from Ernst & Young relates to the developing complexity of local authority audits, the requirements of the Audit Code of Practice and the value for money assessment. Additional work is also expected to be undertaken in relation to Covid-19 and its impact on the financial statements plus an assessment of the Council as a going concern. The above total of £272k is the Council's estimate of the costs involved but this will only be known fully once the external audit process is completed.

Note 18 Agency Services

The Council had no significant agency arrangements in place, apart from Covid-19 Grants that Government were pass porting direct (via the Council) to third party businesses or individuals in need. The total cash spend allocated by the Council was £7.4 million (this is not included in the Comprehensive Income & Expenditure Statement) was as follows:

	£
Covid-19 Isolation Payments Mandatory	803,000
Covid-19 Restart Grants	5,750,725
Covid-19 Omicron Hospitality & Leisure Grants	656,705
Other Covid-19 Support	171,749
Total	7,382,179

Note 19 Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers of the accounts to assess the extent to which the Council might be constrained in its ability to operate independently or to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government Departments are set out in [note 12](#). Debtor and Creditor balances for Central Government bodies are shown in notes [32](#) and [35](#).

Senior Officers and Members

The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and a separate survey of both Members and Senior Officers, the following disclosures meet the criteria for related

party transactions on behalf of the Council. The Director of Finance is a Director of Veritau Tees Valley Ltd. The Head of Finance & Investments is a Director for Middlesbrough Development Company.

Teesside Pension Fund

Details of all transactions with the Pension Fund are shown in the Teesside Pension Fund section of the Statement of Accounts. Specifically, the Council made contribution payments as an employer of £8.6 million (2020/21 - £8.1 million) and made charges to the Fund for Support Services of £1.147 million (2020/21 - £1.120 million).

Middlesbrough Development Company

As set out in the narrative report, the Council set up a wholly owned subsidiary company in February 2019 to develop the housing supply and underused sites in the local area. Middlesbrough Development Company has been given £2.610m of Section 106 funding previously received by the Council and has received a commercial loan for the remaining £3.980m. It has spent £6.177m of the allocated funding (including general running costs). It is now on site for the Boho Village Bright Ideas project and the Tollesby project following the demolition of the old shopping precinct in early 2020.

A number of elected members and senior officers sit on the management committees or boards of local organisations. The significant transactions that the Council had with these organisations are listed below:

Related Parties Year ended 31-MAR-2022				
Organisation	Expenditure transactions in year	Income Transactions in year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Cleveland Combined Fire Authority	2,777	0	1	0
Cleveland Police and Crime Panel	370	0	141	0
Community Ventures (Middlesbrough Ltd)	27	0	0	0
Groundwork North East Tees Valley Advisory Board	51	5	18	1
Local Government Association	32	0	0	0
Middlesbrough Citizens Advice Bureau - Management Committee	416	0	0	0
Middlesbrough Environment City Trust Limited	209	4	0	0
Middlesbrough Voluntary Development Agency	171	0	0	0
North East Regional Employers' Organisation (NEREO)	73	0	0	0
South Tees Hospitals NHS Foundation Trust Council of Governors	641	208	107	8
Tees Valley Combined Authority Board	4,055	15	0	0
Teesside Ability Support Centre (TASC)	583	1	0	0
Veritau	225	0	0	0
Total	9,630	224	267	9

Related Parties Year ended 31-MAR-2021				
Organisation	Expenditure transactions in year	Income Transactions in year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Tees Valley Combined Authority	4,063	16	0	15
Middlesbrough Citizens Advice Bureau	415	18	0	0
Middlesbrough College	415	42	0	1
South Tees Hospitals NHS Foundation Trust Council of Governors	965	276	0	66
Middlesbrough Voluntary Development Agency	51	0	0	0
Cleveland Fire Authority	3,183	273	0	0
Middlesbrough Environment City	0	19	0	18
Veritau Tees Valley	185	0	0	0
Groundwork North East	45	1	0	0
Teesside Ability Support Centre (TASC)	515	1	0	0

Note 20 Pooled Budgets

A pooled budget (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities. Middlesbrough Council has two Pooled Budgets, the Better Care Fund and Tees Community Equipment Service.

As host to the Better Care Fund and the Tees Community Equipment Service, the Council is required to include a memorandum account for both pooled budgets in its accounts. Only Middlesbrough's share of the pooled budget's expenditure and income is included in the Comprehensive Income and Expenditure Statement.

Better Care Fund

The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.

Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCGs to establish and maintain pooled funds to support the outcomes of the BCF.

The Council has entered into a pooled budget arrangement with NHS Tees Valley Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or Tees Valley Clinical Commissioning Group (TVCCG) depend upon the needs of the service recipient. The Council and TVCCG have an ongoing section 75 agreement in place for funding these services and this is reviewed annually. The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund section 75 agreement.

The aims and benefits for the partners entering in to this agreement are to:

- Improve the quality and efficiency of the services and in particular reduce the number of non-elective admissions to acute hospitals;
- Meet the national conditions and local objectives of the Government's Better Care Fund; and
- Make more effective use of available resources through the establishment and maintenance of a pooled fund for revenue and capital expenditure on the services.

2020/21 IBCF £'000		2021/22 IBCF £'000	2021/22 IBCF £'000	2021/22 Total Pool £'000
(182)	Balance Brought Forward	(621)		(621)
	<u>Funding Provided to the Pooled Budget</u>			
(2,568)	The Authority	(3,567)		(3,567)
(8,392)	IBCF		(8,392)	(8,392)
(12,109)	Tees Valley CCG	(13,393)		(13,393)
(23,069)		(16,960)	(8,392)	(25,352)
	<u>Expenditure Met from the Pooled Budget</u>			
10,725	The Authority	11,217		11,217
8,392	IBCF		8,392	8,392
2,514	Tees Valley CCG	2,769		2,769
21,631		13,986	8,392	22,378
999	Capital Amounts slipped	1,683		1,683
(621)	Net surplus arising on the pooled budget to be carried forward	(1,912)		(1,912)

Tees Community Equipment Service

The Tees Community Equipment Service is a partnership established by an agreement under Section 31 of the Health Act 1999. The partnership agreement covers the costs of administering the Tees Community Equipment Service including:

- The procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled service users living in the community;
- To provide and maintain stock of equipment at additional designated locations, where provided by the Partner of this Agreement, for demonstration and use by the Occupational Therapy Service of that locality;
- To incorporate mechanisms which enable Health and Social Service professionals and members of the public to attend the service's premises to collect equipment;
- A facility for the procurement of non-stock items; and
- The production and distribution of a catalogue describing the service and equipment available.

The agreement was made between eight partners as set out in the memorandum of account. The original eight partners in the Tees Community Equipment Service were Middlesbrough Council, Stockton-on-Tees Borough Council, Redcar & Cleveland Borough Council, Hartlepool Borough Council, Middlesbrough PCT, North Tees PCT, Redcar & Cleveland PCT and Hartlepool PCT. Following NHS reorganisation in 2013/2014, the Primary Care Trusts (PCTs) were abolished and replaced by Clinical Commissioning Groups (CCGs). Middlesbrough Council is the lead authority for the service. The outturn position for the year is set out below:

The outturn position for the year is	2020/21 £000	2021/22 £000
Balance Brought Forward	(236)	(380)
Gross Expenditure	1,817	1,949
Gross Income	(1,961)	(2,373)
Balance Carried Forward	(380)	(804)
Contributions from Partners		
Middlesbrough Council	(183)	(191)
Redcar and Cleveland Borough Council	(171)	(178)
Stockton Council	(195)	(203)
Hartlepool Council	(104)	(109)
NHS Tees Valley CCG	(1,199)	(1,580)
Other income	(109)	(111)
	(1,961)	(2,372)

Notes Supporting the Balance Sheet

Note 21 Capital Expenditure and Capital Financing

The total amount of capital expenditure in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2020/21		2021/22
£000		£000
232,480	Opening Capital Financing Requirement	245,965
	Capital Investment	
33,072	Property, Plant and Equipment	37,648
292	Heritage	83
0	Assets Held for Sale	0
1,050	Intangible Assets	1,374
456	Investment Property	1,211
395	Long Term Debtors	3,585
7,888	Revenue Expenditure Funded from Capital under Statute	14,555
	Sources of Finance	
(6,374)	Capital Receipts	(13,482)
(18,545)	Government Grants and other contributions applied in year	(22,352)
	Sums Set Aside from Revenue	
(6)	Direct revenue contributions	(20)
(4,743)	MRP/Loans Fund Principal	(5,036)
245,965	Closing Capital Financing Requirement	263,531
	Explanation of Movement in Year	
18,228	Increase in underlying need to borrow (unsupported by government assistance)	22,602
(4,743)	MRP/loans fund Principal	(5,036)
13,485	Increase in Capital Financing Requirement	17,566



Note 22 Capital Commitments

The Council has an approved 2021/22 budget for Capital works of £93.7 million, and a further £66.6 million planned until 2023/24. Contracts for material capital spend are already in place for the following schemes:

Project	2022/23
	Approved Budget
	£000
Middlesbrough Development Company	13,300
Cleveland Centre	1,970
Contact Centre, Bus Station Unit 1	278
BOHO X	19,982
Towns Fund	2,000
Future High Streets Fund	4,483
New Civic Centre Campus	3,878
Local Authority Delivery 2 – Green Homes Grant	1,056
Linthorpe Road Cycleway	786
Total	47,733

Note 23 Property, Plant and Equipment (PPE)

The definition of property, plant and equipment covers all assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. Service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services.

Property, Plant and Equipment (PPE) movement in value excluding Infrastructure Assets.

2021/22	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 01APR-2021	195,804	47,374	38,849	8,283	8,266	298,577
Additions	17,586	785	1,367	125	8,074	27,937
Donations	499	55	0	0	0	554
Revaluation increases/decreases to Revaluation Reserve	5,529	(1,472)	213	0	0	4,270
Revaluation increases/decreases to Deficit on Provision of Services	(3,437)	(1,440)	0	0	0	(4,877)
Derecognition - Disposals	(935)	(4,933)	(11,616)	0	0	(17,483)
Assets reclassified (to) Held for Sale	0	0	0	0	0	0
Assets reclassified (to)/from Assets – other categories	2,095	0	1,239	0	(2,542)	792
At 31-MAR-2022	217,141	40,369	30,052	8,409	13,798	309,768

2021/22	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Accumulated Depreciation and Impairment						
At 01-APR-2021	(2,277)	(119)	(32,672)	0	0	(35,068)
Depreciation charge for the year	(5,423)	(87)	(1,772)	0	0	(7,282)
Revaluation depreciation written out to Revaluation Reserve	3,189	55	1	0	0	3,245
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0
Revaluation depreciation written out to Provision of Services	1,242	96	0	0	0	1,338
Derecognition – Disposals	4	13	11,313	0	0	11,330
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0
Assets reclassified (to)/from other categories	(36)	0	(703)	0	0	(739)
At 31-MAR-2022	(3,301)	(42)	(23,833)	0	0	(27,175)
Net Book Value At 31-MAR-2022	213,840	40,327	6,220	8,409	13,798	282,595



Highways Infrastructure Assets

In accordance with the temporary relief offered by the update to the Code on Infrastructure Assets, this note does not include disclosure of gross cost and accumulated depreciation for Infrastructure Assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The council has chosen not to disclose this information as the previously reported practices and resultant information deficits means that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2020/21	2021/22
	£000	£000
Net Book Value at 1 st April	134,639	133,343
Additions	9,814	8,164
Donated Assets	823	994
Derecognition	(11)	0
Depreciation in year	(8,042)	(8,246)
Impairments	(3,880)	(523)
Other movements in cost	0	457
Net Book Value at 31 st March	133,343	(134,189)

A reconciliation to the amount on the Balance Sheet for Property, Plant and Equipment is as follows

	2020/21	2021/22
	£000	£000
Other PPE Assets	263,508	282,594
Infrastructure Assets	13,343	134,189
Net Book Value at 31 st March	396,851	416,783

2020/21	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 01-APR-2020	187,342	53,775	38,900	8,282	11,592	299,891
Additions	15,266	803	596	1	5,769	22,435
Donations	0	0	0	0	0	823
Revaluation decreases to Revaluation Reserve	(642)	(3,132)	0	0	0	(3,774)
Revaluation decreases to Deficit on Provision of Services	(5,041)	(1,316)	0	0	0	(6,357)
Derecognition - Disposals	(621)	(2,468)	(647)	0	0	(3,736)
Assets reclassified (to) Held for Sale	(462)	(288)	0	0	0	(750)
Assets reclassified (to)/from Assets – other categories	(38)	0	0	0	(9,095)	(9,133)
At 31-MAR-2021	195,804	47,374	38,849	8,283	8,266	298,576

2020/21	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Accumulated Depreciation and Impairment						
At 01-APR-2020	(2,971)	(395)	(31,112)	0	0	(34,478)
Depreciation charge for the year	(5,178)	(70)	(2,197)	0	0	(7,445)
Depreciation written out to the Revaluation Reserve	4,032	48	0	0	0	4,080
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0
Depreciation written out to the Deficit on Provision of Services	1,840	10	0	0	0	1,850
Derecognition – Disposals	0	0	637	0	0	637
Assets reclassified (to)/from Assets Held for Sale	0	288	0	0	0	288
Assets reclassified (to)/from other categories	0	0	0	0	0	0
At 31-MAR-2021	(2,277)	(119)	(32,672)	0	0	(35,068)

Net Book Value At 31-MAR-2021	193,527	47,255	6,177	8,283	8,266	263,508
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	2019/20	2020/21
	£000	£000
Net Book Value at 1 st April	132,585	134,639
Additions	9,633	9,814
Donated Assets	0	823
Derecognition	0	(11)
Depreciation in year	(7,579)	(8,042)
Impairments	0	(3,880)
Other movements in cost	0	0
Net Book Value at 31 st March	134,639	133,343

A reconciliation to the amount on the Balance Sheet for Property, Plant and Equipment is as follows

	2019/20	2020/21
	£000	£000
Other PPE Assets	265,413	263,508
Infrastructure Assets	134,639	133,343
Net Book Value at 31 st March	400,052	396,851

Fair Value Hierarchy

All the Council's Surplus Assets have been assessed as level 3 for valuation purposes.

Valuation Techniques Used to Determine Level 3 Fair Values for Surplus Assets

The Council's Surplus Assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and

there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and Best Use of Surplus Assets

In estimating the fair value of the Council's surplus assets, the highest and best use of the assets are considered.

Infrastructure Assets

There are currently negotiations at a national level between CIPFA, external audit firms and local authorities regarding highways assets and the reliability of totals relating to gross historical cost and accumulated depreciation due to these assets not being fully depreciated at the point of replacement. This brings some uncertainty in relation to the accuracy of the figures being reported in the tables above. Until a way forward is agreed, the figures will continue to be included in the PPE information.

Also included in the land and buildings totals are a number of leisure properties, which from 1 April 2016 were these transferred to Sport & Leisure Management (SLM) under a Service Concession Arrangement. Under this arrangement, vehicles, plant and furniture and equipment transferred to SLM and were removed from the Council's balance sheet. Land and buildings remain on the balance sheet at their current value. Details of the value of these land and building assets as at 31 March 2022 are included in the table below. All properties were revalued in 2021-22.

	Net Book Value at 31-MAR-2022
	£000
The Manor Youth and Community Centre	1,521
Neptune Centre	7,843
Rainbow Centre	8,465
Middlesbrough Sports Village	14,881
Golf Course	800
Total	33,510

Note 24 Revaluations and Impairments of Property, Plant and Equipment (PPE)

The Council maintains a revaluation rolling programme which ensures that all Property, Plant and Equipment required to be measured at fair value are revalued at least every five years. All valuations were carried out by Align Property Partners, the Council's strategic partner. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The effective date of revaluation for most of the assets revalued during 2021/22 is 1 April 2021. The Council confirms, via discussion with its external valuers, that this valuation basis remains reasonable given the uncertainty around asset values as a result of Covid-19 and that these values are appropriate for use as at 31 March 2022. The significant assumptions applied in estimating fair values at this date are:

- The estimated amount for which a property should exchange on the date of valuation and
- The transaction is at arm's length via willing parties acting knowledgeably and prudently.

Revaluation Analysis

The table below shows the value of assets that have been revalued during 2021/22 and the value of assets that have been revalued over the last four years. The table also identifies the value of assets held at historical cost and at fair value.

	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost at 31-MAR-2022	41,036	743	6,219	134,189	8,409	13,798	204,394
Valued at current value as at:							
31-MAR-2022	57,721	38,159	0	0	0	0	95,880
31-MAR-2021	27,136	668	0	0	0	0	27,804
31-MAR-2020	28,019	67	0	0	0	0	28,086
31-MAR-2019	38,191	689	0	0	0	0	38,880
31-MAR-2018	21,738	1	0	0	0	0	21,739
Total Cost or Valuation	213,841	40,327	6,219	134,189	8,409	13,798	416,783

*The historical cost for Other Land and Buildings represents acquisitions in year that have yet to be revalued and other assets that were revalued earlier than 31 March 2018 and will be revalued after the 31 March 2022.

Impairment and Revaluation Losses

The Code requires disclosure by class of assets of the amounts for impairment and Revaluation losses and reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

These disclosures are consolidated in Notes 23 reconciling the movement over the year in Property, Plant and Equipment balances.

During 2021/22 the Council has recognised a net downward revaluation of £606,394. The higher value downward revaluations are:

- Downward revaluation of Middlesbrough Sports Village of £4.220 million due to a change in BCIS rates and the level of depreciation passed since the previous revaluation
- Downward revaluation of the Neptune Centre of £1.081 million due to a change in BCIS rates
- Downward revaluation of Priory Woods School of £1.420 million due to a change of BCIS rates
- Downward revaluation of Nunthorpe Grange Farm Land of £5.774 million due to a change in the number of properties proposed to be built at the location
- Downward revaluation of Land at Stainsby North of £1.939 million due to residential development potential being removed from the site
- Upward revaluation of BOHO Core Building of £1.091m as the property is now running at 100% occupation and annual income received.
- Upward revaluation of Hemlington Grange of £4.925m due to an increase in the value of remaining land
- Upward revaluation of Newham Hall/Lingfield Farm of £1.516m due to an increase in the value of residential land.

The Transporter Bridge was classed as non-operational at the start of 2020/21. Work is ongoing regarding the future purpose of the asset, as to whether it will remain non-operational, or repairs will be carried out over a period of time to bring it back into operation.

Note 25 Heritage Assets

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The collections are managed by Museum curators in accordance with policies as detailed in the Museum's Collection Management Plan.

An analysis of the current Heritage Asset valuation held by the Council is set out below:

2021/22	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	Total
Balance at start of the year	3,363	12,302	9,012	7,766	32,443
Additions:					
Purchases	0	83	0	0	83
Donated	0	0	0	0	0
Disposals	0	0	0	0	0
Net gains/(losses) from fair value adjustments	0	0	0	0	0
transfers:					0
(To)/From Other asset classes	0	0	0	0	0
Other Changes	0	0	0	0	0
Balance at the end of the year	3,363	12,385	9,012	7,766	32,526

2020/21	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	Total
Balance at start of the year	2,239	8,560	9,012	7,751	27,562
Additions:					
Purchases	0	24	0	15	83
Donated	0	253	0	0	0
Disposals	0	0	0	0	0
Net gains/(losses) from fair value adjustments	1,124	3,465	0	0	0
transfers:					0
(To)/From Other asset classes	0	0	0	0	0
Other Changes	0	0	0	0	0
Balance at the end of the year	3,363	12,302	9,012	7,766	32,443

Valuation Methods

The Councils Fine Art collection held at Mima has been valued by Christies in 2021. Ceramics held at Mima have been valued by MAAK in 2021 and Jewellery by Galerie Ra (a Dutch gallery) were revalued in 2019. The William Kelly book collection was valued by Sotherbys. The remainder of the Heritage Asset collection has been valued using Insurance valuation on the advice of the Councils curators.

Work has commenced on a proposed revaluation programme for the Dorman Museum which will be completed by individual Collection type held within the Museum. It is anticipated that the first revaluation will be received in 2022/23.

The additional spend of £0.083 million in 2021-22 relates to Art works commissioned in year.

Museums' Collections

Ceramics, Porcelains and Figurines

The Council's British Ceramic Art collection is a growing collection and currently contains around 250 items.

Fine Art Collection

The Fine Art collection includes over 1,000 works drawn together from the Middlesbrough Art Gallery and Cleveland Gallery.

The Natural World Collection

The extensive natural science collections number approximately 250,000 specimens covering geology, vertebrate zoology, invertebrate zoology and botany.

Other Heritage Assets

Other Cultural Interests

Items classified under this heading include the Bottle of Notes, statues and memorials including the Brian Clough statue, the William Kelly book collection and various medals and memorabilia at the Captain Cook Museum.

Note 26 Investment Properties

Investment Properties are properties (land, buildings or part thereof) held solely to earn rentals or for capital appreciation or both. If earning rental income was an outcome of a regeneration policy or to fund facilities to attract public and businesses in to the town, the properties concerned should be accounted for as Property, Plant and Equipment.

2020/21		2021/22
£000		£000
15,904	Balance at start of the year	25,536
	Additions	
456	Purchases	1,211
1	Donated	0
0	Disposals	(400)
41	Net gains/(losses) from fair value adjustments	459
	Transfers	
9,134	(To)/From Property, Plant and Equipment	0
25,536	Balance at end of the year	26,806

There are currently 18 assets in total under this classification, which have all been revalued during the 2021/22 financial year due to them being held at fair/market value.

Fair Value Hierarchy

All the Council's investment portfolio has been assessed as level 3 for valuation purposes.

Valuation Techniques Used to Determine Level 3 Fair Values for Investment Properties

The Council's Investment assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is considered.

Rental income from Investment Properties and any associated operating expenses are included in the Financing and Investment Activities line in the Comprehensive Income and Expenditure Statement. Details are set out below.

2020/21		2021/22
£000		£000
(1,284)	Rental Income from Investment Property	(2,752)
	Direct operating expenses arising from Investment Property	535
(1,284)	Net Gain	(2,217)

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

Note 27 Intangible Assets

The Council's Intangible Assets consist wholly of purchased IT licenses and software. A breakdown of The movement on Intangible Asset balances during the year is as follows:

31-MAR-2021		31-MAR-2022
£000		£000
	Balance at Start of Year	
12,971	Gross Book Value at 31 March	14,022
1,050	Additions	1,374
0	Disposals	(2,089)
0	Regroups or Transfers	(1,249)
14,022	Gross Book Value at 31 March	12,058
(9,989)	Accumulated Amortisation at 31 March	(12,148)
(2,159)	Amortisation in Year	(1,272)
0	Amortisation Written Out on Disposal	2,089
0	Amortisation Written Out on Regroups or Transfers	713
(12,148)	Accumulated Amortisation at 31 March	(10,618)
1,873	Net Book Value at 31 March	1,439

Note 28 Assets Held for Sale

If an asset is 'held for sale', the economic benefits of that asset are obtained through its sale rather than through its continuous use by the Council. Such assets cease to be depreciated in financial value, as they are no longer consumed through service provision.

There was one disposal in 2021-22, Land at Former Brackenhoe which was the remaining 50% payment due following the initial 50% payment made in 2020-21.

The Council currently has one Asset Held for Sale, Land to the rear of the Gables Public House.

31-MAR-2021		31- MAR-2022
£000		£000
	Short Term Assets Held for Sale	
5,476	Balance outstanding at start of year	2,297
0	Transferred between Long-Term and Current Assets Held for Sale	0
	Assets newly classified as held for sale	
462	Transferred from Property, Plant and Equipment	0
0	Additions	0
(226)	Revaluation losses	0
	Assets declassified as held for sale:	
(3,415)	Assets sold	(2,172)
0	Transferred to Property, Plant and Equipment	0
2,297	Balance outstanding at year end	125

Note 29 Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation and a financial liability of another. This covers – investments, cash, debtors, creditors, loans, finance leases, derivatives and guarantees. These are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument. They are classified based on the business model for holding the instrument and its expected cash flow characteristics.

Financial instruments classified at amortised cost are carried in the Balance Sheet at their amortised cost. Their fair values disclosed below have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low interest rate environment.

The fair value of a financial instrument is the price that would be received when selling an asset, or the price that would be paid when transferring a liability, to another market participant in an arms’-length transaction. Where liabilities are held as an asset by another party, such as the council’s borrowing, the fair value is estimated from the holder’s perspective.

Financial Liabilities: These are initially measured at fair value and are then subsequently valued at amortised cost. For the Council’s borrowing (Public Works Loan Board, Lender Option Borrower Option and market loans), this means the amounts held in the accounts are based on the outstanding principal plus any accrued interest.

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

Financial Assets: These again are initially measured at fair value and represent loans and loan type amounts where payments of principal and interest take place on set dates and to particular amounts.

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Two categories of financial asset recently introduced under IFRS9 are fair value through other comprehensive income and expenditure (FVOCI) and fair value through profit and loss (FVPL). These assets are carried at fair value in the balance sheet. FVOCI has a specific restriction meaning that any gains or losses can be reversed through statute, whereas FVPL gains and losses are true charges to the Council’s general fund.

All the Council’s financial assets, except the long-term investments in Teesside Airport and Suez recycling and recovery, are held at amortised cost. The Council has elected to hold the two long-term investments at FVOCI given the risk of losses on these holdings having a negative effect on the Council’s financial position.

Financial Instruments: Balances

The investments and borrowings disclosed in the Balance Sheet consist of the following categories:

Long Term			Short Term	
As at 31-MAR- 2021	As at 31-MAR- 2022		As at 31-MAR-2021	As at 31-MAR- 2022
£000	£000		£000	£000
		Financial Assets – Loans and Receivables		
		Held at amortised cost (unless indicated)		
309	309	Long Term Investments (FVOCI)	0	0
0	0	Short Term Investments	0	10,000
0	0	Cash and Cash Equivalents	24,810	24,622
309	309	Total Investments	24,810	34,622
		Held as Debtors – amortised cost		
9,860	12,783	Long Term Debtors	0	0
0	0	Short Term Debtors	7,254	3,357
9,860	12,783	Total Debtors	7,254	3,357
10,169	13,092	Total Financial Assets	32,064	37,979
		Financial Liabilities – at Amortised Cost		
		Held as Borrowings		
(186,667)	(185,624)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(32,089)	(22,648)
(186,667)	(185,624)	Total Borrowings	(32,089)	(22,648)
		Held as Other Payables		
0	0	Short Term Creditors	(10,549)	(9,244)
(1,450)	(1,297)	Long Term Creditors	0	0
(1,450)	(1,297)	Total Held as Other Payables	(10,549)	(9,244)
(188,117)	(186,921)	Total Financial Liabilities – at Amortised Cost	(42,638)	(31,892)

Note 30 Financial Instruments: Fair Value and Risks

Fair Value of Assets and Liabilities

Financial Instruments are carried in the Balance Sheet at amortised cost except for Long Term Investments. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments contractual life using the following assumptions:

- Where the instrument will mature in the next 12 months, the carrying amounts are assumed to be a good reflection of fair value;
- The fair value of PWLB and market loans have been calculated by reference to the 'premature repayment' set of rates as at 31 March 2022;
- The fair value of trade payables and other receivables is taken to be the invoiced or billed amount; and
- The carrying amounts of all other instruments are taken to be a reasonable approximation of fair value.

Fair values can be analysed by their level in the fair value hierarchy or how reliable their basis of calculation is:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs that are observable for the asset or liability, other than quoted prices, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

All Middlesbrough financial instruments; assets and liabilities are rated as level two in the fair value hierarchy. The fair value of borrowings is calculated by ascertaining a fair value from the market price. The calculation applies a discounted cash flow using the rate of the asset and applies it over its life. For investments, debtors and creditors their transaction price is the best proxy for their fair value.

The fair values of the Council's financial instruments are as follows. These are higher than their carrying amounts due to the low value of the bank base rate at 31 March 2022:

2020/21			2021/22	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Assets – Loans and Receivables		
25,119	25,119	Held as Investments	34,931	34,931
17,114	17,114	Held as Debtors	16,140	16,140
42,233	42,233	Financial Assets – Loans and Receivables	51,071	51,071
		Financial Liabilities – at Amortised Cost		
(218,756)	(266,812)	Held as Borrowings	(208,272)	(241,002)
(11,999)	(11,999)	Held as Creditors	(10,541)	(10,541)
(229,305)	(277,361)	Financial Liabilities – at Amortised Cost	(218,813)	(251,543)

Financial Instruments: Risks

The fair value of the financial liabilities held at amortised cost above is higher than their balance sheet carrying amount because the Council's portfolio of loans include a number of loans where the interest rate payable is higher than the current rates available for similar loans at the balance sheet date.

Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks by holding these instruments:

- Credit risk - the possibility that the counterparty to a financial instrument will fail to meet its contractual obligations, causing a monetary loss to the Council.
- Liquidity risk - the possibility that the Council might not have the cash available to make contracted payments to lenders, suppliers and staff on time.
- Market risk - the possibility that an unplanned financial loss will materialise due to changes in market variables such as interest rates on equity prices.
- Re-Financing Risk – The possibility that maturing amounts cannot be refinanced in interest terms that reflect the provisions made by the organisation.

Overall Procedures for Managing Risk

The Council's overall risk management process focuses on the unpredictability of financial markets and is structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code on Capital Finance, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing levels and a legal limit.
 - Its maximum and minimum exposures to fixed and variable rates.

- Its maximum and minimum exposures to the maturity structure of its debt.
- Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at the Council's annual budget setting report or before the start of the year to which they relate. The items above reported with the Capital Strategy Report which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The Capital Strategy Report, which incorporates the prudential indicator amounts was approved by the Council on 24 February 2021 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2021/22 was set at £315 million. This is the maximum legal limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £285 million. This is the expected maximum level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25%, respectively, based on the Council's net debt.

These policies were implemented by the Council's accountancy team and at no point during the 2021/22 financial year were any of these key indicators breached. The Council also maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Treasury Management Code of Practice and were also updated on 4 March 2019. No changes have been made since.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Capital Strategy Report, which requires that deposits are not made with banks and financial institutions unless they meet minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Capital Strategy Report also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Treasury Management Strategy can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its deposits with banks and building societies of £32.50 million cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits.

No credit limits were exceeded during the period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

	2020/21		2021/22	
	Long Term	Short Term	Long Term	Short Term
Credit Rating	£000	£000	£000	£000
AA	0	5,000		5,000
AA-	0	0		10,000
A+	0	17,000	0	17,500
Total	0	22,000	0	32,500
Credit Risk not applicable	309	0	309	0
Total Investments	309	22,000	309	32,500

Loss allowances on treasury investments are normally calculated by reference to historic default data published by credit rating agencies and adjusted for current economic conditions. A two-year delay in cash flows is assumed to arise in the event of a default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating grades or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit impaired when awarded a "D" credit rating or below. At 31 March 2022, none of the Council's investments are captured by this and therefore it is felt that the most likely loss allowances applicable is nil.

In addition, the Council does not generally allow credit for customers. However, £7.051 million invoiced debtors balance is past its due date for payment relating principally to the Council's Public Health responsibilities. The Council maintains a bad debt provision to offset any collection losses. The past due amount can be analysed by age as follows:

2020/21		2021/22
£000		£000
9,040	Less than 3 months	4,053
1,486	Between 3 to 6 months	464
884	Between 6 months to 1 year	688
1,826	More than 1 year	1,846
13,236	TOTAL	7,051

Collateral - The Council initiates a legal charge on property where, for instance, Adult Social Care service users require residential care but cannot afford to pay immediately. The total collateral as at 31 March 2022 was £0.76 million. (31 March 2021 - £0.5 million).

Liquidity Risk

The Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of financial liabilities is as follows:

2020/21		2021/22
£000		£000
(32,245)	Less than 1 Year	(22,648)
(17,222)	Between 1 – 2 Years	(21,802)
(27,548)	Between 2 – 5 Years	(29,638)
(43,296)	Between 5 – 10 Years	(37,227)
(16,398)	Between 10 – 15 Years	(14,244)
(16,122)	Between 15 – 20 Years	(16,973)
(3,684)	Between 20 – 25 Years	(3,984)
(3,707)	Between 25 – 30 Years	(3,845)
(18,578)	Between 30 – 35 Years	(17,936)
(19,956)	Between 35 – 40 Years	(24,975)
(20,000)	More than 40 Years	(15,000)
(218,756)	TOTAL	(208,272)

All trade and other payables are due to be paid in less than one year.

Re-financing Risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments

made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the Central Finance team address the operational risks within the approved parameters.

Market Risk

Market Risk - Interest Rate Risk

In the current financial climate, there is a low interest rate risk to the Council. All longer-term borrowing is held at fixed rate and any risk of further reductions in rates receivable is insignificant given the current low base. Borrowings and Investments are not carried at fair value in the financial statements, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure Statement.

The Council aims to keep a maximum of 25% of its borrowings in variable rate loans. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. Although there is continued uncertainty in relation to how the Covid-19 supply chain issues and the war in Ukraine will develop for the Country, and this may influence interest rates in both a positive and negative way, the low exposure to variable rate financial instruments means that the financial impact of any future decisions in this area are likely to have minimal impact on both the debt and investment portfolios.

Market Risk - Price Risk

The Council does not invest in equity shares and therefore has no exposure to losses arising from movements in share prices.

Market Risk - Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore no exposure to loss arising from movements in exchange rates.

Note 31 Financial Instruments: Income and Expenditure

Amounts recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2020/21			2021/22	
Financial Assets	Financial Liabilities		Financial Assets	Financial Liabilities
£000	£000		£000	£000
		Income		
(273)	0	Interest Income	(363)	0
		Expenditure		
	6,473	Interest Expense		6,843
	18	Fee Expense		3
	6,491	Total Expenditure		6,846
	6,218	Net Expenditure for the year		6,483

Note 32 Debtors

31-MAR-2021		31-MAR-2022
£000		£000
	Short Term Debtors	
13,909	Central Government Bodies	7,819
7,301	Other Local Authorities	9,182
1,198	NHS Bodies	2,267
59,043	Other entities and individuals	64,811
(33,480)	Bad Debt Provision	(26,223)
47,971	Total	57,856
	Long Term Debtors	
5,608	Cleveland Mall – Holiday Inn	5,515
305	Other Long-Term Debtors	169
3,552	The Welding Institute	3,119
395	Middlesbrough Development Company	3,980
9,860	Total	12,783

Note 33 Inventories

2021/22 Financial Year	1 April 2021	Purchases	Expense in the year	Written off	31-MAR-2022
	£000	£000	£000	£000	£000
Stocks	2,310	7,384	(7,067)	0	2,628

2020/21 Financial Year	1 April 2020	Purchases	Expense in the year	Written off	31-MAR-2021
	£000	£000	£000	£000	£000
Stocks	2,425	3,947	(4,062)	0	2,310

Note 34 Cash and Cash Equivalents

31-MAR-2021		31-MAR-2022
£000		£000
53	Cash held by the Council	45
2,257	Bank current accounts	2,077
22,500	Short-term cash deposits	22,500
24,810	Total	24,622

Note 35 Short Term Creditors

31-MAR-2021		31-MAR-2022
£000		£000
(22,284)	Central Government Bodies	(31,882)
(2,636)	Other Local Authorities	(768)
(1,709)	NHS Bodies	(382)
(31,677)	Other Entities and individuals	(36,611)
(58,306)	Total	(69,643)

The increase in short-term creditors relates to amounts owed to central government, mainly in relation to a significant sum of £10m repayable in relation to Covid-19 business support schemes that ended during October 2021. Ongoing reconciliations and data is being provided by the Council to finalise the amounts owed based on the original grants provided. The capital accruals element of Creditors £3.429m is shown in the purchase of non-current assets in the investing activities section of the Cashflow.

Note 36 Provisions

A provision is recognised in the accounts where the Council has a legal or constructive obligation arising from a past event and a reliable estimate can be made of the amount of the obligation if not the timing of when the Council will have to settle the obligation.

Current Provisions	Balance at 01-APR-2021	Additional Amount in year	Amounts used in year	Balance at 31-MAR-2022
	£000	£000	£000	£000
Business Rates Appeals	(2,219)	(1,754)	2,219	(1,754)
Early Retirement / Voluntary Redundancy	(187)	0	187	0
Captain Cook Precinct Service Charge Provision	(149)	(18)	0	(167)
Insurance Fund Provision	(3,250)	0	0	(3,250)
Total	(5,805)	(1,772)	2,406	(5,171)

Business Rates Appeals – The Council's share of the Business Rates Appeals Provision of £1.753.840 is split between £574,940 short term (less than 12 months) and £1.178.900 long term as projected using the Council's Business Rate Appeals tool. These are based on the Council's 49% share of business rates retention scheme.

Insurance Fund - The Council's Insurance Fund Provision is split between £1,000,000 Short Term (less than 12 months) and £2,250,000 long term.

Note 37 Usable Reserves

Usable Reserves are those reserves that can be used to fund future expenditure or reduce local taxation. Further details on the use of the reserves below can be found in the Movement in Reserves Statement.

31-MAR-2021		31-MAR-2022
£000		£000
(4,805)	Capital Grants Unapplied Reserve	(25,112)
(3,125)	Capital Contributions Unapplied Reserve	(6,303)
5	Capital Receipts Reserve	0
(10,500)	Uncommitted General Fund	(11,183)
(51)	Direct Revenue Funding Unapplied	(23)
(35,044)	Earmarked Reserves	(34,375)
(53,520)	Total	(76,996)

The increase in usable reserves is predominantly due to the increase in Capital Grant Funding disclosed in Note 12, which has met all conditions and will be carried forward to finance capital expenditure in 2022-23.

The purpose of each Reserve is as follows:

Capital Grants and Contributions Unapplied Reserves

These reserves hold amounts from Capital Grants and Contributions that have been recognised in the Comprehensive Income and Expenditure Statement in line with the accounting code of practice, but for which the associated capital expenditure has not yet been incurred.

Capital Receipts Reserve

This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.

General Fund

The accumulated credit balance on the general fund is the excess of income over expenditure in the revenue account after adjusting for movements to and from reserves and other non-cash items. This balance is held as a cushion against future unforeseen and unbudgeted expenditure.

Earmarked Reserves

Funding received in previous financial years and classified as income in regard to the terms and conditions of the grant awarded. This income is rolled forward in reserves to meet the future commitments under the grant. Details of the balances on individual earmarked reserves is contained in [note 7](#).

Note 38 Unusable Reserves

Unusable Reserves are those reserves held by the Council that cannot be utilised to provide services. This includes reserves that hold unrealised gains and losses and adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code.

31-MAR-2021		31-MAR-2022
£000		£000
(84,938)	Revaluation Reserve	(86,405)
(138,633)	Capital Adjustment Account	(141,863)
308,117	Pensions Reserve (See Note 39)	209,946
13,159	Collection Fund Adjustment Account	(929)
695	Accumulating Compensated Absences Adjustment Account	943
3,292	Dedicated Schools Grants Adjustment Account	3,756
101,692	Total Unusable Reserves	(14,552)

A description of each type of reserve is set out below:

Revaluation Reserve

The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The reserve only contains revaluation gains accumulated since 1 April 2007, the date when the Revaluation Reserve was constituted. Accumulated gains and losses accumulated before that date are consolidated into the Capital Adjustment Account. Amounts contained within this reserve will only become available to provide services (or limit resources in the case of losses) once the gains/losses are realised as the assets are disposed of.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction and enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Pensions Reserve

This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account holds the differences arising from the recognition of council tax and business rates income, in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Accumulated Compensated Absences Adjustment Account

The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.

Dedicated Schools Grants Adjustment Account

From November 2020 The Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) established new accounting practices in relation to the treatment of local authorities' schools budget deficits such that, where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The CIPFA local authority accounting code has determined this as the 'Dedicated Schools Grant Adjustment Account'. The new accounting practice has the effect of separating schools budget deficits for a period of three financial years.

Movement in Unusable Reserves Statement 2021/22

Movement in Reserves Statement	Revaluati on Reserve	Capital Adj Account	Deferred Capital Receipts Reserve	Dedicated Schools Grants Adj Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000		£000	£000	£000	£000
Balance at 01-APR-2021	(84,938)	(138,633)	0	3,292	308,117	13,159	695	101,692
Allocated from Other Comprehensive Income and Expenditure	(7,517)	0	0	0	(129,886)	0	0	(137,402)
Transfers to/(from) Usable Reserves (Note 6)	6,048	(3,230)	0	464	31,715	(14,087)	248	21,159
Difference between fair value and historical cost depreciation	0	0	0	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	0	0	0	0	0	0	0	0
Balance at 31-MAR-2022	(86,405)	(141,863)	0	3,756	209,946	(929)	943	(14,552)

Movement in Unusable Reserves Statement 2020/21

Movement in Reserves Statement	Revaluati on Reserve	Capital Adj Account	Deferred Capital Receipts Reserve	Dedicated Schools Grants Adj Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000		£000	£000	£000	£000
Balance at 01-APR-2020	(85,357)	(145,334)	0	0	283,561	(483)	896	53,283
Transfer to unusable reserves				2,783				2,783
Allocated from Other Comprehensive Income and Expenditure	(4,807)	0	0	0	4,317	0	0	(490)
Transfers to/(from) Usable Reserves (Note 6)	0	11,927	0	509	20,239	13,642	(201)	46,116
Difference between fair value and historical cost depreciation	1,314	(1,314)	0	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	3,912	(3,912)	0	0	0	0	0	0
Balance at 31-MAR-2021	(84,938)	(138,633)	0	3,292	308,117	13,159	695	101,692

Note 39 Pension Schemes Accounted for as Defined Benefit Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme. As part of the terms and conditions of employment of its staff, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Funded Benefits

The funded benefits are those payable by the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulation 2014.

Unfunded Benefits

The unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions that have not previously been 'converted' to funded benefits under Regulation 13A of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. Such benefits are usually charged to the Employer as they are paid. Other unfunded benefits include gratuities and enhanced teachers' pensions recharged to the Employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

Transactions relating to Post-Employment Benefits

The following transactions have been reflected in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year, in relation to the Local Government Pension Scheme. The income, expenditure, assets and liabilities set out below includes the actuaries' assessment of the court of appeal decision to include guaranteed minimum pension and the McCloud and Sargeant judgements within the local government scheme benefits going forwards. It also includes the impact of the triennial valuation of the Teesside Pension Fund from 1 April 2022

Comprehensive Income and Expenditure Statement

Funded 2020/21	Unfunded 2020/21	Comprehensive Income and Expenditure Statement	Funded 2021/22	Unfunded 2021/22
£000	£000	Charged to the Surplus or Deficit on the Provision of Services	£000	£000
		As cost of Service:		
24,035	0	Current Service cost	35,542	0
576	0	Settlements and Curtailments	276	0
5,693	605	As Financing and Investment Income and Interest on net defined benefit	6,936	41
30,304	605	Total charged to the Deficit on the Provision of Services	42,754	41
		Charged to Other Comprehensive Income and Expenditure		
5,603	(1,286)	Actuarial (Gains) / Losses	(129,886)	0
35,907	(681)	Total to the Comprehensive Income and Expenditure Statement	(87,132)	41

Movement in Reserves Statement (General Fund)

Funded 2020/21 £000	Unfunded 2020/21 £000	Movement in Reserves Statement (General Fund)	Funded 2021/22 £000	Unfunded 2021/22 £000
(30,304)	(605)	Reversal of total charged to the Deficit on the Provision of Service	(42,754)	(41)
		Actual Amount charged for pensions in the year:		
8,652	2,017	Employers' contributions payable to scheme	9,054	2,027
(21,652)	1,412	Total amount transferred (from)/to the General Fund for the year	(33,770)	1,986

Assets and Liabilities in Relation to Post-Employment Benefits

Funded 2020/21 £000	Unfunded 2020/21 £000	Reconciliation of Liabilities	Funded 2021/22 £000	Unfunded 2021/22 £000
(912,552)	(27,305)	Opening Balance at 1 April	(1,106,855)	(24,608)
(24,035)	0	Current service cost	(35,542)	0
(20,731)	(606)	Interest cost	(24,051)	(41)
(4,485)	0	Contributions by scheme participants	(4,850)	0
(183,167)	(1,670)	Actuarial Gains/(Losses) for changes in financial assumptions	9,595	0
0	0	Actuarial Gains/(Losses) for changes in Demographic assumptions	32,794	0
10,799	2,964	Actuarial Gains/(Losses) Other Experience	(26,576)	0
27,892	2,017	Benefits paid	29,550	2,027
(576)	0	Past service curtailments	(276)	0
(1,106,855)	(24,608)	Closing Balance at 31 March	(1,126,211)	(22,622)

Reconciliation of Fair Value of Scheme Assets

Funded 2020/21 £000	Unfunded 2020/21 £000	Reconciliation of Fair Value of Scheme Assets	Funded 2021/22 £000	Unfunded 2021/22 £000
656,297	0	Opening Balance at 1 April	823,345	0
15,038	0	Expected return on plan assets	17,115	0
166,765	0	Actuarial Gains/(Losses)	114,073	0
8,652	2,017	Employer contributions	9,054	2,027
4,485	0	Contributions by scheme participants	4,850	0
(27,892)	(2,017)	Benefits paid	(29,550)	(2,027)
823,345	0	Closing Balance at 31 March	938,887	0

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £96.257 million gain (2020/21 £162.002 million gain).

Scheme History	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(895,644)	(918,758)	(964,345)	(939,858)	(1,131,462)	(1,148,833)
Fair value of assets	704,295	718,360	764,970	656,297	823,345	938,887
Scheme Deficit	(191,349)	(200,398)	(199,375)	(283,561)	(308,117)	(209,946)

The scheme deficit shown above includes £22.622 million in respect of unfunded defined benefit obligations (2020/21 £24.608 million).

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The net liability has a sustained impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy because:

- the deficit on the scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2023 is £8.651 million. This is an estimated amount by the Actuary and may fluctuate due to several factors including contribution rates, pensionable pay and inflation.

Independent Actuary and Latest Valuation

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits Liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Teesside Pension Fund being based on latest full valuation of the scheme as at 31 March 2019 with these values rolled forward to 31 March 2022.

The calculations have also been done over the duration of the Scheme - which has been forecast at 20 years.

The principal assumptions used by the actuary have been:

	2020/21	2021/22
Mortality Assumptions		
Longevity at 65 for current pensioners		
• Men	21.90	20.9
• Women	23.60	23.9
Longevity at 65 for future pensioners		
* Men	23.30	21.9
* Women	25.40	25.5
Other Assumptions		
Medium Weighted Average		
Rate of Inflation (RPI)	N/A	N/A
Rate of Inflation (CPI)	2.70%	3.20%
Rate of increase in salaries	3.70%	4.20%
Rate of increase in pensions	2.70%	3.20%
Rate of discounting scheme liabilities	2.10%	2.70%
Take up of option to convert annual pension into retirement lump sum	80.00%	80.00%

The LGPS's assets consist of the following categories, by proportion of the total assets held:

	2020/21	2021/22
Equity Investments	79.80%	68.0%
Gilts	0.0%	5.00%
Other Bonds	0.0%	3.00%
Property	7.50%	8.00%
Cash / Liquidity	12.70%	16.00%
	100.0%	100.0%

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2022 and the projected service cost is set out below, sensitivity on unfunded benefits have not been included on materiality grounds:

Change in assumptions at 31-MAR-2022	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.1% decrease in Real Discount Rate	2%	21.295
1 year increase in member life expectancy	4%	45,953
0.1% increase in Salary Increase Rate	0%	2,476
0.1% increase in the Pension Increase Rate	2%	18.643

The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, Hymans Robertson estimate that a one-year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. In practice, the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rate predominantly apply to younger or older ages).

In order to quantify the impact of a change in the financial assumptions used they have calculated and compared the value of the scheme liabilities at the accounting date on varying bases. The approach taken is consistent with that adopted to derive the accounting figures provided in this report, based on the profile (average member ages, retirement ages, etc.) of the Employer as at the date of the most recent valuation.

Note 40 Pensions Schemes Accounted for as Defined Contribution Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the cost by making contributions based on a percentage of members' pensionable salaries.

In 2021/22 the Council paid £3.017 million (2020/21 – £2.88 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 23.68% (2020/21 – 23.68%) of pensionable pay.

A number of Public Health staff transferred to the Council from the NHS and as part of the conditions of their transfer have remained in the NHS pension scheme. The Council's contributions to the scheme in 2021/22 was £24,342 (2020/21 £32,518), this represents 13.24% (2020/21 14.39%) of pensionable pay.

Note 41 Leases – Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of community services, such as sports facilities, tourism services and community centres.
- For economic development aims to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31-MAR-2021		31-MAR-2022
£000		£000
1,408	No Later than 1 year	6,573
3,798	Later than 1 year and not later than 5 years	14,069
20,343	Later than 5 years	29,815
25,550	Total	50,457

The amount at 31 March 2022 has increased significantly due to the additional income received from Captain Cook Square, Cleveland Centre and Tees Advanced Manufacturing Park which were not included in 20/21.

Finance Leases

The Council acted as a facilitator for the relocation of The Welding Institute (TWI) to the Tees Advanced Manufacturing Park in 2017. This was consistent with the Council's priority in economic growth. The lease between the Council and TWI allows the lessee to purchase the property for a nominal amount after 13 years. Also, the lease rental payments cover the net council investment in the site & building over the lease period.

As the risks and rewards of the lease reside with TWI, the asset is not included within the Council's Property, Plant and Equipment valuation. A long-term debtor has instead been included in the balance sheet to reflect the investment by the Council and this will be repaid over the life of the remaining lease.

The future minimum lease payments receivable through the finance lease are detailed below:

31-MAR-2021		31-MAR-2022
£000		£000
464	No later the 1 year	464
1,856	Between 1 year and 5 years	1,832
1,660	Later than 5 years	1,411
3,980	Total	3,707

Note 42 Leases – Council as Lessee

Operating Leases

The Council has entered into operating leases for the use of land and buildings, with lives ranging from 10 to 35 years. The future minimum lease payments due under non-cancellable leases in future years are:

31-MAR-2021		31-MAR-2022
£000		£000
407	No Later than 1 year	616
1,325	Later than 1 year and not later than 5 years	1,832
454	Later than 5 years	715
2,186	Total	3,163

Finance Leases

Centre Square Buildings

The Council as part of its regeneration and town centre growth plans has entered into two finance lease contracts for the provision of high-quality office accommodation. Buildings 1 & 2 Centre Square, adjacent to the Council's municipal buildings, were completed during September 2020. The properties were built with third-party finance and the leases entered into on the buildings are for a 35-year term with rentals paid on a quarterly basis to CBRE Property Management UK. The total repayment schedule for the two leases over the contract are included in the table below. Due to the interest rate implicit in the lease, most of the early year's rental payments are heavily weighted towards interest rather than principal with this position reversing in the latter years of the contract.

The total future minimum lease payments under these finance leases are given in the table below:

31-MAR-2021 £000	Total future minimum lease payments	31-MAR-2022 £000
711	Amounts due within one year	711
2,844	Amounts due between 1 to 5 years	2,844
20,239	Amounts due after 5 years	19,553
23,794	Total payments due	23,108
(11,902)	Less: Future finance charges	(11,366)
11,892	Present Value of Lease Obligations	11,742

Given that the risks and rewards of the contract sit predominantly with the Council (length of contract, option to purchase for a nominal sum at the end of the lease term etc.) the properties are held on the long-term assets side of the Balance Sheet.

As the aim of Council is to rent these premises out to tenants on shorter-term leases, the assets have been categorised as investment properties in the accounts. They have been valued at fair/market value with their valuation of £13.877 million being determined from future rentals generated. The council has now achieved the letting of all accommodation within both buildings, with the exception of the 'kiosk' unit that exists within the ground floor of Centre Square 2.



Note 43 Contingent Liabilities

At 31 March 2022, the Council had the following contingent liabilities:

Home House Guarantee

An agreement was entered into with Home House, which guaranteed an initial liability of £2.4 million. This was increased to £4.01 million in 1996/1997 as a result of further development at St Johns Gate. The assets of Home Housing are considered sufficient to meet their liabilities without calling upon the guarantee and no provision has been made in the accounts.

Deprivation of Liberty Safeguards

A Supreme Court case judgement has resulted in the Council potentially facing more applications to the Court of Protection regarding Deprivation of Liberty cases. Liabilities may exist which will not be confirmed until claims are made, or cases settled. The Deprivation of Liberty Safeguards are due to be replaced by the

Liberty Protection Safeguards; the financial ramifications remain unclear at this time.

Note 44 Contingent Assets

There were no contingent assets held by the Council at the Balance Sheet date.

Note 45 Trust Funds

The Council administers a number of Trust Funds, which are varied in nature and relate principally to legacies left by local inhabitants of the area over a number of years. Assets of the funds are invested in external marketable securities; with any cash either being invested internally at 7-day interest rates or externally in the money market. None of the funds are included in the Balance Sheet of the Council.

A summary of the Trust Funds administered by the Council is as follow:

	Cash Balance at 01-APR-2021	Income	Expenditure	Cash Balance at 31-MAR-2022	Net Worth
	£	£	£	£	£
Teesside Education Endowment	7,468	6	0	7,474	7,474
Capt J.V.Nancarrow Trust – Educational support	111,062	87	0	111,149	111,149
Middlesbrough Educational Trust	65,493	51	0	65,544	67,870
Hustler Playing Fields Trust – Sport	49,680	39	0	49,719	1,524,215
W.M.Anderton Trust – Kings Manor School and Acklam 6 th Form College	1,385	1	0	1,386	1,386
Teesside Relief in Sickness	3,956	3	0	3,959	3,959
Lady Crosswaite Bequest – support for the older people	481,631	374	(4,010)	477,995	477,995
Home Independent Trust	88,303	496	(4,605)	84,194	103,434
Wilson & Marwood Trust – support for disadvantaged people	15,109	12	0	15,121	15,549
Stewart Park Trust – Recreation	8,760	7	0	8,767	8,767
Levick Trust – accommodation for over 60's	6,149	5	0	6,154	338,689
Captain Cook Birthplace Trust	0	0	0	0	0
Dorman Museum and Art Gallery Appeal Trust	3,307	3	0	3,310	3,310
King Edward VII & Sister Purvis	25	64	0	89	89
Total	842,328	1,148	(8,615)	834,861	2,663,886

Notes Supporting the Cash Flow Statement

Note 46 Cash Flow Statement – Operating, Investing and Financing Activities

Cash Flow - Operating Activities

The table below shows detail of Operating Activities

2020-21 £'000		2021/22 £'000
(273)	Interest Received	(363)
6,473	Interest Paid	6,843
-	Dividends Received	-

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2020-21 £'000		2021/22 £'000
15,487	Depreciation	16,050
8,526	Impairment and downward valuations	3,539
2,159	Amortisation	1,272
3,298	Increase / (decrease) in impairment for bad debts	2,616
13,711	Increase / decrease in creditors	7,959
(2,419)	Increase / decrease in debtors	(12,807)
112	Increase / decrease in inventories	(315)
20,240	Movement in Pension Liability	28,464
	Carrying amount of non-current assets and non-current assets held for sale, sold and de-recognised	
(1,116)	Other non-cash items charged to the net surplus or deficit on the provision of services	(2,561)
59,998	Net cash flows from operating activities	44,217

2020-21 £'000		2021/22 £'000
	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	
6,525	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,726
(6,224)	Any other items for which the cash effects are investing or financing cash flows	(13,487)
301		(4,761)

Cash Flow - Investing Activities

The table below shows detail of Investing Activities

2020-21 £'000		2021/22 £'000
(32,592)	Purchase of property, plant and equipment, investment property and intangible assets	(34,809)
22,000	Purchase of short-term and long-term investments	(10,000)
6,224	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,487
(4,368)	Net cash flows from investing activities	(31,322)

Cash Flow - Financing Activities

The table below shows detail of Financing Activities

2020-21 £'000		2021/22 £'000
(138)	Amounts applied to Finance Lease Repayments (Capital Element)	(154)
(15,915)	Repayments of short- and long-term borrowing	(10,485)
(16,053)	Net cash flows from financing activities	(10,639)



4. Group Accounts



Group Accounts – Introduction

The Council has only one material interest in terms of group relationships: a wholly owned subsidiary; Middlesbrough Development Company (MDC), which was formed in 2019 by the Council and is involved in housing growth within the Borough based on the Council's strategic plan. This is the first year of producing Group Accounts, and therefore prior period comparatives are presented as 'unaudited'.

Beyond MDC, the Council has a number of small interests in other companies (including a capital investment in a joint internal audit company – Veritau Ltd (Tees Valley) and a couple of joint ventures but given their extremely small financial input and influence, these need no further disclosure under the local authority accounting code of practice.

The Council is the only shareholder for MDC and has complete operational and financial control over the company and its activities. Board meetings of the company directors are held once a month and are supported by relevant council staff from the Regeneration and Finance directorates. Updates are taken to the Council's Executive when any significant decisions or resources are required by the company.

MDC has two large-scale housing projects underway, and which are in the construction phase with the aim of being complete in late 2022 and early 2023 respectively. These two projects in total are for a combined value of £13.3 million and are being funded by a combination of both council grants and prudential borrowing. The developments will either be sold to interested parties once complete or held for rental income purposes for a period of up to 35 years, which will repay any borrowing costs incurred by the company. MDC is also in the early stages of a project to bring derelict housing back into use in the TS1 and TS3 postcodes plus specific initiatives to resolve a number of eyesore sites within the Borough.

As at 31 March 2022, the company had been allocated £6.6m of funding with £4m issued as a commercial loan and £2.6m as Section 106 capital grant funding. The company had spent £5.9m of this on capital projects with £0.3m on general administration and was holding the remaining £0.4m in the bank as cash.

The company's financial activities have been consolidated into the Council's Group Accounts on a line-by-line basis, after first realigning accounting policies with the Council where appropriate and eliminating any relevant intra-Group transactions.

The purpose of these Group Accounts is to provide a comprehensive position for Middlesbrough Council incorporating the company, which the Council owns and has significant influence over. The Group Accounts show the full extent of the Council's assets and liabilities, providing transparency on these additional arrangements and that these are beyond the totals given in the Council's own financial statements.

The Group Accounts include the following:

- Group Comprehensive Income and Expenditure Statement, which shows the income and expenditure of the Council in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.
- Group Movement in Reserves - shows the movement in the year on reserves held by the Council.
- Group Balance Sheet - reports the Council Group financial position at the year-end.
- Group Cash Flow Statement - shows the changes in cash and cash equivalents of the Group during the year.
- Notes to the Group Accounts – information provided where the balances are materially different to those in the single entity accounts or additional information is required for users of the accounts to understand the financial relationship.

The capital spend set out above plus the commercial loan have been incorporated into the group balance sheet, plus the creation of an unusable reserve for the capital grant funding which will be offset against future depreciation charges. The accumulated deficit on MDC's profit and loss account plus the grant funding reserve have been recognised as adjustments to the income and expenditure totals for the year. The group reserves have increased by £2.3m above the Councils' single entity accounts total by the incorporation of these amounts.

Group Accounts – Movement in Reserves Statement

This statement is a combination of the Council's comprehensive income and expenditure position plus the accumulated deficit on Middlesbrough Development Company's accounts as at 31 March 2022. It also incorporates an unusable reserve for capital grant funding due to difference in accounting policy between the company accounts under UK GAAP and the Council's under IFRS.

2021/22	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Council Usable Reserves (a)	Council Unusable Reserves (b)	Share of Company Reserves (c)	Total Group Reserves (a+b+c)
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 01-APR-2021	(10,500)	(35,044)	5	(51)	(7,930)	(53,520)	101,692	(1,036)	47,136
<u>Movement in reserves during 2021/22</u>									
Total Comprehensive Income and Expenditure	(3,122)	0	0	0	0	(3,122)	(137,402)	(1,231)	(141,755)
Adjustments between accounting basis & funding basis under regulation	3,109	0	(5)	28	(23,485)	(20,485)	20,485	0	0
Transfers to/(from) other reserves	(669)	669	0	0	0	0	0	0	0
Net Decrease / (increase) in year	(683)	669	(5)	(28)	(23,485)	(23,476)	(117,048)	(1,231)	(141,755)
Balance at 31-MAR-2022	(11,183)	(34,375)	0	(23)	(31,415)	(76,996)	(15,356)	(2,267)	(94,618)



2020/21 (Unaudited)	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Council Usable Reserves (a)	Council Unusable Reserves (b)	Share of Company Reserves (c)	Total Group Reserves (a+b+c)
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 01-APR-2020	(9,400)	(19,311)	(145)	0	(13,078)	(41,934)	53,283	48	11,397
Reporting of Schools budget deficit to new Adjustment Account at 1 April 2020	0	(2,783)	0	0	0	(2,783)	2,783	0	0
Revised Opening Balance	(9,400)	(22,094)	(145)	0	(13,078)	(44,717)	56,066	48	11,397
Movement in reserves during 2020/21									
Total Comprehensive Income and Expenditure	37,313	0	0	0	0	37,313	(490)	(1,084)	32,489
Adjustments between accounting basis & funding basis under regulation	(51,363)	0	150	(51)	5,148	(46,116)	46,116	0	0
Transfers to/(from) other reserves	12,950	(12,950)	0	0	0	0	0	0	0
Net Decrease / (increase) in year	(1,100)	(12,950)	150	(51)	5,148	(8,803)	45,626	(1,084)	32,489
Balance at 31-MAR-2021 carried forward	(10,500)	(35,044)	5	(51)	(7,930)	(53,520)	101,692	(1,036)	43,886



Group Accounts – Comprehensive Income and Expenditure Statement

This statement represents the income and expenditure of both the Council and Middlesbrough Development Company with intra-group transactions being removed and accounting policies being aligned as appropriate.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2022							
2020/21 (Unaudited)					2021/22		
Gross Expenditure	Gross Income	Net Expenditure / (Income)	Cost of Services by Service Area	Note	Gross Expenditure	Gross Income	Net Expenditure / (Income)
£000	£000	£000			£000	£000	£000
16,502	(11,877)	4,625	Regeneration and Culture		17,711	(3,222)	14,489
18,313	(26,097)	(7,784)	Public Health		15,804	(25,582)	(9,778)
83,717	(79,831)	3,886	Education and Partnerships		78,451	(71,856)	6,595
50,682	(5,022)	45,660	Children's Care		60,120	(6,463)	53,657
96,239	(56,889)	39,350	Adult Social Care and Health Integration		100,622	(57,191)	43,431
52,019	(8,564)	43,455	Environment and Community Services		49,259	(497)	48,762
81,920	(69,630)	12,290	Finance		65,561	(59,471)	6,090
18,148	(4,474)	13,674	Legal & Governance Services		17,213	(1,774)	15,439
473	(5,989)	(5,516)	Central Costs		10,901	(12,572)	(1,671)
0	416	416	Covid-19 Overspend		5,700	(5,310)	390
418,013	(267,957)	150,056	Total Cost of Service		421,344	(243,940)	177,403
415	0	415	Other Operating Income and Expenditure		265	(5,162)	(4,897)
37,277	(27,210)	10,067	Financing & Investment Activities		22,680	(14,229)	8,450
0	(127,559)	(127,559)	Taxation and Non-Specific Grant Income		0	(185,310)	(185,310)
455,705	(422,726)	32,979	(Surplus) or Deficit on Provision of Services		444,288	(448,641)	(4,354)
			<i>Items not re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(641)	(Surplus) on revaluation of Property Plant and Equipment				(4,271)
		4,317	Actuarial (Gains)/Losses on Pension Fund				(129,886)
		(4,166)	Depreciation written out to the Revaluation reserve				(3,245)
		(490)	Other Comprehensive Income and Expenditure				(137,402)
		32,489	Total Comprehensive Income and Expenditure				(141,755)

Group Accounts – Balance Sheet

This statement represents the combined assets, liabilities and reserves for the Council and Middlesbrough Development Company, with intra-group transactions being removed and accounting policies being aligned where appropriate

31-MAR-2021 (Unaudited)		Note	31-MAR-2022
£000			£000
397,950	Property, Plant & Equipment		422,680
32,443	Heritage Assets		32,526
25,536	Investment Properties		26,806
1,873	Intangible Assets		1,439
309	Long Term Investments		309
9,465	Long Term Debtors		8,803
467,576	Total Long-Term Assets		492,563
0	Short Term Investments		10,000
2,297	Short Term Assets Held for Sale		125
2,313	Inventories		2,628
48,058	Short Term Debtors		58,597
25,064	Cash and Cash Equivalents		25,035
77,732	Total Current Assets		96,385
(32,089)	Short Term Borrowing		(22,648)
(58,314)	Short Term Creditors		(69,644)
(1,528)	Short Term Provisions		(1,742)
(91,931)	Total Current Liabilities		(94,034)
(14,199)	Net Current Assets / (Liabilities)		2,351
(1,028)	Long Term Provisions		(3,429)
(186,667)	Long Term Borrowing		(185,624)
(1,450)	Other Long-Term Liabilities		(1,297)
(308,118)	Pension Liability		(209,946)
(497,263)	Total Long-Term Liabilities		(400,295)
(43,886)	Net Assets/(Liabilities)		94,619
(56,636)	Usable Reserves		(76,653)
100,522	Unusable Reserves		(17,966)
43,886	Total Reserves		(94,619)

Group Accounts – Cash Flow

This statement reconciles the operating positions of the Council and Middlesbrough Development Company to their changes in cash balances during the financial year.

31-MAR-2021 (Unaudited) £000		31-MAR-2022 £000
(32,979)	(Deficit) on provision of services transferred to the General Fund	4,353
56,659	Adjustment to net surplus or deficit on provision of service for non-cash movements (Note 46)	44,359
(869)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(6,702)
22,811	Net Cash Flows from Operating Activities	41,706
(5,412)	Investing Activities (Note 47)	(36,121)
(15,188)	Financing Activities (Note 48)	(5,613)
2,211	Net increase or decrease in cash and cash equivalents	(27)
22,853	Cash and cash equivalents at the beginning of the reporting period (Note 34)	25,064
25,064	Cash and cash equivalents at the end of the reporting period (Note 34)	25,036

Group Accounts – Notes to the Accounts

The group notes are largely the same as those specific within the Council only Statement due to the alignment of accounting policies between the two organisations. However, there are some areas to highlight as detailed below:

Group Accounts – Note 1 Debtors

The table below sets out both short and long-term debtors of the group. These have been consolidated and adjusted for intra-group transactions.

31-MAR-2021 (Unaudited)		31-MAR-2022
£000		£000
	Short Term Debtors	
13,996	Central Government Bodies	7,859
7,301	Other Local Authorities	9,080
1,198	NHS Bodies	2,267
59,043	Other entities and individuals	64,811
(33,480)	Bad Debt Provision	(26,223)
48,058	Total	58,597
	Long Term Debtors	
5,608	Cleveland Mall – Holiday Inn	5,515
305	Other Long-Term Debtors	169
3,552	The Welding Institute	3,119
9,465	Total	8,803

Group Accounts – Note 2 Creditors

The table below sets out the short-term creditors of the group. These have been consolidated and adjusted for intra-group transactions.

31-MAR-2021 (Unaudited)		31-MAR-2022
£000		£000
(22,293)	Central Government Bodies	(29,798)
(2,636)	Other Local Authorities	(650)
(1,709)	NHS Bodies	(226)
(31,676)	Other Entities and individuals	(38,970)
(58,314)	Total	(69,644)

Group Accounts – Note 3 Cash & Cash Equivalents

The table below sets out the cash & cash equivalent position of the group for the two entities combined.

31-MAR-2021 (Unaudited)		31-MAR-2022
£000		£000
53	Cash held by the Council	45
2,511	Bank current accounts	2,490
22,500	Short-term cash deposits	22,500
25,064	Total	25,035

Group Accounts – Note 4 Property, Plant & Equipment (PPE)

The value of PPE shown in the group accounts differs from that of the single entity as follows:
For group accounting purposes MDC capital spend on PPE is currently for assets under construction.

31-MAR-2021 (Unaudited)		31-MAR-2022
£000		£000
396,851	Property Plant & Equipment – Middlesbrough Council	416,783
1,099	Plus: Middlesbrough Development Company	5,897
397,950	Total	422,680

Group Accounts – Note 5 Financial Instruments

Although the company has an agreement to borrow up to £7m from the Council for the Boho Village scheme (Oct 2020) and the balance was £3.980 million at 31 March 2022, this amount is eliminated on consolidation of the two sets of accounts. The amount of borrowing for MDC is already factored into the Council's investment strategy to date and for the future and is shown within the Council's own notes to the accounts.

Group Accounts – Note 6 Share Capital & Ownership

Middlesbrough Development Company has total share capital of £1. The Mayor of Middlesbrough Council acts as the only shareholder for the company and in this regard, the Council has complete ownership of the entity. If MDC was wound up all assets and liabilities would transfer to the Council upon dissolution. As such, the Council guarantees all financial transactions whilst the company is operational.

Group Accounts – Note 7 Deferred Grant Income

The major accounting policy difference between the Council and MDC relates to the treatment of capital grant funding. Part of the resources available to MDC is £5 million of Section 106 monies received previously from developers and which the Council can use on affordable housing and housing growth. This has been allocated to the scheme at Newbridge Court (formerly Tollesby Shops) and other operational costs.

The Council follows international financial reporting standards where, grant income (whether revenue or capital based) is recognised as income when all conditions or performance obligations in respect of the funding have been met. MDC follows UK GAAP accounting where the grant funding is held in the balance sheet as a deferred liability until it is released to match future depreciation charges once the assets are operational. As a result, it has been necessary to align this accounting policy with the Council's for the purposes of producing the group accounts on a consistent basis.

As the additional income is not available to the Council for revenue purposes, it has been allocated to an unusable reserve before it is matched to the future capital charges. The movement on this account is as follows over the last two financial years:

2020/21 FY (Unaudited)		2021/22 FY
£000		£000
0	Opening balance – grant funding allocated	1,170
1,170	Additions in year	1,440
1,170	Closing balance – grant funding allocated	2,610

Group Accounts – Note 8 Audit of Accounts

Under Section 477 of the Companies Act 2006 (in respect of the current annual turnover of the company which is a deficit and the number of employees at 1) MDC is exempt from the requirement of the Act for the audit of its accounts for the financial year. However, due to the need to consolidate the accounts into the

Council's group arrangements, the company directors have decided to appoint an external auditor and undertake an audit process. Further details on this can be seen in the financial statements for 2020/21 and 2021/22 which are available from the MDC website. www.middlesbroughdevelopmentcompany.co.uk.

5. Collection Fund Accounts



Collection Fund Income and Expenditure Account

The Collection Fund summarises the transactions of the billing authority in relation to the collection from taxpayers and the redistribution to Local Authorities and the Government of Council Tax and Business Rates.

2020/21		2021/22		
£000		£000	£000	£000
Total		Council Tax	Business Rates	Total
	Income			
(73,013)	Council Tax receivable	(75,895)	0	(75,895)
(15,314)	Business Rates receivable	0	(21,774)	(21,774)
(88,327)	Total Income	(75,895)	(21,774)	(97,669)
	Expenditure			
	Precepts and Demands:			
58,707	Middlesbrough Council	60,611	0	60,611
8,941	Cleveland Police and Crime Commissioner	9,163	0	9,163
2,705	Cleveland Fire Authority	2,770	0	2,770
	Business Rates			
17,886	Payments to Central Government	0	17,818	17,818
358	Payments to Cleveland Fire Authority	0	356	356
17,528	Payments to Middlesbrough Council	0	17,461	17,461
170	Costs of Collection	0	170	170
	Bad & Doubtful Debts			
(1)	Write Offs	(5)	13	8
7,197	Provision for Bad Debts	(7,571)	(775)	(10,253)
(431)	Provision for Appeals	0	(950)	(950)
113,060	Total Expenditure	64,969	34,094	97,155
	Contributions towards previous year's estimate			
784	Collection Fund Deficit / (Surplus)	(1,276)	(20,278)	(21,554)
25,517	Deficit / (Surplus) for the Year	(12,202)	(7,958)	(22,067)
	COLLECTION FUND BALANCE			
(755)	Balance brought forward at 1 April	2,978	21,784	24,762
25,517	Deficit / (Surplus) for the year (as above)	(12,202)	(7,958)	(22,067)
24,762	Balance carried forward at 31 March	(9,224)	13,826	2,695
	Allocated to:			
13,158	Middlesbrough Council	(7,703)	6,775	(1,733)
379	Cleveland Police and Crime Commissioner	(1,173)	0	(1,125)
333	Cleveland Fire Authority	(348)	138	(218)
10,892	Central Government	0	6,913	5,771
24,762	Balance carried forward at 31 March	(9,224)	13,826	2,695

Notes to the Collection Fund

Note 1 Income from Council Tax

Calculation of the Council Tax base

The Council Tax replaced the Community Charge on the 1 April 1993 and is a tax based on property valuation bandings (A to H). There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts where applicable), converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax	Band D Equivalent Dwellings
			£000	
A*	31	+5/9	30,554	17
A	18,025	+6/9	21,114,957	12,017
B	7,880	+7/9	10,769,542	6,129
C	8,973	+8/9	14,013,928	7,976
D	4,678	+9/9	8,219,936	4,678
E	2,310	+11/9	4,960,692	2,823
F	827	+13/9	2,099,473	1,195
G	484	+15/9	1,416,816	806
H	28	+18/9	99,452	57
	43,237		62,725,350	35,698
Less: Adjustments for assumed non-collection based on budgets assumption of 96.6% collection rate			(2,132,662)	(1,214)
Total			60,592,688	34,484

A* - Band A properties receiving Disabled Relief

The average Council Tax for band D dwellings for Middlesbrough Council was £1,757.11

Note 2 Income from Business Rates

In 2013/2014, the administration of Non-Domestic Rates (NDR) changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectible rates due. In Middlesbrough's case the local share is 49%. The remainder is distributed to the preceptors, which for Middlesbrough are Central Government (50%) and Cleveland Fire Authority (1%).

The total non-domestic rateable value at 31 March 2022 was £101,659,272 (£103,369,078 at 31 March 2021) and the national non-domestic multiplier for the year was 51.2p (51.2p in 2020/21).

Note 3 Previous Years Council Tax Deficit / Surplus

The Council has a statutory requirement to provide details each January of the projected Council Tax deficit or surplus at the end of the financial year. The estimated previous year's Council Tax deficit or surplus is payable to / from the Collection Fund by the Billing Authority and Precepting Authorities in proportion to amounts raised or owing:

Following a detailed balance sheet review, the s151 officer has revised the methodology to calculate the Collection Fund Bad Debt provision in order to comply with International Accounting Standard 37 (IAS37), which has adopted a long-term data driven methodology to forecast debt write off. This has led to a reduction in the Bad Debt provision in 2021/22 of £9.888m of which Middlesbrough's share was £7.920m.

The methodology for the provision for appeals is the same as previous years as this is based on live data from the Analyse Local system.

The total provisions held for the Collection Fund at 31 March 2022 are set out in the table below:

	Council Tax BDP £000	Business Rates BDP £000	Provision for Appeals £000	Total £000
Opening Balance as at 1 April 2021	(25,005)	(9,000)	(4,529)	(38,534)
Reductions in the provision in year	8,898	990	950	10,838
Increase in the provision in year	0	0	0	0
Closing balance as at 31 March 2022	(16,107)	(8,010)	(3,579)	(27,696)

6. Teesside Pension Fund Accounts and Notes



Notes to the Pension Fund Accounts

Note	Description	Page
	Description of Teesside Pension Fund	125
	Teesside Pension Fund Accounts and Net Asset Statement	127
1	Basis of Preparation	128
2	Accounting Standards issued not yet Adopted	128
3	Summary of Significant Accounting Policies	129
4	Critical Judgements, Sensitivities and Accounting Estimates	133
5	Assumptions made about the Future and other Major Sources of Estimation Uncertainty	133
6	Contributions	134
7	Benefits Payable	135
8	Transfers in from Other Pensions Funds	135
9	Other Income	135
10	Payments to and on account of leavers	135
11	Management Expenses	136
12	Investment Income	136
13	Investment Assets	137
14	Financial Instruments	143
15	Actuarial Valuations	150
16	Current Assets	150
17	Current Liabilities	151
18	Related Party Transactions	151
19	External Audit Costs	152
20	Senior Employees' Remuneration	152
21	Events after the Balance Sheet Date	152
	The Compliance Statement	154

Teesside Pension Fund Statement of Accounts

Introduction

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by Middlesbrough Council and the Council is the reporting entity for the Fund.

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

The Council has delegated decision making in relation to the Fund to the Pension Fund Committee. The day-to-day administration of the Fund and the operation of the management arrangements and investment portfolio is the responsibility of the Director of Finance (Section 151 Officer) of the Council.

The Pension Fund Committee consists of representatives of the employers of the Fund (specifically Councillors of the Local Authority employers together with one representative chosen from the other scheme employers), and employee representatives (from relevant Trade Unions) and makes decisions without reference to the Council. The Pension Fund Committee sets investment strategy and recommends investment decisions. An independent Pensions Board exists and operates as a scrutiny panel to ensure the Pension Fund Committee acts within the statutory and regulatory framework.

Operation

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to employees and former employees of the Teesside local authorities and of those bodies admitted to the Fund, and in some circumstances payment of benefits to those individual's dependants; collectively referred to as members. The benefits paid to members include retirement pensions, dependant's pensions, death grants and lump sums.

The Fund is financed by contributions from members, employers and the income from the Fund's investment portfolio of some £5.04 billion at 31 March 2022. The funding policy aims to ensure that the assets held by the scheme are adequate to meet the future liabilities (members' pensions and lump sums) of the Fund allowing for future changes to pensions and pay.

Financial Statements

The Fund's accounts provide information on the financial position, membership, investment performance and risks associated with the Fund. They show the results of the Fund's stewardship in managing the resources entrusted to it and provide information on the income and expenditure of the Fund and the investments it controls.

While membership rose in 2021/22, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Net withdrawal of funds was £64.2 million (2021 £61.4 million). During the year, the overall value of the Fund increased by £478 million to £5.04 billion.

Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff, are free to choose whether to join the scheme, remain in the scheme or make their own arrangements. Teaching staff have access to their own defined benefit scheme the details of which are provided in the Council's financial statements.

The tables overleaf summarise the membership of the scheme over recent years showing an overall increase in all categories of members: active members, members who have deferred rights and those who are drawing pensions.

Membership of the Fund	2018	2019	2020	2021	2022
Active	23,295	22,724	23,438	24,238	25,937
Deferred	23,243	23,361	23,488	23,322	26,350
Pensioner	22,757	23,983	24,651	25,366	26,254
Total	69,295	70,068	71,577	72,926	78,541

Summary of Changes in Membership	Active Members	Deferred Members	Pensioner Members	Dependents	Total
At 01-APR-2021	24,238	23,322	22,156	3,210	72,926
Adjustments	418	3,156	146	17	3,737
New Members	3,347	719	1,316	261	5,643
Change in Status	(539)	(708)	(175)	0	(1,422)
Leavers	(1,527)	(139)	(495)	(182)	(2,343)
At 31-MAR-2022	25,937	26,350	22,948	3,303	78,541
% of Total Membership	33.0%	33.5%	29.2%	4.2%	100.0%

The large increase in deferred members through the 'adjustments' line includes the addition of 3,156 undecided members who had previously been omitted from the disclosed membership numbers.

Employers participating in the Teesside Pension Fund Accounts include:

- Scheduled bodies - local authorities or similar bodies whose staff are automatically entitled to be members of the Fund.
- Admission bodies - organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admission bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following outsourcing to the private sector.



Teesside Pension Fund Statement of Accounts

Fund Accounts for the year ended 31 March 2022

2020/21			2021/22
£000		Note	£000
	Dealings with members, employers and others directly involved in the Fund		
(95,393)	Contributions	6	(97,666)
(3,061)	Transfers in from other pension funds	8	(2,371)
(5,577)	Other income	9	(3,626)
(104,031)	Total Income from Members		(103,663)
149,785	Benefits payable	7	153,758
8,158	Payments to and on account of leavers	10	5,974
157,943	Total Expenditure to Members		159,732
53,912	Net / withdrawals from dealings with members		56,069
7,484	Management expenses	11 ,20	8,128
61,396	Net withdrawals including fund management expenses		64,197
	Returns on investment		
(13,741)	Investment income	12	(49,933)
(901,667)	Profits and losses on disposal of investments and changes in the market value of investments	13	(492,353)
(915,408)	Net returns on investment		(542,286)
(854,012)	Net (increase)/decrease in the net assets available for benefits during the year		(478,089)
3,705,473	Net assets of the scheme as at 1 April		4,559,485
4,559,485	Net assets of the scheme as at 31 March		5,037,574
2020/21	Net Assets Statement as at 31 March		2021/22
4,553,817	Investments Assets	13	5,036,271
20,969	Current Assets	16	12,806
(15,301)	Current liabilities	17	(11,503)
4,559,485	Net assets of the Fund at 31 March		5,037,574

Notes to Teesside Pension Fund Accounts

Note 1 Basis of Preparation

The accounts are prepared on a going concern basis; that is, on the assumption that the Council will continue to operate as the administering authority for the Pension Fund and the Pension Fund will continue to meet its financial obligations until at least 31/12/2025, this period being at least twelve months from the approval of these financial statements.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which states that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Council is established under the Local Government Regulations 2013 as an Administering Authority of the Local Government Pensions Scheme and is therefore a statutory body expected to be a going concern until notification is given that the body will be dissolved, and its functions transferred.

The Pension Fund has carried out an assessment on its financial position and performance during 2021/22 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of c. £5.04 billion as at 31 March 2022. £3.86 billion (77%) of this is held in assets which are considered to be liquid, and which could be converted to cash if required (including £0.82 billion actually held as cash).
- In 2022/23 the Fund paid out £193.3m in benefits and other outgoings and received contributions and other income of £114.4m. The shortfall of £79.9m was met in part by £50.2m of investment income, with the remaining £29.7m met from the cash assets of the Fund.
- In 2023/24 the Fund paid out £207.0m in benefits and other outgoings and received contributions and other income of £126.4m. The shortfall of £80.5m was met in part by £60.4m of investment income, with the remaining £20.1m met from the cash assets of the Fund.
- The Fund has estimated that in the twenty-month period from 1 April 2024 to 31 December 2025 it will pay out approximately £395 million in benefits and other outgoings and is forecasting contribution and other income in the region of £205 million. This shortfall in contribution income verses benefits and other expenditure of £190 million will be met partly from other regular investment income, which is estimated to be at least £125 million over the period to 31 December 2025 with the remaining £65 million being taken from the Fund's cash balance, which was £199 million on 31 March 2024.

On this basis, management believes it is appropriate to continue to prepare the financial statements on a going concern basis, and that there are no material uncertainties in relation to this basis of preparation.

The statement of accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, which is based upon international Financial Reporting Standards (IFRS), as amended for the UK local government sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits, which fall due after the end of the financial year.

Note 2 Accounting standards issued but not yet been adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is no recognition for low-value and short-term leases). CIPFA/LASAAC have however deferred implementation of

- IFRS16 for local government to 1 April 2024 due to the impact of Covid-19.
- IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

These standards have no impact on the fund in the current financial year.

Note 3 Summary of Significant Accounting Policies

Accruals

The accounts have been prepared on an accrual's basis, and the accruals threshold set by management is £10,000. The exception to this accruals basis is individual transfer values, which are recognised on a cash transfer basis.

Fund Account – Revenue Recognition

Contributions Income

Normal contributions, from both the members and the employers, are accounted for on an accrual's basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year-end are accrued, according to the accrual's threshold.

Transfer Values

Transfer values represent the sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfer values in and out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits, are accounted for on a receipt's basis within transfers in.

Bulk transfers are accounted for on an accrual's basis in accordance with the terms of the transfer agreement.

Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

Interest Income

Interest income is recognised in the Fund account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

Distributions from Pooled Funds

Distributions from Pooled Funds are recognised on the date of issue. Any amount not received at the

year-end is disclosed in the net assets statement as a current financial asset.

Property Related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is accounted for on an accrual's basis.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including properties) are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Any withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non-recoverable tax.

Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's guidance, "Accounting for Local Government Pension Scheme Management Expenses (2020)".

Administrative Expenses

All administrative expenses are accounted for on an accrual's basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for actuarial, audit and legal fees are paid directly by the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accrual's basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accrual's basis. Fees of external investment managers and the Fund's custodians are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the Council's in house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Property Expenses

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net rents from properties.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement

The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

Foreign Currency Transactions

Foreign income and sales and purchase of investments in foreign currencies received during the year have been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2022.

Net Assets Statement

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at 31 March 2022. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account. Any assets where its contractual terms must give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding are valued at amortised cost and recognised in the Fund account. The value of investments as shown in the net assets statement have been determined as follows.

Market Quoted Investments

Investments are valued at fair value as at 31 March 2022, as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income, which is reinvested in the Fund, net of applicable withholding tax.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned is accrued within the investment income receivable.

Unquoted Investments

Unlisted securities, including partnerships, are valued regarding latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships and using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value.

Freehold and Leasehold Properties

Properties are shown as valued at 31 March 2022. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). All valuations are professional opinions on a stated basis, coupled with any appropriate assumptions. A valuation is not a fact, it is an estimate. The degree of subjectivity involved will inevitably vary from case to case, as will the degree of certainty, or probability.

Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, Northern Trust. Exceptions

to this are directly owned properties, money market cash deposits and specified unquoted investments, which would be registered in the name of the administering authority. Where the Custodian does not provide a custody service, they utilise third party Sub Custodians, who are appointed by the Custodian. The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result of action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

Outstanding Commitments

The Fund has made commitments to investments, which are not included in the accounts of the Fund until the monies have been drawn down by the relative manager. These are shown in Note 13.

Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Disposal of Investments

Profits/losses on the disposal of investments are realised when the transactions are legally complete.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS26 (Accounting and Reporting by Retirement Benefit Plans) and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 15.

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd as the current provider. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements in the year. AVCs are not included in the accounts in accordance with Regulation 4 (1) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 but are disclosed as a note only (Note 18).

Value Added Tax

Expenses and property purchase costs are charged net to the Pension Fund. The VAT is reclaimed via Middlesbrough Council's VAT regime.

Note 4 Critical Judgements, Sensitivities and Accounting Estimates

Unquoted Private Equity, Infrastructure and Other Alternative investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, infrastructure, other debt, and other alternative investments. They are inherently based on forward-looking estimates and judgements involving many factors. They are also categorised within level 3 of the fair value hierarchy in note 14 where the valuation is not based on observable market data. These are valued by the investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of these investments at 31 March 2022 was £735,505,000 (£388,447,000 at 31 March 2021).

Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

Freehold and Leasehold Property

Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).

By nature, property valuations require significant judgement and come with a degree of uncertainty, as the market value of a property can only be accurately known at the point of sale.

Note 5 Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Statement of the Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made considering historical experience, current trends and other factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured for example, at 31 March 2021 fund valuation a 0.1% decrease in the discount rate. (future investment return) assumption increased liabilities by £104m.
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association	Unobservable market values amount to £3,833m and are relating to infrastructure, real estate, and pooled equity vehicles. The effect in of

	guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	variations in the factors supporting the valuation would be an increase or decrease 18.75% in the value of unobservable market values of 718.7m.
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the relevant parts of the current RICS Red Book. As properties are inherently illiquid and the transactional evidence can be scarce there is the potential for a mismatch between the valuation and actual transaction pricing.	The effect of variations in the factors supporting the valuation would be an increase or decrease 7.05% in the value of directly held property £23.3m, on a fair basis of £331.1m. These figures do not include £4.4m of property assets which are currently valued at cost and are therefore not subject to uncertainty.

Note 6 Contributions

Contributions from both members and employers are accounted for on an accrual basis in the payroll period. The employers' percentage rate is set by the actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

		2020/21	2021/22
		£000	£000
Employers	Normal	(63,910)	(67,214)
	Additional Contributions	(13)	(12)
	Deficit Recovery Contributions	(1,055)	(506)
Members	Normal	(30,415)	(29,934)
Total		(95,393)	(97,666)

Analysis of Total Contributions

	2020/21	2021/22
	£000	£000
Administering Authority – Middlesbrough Council	(13,451)	(12,629)
Scheduled Bodies	(68,071)	(72,217)
Admission Bodies	(13,871)	(12,820)
Total	(95,393)	(97,666)

Note 7 Benefits Payable

Pensions/lump sum benefits payable include all amounts known to be due at the end of the financial year.

	2020/21	2021/22
	£000	£000
Pensions	123,640	127,421
Commutations and lump sum retirement benefits	22,947	22,750
Lump sum death benefits	3,198	3,587
Total	149,785	153,758

Analysis of Total Benefits

	2020/21	2021/22
	£000	£000
Administering Authority – Middlesbrough Council	24,159	24,119
Scheduled Bodies	91,839	95,869
Admission Bodies	33,787	33,770
Total	149,785	153,758

Note 8 Transfers in from Other Pension Funds

Transfer values represent the sums receivable in respect of members who have joined the Fund during the financial year.

	2020/21	2021/22
	£000	£000
Individual transfers in from other schemes	(3,061)	(2,371)
Total	(3,061)	(2,371)

Note 9 Other Income

	2020/21	2021/22
	£000	£000
Capital Costs of Early Retirements	(4,311)	(2,748)
Other income	(1,266)	(878)
Total	(5,577)	(3,626)

Note 10 Payments to and on account of leavers

	2020/21	2021/22
	£000	£000
Refunds to members leaving scheme	205	199
Payments for members joining state scheme	159	483
Individual transfers to other schemes	7,794	5,292
Total	8,158	5,974

Note 11 Management Expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. This includes administrative expenses, investment management expenses and oversight and governance costs.

	2020/21	2021/22
	£000	£000
Administrative costs	1,938	2,238
Investment management expenses	4,955	5,474
Oversight and governance costs	553	375
Total	7,446	8,087

All investment management expenses are accounted for on an accruals basis. Fees of external managers and custodian are agreed in respective mandates governing their appointments.

	2020/21	2021/22
	£000	£000
Management fees	3,662	3,959
Custody fees	23	25
Transaction costs	719	939
Loans & investment support service charges	551	551
Total	4,955	5,474

Note 12 Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the fund on the date of dividend.

	2020/21	2021/22
	£000	£000
Income from pooled investment vehicles	511	(33,525)
Net rents from properties (see note below)	(12,584)	(15,554)
Interest on cash deposits	(1,668)	(854)
Total	(13,741)	(49,933)

Rental Income and Property Expenses

	2020/21	2021/22
	£000	£000
Gross Rental income	(13,563)	(16,172)
Property Expense / (Income)	979	618
Net Rents from Properties	(12,584)	(15,554)

Note 13 Investment Assets

The Pension Fund invest in several types of assets in order to maximise the return on the investment for the Fund.

2021/22	Value at 01-APR-2021	Reclassified Assets	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31-MAR-2022
	£000	£000	£000	£000	£000	£000
Equities	90	1,621	0	0	(1)	1,710
Pooled Investment Vehicles	3,869,990	(21,621)	1,163,001	(1,672,195)	434,052	3,773,227
Pooled Property Investments	64,040	0	0	(8,197)	4,387	60,230
Properties	277,200	0	4,406	0	53,915	335,521
Loans	0	0	20,000	0	0	20,000
Directly Held – Private Equity	0	20,000	6,500	0	0	26,500
	4,211,320	0	1,193,907	(1,680,392)	492,353	4,217,188
Cash Deposits	340,650					817,250
Other Investment Balances	1,847					1,833
Net Investment assets	4,553,817					5,036,271

2020/21	Value at 01-APR-2020	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31-MAR-2021
	£000	£000	£000	£000	£000
Equities	89	0	0	1	90
Pooled Investment Vehicles	2,868,327	876,896	(765,047)	889,814	3,869,990
Pooled Property Investments	51,134	190	(386)	13,102	64,040
Properties	278,450	0	0	(1,250)	277,200
	3,198,000	877,086	(765,433)	901,667	4,211,320
Cash Deposits	501,295				340,650
Other Investment Balances	13,933				1,847
Net Investment assets	3,713,228				4,553,817

Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Realised profit was £228,314,613 and unrealised gain was £264,038,252. Prior year realised profit was £136,402,035 and unrealised gain was £765,265,080.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £938,946 (2020/2021 £719,226). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes, the transaction costs have been re-allocated to expenses.

Investments Analysed by Fund Manager

Border to Coast externally manage the funds equities and provide various private equity and infrastructure funds in which the fund is actively invested. The remaining private equities, infrastructure, other alternatives, and other debt are all managed in-house. The only exception being the direct property portfolio managed externally by CBRE Limited.

- For 2021/2022 the value at 31 March 2022 of the direct property portfolio was: £335,520,529
- For 2020/2021 the value at 31 March 2021 of the direct property portfolio was: £277,200,000

The following investments represent more than 5% of the net assets of the scheme.

Security	Market Value 31-MAR-2021	% of net assets of the scheme	Market Value 31-MAR-2022	% of net assets of the scheme
	£000		£000	
Border to Coast PE Overseas Dev Mkts	953,478	22.64%	1,608,520	31.95%
Border to Coast PE UK Listed Equity	1,292,616	30.69%	615,588	12.23%
SSGA MPF Pacific Basin Ex-Japan Index	451,648	10.72%	334,706	6.65%

In addition, the following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund Committee.

Asset Class / Security	Market Value 31-MAR-2021	% of asset class	Market Value 31-MAR-2022	% of asset class
	£000		£000	
UK Equities				
Border to Coast UK Listed Equity	1,292,616	99.99%	615,588	99.72%
Overseas Equities				
Border to Coast Overseas Developed Markets	953,478	43.56%	1,608,520	66.41%
SSGA MPF Pacific Basin ex-Japan Index	451,648	20.63%	334,706	13.82%
SSGA MPF Euro Ex UK Equity Index Sub Fund	207,819	9.49%	122,869	5.07%
Border to Coast Emerging Market Hybrid Fund	0	0.00%	210,824	8.70%
Alternatives - Private Equities				
Crown Co Investment Opp II PLC	17,658	11.79%	25,331	6.90%
Unigestion SA	0	0.00%	25,421	6.92%
Pantheon Global Co-Investment Opportunities IV	12,276	8.20%	26,412	7.19%
Crown Growth Global Opportunities III	11,278	7.53%	34,019	9.26%
Blackrock Private Opportunities Fund IV	0	0.00%	18,495	5.04%
Border to Coast Private Equity Series 1A	24,546	16.39%	72,562	19.76%
GB Bank Limited	0	0.00%	26,500	7.22%
Alternatives - Infrastructure				
ACIF Infrastructure	18,647	12.71%	17,770	7.17%
Border to Coast Infrastructure Series 1A	17,918	12.21%	45,996	18.57%
Border to Coast Infrastructure Series 1B	0	0.00%	12,421	5.01%
Border to Coast Infrastructure Series 1C	0	0.00%	22,408	9.05%
JP Morgan IIF UK I LP	36,719	25.03%	36,125	14.58%

Ancala Infrastructure Fund II	9,946	6.78%	16,378	6.61%
Gresham House BSI Infrastructure LP	12,525	8.54%	21,166	8.54%
Alternatives - Other Alternatives				
Darwin Leisure Prop Units - Class C	22,769	24.77%	23,488	20.48%
Darwin Bereavement Services Fund - Class B	16,070	17.48%	17,042	14.86%
Darwin Bereavement Services Fund - Income Units	0	0.00%	10,264	8.95%
Darwin Leisure Development Fund – Class D	17,400	18.93%	18,656	16.26%
Darwin Leisure Property Fund K - Income Units	15,290	16.63%	15,449	13.47%
Hearthstone Residential Fund 1	8,498	9.24%	9,675	8.43%
Gresham House BSI Housing Fund LP	5,806	6.32%	13,588	11.85%
Other Debt				
Insight IIFIG Secured Finance II Fund	0	0.00%	24,676	47.20%
Greyhound Retail Park Chester	0	0.00%	20,000	38.25%
Pantheon Senior Debt Secondaries II	0	0.00%	7,609	14.55%
Direct Property				
Doncaster (Omega Boulevard)	30,350	10.95%	37,800	11.27%
Birmingham (Bromford Central)	18,150	6.55%	23,950	7.14%
Gateshead (Team Valley Trading Estate)	20,500	7.40%	23,600	7.03%
Rugby (Valley Park)	17,250	6.22%	18,200	5.42%
London (Park Royal, Minerva Road)	0	0.00%	21,600	6.44%
London (Park Royal, Coronation Road)	0	0.00%	18,000	5.36%
Lutterworth (Magna Park)	15,700	5.66%	19,700	5.87%
Property Unit Trusts				
Standard Life Investments European Property Growth Fund	36,403	56.84%	39,036	64.81%
LAMIT - Local Authorities Property Fund	4,017	6.27%	4,723	7.84%
Hermes Property	4,330	6.76%	5,064	8.41%
Threadneedle Property	3,520	5.50%	4,114	6.83%
Legal and General Managed Property Fund	5,937	9.28%	7,294	12.11%

Restatement of Geographical Analysis of Investments 31st March 2021

The prior period comparator in the following disclosure has been restated due to the identification of errors in the attribution of investments to geographical locales. As part of the restatement the disclosure has been simplified to just UK and overseas as required by the CIPFA Code, having previously reported by overseas segment such as Europe, United States and Asia Pacific.

Geographical Analysis of Investments

	As at 31 March 2021 (Restated)		As at 31 March 2022	
	£000	%	£000	%
United Kingdom	1,767,642	42%	1,261,457	30%
Overseas	2,443,678	58%	2,955,731	70%
Total	4,211,320	100%	4,217,188	100%

Equities

	As at 31-MAR-2021	As at 31-MAR-2022
	£000	£000
UK quoted	81	1,701
Overseas quoted	9	9
Total	90	1,710

Pooled Investment Vehicles and Properties

	As at 31-MAR-2021	As at 31-MAR-2022
	£000	£000
UK Equity	1,292,616	615,588
Pooled Property investment Vehicle	64,040	60,230
Private Equity	149,794	340,778
Infrastructure	146,725	247,734
Other Alternative Investments	91,928	114,709
Other Debt	0	32,284
UK Unit and Investment Trusts Total	1,745,103	1,411,323
Overseas Equities	2,188,927	2,422,134
Overseas Unit and Investment Trusts Total	2,188,927	2,422,134
Total	3,934,030	3,833,457

UK Properties

	As at 31-MAR-2021	As at 31-MAR-2022
	£000	£000
Freehold	215,725	268,521
Leasehold	61,475	67,000
Total	277,200	335,521

Cash Deposits

	As at 31-MAR-2021	As at 31-MAR-2022
	£000	£000
Sterling Cash deposits	340,650	817,250

Other Investment Balances

	As at 31-MAR-2021	As at 31-MAR-2022
	£000	£000
Cash deposits with custodian	1,470	1,470
Interest due on cash deposits	377	363
Total	1,847	1,833

Outstanding Commitments

As at 31 March 2022, the Fund had the following outstanding commitments.

	Initial Commitment	Capital Payments made	Outstanding commitments at 31 March 2022
Infrastructure			
	GBP	GBP	GBP
Border to Coast Infrastructure Series 1A	100,000,000	43,385,425	56,614,575
Border to Coast Infrastructure Series 1B	50,000,000	11,917,872	38,082,128
Border to Coast Infrastructure Series 1C	50,000,000	21,509,699	28,490,301
Capital Dynamics Clean Energy Infrastructure Fund VIII	20,000,000	9,100,754	10,899,246
Capital Dynamics Clean Energy Infrastructure Fund VIII - Co Investment	10,000,000	4,550,377	5,449,623
Gresham House, British Strategic Investment Infrastructure Fund	20,000,000	17,971,505	2,028,495
Innisfree PFI Continuation Fund	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	10,000,000	8,360,796	1,639,204
Total GBP	270,000,000	126,504,926	143,495,074
	EUR	EUR	EUR
Access Capital Infrastructure Fund	23,000,000	21,436,000	1,564,000
Access Capital Infrastructure Fund II	20,000,000	12,478,000	7,522,000
Access Capital Infrastructure Fund II (Fund 2)	15,000,000	5,205,000	9,795,000
Ancala Infrastructure Fund II	23,000,000	17,868,481	5,131,519
Foresight Energy Infrastructure	17,000,000	3,697,048	13,302,952
Total EUR	98,000,000	60,684,529	37,315,471
	USD	USD	USD
Blackrock Global Energy & Power Infrastructure Fund III	25,000,000	13,103,679	11,896,321
Blackrock Global Renewable Power III	25,000,000	5,037,160	19,962,840
Total USD	50,000,000	18,140,839	31,859,161
Other Alternatives			
	GBP	GBP	GBP
Bridges Evergreen TPF Housing Co-Investment LP	5,000,000	765,180	4,234,820
Gresham House Housing Fund	20,000,000	13,096,625	6,903,375
Hearthstone Residential Fund 2 LP	20,000,000	3,090,030	16,909,970
Total GBP	45,000,000	16,951,835	28,048,165
	EUR	EUR	EUR
La Salle Real Estate Debt Strategies IV	25,000,000	3,461,358	21,538,642
Total EUR	25,000,000	3,461,358	21,538,642
Other Debt			

	USD	USD	USD
Pantheon Senior Debt Secondaries II	25,000,000	9,292,937	15,707,063
Total USD	25,000,000	9,292,937	15,707,063
Direct Property			
	GBP	GBP	GBP
Leonardo Warehouse Unit, Yeovil	30,030,934	4,405,529	25,625,405
Total GBP	30,030,934	4,405,529	25,625,405
Private Equity			
	GBP	GBP	GBP
Border to Coast Private Equity Series 1A	100,000,000	45,375,690	54,624,310
Border to Coast Private Equity Series 1B	50,000,000	16,249,950	33,750,050
Border to Coast Private Equity Series 1C	50,000,000	6,947,248	43,052,752
Capital Dynamics LGPS Collective for Pools	10,000,000	5,100,000	4,900,000
GB Bank Limited	28,000,000	6,499,975	21,500,025
Hermes Innovation Fund	20,000,000	9,631,283	10,368,717
Total GBP	258,000,000	89,804,146	168,195,854
	EUR	EUR	EUR
Access Capital Fund VIII Growth Buy-Out Europe	30,000,000	11,640,000	18,360,000
Access Capital Co-Investment Fund Buy-Out Europe II	22,000,000	8,825,000	13,175,000
Capital Dynamics Mid-Market Direct V	20,000,000	9,661,359	10,338,641
Crown Growth Global Opportunities III	30,000,000	21,000,000	9,000,000
Unigestion Direct II	25,000,000	11,775,306	13,224,694
Unigestion Secondary V	50,000,000	24,500,000	25,500,000
Total EUR	177,000,000	87,401,665	89,598,335
	USD	USD	USD
Blackrock Private Opportunities Fund IV	25,000,000	17,998,407	7,001,593
Capital Dynamics Global Secondaries V	22,000,000	14,300,000	7,700,000
Crown Co-Investment Opportunities II	30,000,000	25,655,000	4,345,000
Crown Co-Investment Opportunities III	30,000,000	5,340,000	24,660,000
Crown Global Opportunities VII	40,000,000	13,480,000	26,520,000
Crown Secondaries Special Opportunities II	25,000,000	14,287,500	10,712,500
Pantheon Global Co Investment Opportunities IV	30,000,000	26,020,000	3,980,000
Total USD	202,000,000	117,080,907	84,919,093

Note 14 Financial Instruments

Net Gains and Losses on Financial Instruments

	2020/21	2021/22
Financial Assets	£000	£000
Fair Value through profit and loss	(901,667)	(492,353)

Fair Value of Financial Instruments

	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	As at 31-MAR-2021			As at 31-MAR-2022		
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	90			1,710		
Pooled Investments	3,869,990			3,773,227		
Pooled Property Investments	64,040			60,230		
Loans					20,000	
Directly Held – Private Equity				26,500		
Cash		340,650			817,250	
Other investment balances		1,847			1,833	
Current Assets		20,969			12,806	
	3,934,120	363,466	0	3,861,667	851,889	0
Financial Liabilities						
Current Liabilities			(15,301)			(11,503)
	0	0	(15,301)	0	0	(11,503)
Net Financial Assets	3,934,120	363,466	(15,301)	3,861,667	851,889	(11,503)

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31 March annually. Cash flow adjustments can be used where valuations at 31 March could not be obtained.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Valuation of Financial Instruments

	Level 1	Level 2	Level 3	Total
Value as at 31-MAR-2022	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	10,547	3,037,721	813,399	3,861,667
Financial Assets at amortised cost	851,889	-	-	851,889
Financial Liabilities at amortised cost	(11,503)	-	-	(11,503)
Total Financial Assets	850,933	3,037,721	813,399	4,702,053

Valuation of Financial Instruments (Restated)

	Level 1	Level 2	Level 3	Total
Value as at 31-MAR-2021	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	19,060	3,481,543	433,517	3,934,120
Financial Assets at amortised cost	372,366	-	-	372,366
Financial Liabilities at amortised cost	(15,301)	-	-	(15,301)
Total Financial Assets	376,125	3,481,543	433,517	4,291,185

Sensitivity of Assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classification described above are likely to be accurate to within, the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

Restatement of Valuation of Financial Instruments table above 31st March 2021.

The prior period comparatives within the above disclosure have been restated due to the identification of errors in the assessment of which level in the fair value hierarchy individual investments should be reported as. The Fund's directly held property has also been removed from the analysis as not considered to be a financial instrument.

Valuation of Financial Instruments carried at fair value – 31 March 2022

	Assessed valuation range (+/-)	Value at 31-MAR-2022	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Private Equity	18.75%	340,778	404,674	276,882
Directly Held – Private Equity	18.75%	26,500	31,469	21,531
Pooled Investments - Infrastructure	18.75%	247,734	294,184	201,284
Pooled Investments - Other Alternatives	18.75%	114,709	136,217	93,201
Pooled Investments - Other Debt	18.75%	32,284	38,337	26,231
Pooled Investments - Property	7.05%	51,393	55,016	47,770
Total		813,399	959,898	666,900

Valuation of Financial Instruments carried at fair value – 31 March 2021 (Restated)

	Assessed valuation range (+/-)	Value at 31-MAR-2021	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Private Equity	17.27%	149,794	175,664	123,925
Pooled Investments - Infrastructure	17.27%	146,725	172,064	121,386
Pooled Investments - Other Alternatives	17.27%	90,328	105,928	74,728
Pooled Investments - Property	8.69%	46,670	50,726	42,614
Total		433,517	504,382	362,653

Restatement of Financial Instruments carried at fair value 31st March 2021.

The prior period comparatives within the above disclosure have been restated to reflect the correction of the assessment of which investments are level 3 in the fair value hierarchy as disclosed earlier in the note. The assessed valuation range for each category of asset remains as previously disclosed.

Reconciliation of Fair Value Measurements within level 3 during 2021/22

	Market Value 01-APR-2021	Category Transfers	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31-MAR-2022
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – Private Equity	149,794	(20,000)	129,514	(17,569)	99,039	0	340,778
Directly Held – Private Equity	0	20,000	6,500	0	0	0	26,500
Pooled Investments – Infrastructure	146,725	0	91,739	(13,256)	22,526	0	247,734
Pooled Investments – Other Alternatives	90,328	(4,495)	23,394	(641)	6,123	0	114,709
Pooled Investments - Other Debt	0	4,495	27,620	(2,253)	2,422	0	32,284
Pooled Investments – Property	46,670	0	0	(8,197)	10,865	2,055	51,393
Total	433,517	0	278,768	(41,916)	140,975	2,055	813,399

Restatement of Reconciliation of Fair Value Measurements within level 3 31st March 2021

The prior period comparatives at both 1 April 2020 and 31 March 2021 in the below table, and movements between these dates, within the below disclosure have been restated to reflect the correction of the assessment of which investments are level 3 in the fair value hierarchy as disclosed earlier in the note.

Reconciliation of Fair Value Measurements within level 3 during 2020/21 (Restated)

	Market Value 01-APR-2020	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31-MAR-2021
	£000	£000	£000	£000	£000	£000
Pooled Investments – Private Equity	50,918	108,082	(6,850)	(2,356)	0	149,794
Pooled Investments – Infrastructure	93,487	73,464	(8,570)	(11,656)	0	146,725
Pooled Investments – Other Alternatives	68,991	24,940	(2,205)	(1,398)	0	90,328
Pooled Investments - Property	32,397	190	(386)	14,469	0	46,670
Total	245,793	206,676	(18,011)	(941)	0	433,517

Nature and Extent of Exposure to Risk Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Responsibility for the Fund's risk management strategy rests with the Teesside Pension Fund Committee. The Funding Strategy Statement and the Statement of Investment Principles identify and analyse the risks faced by the pension's operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund identifies, manages, and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates.
2. The asset liability study which is carried out every three years or more frequently if required considers alternative asset allocations for the Fund and the long-term impact on employer contribution rates.
3. Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Pension Fund Committee.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Strategy Statement and the Investment Strategy Statement.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk could reasonably occur in future periods after the market value date of 31st March 2022.

2021/22 Price Risk		Value as at 31-MAR-2022	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	1,701	14.98%	1,956	1,447
	Non-UK	9	12.96%	10	8
	Total	1,710		1,966	1,455
Managed and Unitised Funds	UK Equities	615,588	14.98%	707,803	523,373
	UK Alternatives	262,147	18.75%	311,300	212,994
	Non-UK Equities	2,422,134	12.96%	2,736,042	2,108,225
	Non-UK Alternatives	533,589	18.75%	633,637	433,541
Directly Held – Private Equity	UK	26,500	18.75%	31,469	21,531
	Total	3,859,958		4,420,250	3,299,665
Total		3,861,667		4,422,216	3,301,120

2020/21 Price Risk		Value as at 31-MAR-2021	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	Asset Type
Equities	UK	81	16.07%	94	68
	Non-UK	9	13.46%	10	8
	Total	90		104	76
Managed and Unitised Funds (Restated)	UK Equities	1,292,616	16.07%	1,500,339	1,084,893
	UK Alternatives	197,744	17.27%	231,894	163,593
	Non-UK Equities	2,188,927	13.46%	2,483,557	1,894,297
	Non-UK Alternatives	254,743	17.27%	298,737	210,749
	Total	3,934,030		4,514,527	3,353,532
Total		3,934,120		4,514,631	3,353,608

Partial restatement of Managed and Unitised Funds within the Other Price Risk - Sensitivity Analysis 31st March 2021.

The prior period comparatives for managed and unitised funds in the above disclosure have been restated due to the identification of errors in the attribution of investments to geographical locales as disclosed in Note 13. The restated disclosure also now disaggregates managed and unitised funds between equities and alternative investments for comparability with the greater disaggregation presented for the current period.

Interest Rate Risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in cash. The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below:

Asset Type at 31 March	2020/21	2021/22
	£000	£000
Cash and cash equivalents	340,650	817,250
Other Investment balances	1,847	1,833
Total	342,497	819,083

Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31-MAR-2022	£000	£000	£000
Cash and cash equivalents	817,250	2,043	(2,043)
Other Investment balances	1,833	5	(5)
Total	819,083	2,048	(2,048)

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31-MAR-2021	£000	£000	£000
Cash and cash equivalents	340,650	851	(851)
Other Investment balances	1,847	5	(5)
Total	342,497	856	(856)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Pension Fund Committee is informed quarterly of the Fund's currency exposure.

The following tables summarise the Fund's currency exposure as at 31 March 2021 and as at 31 March 2022, showing the sensitivity analysis of foreign exchange movements.

Currency Risk 31-MAR-2022	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	9	8.10%	10	8
Euro	173,031	5.20%	182,029	164,033
US Dollar	202,445	8.30%	219,248	185,642
Total	375,485		401,287	349,683

Currency Risk 31-MAR-2021 (Restated)	Value£000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	9	8.60%	10	8
Euro	107,730	5.80%	113,978	101,482
US Dollar	127,376	8.60%	138,330	116,422
Total	235,115		252,318	217,912

Restatement of Currency Risk at 31st March 2021.

The prior period comparatives in the above disclosure have been restated due to the identification of error in the identification of the currency used by underlying investments. Previous disclosures were incorrectly based on the investment's location, rather than its reporting currency.

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the Fund considers the likely volatility associated with foreign exchange rate movements to be as shown above. A percentage strengthening/weakening of the pound against the various currencies in which the fund holds investments would decrease/increase the net assets available to pay benefits as highlighted above.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contribution's receivable from the Fund's participating employers.

The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Annual Report.

Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31 March 2022. The LGPS Regulations require that a risk assessment of any new transferee admission body is carried out, and that a bond or guarantee is obtained where necessary.

The Teesside Pension Fund Committee must approve the admission of any new body. Bonds or guarantees have been obtained for the Fund's admission body employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

Collateral and other Credit Enhancement

The pension fund does not use collateral and other credit enhancement.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund holds in-house cash resources to meet the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost. Apart from investments in private equity, infrastructure partnerships and other alternatives there are no commitments to contribute further capital to any of the existing fund investments. When private equity, infrastructure partnership and other alternatives capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

Note 15 Actuarial Valuations

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. Typically, each final triennial valuation report is published around a year after the effective date. An Actuarial Valuation was carried out as at 31 March 2019 using the 'Projected Unit Method', which produced the following results:

	31-MAR-2016	31-MAR-2019
	£ million	£ million
Net Liabilities	3,122	3,561
Assets	3,133	4,088
Surplus	11	527
Funding Level	100%	115%

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2019 were:

Funding Assumptions

Pension Increase Rate (CPI)	2.1%
Salary Increase Rate	3.1%
Discount Rate	4.45%

The assumed life expectancy from age 65 (years) assumptions

Mortality Assumptions:	Years
Longevity at 65 for current pensioners:	
• Men	21.80
• Women	23.40
Longevity at 65 for future pensioners:	
• Men	23.10
• Women	25.20

The actuarial valuation as at 31 March 2019 was used above as the scheme valuation as at 31 March 2022 was issued after the reporting date of 30 March 2023 – see note 22.

Note 16 Current Assets

Current assets are cash and any other asset that will be turning into cash within one financial year.

Debtors		31-MAR-2021	31-MAR-2022
		£000	£000
Other Debtors		2,740	2,723
Sundry Debtors		1,183	615
Contributions due in respect of	Employers	4,161	5,965
	Members	3,180	2,755
Cash balances		9,706	748
Total		20,969	12,806

Analysis of Debtors	31-MAR-2021	31-MAR-2022
	£000	£000
Other local authorities	3,918	4,736
Other entities and individuals	7,346	7,322
Add cash balances	9,706	748
Total	20,969	12,806

Note 17 Current Liabilities

Current Liabilities are the amounts owing within the next financial year.

Amounts due within one year	31-MAR-2021	31-MAR-2022
	£000	£000
Rents received in advance	(2,042)	(2,774)
Accrued expenses	(12,361)	(7,715)
Other payables	(898)	(1,014)
Total	(15,301)	(11,503)

Analysed by	31-MAR-2021	31-MAR-2022
	£000	£000
Other local authorities	(1,120)	(1,121)
Public Corp & Trading Funds	(1,058)	(5,499)
Other entities and individuals	(13,123)	(4,883)
Total	(15,301)	(11,503)

Note 18 Additional Voluntary Contributions (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested with the Fund's nominated AVC providers, the Prudential Assurance Co Ltd. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The value of AVC investments are as follows:

Prudential AVC balances

	2020/21	2021/22
	£000	£000
With Profits and Deposit Accounts	4,369	4,312
Unit Linked Accounts	3,964	4,021
Total	8,333	8,333

Note 19 Related Party Transactions

The Fund is administered by Middlesbrough Council. During the reporting period, the council incurred costs of £1,147,000 (2020/21: £1,120,000) in relation to the administration and management of the fund and was reimbursed by the fund for these expenses. Middlesbrough Council is one of the largest members of the pension fund and made employer contribution payments of £8.6 million over the period (2020/21 - £8.1 million).

Note 20 External Audit Costs

The external fees payable to the Fund's external auditors Ernst & Young LLP.

	2020/21	2021/22
	£000	£000
Fees payable to our current external auditors, EY, with regard to their services carried out as appointed auditor.	38	41
Total Fees	38	41

- The £41k consisting of the £22k base fee for the current period and an overrun of £19k agreed for 2019-20 after the 2020-21 accounts were published.
- The overrun on the 2021-22 audit (and 2020-21 audit), has yet to be agreed and will be reported in future periods.

Note 21 Senior Employees' Remuneration

	2020/21	2021/22
	£000	£000
Key Management Personnel		
Short Term Benefits	66	66
Post-Employment Benefits	10	8
Total	76	74

Note 22 Events after the Balance Sheet Date

The most recent actuarial valuation of the scheme, as at 31 March 2022, was released on 30 March 2023.

	31-MAR-2019	31-MAR-2022
	£ million	£ million
Net Liabilities	3,561	4,351
Assets	4,088	5,036
Surplus	527	685
Funding Level	115%	116%

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2022 were:

Funding Assumptions

Pension Increase Rate (CPI)	2.7%
Salary Increase Rate	3.7%
Discount Rate	4.25%

Actuarial Valuation

The actuarial valuation as at 31 March 2019 used in Note 15 as the scheme valuation as at 31 March 2022 was concluded on 30 March 2023 after the reporting date.

Virgin Media Limited v NTL Pension Trustees II Limited

In June 2023, the UK High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment has now been upheld by the Court of Appeal.

The Local Government Pension Scheme is a contracted out defined benefit scheme and amendments have been made during the period 1996 to 2016 which could impact member benefits. Work is being performed by the Government Actuary's Department as the Local Government Pension Scheme actuary to assess whether section 37 certificates are in place for all amendments and some of these have been confirmed however, at the date of these financial statements, the full assessment is not complete. Until this analysis is complete, we are unable to conclude whether there is any impact on the assessed actuarial present value of promised retirement benefits under IAS 26, or if it can be reliably estimated.

As a result, Teesside Pension Fund does not consider it necessary to make any allowance for the potential impact of the Virgin Media case in the disclosure of the actuarial present value of promised retirement benefits in its financial statements.

The Compliance Statement

The Compliance Statement

Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Governance Compliance Statement provides further detail on how the Administering Authority carries out and delegates its functions under those regulations and how it complies with guidance given by the Secretary of State. The statement is maintained and published by Middlesbrough Council, copies are available on application, or it can be seen at the Fund's website at appendix A of the document at the following link:

<https://www.teespen.org.uk/media/sdamv4hv/teesside-pf-governance-policy-and-compliance-statement.pdf>

Full details of the changes to the scheme, along with updated scheme guides, are on our website at www.teespen.org.uk

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish, and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved by the Pension Fund Committee in March 2021 and contains statements on:

- Investment responsibilities, setting out the key responsibilities of the Teesside Pension Fund Committee, key officers of the Fund, the Fund's Custodian, and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The existing investment management arrangements, including details of the Fund's commitment to investment pooling through its jointly owned pooling company Border to Coast.
- The Fund's position as a responsible investor and its promotion of ethical, social, and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<https://www.teespen.org.uk/media/3a2hapcd/investment-strategy-statement-2021-04-april-2021.pdf>

The Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013, require each Administering Authority, to produce a Funding Strategy Statement, setting out a long-term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
 - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
 - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - Take a prudent longer-term view of funding liabilities.
- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The Funding Strategy Statement that applied at the accounting date was approved by the Pensions Fund Committee and was effective from June 2021, and can be seen at:

<https://www.teespen.org.uk/media/5i3lescr/funding-strategy-statement-23-06-2021.pdf>

Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the XPS group (previously Kier Business Services Ltd) as administrator and the Pension Fund Committee to act in a similar manner to a Board of Trustees

The Policy also sets out the:

- Terms of reference of the Pension Fund Committee.
- Structure of meetings.
- Membership; and
- Principles of governance.

The latest policy document can be viewed at:

<https://www.teespen.org.uk/about-us/pensions-panel/>

Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all its stakeholders, including the members, the employers and other external organisations. For example, we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all our active and pensioner members; this allows us to inform participants of any scheme changes which may be made.

A Communications Policy Statement has been drawn up to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement can be seen at:

<https://www.teespen.org.uk/about-us/communications-policy/>

Teesside Pension Fund

Statement of the Actuary for the year ended 31 March 2022

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated June 2021. In summary, the key funding principles are as follows:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, and scheduled, resolution and admitted bodies, while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk exposure policies of the Administering Authority and employers alike.
- Seek returns on investments within reasonable risk parameters.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,088 million, were sufficient to meet 115% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £527 million.

Individual employers' contribution requirements for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report and FSS.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund's assets. The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Pre-retirement discount rate (ongoing funding target)	4.45%
Pre-retirement discount rate (orphan body funding target)	4.45%
Post-retirement discount rate (ongoing funding target)	4.45%
Post-retirement discount rate (orphan body funding target)	3.00%
Pre- and Post-retirement discount rate (low risk funding target)	1.30%
Salary increase assumption	3.10%
Benefit increase assumption (CPI)	2.10%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the S2N tables with improvements in line with the CMI 2018 model, with smoothing (Sk) of 7.5, initial adjustment of 0% and a long-term rate of 1.5% p.a. for males and females. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.8 years	23.4 years
Future Pensioners*	23.1 years	25.2 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be marginally better than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation as at 31 March 2022 may show a different picture when the finalised position is disclosed in next year’s annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation.



Steven Law FFA

19 May 2022

For and on behalf of Hymans Robertson LLP

Schedule of Contribution Rates

Net rate of contribution payable by each employing organisation for the period 1 April 2021 to 31 March 2022 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

	Employers Rates %	Employees £000	Employers £000
Ad_Astra Academy Trust	17.5%	204	613
All Saints Academy	17.5%	34	97
Ash Trees Academy	17.5%	81	133
Badger Hill Academy	17.5%	11	31
Beamish Museum Ltd	23.3%	126	520
Beyond Housing	23.4%	442	1,426
Billingham Town Council	17.7%	7	19
Bulloughs Cleaning Services	17.9%	3	11
Business and Enterprise North East	24.5%	3	100
Caldicotes Primary Academy	17.5%	8	24
Care and Custody Health Ltd	15.9%	6	15
Care Quality Commission	17.9%	964	2,239
Carmel Education Trust	17.5%	362	1,097
Catcote Academy	17.5%	109	325
Caterlink - RCBC	21.5%	7	25
Caterlink - St_Oswalds	22.3%	3	13
Churchill's (Collaborative Trust)	17.9%	0	1
Churchill's Outwood Grange	17.9%	4	13
Cleveland College of Art and Design	15.2%	130	309
Cleveland Fire Brigade	14.8%	241	541
Community Integrated Care	23.0%	1	4
Compass Badger / Freebrough / Whitecliffe	18.9%	5	13
Compass Contract Services Ltd	17.9%	10	31
Compass Group - Manor	18.9%	18	68
Conyers School	17.5%	154	460
Creative Management Services Ltd	29.4%	2	10
Diocese of Middlesbrough Trustee	22.3%	9	20
Dyke House Academy	17.5%	82	238
Easterside Academy	17.5%	28	86
Eden Academy Trust Limited	17.5%	68	199
Egglecliffe Primary School	17.5%	8	25
Emmanuel School Foundation	17.5%	75	224
Endeavour Academies Trust	17.5%	124	362
Enquire Learning Trust (Central)	17.5%	83	164
Extol Academy Trust (Eldon Grove)	17.5%	51	150
Fabrick Housing Group	18.7%	925	2,465
Falcon Education Academies Trust	17.5%	31	94
Frederick Natrass Primary Academy	17.5%	21	62
Freebrough Academy	17.5%	46	134
Future Regeneration of Grangetown	30.9%	3	12

Galileo Multi Academy Trust	17.5%	217	635
Grangefield Academy	17.5%	50	148
Green Lane Primary Academy	17.5%	32	99
Guisborough Town Council	17.7%	6	19
Hardwick Green Primary Academy	17.5%	24	71
Harrow Gate Primary Academy	17.5%	32	95
Hartlepool Borough Council	12.4%	3,345	6,444
Hartlepool Care Services Ltd	27.9%	1	7
Hartlepool College of Further Education	15.2%	172	438
Hartlepool Sixth Form College	15.2%	19	50
Holy Trinity Primary School	17.5%	15	44
Horizons Specialist Academy Trust	17.5%	234	688
Hutchinson's Catering	17.9%	4	13
Ian Ramsey Church of England Academy	17.5%	51	150
Ingleby Barwick Town Council	17.7%	2	6
Ingleby Manor Free School & Sixth Form	17.5%	38	110
Ironstone Academy Trust - Ormesby Primary School	17.5%	15	49
Ironstone Academy Trust - Zetland Primary School	17.5%	18	57
James Cook Learning Trust	17.5%	62	185
Kader Academy	17.5%	20	61
KGB Cleaning Ltd - LJS	14.8%	1	3
KTS Academy	17.5%	82	253
Legacy Learning Trust	17.5%	156	462
Liberata UK Ltd	0.0%	60	0
Lingfield Academy Trust	17.5%	47	145
Lockwood Parish Council	17.7%	1	2
Loftus Town Council	17.7%	2	8
Manor Community Academy	17.5%	58	169
Mbro and Stockton Mind	17.9%	3	9
Mellors Catering Ltd - Dormanstown	21.2%	1	5
Mellors Catering Services Ltd (Central)	17.9%	22	10
Mellors Catering Services Ltd (Normanby)	17.9%	3	8
Mellors Ironstone	17.9%	3	9
Mellors NPCAT	17.9%	6	19
Mellors Riverside	18.9%	0	1
Mellors Skelton	18.9%	0	0
Middlesbrough College	15.2%	421	991
Middlesbrough Council	11.5%	3,978	8,651
Mitie Cleveland Fire	17.9%	1	2
NEAT Academy Trust	17.5%	53	150
Nicholas Postgate Catholic Academy Trust	17.5%	537	1,578
NMRN Trading	15.8%	3	8
Normanby Primary School	17.5%	31	95
North East Learning Trust	17.5%	47	140
North Ormesby Primary Academy	17.5%	14	42
North Shore Academy	17.5%	45	130

Northern Lights Learning Trust	17.5%	17	22
Norton Primary Academy	17.5%	25	74
Nunthorpe Academy	17.5%	84	245
Nunthorpe Primary Academy	17.5%	14	43
Oak Tree Academy	17.5%	26	79
One Awards Limited	22.2%	34	126
One IT Services and Solutions Ltd	15.6%	51	100
One IT Services Ltd - Porter	15.9%	2	5
ONsite Building Trust	19.3%	3	10
Our Children 1 Academy Trust	17.5%	40	124
Outwood Academy Acklam	17.5%	74	223
Outwood Academy Bishopsgarth	17.5%	47	142
Outwood Academy Bydales	17.5%	29	85
Outwood Academy Normanby	17.5%	42	122
Outwood Academy Ormesby	17.5%	52	153
Outwood Academy Redcar	17.5%	32	96
Outwood Riverside	17.5%	9	51
Overfields Primary School	17.5%	14	42
Pentland Academy	17.5%	29	89
Police & Crime Commissioner for Cleveland	14.5%	88	161
Prince Regent Street Trust	17.5%	53	160
Redcar & Eston CIC	17.9%	13	27
Redcar and Cleveland Borough Council	10.2%	3,352	5,282
River Tees Multi Academy Trust	17.5%	63	174
Riverdale Primary School	17.5%	8	26
RM Education	18.9%	6	17
Rose Wood Academy	17.5%	27	59
Rye Hills Academy	17.5%	9	23
Saltburn Marske and New Mask Parish Council	17.7%	4	11
Skelton and Brotton Parish Council	17.7%	3	10
Skelton Primary School	17.5%	32	94
SLM Charitable Trust MBC	11.5%	54	93
SLM Community Leisure Charitable Trust	19.2%	34	102
SLM Fitness & Health Ltd (MBC)	11.5%	5	9
SLM Fitness and Health Ltd	19.2%	2	7
SLM Food & Beverage Ltd (MBC)	11.5%	2	4
SLM Food and Beverage Ltd	19.2%	1	4
South Tees Development Corporation	20.2%	151	340
St_Aidans Primary School	17.5%	17	54
St_Francis of Assisi	17.5%	21	63
St_Mark's Academy	17.5%	37	109
St_Mary's CE Primary School	17.5%	7	22
Stagecoach Transit	43.5%	1	349
Steel River Academy Trust	17.5%	80	242
Stockton Borough Council	13.1%	5,296	10,890
Stockton Riverside College	15.2%	415	1,010

Sunnyside Academy	17.5%	43	131
Tascor Services Ltd - PFI	18.0%	1	3
Tees Active Limited	18.2%	94	256
Tees Valley Collaborative Trust	17.5%	117	337
Tees Valley Combined Authority	15.3%	400	808
Tees Valley Community Asset Preservation Trust	17.0%	2	5
Tees Valley Education Trust	17.5%	117	337
Teesside Learning Trust	17.5%	3	5
Teesside University	15.8%	2,172	4,952
Teesville Primary School	10.2%	16	59
The Chief Constable for Cleveland	14.5%	1,669	3,648
Thornaby C of E Primary	17.5%	20	63
Thornaby Town Council	17.7%	0	3
Unity City Academy	17.5%	58	170
Veritau Tees Valley	10.2%	8	13
Viewley Hill Academy Trust	17.5%	19	57
Vision Academy Learning Trust	17.5%	294	875
Whitecliffe Academy	17.5%	8	24
Wynyard Church of England Primary School	17.5%	23	69
XPS Administration Ltd	15.3%	24	55
Yarm Primary School	17.5%	19	57
Total Contributions 2021/22		29,934	67,732

7. Annual Governance Statement



Annual Governance Statement 2021/22

Summary

This Annual Governance Statement (AGS) sets out the Council's position at the end of the 2021/22 financial year in relation to compliance with the Local Code of Corporate Governance (LCCG) which sets out the standards to be achieved across the corporate governance framework.

The AGS comprises the following sections:

- an overview of the Council's governance arrangements;
- progress made on governance during 2021/22;
- Internal Audit activity and governance concerns arising from that in 2021/22
- Member involvement in corporate governance
- issues that have arisen during 2021/22;
- a position statement against the Code of Corporate Governance; and
- conclusion, summary of the key issues to be addressed and resulting governance priorities for 2022/23.

It sets out:

- how well the Council has delivered previous commitments to strengthen its corporate governance arrangements, providing an update on actions committed to in the 2020/21 Annual Governance Statement
- governance concerns arising from Internal Audit activity during 2021/22
- specific events during 2021/22 that relate to corporate governance arrangements and their impact on compliance with the LCCG.

In summary, across the different sections of the document, the following key issues and themes have been set out:

- During 2021/22 there were a series of statements of concern made in relation to Mayoral conduct that required investigation which identified weaknesses and incidents of non-compliance with procurement, financial governance and project management.
- Member to member and member to officer relationships have deteriorated further in the 2021/22 financial year resulting in a more dysfunctional culture than that evident in 2020/21, detail of which was referenced in the 2020/21 AGS. During 2022/23 positive action has begun to address this and has resulted in the commissioning of external support, development of a Corporate Governance Improvement Plan, comprising equal Member / Officer membership to oversee delivery and in recognition of the need to further develop and strengthen officer / Member working relationships
- Actions set out for delivery in 2022/23 may need to be adjusted to align with the model for Corporate Governance Improvement agreed by Council in October 2022. As well as progress, any required changes will be reported to the Corporate Governance Improvement Board (CGIB) and to full Council

- Significant concerns in two internal audits resulted in seven Priority One recommendations in relation to CCTV and the governance of the BOHO X project. As a result of this and other issues reported in the body of the AGS, the overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it provides **Limited Assurance**.
- Although outside the scope of the reporting period, inflation and the cost of living have had a significant impact on the Council's budget position and on the financial resilience of the town.

In order to ensure there is a continued high profile focus on this corporate governance activity, content of this statement has been cross referenced with the Corporate Governance Improvement Plan and progress against the detailed activities set out within this AGS will be reported by Exception to the Corporate Governance Improvement Board (CGIB) established in November 2022, comprised of Group Leaders, the Mayor, Senior Officers, CIPFA representatives and the Local Government Association (Chair). this replaces the previously established officer led Corporate Governance Board, reflected in the 2021/22 governance structure diagram.

Introduction

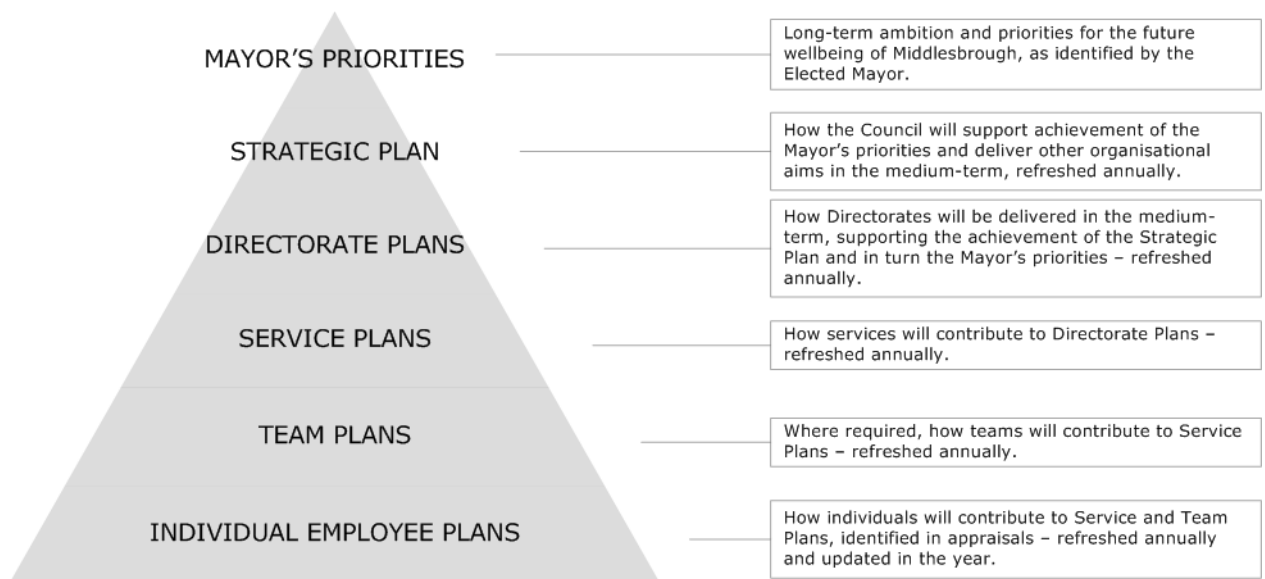
1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework and is reviewed annually. This framework comprises the culture, values, systems and processes of the Council, which together ensure that it does the right things, at the right time and in the right way. As set out in the 2020/21 Statement of Accounts, the Council is currently experiencing challenges in meeting these standards though is working to address areas of weakness or non-compliance.
2. This statement will set out that Member to Member and Member to officer relationships have deteriorated further in the 2021/22 financial year, resulting in a more dysfunctional culture than that evident in 2020/21. It will also set out joint plans to address this as both members and officers have the responsibility for this in terms of the result of further dysfunctionality and in terms of repairing this situation. The seriousness of this situation has been recognised by the Council's external auditors, Ernst & Young (EY), who have indicated that if insufficient progress is made in tackling the weaknesses that exist in our Value for Money arrangements by February 2023, EY will consider exercising its powers by making formal statutory recommendations. In December 2022 EY will submit a report to the Corporate Affairs and Audit Committee to state it does not intend to exercise further reporting powers at this time.
3. Please note, as a result of delays in the ratification of the recently agreed 2020/21 Annual Governance Statement, this draft statement contains repetition between that document. Progress made during the coming months will be reflected in the finalised version of this statement.
4. The Code of Corporate Governance aligns with the latest CIPFA / Solace guidance, which sets out the following principles of good governance:
 - behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
 - ensuring openness and comprehensive stakeholder engagement;
 - defining outcomes in terms of sustainable economic, social and environmental benefits;
 - determining the interventions necessary to optimise the achievement of the intended outcomes;
 - developing the entity's capacity, including the capability of its leadership and the individuals within it;
 - managing risks and performance through robust internal control and strong public financial management; and
 - implementing good practices in transparency, reporting, and audit to deliver effective accountability.

5. The purpose of the Annual Governance Statement (AGS) is to assess the extent to which the Council complies with its Code of Corporate Governance, how it has monitored and improved the effectiveness of its governance arrangements in the past year and identify actions to strengthen these arrangements going forward.

6. The AGS forms part of the Statement of Accounts that the Council must produce on an annual basis and as such must be approved by the Mayor of Middlesbrough and the Council's Chief Executive and Section 151 Officer.
7. The development of the AGS was coordinated by the Strategy, Information and Governance service, in conjunction with statutory officers and other officers with responsibility for corporate governance processes, and with input from Internal Audit.

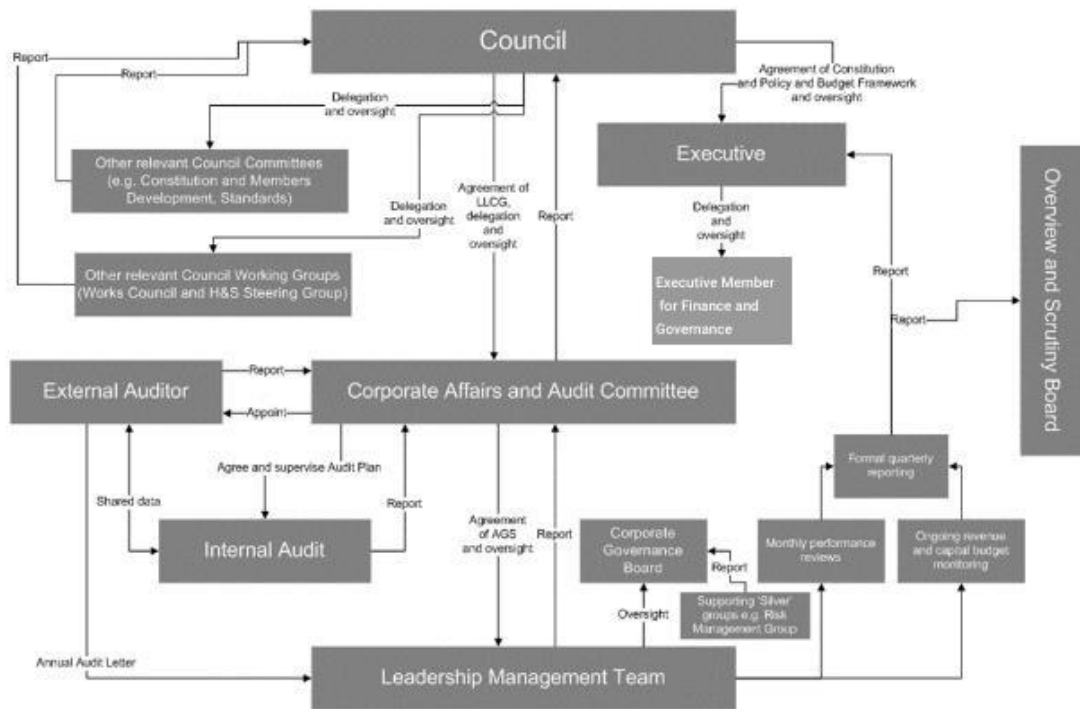
The Council's governance arrangements during 2021/22

8. The Committee structure in place within the Council during 2021/22 is set out Appendix 2. The terms of reference of all committees are published on the Council's [committee papers](#) site and [open data](#) site.
9. Committees take decisions in line with the Council's approved strategies and policies. The Strategic Plan is the Council's overarching business plan for the medium-term and is typically refreshed on an annual basis. The plan was last refreshed in February 2021 to reflect the impact of COVID-19 and UK's exit from the European Union on Middlesbrough and on the Council's strategic priorities. However in April 2022 the underpinning work programme was refreshed by Council to cover the period up until 2024.
10. There is a 'golden thread' which runs from this document and throughout of the Council's governance and policy frameworks.



11. In making decisions, the Mayor and councillors are supported by a senior management structure that is designed to support effective compliance with the Council's legal and governance responsibilities, led by the three statutory officers (Head of Paid Service, Section 151 Officer and Monitoring Officer). Some decisions are delegated to senior officers. All delegations are required to be published on the Council's [website](#).
12. The Council's Constitution defines the respective roles of councillors and officers, outlines expected standards and behaviours and provides a framework to enable effective working relationships across the Council. The Constitution also provides direction on the various roles in place to ensure effective corporate governance within the Council.
13. Member and officer groups work together with the Council's auditors within the following structure which was in place during 2021/22 to ensure compliance with the LCGG and its supporting policies

and procedures (as set out in Appendix 3) and promote continuous improvement in governance, maximising its potential to deliver its priorities and value for money.



Progress made during 2021/22

Implementing actions from the 2020/21 AGS

14. This section would normally set out progress made against the previous year's Annual Governance Statement which had been considered 12 months before this statement. Delays in the signing off of the 2020/21 AGS mean that document has only recently been approved and it therefore contains little movement between the table set out in the 2020/21 AGS and this document, at this stage. Actions due to be delivered in October in relation to delivery of officer training in relation to understanding governance and delivery of advice and challenge have been completed.
15. One action in relation to delivery of a refreshed training approach to ensure senior officer training encompasses the full suite of corporate governance training has been reprofiled to February 2023 in order to allow the shape of that to be influenced by the Training and Development working group which commenced work in November 2022 as part of the Corporate Governance Improvement journey.
16. As set out in the summary of this statement, in order to ensure there is a continued high profile focus on this corporate governance activity, content of this statement has been cross referenced with the Corporate Governance Improvement Plan and progress against the detailed activities set out in both the 2020/21 AGS and this AGS will be reported by Exception to the Corporate Governance Improvement Board (CGIB) established in November 2022, comprised of Group Leaders, the Mayor, Senior Officers, CIPFA representatives and the Local Government Association (Chair). this replaces the previously established officer led Corporate Governance Board, reflected in the 2021/22 governance structure diagram. 12 actions we completed, one is ongoing and six will be delivered during 2022/23. Appendix 2 sets out the detail of those actions.

Internal Audit during 2021/22

17. During 2021/22 Internal Audit undertook and finalised 20 audits during the year which are set out at Appendix 1.

Corporate Affairs and Audit Committee during 2021/22

18. Corporate Affairs and Audit Committee reviews the Council's arrangements for corporate governance and makes recommendations as appropriate to ensure good governance and continuous improvement.
19. The committee met seven times during 2021/22, and considered the following corporate governance related items:
 - Annual Report of the Senior Information Risk Owner (SIRO)
 - Update on the Ofsted improvement journey
 - Annual Audit letter 2019/20
 - Annual assurance report on HR – Health and Wellbeing
 - Annual Report of the Head of Internal Audit
 - Counter Fraud reports
 - 2020-21 EY planning report
 - Draft Statement of accounts 2020/21
 - Lessons learnt – Best Value Inspection of Liverpool City Council
 - Annual Assurance report on Procurement
 - Subject Access Requests – Compliance Update
 - Complaints and lessons learned report
 - Annual Review of the Local Code of Corporate Governance
 - Health and Safety Annual Assurance Report
 - Community Governance review
 - Corporate Debt Write Off policy
 - Capital Strategy
 - Appointment of External Auditors
 - Lessons Learned – Governance on Leasing our Commercial Assets.

Overview and Scrutiny during 2021/22

20. Overview and Scrutiny Board (OSB), supported by a range of topic-specific panels, scrutinises Executive decisions and the performance of Council services. During 2021/22, scrutiny considered the following items that are relevant to corporate governance:
 - quarterly reports on delivery of the Strategic Plan and compliance with key corporate governance disciplines;
 - quarterly reports on budget outturns for the quarter;
 - the Executive Forward Work Programme;
 - Terms of Reference for the Middlesbrough Council COVID-19 Recovery group and the subsequent plan;
 - COVID-19 Update: Health, Adult Social Care and Public Health;
 - Middlesbrough Council COVID-19 – Response and Test, Track and Trace;
 - Children's Services update on finance and performance
 - COVID-19 updates; and
 - governance updates from the Chief Executive.

21. There were no scrutiny call-ins during 2021/22 of any Executive decision.

Other governance related events during 2021/22

COVID-19

22. During the period covered by this statement, the pandemic continued to impact on the Council and the public, affecting the way services were delivered, although during 2021/22 the delivery of the vaccine programme enabled government to remove all domestic legal restrictions in February

2022. Throughout the year staff continued to work flexibly to ensure services continued to be delivered.

23. During 2021/22 the Council administered and issued over £9m in business grants on behalf of the Government in response to the pandemic, and approximately £2.5m of support to households, providing assistance to hundreds of businesses and over 30,000 residents in some form.

Governance allegations

24. In May 2021, several former Members of the Council's Executive made statements of concern on alleged Mayoral conduct in relation to activity conducted during 2020/21 and concerns that there had been failings of governance across a number of areas. Pre-formal fact finding has been conducted by Internal Audit as a precursor to any matters being conducted under the standards regime. This was commissioned by the Monitoring Officer, following consultation with the 151 Officer and the Head of Paid Service. This has identified weaknesses and incidents of non-compliance, by officers and Members, in relation to governance controls for procurement, financial governance and project management. Actions to address these weaknesses are reflected in the action plan for this statement. This work has been shared with the External Auditors and used to inform their Value for Money assessment.

Resignation of Executive Members

25. Following the submission of the governance allegations referenced above, five Executive members resigned from the Executive on the 11 May 2021, leaving the Council with an Elected Mayor and one Executive Member. The Localism Act 2011 sets out that the Executive minimum composition is a Mayor plus two other members and therefore the Executive was not lawfully constituted and unable to make decisions.
26. The Monitoring Officer immediately set out to senior managers the contingency measure contained in the Council's constitution that could be put in place to enable decision making, however it was not necessary to implement this as the Mayor appointed two new members to the Executive within the following two days.

Organisational culture and Member officer relationships

27. As set out in the 2020/21 AGS, Member to Member and Member to officer relationships have deteriorated further in the 2021/22 financial year resulting in a more dysfunctional culture than that evident in 2020/21. It is the responsibility of both officers and Members to address this proactively to ensure that the culture of the organisation improves. The Chartered Institute of Public Finance and Accountancy (CIPFA) were commissioned to undertake an independent diagnostic of the issues to assist the Council in a way forward. This was reported to Council in the autumn.
28. In addition, positive discussions have been held between senior officers and senior members as part of the finalisation of the 2020/21 AGS which will be built on going forward. External support has also been provided from the Local Government Association (LGA). An extraordinary meeting of the Council was also called to discuss the findings of the External Auditor.

Although out of time scope, significant progress has been made to date in 2022/23 to secure external support, develop an improvement plan and establish an officer / member governance structure to oversee delivery, assess impact to drive forward improvement at a pace. The first meeting of the Corporate Governance Improvement Board and associated Task and Finish working groups to agree the detailed improvement plan commenced in November 2022. Progress against delivery will be measured at 30 / 60 / 90 days. Task and finish groups have been organised around the following themes:

- Roles and Responsibilities
- Training and Development
- Constitution
- Culture and Communities.

29. Some of the key outcomes this work aims to achieve are:

- a refreshed constitution that is easier to follow and reflects the procedures, behaviours and standards that should be adhered to
- improved Officer and Member and Member to Member relationships
- an approach to Member and Officer training that better equips them to deliver their roles in full while adhering to the Council's values and in Members case, the Nolan Principles of Public Life
- A better understanding of, and respect for, the differing roles and responsibilities undertaken by various officers and Members across the organisation.

BOHO X Internal Audit

30. An internal audit of the project management of the BOHO X project was undertaken during 2020/21. The findings of this audit identified five Priority One internal audit actions. The Section 151 Officer and the Chief Executive provided an overview of the detailed findings of this audit to the Corporate Affairs and Audit Committee in April 2022 in order to provide assurance to the Committee that officers recognised the seriousness of the findings and give assurance to committee that these issues were being tackled by also setting out the governance actions to address them. These actions were embedded within the 2020/21 Annual Governance Statement improvement plan. All five priority actions have now been delivered.

CCTV

31. Although completed as part of the 2020/21 internal audit programme of work, an audit of CCTV governance arrangements was not finalised until July 2021. As reported in the 2020/21 AGS, that audit found that there was no central register available that identifies the location of all CCTV camera equipment across the Council. Therefore, the Council was unable to confirm that all CCTV schemes are compliant with the Surveillance Camera Code of Practice and the relevant legislation.

Post-OFSTED improvement journey

32. In December 2019 OFSTED completed an inspection of the Council's compliance with the Inspection of Local Authority Children's Services (ILACS) framework. The outcome of that inspection was a judgement across four categories:

Judgement	Grade
The impact of leaders on social work practice with children and families	Inadequate
The experiences and progress of children who need help and protection	Inadequate
The experiences and progress of children in care and care leavers	Inadequate
Overall effectiveness	Inadequate

33. In 2020/21 a three-year plan was developed to deliver sustained improvement and change in Children's Services, monitored by a monthly Multi-Agency Strategic Improvement Board with a highly-experienced independent chair. The board receives progress reports on delivery of the improvement plan, has oversight of key performance metrics to track impact and considers themed reports on key practice issues. These three elements give the board a comprehensive overview of the delivery and impact of improvement work. The strategic board is supported by an operational board and weekly meetings with senior managers within Children's Services.

34. The Council continued to deliver against this plan during 2021/22 and continues to engage with Ofsted and the Department of Education on its improvement journey. A monitoring visit conducted in March 2022 identified that the Council has:

- 'delivered a sustained programme of improvements to ensure there is a systemic focus on children'
- 'Senior managers know their service well and have an improved management grip'
- 'there has been a substantial improvement in permanence planning for children in case'.

A further visit was held in July 2022 which found that:

- the corporate leadership team has continued to develop and improve services at the front door

- there are stronger and wider partnerships in the Multi-Agency Children's Hub (MACH)
- there are challenges around workforce stability which are impacting on caseloads and quality of practice.

Inflation and cost of living

35. Although the larger impacts are out of the time scope for this statement, the ongoing and cost of living inflationary pressures facing the town and its residents have had and will continue to have a significant impact on the Council's budget position. This is because not only are the costs of delivering services continuing to rise but demand for services has and will continue to increase as more and more households are affected by this issue. As Middlesbrough is one of the most deprived local authorities in England, it is likely to also be one of the most adversely affected areas. An effective Council-wide response to this will be a key challenge for Middlesbrough in 2022/23.

Middlesbrough Development Company activity during 2021/22

36. Middlesbrough Development Company (MDC) is a local authority trading wholly-owned company limited by shares, with the Council as the sole shareholder.
37. During 2021/22 MDC Board met 11 times, with key decisions taken by the company published at www.middlesbroughdevelopmentcompany.co.uk.
38. Internal Audit are currently undertaking an assessment of the company using Local Partnerships and CIPFA best practice guidance on local authority trading companies. While the Council is awaiting feedback and the outcome of their work, the Council is considering the future role of the company and its contribution it makes to delivering council strategic objectives notwithstanding any possible recommendations and changes to strengthen governance arrangements.

Position statement against the Council's Code of Corporate Governance

Self-assessment

39. The Council has completed a position statement against its Code of Corporate Governance for the 2021/22 year, informed by:
- the information identified in the 2020/21 Annual Governance Statement which has been significantly delayed in its finalisation and therefore updated throughout 2021/22
 - the professional opinion of statutory and other officers with responsibility for the development and maintenance of the Council's internal control environment;
 - reports from Overview and Scrutiny, and Corporate Affairs and Audit Committee's examinations of governance processes; and
 - findings from Internal Audit's review programme and other work completed by Internal Audit, and engagement with the Council's external auditor.
40. The detailed position statement is at Appendix 3 and is reflective of governance risk levels as outlined in the Council's strategic and directorate risk registers.
41. In summary, while the Council can demonstrate that governance processes are in place for the most part, the control weaknesses that were identified in the recently published 2020/21 Annual Governance Statement continue to exist. The Council commissioned CIPFA during 2022 to complete an independent review of its governance arrangements which has informed a Corporate Governance Improvement Plan, along with establishment of an appropriate governance structure which includes a multi-disciplinary Member and officer board that aligns with the Council's Project Management Framework. Progress will be reported to Council on a regular basis to demonstrate delivery of actions and also to assess the impact of those actions.
42. This will provide assurance to members on action being taken and ensure that if control weaknesses continue to exist even after action, further actions can be identified to address those. This will also include engagement with Internal and External Audit to provide assurance around delivery.

Internal Audit opinion

43. The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it provides Limited Assurance. No reliance was placed on the work of other assurance providers in reaching this opinion.
44. In giving this opinion, Internal Audit drew attention to the following significant control weaknesses which are considered relevant to the preparation of the 2021/22 Annual Governance Statement.
45. An audit on the project management of Boho X found significant weaknesses in governance and decision making. It found that the project was not always managed in line with the Council's Constitution and the Council's project management framework. In addition, the Council's elected Mayor held undocumented meetings with external contractors without officers present, following agreement by a senior officer.
46. The audit has now been finalised and actions have been agreed with management and delivered.
47. During the year a further audit work was carried out on a number of allegations made by former Executive members. This work was fact-finding in nature and intended to provide management with information on the allegations enabling them to make a decision on the next steps to be taken.
48. Whilst Internal Audit's work on this is not yet complete, the findings have largely been agreed with officers. The work found issues related to those for the Boho X audit including governance weaknesses, a lack of challenge or advice from officers, and examples of the Mayor holding undocumented meetings with external contractors.
49. These findings lead Internal Audit to conclude that the concerns identified are not limited to one area or audit and are indicative of wider issues around relationships between councillors and officers and a lack of clear separation of their respective roles, in practice.
50. Actions agreed for the issues identified from the Boho X audit will be followed-up during 2022/23 and further updates will be brought to the Corporate Affairs and Audit Committee.
51. The overall opinion given is based on work that has been undertaken directly by Internal Audit, and on the cumulative knowledge gained through their ongoing liaison and planning with officers. In giving the opinion, Internal Audit note that the Covid-19 pandemic has continued to affect the Council over the last year, with a consequential impact on business operations and controls. The work of Internal Audit has been directed to the areas considered most at risk, or that offer the most value for the authority overall. However, not all the areas affected by the Covid-19 pandemic will have been reviewed.

External Audit opinion

52. The opinion of the Council's External Auditor will be provided to the Audit Committee alongside the final version of this document.

Conclusion

53. As was the case in the 2020/21 Annual Governance Statement, the Council continues to demonstrate that while there are governance processes in place for the most part, it is clear that control weaknesses have continued to exist and need to be addressed if the Council is to improve adherence to processes.
54. During the financial year 2021/22 Member to member and member to officer relationships deteriorated further. Both members and officers have the responsibility for this in terms of the result of further dysfunctionality and in terms of repairing this situation. This was reflected in the diagnostic work completed by CIPFA and reported to Council in October 2022. All members at that meeting voted to accept those findings in full and to work together, with officers to address them. The Chief Executive has also stated that senior officers fully accept the findings of that work.
55. The scale of the culture change required is significant and cannot be underestimated. The Council's External Auditors have made clear that they view this matter with the utmost seriousness, as do the senior officers and senior members who have contributed towards the development of this statement.

56. During 2022/23, the upmost governance priority of the organisation will therefore be ensuring that it responds positively to the issues identified within both the 2020/21 AGS and through ongoing discourse through 2021/22 and into 2022/23. The Mayor is committed to leading this change with the support of the Chief Executive and senior managers.
57. As set out in this AGS, the diagnostic work undertaken by CIPFA during the second quarter of 2022/23 provided an evidence base to inform the planned governance improvements actions required to ensure the culture of this organisation is improved. A detailed improvement plan has been developed in partnership with officers and members to maximise the likelihood of them being successfully delivered.

Signed on behalf of Middlesbrough Council

Andy Preston
Elected Mayor of Middlesbrough
05/12/2022

Tony Parkinson
Chief Executive
05/12/2022

Helen Seechurn
Director of Finance
(Section 151 Officer)
05/12/2022

Appendix 1 Internal Audits completed during 2021/22

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Use of CCTV	Limited Assurance	2	5	1
Officer and Member decision making	Reasonable Assurance	0	0	6
Schools themed audit – pupil premium	Reasonable Assurance	0	0	4
Teesside Pension Fund – investments	Substantial Assurance	0	0	1
Teesside Pension Fund – Administration	Substantial Assurance	0	1	2
Governance arrangements	Substantial Assurance	0	0	2
Main accounting system	Reasonable Assurance	0	0	3
Cyber security awareness	Substantial Assurance	0	0	1
Social Care and emergency payments	Substantial Assurance	0	0	0
Council Tax and NNDR	Substantial Assurance	0	0	0
Council Tax Support and Housing Benefits	Reasonable Assurance	0	2	0
Youth Employment Initiative	Substantial Assurance	0	0	0
Project management – Boho X	Limited Assurance	5	6	1

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Asset maintenance	Substantial Assurance	0	0	0
Teesside Pension Fund – Overpayments	Substantial Assurance	0	0	0
Schools themed audit – purchasing cards & asset management	Reasonable Assurance	0	6	9
ICT change management	Substantial Assurance	0	0	1
Home working	Substantial Assurance	0	1	2
Future High Street Fund Governance	Substantial Assurance	0	1	1
Benefits – overpayments	Substantial Assurance	0	0	0
Burial grounds	Draft report issued			
Children’s commissioning & contract management	In progress			
Middlesbrough Development Company	In progress			
	Total:	7	22	34

58. The opinions used by Internal Audit during 2021/22 are explained below:

- Substantial Assurance – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- Reasonable Assurance – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
- Limited Assurance – Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

- No Assurance – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

59. The following categories of opinion are also applied to individual recommendations agreed with management:

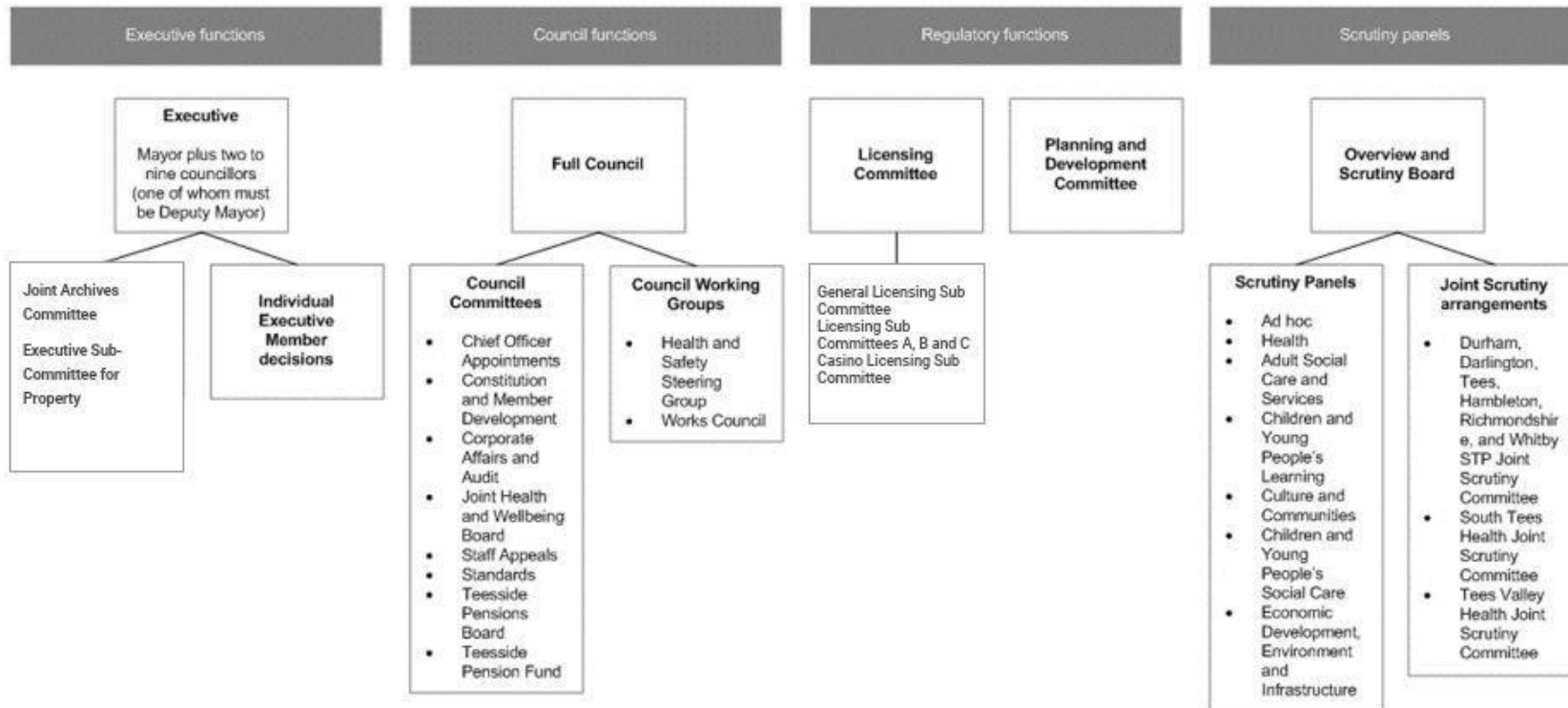
- Priority 1 (P1) – A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
- Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
- Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

Appendix 2 – 2020/21 Annual Governance Statement actions

Action	Lead Officer(s)	Status / deadline
Revise members' code of conduct and deliver training on it to all members, including ethics.	Head of Democratic Services	Complete
Raise awareness of the role of the Monitoring officer, in particular giving advice and guidance to officers on governance.	Monitoring Officer	Complete
Delivery of training to all Members on roles and responsibilities in relation to Programme and Project Management	Strategic Delivery Manager	Complete
Launch the revised Management Framework, to ensure managers understand how they are expected to act to be in line with the refreshed corporate values.	Head of Human Resources	Complete
Refresh training materials on the Council's Organisational Development system to align training with compliance with the values	Head of Human Resources	Complete
Refresher senior leadership development work programme delivered by the LGA to ensure officer and member roles continue to be understood and adhered to.	Monitoring Officer	Complete
Launch an expanded 360 project to cover a wider cohort of managers.	Head of Human Resources	Complete
Member refresher training on the code of conduct will include information on hospitality requirements and registers of interests.	Head of Democratic Services	Complete
Constitution and Member Development committee to consider amendments to the constitution to strengthen and clarify the actions that can be taken in response to councillors failing to complete mandatory training.	Head of Democratic Services	Complete
Deliver training to members on use of social media.	Head of Democratic Services	Complete
Continue to deliver the OFSTED Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.	Executive Director of Children's Services	Ongoing
Refreshed and strengthened training to officers delivering projects to ensure project and wider Council decision making governance is understood and adhered to.	Strategic Delivery Manager	Complete
Delivery of training for Senior Officers on the officer code of conduct and the provision of effective advice and challenge	Monitoring Officer	Complete
Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training.	Head of Human Resources and the Monitoring Officer	February 2023
Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout.	Head of Commissioning and Procurement	March 2023

Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers.	Head of Strategy, Information and Governance	March 2023
Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers.	Monitoring Officer	March 2023
Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Director of Legal and Governance Services	March 2023
Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year and complete the Adults and Older persons JSNA.	Director of Public Health with support from the Interim Head of Strategy, Information and Governance	March 2023

Appendix 3: Middlesbrough Council Committee Structure 2021/22



Appendix 4: Position statement against the Council's Code of Corporate Governance

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.</p> <ul style="list-style-type: none"> Behaving with integrity Demonstrating strong commitment to ethical values Respecting the rule of law 	<ul style="list-style-type: none"> Work diligently and with integrity to achieve the Elected Mayor's Priorities for Middlesbrough. Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these. Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour. Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities. Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes. 	<ul style="list-style-type: none"> Constitution and supporting documentation clearly set out expected behaviours and decision-making processes, including member and officer relationships, codes of conduct, financial procedure rules and schemes of delegation. Constitution updated during 2020 to reflect COVID impacts to ensure meetings continued to be conducted effectively and in line with best practice. Additional guidance was issued to support this. Corporate values (one of which is integrity) in place and embedded within employee recruitment and selection, induction, appraisal and development. They were refreshed during 2020/21. Comprehensive member induction process and member development programme was delivered for the first year of the current term of office (19/20). Member and officer declarations of interests registers in place, and requested to be updated annually but there is a requirement that Members notify the Monitoring Officer electronically of any changes through the Council's committee management system, Modern.gov. Training for members on the code of conduct in place with a high level of compliance, and with all members individually signed up to the code. The action to deliver refreshed training in 20/21 has been slipped to 2021/22 as a result of COVID and its impact on capacity to deliver. Comprehensive member handbook in place to provide guidance and signpost support, and members' enquiries service in place to assist with casework and data requests. Statutory officers clearly identified and appropriately supported. The Council 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action) Refresher training on ethics has been identified as prudent in light of increased standards complaints and the misconduct in public office conviction. (20/21 action) Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher impact assessment training for key officers. (20/21 action) Increased awareness of the role of the Monitoring officer, to ensure officers are aware that they can seek advice and guidance on governance matters as well as escalation to line managers or use of HR or whistleblowing processes. (20/21 action)

		<p>complies with the CIPFA statement on the role of the Chief Financial Officer (2016).</p> <ul style="list-style-type: none">• Effective Corporate Affairs and Audit Committee, internal audit and scrutiny arrangements in place, with members trained appropriately.• Policies in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed.• Member standards arrangements and employee disciplinary procedures in place and updated regularly.• Proactive approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress. The Council has engaged staff online (and offline for staff with no ICT access) during Covid using a variety of methods to support maintenance of a positive, inclusive culture.	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> Openness Engaging comprehensively with institutional stakeholders Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> Document and operate a culture of openness and transparency within the organisation. Maintain a culture of accountability, so that members and officers understand what they are accountable for and to whom they are accountable. Consult appropriately with stakeholders on the development of its budget, key plans and service development. Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant. Publish all Executive and Committee reports and decision papers, unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests. Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges. 	<ul style="list-style-type: none"> Stated commitments to transparency within the Strategic Plan and supporting strategies such as the Information Strategy and annual SIRO Report. Constitution and supporting documentation clearly set out accountabilities and delegated authorities. Consultation on Strategic Plan priorities; and annual budget consultation in place. Corporate consultation and impact assessment policy in place (refreshed during 2020/21), ensuring that stakeholders (including third party providers) are engaged appropriately and views considered in decision making. Committee diary planner published on an annual basis, approved by members and accessible via the Council's website. Executive Forward Work Programme in place, setting out planned decisions in the coming four months on the online committee system. All public Executive and Committee agendas, papers and minutes are published via the Council's website. Officer-delegated decisions are also published. Virtual meeting solutions in place for Councillor meetings while Covid-19 restrictions are in force to ensure transparency around decision-making. Key strategies and plans are clearly published on the Council's website / open data site, and regularly updated. Information on performance and expenditure sent to all households annually as part of Council Tax billing. The Council complies with Open Data requirements, publishing statutorily required and other datasets such as the Freedom of Information Act publication scheme on its open data site. The Council proactively seeks to publish information for which there is a demand. 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers.(20/21 action) Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher impact assessment training for key officers. (20/21 action) Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. (21/22 action) Work during 2021/22 has identified weaknesses in understanding across elements of the corporate governance framework. Refreshed training will ensure senior officers training encompasses the full suite of corporate governance disciplines. (20/21 action). Work was undertaken to improve compliance with Freedom of Information and Subject Access Requests during 2021/22 to improve compliance. This continues to be monitored on a monthly basis by the Council's Leadership Management Team. Completion of a review of the Constitution as part of the Council's Corporate Governance improvement journey.

		<ul style="list-style-type: none">Plans with the digital and marketing and communications strategies to advance in the current approach.	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> Defining outcomes Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> Clearly set out its contribution to delivery of the Mayor's priorities for Middlesbrough, and use this as the basis for its overall strategy, planning and other decisions. Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment. Ensure that it delivers defined outcomes on a sustainable basis within available resources. Effectively identify and manage risks to the achievement of targeted outcomes. Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services. 	<ul style="list-style-type: none"> Strategic Plan and Directorate Priorities Plans in place which outline how the Council plans to deliver the Council's priorities for Middlesbrough, Strategic Plan is part of the Council's policy framework – reports to decision makers set out how recommendations would impact on strategic objectives if approved. Consultation on Strategic Plan priorities; and annual budget consultation in place. Joint Strategic Needs Assessment and supporting assessments in place for children and young people – the children and young people's assessment was refreshed during 2017/18. Market position statements use needs assessments to inform commissioning priorities. Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and Capital Investment Strategy. Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Customer Strategy and Charter in place, identifying what customers can expect from the Council, alongside specific service eligibility criteria. 	<ul style="list-style-type: none"> Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. (21/22 action) Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year and complete the Adults and Older persons JSNA. (20/21 action) Recent guidance on the conduct of local authority owned arm's length companies has been issued that Middlesbrough Development Company should be assessed against to ensure it is operating in line with it. (21/22 action)

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> • Determining interventions • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved. • Ensure that external and internal stakeholders are engaged with when the Council is determining how services should be planned and delivered, and the outcome of consultations is considered when decisions are made. • Ensure achievement of social value through service planning and commissioning. • Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets. • Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these. • Ensure medium and long term resource planning is realistic, sustainable and inclusive. • Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP. 	<ul style="list-style-type: none"> • Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. • Corporate consultation and impact assessment policy in place, ensuring that stakeholders engaged appropriately and views considered in decision making. • Guide to social value in procurement and commissioning in place. • Strategic Procurement Strategy in place. Contract management framework now also in place. • 'How to do Business with Middlesbrough Council' guidance for providers in place. • Annual reports to Corporate Affairs and Audit committee on disposals on the grounds of social value provided where appropriate. • Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and capital Investment Strategy. • Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. 	<ul style="list-style-type: none"> • A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate, and timely taking of decisions that can be taken by officers. (20/21 action) • Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout. (20/21 action) • Recent guidance on the conduct of local authority owned arm's length companies has been issued that Middlesbrough Development Company should be assessed against to ensure it is operating in line with it. (21/22 action) • Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. (21/22 action)

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> Developing the Council's capacity Developing the capability of the Council's leadership and other individuals 	<ul style="list-style-type: none"> Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research. Work collaboratively and in partnerships where added value can be achieved. Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver. Clearly define roles, responsibilities and terms of engagement for members and employees. Maintain and regularly review its schemes of delegations that outline the types of decisions that are delegated and those that are reserved for collective decision-making. Develop the capabilities of members and senior management to achieve effective shared leadership. Ensure there are appropriate structures in place to encourage public participation. Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate. 	<ul style="list-style-type: none"> Performance Management Policy set out how corporate performance will be managed. Directorates review performance internally. Business intelligence dashboards are have been implemented to facilitate this. Range of benchmarking and other tools are used within Directorates to contextual performance and drive improvement. Wider Leadership Management Team in place to enable broader consideration of key policy issues. Key strategic partnerships in place, such as the South Tees Health and Wellbeing Board. The organisational development ambitions of the Council are embedded within the Strategic Plan which clearly outlines corporate approach to organisational development. Constitution and supporting documentation clearly set out member and officer role profiles, relationship protocol and schemes of delegation. Corporate consultation policy and online consultation portal in place. Plans with the digital and marketing and communications strategies to advance in the current approach. Processes in place for public involvement in determining scrutiny priorities, for the public to petition Council and to register questions to be considered by full Council. Clear employee appraisal and development process and member development programme in place. 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action) The Council must continue on its improvement journey to address issues raised by OFSTED in relation to its safeguarding services for children to ensure all children are safe receive consistently good care that results in sustained improvement to their lives and their families lives. (20/21 action)

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> Managing risk Managing performance Robust internal control Managing data Strong public financial management 	<ul style="list-style-type: none"> Embed a proportionate approach to risk management within all activities, ensure that progress is reviewed regularly and that risk is considered as part of decision making. Ensure effective performance management of service delivery and provide members and senior managers with timely updates on service performance and progress towards outcomes. Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved. Ensure effective, member-led scrutiny is in place that provides constructive challenge and debate on objectives and policies before, during and after decisions are taken. Ensure an effective, risk-led Internal Audit service is in place to provide assurance on the overall adequacy and effectiveness of the Council's governance arrangements. Ensure effective counter fraud and anti-corruption policies and arrangements are in place. Ensure effective internal control arrangements exist for sound financial management. Maintain an effective audit committee function. Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data. Put in place arrangements to ensure that data used to support decision-making is accurate and clear. Ensure financial management arrangements support both long term outcome delivery and day-to-day operations. 	<ul style="list-style-type: none"> Performance Management; Risk and Opportunity Management; and Programme and Project Management policies provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Risk is a standard section in reports to decision makers. Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. Wide-ranging annual scrutiny programme in place, examining policy and performance. Urgent decision process and records in place and reported to Council annually. Effective internal audit arrangement in place, utilising the Council's plans and risk registers to identify priorities. Policy in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed. Money Laundering Policy. Effective Corporate Affairs and Audit committee in place clear terms of reference and a full and trained membership. Information Strategy in place to provide systematic approach to information governance, including data protection and data quality. Robust financial management procedures in place relating to medium-term financial planning, budget setting, procurement and contract management. 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action) Action required to ensure understanding of, and compliance with, procurement processes of the organisation. (21/22 action) Assess and embed compliance with the Partnerships Governance policy. (21/22 action) Limited assurance judgement from Internal Audit which will be addressed by the Corporate Governance Improvement Plan.

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> Implementing good practice in transparency Implementing good practices in reporting Assurance and effective accountability 	<ul style="list-style-type: none"> Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity. Report regularly on performance, delivery of value for money and stewardship of resources. Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement. Ensure compliance with good governance principles extends to its partnership arrangements. Ensure that recommendations made by external audit are addressed. Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements. Welcome and positively engage with peer challenges, reviews and inspections of its services. 	<ul style="list-style-type: none"> Standard template for reports to decision makers designed to advance proposition logically and simply, and reduce duplication of information. Training for report writers ongoing, including expectations around use of plain English. Quarterly results reports to Executive and scrutiny covering performance, financial and risk updates. Annual Governance Statement complying with the standard set out in the Local Code of Corporate Governance. Governance arrangements in place for key strategic partnerships, such as the South Tees Health and Wellbeing Board, with improvement activity underway. Recommendations made by external audit are addressed as a matter of priority through the most appropriate route. Internal audit reports its plans, progress and findings regularly to the audit committee. Agreed actions from internal audit are tracked by DMTs until completion. Council proactively seeks peer challenge, publishing findings and responses and commissioning follow-ups. There are positive relationships with statutory inspectorates and regulators. 	<ul style="list-style-type: none"> Assess and embed compliance with the Partnerships Governance policy. (21/22 action) Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher impact assessment training for key officers (20/21 action) Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. (21/22 action) Provision of an independent Technical Advisor to the Corporate Affairs and Audit Committee to support challenge

Appendix 5: Corporate governance priorities for 2022/23

2020/21 AGS actions to be still delivered

Action	Lead officer	Deadline
Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training.	Head of Human Resources and the Monitoring Officer	February 2023
Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout.	Head of Commissioning and Procurement	March 2023
Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers.	Head of Strategy, Information and Governance	March 2023
Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers.	Monitoring Officer	March 2023
Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Director of Legal and Governance Services	March 2023
Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year and complete the Adults and Older persons JSNA.	Director of Public Health with support from the Interim Head of Strategy, Information and Governance	March 2023

Actions identified within this 21/22 AGS for delivery in 2022/23

Issue	Action	Lead officer	Deadline
The 2020/21 AGS identified that while there were governance processes in place for the most part, there were control weaknesses that needed to be addressed. In particular that process identified there were concerns about Member to Member and Member to Officer relationships that needed to be addressed as a matter of urgency. The Council's External Auditors stated in its 2020/21 Value for Money judgement that the Council should 'develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have	Develop a Governance Improvement plan for noting by full Council during 2022/23 that identifies actions to improve the culture of the organisation and reflect detail of that plan within the final version of this document.	Chief Executive	Complete

Issue	Action	Lead officer	Deadline
deteriorated to a point which the Council will not be able to remedy on its own.'			
The 2020/21 Audit results report of the council's External auditors identified concern in relation to accurate declarations of interest. It stated 'Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.'	The Council will undertake periodic spot checks on a risk-based basis at least three times a year of one or more Members' declarations during 2022/23 to assess whether there are ongoing compliance issues	Head of Democratic Services	March 2023
Within the 2020/21 Audit reports report External Auditors also recommended that Management should work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate	Management will work with Veritau to build the highlighting of identified wider risks into the audit reporting process. The reporting of these risks will then be built into regular Internal Audit updates to Corporate Affairs and Audit Committee	Section 151 Officer	The initial action has been completed but there is ongoing monitoring this as part of our monthly liaison meetings and Veritau will be addressing this action within their regular reports to Committee.
Within the 2020/21 audit results report it was identified that the Council's procurement processes required strengthening.	Updated e-learning training guides on procurement practice will be developed along with improved links through business partner relations with service directorates. Enhanced detail will be recorded on exemption forms following approvals. Procurement will also introduce a Best Value process to facilitate a smarter	Head of Commissioning and Procurement	March 2023

Issue	Action	Lead officer	Deadline
	procurement process for lower value procurement of goods and services		
Weaknesses in relation to the Council's recording of leasehold interests was identified by the Council's External Auditors as part of its assessment of the Council's control environment.	All leasehold interests are now recorded on the TF system with quarterly reviews matched against Delegated Approvals (DA) for any changes. A revised DA notification system is currently in development and will go live by end August 2022	Head of Commissioning and Procurement	Complete
It was identified during the development of the Partnership Governance Register that there were entities that would benefit from an appropriate governance framework.	Develop and implement a governance framework for wholly or partly owned Council companies that aligns with best practice guidance.	Interim Head of Strategy, Information and Governance	March 2023
Following completion of the first register and annual assurance report, it would be prudent to assess continued impact within the next annual review.	Assess and embed compliance with the Partnerships Governance policy.	Interim Head of Strategy, Information and Governance	September 2023
Whole Council response required to ensure that it responds effectively to the cost of living crisis impact on its budget position and its ability to meet increased demand for services	Complete a refresh of the Medium Term Financial Plan position to provide assurance to the organisation that there is good financial governance in place.	Chief Executive and Section 151 officer	February 2023
There are areas for improvement within the next refresh of the Council's Strategic Plan to ensure that it is better able to differentiate between actions the Council can deliver and actions to be delivered in partnership. Strengthened measures within the plan will also enable improved assessment of impact.	Ensure Key Performance Indicators with targets are embedded within the Council's Strategic plan when next refreshed. (21/22 action)	Interim Head of Strategy, Information and Governance Strategic Delivery Manager	September 2023

8. Glossary of Terms



Page 421

Glossary of Terms

Accounting Period

The period of time covered by the accounts; normally a period of 12 months commencing on 1 April and ending as at the balance sheet date of 31 March.

Accrual

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the balance sheet date.

Accrued Benefits

The benefits for service up to a given point in time, whether vested rights or not.

Actuarial Gains and Losses

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

Actuarial Valuation

A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Accumulated Absences Account

A requirement under IFRS is that the Council must make an accrual in its accounts at year end for any annual leave earned but not taken by employees at the end of the financial year.

Admitted Bodies

Organisations that participate in the Teesside Pension Fund under an admission agreement between the Fund, and the relevant organisation.

Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an outsourcing to the private sector.

Annual Governance Statement

The Annual Governance Statement is compiled following the review by the Council of the effectiveness of the systems of internal control and governance arrangements.

Assets Held for Sale

Assets held for sale are those where the value of the asset will be recovered by selling the asset rather than through usage. To be classed as held for sale the asset must meet the following criteria:

- be available for immediate sale in its present condition.
- Its sale must be highly probable.
- management expects the sale to take place within twelve months.

Assets Under Construction

At any time, some projects will be incomplete and will need to be classified as 'fixed assets under construction. It is usual for assets under construction to be recognised but recorded as non-operational until they are available for use, at which point they are recognised as operational assets.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor.

Balance Sheet

A statement of the balances and reserves at the Local Authority's disposal, the net current assets employed in its operation and the value of fixed assets held.

Budget

A statement reflecting the Council's spending plans for a specific period. The annual revenue budget is normally finalised and approved in February prior to the commencement of the new financial year.

Capital Charges

A charge to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or which adds to the value of an existing fixed asset.

Capital Adjustment Account

The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Capital Financing

The methods of financing capital expenditure. This includes borrowing, direct revenue financing, leasing, the use of capital receipts, capital grants and external contributions.

Capital Grant

Grant from Central Government used to finance specific schemes in the capital programme.

Capital Receipts

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e. to repay outstanding borrowing or to finance new capital expenditure. Any receipts which have not yet been utilised, are referred to as "Capital Receipts Unapplied".

Cash and Cash Equivalents

Cash equivalents are - "short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". They are shown in the Balance Sheet along with cash under the heading "Cash and Cash equivalents".

Collection Fund Account

This account records the income received by the Council in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and to the general fund.

Community Asset Transfer

A change in management and/or ownership of land or buildings from public bodies (most commonly local authorities) to communities (community and voluntary sector groups, community enterprises, social enterprises, etc.)

Component Accounting

Where assets can be broken down into different components which have a material value and substantially different economic lives, then each component should be separately valued.

Contingency

The sum of money set aside to meet unforeseen expenditure or liability.

Contingent Asset

A contingent asset arises in a situation where a potential inflow or economic benefit to the authority will only be confirmed by the occurrence or otherwise of some future event but where the value of the benefit cannot be measured reliably.

Contingent Liability

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

Creditors

Amounts owed by the Council for work done, goods received, or services provided by the end of the financial year for which payment has not yet been made.

Current Assets

An asset which will be consumed or cease to have material value within the following financial year (e.g. stocks and debtors).

Current Liabilities

These are amounts owed by the Council due for payment within the following financial year (e.g. creditors or cash overdrawn).

Current Service Costs (Pensions)

The increase in the present value of a defined benefit pension scheme's liabilities arising from an employee's service in the current financial year.

Curtailement (Pensions)

An event that reduces the expected years of future service of present employees in a defined benefit pension scheme or reduces the defined benefits for some or all of their future service.

Debtors

Income due to the Council for services carried out or grants/contributions due in the financial year for which payment has not been received by the end of that year.

Deferred Pensions

Individuals who have ceased to be active members of a pension scheme but are entitled to benefits payable at a later date.

Defined Benefit Scheme

A pension scheme which calculates benefits due from the scheme independently to the contributions payable and the return on the investments made by the scheme.

De-minimis

For capital accounting, a de-minimis value is set below which any items of expenditure are excluded from the capital accounts and instead treated as revenue expenditure. The Council's de-minimis levels are outlined in the statement of accounting policies.

Depreciation

The allocation of the cost of consuming a tangible asset over its useful life. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either change in technology or demand for the goods and services produced by the asset.

Direct Revenue Financing

The financing of capital projects from revenue resources.

Discretionary Benefits

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award, and which are awarded under the authority's discretionary powers.

Earmarked Reserves

Funding set-aside to be used for a specific purpose at some point in the future.

Expected Rate of Return on Pension Assets

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

Transactions that fall outside of the ordinary activities of the council and are not expected to reoccur.

Non-Current Assets

Assets that have a useful life and yield benefits to the Council and the services it provides for a period of more than one year.

General Fund

The main revenue account used to fund the cost of providing Council services. The main sources of income

credited to the fund are the council tax and business rates precepts and the revenue support grant (RSG) from central government.

Heritage Assets

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Impairment

The diminishing in quality, strength, amount, or value of an asset.

IFRS - International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board and specify exactly how organisations must maintain and report their accounts.

Local Authorities have had to prepare their accounts in accordance with IFRS requirements since April 2010.

Intangible Assets

An asset that is not physical in nature. Examples of this type of asset include IT software and other licences and patents and trademarks.

Investment Property

An investment property is defined as a property, which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate.

Leases

A lease is a contract between a lessor and lessee for the hire of a specific asset with the ownership of the asset being retained by the lessor. There are two main types of leases, operating and finance leases.

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee and the minimum lease payments amount to substantially all (90% or more) of the fair value of the leased asset. An operating lease is a lease other than a finance lease.

Local Management of Schools

Under the Local Management of Schools Funding arrangements, the Council is required to pass on the calculated share of each funding stream budget directly to all its schools. Individual schools have direct responsibility for managing their budgets and any surplus or deficit incurred in the financial year is carried forward to the following financial year as part of the schools balances earmarked reserve.

Materiality

A figure is classified as material if its omission or misstatement could influence decisions users take on the basis of the financial statements.

Minimum Revenue Provision (MRP)

The minimum amount Local Authorities are required to set aside each year for the repayment of outstanding long-term debt.

Movement in Reserves Statement

This statement highlights the movement in the year for the earmarked reserves held by the Council. This is split between 'usable reserves' (those held to fund future expenditure) and unusable reserves (technical accounting adjustments).

Non-Domestic Rates (also known as Business Rates)

Charges paid by occupiers of non- domestic properties for council services. The charge is calculated by multiplying the rateable value of a property by a multiplier set by Central Government.

Net Book Value

The current value of a fixed asset after taking account of depreciation.

Non-Operational Assets

Fixed assets owned by the Council but not currently being used in the delivery of services. They include surplus properties awaiting disposal, investment properties and assets under construction.

Operational Assets

Fixed assets owned by the Council and used in the delivery of Council services.

Operating Segments

The breakdown of the Council's activities into distinct service divisions/ outcome areas.

Past Service Cost

The increase in the present value of a defined pension scheme liabilities relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events

There are two types of post balance sheet events. Adjusting events are those events that provide additional evidence of conditions that existed at the balance sheet date and require adjustments to be made to the accounts. Non adjusting events are those events after the balance sheet date which provide evidence of conditions not existing at the balance sheet date. These may require disclosure in the accounts stating the nature of the event and an estimate of the financial impact.

Precept

The levy made on the council by other bodies for income collected from Council taxpayers on their behalf e.g. Fire or Police Authority.

Provisions

Funds set aside to cover liabilities which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability is currently not known.

Prudence

The **accounting** principle that requires liabilities and expenses to be recorded as soon as they occur, but revenues only when they are assured or realised.

Related Parties

Two or more parties are considered to be related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same sources; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own separate interests.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, or for, a related party irrespective of whether a charge is made.

Revaluation Reserve

The balance sheet reserve that records increases in the valuation of fixed assets that have not yet been realised through the disposal of the asset. Decreases in asset valuations are also taken to the revaluation reserve if an asset has previously had an increase in valuation.

Revenue Expenditure

The day-to-day costs incurred in providing Council services. This includes staffing, supplies & services, transport and utility costs etc.

Revenue Support Grant

The main source of Central Government grant funding for Local Authorities.

Scheduled Bodies

Local authorities or similar organisations whose staff are automatically entitled to become members of the Teesside Pension Fund.

Specific Grants

Government grants awarded to Local Authorities and earmarked for specific services, e.g. Standards Fund

Grant for Children’s Services.

Stocks (Inventories)

Goods or merchandise available for sale or distribution held at the balance sheet date. This can include the following:

- goods or other assets purchased for resale.
- consumable stores.
- raw materials and components purchased for incorporation into products for sale.
- products and services in intermediate stages of completion.
- long-term contract balances, and finished goods.

Unusable Reserves

Reserves that are held by the Council for accounting purposes. The gains or losses in these reserves are unrealised and as a result are not available for future use by the Council.

Usable Reserves

Unutilised resources set aside to allow planning for future Revenue & Capital expenditure.

Useful Life

The period over which the Council will derive benefits from the use of a fixed asset.

Work in Progress

The total value of the materials and labour costs incurred to date on unfinished projects.



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Middlesbrough Council Statement of Accounts 2022-23



Contents

Narrative Report	5
Statement of Responsibilities – Middlesbrough Council	33
Statement of Responsibilities – Teesside Pension Fund	34
Auditor’s Report – Middlesbrough Council.....	35
Auditor’s Report – Teesside Pension Fund	41
Financial Statements.....	44
Movement in Reserves Statement.....	45
Income and Expenditure Statement.....	47
Balance Sheet	48
Cash Flow Statement	49
Notes to the Accounts	50
Note 1 Accounting Policies	51
Note 2 Accounting Standards Issued but not yet adopted.....	62
Note 3 Critical Judgements in applying Accounting Policies	62
Note 4 Assumptions made about the future and other major sources of estimation uncertainty	63
Note 5 Events after the Balance Sheet Date	64
Notes Supporting the Movement in Reserves Statement	65
Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations	65
Note 7 Earmarked Reserves	67
Note 8 Expenditure and Funding Analysis.....	69
Note 9 Other Operating Income and Expenditure.....	71
Note 10 Financing and Investment Activities	72
Note 11 Taxation and Non-Specific Grant Income	72
Note 12 Grant Income	73
Note 13 Dedicated Schools Grant	75
Note 14 Officers’ Remuneration.....	76
Note 15 Members’ Allowances and Expenses.....	78
Note 16 Trading Operations.....	78
Note 17 Audit Fees	79
Note 18 Agency Services	79
Note 19 Related Parties.....	79
Note 20 Pooled Budgets	81
Notes Supporting the Balance Sheet.....	83
Note 21 Capital Expenditure and Capital Financing	83
Note 22 Capital Commitments.....	83
Note 23 Property, Plant and Equipment (PPE).....	84
Note 24 Revaluations and Impairments of Property, Plant and Equipment (PPE).....	90
Note 25 Heritage Assets	91
Note 26 Investment Properties	93
Note 27 Intangible Assets	94
Note 28 Assets Held for Sale	94
Note 29 Financial Instruments	95
Note 30 Financial Instruments: Fair Value and Risks	98
Note 31 Financial Instruments: Income and Expenditure	102

Note 32 Debtors	102
Note 33 Inventories.....	102
Note 34 Cash and Cash Equivalents	103
Note 35 Short Term Creditors.....	103
Note 36 Provisions.....	104
Note 37 Usable Reserves.....	105
Note 38 Unusable Reserves.....	105
Note 39 Pension Schemes Accounted for as Defined Benefit Scheme	109
Note 40 Pensions Schemes Accounted for as Defined Contribution Scheme	114
Note 41 Leases – Council as Lessor	115
Note 42 Leases – Council as Lessee	116
Note 43 Contingent Liabilities	117
Note 44 Contingent Assets	117
Note 45 Trust Funds	117
Notes Supporting the Cash Flow Statement.....	119
Note 46 Cash Flow Statement – Operating Activities	119
Note 47 Cash Flow Statement – Investing Activities	120
Note 48 Cash Flow Statement – Financing Activities	120
Group Accounts	121
Introduction.....	122
Group Movement in Reserves Statement.....	124
Group Comprehensive Income and Expenditure Statement.....	126
Group Balance Sheet	127
Group Cash Flow.....	128
Notes to the Group Accounts.....	129
Note G1 Accounting Policies	129
Note G2 Critical Judgements in Applying Accounting Policies	129
Note G3 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty.....	129
Note G4 Financing and Investment Income and Expenditure.....	130
Note G5 Property, Plant and Equipment	130
Note G6 Financial Instruments	130
Note G7 Debtors	131
Note G8 Cash & Cash Equivalents	132
Note G9 Creditors	132
Note G10 Long-Term Borrowing	132
Note G11 Other Long-Term Liabilities.....	132
Note 12 Usable Reserves.....	133
Note 13 Unusable Reserves.....	133
Note G14 Deferred Grant Income	133
Note G15 Share Capital & Ownership.....	134
Note G16 Audit of Accounts	134
Collection Fund Accounts and	135
Collection Fund Income and Expenditure Account	136
Notes to the Collection Fund.....	137
Note C1 Income from Council Tax.....	137

Note C2 Income from Business Rates.....	137
Note C3 Previous Years Council Tax Deficit / Surplus	138
Note C4 Council Tax and Business Rates Provisions	138
Teesside Pension Fund Accounts and Notes	139
Teesside Pension Fund Statement of Accounts	141
Introduction.....	141
Fund Accounts for the year ended 31 March 2023.....	143
Notes to Teesside Pension Fund Accounts	144
Note 1 Basis of Preparation.....	144
Note 2 Accounting standards issued but not yet been adopted.....	144
Note 3 Summary of Significant Accounting Policies	145
Note 4 Critical Judgements, Sensitivities and Accounting Estimates	148
Note 5 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty.....	149
Note 6 Contributions.....	150
Note 7 Benefits Payable	150
Note 8 Transfers in from Other Pension Funds	150
Note 9 Other Income	151
Note 10 Payments to and on account of leavers	151
Note 11 Management Expenses	151
Note 12 Investment Income.....	151
Note 13 Investment Assets.....	152
Note 14 Financial Instruments.....	158
Note 15 Actuarial Valuations	164
Note 16 Current Assets	165
Note 17 Current Liabilities	165
Note 18 Additional Voluntary Contributions (AVC's).....	166
Note 19 Related Party Transactions.....	166
Note 20 External Audit Costs	166
Note 21 Senior Employees' Remuneration.....	166
Note 22 Events after the Balance Sheet Date	167
The Compliance Statement.....	168
Statement of the Actuary for the year ended 31 March 2023	170
Annual Governance Statement	176
Annual Governance Statement 2022-23.....	177
Glossary of Terms.....	225
Glossary of Terms	226

The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2023 and a summary of its income and expenditure during the 2022-23 financial year. The accounts are, in parts, technical and complex as they have been prepared to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards. The accounts are available on the Council's website: www.middlesbrough.gov.uk under [Open Data](#); [Annual Report and Statement of Accounts](#).

Narrative Report



Narrative Report

Review of the Year

Middlesbrough Council is a large and diverse public sector organisation, located in the Northeast of England. We are proud of our past and excited for the future. Middlesbrough is nestled away in a region that is the country's best kept secret; rivers, beaches, forests, and moors are all on our doorstep.

We are the natural centre or 'Middle' of the Tees Valley region, an area home to around 677,000 people, and our town centre is being transformed with modern urban living, leisure, and business facilities. The oldest part of town, close to the waterfront, is being brought back to life as we approach Middlesbrough's 200th birthday. The leisure and cultural possibilities in and around Middlesbrough are endless; from our beautiful parks to the town's arts and heritage venues, there is much to be proud of.

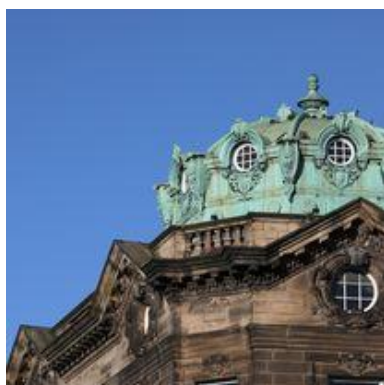
Our location gives us the best of all worlds; days out in stunning countryside, surfing at the coast, or hiking in the North Yorkshire Moors. On a weekend our independent bars and restaurants are lively and welcoming, and we are home to proud institutions including Middlesbrough Football Club and Teesside University.

Middlesbrough has seen an increase in population of around 4% from just over 138,000 in 2011 to approximately 144,000 in 2021 as reported in the previous census and a slight increase in employment figures. Middlesbrough has its challenges and was ranked as the fifth most deprived local authority area in England, and that it has become more deprived since 2015.

These are very challenging times for residents of Middlesbrough and the Council in terms of deprivation, recovery from the global pandemic, a national cost of living crisis driven by high inflation and resulting in increased demand from the most vulnerable in our community which are presenting significant budget pressures for the Council. In addition, the Council was also issued with a Best Value Notice in January 2023 and a letter was published on the Department for Levelling Up, Housing and Communities (DLUHC) website in relation to concerns about the Council's culture and effectiveness of its governance arrangements.

The Council is committed to improving its culture and governance and is fully engaged with the Chartered Institute of Public Finance and Accountancy (CIPFA) to progress this work as well as a commitment to improving financial performance and rebuilding its reserves to provide a more stable financial future for the Borough.

There has been significant economic instability in the 2022-23 financial year with a weaker economy, high interest rates and widespread unemployment. Inflation, as measured by the Consumer Price Index, peaked at 11.1% during the year and this had significant implications for the Council's budgets and the finances of our residents and local businesses. The government responded to high inflation with several packages of support for residents and businesses which the Council distributed along with local discretionary support.



Prolonged economic instability creates significant pressures on public sector finances, and it is important that the Council holds sufficient levels of general fund reserves to ensure that it remains financially resilient to cope with unforeseen challenges. This is particularly difficult for Middlesbrough given the need to use reserves recently to support overspends particularly in Children's Services. However, the Council is committed to delivering improved efficiency and transformation in the way that it meets the needs of service users to control its expenditure within the available income sources and is working to replenish its reserves in the medium term.

The Council has and continues to review its Medium-Term Financial Plan (MTFP) to respond to the changing financial environment and address the effect of high inflation and increased demand combined with a reserves strategy that pursues a more stable financial position and plan.

The Council continues to review and challenge the services it provides, how they are delivered and at what cost, reporting the outcomes achieved and working to secure better value for money for the town and its

residents. The council will continue to respond appropriately to residents, visitors, and business needs.

Middlesbrough Council delivers hundreds of services that residents, business and visitors to the town rely on and our workforce do a brilliant job, they are passionate about the area and committed to providing the best service possible within available resources.

This Narrative Report aims to provide both guidance and context to the accounts of Middlesbrough Council, presenting a summary of the Council's financial position, financial performance and non-financial activities for the year, its prospects for future years and briefly explaining the key accounting statements. A separate Summary of Accounts document is also available this financial year to ensure that the information in the Statement of Accounts is as accessible as possible, and this is available via the Council's website (<https://www.middlesbrough.gov.uk/open-data-and-foi/council-information-and-data/annual-report-and-statement-of-accounts>).

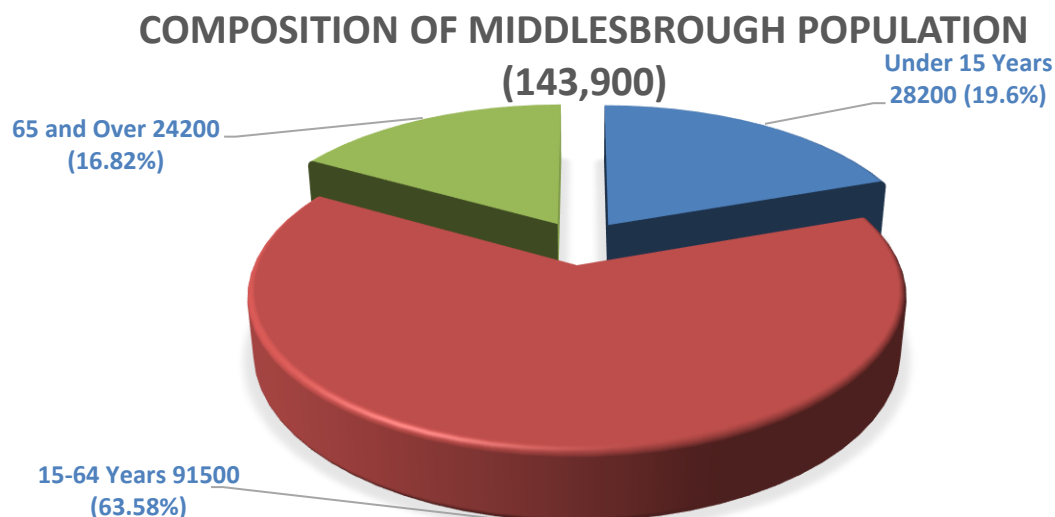
The Narrative Report and the Statement of Accounts will aim to give the appropriate context as to how the Council has performed both operationally and financially and the events that have impacted this performance.

Background to the Council

Middlesbrough Council is an evolving town, and the Council came into existence following the abolition of Cleveland County Council in 1996. It is a small unitary local authority providing a range of services to the people of Middlesbrough.

The Council works with local residents, businesses, public sector partners and the voluntary and community sector to improve local social, economic, and environmental wellbeing for all and to secure the long-term sustainability of the town. It is one of the largest employers in the Tees Valley area, providing work for more than 3,000 people.

Population and Related Economic Statistics



The composition of the local population drives the focus of the services provided by the Council most notably through increasing demand for Children's and Adult Social Care. In recent years, there has been a greater focus on economic growth, particularly in relation to the town centre, and housing.

Economic data from Nomis Official Labour Market Statistics (Latest data 2022) shows that pay levels in Middlesbrough are lower than the middle range for the Northeast and nationally.

	Middlesbrough	Northeast	Great Britain
Gross Weekly Pay (Median) Full-Time workers	£567.30	£575.20	£642.00
Unemployment rate (16-64) as a proportion of economically active	5.9%	4.6%	3.6%

The Council's various strategies are set around meeting the needs of its residents driven by the demographic profile of the town.

Political Structure in 2022-23

The local government elections of May 2019 created real change in the town as it was the first time since its creation in 1996 that the Labour Party has not held control at the Council. The financial year 2022-23 was the fourth under the leadership of the independent Mayor, Andy Preston, who developed the Strategic Plan and ambitions for the Town, supported by Executive Members.

The Executive is the Council's principal decision-making body, considering significant issues in connection with, for example, community safety, leisure, education, social services, highways, and the environment as well as making recommendations to Council on the annual revenue budget and investment strategy. The Council had an independent led administration during 2022-23 with an independent Councillor as Chair of the Overview and Scrutiny Board, which scrutinises the work of the Executive.

Meetings of the Executive took place every four weeks chaired by the mayor with each member of the Executive having designated responsibilities (known as portfolios).

Middlesbrough Council consists of 20 wards with between one and three Councillors representing each ward. All councillors serve a maximum four-year term. The political make-up of the Council on 31 March 2023 was:

Category	Number
Mayor - Andy Preston (Independent)	1
Middlesbrough Independent Councillor's Association	10
Middlesbrough Independent Group	9
Labour	20
Conservative	3
Independent	3
Vacant	1
Total	47

Following the May 2023 local elections, the political structure changed and resulted in a Labour majority going forwards however, the Statement of Accounts 2022-23 provides a detailed overview of the Council's position under the previous administration to 31 March 2023.

The financial year 2022-23 has presented a number of significant financial challenges for the Council, its residents, and businesses within the Middlesbrough area. Providing statutory demand-led services combined with exceptionally high inflation and increasing needs of the most vulnerable in our community has placed significant pressure on budgets. Despite this, the Council aimed to deliver its objectives set out in the Strategic Plan and this Narrative Report will provide some context in relation to what we have achieved.

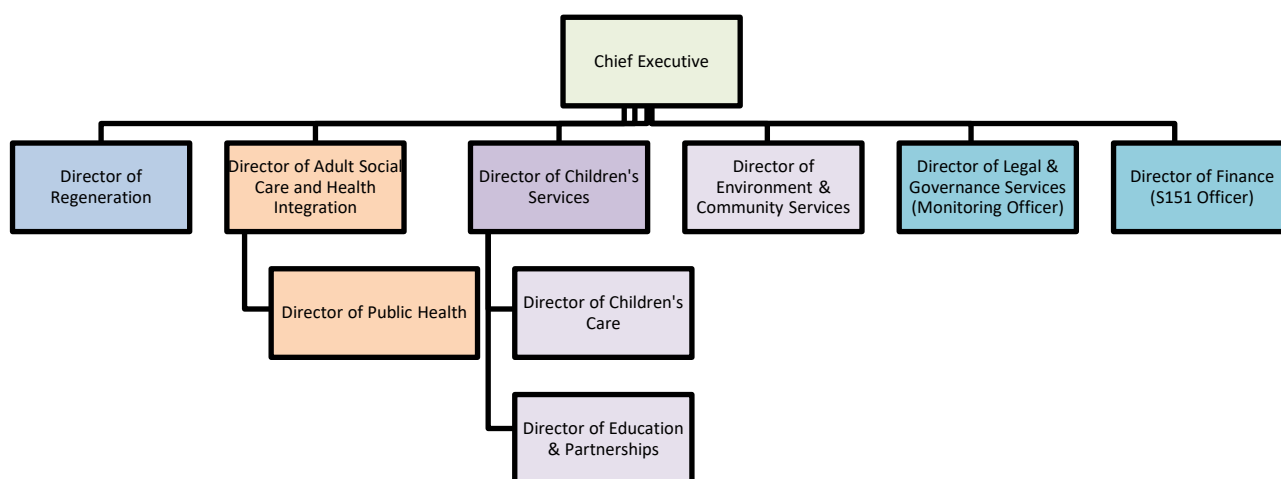
The Strategic Plan was not updated in February 2022, but the plan approved in February 2021 remained in place for 2022-23. At a meeting of the Executive on 5 April 2022, the refreshed Strategic Plan for the 2022-24 period and Directorate Priorities for 2022-23 was approved, which combined provided a cohesive approach to the delivery of key priority activities across Council services.

Management Structure



Leadership Team

The senior management structure of the Council on 31 March 2023 is set out below:



The Mayor's Ambitions for Middlesbrough and the Strategic Plan

Andy Preston was the mayor and first citizen of Middlesbrough for the period 2019-2023. The Mayor's Strategic Plan was in its fourth year during 2022-23.

Mayor's Priorities (2020-2023)

The Strategic Plan was based around the following key themes, with specific Mayoral priorities within each theme:



- People – Working with communities and other public services to improve the lives of our residents.
- Place – Securing improvements in Middlesbrough's housing, infrastructure, and attractiveness, improving the town's reputation, creating opportunities for local people, and improving our finances.
- Business – Promoting investment in Middlesbrough's economy and making sure we work as effectively as possible to support our ambitions for People and Place.

This Plan was the Council's overarching business framework, outlining the Council's contribution to the Mayor's priorities. There is a 'golden thread', which runs from this document through the rest of the Council's governance and policy frameworks. Progress against the plan is reviewed on a quarterly basis and reported to Executive and Overview and Scrutiny Board.

Investment Strategy for Middlesbrough

An update of the Medium-Term Financial Plan (MTFP) was presented to Council on 23 February 2022; the report included the £207.673m Capital Investment Strategy for Middlesbrough for the period 2021-22 to 2024-25, supported by £102.747m of the Council's own resources. The investment will support a number of major regeneration schemes plus supporting the town centre and growing affordable housing in the immediate vicinity.

- Affordable Housing and Housing Growth schemes.
- Town Centre development projects.
- School capital projects
- Disabled Facilities Grant scheme
- ICT related projects and.
- Environment & Community Services projects



Customer Strategy Programme

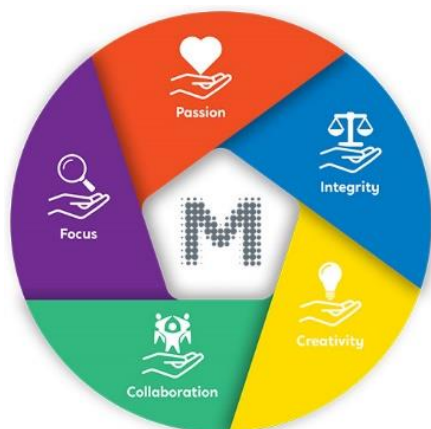
The vision of the Council's Customer Programme is to transform delivery of services to the community & customers, providing everyone with excellent service and access to self-serve through an extensive range of channels and platforms.

The Council's ambition is for a customer-owned culture, with self-serve facilities, improved payment facilities and transactional online services. This will be underpinned by a simple, service led and driven website and intranet, with straight-to-the-point e-forms, all underpinned by a knowledge-based customer relationship management system, reducing the need for face-to-face contact. Customers will experience an overall improvement and flexibility in their choice of how to access Council services and the drive for 'digital by default' will increase access to Council services as a result.

Our Values

Our Values are a critical element of the Council's strategy to create a brighter future for Middlesbrough. Our Values are at the heart of everything we do and form the foundation for how we operate, behave, and make decisions.

Our Values:



- Passionate - We believe in Middlesbrough and are proud about the Town.
- Integrity – We are open and transparent and treat everyone with respect.
- Creativity – We have the courage to try new ideas and new ways of working.
- Collaboration – We work with others to make Middlesbrough better; and
- Focus – We are clear about what we will deliver to meet the needs of the Town.

Performance

The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance, together with associated action and a quarterly reporting process gives them the necessary information to discharge these responsibilities.

As part of continuous improvement in performance and risk management, the Council's Leadership Management Team (LMT) implemented monthly reviews of corporate performance utilising a Directorate Performance dashboard, drawing data from a range of performance systems. The output from these sessions was reflected through the quarterly updates to the Executive and Overview and Scrutiny Board.

The Council used a narrative update approach to measure performance during each quarter of the financial year and any issues. The Council's performance overall at year end, maintained the short-term trend for 2022-23 performance, with progress towards expected performance standards achieved two out of five performance disciplines.

Significant work took place to address the projected 2022-23 overspend position and to provide for a balanced budget in 2023-24; the outcome of which had some impact on agreed Executive actions and the Strategic Plan initiatives and impacting adversely upon performance outcomes for the last two quarters of 2022-23.

At 2022-23 year-end, 40 of 91 live actions (44%) were on target to be delivered by the agreed timescales, worsened from the reported position at quarter three of 62% and below the 90% standard of achievement of actions.



The Strategic Plan for 2021-24, set out nine strategic priorities for this period, which were supported, by an associated set of outcome measures and a work plan, which will see delivery of sustained improvement, up to and beyond 2024.

The main priorities that were monitored by the Executive during 2022-23 are summarised below. These were set in February 2022 and were part of the Strategic Plan for 2021-24.

Children and young people

The Council has completed two out of the six initiatives with the remaining three on track to be delivered to the approved deadlines, but one identified as unachievable. The Council have and continue to try to show Middlesbrough's children that they matter and work to make our town safe and welcoming and to improve outcomes for all children and young people.

We successfully completed the creation and delivery of a strategy to increase digital inclusion for children, young people and adults across Middlesbrough and improved Ofsted by consolidating and building on the recent Children's Services progress.

Work continues towards every child playing a musical instrument by extending to one other school or year group and gathering evidence that Middlesbrough Council listens to children's voices.

Exploring potential for the establishment of an Eton Sixth Form in Middlesbrough is still on track to be delivered in the agreed timescales as is the expansion of the current model for youth provision in areas that suffer high levels of deprivation.

Vulnerability

The Council has further developed the Dementia Friendly Middlesbrough programme and achieved the 'Age Friendly Communities' status.

Delivery and extension of the 50 Futures programme to provide meaningful work experience opportunities for Middlesbrough residents who find it most difficult to gain employment is continuing to be developed.

Crime and anti-social behaviour (ASB)

Four out of the seven initiatives to tackle crime and anti-social behaviour were completed and one still on track but two were deemed unachievable.

We supported the police and held them to account for each neighbourhood and increased CCTV across the whole town.

The Council took more environmental action and implemented punishment for fly tipping and increased enforcement against problem properties / streets / gardens in disrepair.

We continue and are on track to encourage more residents to report crime and Anti-Social Behaviour (ASB).

Climate change

The Council is keen to ensure our town acts to tackle climate change, promoting sustainable lifestyles. We are on track to develop local wildlife / nature reserve in North Ormesby and one other site, we are demonstrating increased recycling rates and establishing six community growing areas.

We are also on track to double the size of our urban meadows / wildflower planting sites and providing 15 new EV charging points across town.

We have successfully organised big community tree planting.

Covid-19 recovery

The Council is committed to help local communities, businesses, and the Council's operations to recover from the Covid-19 pandemic, taking opportunities to make improvements where possible.

Significant progress has been made in the delivery of the Council's Covid-19 Recovery Plan, enabling individuals, families, communities, and businesses across Middlesbrough to make progress post pandemic.

Physical environment

The Council works closely with local communities to protect our green spaces and make sure that our roads, streets, and open spaces are well designed, clean, and safe. To that end, we have established the requirement for potential Compulsory Purchase Order (CPO) of derelict buildings and problem sites.



We have made improvements to our Highways and 12 new back alleys have been reclaimed, improved, and showcased.

We continue to improve play parks and spaces in line with our Towns Fund Recommendation and have implemented neighbourhood and town wide front garden competitions.

Thorntree and Pallister Park have been vastly improved in line with Towns Fund Recommendation.

Creation of Tree Maintenance Squad and the creation of a subsidised Pest Control service was not achieved.

Town centre

We have made a commitment to transform our town centre, improving accessibility, revitalising unused assets, developing iconic new spaces, and building more town centre homes. We have considered the potential for BOHO digital expansion and started the housing project at St Hilda's around Old Town Hall.

Through our marketing and communication strategies, we are on track to protect and celebrate our heritage and we are on track to complete planned works on Captain Cook pub and Old Town Hall.

We have commenced construction on the south side of the dock, and we have an action plan agreed and work commenced for the following:

- House of Fraser building
- Centre Northeast
- The Crown Pub building
- Gurney House

Culture

We are also investing in our existing cultural assets, creating new spaces and events, and improving access to culture for all.

We have completed the improvements to Teesaurus Park, re-establishing its purpose as a visitor attraction and recreational facility.

The Council continues to aim for all children to get an experience of live theatre and increase tickets sales at town hall performances.

However, we did not achieve the creation of three new annual events in 2022-23 or increase attendance at existing Council events like Orange Pip and we couldn't increase visitor numbers to museums and attractions.

Quality of service

The Council places communities at the heart of what we do, and we continue to endeavour to deliver improved value for money and enhance the reputation of Middlesbrough. To do this, we have several initiatives and three out of the eleven are completed, with four on track for delivery but the remaining four are unachievable.

We have successfully introduced a marketing campaign and associated support to significantly grow Middlesbrough Lottery.

The Council has introduced Neighbourhood Action Weeks, driven by volunteers in the local community and we have successfully promoted Middlesbrough on the national stage.

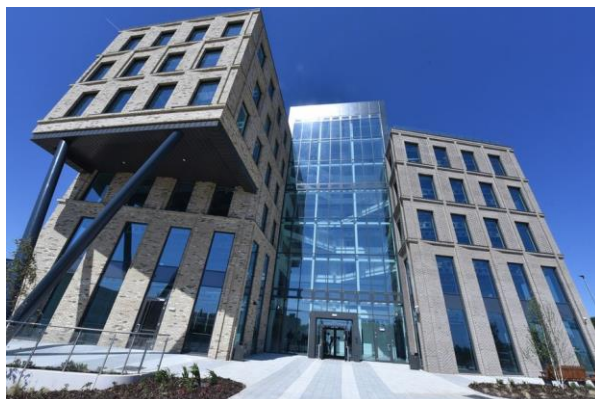
We have several initiatives on track including:

- Working with the voluntary sector to create and promote volunteering opportunities and increase in the number of volunteers.
- Commencement of work on the new Southlands Centre.
- Commencement of work on Nunthorpe community centre.
- Improvement of user experience of the council website, increasing online transactions.

Directorate Achievements

Regeneration

- Major construction progress at Middlesbrough new 70,000 square foot Boho office space, which achieved practical completion in May 2023 with a new tenant agreeing a long-term lease for the whole of the building.
- Successful in a £4.8m bid to the Department for Levelling Up, Housing and Communities for major transport infrastructure improvements.
- Completion of the refurbishment of, and relocation to Fountain Court, as Middlesbrough Council's headquarters.
- Providing funding of £2m of Towns Fund grant which enabled the construction of Centre Square 6, with Axa relocating as the anchor tenant.
- Utilising £1m of Towns Fund grant for major improvements to Parks and Play areas across Middlesbrough.
- Provision of £1m of Towns Fund grant to Middlesbrough College to assist in the relocation of their TTE provision to Middlehaven.
- Continuing transformation of the Captain Cook Shopping precinct into a quality leisure destination, with Level X now open to visitors.
- Delivering an array of outdoor cultural and entertainment events, including Eid Al Fitr, Aud Ak Adha, Diwali, Middlesbrough, and Orange Pip Market, with audience numbers exceeding 150,000 and contributing over £3m to the local economy.
- "Education Award-Organisation" winner at the Tees Valley BME Achievements Awards.



Public Health

- Secured £5.25m from the National Institute of Health and Care Research to establish a Health Determinants Research Collaboration to enhance the Council's use and creation of evidence to improve services and strategic decisions.
- Developed and implemented Eat Well Schools Award across South Tees from September 2022.
- Successfully implemented MUST service in all elderly care homes across Middlesbrough to address malnutrition. Since April 2022; 294 care home staff have been trained around nutrition and hydration awareness and MUST screening and 158 kitchen staff have been trained as part of the Eat Well, Cook Well course.
- 51 organisations delivered Holiday Activity and Food (HAF) programmes across South Tees during the Easter Holidays and Activities provision.
- Sexual health service successfully mobilised to deal with Mpox across Teesside.
- Re-established walk-in clinics in January 2023 which offer contraception, STI testing and opportunistic cervical screening.
- Completed the Health Needs Assessments to support the development of Family Hubs and commissioned insight work on parental experience in the first 1,001 days that will help to inform local service development and delivery.
- Developed a partnership with Oxford University that will support us to co-develop a local training offer around the importance of brain science in early years.
- Age Friendly Training has been rolled out to 185 staff from over 50 Organisations including Health and Social Care front line Staff, VCS Organisations, Police and Cleveland Fire Service.
- Sensory Drop-in Clinic has had 152 visits in, 41 referrals to Adult Social Care, 32 sensory equipment demonstrations, 8 referrals to lifestyle services and 80 participants involved in cooking demos and chair exercise.
- The Alzheimer's Society has announced Dementia Friendly South Tees as the best performing Dementia Friendly Community in England and Wales, by supporting the most businesses and organisations (38 new Businesses and working with over 60 Businesses in Middlesbrough).
- The HeadStart service continues to provide emotional well-being support to educational establishments across South Tees with 65 primary, 13 secondary, six post 16 and two special settings currently receiving services.
- The HeadStarters educational pathway upskilled 2385 children and young people to become emotional well-being champions and peer mentors.
- Suicide postvention support commissioned to provide timely and appropriate support to individuals or communities bereaved or affected by suicide.
- The Stop Smoking Service supported 179 individuals to quit smoking through the NHS staff offer which has been so successful funding has been extended for a further 6 months. In addition, the service is supporting NHS targeted Lung Health check programme ensuring a direct referral route to support access for identified high risk individuals.
- Successfully launched the Waiting Well programme across South Tees. This programme supports individuals in preparation for surgery to facilitate a range of interventions to promote the best possible outcomes for surgery success and recovery.
- Developed a Work Well offer to create positive progression routes for all staff within Public Health as well as opening doors to enter a career in Public Health through placements and work experience.
- Established quarterly Middlesbrough Diverse Communities events bringing together local ethnically diverse groups for health information and awareness, including creating focus groups for health checks research and raising awareness of the project through Radio Ramadan
- The Criminal Justice Test on Arrest team has seen a dramatic increase in new clients attending follow on appointments and seeking treatment for substance misuse in their local authorities.
- The Criminal Justice team have been supporting prison release service users with opening their first ever bank account.



Children's Services

- Staff have worked incredibly hard and tangible improvements have been identified by Ofsted, across all areas of Children's Social Care and Early Help, following the Inspecting Local Authority Children's Services (ILACS) visit.
- Since January 2023, we have significantly improved the offer to our in-house foster carers, in terms of payments, support and training. This has encouraged more applications and assessments of potential carers in Middlesbrough, meaning children can remain more local with our own foster carers, within a model that offers best value for Children's Social Care.
- We have welcomed 14 newly qualified social workers from our Social Work Academy into the wider teams. In recognising the benefit of 'grow your own' in the climate of a national shortage of social workers, we are training and developing a sustainable and stable permanent workforce for Middlesbrough.



Adult Social Care

- The Staying Put Agency won the Foundations National Healthy Homes Awards for 'Home Improvement Agency' and 'Handyperson Service' of the year in 2023. The agency was also shortlisted in the "Health and Social Care" category of the Local Government Chronicle's awards for 2023.
- The third phase of Selective Landlord Licensing in Middlesbrough was implemented by our Selective Landlord Licensing team as part of our work to improve housing standards in the town.
- A restructure was undertaken of our Accessing Change Together (ACT) service to improve our service offer to individuals who need support related to domestic abuse, homelessness, or substance use.
- A temporary Recruitment and Retention supplement was implemented to address the particular challenge of recruiting and retaining qualified Social Workers.



- Further expansion of the Rekindle Project, promoting digital inclusion; independence and the reduction of social isolation, was undertaken. This included, for example, Digital Walks (in the old St Hilda's area) that brought together residents; businesses (including AV Dawson n) and local photographers.
- We restructured our Assistive Technology and Connect team to deliver a more effective Hospital to Home service and increase the range of digital equipment that we use to support individuals in their own homes.
- Significant work has been undertaken in preparation for the commencement of Care Quality Commission inspections of Local Authority delivery of Care Act 2015 (Part 1) duties. This has included the establishment of a small service improvement unit and the undertaking of a mini "peer review". Preparatory work continues.
- Over the course of the year enforcement action by Trading Standards Officers has resulted in the seizure of more than 4,000 illegal vapes; 23,000 illicit cigarettes and 3kg of hand rolling tobacco. Joint enforcement work with HMRC has also resulted in the seizure of more than 116,000 illicit cigarettes and 4.5 kg of hand rolling tobacco.

Environment & Community Services

- Implementation of a Live Streaming service at the crematorium
- Re-settlement and support to 63 adults and children fleeing the conflict in Ukraine.
- Creation of community gardens at North Ormesby, Easterside, Acklam, Grove Hill and Nunthorpe as part of the Towns Fund Ward Initiatives Programme
- Completion of a scheme to carry out significant improvements to the town's footways network.

Legal & Governance Services

- Roll out of Microsoft 365 across the authority.

- Delivering Customer Programme to provide communities and customers access to self-serve through various channels and platforms.
- Introduction of the Vivup Benefits platform to enable employees to spread the cost of home and electronic items through salary deductions in addition to town centre discounts.
- Successful prosecution of several fly tippers through the court process.

Finance

- 2022-23 was a challenging year for investments, nevertheless the Pension Fund managed to exceed its benchmark and its assets increased in value by 1.5% over the year, remaining above £5b for a second consecutive year. The Fund's actuary produced the latest three-yearly valuation report, which showed that the Pension Fund remained well funded, with an overall funding level of 116% (up from 115% three years ago). Overall scheme membership at the end of the year was at an all-time high at around 80,000, roughly evenly split between employees, pensioners, and deferred members (former employees who have not drawn their pension yet).
- The Grants Team within Commissioning supported community and voluntary sector organisations through the award of 112 community grants totalling £0.820m. In addition, a further 19 Covid-19 related grants were processed totalling £0.093m supporting initiatives such as Covid-19 Champions within communities and the winter crisis grant which looked to bridge the gap between what organisations had budgeted for based on previous years to what they actually paid.
- Revenues and Benefits have again been awarded the Customer Services Excellence Accreditation in recognition of demonstration of year-on-year improvement in delivering elite customer service.
- The introduction of a 3rd party debt collection solution is progressing well within Housing Benefit Overpayment. This is a brand-new approach to support maximising the amount of income received, with the solution designed in such a way that it can support other services areas with collection, and the pilot is showing some really positive results.
- A new approach to responding to telephony demand has now been introduced into the Adult Social Care Finance Team. The introduction of Cisco Finesse provides the service with the opportunity to monitor demands into the team, remove single points of failure and provide a better customer service for residents contacting the service.
- A telephony solution has been introduced into the Accounts Receivable Team, enabling automation of the way we make contact with businesses and customers when pursuing debt.
- After a significant delay around national technical accounting issues and the governance qualification on value for money, the audit of the 2020-21 accounts has now been finalised.
- A Supplier Incentive Programme in partnership with Oxygen Finance, was introduced from May 2022. This is a scheme where companies who provide goods and services to the Council, get paid early if they provide a rebate on the cost to the Council.
- The Business Development Officer post within Finance & Investment has now been recruited to, giving greater capacity for financial reporting and enhanced use of our finance system going forward.
- Development of the Council's invoice capture software has made improvements in the management of supplier invoices. This, together with additional communications to suppliers and internal services, emphasising the importance of the Procure to Pay (P2P) process has seen some benefits. Work is continuing but good progress has been made during 2022-23.



Governance

The Council's governance arrangements that underpin the Council's processes and financial systems are set out in the Annual Governance Statement that follows the financial statements and notes to the accounts. (See Section 7).

Future Challenges/Uncertainties

Governance Arrangements



The draft audit results report for 2020-21 reported that there are significant weaknesses in governance arrangements and there was evidence, which led them to conclude that the culture and governance arrangements at the Council have not been operating effectively, and that this is undermining the effectiveness of the Council's strategic and operational performance.

During the year ended 31 March 2022, Ernst Young identified multiple instances where the Council took decisions without following the Authority's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members.

This presents an increased risk that the Council may take decisions, which do not deliver economy, efficiency, and effectiveness in the Council's use of its resources that must be addressed in the coming months.

The Council is continuing to work on developing a comprehensive improvement plan to address the cultural and governance issues, which exist within the Council. All elected members and officers are working together to address these serious matters and Ernst Young have recommended that this should include the involvement of external specialists via an Independent Improvement Advisory Board (IIAB). Based on this recommendation, the Council is working with Chartered Institute of Public Finance and Accountancy (CIPFA) to make the recommended improvements.

Work is underway to review the Council's Constitution and in particular the improvement and promotion of the Council's Financial Procedure Rules and best practice in terms of control and governance of the Council's affairs. Steps are being implemented to transform the culture and robustness of all Council policies and procedures to ensure appropriate compliance.

Additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution are being delivered. The Council must also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood, and expected by all parties and that there is compliance as part of the wider improvement plan.

Children's Services

The transformation of Children's Services continues to follow the Ofsted Improvement Plan to improve services and outcomes in order to embed good practice within the service.

Amongst the objectives for improvement, the Council committed funding to the following areas:

- Specialist agency teams in Referrals & Assessments to improve the "front door model" and to examine placements in order to reduce high-cost placements.
- Workforce remodelling - experienced social worker recruitment and retention/agency worker reduction strategy.
- Transformation associated with increasing internal residential provision and improvements in practice to reduce future numbers of children looked after.

The Council is continuing to minimise the use of agency staff where possible, but the Ofsted Improvement Plan acknowledged there was a need to use agency staff. The use of agency staff is likely to continue in 2023-24, principally to cover vacant posts due to recruitment issues and to support the continued transformation within Children's Services, however this will be minimised as far as possible.

The Council is using additional recruitment and retention packages and market supplements to support the reduction of use of agency staff in future years. Monthly reports on agency costs will be provided to senior

managers to provide information to enable them to monitor and control costs relating to this.

The Executive approved a Financial Recovery Plan for 2022-23, which included Member led focus meetings on the challenges facing Children's Services with an objective to mitigate demand and workforce challenges, concurrently assisting both the financial position and improvement journey.

Cost of Living Crisis



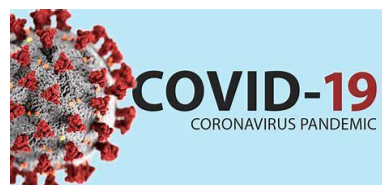
The cost-of-living crisis is a significant issue for the UK and Middlesbrough residents alike. This refers to the fall in disposable income and is caused predominantly by high inflationary increases to fuel, food, and energy costs beyond the increase in wages and benefits.

We were and are still facing a challenging financial and economic environment with inflation as measured by CPI at the financial year-end 2022-23 running at 10.1%, and it is forecast to remain high throughout 2023-24 and potentially into 2024-25.

The cost-of-living crisis, including inflationary rises means that the Council will need to continually review service provision, having regard to the Middlesbrough residents' needs. The situation not only affects how the Council ensures we get value for money from scarce public funds but also needs to provide customer focussed support for residents who are struggling to manage their finances. As ever, it is important that we manage our Medium-Term Financial Plan appropriately and monitor our financial performance, to carefully plan and respond to the ever-changing external environment.

Covid-19

During 2022-23, there were no restrictions in place in relation to the pandemic however, there still remained some challenges and uncertainties for local authorities, particularly in relation to increased demand for services and subsequent consequences of the pandemic of high inflationary increases.



Provision was made in the 2022-23 approved budget for the ongoing effects upon income in a number of the areas and an earmarked Car Parking Pressures Reserve was set up for the potential ongoing effects of Covid-19 on car parking income in future years.

No further general Government funding for local authorities was provided for 2022-23 for the further continuing effects for Covid-19. The effects of Covid-19 are therefore no longer shown separately in the Council's financial reports as they are incorporated within Directorate performance totals and will be reviewed as part of ongoing monitoring and updating of the MTFP.

The Local Government Finance Settlement

Government funding for local government as a whole has fallen substantially since 2010. Since changes were made to the Local Government Finance System in 2013-14, Middlesbrough Council had suffered a significant reduction in general Government funding, with a reduction of £37.7m (46%) from £81.2m received in 2013-14 to £43.5m in relation to the Revenue Support Grant in 2022-23.

Whilst there was additional funding included in the financial settlement, a large proportion of the funding announced was for one year only (2022-23), and therefore does not assist with tackling recurring funding pressures. A large proportion of the additional funding available to local government (over 85 per cent) was expected to come from increases in council tax made by local authorities.

Local authority funding requirements were assessed as part of the outcomes of the Comprehensive Spending Review in October 2021, which formed part of the budget setting process for 2022-23. The assumptions within the Comprehensive Spending Review in relation to the rate of the Consumer Prices Index (CPI) was expected to be no higher than 4% in 2022. Inflation has been significantly higher than that and increased by over 10% in the 2022-23 financial year. It was the highest level it has been since 1981 in October 2022 at over 11%.

As this significant increase in inflation has not been reflected in the financial settlement, the impact to the

Council is considerable and is compounded as the Council's payments for goods and services have increased along with the demand for those services as residents and business also struggle during this period of high inflation and following the aftereffects of the pandemic.

Uncertainty for future funding and economic issues remain one of the most significant risks to the Council.

Financial Review 2022-23

Revenue Budget

In preparing the 2022-23 revenue budget and Medium-Term Financial Plan, the following principles, consistent with budget strategies in previous years and statements made by Executive were adopted:

- To maximise the efficient, effective, and economic use of resources, in conjunction with partners where appropriate
- To minimise the effect of Council Tax increases on residents whilst maintaining service provision
- To make service directors fully accountable for their own budgets and spending
- To maintain appropriate medium term budget planning and monitoring processes
- Provision has been made for contractual inflation increases only.
- To support budgetary investment in economic growth to drive increase in income through Council Tax and Business Rates



In setting the revenue budget for 2022-23, a 2.99% increase in Council Tax was approved. This comprised 0% increase in general Council Tax, and an additional precept of 2.99% for Adult Social Care (which included 1% relating to 2022-23, and 1.99% of unused remaining allowable allocation from 2021-22), which has been continued by the Government to contribute towards the shortfall of funding for adult social care.

The revenue budget for 2022-23 was set at £118.329m, funded as set out below:

	£m
Revenue Support Grant	(12.598)
Business Rates Top Up Payment	(27.299)
Local Share of Business Rates	(15.468)
Council Tax	(63.783)
Collection Fund Balance	0.819
Total Net Revenue Budget in 2022-23	(118.329)

Budget Outturn 2022-23

The Budget Outturn position was reported to Executive on 20 June 2023 and summarised the Council's financial outturn in respect of the revenue budget and capital programme. It also covered the impact of high inflation and increased demand for services on the Council's financial position.

Revenue

The Council's total net revenue outturn was £121.084m against an approved budget of £118.329m, an overspend of £2.755m (2.3%).

This is an improvement of £0.656m from the forecast outturn at quarter three and reflects the successful implementation of elements of the Financial Recovery Plan approved by Executive on 18 October 2022. In addition, it incorporates the implementation of the Flexible Use of Capital Receipts Strategy for 2022-23 approved by Full Council on 7 September 2022.

The table below summarises the initial revenue position by Directorate.

Directorate	Revised Full Year Net Budget £'000	Outturn Including Use of Flexible Capital Receipts £'000	Over / (Under) spend £'000
Regeneration and Culture	(720)	(2,206)	(1,486)
Environment and Community Services	20,855	20,967	112
Public Health	(2,453)	(3,434)	(981)
Adult Social Care	46,370	46,448	78
Education and Partnerships	5,054	5,590	536
Children's Care	45,409	54,832	9,423
Legal and Governance Services	10,534	10,545	11
Finance	3,716	3,999	283
Central Budgets	(10,436)	(15,657)	(5,221)
Revenue Outturn	118,329	121,084	2,755

The overspend at year-end has been funded from a contribution of £3.312m from the Social Care Transformation Reserve. As any future transformation expenditure will be funded by the development of a further Flexible Use of Capital Receipts Strategy, the Social Care Transformation Reserve has been closed and the balance of £2.797m transferred to the new Financial Resilience Reserve.

In recognition of the wider financial risks that are faced by the Council, the new corporate Financial Resilience Reserve (FRR) was established. The purpose of the reserve will be for meeting unforeseen financial pressures that cannot ultimately be managed within directorate budgets and to meet exceptional one-off costs of delivering the Council's improvement work to satisfy DLUHC and the External Auditor's requirements.

The Flexible Use of Capital Receipts Strategy was part of the Financial Recovery Plan 2022-23 to fund transformation costs across the Council and it was projected that approximately £2.7m of capital receipts would be received in 2022-23, however at year-end only £0.755m of capital receipts were received and for which transformation expenditure qualified under the Government regulations. The above table includes the use of £0.755m to fund transformation of Children's Services as follows:

Project	Investment 2022-23 £'000
Workforce Development - set up costs for the creation of a Social Worker Academy to reduce the requirements for agency staff	451
Children's Services Ofsted Improvement Plan - Additional posts to improve and embed good practice	304
Total	755

The flexible use of capital receipts has improved the Council's financial position in Children's Services by £0.755m. This will help support the significant and continued transformation work taking place within the Council, principally within Children's Services, which will deliver service improvement and efficiencies.

The Council continues to operate in a challenging financial and economic environment with high inflation (CPI March 2023 10.1%) and this is forecast to remain high throughout 2023-24 and is expected to remain above the 2% target for the duration of 2024-25. The Council's financial resilience has been depleted by the reduction in earmarked reserves in recent years, with total earmarked usable reserves totalling £3.958m at 31 March 2023 of which £2.788m are un-ringfenced. Therefore, it is essential that actions are taken throughout 2023-24 financial year to rebuild the Council's financial



resilience over the medium term. The General Fund Reserve stands at £12.041m as planned in the Medium-Term Financial Plan (MTFP). This is equivalent to 9.5% of the 2023-24 net revenue budget and should only be used in exceptional circumstances as a last resort.

Children's Social Care expenditure levels remain the biggest single area of financial risk for the Council given the demand and price pressures facing the service. The Children's Social Care budget was increased during 2022-23 by £5.665m. Despite this the final overspend against budget was £9.423m. The 2023-24 base budget approved by Council in February 2023 recognised the ongoing financial pressures in the service, setting a 2023-24 budget of £54.649m, an increase of £16.4m (43%) compared with 2022-23. The Service has a Finance Improvement Plan requiring the delivery of savings totalling £2.9m in 2023-24 and a further £1.8m in 2024-25. It is essential that this Plan is delivered in full to avoid further weakening of the Council's financial position.

Directorate Variances

Regeneration and Culture

An underspend of £1.486m was achieved in 2022-23 mainly driven by additional income from the acquisition of Cleveland Shopping Centre (£1.098m) and increased occupancy and income from Centre Square buildings (£0.382m).

Environment and Community Services

The Directorate's financial position at the end of the year resulted in an overspend of £0.112m. The contributing factors of this were an income shortfall in Bereavement Services (£0.429m) due to competition from the recently opened facility in Stockton offset by capitalisation of eligible internal staff recharges (-£0.245m).

Public Health

The underspend within Public Health of £0.981m is made up as follows:

- Delayed recruitment/deletion of vacant posts and other pay related savings (£0.712m)
- Reduced demand, mainly prescribing costs (£0.260m)

Adult Social Care

The overspend in Adult Social Care of £0.078m is made up of several over and underspends across the Directorate including staff savings with delayed recruitment due to retention issues (-£1.253m), overspend on care packages mainly in relation to long term residential pressures (£1.814m), contribution from earmarked reserve (-£0.364m), recovery of unused direct payments (-£0.284m) and an increased contribution to bad debt provision for client contributions to care packages (£0.156m).

Education & Partnerships

Within Education & Partnerships Directorate, an overspend of £0.536m has been reported and is mainly attributable to an increase in the number of children eligible for home to school transport and increased costs of transport (£1.080m, schools contributions to capital schemes (-£0.609m).

Children's Care

The Children's Care budget was increased by £5.665m during 2022-23. This budget revision exercise was subject to independent review and challenge by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In addition, the Directorate has incurred significant inflationary pressures which were funded by Central inflation contingency budgets. These totalled £0.617m in 2022-23, comprising of £0.408m for external residential placements and £0.209m for Independent Fostering Agency (IFA) payments.

The outturn on the Children's Care budget after taking account of £0.755m of Flexible Use of Capital Receipts is £54.832m against an approved budget of £45.409m. This represents an overspend of £9.423m. This is an improvement of £0.285m compared to the forecast at quarter three excluding the effects of the Flexible Use of Capital Receipts.

The year-end outturn includes an overspend of £0.525m in relation to savings within the approved 2022-23 in-year recovery plan that have not been achievable.

The application of Flexible Use of Capital Receipts relates to qualifying transformation expenditure in accordance with the approved Flexible Use of Capital Receipts Strategy for 2022-23.

Directorate	Revised Budget £'000	Outturn £'000	Over / (Under) spend £'000
External Residential Agency Placements	8,802	15,188	6,385
Education Contributions to External Residential Agency Placements	(750)	(510)	240
Health Contributions to External Agency Placements	(1,129)	(1,472)	(343)
In-House Fostering	4,072	3,981	(91)
Independent Fostering Agency (IFA)	5,866	6,292	426
Adoption Services	1,282	1,389	106
Family & Friends Allowances	3,612	3,385	(228)
Safeguarding and Care Planning	3,621	5,719	2,099
Review and Development Unit	1,130	1,611	481
Referrals and Assessments	2,807	2,859	52
Children Looked After Teams	2,677	2,930	253
Internal Residential Service	4,093	3,644	(449)
Children with Disabilities Service	1,556	2,068	512
Management and Administration	1,864	2,321	457
Improvement	1,832	2,610	778
Prevention Services	1,920	1,534	(386)
Other Resource Services	2,154	2,041	(113)
Total before Flexible Use of Capital Receipts	45,409	55,587	10,178
Flexible Use of Capital Receipts	-	(755)	(755)
Revenue Outturn	45,409	54,832	9,423

The external residential agency placements budget is £6.385m overspent due to a number of placement increases within the final months of 2022-23. There have also been some delays in available placements which has led to placements initially being made at a higher cost whilst reduced cost long-term permanent placements were sought.

The average cost per placement has increased significantly over the past 24 months due to demand across the country and a national lack of suitable placements, however this appears to have reached a plateau.

The Directors within Children's Services have undertaken to review all the young people in Residential Agency Placements and ensure that appropriate levels of funding are received from both the Integrated Care Board (ICB) for Health contributions and from Dedicated Schools Grant (DSG) for Education contributions. Since the complexity of the Council's young people has increased along with the average placement costs, the Health and Education contributions should, therefore, also increase appropriately. However, the fewer placements Middlesbrough has, this subsequently lowers the Education and Health contributions. The outturn for the external residential placements budget includes increased Education contributions to placements, some paid direct to providers, of £0.510m 2022-23, which is £0.240m under the budgeted income on the £0.750m budget set for 2022-23. There is however a significant increase in requests for Education Health Care Assessments.

The Independent Fostering Agency (IFA) placements budget is £0.426m overspent due mainly to the transfer of in-house foster carers to agency due to the lack of availability of in house foster carers. The number of placements / cases has increased.



There is a significant overspend reported at year-end on the Safeguarding and Care Planning teams revised budget for 2022-23. Staff agency costs to cover sickness and vacant posts and transform the Service are a continuing major element of expenditure within the Safeguarding and Care Planning team's budget. It remains a challenge to recruit and retain social workers and this is a significant regional and national challenge as well. The recruitment of permanent social work staff is a major challenge to the Council, with the continued reliance on the use of significant levels of agency staff being a significant risk to the long-term finances of the Council. Agency staffing has been included as a

reduction in spend by Directorate for the MTFP alongside the recruitment and retention strategy, which includes the Council's own academy where newly qualified staff are now coming through and will replace agency staff over the coming next 12 to 24 months and onwards.

Legal and Governance Services

The overspend of £0.011m for Legal and Governance Services is made up of the following:

- Higher than expected usage of the hybrid mail system and contractual price increases (£0.165m)
- Compensating one off savings across the Directorate (-£0.154m)

Finance

Within the Finance Directorate, there has been a number of over and under spends resulting in a net overspend of £0.283m made up mainly as follows:

- Insufficient Housing Benefit subsidy to meet the cost of homeless household accommodation on Bed & Breakfast placements in Adult Services (£0.134m).
- Housing benefit scheme does not provide full subsidy for supported housing providers that are not registered social landlords or housing associations (£0.171m).
- Housing Benefit overpayments relating to prior years and other changes following audit, leading to reduction in subsidy payable upon audit of final subsidy claim (£0.381m).
- Council Tax & Business Rates court costs year-end assessment of debt collectability resulted in increase in the bad debt provision. Also, income shortfall due to the delay in planned mid-year uplift in court fees (£0.464m).
- Higher New Burdens grant than expected and increase in staff vacancies (-£0.745m)
- Higher than budgeted external audit fees for work undertaken up to current stage of ongoing 21-22 audit (£0.158m).
- Income in excess of budget, supplies and services savings, and staff vacancies (-£0.305m)

Central budgets

Central budgets achieved an underspend of £4.664m mainly due to the review of the Minimum Revenue Provision (MRP) policy (£2.408m), delivery of recovery plan savings controlled centrally (£3.226m).

Revenue Budget Spending Controls

A number of controls continued to operate during 2022-23, specifically:

- A vacancy control process overseen by the Leadership Management Team.
- Checks against proposed expenditure of over £5,000 by the procurement team.
- Strong controls over staff travel, the ordering of stationery and use of first-class post.

In 2022-23 the Council continued to minimise the use of agency staff where it was appropriate to do so, but there is still currently a need for the use of agency staff within Children's Care, principally to cover vacant posts due to recruitment issues and to support the continued transformation within Children's Services, however this will be minimised as far as possible. The Council is using additional recruitment and retention packages and market supplements to support the reduction of use of agency staff in future years. Monthly reports on agency costs will be provided to senior managers to provide information to enable them to monitor and control costs relating to this.

The Executive approved a Financial Recovery Plan for 2022-23. This included the following actions to recover the position in 2022-23:

- Each Directorate was requested to identify where discretionary expenditure could be curtailed,

stopping short of an in-year spending freeze.

- Additional controls around the recruitment to vacant posts and procurement of agency staff
- Member led focus meetings on the challenges facing Children's Services with an objective to mitigate demand and workforce challenges, concurrently assisting both the financial position and improvement journey.
- The subsequent approval of the adoption of a Flexible Use of Capital Receipts Strategy for 2022-23 at Full Council in September 2022 to support transformation.

The ongoing financial challenges will continue into 2023-24 and future years, and these were assessed and reported to Council on 27 February 2023, as part of the budget strategy for 2023-24 and the future. There is currently a great deal of uncertainty in forecasting created by the pay award, inflationary pressures, and the impact on demand for services.



Savings Delivery

The Revenue Budget, Council Tax, MTFP and Capital Strategy 2022-23 Report approved by Council on 23 February 2022 included no new budget savings for 2022-23. However, due to the emergence of unforeseen financial pressures, in-year 2022-23 budget savings were proposed as part of the Financial Recovery Plan for 2022-23 approved by Executive on 18 October 2022. The following table provides the year-end outturn position of the achievement of the Financial Recovery Plan for each Directorate.

Directorate	Total In-Year Financial recovery Plan £'000	Total In-Year Savings Achieved £'000	Over delivery / (shortfall) in Savings Achieved £'000
Regeneration and Culture	777	777	-
Environment and Community Services	551	551	-
Public Health	165	165	-
Adult Social Care	1,282	1,282	-
Education and Partnerships	29	29	-
Children's Care	812	287	(525)
Legal and Governance Services	179	179	-
Finance	321	243	(78)
Total Directorates	4,116	3,513	(603)
Central Budgets	40	40	-
Vacancy and agency control	500	500	-
Flexible Use of Capital Receipts Strategy	2,700	755	(1,945)
Total Central Budgets and Corporate Items	3,240	1,295	(1,945)
TOTAL	7,356	4,808	(2,548)

The savings against the £0.500m vacancy and agency control savings target reported under Central Budgets as part of the Financial Recovery Plan report, are now reflected within individual Directorate year-end outturn figures.

The following approved savings have not been achieved and therefore contribute to the reported overspend in these service areas:

- Children's Care:
 - planned reduction in external residential placements of £0.300m.
 - planned savings on Section 17 expenditure of £0.100m.
 - planned reduction in the number of agency staff of £0.125m.
- Finance – the planned increase in council tax / business rates court costs income of £0.078m as part of the fees and charges increases from 1 November 2022 could not be implemented mid-year. This was implemented from 1 April 2023 so does not present an ongoing pressure as a result.

The non-achievement of the above savings is reflected in the final year-end outturn position.

Reserves and Provisions

The Council has tried to maximise reserves to fund the potential pressures that will arise in future years due to the on-going effects of the significant and continued transformation work taking place within Children's Services and the considerable effects of high inflation and high interest rates.

The transfers from/to reserves have been approved and these are summarised below:

- Social Care Transformation Reserve - £1.963m of this reserve was utilised in year and £3.312m was used to fund the final overspend of the Council. The remainder (£1.797m) has been transferred to the newly created Financial Resilience Reserve (FRR).
- The purpose of the FRR will be for meeting unforeseen financial pressures that cannot ultimately be



managed within directorate budgets and to meet exceptional one-off costs of meeting the Council's improvement work to satisfy DLUHC and the external auditor's requirements.

- Other ear marked reserves were utilised as planned in the year up to a further £9.583m with additional contributions of £0.696m and a transfer of £0.181m to the insurance reserve from the insurance provision.

The following table shows that the level of reserves the Council holds has reduced considerably during 2022-23 and it is critical that the Council takes action to replenish reserves to achieve a greater level of financial resilience for the Council over the medium term.

The table below sets out a summary of the balance of reserves and provisions at the 1 April 2022 and at year-end 31 March 2023:

Reserves and Provisions 2022-23	Adjusted Opening Balance £'000	In Year Movement £000	Closing Balance £'000
General Fund Reserve	(11,183)	(858)	(12,041)
Usable Earmarked Reserves			
Social Care Transformation Reserve	(7,072)	7,072	-
Financial Resilience Reserve (new)	-	(1,798)	(1,798)
Other Reserves	(10,844)	7,926	(2,918)
Total Usable Earmarked Reserves	(17,916)	13,200	(4,716)
Unusable Earmarked Reserves			
Earmarked Revenue Grants Unapplied	(11,657)	6,782	(4,875)
Dedicated Schools Grant (DSG)	3,756	2,808	6,565
Total Unusable Earmarked Reserves	(7,901)	9,590	1,689
Schools Balances	(4,802)	1,161	(3,640)
Provisions			
Business Rates Appeals and Other	(1,754)	(205)	(1,959)
Insurance	(3,417)	181	(3,236)
Total Provisions	(5,171)	(23)	(5,194)
TOTAL RESERVES & PROVISIONS	(46,973)	23,071	(23,902)

Council Tax and Business Rates Income



Income from Council Tax and Business Rates (NNDR) is accounted for within the Collection Fund. Because of the way that this works in relation to the General Fund, the financial impact of any reduction in income does not immediately affect 2022-23 financial position, it is effectively a shortfall to be resolved in 2023-24 and will be reflected in an updated Budget and Medium-Term Financial Plan (MTFP).

The 2023-24 MTFP presented to Council in February 2023 included the estimated effect of Council Tax and Business Rates income during 2022-23, but it is clear that there are a number of issues, including the current economic climate, which may potentially result in adverse pressures continuing in relation to the collection of Council Tax and Business

Rates income over the medium term. The in-year collection rate for 2022-23 was 92.81% for Council Tax (however it should be noted this was at an increased level due to the Council Tax Energy Rebate Scheme) and 96.99% for Business Rates. This position will be closely reviewed and the MTFP will be updated for this as appropriate.

There is currently a growing uptake by residents of the Council Tax Reduction Scheme due to the cost-of-living crisis as a consequence of the current adverse economic climate. At the end of the first quarter 2022-23 there were 17,918 Localised Council Tax Support Claimants, however by the end of 2022-23 there were 18,130 claimants. It is likely that this will increase further in future years. This will be closely monitored and the MTFP will be updated for this as appropriate.

The budgeted Council Tax base includes assumptions on housing growth. If there is a variance in growth in housing numbers, this will impact upon Council tax income levels realised vs budget.

The Government provided support for businesses through increased business rates reliefs and grants in 2020-21. These largely remained in place during the first quarter of 2021-22 but reduced throughout the remainder of 2021-22 and the start of 2022-23. Following the reduction in the level of this support, there is a risk that Business Rates revenue reduces in the future if businesses fail or are unable to pay. This area will be reviewed in detail to inform budget forecasting for 2023-24 and the development of the 2024-25 budget and MTFP.

The Government has provided grant funding to the Council through the Council Tax Energy Rebate Scheme to support households with increasing energy costs for 2022-23. This helped to improve the level of Council Tax income collected in 2022-23, as where applications were not received from Council Taxpayers for the Council Tax Energy Rebate Scheme, the income can be allocated to individual council taxpayers accounts reducing any amounts of council tax owed.

The position relating to Council Tax and Business Rates income for future years and the effects on the Collection Fund will be closely monitored.

The final outturn position after the various pressures on the Collection Fund was as follows:

Funding	Total Deficit / (Surplus) £'000	Share with Preceptors %	Shar of Deficit / (Surplus) £'000	S31 Grant £'000	Final Deficit £'000
Council Tax	(10,980)	83.55%	(9,174)		
Business Rates receivable	1,222	49.00%	599	1281	1,880
Total	(9,758)		(8,575)	1281	1,880

Group Accounts



The Council has only one significant group relationship - a wholly owned subsidiary: Middlesbrough Development Company (MDC), formed in 2019 and which is involved in housing growth and resolving eyesore sites within the Borough. As the Council control both the operating and financial activities of the company it has been consolidated into the Council's Group Accounts on a line-by-line basis, after first realigning accounting policies with the Council where appropriate and then eliminating any intra-Group transactions.

The purpose of the group accounting information is to provide a comprehensive position for Middlesbrough Council incorporating the company. The Group Accounts show the full extent of the Council's assets and liabilities, providing transparency on the overall financial position. These cannot be fully appreciated from the Council's single entity accounts alone.

The Group Accounts (at Section 4) include the following information:

- Group Comprehensive Income and Expenditure Statement, which shows the income and expenditure of the Group in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.
- Group Movement in Reserves - shows the movement in the year on reserves held by the Group.
- Group Balance Sheet - reports the Council Group financial position at the year-end.
- Group Cash Flow Statement - shows the changes in cash and cash equivalents of the Group during the year.
- Notes to the Group Accounts – information provided where the balances are materially different to those in the single entity accounts.

Following a review of the governance and operating arrangements of the company, against new CIPFA guidance, by the Council's Executive during January 2023, a decision was made to wind up MDC once its on-going projects were completed. There are specific disclosure notes within the Group Accounts section which outline this decision and the implications on this set of accounts.

At 31 March 2023, MDC had received funding of £13.2m to spend on approved projects and the day-to-day administration of the company. Of this, £11.4m had been spent on capital projects, principally Boho Village and Newbridge Court. £0.7m had been spent on operational costs leaving a cash balance of £1.1m. Of the total funding given to the company by the Council, just under £6.1m was in the form of a commercial loan and £5.3m was from S106 capital grant funding. The loan was originally to be repayable to the Council over a 35-year term and was approved by the Director of Finance in October 2020 following a due diligence exercise on the Boho Village project.

Following the decision to wind up MDC during 2022-23, any loan repayment would be due to the Council when the assets are sold. In 2022-23, £2m was repaid (plus interest) to the Council following the sale of Boho Village leaving a balance of £6.1m.

The above assets and liabilities, plus day-to-day expenditure, have been added to the Council's balance sheet and income and expenditure statement. The net effect on the Council's reserves is an increase of £4.5m, representing £5.2m as an unusable reserve to offset future depreciation charges minus a cumulative £0.7m for operating loss. The final financial position of the company will be managed and reported as part of the winding up process. Further details on this can be seen in the financial statements for 2020-21, 2021-22 and 2022-23 which are available from the Middlesbrough Council website. www.middlesbrough.gov.uk.

Capital

The table below summarises the capital outturn position for 2022-23 for each directorate.

Directorate	Latest Budget £'000	Full Year Outturn £'000	Over / (under) spend £'000
Regeneration and Culture	38,829	36,371	(2,458)
Environment and Community Services	11,123	11,006	(117)
Public Health	285	219	(66)
Adult Social Care	4,141	4,050	(91)
Education and Partnerships	393	1,100	707
Children's Care	2,606	2,884	278
Legal and Governance Services	3,941	3,223	(718)
Finance	138	109	(29)
Total Directorates	61,456	58,962	(2,494)

Following a review of schemes, the Council approved a revised capital budget for 2022-23 of £61.456m as part of its medium-term investment strategy. The Council spent £58.962m (96%) of this revised budget at the year-end.

The underspend of £2.494m compared to the revised budget was a combination of contractor delays, inclement weather, and delays in Northern PowerGrid provision of infrastructure.

The Council's total under borrowed position i.e., external debt compared to the underlying need to borrow, was £36.5m at 31 March 2023.

The Council's Capital Expenditure outturn of £58.962m compared to the original approved budget of £124.825m at the beginning of the year, an underspend of £65.863m resulted in a lower level of debt funding and Capital Financing Requirement (CFR) than was anticipated at budget setting.

The Council's budgeted level of total external borrowing was £268.350m compared to an outturn of £245.899m, a variance of £22.461m. During the final quarter, external borrowing increased from £214.5m at 31 December 2022, to £245.9m at 31 March 2023. This increase of £31.4m reflects the need to borrow £20m for new capital expenditure plus additional short-term borrowing of £15m for cash flow purposes, less repayment of principal amounts on existing annuity loans held by the Council at £3.6m.

Cash balances have been under significant pressure during the fourth quarter of 2022-23 due to the depletion of the Council's reserves associated with in year revenue spending pressures and the delivery of capital schemes funded from borrowing being achieved. Consequently, new borrowing was required to maintain the cash flow position of the Council, which requires a minimum of £15m cash balance to be held. Although it is not uncommon for borrowing activity to increase during the final quarter, due to the relative income and spending profiles, the size of the increase is greater than in previous years.

Balance Sheet

The Balance Sheet shows the value of assets and liabilities of the Council and sets out the revenue and capital reserves available for future investment. It also allows for comparison with the previous financial year-end and can be used to make judgements around the organisation's financial position.

A summary of the Balance Sheet at the 31 March 2023 is set out below:

31 March 2022 £'000		31 March 2023 £'000
490,646	Long Term Assets	629,911
95,231	Current Assets	90,390
(94,033)	Current Liabilities	(99,090)
(400,296)	Long-Term Liabilities	(211,805)
91,548	Net Assets	409,406
(76,996)	Usable Reserves	(59,826)
(14,552)	Unusable Reserves	(349,580)
(91,548)	Total Long-Term Assets	(409,406)

The key headline messages to note in relation to the Balance Sheet at 31 March 2023 are as follows:

- Long-term assets have increased mainly due to the change in the actuarial valuation of the pension fund. With the increases in inflation and the volatility of the markets, the triennial valuation has seen a significant increase in the financial assumption resulting in a swing from a net pension deficit to a net pension asset however this has been limited to the asset ceiling calculation as per the CIPA code, IAS19 and IFRC 14
- Current liabilities have increased during the financial year, mainly due to short term borrowing.
- Long-term liabilities have decreased significantly mainly due to movement from a net pension liability to a net pension asset as described above.
- Usable reserves have decreased slightly with the use of earmarked reserves in year and the funding of the year end outturn overspend. Capital grants unapplied though remain high and have increased.
- Unusable reserves reflect the technical accounting adjustments required to comply with proper accounting practice. Most of the movements are unrealised in nature and do not have an immediate impact on the Council's revenue budget or medium-term financial plan. The primary year-on-year change at 31 March 2023 reflects the movement in the net pension asset of £252.600m.

The Council's balance sheet is in a positive net worth position (i.e., the assets are greater than the liabilities). The significant increase of the balance sheets net worth in 2022-23 is predominantly due to the latest triennial actuarial valuation of the pension fund. This has improved the position due significant changes the financial assumptions used i.e., a higher corporate discount rate which reduces the net present value of the funds liabilities. This means that council assets now are greater than liabilities by £409.406m.

The pension fund is still in a surplus position and although the gain on the pension fund will not crystallise at any one point in time but will be made up of benefits over the next 20-30 years, it rebuilds the current financial position of the balance sheet in line with IAS19 principles on retirement benefits.

It is also worth reiterating that both long-term assets and liabilities, subject to specialist valuation and professional expert techniques, are less reliable in the current year than in the past, due to the inherent level of uncertainty created by high inflation. Where professional judgement has been involved, regular discussions have been held with valuers and actuaries about the issues involved and prudent conclusions have been made by the Council when considering these results. The Council is comfortable with these issues in the short term and until a greater degree of normality has returned. No specific measures are being undertaken within the Medium-Term Financial Plan to cater for this.

Annual Statement of Accounts

The Statement of Accounts is the main method of external financial reporting produced by the Council. It is a complex and technical document, which comprises a number of sections and financial statements following the CIPFA Code of Practice on local authority accounting. These are as follows:

Narrative Report - this introductory section provides information on the format of the Statement of Accounts as well as a review of the financial position, performance, and cash flows of the Council for the financial year 2022-23.

Statement of Responsibilities - this details the responsibilities of the Council and the Director of Finance (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

Independent Auditor's Report to the Council - the external auditor, Ernst & Young LLP have prepared this report, following their audit of the accounts for the financial year.

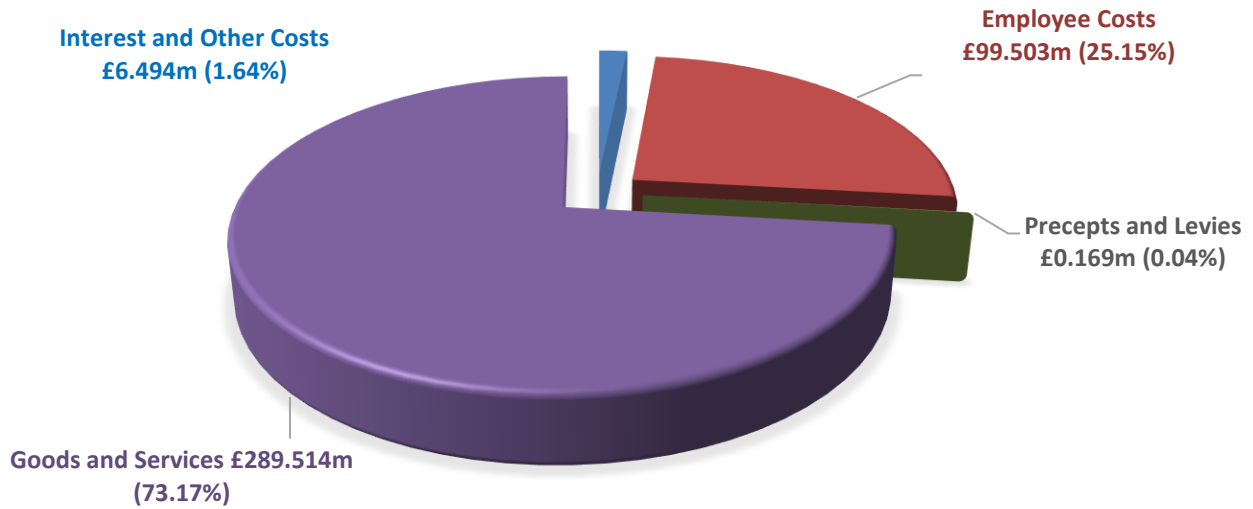
Annual Governance Statement - the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. This Statement explains how the Council has complied with the Code of Corporate Governance during the 2022-23 financial year.

The **Core Financial Statements** comprise:

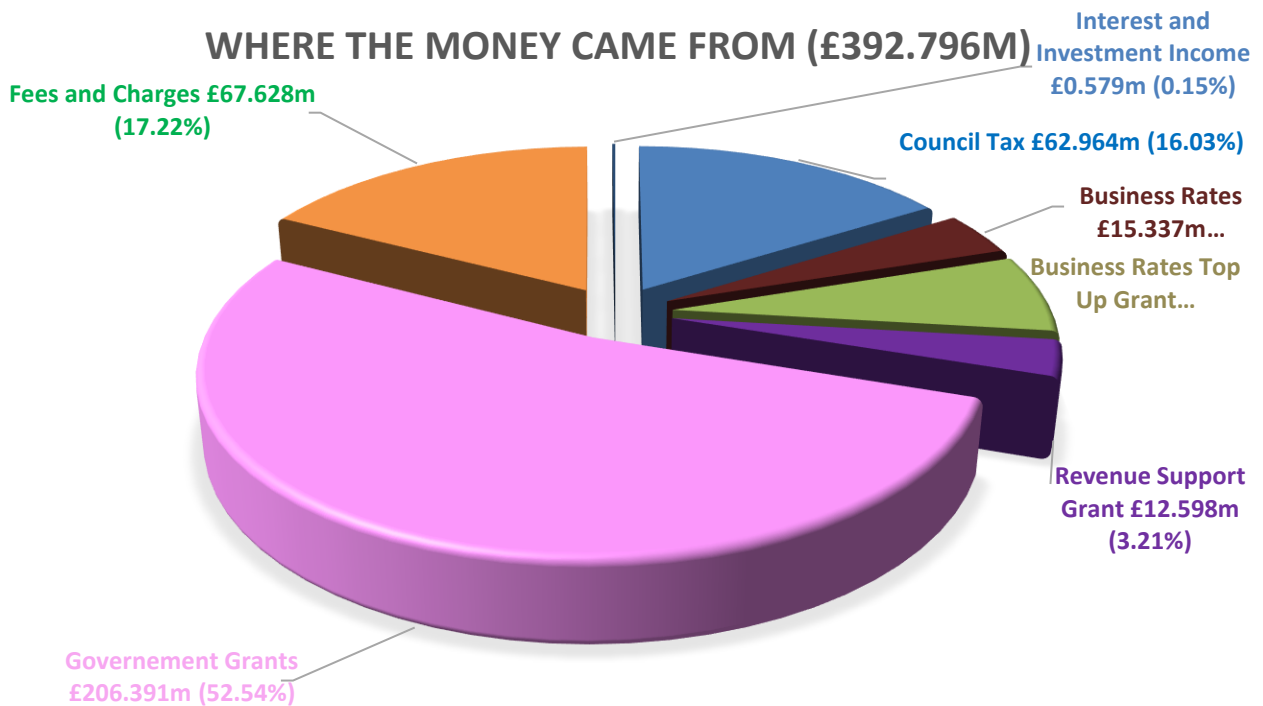
- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.
 - The charts below and overleaf illustrate where the money has come from and how it has been spent.
- The totals in the financial statement are higher/lower than those set out below due to technical adjustments to comply with proper accounting practice, but which are not funded by the taxpayer. More details on this are set out in the notes to the accounts.

The following charts illustrate where the money has come from and how it has been spent:

WHERE THE MONEY WAS SPENT (£395.680)

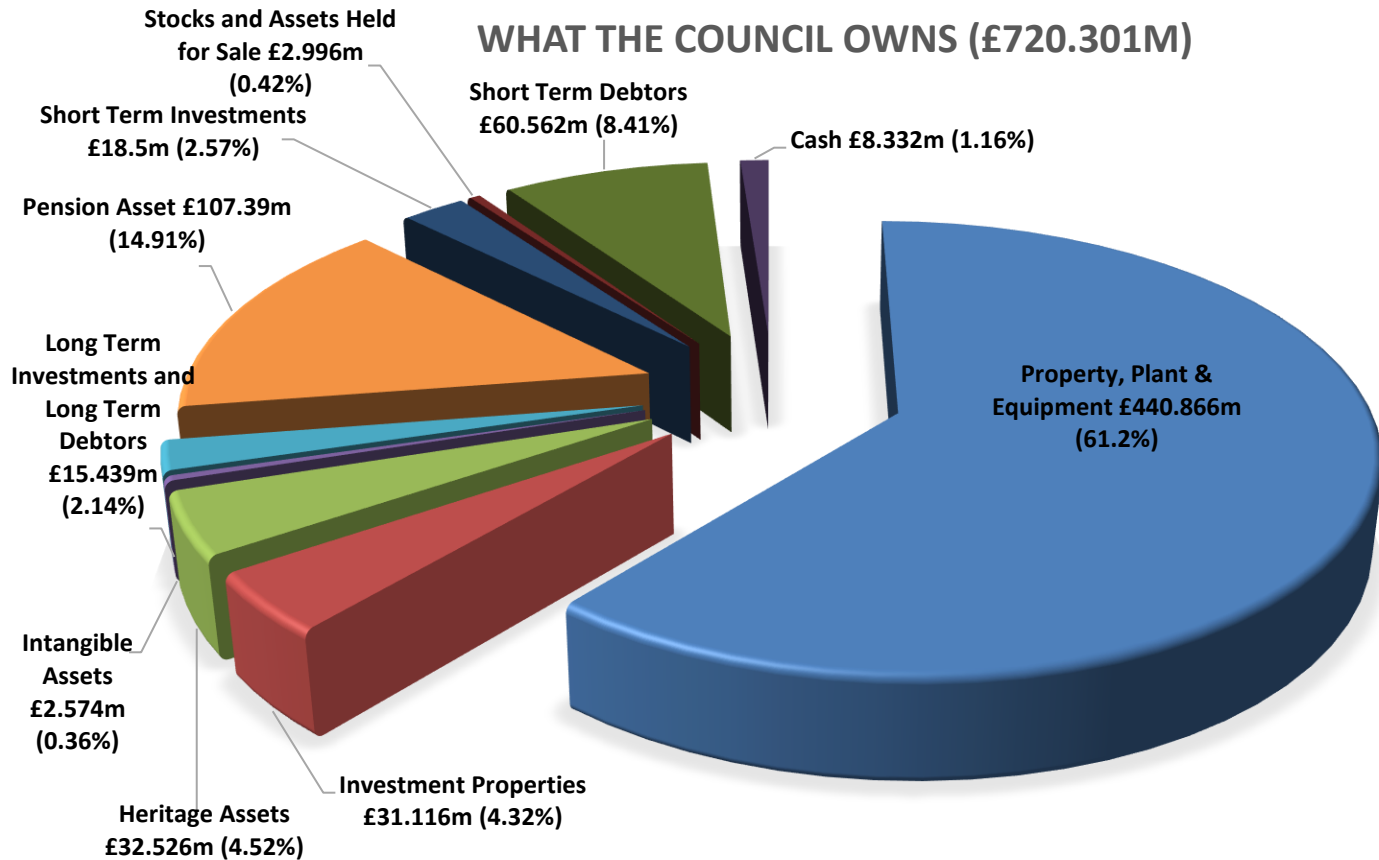


WHERE THE MONEY CAME FROM (£392.796M)

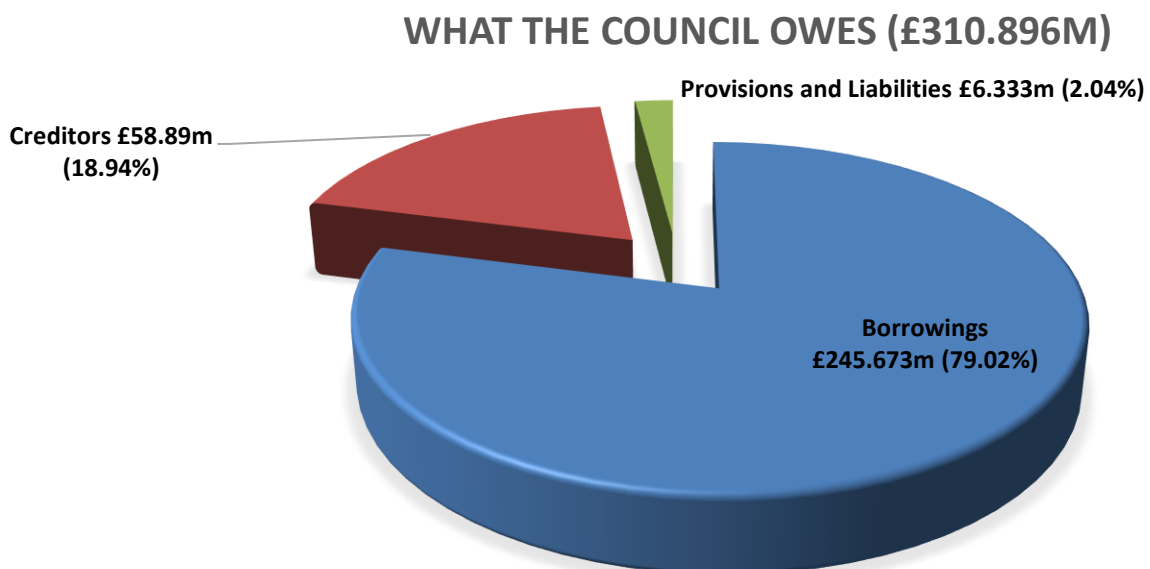


- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets owned and liabilities incurred by the Council. The total net assets (assets less liabilities) are equivalent to the revenue and capital

reserves held by the Council. The following charts gives summary information on what the Council owns



and owes:



- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different

reserves held by the Council, split into 'usable reserves' (i.e., those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (arising mainly as a result of technical and accounting adjustments).

- The **Cash Flow Statement** - this summarises the changes in cash and cash equivalents of the Council during the reporting period. Cash flows are analysed between operating, investing, and financing activities.

Accounting Policies Note - this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.

Notes to the Accounts - provides supporting and explanatory information as to how the accounts have been prepared and support the understanding of the accounting policies applied in the accounts to present a true and fair view of the financial position.

Pension Fund Accounts - the Teesside Pension Fund is administered by Middlesbrough Council and is independently managed and completely separate from the Council's own finances. This statement forms an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2022-23, assets, and liabilities as at 31 March 2023.

A **Glossary** - to explain the technical jargon in the Statement of Accounts and help make the document more understandable to the reader.

Statement of Responsibilities – Middlesbrough Council

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to nominate that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer (Director of Finance);
- manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets, and;
- approve the statement of accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing the statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I certify that the statement of accounts present a true and fair view of the financial position of the Authority at 31 March 2023 and its income and expenditure for that year.

Deborah Middleton FCPFA, BA(Hons)
Director of Finance
Middlesbrough Council

5 December 2024

Statement of Responsibilities – Teesside Pension Fund

Statement of Responsibilities

Middlesbrough Council Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through a Pension Fund Committee;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Chief Finance Officer of the Council (Director of Finance); and
- Manage the Fund to secure economic, efficient, and effective use of resources and to safeguard its assets and approve the Fund's Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonably prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2023 and of its income and expenditure for that year.

Deborah Middleton FCPFA, BA(Hons)
Director of Finance
Middlesbrough Council

5 December 2024

Auditor's Report – Middlesbrough Council

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Middlesbrough Council ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2023. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement
- the related notes 1 to 48 to the Authority financial statements and notes 1 to 16 to the Group financial statements, including a summary of significant accounting policies;
- Collection Fund Income and Expenditure Account and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The audit of the 2021/22 financial statements for Middlesbrough Council was not completed for the reasons set out in our opinion on those financial statements dated [DATE]. As a result of the delays to the previous year's audit together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements before the 13 December 2024 backstop date.

In addition, we have identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described below in the significant weaknesses in arrangements section of our report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception:

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

Under section 24 of the Local Audit and Accountability Act 2014 (as amended), we may designate any audit recommendation as one that requires the Group and the Authority to consider it at a public meeting and to decide what action to take in response. On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24.

- Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Group and the Authority's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that there are five significant weaknesses in the Authority's arrangements which undermine the Authority's ability to achieve and evidence value for money in its use of resources. These are:

- Significant breakdowns in the relationships between elected members and senior officers, and between elected members, characterised by a pervasive lack of trust within the Authority between officers and elected members, and between elected members, which had a significant impact on the effectiveness of the Authority's governance arrangements;
- Inadequate arrangements over how the Authority plans and manages its resources to ensure it can continue to deliver services, including significant underestimation of the resources required to meet the Authority's statutory duties with regards to children's safeguarding and social care and overspending against the Authority's approved budget for the year ended 31 March 2023;
- Pervasive non-adherence within the Authority to the Authority's Contract and Financial Procedure Rules, including a well-established informal and undocumented practice in respect of the application of procurement exemptions which is neither compliant with the requirements of the Authority's Financial and Contract Procedure Rules or as robust;
- Significant gaps in the Authority's arrangements for overseeing the activities of its subsidiary, Middlesbrough Development Company, and ensuring they represent best use of the Authority's resources, including a lack of clarity over the roles and responsibilities of individuals (including members and officers), inadequate monitoring and management of the subsidiary's performance and insufficient consideration of the composition and training of the subsidiary's Board; and

- Insufficient arrangements to ensure that the Authority makes informed decisions and properly manages its risks with regards to the acquisition of strategically significant properties, including insufficient due diligence to inform decision making, the provision of incomplete and inaccurate information to decision makers and an absence of clear post-acquisition plans for the property.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- Made enquiries of management and elected members as to their understanding of the culture at the Authority, including adherence to key financial and contracting controls;
- Reviewed correspondence received during the course of our audit, including from members of the Authority;
- Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee;
- Reviewed the Authority's Medium Term Financial Plan and quarterly reporting of financial performance; and
- Reviewed the reports of internal audit and officer-led investigations, including in relation to the awarding of contracts for external social work support, the governance of Middlesbrough Development Company and the acquisition of a strategically significant property.

The impact on Middlesbrough Council

The breakdown in relationships between elected members and officers, and between elected members, leads to an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora. The deterioration in the Authority's financial position increases the risk that the Authority will need to identify, develop and implement significant savings plans in order to maintain current levels of service provision. Inaccurate forecasting of the levels of required savings increases the risk of having to reduce levels of service provision in order to protect the Authority's already depleted reserve balances.

The pervasive non-adherence to the Authority's Contract and Financial Procedure Rules increases the risk that the Authority enters into contracts which do not represent value for money and achieve less for the resources expended than might have been achievable, and that contracts are awarded in a manner which is not fully compliant with relevant procurement laws and regulations.

The gaps in the oversight of Middlesbrough Development Company limit the Authority's ability to evidence that the resources provided to Middlesbrough Development Company are being deployed in the most efficient manner and may hinder the ability of the Authority to obtain and analyse information about costs and performance to improve the way it manages and delivers services.

Insufficient due diligence and inappropriately informed decision making increases the risk that the Authority acquires properties for which it lacks a clear understanding of the potential liabilities to which the Authority will become exposed to and that it is unable to realise the potential benefits of ownership from.

The actions the Authority needs to take to address the weaknesses

On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24 of the Local Audit and Accountability Act 2014 (as amended), including the following recommendations related to the significant weaknesses in the Council's arrangements for the year ended 31 March 2023:

- We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that

appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan;

- We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions;
- We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented;
- We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities;
- We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded;
- We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned;
- We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;
- We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to;
- We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary;
- We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
- We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

In addition we make the following recommendations:

- We recommend that management develop an action plan to address each of the recommendations raised by internal audit in their report into the acquisition of the Crown Pub; and

- We recommend that management review the processes for identifying and communicating where the facts or conditions set out in committee papers change between the date on which papers are published and the date on which the committee meeting is held, to ensure that where there are changes in circumstances relevant to decisions being made this is shared with decision makers prior to decisions being taken.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution;
- how the Authority plans and manages its resources to ensure it can continue to deliver services, including how the Authority ensures its financial forecasts are accurate and how the Authority ensures delivery of its services within the resource envelope envisaged;
- how the Authority advertises, competes and awards contracts for the purchase of goods and services, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources and how it ensures that contracts are awarded in accordance with applicable legislation;
- how the Authority oversees the activities of its subsidiary, Middlesbrough Development Company, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in the use of resources provided by the Authority to Middlesbrough Development Company; and
- how the Authority ensures that it makes informed decisions and properly manages its risks with regards to the acquisition of strategically significant properties, including how the Authority has assessed the merits and risks of acquisition and communicated these to decision makers.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 33, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in January 2023, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
9 December 2024

Auditor's Report – Teesside Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL ON THE PENSION FUND'S FINANCIAL STATEMENTS

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and the amount and disposition at that date of its assets and liabilities as at 31 March 2023 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below.

We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Head of Pensions Governance and Investment's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period to 31 December 2025. Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2022/23, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information contained within the Statement of Accounts 2022/23. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial

statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we report by exception

We report to you if

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities – Teesside Pension Fund, the Director of Finance is responsible for the preparation of the Pension Fund's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Director of Finance is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with the Director of Finance. Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.
- Based on this understanding, we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance with laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations to be our fraud risk. To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- To address our fraud risk, we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team [including the use of specialists where appropriate], to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Middlesbrough Council and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Rob Jones (Key Audit Partner)
Ernst & Young LLP
Glasgow
5 December 2024

Financial Statements



Movement in Reserves Statement

This Statement shows the movement in the different reserves held by the Council over the financial year. These reserves can be analysed into usable reserves, those that are available to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

2022-23	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2022	(11,182)	(34,375)	-	(23)	(31,415)	(76,995)	(14,552)	(91,547)
<i>Movement in reserves during 2022-23</i>								
Total Comprehensive Income and Expenditure	44,515	-	-	-	-	44,515	(362,375)	(317,860)
Adjustments between accounting basis & funding basis under regulation (Note 6)	(26,835)	-	-	23	(534)	(27,346)	27,346	-
Transfers to/(from) other reserves	(18,540)	21,144	-	-	(2,604)	-	-	-
Net Decrease / (increase) in year	(861)	21,144	-	23	(3,138)	17,169	(335,028)	(317,860)
Balance at 31 March 2023 carried forward	(12,043)	(13,231)	-	-	(34,553)	(59,826)	(349,580)	(409,406)

2021-22	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	(10,500)	(35,044)	5	(51)	(7,930)	(53,519)	101,693	48,173
<i>Movement in reserves during 2021-22</i>								
Total Comprehensive Income and Expenditure	(2,318)	-	-	-	-	(2,318)	(137,402)	(139,720)
Adjustments between accounting basis & funding basis under regulation (Note 6)	2,304	-	(5)	28	(23,485)	(21,158)	21,158	-
Transfers to/(from) other reserves	(669)	669	-	-	-	-	-	-
Net Decrease / (increase) in year	(682)	669	(5)	28	(23,485)	(23,476)	(116,244)	(139,720)
Balance at 31 March 2022 carried forward	(11,182)	(34,375)	0	(23)	(31,415)	(76,995)	(14,551)	(91,547)

Income and Expenditure Statement

This Statement brings together both income and expenditure relating to all of the Council's day to day services for the year and also shows how this is financed from a combination of local taxation, government grants and other income. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

2021-22			Cost of Services by Service Area	Note	2022-23		
Gross Expenditure	Gross Income	Net Expenditure / (Income)			Gross Expenditure	Gross Income	Net Expenditure / (Income)
£000	£000	£000			£000	£000	£000
19,151	(3,222)	15,929	Regeneration		36,168	(7,986)	28,182
15,804	(25,582)	(9,778)	Public Health and Public Protection		18,545	(24,631)	(6,085)
78,451	(71,856)	6,595	Education		87,172	(69,585)	17,586
60,120	(6,463)	53,657	Children's Care		66,063	(4,362)	61,700
100,622	(57,191)	43,431	Adult Social Care and Health Integration		106,356	(51,701)	54,655
49,259	(497)	48,762	Environment and Commercial Services		38,926	(210)	38,717
65,561	(59,471)	6,090	Finance		61,543	(52,329)	9,214
17,213	(1,774)	15,439	Legal & Governance Services		16,807	(1,873)	14,934
10,901	(12,572)	(1,671)	Central Costs		7,178	(16,305)	(9,127)
5,700	(5,310)	390	Covid Support		-	-	-
422,784	(243,940)	178,843	Total Cost of Service		438,758	(228,983)	209,776
152	(5,162)	(5,010)	Other Operating Income and Expenditure	9	169	(226)	(58)
22,583	(14,229)	8,354	Financing & Investment Activities	10	22,136	(18,220)	3,916
-	(184,506)	(184,506)	Taxation and Non-Specific Grant Income	11	-	(169,118)	(169,118)
445,519	(447,837)	(2,318)	(Surplus) or Deficit on Provision of Services		461,062	(416,547)	44,515
			<i>Items that will not be re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(4,271)	(Surplus) on revaluation of Property Plant and Equipment	23			(10,095)
		(129,886)	Actuarial (Gains) on Pension Fund charged to the Pensions Reserve	39			(348,847)
		(3,245)	Depreciation written out to the Revaluation reserve	23			(3,433)
		(137,402)	Other Comprehensive Income and Expenditure				(362,375)
		(139,720)	Total Comprehensive Income and Expenditure				(317,859)

Balance Sheet

The Balance Sheet shows the value of assets and liabilities held by the Council. The net assets are matched by the Council's revenue and capital reserves.

31 March 2022 £'000		Note	31 March 2023 £'000
416,783	Property, Plant & Equipment	23	440,866
32,526	Heritage Assets	25	32,526
26,806	Investment Properties	26	31,116
1,439	Intangible Assets	27	2,574
309	Long-Term Investments	29	309
-	Pension Asset	29	107,390
12,783	Long-Term Debtors	32	15,130
490,646	Total Long-Term Assets		629,911
10,000	Short-Term Investments	29	18,500
125	Short-Term Assets Held for Sale	28	125
2,628	Inventories	33	2,871
57,856	Short-Term Debtors	32	60,562
24,622	Cash and Cash Equivalents	34	8,332
95,231	Total Current Assets		90,390
(22,648)	Short-Term Borrowing	29	(38,708)
(69,643)	Short-Term Creditors	35	(58,890)
(1,742)	Short-Term Provisions	36	(1,492)
(94,033)	Total Current Liabilities		(99,090)
1,198	Net Current Assets / (Liabilities)		(8,700)
(3,429)	Long-Term Provisions	36	(3,702)
(185,624)	Long-Term Borrowing	29	(206,965)
(1,297)	Other Long-Term Liabilities	29	(1,138)
(209,946)	Pension Liability	39	-
(400,296)	Total Long-Term Liabilities		(211,805)
91,548	Net Assets/(Liabilities)		409,406
(76,996)	Usable Reserves	37	(59,826)
(14,552)	Unusable Reserves	38	(349,580)
(91,548)	Total Reserves		(409,406)

Deborah Middleton FCPFA, BA(Hons)

5 December 2024

Director of Finance

Cash Flow Statement

This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities. It is an integral part of the Comprehensive Income and Expenditure Statement and the Balance Sheet for the Council.

31 March 2022 £000		31 March 2023 £000
2,318	Surplus / deficit on provision of services	(44,515)
44,217	Adjustment to net surplus or deficit on the provision of services for non-cash movements (Note 46)	37,251
(4,761)		(15)
41,774	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
(31,322)	Net Cash Flows from Operating Activities	(7,279)
(10,638)	Investing Activities (Note 47)	(46,255)
(186)	Financing Activities (Note 48)	37,244
	Net Increase or decrease in cash and cash equivalents	(16,290)
24,810	Cash and cash equivalents at the beginning at the reporting period (Note 34)	24,622
24,623	Cash and cash equivalents at the end at the reporting period (Note 34)	8,332

Notes to the Accounts



Note 1 Accounting Policies

General Principles

The Statement of Accounts summarises the Council's financial transactions for the 2022-23 financial year and its position at the 31 March 2023.

The Council is required to prepare a Statement of Accounts for each financial year under the Accounts and Audit Regulations 2015 (updated for the Coronavirus Amendment Regulations 2021) and in accordance with proper accounting practices. These proper accounting practices under Section 21 of the Local Government Act 2003 principally comprise:

- The Code of Practice on Local Authority Accounting in the United Kingdom 2021-22 (the Code) supported by International Financial Reporting Standards (IFRS).
- Statutory guidance issued under Section 12 of the 2003 Act.

The Statement of Accounts has been prepared using the 'going concern' concept (see below) and using the accruals basis of accounting such that transactions are recorded on the basis of when they fall due and not necessarily when settled in cash.

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income amounts.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. A summary of this is in the following table.

Asset Class	Measurement Basis
Property, Plant and Equipment – Land & Buildings	Current value based on Existing Use Value (EUV) for operational assets where there is an active market, or if there is no market-based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, Depreciated Replacement Cost (DRC).
Property, Plant and Equipment – Infrastructure, Community Assets and Assets under Construction	Depreciated historical cost/Historical cost.
Property, Plant and Equipment – Surplus Assets	Fair value.
Property, Plant and Equipment – All Other Assets	Depreciated historical cost.
Investment Properties	Fair value.
Pension Assets	Fair value.
Pension Liabilities	Actuarial Basis

The Council's over-arching accounting policies are set out in more detail below. Further details on the accounting treatment adopted for specific transactions and balances is included in relevant disclosure notes.

Basis of Preparation - Going Concern

The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements, reflect the economic and statutory environment in which the Council operates. If the Council were in financial difficulty, the prospects are that alternative arrangements might be made by central

government either for the continuation of the services it provides, the provision of exceptional financial support, or for assistance with the recovery of a budget deficit over more than one financial year. These provisions confirm that, as Councils cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The impact of the Covid-19 pandemic was significantly lower on 2022/23 than in the previous two financial years. Given that no specific new funding was received from central government in this respect, with mainly governance and reconciliations being undertaken, the Council's finances were able to return to being managed in a more traditional way. It is still important to note that the pandemic did have a continuing effect in some areas of the Council's budget such as council tax & business rates collection and income reductions were still volatile and difficult to predict. These have been incorporated into the normal financial management processes, including the medium-term financial plan.

Middlesbrough Council continues to operate in a volatile and challenging economic and financial environment. Like many local authorities, the Council is experiencing significant financial challenges because of continuing high inflation, increasing demand, and complexity of need for services for the most vulnerable in the community, primarily adult and children's social care, home to school transport, homelessness, and waste disposal, for which it is required to meet its statutory responsibilities.

In addition, the Council has a governance qualification in place in relation to its ability to achieve value for money from its operating arrangements. This was introduced by the external auditor in July 2022, as part of the audit of the 2020/21 statement of accounts, with formal statutory recommendations being introduced in August 2023. This is as well as the Best Value notice issued by DLUHC in January 2023.

On setting the 2023/24 budget, the previous chief finance officer indicated that the budget was robust, but had some serious risks attached if approved savings programmes were not delivered to plan and if actual demand pressures were above the assumptions made at budget setting. In addition, it was noted that the level of available revenue reserves was at a critical level and that the ability to raise additional council tax income was constrained by the demographics attached to Middlesbrough's council tax base.

Very early in the 2023-24 financial year, the Council's financial management and forecasting processes identified that demand for services particularly within adults and children's social care, home to school transport and homelessness were likely to exceed the levels previously forecast. This, combined with issues on delivering some projects within the savings programme were forecast to result in a significant overspend for 2023/24 financial year. At the end of May, this forecast was of the order of £11.527m. Against an available usable revenue reserves position of £14.829m, this would consume all the corporate earmarked reserves, plus most of the Councils' general reserves balance.

The s151 Officer implemented a number of measures to restrict expenditure to essential purposes only in July 2023 and has established monthly budget challenge sessions and the requirement for directors to develop financial recovery plans to control expenditure within the approved budget. Quarterly budget challenge sessions also take place which are led by the Executive Member for Finance and Governance and attended by all relevant Executive Members in relation to their portfolio.

With focused effort and initiative, the Council's corporate leadership team and the Executive have managed to reduce the forecast overspend to £7.438m by the end of October. Although the position is improved, and further work will continue to control expenditure throughout the remainder of the financial year, it is likely to lead to a large reduction in the level of reserves available at 31 March 2024.

The Council had a delay on the progress and completion of the external audit of its 2021-22 accounts, due to government proposals to address the national local government external audit backlog. Little progress had been made on this audit since the end of March 2023. However, following consideration of the impact of IAS37 upon the council's methodology for calculating the bad debt provision, the Chief Finance Officer has implemented a revised methodology to calculating the bad debt provision on the collection fund (council tax and business rates) and has requested specifically that this be reviewed by the external auditor during 2023 given that it has resulted in a material adjustment being required to the 2021-22 accounts. The methodology was reviewed by the external auditor and has resulted in a material adjustment to the draft 2021-22 accounts. This adjustment has now been reflected in this draft financial statement for 2022-23 and increases the surplus on the Collection Fund to £8.932m at 31 March 2023. Further, after taking account of the forecast surplus or deficit on the Collection Fund at 31 March 2024, the s151 Officer intends to precept upon the Collection Fund cumulative surplus at 2024-25 budget setting and apply the forecast surplus to replenish the General Fund Balance and the Financial Resilience Reserve position at 1 April 2024.

The Executive published its budget proposals for the period 2024-25 to 2026-27 during December 2023 and these were subject to public consultation until mid-January 2024 before finalisation and consideration by Full Council on 28 February 2024. The proposals consulted on a range of measures that will deliver expenditure savings and income growth over the period totalling £14.038m in 2024-25 rising to £21.088m in 2026-27, and an increase in council tax of 4.99%. After taking account of these measures, a budget gap of £6.279m remained in relation to 2024-25, with a further £1.596m in 2025-26, and a further £0.305m in 2026-27.

The Council considered all available options to balance its budget, including the impact of the provisional local government finance settlement and the development and implementation of a large-scale Transformation Programme in order to redesign services, manage demand and deliver efficiencies to enable the Council to operate within a financially sustainable cost envelope over the medium to long term. However, these actions would not deliver sufficiently robust and implementable savings plans in the timescale required to set a balanced budget for 2024/25 by 11 March 2024. Therefore, an application to the Department for Levelling Up Housing and Communities (DLUHC) for Exceptional Financial Support was necessary during January 2024 in order to secure sufficient measures to deliver a balanced budget for 2024/25 and provide more time for the Council to implement its Transformation Plans to achieve the required expenditure reductions.

The Council had been in regular dialogue with DLUHC officials in relation to the potential need for Exceptional Financial Support since the early summer 2023. Exceptional Financial Support available from DLUHC is in the form of approval to capitalise expenditure that would otherwise be classed as revenue expenditure and for this to be funded by either Council borrowing or capital receipts. DLUHC and the Secretary of State have also indicated that local authorities seeking EFS should take every possible step to minimise the need for that support to be funded by national taxpayers, while also recognising the cost-of-living pressures on families. As part of that process, the Government will consider representations from councils, including on council tax provision. The Councils' application for EFS of £13.4m was successful and approved by Full Council in March 2024.

It is expected that a combination of these measures will enable a balanced budget for 2024-25 to be set for the Council and for its level of revenue reserves to be protected. Through the implementation of a new Transformation Programme, the Council will be able to be returned to a financially sustainable position by 2026-27.

The Council considers that it has a robust approach to its capital financing, debt, and treasury management practices. This will continue to ensure that liquidity within the organisation remains healthy, that all suppliers and staff will be paid and that any debts outstanding will be pursued and collected where possible.

For the above reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern until at least 31 March 2025.

Accruals of Income and Expenditure

The Accounts have been prepared using the accruals basis of accounting such that transactions are recorded based on when they fall due and not necessarily when settled in cash. In particular:

- Whether paid on-account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that the grant will be received, and all conditions associated with the grant will be satisfied.
- Amounts recognised as grants and contributions for which conditions have not been satisfied are carried forward in the Balance Sheet as creditors.
- When all conditions are satisfied, the grant or contribution is credited to the relevant service line or taxation and non-specific grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.
- All other income and expenditure amounts are recognised on an accruals basis reflecting the date the service was provided.
- Expenditure in relation to services received by the Council (including services provided by employees) is recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for as income and expenditure respectively, based on the effective interest rate for the relevant financial instrument.
- Where income or expenditure have been recognised but cash has not been received or paid, a debtor

- or creditor for the relevant amount is recorded in the Balance Sheet.
- Accruals are generally recognised where the value exceeds £10,000.

Comprehensive Income and Expenditure Account and the General Fund

The surplus or deficit on provision of services reported in the Comprehensive Income and Expenditure Statement is transferred to the General Fund. Amounts are then transferred to and from the General Fund under statutory provisions or to set aside specific amounts for future policy purposes or to cover contingencies. These amounts are shown in the Movement in Reserves Statement.

Amounts appropriated under Statutory Provisions

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution (Minimum Revenue Provision) in the General Fund, by way of an adjusting transaction to the Capital Adjustment Account through the Movement in Reserves Statement.

The written-off value of asset disposals is appropriated to the Capital Adjustment Account.

Amounts received for an asset sale in excess of £10,000 (or £5,000 for Investment Properties and Intangible Assets) are categorised as capital receipts and credited to the Capital Receipts Reserve. Amounts in the Capital Receipts Reserve can only be used to fund new capital investment or be set aside to reduce the Council's underlying need to borrow.

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year (REFCUS). Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the General Fund to the Capital Adjustment Account is made to reverse the amounts charged so there is no impact on Council Tax.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has been incurred are transferred to the Capital Adjustment Account.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has not yet been incurred are transferred to the Capital Grants Unapplied Reserve until such time that capital expenditure is incurred at which time the expenditure is transferred to the Capital Adjustment Account.

Statutory provisions require the General Fund balance is only charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Accordingly, amounts charged and credited in determining the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement are replaced with amounts actually paid to the pension fund via an appropriation to the Pensions Reserve for the difference.

Amounts set aside

The Council sets aside specific amounts as reserves for future liabilities or to cover contingencies by transferring amounts out of the General Fund to Earmarked Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service and transferred back into the General Fund. Amounts set aside and transferred back are shown in the Movement in Reserves Statement.

Property, Plant and Equipment

Assets that have physical substance and are used in the production or supply of goods or services, or for administrative purposes and that are expected to be held for more than one financial year are classified as Property, Plant and Equipment.

Recognition and Componentisation

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided that it exceeds a de minimus level of £5,000. Expenditure that is below the de minimus or maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g., repairs and maintenance) is charged as an expense.

Componentisation acknowledges that some assets are made up of different parts and that sometimes these parts have differing useful economic lives and should therefore be depreciated over different periods. Depreciating assets are subject to a review for componentisation where their individual carrying value is above 0.25% of the total carrying value of its asset class (Land and Buildings). On review, assets are componentised when by doing so would produce a depreciation charge of over £100,000 and more than double the difference compared with the depreciation charge if the asset isn't componentised.

Measurement

Purchased assets are initially measured at cost (usually the purchase price). Borrowing costs incurred whilst assets are under construction are not included in cost.

Donated assets are initially measured at historical cost with the difference between historic cost and any consideration paid being credited to taxation and non-specific grant Income in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment is carried in the Balance Sheet using the following measurement bases:

- Land and Buildings are carried at fair value. Fair value is determined as the amount that would be paid for the asset in its existing use (existing use value - EUV) for assets for which there is an active market (e.g., offices) and Depreciated Replacement Cost (DRC) for assets for which there is not an active market (e.g., schools). They are revalued regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.
- Infrastructure and Community Assets and Assets under Construction are valued at depreciated historical cost. In addition, and in relation to highways infrastructure assets specifically there is an assumption that these assets are fully depreciated before being replaced.
- Surplus assets are defined as those that are not being used to deliver services and do not fulfil the criteria to be classified as either Investment Properties or Assets Held for Sale. They are carried at fair value i.e., the price that would be received if an asset is sold or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. They are revalued regularly (every five years as a minimum) to ensure their carrying amount is not materially different from their fair value at the balance sheet date; and
- All Other Assets are held at depreciated historical cost as a proxy for fair value.

Where assets are carried at fair value the treatment of changes to the valuation are accounted for as follows:

- Increases in valuations are generally credited to the Comprehensive Income and Expenditure Statement as 'other comprehensive income and expenditure' and matched by an increase to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains will be credited to the Comprehensive Income and Expenditure Statement as a reduction in service cost if they arise from the reversal of a loss previously charged to a service;
- Decreases in valuations (up to the amount of any previously accumulated gains specific to that asset) are charged to the Comprehensive Income and Expenditure Statement as 'other comprehensive income and expenditure' and matched by a reduction to the Revaluation Reserve. Where the balance in the Revaluation Reserve is insufficient to absorb the decrease the remaining amount is charged against the relevant service line(s) in the Comprehensive Income and Expenditure Statement; and
- The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date are a constituent part of the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Impairment relates to the reduction on a permanent basis of a non-current asset due to a specific event such as fire, flooding, accidental damage and an act of God and associated perils. Impairment does not relate to general decreases in property value or the use of an asset in a specific way where its value be less than its historic cost and these will be informed via revaluations.

Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Impairment losses are treated in the same way as downward revaluations for the purposes of allocating between the Revaluation Reserve and the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Discontinued Use

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is charged to other operating expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account to offset this loss. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to other operating expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same part the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e., netted off against the carrying value of the asset at the time of disposal).

Depreciation and Amortisation

Depreciation is provided for on all assets identified as Property, Plant and Equipment and Amortisation is charged on Intangible Assets by the systematic allocation of their balance sheet amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e., freehold land), community assets and assets that are not yet available for use.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are recorded and depreciated separately.

Depreciation and Amortisation is charged over the useful life of the asset, using a method that reflects the pattern in which the asset's future economic benefits or service potential is expected to be consumed. The standard useful lives for new assets are as follows:

- Operational Buildings 30-60 Years
- Plant and Equipment 5-10 Years
- Vehicles 5-10 Years
- Infrastructure assets 15-65 Years
- Surplus Buildings 30-60 Years
- Intangible Assets 3-10 Years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the amount that would have been charged otherwise. This is based on the historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Post Employment Benefits (Pensions)

Employees of the Council are members of one of two separate pension schemes:

- The Local Government Pension Scheme, administered by Middlesbrough Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE).

Both Schemes provide defined benefits to members (retirement lump sums and pensions), based on total years of service and salaries earned as employees working for the Council.

The arrangements for the Teachers' Pension Scheme are such that the liabilities for the benefits cannot be identified specifically to the Council so the scheme is accounted for as a defined contribution scheme. The assets and liabilities of the scheme are excluded from the Council's Balance Sheet and only the value of actual contributions made are charged to the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme is accounted for as a defined benefit scheme. Accordingly, the net liabilities of the Scheme attributable to the Council (as determined annually by the Scheme's actuary) are included in the Council's Balance Sheet.

Liabilities are determined using the projected unit method. This is an assessment of the likely future payments that will be made in relation to retirement benefits earned to date by employees. Estimates are based on assumptions including retirement profiles, mortality rates and projected earnings for current employees. Estimated liabilities are then discounted to their value at current prices, using a discount rate based on the rate of return on high quality corporate bonds, which have been chosen to meet the requirements of IAS19.

The assets of the Scheme attributable to the Council are included in the Balance Sheet at their fair value as follows:

- Quoted securities - at current bid price and
- Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.
- Property - at market value.

The change in the Scheme's net liability from the previous year is analysed as follows:

Charged in the Comprehensive Income and Expenditure Statement

- Charged to Services
 - current service cost - the increase in liabilities as a result of additional service earned in the year.
- Charged as Central Costs
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to the years of service earned in earlier years.
 - gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees.
- Charged as Financing and Investment Income and Expenditure
 - interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid.
 - expected return on assets - the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return.
- Charged as Other Comprehensive Income and Expenditure
 - actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.
- Charged to the Pension Reserve
 - contributions paid - cash paid as employer's contributions to the pension fund in the year.

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g., cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g., time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable because of a decision by the Council to terminate a staff member's employment before the normal retirement date or a decision by a staff member to accept voluntary redundancy. Termination benefits are chargeable as non-distributed costs in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or makes an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at year end.

Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation's accounts and a financial liability in another's. These transactions can cover investments, cash, debtors, creditors, loans, derivatives and guarantees. For the Council these generally take the form of loans or similar borrowings and lendings. Gains and losses are separately identified in the Comprehensive Income and Expenditure Statement in accordance with IFRS9 on Financial Instruments

Financial Liabilities (Borrowing)

Financial liabilities are recognised when the Council becomes party to the contractual provisions of a financial instrument. These are usually as loans at amortised cost rather than fair value.

Interest payable on these financial instruments is determined as the difference between the initial fair value and the total of the cash amounts repayable over the life of the instrument. These are allocated to the Comprehensive Income and Expenditure Statement in variable instalments over the life of the financial instrument concerned.

Financial Assets

The Council holds financial assets that are classified as loans and receivables in that they have fixed or determinable payments but are not quoted in an active market. Loans and receivables are recognised when the Council becomes party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently carried at their amortised cost.

Interest receivable is determined as the difference between the initial fair value and cash amounts to be recovered over the life of the instrument and is allocated to the Comprehensive Income and Expenditure Statement in variable instalments over the life of the assets. For short-term assets, this is charged each month and for longer term by year.

Leases

IAS 17 – the current accounting standard in place for leasing identifies two classes of lease. Finance leases are contracts with the rights to use an asset, where substantially all of the risks and rewards of ownership pass to the lessee. All other leases under the standard are classified as operating leases.

The Council as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments being made (e.g., there may be a rent-free period at the commencement of the lease).

Finance Leases

Where the Council has the balance of risks and rewards in its possession, it will recognise a lease of this nature (for any property or equipment) as an asset in the Council's balance sheet at the lower of fair value or the present value of minimum lease payments, with a corresponding long-term liability covering the associated rental payments. The liability will be written down over time as the rental arrangement is repaid, with any interest being charged to financing and investment expenditure in the Comprehensive Income and Expenditure Statement.

The Council as Lessor

Operating Leases

The Council has numerous operating (rental) leases over certain properties and equipment in its ownership where the balance of risks and rewards of the contract remain under its discretion. These assets are retained in the Balance Sheet following normal principles relating to property, plant and equipment. Rental income is credited to the Comprehensive Income and Expenditure Statement against the relevant service line heading on a straight-line basis.

Finance Leases

Where the Council has granted a finance lease on any properties which are retained in the Balance Sheet, the asset will be derecognised from its accounts. A finance lease receivable will then be established representing the proceeds to be received over the lease term. Any amounts in respect of the principal value will reduce the lease debtor outstanding, with any amounts representing interest being credited to the Comprehensive Income and Expenditure Statement.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of March each year and the date when the Statement of Accounts is authorised for issue. Two types of events are possible:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the accounts are authorised for issue by the Director of Finance are not reflected in the Statement of Accounts.

Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours with insignificant risk of change in value. These deposits should not have a term of more than three months in total. Overdrawn bank accounts are presented in the balance sheet net only where there is a right of offset.

Changes in Accounting Policy

Changes in accounting policies are made when required by proper accounting practices or the change provides more reliable/relevant information to the user of the accounts. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Interests in Companies and Other Entities

The Council has one wholly owned subsidiary; Middlesbrough Development Company, which is involved in housing growth and has been consolidated into the Council's Group Accounts on a line-by-line basis, after first realigning accounting policies with the Council where appropriate and eliminating intra-Group transactions.

Investment Property

Investment properties are those assets held by the Council solely to earn rental income and/or for capital appreciation. These are not depreciated within the accounts. Instead, they are recorded in the balance sheet initially at cost and then subsequently revalued each year at fair value. This is based on the amount at which the asset could be exchanged between knowledgeable parties in an arm's length transaction.

Changes in valuation are charged or credited to financing and investment activities in the Comprehensive Income and Expenditure Statement.

Support Services and Overheads

The costs of support services and overheads are charged to those that benefit from the supply or service in

accordance with the basis of apportionment. The full cost of overheads and support services is shared between users in proportion to the benefits received.

Revenue Expenditure Funded by Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the General Fund to the Capital Adjustment Account is made to reverse the amounts charged so there is no impact on Council Tax.

Rounding

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

Values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match the core statements or other tables due to minor rounding differences only.

Schools

Local authority maintained schools are considered to be under the control of the Council. Consequently, the income, expenditure, assets and liabilities of maintained schools are accounted for in the single entity accounts of the Council.

The table below shows the different type of schools within the Borough but only the Community Schools are owned and included on the Council's balance sheet:

Type of School	No of Primary Schools	No of Secondary Schools	No of Special Schools	Total
Community	4	0	3	7
Foundation	5	0	0	5
Maintained	9	0	3	12
Academies (not under the control of LA)	32	8	2	42
Total	41	8	5	54

Value Added Tax (VAT)

The Comprehensive Income and Expenditure Account excludes amounts relating to VAT and will be included as an expense only if it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income within the Council's Income and Expenditure account.



Note 2 Accounting Standards Issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of the accounting change that will be required by a new standard that has been issued but not yet adopted.

At the balance sheet date, the following new standards and amendments to existing standards have been published and will be introduced by the 2024-25 Codes of Practice of Local Authority Accounting in the United Kingdom:

- **IFRS 16** has been deferred until the accounts relating to 2024-25 financial year. CIPFA has taken this decision in response to pressures facing councils in producing their Statement of Accounts.

Note 3 Critical Judgements in applying Accounting Policies

In applying the accounting policies laid out in Note 1, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts, these are as follows:

- On the grounds of control and significant influence, the Middlesbrough Development Company falls within the group boundary of the Council and therefore has been consolidated within the Council's group accounts.
- All maintained schools are considered entities controlled by the Council but rather than produce group accounts, the income, expenditure, assets and liabilities are recognised in the Council's single entity accounts in line with accounting standards.
- The Council recognises school assets for community schools on its balance sheet because the Council has assessed that the rights and obligations associated with such schools rest with the Council.
- The accounting disclosure requirements for Local Authorities pension obligations are set out in International Accounting Standard (IAS) 19. The Council uses a firm of actuaries to calculate these figures as they involve making a number of complex judgements with regard to future events including the rate of increase in salaries, mortality rates, changes in the discount rate and the expected return on equity investments. Results under IAS 19 can change dramatically depending upon the prevailing

market conditions leading to volatility on the net pension asset on the Council's balance sheet and the pension expense in the Comprehensive Income and Expenditure Statement.

- Judgement is required to as to whether the conditions of specific grants received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where the grant conditions require associated expenditure to be incurred, the grant monies will not be recognised as income in the financial year, until this expenditure is incurred. Grant income is not recognised until the conditions of the grant are met.

Note 4 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts includes some estimated figures, which are based on assumptions about the future that are otherwise uncertain. Estimates are made using historical experience, current trends and other relevant and appropriate criteria. These estimations cannot be determined with certainty therefore, actual results could be materially different from the assumptions and estimates used. The items in the Council's Balance Sheet at 31 March 2023 where there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Valuation, where required of Property, Plant and Equipment, Heritage assets and Investment properties.	Valuation of property involves assessment of a number of variables such as market conditions, useful life, cost of reconstruction, assessment of condition, etc. Qualified Chartered Surveyors, or experts in the relevant field undertake valuations however, these can be subject to market uncertainties. Revaluations, in accordance with the local authority accounting code of practice are carried out on a 5-year rolling cycle or where there is evidence of a material change in value.	At 31 March 2023, the Council had land and buildings to the value of £217.124m, and investment properties to the value of £31.115m. A 1% change in the estimation of property values would lead to a £2.17m change in the value of the Council's land and buildings and £311,155 change in the value of the Council's investment properties. These changes to valuations would not have a direct impact on the Council's general fund, since any effect charged to the CIES would be reversed to the Council's unusable reserves.
Pension Liability	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates. The Council has engaged Hymans Robertson as its actuary to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assessments can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £19.849m. Note 39 provides further details.
Bad Debt Provision	The Council has determined its bad debt provision of £27.8m (covering collection fund and general revenue activities) based on a range of factors including the age of the debt and the action that has been undertaken by the Council to liaise with the debtor to recover debt.	If collection rates were to deteriorate by 0.1%, the amount for the provision of doubtful debts would increase by £278k.

Note 5 Events after the Balance Sheet Date

There are no significant events at the authorised for issue date (28 December 2023), that affect any of the values in either the Financial Statements for the Council for 2022-23 or in the Notes to the Accounts.

Two items to note that have occurred since the balance sheet date however are as follows:

- Three Lender Option Borrower Options (LOBO) loans totally £15m have been repaid. Two have been called in by the lending institutions due to increases in the UK bank interest rate and one has now matured and been repaid.
- The closure of Middlesbrough Development Company has continued during the 2023-24 year to date. The vast majority of the £6.1m councils lending to the company has now been repaid and all other activities, assets and liabilities are in the process of being transferred back to the Council which is anticipated to conclude by 31 March 2024.

Notes Supporting the Movement in Reserves Statement

Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are required to be made to Income and Expenditure recognised by the Council within the year so they match to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure, in accordance with proper accounting practice.

2022-23	General Fund Balance	Capital Receipts Reserve	Revenue Unapplied	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000
Adjustments Affecting Capital Reserves					
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(15,978)	-	-	-	15,978
Revaluation Losses on Property, Plant and Equipment (Note 23)	(11,596)	-	-	-	11,596
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	4,573	-	-	-	(4,573)
Amortisation of Intangible Assets (Note 27)	(427)	-	-	-	427
Transfer between Capital grants Unapplied and General Fund	-	-	-	-	-
Total Capital Grants (Note 11)	34,144	-	-	-	(34,144)
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	-	-	-	(534)	534
Donated Assets (Note 23)	566	-	-	-	(566)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(14,731)	-	-	-	14,731
Non-current assets written off on disposal or sale (Note 23,25,27,28)	(529)	-	-	-	529
Non-current Assets written off - Investment properties	(212)	-	-	-	212
Cost of Lease Surrender	-	-	-	-	-
Statutory provision for the financing of capital investment (Note 21)	3,383	-	-	-	(3,383)
Capital Receipts Reserve used to finance new capital spend (Note 21)	-	755	-	-	(755)
Capital expenditure charged against the General Fund (Note 21)	(23)	-	23	-	(0)
Transfer on receipt of cash	-	-	-	-	-
Total Adjustments Affecting Capital reserves	(829)	755	23	(534)	585
Amounts Affecting the Pension Reserve					
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 39)	(43,258)	-	-	-	43,258
Employer's pension contribution payable in year (Note 39)	11,747	-	-	-	(11,747)
Amounts Affecting the Collection Fund Adjustments Account					
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	7,646	-	-	-	(7,646)
Amounts Affecting the Compensated Absences Adjustment Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(88)	-	-	-	88
Amounts Affecting the DSG Adjustment Account					
Transfer schools deficit to the DSG adjustment account	(2,808)	-	-	-	2,808
Amounts between Usable Reserves					
Cash proceeds on disposal of Non-Current Assets	755	(755)	-	-	-
Total Adjustments for the year ended 31 March 2023	(26,835)	-	23	(534)	27,346

2021-22	General Fund Balance	Capital Receipts Reserve	Revenue Unapplied	Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000
Adjustments Affecting Capital Reserves					
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Statement:					
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(16,076)	-	-	-	16,076
Revaluation Losses on Property, Plant and Equipment (Note 23)	(3,539)	-	-	-	3,539
Movement in the fair value of Investment Properties and Assets for Sale (Note 26,28)	459	-	-	-	(459)
Amortisation of Intangible Assets (Note 27)	(1,272)	-	-	-	1,272
Transfer between Capital grants Unapplied and General Fund	-	-	-	-	-
Total Capital Grants (Note 11)	44,289	-	-	-	(44,289)
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	-	-	-	(23,485)	23,485
Donated Assets (Note 23)	1,548	-	-	-	(1,548)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(14,555)	-	-	-	14,555
Non-current assets written off on disposal or sale (Note 23,25,27,28)	(8,325)	-	-	-	8,325
Non-current Assets written off - Investment properties	(400)	-	-	-	400
Cost of Lease Surrender	-	-	-	-	-
Statutory provision for the financing of capital investment (Note 21)	5,036	-	-	-	(5,036)
Capital Receipts Reserve used to finance new capital spend (Note 21)	-	13,482	-	-	(13,482)
Capital expenditure charged against the General Fund (Note 21)	(8)	-	28	-	(20)
Transfer on receipt of cash	-	-	-	-	-
Total Adjustments Affecting Capital reserves	7,157	13,482	28	(23,485)	2,818
Amounts Affecting the Pension Reserve					
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 39)	(42,795)	-	-	-	42,795
Employer's pension contribution payable in year (Note 39)	11,081	-	-	-	(11,081)
Amounts Affecting the Collection Fund Adjustments Account					
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	14,087	-	-	-	(14,087)
Amounts Affecting the Compensated Absences Adjustment Account					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(248)	-	-	-	248
Amounts Affecting the DSG Adjustment Account					
Transfer schools deficit to the DSG adjustment account	(465)	-	-	-	465
Amounts between Usable Reserves					
Cash proceeds on disposal of Non-Current Assets	13,487	(13,487)	-	-	-
Total Adjustments for the year ended 31 March 2022	2,304	(5)	28	(23,485)	21,158

Note 7 Earmarked Reserves

	Balance at 1 April 2021	Transfers Out	Transfers In	Balance at 1 April 2022	Transfers Out	Transfers In	Transfers between reserves	Balance at 31 March 2023
	£000	£000	£000	£000	£000	£000	£000	£000
Schools Balances	(4,863)	(4,805)	4,866	(4,802)	(4,232)	5,393	-	(3,641)
Significant Revenue Reserves								
Invest to Save / Change Programme	(445)	(417)	688	(174)	(230)	404	(756)	(756)
Revenue Grants Unapplied	(11,098)	(11,710)	11,151	(11,657)	(10,591)	11,710	5,662	(4,876)
Insurance Fund	(306)	(312)	501	(116)	-	88	-	(28)
Capital Re-Financing Reserve	(175)	-	175	-	-	-	-	-
Public Health Reserve	(438)	(230)	-	(668)	-	539	-	(129)
Business Rates Reserve	(10,555)	(6,040)	9,751	(6,844)	-	6,617	227	-
Covid Recovery reserve	(4,512)	-	4,512	-	-	-	-	-
Social Care Transformation Reserve	-	(7,072)	-	(7,072)	-	5,274	1,798	-
Financial Resilience Reserve							(1,798)	(1,798)
Children's Care Demand Reserve	(732)	-	732	-	-	-	-	-
Total Significant Reserves	(28,261)	(25,781)	27,510	(26,532)	(10,821)	24,632	5,133	(7,588)
Other Revenue Reserves	(1,920)	(12,358)	11,237	(3,041)	-	1,265	(227)	(2,003)
Total Earmarked Reserves	(35,044)	(42,944)	43,613	(34,375)	(15,053)	31,290	4,906	(13,231)

Details of some of the more significant earmarked reserves are set out below:

Schools Balances

This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred in the year for all the Middlesbrough Council schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are carried forward and specifically earmarked for use by schools in future years.

Invest to Save / Change Programme - the reserve has been set up to pay for the one-off costs associated with implementing change within services including the funding of investment to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.

Revenue Grants Unapplied – In situations where there are no grant conditions or that conditions have already been met, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year-end. These have been recognised as income in prior years in the Comprehensive Income & Expenditure Statement.





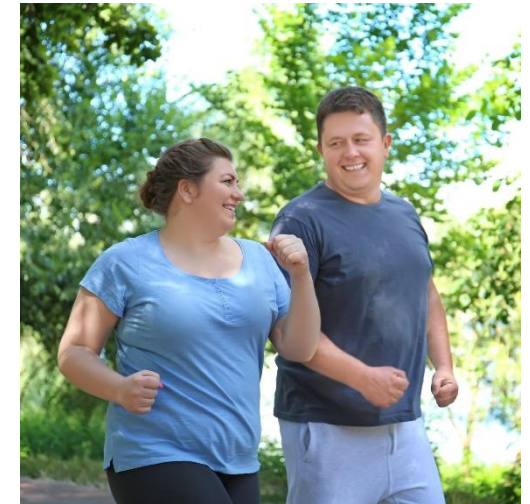
Insurance Fund - the internal Insurance Fund was set up to cover all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers' liability, fire, motor, marine, engineers, public liability, and money losses.

Public Health – savings achieved in 2020-21 due to the pandemic. Mainly due to less demand on core services. The transfer to reserves will give greater capacity in managing unexpected costs in future years.

Business Rates - the reserve has been set up to cover the financial risks associated with the Business Rates Retention Scheme, due to volatility of the Business Rates tax base and collection rates. It also includes Section 31 grant, which is payable in advance and offsets losses incurred in 2020-21 due to the pandemic on NNDR. This will be spread between 2020-21 and 2022-23 to offset losses on the collection fund account.

Financial Resilience Reserve – the reserve has been created during the 2022-23 financial year to accommodate any in-year financial pressure in the delivery of the 2023-24 budget due to increased demand for services and non-achievement of savings targets.

Social Care Transformation Reserve - This reserve is to fund potential pressures in Children's Services due to the ongoing effects of the continued transformation work and that which will take place within Adult Social Care in relation to Fair Cost of Care and Social Care Reforms.



Note 8 Expenditure and Funding Analysis

The Expenditure and Funding Statement shows how revenue expenditure is used and funded from resources raised (government grants, rents, council tax and business rates) by local authorities, in comparison with those resources consumed by authorities in accordance with generally accepted accounting practice. It also shows how this expenditure is allocated for decision-making purposes between the Council's directorates.

Expenditure and Funding Analysis										
2021-22					Service Area	2022-23				
Net Expenditure at 31 March as reported to Council (Outturn)	Adjustment between Outturn report and chargeable to the General Fund	Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure at 31 March as reported to Council (Outturn)	Adjustment between Outturn report and chargeable to the General Fund	Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
3,522	(13)	3,509	12,419	15,928	Regeneration	(2,206)		(2,206)	30,388	28,182
(3,870)	-	(3,870)	(5,907)	(9,777)	Public Health and Public Protection	(3,434)	-	(3,434)	(2,651)	(6,085)
360	(2)	358	6,236	6,594	Education	5,590		5,590	11,996	17,586
48,332	(4,216)	44,116	9,540	53,656	Children's Care	54,832	-	54,832	6,868	61,700
38,706	-	38,706	4,725	43,431	Adult Social Care and Health Integration	46,448		46,448	8,207	54,655
21,368	(263)	21,105	27,657	48,762	Environment and Commercial Services	20,967		20,967	17,750	38,717
(816)	1	(815)	6,906	6,091	Finance	3,999		3,999	5,215	9,214
10,638	(526)	10,112	5,327	15,439	Legal & Governance Services	10,545	-	10,545	4,389	14,934
715	244	959	(2,630)	(1,671)	Central Costs	(15,100)	(557)	(15,657)	6,530	(9,127)
-	390	390	-	390	Covid Support		-	-	-	-
118,955	(4,385)	114,570	64,273	178,843	Net Cost of Service	121,641	(557)	121,084	88,692	209,776
(116,493)	-	(116,493)	(64,668)	(181,161)	Other Income and Expenditure	(118,329)	-	(118,329)	(46,932)	(165,260)
2,462	(4,385)	(1,923)	(396)	(2,318)	Surplus or Deficit on Provision of Services	3,312	(557)	2,755	41,760	44,515
		(10,500)			Opening Uncommitted General Fund Balance			(11,183)		
		(1,923)			Surplus or (Deficit) on General Fund Balance in year			(2,755)		
		1,240			Contribution/(use) in year			1,896		
		(11,183)			Closing Uncommitted General Fund Balance			(12,042)		

Adjustments between Funding and Accounting Basis				
2022-23				
Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Regeneration and Culture	21,402	2,179	6,807	30,388
Public Health	-	1,260	(3,911)	(2,651)
Education & Partnerships	4,610	4,355	3,032	11,997
Children's Care	1,041	4,614	1,213	6,868
Adult Social Care and Health Integration	1,459	4,493	2,255	8,207
Environment & Community Services	12,396	5,407	(54)	17,749
Finance	-	2,111	3,104	5,215
Legal & Governance Services	1,746	2,289	354	4,389
Central Costs	(3,306)	(1,204)	11,041	6,531
Covid-19 Support	-	-	-	-
Net Cost of Services	39,348	25,504	23,841	88,693
Other Income and Expenditure from the Expenditure and Funding Analysis	(39,298)	6,006	(13,640)	(46,932)
Difference between General Fund Surplus/ Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services	50	31,510	10,201	41,761

Adjustments between Funding and Accounting Basis				
2021-22				
Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Regeneration and Culture	6,519	1,419	4,481	12,419
Public Health	-	1,055	(6,962)	(5,907)
Education & Partnerships	2,345	4,128	(237)	6,236
Children's Care	4,553	4,475	512	9,540
Adult Social Care and Health Integration	1,235	4,312	(822)	4,725
Environment & Community Services	18,025	5,889	3,743	27,657
Finance	152	2,493	4,261	6,906
Legal & Governance Services	2,541	2,207	579	5,327
Central Costs	72	(1,241)	(1,461)	(2,630)
Covid-19 Overspend	-	-	-	-
Net Cost of Services	35,442	24,737	4,094	64,273
Other Income and Expenditure from the Expenditure and Funding Analysis	(51,059)	6,729	(20,339)	(64,669)
Difference between General Fund Surplus/Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services	(15,617)	31,466	(16,245)	(396)

The Council's income and expenditure is analysed as follows in term of type of expenditure:

	2021-22 £'000	2022-23 £'000
Expenditure		
Employees	150,112	159,764
Other Service Expenditure	253,001	256,385
Depreciation and other Capital Charges	35,410	38,251
Interest Payments	6,843	6,494
Precepts and Levies	152	169
Total Expenditure	445,519	461,063
Income		
Government Grants and Contributions	(318,556)	(282,157)
Income from Council Tax and Non-Domestic Rates	(81,160)	(86,078)
Interest and Investment Income	(363)	(583)
Fees, Charges and Other Service Income	(47,758)	(47,730)
Total Income	(447,837)	(416,548)
Deficit on the Provision of Services	(2,318)	44,515

The Council's Fees, Charges and Other Services Income is analysed by type in the table below:

	2021-22 £'000	2022-23 £'000
Rent Income	(7,112)	(10,142)
Parking	(1,740)	(1,705)
Support Services	(1,277)	(1,440)
Education Services	(6,319)	(6,867)
Licensing	(749)	(1,084)
Highways, Buildings and Streetlight Maintenance	(4,146)	(3,841)
Covid-19	-	-
Revenues and Benefits	(2,459)	(2,228)
Museums and Entertainment Venues	(2,693)	(2,697)
Catering	(4,743)	(4,801)
Commissioning	(1,357)	(1,690)
Bereavement Services	(2,324)	(2,202)
Fleet Management	(921)	(69)
Residential Care	(7,069)	(6,815)
Other Income	(4,852)	(2,149)
Total Fees, Charges and Other Service Income	(47,759)	(47,731)

Note 9 Other Operating Income and Expenditure

2021-22 £000		2022-23 £000
152	Town and Parish Council precepts	169
(5,162)	(Gains) / Losses on the disposal of net current assets	(226)
(5,010)	Total	(58)

There has been a decrease in the gains on the disposal of non-current assets due to the reduction in capital receipts in 2022-23.

Note 10 Financing and Investment Activities

2021-22 £000	Financing & Investment Income	2022-23 £000
6,843	Interest payable and similar charges	6,494
8,823	Trading Activities (Note 16)	13,997
(59)	Charges in relation to Investment property and changes in their fair value (Note 26)	(4,361)
6,977	Net Pension Interest Costs (Note 39)	6,006
(363)	Interest receivable and similar income	(583)
(13,867)	Trading Activities (Note 16)	(17,637)
8,354	Total	3,916

Note 11 Taxation and Non-Specific Grant Income

2021-22 £000		2022-23 £000
(69,735)	Council Tax Income	(64,440)
(11,425)	Business rates Income	(21,638)
(57,507)	Non-Ring-fenced Government Grant (Note 12)	(48,330)
(1,549)	Value of Donated Property, Plant & Equipment Assets (Note 23)	(566)
(44,289)	Capital Grants / Contributions (Note 12)	(34,145)
(184,505)	Total	(169,119)

The amount for business rates and the non-ringed fenced government grants reflect the change from government support for business through Covid to a return to normal.

Note 12 Grant Income

The following grants, contributions and donations were credited to the Comprehensive Income and Expenditure Statement in 2022-23.

31 March 2022 £000		31 March 2023 £000
(12,245)	Revenue Support	(12,598)
(27,299)	Business Rates Top-up	(27,299)
(250)	New Homes Bonus	(855)
(16,986)	Business Rates Section 31	(7,676)
(596)	Enterprise Zone Funding	98
(131)	Renewable Energy	-
(57,507)	Total Taxation and Non-Specific Grant Income (Note 11)	(48,330)
	Department for Education (DfE)	
(53,987)	Dedicated Schools Grant	(52,852)
(4,085)	Pupil Premium	(4,010)
-	Education Services	-
(767)	Education and Skills Funding Agency	(517)
-	Staying Put Agency	-
(330)	Universal Infant Free School Meals	(315)
-	High Needs Sixth Form Funding	-
-	Supporting & Strengthening Families	-
(250)	PE & Sport	(94)
(2,823)	Other DfE grants	(4,248)
	Department for Levelling Up, Housing, Communities (DLUHC)	
(1,828)	Independent Living	(1,828)
(6,339)	Adult Social Care Grant	(12,614)
(8,391)	Improved Better Care Fund	(5,086)
(846)	Troubled Families	(1,037)
-	Winter Pressures	-
-	Migration Fund	-
(12,607)	Covid19	-
(3,759)	Other DLUHC grants	(7,794)
	Home Office	
(894)	Youth Justice Good Practice Grant	(1,069)
(458)	Other Home Office	(950)
	Department for Business, Energy and Industrial Strategy (BEIS)	
(1,223)	BEIS grants	(44)
	Department for Digital, Culture, Media and Sport (DCMS)	
(1,149)	DCMS grants	(461)
	Department for Work and Pensions (DWP)	
(44,805)	Housing Benefit Subsidy	(42,495)
(726)	Housing Benefit Admin	(379)
(2,088)	Other DWP Grants	(4,575)
	Department of Health and Social Care (DHSC)	
(19,894)	Public Health	(17,731)
(8,535)	Covid 19	(89)
-	Project Adder	(1,350)
(312)	Other DHSC grants	(2,305)
	Department for Environment, Food and Rural Affairs (DEFRA)	
(6)	DEFRA grants	(28)
	Department for Transport (DfT)	
(53)	DfT grants	(58)
	Lottery Grants	
-	Other Lottery Grants	-
	Cabinet Office	
125	Elections	101
(445)	Other Grants	(569)
(176,475)	Total Revenue Grants Credited to Services	(162,395)

31 March 2022 £000		31 March 2023 £000
	Other Contributions	
(153)	South Tees Clinical Commissioning Group	-
(111)	Tees, Esk and Wear Valleys NHS Foundation Trust	(114)
(221)	South Tees Hospitals NHS Foundation Trust	(200)
(28,829)	Tees Valley Clinical Commissioning Group	(2,635)
(2,839)	Redcar and Cleveland Borough Council	(2,763)
(1,348)	Stockton-on-Tees Borough Council	(1,560)
(828)	Hartlepool Borough Council	(561)
(60)	Darlington Borough Council	(67)
(4,980)	Tees Valley Combined Authority	(3,602)
(377)	Police and Crime Commissioner	(326)
(539)	Other Contributions	(25,458)
(40,285)	Total Revenue Contributions Credited to Services	(37,286)
(274,267)	TOTAL REVENUE GRANTS AND CONTRIBUTIONS	(248,012)

2021-22 £000		2022-23 £000
	Department for Education (DfE)	
(1,651)	School Condition Allocation	(1,013)
(8,679)	Basic Need	(1,367)
(418)	Other DfE grants	(4,233)
	Ministry of Housing, Communities and Local Government (MHCLG)	
(2,268)	Disabled Facility	(2,268)
(8,170)	Future High Streets	(1,021)
(3,717)	Towns Fund	(3,450)
(1,283)	other MHCLG grants	(168)
	Department of Health and Social Care (DHSC)	
-	Other DHSC grants	-
	Department for Transport (DfT)	
(3,403)	Local transport Plan	(3,404)
-	Other DfT Grants	-
	Tees Valley Combined Authority	
(8,753)	Other TVCA Grants	(12,178)
(682)	Other Grants	(523)
-	Other Contributions	-
(4,579)	Housing Development	(12)
(686)	Other Contributions	(4,508)
(44,289)	Total Capital Grants	(34,145)
(318,556)	TOTAL GRANTS 2022-23	(282,157)

There has been a decrease in government grant funding 2022-23 due to less revenue grants being available to support the authority following a return to normal after the Covid-19 pandemic, and a year-on-year reduction in capital grants available to support the capital programme.

Note 13 Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring fenced and can only be applied to meet expenditure properly included in the schools Budget, as defined in The School and Early Years Finance (England) Regulations 2022. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school.

Details of DSG funded expenditure for 2022-23 is set out below:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2022-23 before Academy recoupment			168,621
Academy figure recouped for 2022-23			110,104
Total DSG after Academy recoupment for 2022-23			58,518
Plus: Brought forward from 2021-22			-
Less: Carry Forward to 2022-23 agreed in advance			-
Agreed initial budgeted distribution for 2022-23	20,438	38,080	58,518
In year adjustments	-	529	529
Final budgeted distribution for 2022-23	20,438	38,609	59,047
Less: Actual central expenditure	17,942		17,942
Less: Actual ISB deployed to schools		43,914	43,914
Plus: Local Authority contributions for 2022-23	-	-	-
Balance Carried Forward	38,380	82,523	120,903
Plus: Carry-forward to 2023-24 agreed in advance			-
Carry-forward to 2023-24			-
DSG unusable reserve at the end of 2021-22			(3,756)
Addition to DSG unusable reserve at the end of 2022-23			(2,809)
Total of DSG unusable reserve at the end of 2022-23			(6,565)
Net DSG position at the end of 2022-23			(6,565)

The total level of reserves and balances held by the schools can be found in Note 38 (Unusable Reserves)



Note 14 Officers' Remuneration

Senior Employees' Remuneration

The Accounts and Audit Regulations (England) 2015 requires the separate disclosure and analysis of remuneration for **senior employees** (defined by the regulations as those employees, who report into the Head of Paid Service – the Chief Executive or are deemed under regulations as statutory officers of the Council).

2022-23	Salary (including fees and allowances) £	Pension contributions paid for by the Council £	payment for loss of office	Total including pensions contribution £
Chief Executive – Tony Parkinson Left March 2023	156,885	18,042	98,366	273,293
Director of Finance Left July 2022 *	31,689	3,644	-	35,333
Director of Adult Social Care and Health Integration	109,323	12,572	-	121,895
Director of Environment and Community Services	96,478	10,916	-	107,394
Director of Regeneration and Culture	97,890	11,257	-	109,147
Executive Director of Children's Services Left December 2022 **	95,652	11,000	-	106,652
Head of Legal and Governance Services – Monitoring Officer	102,900	11,834	-	114,734
Director of Education and Partnerships	96,478	11,095	-	107,573
Director of Public Health	97,890	11,257	-	109,147

* Director of Finance paid via Agency from August 2022 – Penna PLC £114,000

**Executive Director of Childrens Services paid via agency from December 2022 £87,847

2021-22	Salary (including fees and allowances) £	Pension contributions paid for by the Council £	Total including pensions contribution £
Chief Executive – Tony Parkinson	154,960	17,820	172,780
Director of Finance	91,731	10,549	102,280
Director of Adult Social Care and Health Integration	107,398	12,351	119,748
Director of Environment and Community Services	94,405	10,857	105,262
Director of Regeneration and Culture	97,356	11,196	108,551
Executive Director of Children's Services	125,610	14,445	140,055
Head of Legal and Governance Services – Monitoring Officer	93,141	10,711	103,853
Director of Education and Partnerships	93,141	10,711	103,853
Director of Public Health	95,965	11,036	107,001
Head of Marketing and Communications	54,024	6,288	60,311

Other Employees' Remuneration

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeding £50,000 is shown below in bands of £5,000.

2021-22 Number of Employees at 31 March			Remuneration	2022-23 Number of Employees at 31 March		
MBC	Schools	Total		MBC	Schools	Total
38	14	52	£50,000 - £54,999	53	17	70
21	7	28	£55,000 - £59,999	19	10	29
11	3	14	£60,000 - £64,999	13	6	19
5	1	6	£65,000 - £69,999	8	2	10
7	5	12	£70,000 - £74,999	7	5	12
1	5	6	£75,000 - £79,999	4	3	7
2	2	4	£80,000 - £84,999	2	2	4
-	-	-	£85,000 - £89,999	-	3	3
-	-	-	£90,000 - £94,999	-	-	-
1	-	1	£95,000 - £99,999	-	-	-
-	-	-	£100,000 - £104,999	-	-	-
-	-	-	£105,000 - £109,999	-	-	-
-	-	-	£110,000 - £114,999	-	-	-
-	-	-	£115,000 - £119,999	-	-	-
-	-	-	£120,000 - £124,999	-	-	-
-	-	-	£125,000 - £129,999	-	-	-
-	-	-	£130,000 - £134,999	-	-	-
1	-	1	£135,000 - £139,999	1	-	1
-	-	-	£140,000 - £144,999	-	-	-
-	-	-	£145,000 - £149,999	-	-	-
-	-	-	£150,000 - £154,999	-	-	-
-	-	-	£155,000 - £159,999	-	-	-
-	-	-	£160,000 - £164,999	-	-	-
-	-	-	£165,000 - £169,999	-	-	-
-	-	-	£170,000 - £174,999	-	-	-
87	37	124	Total	107	48	155

Remuneration is all amounts receivable by an employee, including expenses and allowances chargeable to tax and the estimated money value of any other benefits received excluding pension contributions.

Exit Packages

Details of exit packages are set out in the tables below in bands of £20,000 for amounts up to £100,000 and bands of £50,000 thereafter:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band [(b) + (c)]		Total cost of exit packages in each band	
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22 £'000	2022-23 £'000
£0 – £20,000	1	-	41	81	42	81	196	197
£20,001 – £40,000	-	-	5	3	5	3	146	82
£40,001 – £60,000	-	-	-	1	-	1	-	51
£60,001 – £80,000	-	-	2	-	2	-	138	-
£80,001 – £100,000	-	-	3	1	3	1	207	98
£100,000 – £150,000	-	-	-	-	-	-	-	-
Over £150,001	-	1	-	-	-	1	-	176
Total	1	1	51	86	52	87	687	604

Note 15 Members' Allowances and Expenses

2021-22 £000		2022-23 £000
341	Basic Allowance Paid	340
174	Special Responsibility Allowances Paid	185
5	Expenses	6
520	Total	531

Note 16 Trading Operations

The Council has established a number of trading services which are required to operate in a commercial environment and balance their budgets by generating income from other Council departments or from external organisations. Details of these operations are given below:

2021-22				2022-23		
Income £'000	Expenditure £'000	(Surplus) / Deficit £'000		Income £'000	Expenditure £'000	(Surplus) / Deficit £'000
(4,963)	1,376	(3,587)	Commercial and Industrial Properties	(8,639)	5,457	(3,181)
(2,537)	2,165	(372)	Building Maintenance, Cleaning and Security	(2,548)	2,736	188
(1,624)	856	(768)	Parking	(1,701)	812	(889)
(4,743)	4,426	(316)	Schools Catering	(4,749)	4,992	243
(13,867)	8,823	(5,043)	Total	(17,637)	13,997	(3,640)

Note 17 Audit Fees

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and non-audit services provided by the Council's external auditors:

2021-22 £000		2022-23 £000
178	Fees payable to our current External Auditors, EY, with regard to their services carried out as appointed Auditor	290
19	Fees Payable to the Auditor, EY for the certification of Grant Claims and Returns	21
75	Additional charges due to our current External Auditors, EY for an overrun in respect of 2019-20	-
-	Additional charges due to our current External Auditors, EY for an overrun in respect of 2020-21	86
272	Total	397

The increase in the level of fees from Ernst & Young relates to the developing complexity of local authority audits, the requirements of the Audit Code of Practice and the value for money assessment. The above total of £0.397m is the Councils estimate of the costs involved but this will only be known fully once the external audit process is completed.

Note 18 Agency Services

The only significant agency arrangement in place in 2022-23 was relating to the government package of support known as the Energy Bills Rebate to help households with rising energy bills. As part of this the Council was instructed to use Council Tax account records to make a £150 non-repayable rebate for households in England in council tax bands A – D, known as the Council Tax Rebate. For those eligible residents that paid their Council Tax by direct debit, a one-off payment was made directly to their bank account. An option was given to those remaining eligible residents to either provide appropriate bank details to receive the payment directly into their bank account or to have the £150 credited to their Council Tax account.

In addition to this there were residual Covid-19 Grants where Government instructed the Council to issue grants to qualifying third party businesses or individuals in need.

The total value of agency payments issued by the Council was £9m, which has not been recognised in the Income & Expenditure Statement as follows:

Agency Services	£
Support for Energy Bills - Council Tax Rebate	8,736
COVID_19 - Omicron Hospitality & Leisure Grants	315
Other Covid-19 Support	5
Total	9,056

Note 19 Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers of the accounts to assess the extent to which the Council might be constrained in its ability to operate independently or to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for

providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government Departments are set out in Note 12. Debtor and Creditor balances for Central Government bodies are shown in Notes 32 and 35.

Senior Officers and Members

The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and a separate survey of both Members and Senior Officers, the following disclosures meet the criteria for related party transactions on behalf of the Council. The Head of Finance & Investments for the council was a Director for Middlesbrough Development Company and for Veritau Tees Valley Ltd during the 2022-23 financial year. Both engagements have ended during the 2023-24 financial year under the new Council policy for wholly and partially own local authority companies.

Teesside Pension Fund

Details of all transactions with the Pension Fund are shown in the Teesside Pension Fund section of the Statement of Accounts. Specifically, the Council made contribution payments as an employer of £14.787m (2021-22 - £8.6m) and made charges to the Fund for Support Services of £0.765m (2021-22 - £1.147m).

Middlesbrough Development Company

As set out in the narrative report, the Council set up a wholly owned subsidiary company in February 2019 to develop the housing supply and underused sites in the local area. Middlesbrough Development Company has been given £5.257m of Section 106 funding previously received by the Council and has received a commercial loan for the remaining £6.063m. It has spent £12.238m of the allocated funding (including general running costs). This spending was on capital works for the Boho Village Bright Ideas project and Newbridge Court project following the demolition of the old Tollesby shopping precinct in early 2020.

A number of elected members and senior officers sit on the management committees or boards of local organisations. The significant transactions that the Council had with these organisations are listed below:

Related Parties Year Ended 2022-23				
Organisation	Expenditure transactions in year £'000	Income Transactions in year £'000	Year End Creditor Balances £'000	Year End Debtor Balances £'000
Cleveland Combined Fire Authority	2,474	0	-	-
Cleveland Police and Crime Panel	249	-	66	-
Community Ventures (Middlesbrough) Ltd	39	-	-	-
Groundwork North East Tees Valley Advisory Board	29	7	-	3
Local Government Association	33	-	-	-
Middlesbrough Citizens Advice Bureau - Management Committee	400	33	-	-
Middlesbrough Environment City Trust Limited	250	16	-	-
Middlesbrough Voluntary Development Agency	86	-	-	-
North East Regional Employers' Organisation (NEREO)	80	-	56	-
South Tees Hospitals NHS Foundation Trust Council of Governors	327	67	102	94
Tees Valley Combined Authority Board	5,345	-	-	-
Teesside Ability Support Centre (TASC)	519	1	-	-
Veritau	176	-	-	-
TOTAL	10,010	124	224	98

Note 20 Pooled Budgets

A pooled budget (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities. Middlesbrough Council has two Pooled Budgets, the Better Care Fund and Tees Community Equipment Service.

As host to the Better Care Fund and the Tees Community Equipment Service, the Council is required to include a memorandum account for both pooled budgets in its accounts. Only Middlesbrough's share of the pooled budget's expenditure and income is included in the Comprehensive Income and Expenditure Statement.

Better Care Fund

The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.

Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCGs to establish and maintain pooled funds to support the outcomes of the BCF.

The Council has entered a pooled budget arrangement with NHS Tees Valley Clinical Commissioning Group (TVCCG) for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or TVCCG depend upon the needs of the service recipient. The Council and TVCCG have an ongoing Section 75 agreement in place for funding these services and this is reviewed annually. The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund Section 75 agreement.

The aims and benefits for the partners entering into this agreement are to:

- Improve the quality and efficiency of the services and in particular reduce the number of non-elective admissions to acute hospitals.
- Meet the national conditions and local objectives of the Government's Better Care Fund; and
- Make more effective use of available resources through the establishment and maintenance of a pooled fund for revenue and capital expenditure on the services.

2021-22		2022-23		
BCF £'000		BCF £'000	Discharge Fund £'000	Total Pool £'000
(621)	Balance Brought Forward	(1,912)	-	(1,912)
	Funding Provided to the Pooled Budget			-
(3,567)	The Authority	(4,509)	(632)	(5,141)
(8,392)	IBCF	(8,646)	-	(8,646)
(13,393)	Tees Valley CCG	(13,448)	(663)	(14,111)
(25,352)		(26,603)	(1,295)	(27,898)
	Expenditure Met from the Pooled Budget			
11,217	The Authority	31,695	891	32,586
8,392	IBCF	(8,646)	-	(8,646)
2,769	Tees Valley CCG	3,393	230	3,623
22,378		26,442	1,121	27,563
1,683	Capital Amounts slipped into 2023-24	1,177	-	1,177
(1,912)	Net surplus arising on the pooled budget to be carried forward	(896)	(174)	(1,070)

Tees Community Equipment Service

The Tees Community Equipment Service is a partnership established by an agreement under Section 31 of the Health Act 1999. The partnership agreement covers the costs of administering the Tees Community Equipment Service including:

- The procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination, and recycling of community equipment provided to support vulnerable or disabled service users living in the community;
- To provide and maintain stock of equipment at additional designated locations, where provided by the Partner of this Agreement, for demonstration and use by the Occupational Therapy Service of that locality.
- To incorporate mechanisms which enable Health and Social Service professionals and members of the public to attend the service's premises to collect equipment;
- A facility for the procurement of non-stock items; and
- The production and distribution of a catalogue describing the service and equipment available.

The agreement was made between eight partners as set out in the memorandum of account. The original eight partners in the Tees Community Equipment Service were Middlesbrough Council, Stockton-on-Tees Borough Council, Redcar & Cleveland Borough Council, Hartlepool Borough Council, Middlesbrough PCT, North Tees PCT, Redcar & Cleveland PCT and Hartlepool PCT. Following NHS reorganisation in 2013-14, the Primary Care Trusts (PCTs) were abolished and replaced by Clinical Commissioning Groups (CCGs). Middlesbrough Council is the lead authority for the service. The outturn position for the year is set out below:

The outturn position for the year is:	2021-22	2022-23
Balance Brought Forward	(380)	(804)
Gross Expenditure	1,949	2,302
Gross Income	(2,373)	(2,050)
Balance Carried Forward	(804)	(552)
Contributions from partners		
Middlesbrough Council	(191)	(222)
Redcar & Cleveland Borough Council	(178)	(198)
Stockton Council	(203)	(247)
Hartlepool Council	(109)	(123)
NHS NE & NC ICB	(1,580)	(1,123)
	(2,261)	(1,913)
Other Income	(111)	(137)
	(2,372)	(2,050)

Notes Supporting the Balance Sheet

Note 21 Capital Expenditure and Capital Financing

The total amount of capital expenditure in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2021-22 £'000		2022-23 £000
245,965	Opening Capital Financing requirement	263,531
	Capital investment	
37,648	Property, Plant and Equipment (Note 23)	38,573
83	Heritage (Note 25)	-
-	Assets Held for Sale (Note 28)	-
1,374	Intangible Assets (Note 27)	1,561
1,211	Investment Properties (Note 26)	35
3,585	Long Term Debtors	4,631
14,555	Revenue Expenditure Funded from Capital Under Statute - Expenditure	14,731
	Sources of finance	
(13,482)	Capital Receipts	(755)
(22,352)	Government Grants and other contributions applied in the year	(34,176)
	Sums set aside from revenue	
(20)	Direct revenue contributions	-
-	Reduction in Long Term Debtors	-
(5,036)	MRP/loans fund principal	(3,383)
263,531	Closing Capital Financing Requirement	284,748
	Explanation of movements in year	
22,602	Increase in underlying need to borrowing	24,600
-	Unsupported by government financial assistance	-
-	Reduction in Long Term Debtors	-
(5,036)	MRP / loans fund principal	(3,383)
17,566	Increase in Capital Financing Requirement	21,217

Note 22 Capital Commitments

The Council spend in 2022-23 was £58,96m with a further £181.19m planned for 2023-24, 2024-25 and 2025-26. Contracts for material capital spend already in place over £0.250m in 2023-24 are shown below. This does not include works contracted prior to 2023-24.

Project	2022-23 Approved Budget £'000
Future High Streets Fund	575
Total	575

Note 23 Property, Plant and Equipment (PPE)

The definition of property, plant and equipment covers all assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. Service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services.

2022-23	Other Land and Buildings £000	Surplus Assets £000	Vehicles, Plant, Furniture and Equipment £000	Community Assets £000	Assets Under Construction £000	Total £000
<i>Cost of valuation</i>						
Balance at 1 April 2022	217,141	40,369	30,052	8,408	13,798	309,769
Additions	13,120	161	3,071	147	11,296	27,795
Donations	13	212	0	0	0	225
Revaluation increases/(decreases) to Revaluation Reserve	8,728	1,366	0	0	0	10,095
Revaluation increases/(decreases) to Surplus/Deficit on Provision of Services	(12,970)	(608)	0	0	0	-13,578
Derecognition - Disposals	(271)	(135)	(1,466)	0	0	-1,872
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0
Assets reclassified (to)/from Assets - other categories	(2,532)	2,616	203	3	(203)	88
Balance at 31 March 2023	223,229	43,982	31,860	8,558	24,891	332,520

2022-23	Other Land and Buildings £000	Surplus Assets £000	Vehicles, Plant, Furniture and Equipment £000	Community Assets £000	Assets Under Construction £000	Total £000
<i>Accumulated Depreciation and Impairment</i>						
Balance at 1 April 2022	(3,301)	(42)	(23,833)	0	0	(27,175)
Depreciation charge	(5,895)	(66)	(1,714)	0	0	(7,676)
Revaluation depreciation written out to Revaluation Reserve	3,416	17	0	0	0	3,433
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0
Revaluation depreciation written out to Provision of Services	1,876	107	0	0	0	1,982
Derecognition - Disposals	4	6	1,333	0	0	1,344
Assets reclassified (to)/from Assets Held for Sale	0	0	0	0	0	0
Assets reclassified (to)/from other categories	93	(93)	0	0	0	0
Balance at 31 March 2023	(3,808)	(71)	(24,214)	0	0	(28,093)
Net Book Value at 31 March 2023	219,422	43,911	7,647	8,558	24,891	304,428



Highways Infrastructure Assets

In accordance with the temporary relief offered by the update to the Code on Infrastructure Assets and the statutory over-ride from central government, this note does not include disclosure of gross cost and accumulated depreciation for Infrastructure Assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The council has chosen not to disclose this information as the previously reported practices and resultant information deficits means that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets. The aim is to have these in place or the 2024-25 statement of accounts process.

	2021-22	2022-23
	£000	£000
Net book Value At 1 April	133,343	134,189
Additions	8,164	10,211
Donated Assets	994	341
Derecognition	-	-
Depreciation	(8,246)	(8,303)
Impairment	(523)	-
Other Movements in Cost	457	
Net Book Value 31 March	134,189	136,438

Page 515

A reconciliation to the amount on the Balance Sheet for Property, Plant and Equipment is as follows.

	2021-22	2022-23
	£000	£000
Other PPE Assets	282,594	304,428
Infrastructure Assets	134,189	136,438
Net Book Value 31 March	416,783	440,866

2021-22	Other Land and Buildings £000	Surplus Assets £000	Vehicles, Plant, Furniture and Equipment £000	Community Assets £000	Assets Under Construction £000	Total £000
Cost of valuation						
Balance at 1 April 2021	195,804	47,374	38,849	8,283	8,266	298,576
Additions	17,586	785	1,367	125	8,074	27,937
Donations	499	55	0	0	0	554
Revaluation increases/(decreases) to Revaluation Reserve	5,529	(1,472)	213	0	0	4,270
Revaluation increases/(decreases) to Surplus/Deficit on Provision of Services	(3,437)	(1,440)	0	0	0	(4,877)
Derecognition - Disposals	(935)	(4,933)	(11,616)	0	0	(17,483)
Assets reclassified (to)/from Held for Sale	0	0	0	0	0	0
Assets reclassified (to)/from Assets - other categories	2,095	0	1,239	0	(2,542)	792
Balance at 31 March 2022	217,141	40,369	30,052	8,408	13,798	309,768

2021-22	Other Land and Buildings £000	Surplus Assets £000	Vehicles, Plant, Furniture and Equipment £000	Community Assets £000	Assets Under Construction £000	Total £000
<i>Accumulated Depreciation and Impairment</i>						
Balance at 1 April 2021	(2,277)	(119)	(32,672)	0	0	(35,068)
Depreciation charge	(5,423)	(87)	(1,772)	0	0	(7,282)
Revaluation depreciation written out to Revaluation Reserve	3,189	55	1	0	0	3,245
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0
Revaluation depreciation written out to Provision of Services	1,242	96	0	0	0	1,338
Derecognition - Disposals	4	13	11,313			11,330
Assets reclassified (to)/from Assets Held for Sale						0
Assets reclassified (to)/from other categories	(36)		(703)			(739)
Balance at 31 March 2022	(3,301)	(42)	(23,833)	0	0	(27,175)
Net Book Value at 31 March 2022	213,840	40,327	6,220	8,409	13,798	282,595

	2020-21	2021-22
	£000	£000
Net book Value At 1 April	134,639	133,343
Additions	9,814	8,164
Donated Assets	823	994
Derecognition	(11)	-
Depreciation	(8,042)	(8,246)
Other Movements in Cost	(3,880)	457
Net Book Value 31 March	133,343	134,712

A reconciliation to the amount on the Balance Sheet for Property, Plant and Equipment is as follows.

	2020-21	2021-22
	£000	£000
Other PPE Assets	263,508	309,769
Infrastructure Assets	133,343	134,712
Net Book Value 31 March	396,851	444,481

Fair Value Hierarchy

All the Council's Surplus Assets have been assessed as level 3 for valuation purposes.

Valuation Techniques Used to Determine Level 3 Fair Values for Surplus Assets

The Council's Surplus Assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and Best Use of Surplus Assets

In estimating the fair value of the Council's surplus assets, the highest and best use of the assets are considered.

Infrastructure Assets

There is additional work needed to be done by the Council regarding highways assets and the reliability of totals relating to gross historical cost and accumulated depreciation due to these assets not being fully depreciated at the point of replacement. At present, the governments statutory over-ride is being used to allow a true and fair view to be presented.

Also included in the land and buildings totals are a number of leisure properties, which from 1 April 2016 were transferred to Sport & Leisure Management (SLM) under a Service Concession Arrangement. Under this arrangement, vehicles, plant and furniture and equipment transferred to SLM and were removed from the Council's balance sheet. Land and buildings remain on the balance sheet at their current value. Details of the value of land and building assets as at 31 March 2023 are included in the table below. All properties were revalued in 2021-22.

Leisure Assets	Net Book Value at 31 March 2023 £'000
The Manor Youth and Community Centre	1,597
Neptune Centre	8,180
Rainbow Centre	8,819
Middlesbrough Sports Village	15,430
Golf Course	849
Total	34,872

Note 24 Revaluations and Impairments of Property, Plant and Equipment (PPE)

The Council maintains a revaluation rolling programme which ensures that all Property, Plant and Equipment required to be measured at fair value are revalued at least every five years. All valuations were carried out by Align Property Partners, the Council's strategic partner. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The effective date of revaluation for most of the assets revalued during 2022-23 is 1 April 2022. The Council confirms, via discussion with its external valuers, that this valuation basis remains reasonable given the uncertainty around asset values as a result of Covid-19 and that these values are appropriate for use as at 31 March 2023. The significant assumptions applied in estimating fair values at this date are:

- The estimated amount for which a property should exchange on the date of valuation and
- The transaction is at arm's length via willing parties acting knowledgeably and prudently.

Revaluation Analysis

The table below shows the value of assets that have been revalued during 2021-22 and the value of assets that have been revalued over the last four years. The table also identifies the value of assets held at historical cost and at fair value.

	Other land and Buildings £000	Surplus land and buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets under Construction £000	Total PPE
Carried at historical cost at 31 March 2022 (see note *)	23,099	207	7,647	136,439	8,558	24,891	200,841
Valued at current value as at:							-
31 March 2023	49,296	37,657	-	-	-	-	86,953
31 March 2022	57,482	5,775	-	-	-	-	63,257
31 March 2021	27,504	210	-	-	-	-	27,713
31 March 2020	23,735	62	-	-	-	-	23,797
31 March 2019	38,305	-	-	-	-	-	38,305
Total Cost or Valuation	219,421	43,911	7,647	136,439	8,558	24,891	440,866

*The historical cost for Other Land and Buildings represents acquisitions in year that have yet to be revalued and other assets that were revalued earlier than 31 March 2019 and will be revalued after the 31 March 2023.

Larger assets which are carried at Historical Cost and have yet to be revalued include.

Asset	£000
BOHO 8 Modular Buildings	2,555
Land at Dockside Road	361
Middlehaven Land	5,024
Gresham Phase 2b	183

Impairment and Revaluation Losses

The Code requires disclosure by class of assets of the amounts for impairment and Revaluation losses and reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

These disclosures are consolidated in Notes 23 reconciling the movement over the year in Property, Plant and Equipment balances.

During 2022-23 the main increases/decreases following revaluation were:

- Cleveland Centre – a decrease of £1.228m due to the reduction in term of individual leases within the Centre.
- Captain Cook Square – A decrease of £1.595m due to terms reducing on individual leases.
- Beverley School – An increase of £0.732m due to a change in Building Cost Information Service (BCIS) rates.
- Newham Hall Farm – An increase of £0.786m due to an increase in rate per acre to residential land and a small reduction in infrastructure costs
- An increase in values for Leisure and Sports assets due to a change in BCIS rates of £1.965m

Note 25 Heritage Assets

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical, or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The collections are managed by Museum curators in accordance with policies as detailed in the Museum's Collection Management Plan.

An analysis of the current Heritage Asset valuation held by the Council is set out below, noting that there were no transactions in 2022-23.

	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	Total
Balance at 1 April 2021	3,363	12,302	9,012	7,766	32,443
Additions:					
Purchases	-	83	-	-	83
Donated	-	-	-	-	-
Disposals	-	-	-	-	-
Net gains/(losses) from fair value adjustments	-	-	-	-	-
Transfers:					
(To)/From Other asset classes	-	-	-	-	-
Other Changes	-	-	-	-	-
Balance at 31 March 2022	3,363	12,385	9,012	7,766	32,526
Balance at 1 April 2022	3,363	12,385	9,012	7,766	32,526
Additions:					
Purchases	-	-	-	-	-
Donated	-	-	-	-	-
Disposals	-	-	-	-	-
Net gains/(losses) from fair value adjustments	-	-	-	-	-
Transfers					
(To)/From Other asset classes	-	-	-	-	-
Other Changes	-	-	-	-	-
Balance at 31 March 2023	3,363	12,385	9,012	7,766	32,526

Valuation Methods

The Councils Fine Art collection held at Mima has been valued by Christies in 2021. Ceramics held at Mima were valued by MAAK in 2021 and Jewellery by Galerie Ra (a Dutch gallery) were revalued in 2019. The William Kelly book collection was valued by Sotherbys. The remainder of the Heritage Asset collection has been valued using Insurance valuation on the advice of the Councils curators.

Museums' Collections

Ceramics, Porcelains and Figurines

The Council's British Ceramic Art collection is a growing collection and currently contains around 250 items.

Fine Art Collection

The Fine Art collection includes over 1,000 works drawn together from the Middlesbrough Art Gallery and Cleveland Gallery.

The Natural World Collection

The extensive natural science collections number approximately 250,000 specimens covering geology, vertebrate zoology, invertebrate zoology, and botany.

Other Heritage Assets

Other Cultural Interests

Items classified under this heading include the Bottle of Notes, statues and memorials including the Brian Clough statue, the William Kelly book collection and various medals and memorabilia at the Captain Cook Museum.

Note 26 Investment Properties

Investment Properties are properties (land, buildings, or part thereof) held solely to earn rentals or for capital appreciation or both. If earning rental income was an outcome of a regeneration policy or to fund facilities to attract public and businesses into the town, the properties concerned should be accounted for as Property, Plant and Equipment.

2021-22	£000		2022-23	£000
25,536		Balance at start of year		26,806
		Additions		
1,211		Purchases		35
-		Donated		-
(400)		Disposals		(212)
459		Net gains/(losses) from fair value adjustments		4,574
		Transfers		
-		(To)/From Property, Plant and Equipment		(87)
26,806		Balance at end of year		31,116

There are currently 16 assets in total under this classification, which have all been revalued during the 2022-23 financial year due to them being held at fair/market value.

Fair Value Hierarchy

All the Council's investment portfolio has been assessed as level 3 for valuation purposes.

Valuation Techniques Used to Determine Level 3 Fair Values for Investment Properties

The Council's Investment assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is considered.

Rental income from Investment Properties and any associated operating expenses are included in the Financing and Investment Activities line in the Comprehensive Income and Expenditure Statement. Details are set out below.

2021-22	£000		2022-23	£000
(2,752)		Rental income from Investment Property		(2,567)
535		Direct operating expenses arising from Investment Property		915
(2,217)		Net Gain		(1,652)

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance, or enhancement.

Note 27 Intangible Assets

The Council's Intangible Assets consist wholly of purchased IT licenses and software. A breakdown of The movement on Intangible Asset balances during the year is as follows:

2021-22 £000		2022-23 £000
14,022	Balance at start of year	12,058
1,374	Additions	1,561
(2,089)	Disposals	-
(1,249)	2,574	-
12,058	Gross Book Value @ 31 March	13,619
(12,148)	Accumulated Amortisation at 31 March	(10,618)
(1,272)	Amortisation in Year	(427)
2,089	Amortisation Written Out on Disposal	-
713	Amortisation Written Out on Regroups or Transfers	-
(10,618)	Accumulated Amortisation at 31 March	(11,045)
1,439	Net Book Value at 31 March	2,574

Note 28 Assets Held for Sale

If an asset is 'held for sale', the economic benefits of that asset are obtained through its sale rather than through its continuous use by the Council. Such assets cease to be depreciated in financial value, as they are no longer consumed through service provision.

There were no disposals in 22-23.

The Council currently has one Asset Held for Sale, Land to the rear of the Gables Public House.

2021-22 £000		2021-22 £000
2,297	Balance outstanding at start of year	125
	<i>Assets declassified as held for sale:</i>	
(2,172)	Assets sold	-
125	Balance outstanding at year end	125

Note 29 Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation and a financial liability of another. These cover – investments, cash, debtors, creditors, loans, finance leases, derivatives and guarantees. These are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument. They are classified based on the business model for holding the instrument and its expected cash flow characteristics.

Financial instruments classified at amortised cost are carried in the Balance Sheet at their amortised cost. Their fair values disclosed below have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2023, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low interest rate environment.

The fair value of a financial instrument is the price that would be received when selling an asset, or the price that would be paid when transferring a liability, to another market participant in an arms’-length transaction. Where liabilities are held as an asset by another party, such as the council’s borrowing, the fair value is estimated from the holder’s perspective.

Financial Liabilities: These are initially measured at fair value and are then subsequently valued at amortised cost. For the Council’s borrowing (Public Works Loan Board, Lender Option Borrower Option, and market loans), this means the amounts held in the accounts are based on the outstanding principal plus any accrued interest.

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

Financial Assets: These again are initially measured at fair value and represent loans and loan type amounts where payments of principal and interest take place on set dates and to particular amounts.

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Two categories of financial asset recently introduced under IFRS9 are fair value through other comprehensive income and expenditure (FVOCI) and fair value through profit and loss (FVPL). These assets are carried at fair value in the balance sheet. FVOCI has a specific restriction meaning that any gains or losses can be reversed through statute, whereas FVPL gains, and losses are true charges to the Council’s general fund.

All the Council’s financial assets, except the long-term investments in Teesside Airport and Suez recycling and recovery, are held at amortised cost. The Council has elected to hold the two long-term investments at FVOCI given the risk of losses on these holdings having a negative effect on the Council’s financial position.

Financial Assets:

	Non-Current				Current						Total	
	Investments		Debtors		Investments		Debtors		Cash and Cash Equivalents			
	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023
Financial Assets	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value through Profit or Loss	-	-	-	-	-	-	-	-	-	-	-	-
Amortised Cost	309	309	12,783	15,130	10,000	18,500	3,357	7,990	24,622	8,332	51,071	50,261
Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-
Total Financial Assets	309	309	12,783	15,130	10,000	18,500	3,357	7,990	24,622	8,332	51,071	50,261
Non-Financial Assets	-	107,390	-	-	-	-	54,497	52,574	-	-	54,497	159,964
Total	309	107,699	12,783	15,130	10,000	18,500	57,854	60,564	24,622	8,332	105,568	210,225

Financial Liabilities:

	Non-Current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023
Financial Liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value through Profit or Loss	-	-	-	-	-	-	-	-	-	-
Amortised Cost - Other	(185,624)	(206,965)	(1,297)	(1,139)	(22,648)	(38,708)	(9,244)	(16,195)	(218,813)	(263,007)
Total Financial Liabilities	(185,624)	(206,965)	(1,297)	(1,139)	(22,648)	(38,708)	(9,244)	(16,195)	(218,813)	(263,007)
Non-Financial Liabilities	-	-	-	-	-	-	(60,399)	(42,694)	(60,399)	(42,694)
Total	(185,624)	(206,965)	(1,297)	(1,139)	(22,648)	(38,708)	(69,643)	(58,889)	(279,212)	(305,701)

Note 30 Financial Instruments: Fair Value and Risks

Fair Value of Assets and Liabilities

Financial Instruments are carried in the Balance Sheet at amortised cost except for Long Term Investments. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments contractual life using the following assumptions:

- Where the instrument will mature in the next 12 months, the carrying amounts are assumed to be a good reflection of fair value.
- The fair value of PWLB and market loans have been calculated by reference to the 'premature repayment' set of rates as at 31 March 2023.
- The fair value of trade payables and other receivables is taken to be the invoiced or billed amount; and
- The carrying amounts of all other instruments are taken to be a reasonable approximation of fair value.

Fair values can be analysed by their level in the fair value hierarchy or how reliable their basis of calculation is:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g., bond prices.
- Level 2 – fair value is calculated from inputs that are observable for the asset or liability, other than quoted prices, e.g., interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g., non-market data such as cash flow forecasts or estimated creditworthiness.

All Middlesbrough financial instruments, assets and liabilities are rated as level two in the fair value hierarchy. The fair value of borrowings is calculated by ascertaining a fair value from the market price. The calculation applies a discounted cash flow using the rate of the asset and applies it over its life. For investments, debtors, and creditors their transaction price is the best proxy for their fair value.

The fair values of the Council's financial instruments are as follows. These are higher than their carrying amounts due to the low value of the bank base rate at 31 March 2023:

2021-22			2022-23	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£'000	£'000		£'000	£'000
		Financial Assets – Loans and Receivables		
34,931	34,931	Held as Investments	27,141	27,141
16,140	16,140	Held as Debtors	23,119	23,119
51,071	51,071	Financial Assets – Loans and Receivables	50,261	50,261
		Financial Liabilities – as Amortised Cost		
(208,272)	(241,002)	Held as Borrowings	(245,673)	(227,964)
(10,541)	(10,541)	Held as Creditors	(17,333)	(17,333)
(218,813)	(251,543)	Financial Liabilities – at Amortised Cost	(263,007)	(245,297)

Financial Instruments: Risks

The fair value of the financial liabilities held at amortised cost above is higher than their balance sheet carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans at the balance sheet date.

Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks by holding these instruments:

- (a) Credit risk - the possibility that the counterparty to a financial instrument will fail to meet its contractual obligations, causing a monetary loss to the Council.
- (b) Liquidity risk - the possibility that the Council might not have the cash available to make contracted payments to lenders, suppliers, and staff on time.
- (c) Market risk - the possibility that an unplanned financial loss will materialise due to changes in market variables such as interest rates on equity prices.
- (d) Re-Financing Risk – The possibility that maturing amounts cannot be refinanced in interest terms that reflect the provisions made by the organisation.

Overall Procedures for Managing Risk

The Council's overall risk management process focuses on the unpredictability of financial markets and is structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code on Capital Finance, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing levels and a legal limit.
 - Its maximum and minimum exposures to fixed and variable rates.
 - Its maximum and minimum exposures to the maturity structure of its debt.
 - Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at the Council's annual budget setting report or before the start of the year to which they relate. The items above reported with the Capital Strategy Report which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The Capital Strategy Report, which incorporates the prudential indicator amounts was approved by the Council on 24 February 2022 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2022-23 was set at £356m. This is the maximum legal limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £326m. This is the expected maximum level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25%, respectively, based on the Council's net debt.

These policies were implemented by the Council's accountancy team and at no point during the 2022-23 financial year were any of these key indicators breached. The Council also maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Treasury Management Code of Practice and were also updated on 24 February 2022. No changes have been made since.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Capital Strategy Report, which requires that deposits are not made with banks and financial institutions unless they meet minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Capital Strategy Report also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum

requirements of the investment criteria outlined above. Details of the Treasury Management Strategy can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its deposits with banks and building societies of £25.20m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits.

No credit limits were exceeded during the period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

Credit Rating	2021-22		2022-23	
	Long Term £'000	Short Term £'000	Long Term £'000	Short Term £'000
AA	-	5,000	-	1,000
AA-	-	10,000	-	18,500
AA+	-	17,500	-	5,700
Total	-	32,500	-	25,200
Credit Risk not applicable	309	-	309	-
Total Investments	309	32,500	309	25,200

Loss allowances on treasury investments are normally calculated by reference to historic default data published by credit rating agencies and adjusted for current economic conditions. A two-year delay in cash flows is assumed to arise in the event of a default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating grades or equivalent since initial recognition unless they retain an investment grade credit rating. They are determined to be credit impaired when awarded a "D" credit rating or below. At 31 March 2023, none of the Council's investments are captured by this and therefore it is felt that the most likely loss allowances applicable is nil.

In addition, the Council does not generally allow credit for customers. However, £6.528m invoiced debtors balance is past its due date for payment relating principally to the Council's Public Health responsibilities. The Council maintains a bad debt provision to offset any collection losses. The past due amount can be analysed by age as follows:

2021-22 £'000		2022-23 £'000
4,053	Less than 3 months	2,327
464	Between 3 to 6 months	911
688	Between 6 months to 1 year	1,026
1,846	More than 1 year	2,264
7,051	TOTAL	6,528

Collateral - The Council initiates a legal charge on property where, for instance, Adult Social Care service users require residential care but cannot afford to pay immediately. The total collateral as at 31 March 2022 was £1.26m (31 March 2022 - £0.76m).

Liquidity Risk

The Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of financial liabilities is as follows:

2021-22 £'000		2022-23 £'000
(22,648)	Less than 1 Year	(39,206)
(21,802)	Between 1 – 2 Years	(22,801)
(29,638)	Between 2 – 5 Years	(37,116)
(37,227)	Between 5 – 10 Years	(39,749)
(14,244)	Between 10 – 15 Years	(20,549)
(16,973)	Between 15 – 20 Years	(19,659)
(3,984)	Between 20 – 25 Years	(5,354)
(3,845)	Between 25 – 30 Years	(11,487)
(17,936)	Between 30 – 35 Years	(9,762)
(24,975)	Between 35 – 40 Years	(29,990)
(15,000)	More than 40 Years	(10,000)
(208,272)	TOTAL	(245,673)

All trade and other payables are due to be paid in less than one year.

Re-financing Risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the Central Finance team address the operational risks within the approved parameters.

Market Risk

Market Risk - Interest Rate Risk

In the current financial climate, there is a low interest rate risk to the Council. All longer-term borrowing is held at fixed rate and any risk of further reductions in rates receivable is insignificant given the current low base. Borrowings and Investments are not carried at fair value in the financial statements, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure Statement.

The Council aims to keep a maximum of 25% of its borrowings in variable rate loans. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. Although there is continued uncertainty in relation to how the war in Ukraine will develop for the Country, this may influence interest rates in both a positive and negative way, the low exposure to variable rate financial instruments means that the financial impact of any future decisions in this area are likely to have minimal impact on both the debt and investment portfolios.

Market Risk - Price Risk

The Council does not invest in equity shares and therefore has no exposure to losses arising from movements in share prices.

Market Risk - Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore no exposure to loss arising from movements in exchange rates.

Note 31 Financial Instruments: Income and Expenditure

Amounts recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2021-22				2022-23		
Financial Assets	Financial Liabilities	Net Expenditure for the year		Financial Assets	Financial Liabilities	Net Expenditure for the year
£'000	£'000	£'000		£'000	£'000	£'000
(363)	-	(363)	Income	(583)	-	(583)
			Interest Income			
			Expenditure			
-	6,843	6,843	Interest Expense	-	6,494	6,494
-	3	3	Fee Expense	-	20	20
(363)	6,846	6,483	Total Net for the year	(583)	6,514	5,932

Note 32 Debtors

31 March 2022 £000		31 March 2023 £000
	Short-Term Debtors	
3,540	Trade Receivables	1,851
2,142	Prepayments	2,236
39,300	Other Receivables	44,257
33,310	Council Tax Receivables	34,667
5,787	Business Rates Receivables	5,755
(26,223)	Bad Debt Provision	(28,204)
57,856	Total	60,562

31 March 2022 £000		31 March 2023 £000
	Long-Term Debtors	
5,515	Cleveland Mall – Holiday Inn	5,329
169	Other Long-Term Debtors	1,056
3,119	The Welding Institute	2,682
3,980	Middlesbrough Development Company	6,063
12,783	Total	15,130

Note 33 Inventories

	Consumables		Maintenance Materials		Total	
	2021-22 £000	2022-23 £000	2021-22 £000	2022-23 £000	2021-22 £000	2022-23 £000
Balance at 1 April	190	114	2,120	2,514	2,310	2,628
Purchases	2,470	2,888	4,914	5,191	7,384	8,079
Expenses in the year	(2,547)	(2,693)	(4,520)	(5,143)	(7,067)	(7,836)
Written off in the year					-	-
Reversal of previous years write offs					-	-
Balance at 31 March	114	309	2,514	2,562	2,628	2,871

Note 34 Cash and Cash Equivalents

31 March 2022 £000	Cash and Cash Equivalents	31 March 2023 £000
45	Cash held by the Council	53
2,077	Bank current accounts	1,579
22,500	Short-term deposits with building societies	6,700
24,622	Total	8,332

Note 35 Short Term Creditors

31 March 2022 £000	Short Term Creditors	31 March 2023 £000
(2,593)	Trade Payables	(7,056)
(59,575)	Other Payables	(43,842)
(7,475)	Receipts in Advance	(7,992)
(69,643)	Total	(58,890)

The decrease in short-term creditors mainly relates to the receipt of COVID-19 and Section 31 grants at the end of the previous year, with no equivalent receipt of these grants at the end of 2022-23.

Note 36 Provisions

A provision is recognised in the accounts where the Council has a legal or constructive obligation arising from a past event and a reliable estimate can be made of the amount of the obligation if not the timing of when the Council will have to settle the obligation.

	Business Rates Appeals	Captain Cook Precinct / Cleveland Centre Service Charge Provision	Insurance Claims	Total
	£000	£000	£000	£000
Short Term Provisions				
Balance at 1 April 2022	(575)	(167)	(1,000)	(1,742)
Additional provisions	(14,602)	-	-	(14,602)
Amounts used	14,676	-	176	14,852
Unused amounts reversed	-	-	-	-
Unwinding of discounting	-	-	-	-
Balance at 31 March 2023	(501)	(167)	(824)	(1,492)
Long Term Provisions				
Balance at 1 April 2022	(1,179)	-	(2,250)	(3,429)
Additional provisions	(279)	-	-	(279)
Amounts used	-	-	6	6
Unused amounts reversed	-	-	-	-
Unwinding of discounting	-	-	-	-
Balance at 31 March 2023	(1,458)	-	(2,244)	(3,702)
Total Provisions				
Balance at 1 April 2022	(1,754)	(167)	(3,250)	(5,171)
Additional provisions	(14,881)	-	-	(14,881)
Amounts used	14,676	-	182	14,858
Unused amounts reversed	-	-	-	-
Unwinding of discounting	-	-	-	-
Balance at 31 March 2023	(1,959)	(167)	(3,068)	(5,194)

Business Rates Appeals – The Council's share of the Business Rates Appeals Provision of £1,959k is split between £501k short term (less than 12 months) and £1,458 long term as projected using the Council's Business Rate Appeals tool. These are based on the Council's 49% share of business rates retention scheme.

Insurance Fund - The Council's Insurance Fund Provision of £3,068k is split between £824k Short Term (less than 12 months) and £2,244 long term.

Note 37 Usable Reserves

Usable Reserves are those reserves that can be used to fund future expenditure or reduce local taxation. Further details on the use of the reserves below can be found in the Movement in Reserves Statement.

31 March 2022 £000		31 March 2023 £000
(25,112)	Capital Grants Unapplied Reserve	(27,376)
(6,303)	Capital Contributions Unapplied Reserve	(7,177)
(11,183)	Uncommitted General Fund	(12,042)
(23)	Direct Revenue Funding Unapplied	-
(34,375)	Earmarked Reserves	(13,231)
(76,996)	Total	(59,826)

The decrease in usable reserves is mainly due to the use of revenue reserves to support the 2022-23 revenue budget position.

The purpose of each Reserve is as follows:

Capital Grants and Contributions Unapplied Reserves

These reserves hold amounts from Capital Grants and Contributions that have been recognised in the Comprehensive Income and Expenditure Statement in line with the accounting code of practice, but for which the associated capital expenditure has not yet been incurred.

Capital Receipts Reserve

This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.

General Fund

The accumulated credit balance on the general fund is the excess of income over expenditure in the revenue account after adjusting for movements to and from reserves and other non-cash items. This balance is held as a cushion against future unforeseen and unbudgeted expenditure.

Earmarked Revenue Reserves

Funding received in previous financial years and classified as income regarding the terms and conditions of the grant awarded. This income is rolled forward in reserves to meet the future revenue commitments under the grant. Details of the balances on individual earmarked reserves is contained in [note 7](#).

Note 38 Unusable Reserves

Unusable Reserves are those reserves held by the Council that cannot be utilised to provide services. This includes reserves that hold unrealised gains and losses and adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code.

31 March 2022 £000		31 March 2023 £000
(86,405)	Revaluation Reserve	(98,151)
(141,863)	Capital Adjustment Account	(143,060)
209,946	Pensions Reserve	(107,390)
(929)	Collection Fund Adjustment Account	(8,575)
943	Accumulating Absences Adjustment Account	1,032
3,756	Dedicated Schools Grant Adjustment Account	6,565
(14,552)	Total	(349,580)

A description of each type of reserve is set out below:

Revaluation Reserve

The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The reserve only contains revaluation gains accumulated since 1 April 2007, the date when the Revaluation Reserve was constituted. Accumulated gains and losses accumulated before that date are consolidated into the Capital Adjustment Account. Amounts contained within this reserve will only become available to provide services (or limit resources in the case of losses) once the gains/losses are realised as the assets are disposed of.

31 March 2022 £000	31 March 2022 £000		31 March 2023 £000	31 March 2023 £000
	(84,938)	Balance at 1 April		(86,405)
17,651		Upward revaluation of assets	6,532	
(25,033)		Downwards revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	(20,060)	
	(7,382)	Surplus or Deficit on revaluation of non-current assets not posted to the Surplus / Deficit on the Provision of Services		(13,528)
1,486		Difference between fair value depreciation and historical cost depreciation	1,633	
4,428		Accumulated (gains) / losses on assets sold or scrapped	148	
-		Adjustment between Revaluation Reserve and Capital Adjustment Account	-	
	5,914	Amount written off to Capital Adjustment Account		1,781
	(86,405)	Balance at 31 March		(98,151)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction, or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction and enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with amounts set aside by the Council as finance for the costs of acquisition, construction, and enhancement.

The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

31 March 2022 £000	31 March 2022 £000		31 March 2023 £000	31 March 2023 £000
	(138,633)	Balance at 1 April		(141,863)
		Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
14,589		Charges for depreciation and impairment of non-current assets	15,978	
1,272		Amortisation of intangible assets	427	
-		Movement in fair value of investment properties	-	
14,554		Revenue Expenditure Funded from Capital Under Statute	14,731	
-		Accumulated (gains) / losses on assets sold or scrapped	-	
4,164		Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Account	741	
	34,579			31,876
-		Historic Cost depreciation transfer from Revaluation Reserve	(1,633)	
-		Revaluation Reserve balances written off on disposed assets	(148)	
-		Adjustment between Revaluation Reserve and Capital Adjustment Account	-	
3,539		Movement in Non-current assets recognised in year	11,596	
	3,539	Net written out amount of the cost of non-current assets consumed in the year		9,815
		Capital Financing applied in the year:		
(13,482)		Use of the Capital Receipts Reserve to finance new capital expenditure	(755)	
(20,825)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(33,611)	
(5,035)		Statutory provision for the financing of capital investment charged against the General Fund and HRA Balance	(3,383)	
-		Capital expenditure charged against General Fund and HRA Balances	-	
	(39,341)			(37,749)
	(459)	Movement in the market value of investment properties debited or credited to the Comprehensive Income and Expenditure Statement		(4,573)
	(1,549)	Movement in the donated assets account credited to the Comprehensive Income and Expenditure Statement		(566)
	(141,863)	Balance at 31 March		(143,060)

Pensions Reserve

This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.

31 March 2022 £000		31 March 2023 £000
308,118	Balance at 1 April	209,946
42,795	Remeasurement of net defined liability	43,258
(129,886)	Reversal of items relating to the retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(348,847)
(11,081)	Employer's pension contributions payable in the year	(11,747)
209,946	Balance at 31 March	(107,390)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account holds the differences arising from the recognition of council tax and business rates income, in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 March 2022 £000		31 March 2023 £000
13,159	Balance at 1 April	(929)
(10,188)	Amount by which Council Tax income credited to the Comprehensive Income and expenditure Statement is different from the council tax income calculated for the year in accordance with statutory arrangements	(854)
(3,900)	Amount by which Business Rates income credited to the Comprehensive Income and expenditure Statement is different from the council tax income calculated for the year in accordance with statutory arrangements	(6,791)
(929)	Balance at 31 March	(8,575)

Accumulated Compensated Absences Adjustment Account

The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.

31 March 2022 £000		31 March 2023	
		£000	£000
695	Balance at 1 April		943
(695)	Settlement or cancellation of accrual made at the end of the preceding year	(943)	
943	Amounts accrued at the end of the current year	-	1,032
248	Amounts by which officer remuneration charged to the Comprehensive income and expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	(943)	1,032
943	Balance at 31 March		1,031

Dedicated Schools Grants Adjustment Account

From November 2020 the Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) established new accounting practices in relation to the treatment of local authorities' schools budget deficits such that, where a local authority has a deficit on its schools' budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The CIPFA local authority accounting code has determined this as the 'Dedicated Schools Grant Adjustment Account'. The new accounting practice has the effect of separating schools budget deficits for a period of three financial years.

31 March 2022 £000		31 March 2023 £000
3,291	Balance at 1 April	3,756
465	School budget deficit transferred from General Fund in accordance with statutory requirements	2,808
3,756	Balance at 31 March	6,564

Note 39 Pension Schemes Accounted for as Defined Benefit Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme. As part of the terms and conditions of employment of its staff, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

In June 2023, the UK High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment is subject to appeal, and the Court of Appeal heard the arguments on 26 and 27 June 2024.

The Local Government Pension Scheme is a contracted out defined benefit scheme and amendments have been made during the period 1996 to 2016 which could impact member benefits. Work is being performed by the Government Actuary's Department as the Local Government Pension Scheme actuary to assess whether section 37 certificates are in place for all amendments and some of these have been confirmed however, at the date of these financial statements, the full assessment is not complete. Until this analysis is complete, we are unable to conclude whether there is any impact to the liabilities or if it can be reliably estimated. As a result, [employer] does not consider it necessary to make any allowance for the potential impact of the Virgin Media case in its financial statements.

Funded Benefits

The funded benefits are those payable by the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulation 2014.

Unfunded Benefits

The unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g., Compensatory Added Years ("CAY") pensions that have not previously been 'converted' to funded benefits under Regulation 13A of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. Such benefits are usually charged to the Employer as they are paid. Other unfunded benefits

include gratuities and enhanced teachers' pensions recharged to the Employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

Transactions relating to Post-Employment Benefits

The income, expenditure, assets, and liabilities set out below includes the actuaries' assessment of the court of appeal decision to include guaranteed minimum pension and the McCloud and Sargeant judgements within the local government scheme benefits going forwards. It also includes the impact of the triennial valuation of the Teesside Pension Fund from 1 April 2022. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year in relation to the Local Government Pension Scheme:

Comprehensive Income and Expenditure Statement

Funded 2021-22 £'000	Unfunded 2021-22 £'000	Comprehensive Income and Expenditure Statement Charged to the Surplus or Deficit on the Provision of Services	Funded 2022-23 £'000	Unfunded 2022-23 £'000
		As cost of Service:		
35,542	-	Current Service cost	37,162	-
276	-	Settlements and Curtailments	90	-
7,018	(41)	As Financing and Investment Income and Interest on net defined benefit	3,536	2,470
42,836	(41)	Total charged to the Deficit on the Provision of Services	40,788	2,470
		Charged to Other Comprehensive Income and Expenditure		
(79,142)	-	Return on plan assets (excluding the amount included in the net interest expense)	11,476	-
(9,595)	-	Actuarial (gains) and losses arising on changes from financial assumptions	(416,502)	-
(32,794)	-	Actuarial (gains) and losses arising on changes from demographic assumptions	(7,313)	-
(8,355)	-	Other actuarial (gains) and losses	63,492	-
(129,886)	-	Total to the Comprehensive Income and Expenditure Statement	(348,847)	-
		Movement in reserves Statement		
(42,836)	41	Reversal of total charged to the Deficit on the Provision of Service	(43,258)	(2,470)
		Actual Amount charged for pensions in the year:		
9,054	-	Employer contributions payable to scheme	9,641	-
(33,782)	41	Total amount included in the General Fund for the year	(33,617)	(2,470)

Assets and Liabilities in Relation to Post-Employment Benefits

Funded 2021-22 £'000	Unfunded 2021-22 £'000	Reconciliation of Liabilities	Funded 2022-23 £'000	Unfunded 2022-23 £'000
(1,106,855)	(24,608)	Opening Balance at 1 April	(1,126,211)	(22,622)
(35,542)	-	Current service cost	(37,162)	-
(24,051)	(41)	Interest cost	(33,615)	2,470
(4,850)	-	Contributions by scheme participants	(5,382)	-
9,595	-	Actuarial gains (losses) for changes in financial assumptions	416,502	-
32,794	-	Actuarial gains (losses) for changes in Demographic assumptions	7,313	-
(26,576)	-	Actuarial gains (losses) Other Experience	(63,492)	-
29,550	2,027	Benefits paid	29,455	2,106
(276)	-	Past service curtailments	(90)	-
(1,126,211)	(22,622)	Closing Balance at 31 March	(812,682)	(18,046)

Reconciliation of Fair Value of Scheme Assets

Funded 2021-22 £'000	Unfunded 2021-22 £'000	Reconciliation of Fair Value of Scheme Assets	Funded 2022-23 £'000	Unfunded 2022-23 £'000
823,345	-	Opening Balance at 1 April	938,887	-
17,115	-	Expected return on plan assets	25,139	-
114,073	-	Actuarial Gains	(11,476)	-
9,054	2,027	Employer contributions	9,641	2,106
4,850	-	Contributions by scheme participants	5,382	-
(29,550)	(2,027)	Benefits paid	(29,455)	(2,106)
938,887	-	Closing Balance at 31 March	938,118	-

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £13.663m gain (2021-22 £96.257m gain).

2021-22 £'000		2022-23 £'000
(1,148,833)	Present value of liabilities	(830,728)
938,887	Fair value of assets	938,118
(209,946)	Scheme (Deficit) / Surplus	107,390

The scheme surplus shown above includes a £18.046m deficit in respect of unfunded defined benefit obligations (2021-22 £22.622m).

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The net surplus has a beneficial impact on the net worth of the Council as recorded in the balance sheet

however, this is a direct result of changes in financial assumptions and may revert back to a net liability in future years depending on the inflation and corporate bond yields. The main reasons for the movement from a net pension liability to a net pension asset compared to the previous year are as follows:

Change in financial assumptions - £416.500m gain on the balance sheet)

The financial assumptions adopted for preparing the latest accounting disclosures are summarised below:

Period ended	31 March 2022	31 March 2022
Rate of Inflation (CPI)	3.20%	3.20%
Rate of increase in salaries	4.20%	4.20%
Rate of discounting scheme liabilities	2.70%	2.70%

The change in financial assumptions adopted for the period ending 31 March 2023 can be approximately broken down as follows:

Pension Increase Rate – Market derived CPI inflation has fallen over the period, which has led to a 0.25% reduction in this assumption. The change in the CPI inflation assumption is a result of underlying changes in market implied RPI (after allowance for the inflation risk premium adjustment), coupled with any changes in the RPI-CPI gap from the previous year and the adjustment to CPI to reflect the high inflationary environment in year 1. This has served to reduce the obligations and led to a gain of around £45.160m.

Salary Increase Rate – the salary increase assumption has fallen over the period by 0.25%. This has served to reduce the obligations and led to a gain of around £5.330m on the balance sheet.

Discount rate – The corporate bond yield (upon which the discount rate is derived) has risen over the period, which has led to a 2.05% increase in this assumption. This has served to reduce the obligations and led to a gain of around £366.010m on the balance sheet.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2024 is £9.497m.

Asset Ceiling

Given the move from a net pension liability to a net pension asset, regulations dictates that we must review the prudence of disclosing the full asset in the balance sheet. The net pension asset should be included in long-term investments at the lower of:

- the surplus in the defined benefit plan and;
- the asset ceiling calculation

The asset ceiling calculation should be the present value of either refunds from the plan or reductions in future contributions to the plan as a result of the net pension asset. The Council's appointed pension fund actuary has calculated the asset ceiling on the basis of reductions in contributions.

Under IFRC 14 in the absence of a Minimum Funding Requirement, reduction in contributions is calculated as:

- the present value of the future service cost to the entity less present value of contributions over the shorter of:
 - the expected life of the plan and;
 - the expected life of the entity and;
- using the assumptions consistent with the conditions that existed at the balance sheet date.

Therefore, the asset ceiling calculation is as follows:

Asset Ceiling Calculation:	£'m
Net present value of (employer) future service costs	2,014.875
Less net present value of (employer) future contributions	(1,855.519)
Asset Ceiling	159.356

Based on the actuary's calculation the net pension asset has therefore been recognised in full as the asset ceiling is above the pension asset of £107.359m.

Independent Actuary and Latest Valuation

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits Liabilities have been assessed by Hymans Roberts an independent firm of actuaries, estimates for the Teesside Pension Fund being based on latest full valuation of the scheme as at 31 March 2022.

The calculations have also been done over the duration of the Scheme - which has been forecast at 17 years. The principal assumptions used by the actuary have been:

2021-22	Mortality Assumptions	2022-23
	Longevity at 65 for current pensioners	
20.9	Men	20.6
23.9	Women	23.7
	Longevity at 65 for future pensioners	
21.9	Men	21.5
25.5	Women	25.2
3.20%	Pension Rate Increase (CPI)	2.95%
4.20%	Salary Rate Increase	3.95%
2.70%	Discount Rate	4.75%
80.00%	Take up of option to convert annual pension into retirement lump sum	80.00%

The LGPS's assets consist of the following categories, by proportion of the total assets held:

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2023 and the projected service cost is set out below, sensitivity on unfunded benefits have not been included on materiality grounds:

2021-22	Asset Category	2022-23
%		%
68	Equity	71
5	Infrastructure	8
16	Cash	7
8	Real Estate	9
3	Other	6
100		100

	2021-22 £'000	2022-23 £'000
Cash and Cash Equivalents	151,438	62,440
Equity Securities		
Consumer	-	-
Manufacturing	-	-
Energy and Utilities	-	-
Financial Institutions	-	-
Health and Care	-	-
Information Technology	-	-
Debt Securities Bonds		
Government	-	-
Property		
UK	65,230	75,919
Overseas	8,581	6,460
Private Equity		
All	71,153	89,458
Investment Funds and Trust Units		
Equities	562,454	574,057
Bonds	-	-
Infrastructure	48,620	74,551
Other	31,410	55,233
Total Assets	938,887	938,118

Change in assumptions at 31 March 2023	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.1% decrease in Real Discount Rate	2.00%	13,894
1 year increase in member life expectancy	4.00%	33,229
0.1% increase in the Salary Increase Rate	0.00%	1,489
0.1% increase in the Pension Increase Rate	2.00%	12,605

The principal demographic assumption is the longevity assumption (i.e., member life expectancy). For sensitivity purposes, Hymans Robertson estimate that a one-year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. In practice, the actual cost of a one-year increase in life expectancy will depend on the structure of the revised assumption (i.e., if improvements to survival rate predominantly apply to younger or older ages).

To quantify the impact of a change in the financial assumptions used Hymans Robertson have calculated and compared the value of the scheme liabilities at the accounting date on varying bases. The approach taken is consistent with that adopted to derive the accounting figures provided in this report, based on the profile (average member ages, retirement ages, etc.) of the Employer as at the date of the most recent valuation.

Note 40 Pensions Schemes Accounted for as Defined Contribution Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers Pensions on behalf of the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the cost by making contributions based on a percentage of members pensionable salaries.

In 2022-23 the Council paid £3.200m (2021-22 £3.017m) to Teachers Pensions in respect of teacher's retirement benefits, representing an average of 23.68% of pensionable pay.

A number of Public Health staff transferred to the Council from the NHS and as part of the conditions of their transfer have remained in the NHS Pension Scheme. In 2022-23 the Council paid £23,652 (2021/-22 £24,342) to NHS Pensions in respect of the Public Health employees retirement benefits, representing 15.47% (2021-22 13.24%) of pensionable pay/

Note 41 Leases – Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of community services, such as sports facilities, tourism services and community centres.
- For economic development aims to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2022 £000		31 March 2023 £000
6,573	No Later than 1 year	5,202
14,069	Later than 1 year and not later than 5 years	10,669
29,815	Later than 5 years	41,482
50,457	Total	57,353

The amount as at 31 March 2023 has increased slightly overall due to the additional income received from Captain Cook Square, Cleveland Centre and Tees Advanced Manufacturing Park.

Finance Leases

The Council acted as a facilitator for the relocation of The Welding Institute (TWI) to the Tees Advanced Manufacturing Park in 2017. This was consistent with the Council's priority in economic growth. The lease between the Council and TWI allows the lessee to purchase the property for a nominal amount after 13 years. Also, the lease rental payments cover the net council investment in the site & building over the lease period.

As the risks and rewards of the lease reside with TWI, the asset is not included within the Council's Property, Plant and Equipment valuation. A long-term debtor has instead been included in the balance sheet to reflect the investment by the Council and this will be repaid over the life of the remaining lease.

The future minimum lease payments receivable through the finance lease are detailed below:

31 March 2022 £000		31 March 2023 £000
464	No Later than 1 year	464
1,832	Later than 1 year and not later than 5 years	1,650
1,411	Later than 5 years	1,129
3,707	Total	3,243

Note 42 Leases – Council as Lessee

Operating Leases

The Council has entered into operating leases for the use of land and buildings, with lives ranging from 10 to 35 years. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2022 £'000		31 March 2023 £'000
616	No Later than 1 year	519
1,832	Later than 1 year and not later than 5 years	1,291
715	Later than 5 years	585
3,163	Total	2,395

Finance Leases

Centre Square Buildings

The Council as part of its regeneration and town centre growth plans has entered into two finance lease contracts for the provision of high-quality office accommodation. Buildings 1 & 2 Centre Square, adjacent to the Council's municipal buildings, were completed during September 2020. The properties were built with third-party finance and the leases entered into on the buildings are for a 35-year term with rentals paid on a quarterly basis to CBRE Property Management UK. The total repayment schedule for the two leases over the contract are included in the table below. Due to the interest rate implicit in the lease, most of the early year's rental payments are heavily weighted towards interest rather than principal with this position reversing in the latter years of the contract.

The total future minimum lease payments under these finance leases are given in the table below:

31 March 2022 £'000	Total future minimum lease payments	31 March 2023 £'000
711	Amounts due within one year	711
2,844	Amounts due between 1 to 5 years	2,844
19,553	Amounts due after 5 years	18,842
23,108	Total payments due	22,397
(11,366)	Less: Future finance charges	(11,311)
11,742	Present Value of Lease Obligations	11,086

Given that the risks and rewards of the contract sit predominantly with the Council (length of contract, option to purchase for a nominal sum at the end of the lease term etc.) the properties are held on the long-term assets side of the Balance Sheet.

As the aim of Council is to rent these premises out to tenants on shorter-term leases, the assets have been categorised as investment properties in the accounts. They have been valued at fair/market value with their valuation of £19.703m being determined from future rentals generated. The council has now achieved the letting of all accommodation within both buildings, with the exception of the 'kiosk' unit that exists within the ground floor of Centre Square 2.

Note 43 Contingent Liabilities

At 31 March 2023, the Council had the following contingent liabilities:

Home House Guarantee

An agreement was entered into with Home House, which guaranteed an initial liability of £2.4m. This was increased to £4.01m in 1996/1997 as a result of further development at St Johns Gate. The assets of Home Housing are considered sufficient to meet their liabilities without calling upon the guarantee and no provision has been made in the accounts.

Deprivation of Liberty Safeguards

A Supreme Court case judgement has resulted in the Council potentially facing more applications to the Court of Protection regarding Deprivation of Liberty cases. Liabilities may exist which will not be confirmed until claims are made, or cases settled. The Deprivation of Liberty Safeguards are due to be replaced by the Liberty Protection Safeguards; the financial ramifications remain unclear at this time.

Note 44 Contingent Assets

There were no contingent assets held by the Council at the Balance Sheet date.

Note 45 Trust Funds

The Council administers a number of Trust Funds, which are varied in nature and relate principally to legacies left by local inhabitants of the area over a number of years. Assets of the funds are invested in external marketable securities; with any cash either being invested internally at 7-day interest rates or externally in the money market. None of the funds are included in the Balance Sheet of the Council.

A summary of the Trust Funds administered by the Council is as follow:

2022-23	Income £	Expenditure £	Short- Term Assets £	Long- Term Assets £	Total Assets £	Liabilities £
Teesside Education Endowment	(6)	-	7,480	-	7,480	-
Capt. J.V.Nancarrow Trust – Educational support	(87)	-	111,236	-	111,236	-
Middlesbrough Educational Trust	(51)	-	65,595	2,326	67,921	-
Hustler Playing Fields Trust – Sport	(39)	-	49,758	1,474,496	1,524,254	-
W.M.Anderton Trust – Kings Manor School and Acklam 6th Form College	(1)	-	1,387	-	1,387	-
Teesside Relief in Sickness Lady Crosswaite Bequest – support for the older people	(3)	-	3,962	-	3,962	-
Home Independence Trust	(373)	9,877	468,491	-	468,491	-
Wilson & Marwood Trust – support for disadvantaged people	(377)	-	84,660	19,240	103,900	-
Stewart Park Trust – Recreation	(12)	-	15,133	428	15,561	-
Levick Trust – accommodation for over 60's	(7)	-	8,774	-	8,774	-
Dorman Museum and Art Gallery Appeal Trust	(5)	-	6,159	332,535	338,694	-
	(3)	-	3,313	-	3,313	-
Total	(964)	9,877	825,948	1,829,025	2,654,973	-

King Edward VII and Sister Purvis now included in Home Independence Trust

2021-22	Income	Expenditure	Short-Term Assets	Long-Term Assets	Assets	Liabilities
	£	£			£	£
Teesside Education Endowment	(6)	-	7,474	-	7,474	-
Capt. J.V.Nancarrow Trust – Educational support	(87)	-	111,149	-	111,149	-
Middlesbrough Educational Trust	(51)	-	65,544	2,326	67,870	-
Hustler Playing Fields Trust – Sport	(39)	-	49,719	1,474,496	1,524,215	-
W.M.Anderton Trust – Kings Manor School and Acklam 6th Form College	(1)	-	1,386	-	1,386	-
Teesside Relief in Sickness	(3)	-	3,959	-	3,959	-
Lady Crosswaite Bequest – support for the older people	(374)	4,010	477,995	-	477,995	-
Home Independence Trust	(560)	4,605	84,283	19,240	103,523	-
Wilson & Marwood Trust – support for disadvantaged people	(12)	-	15,121	428	15,549	-
Stewart Park Trust – Recreation	(7)	-	8,767	-	8,767	-
Levick Trust – accommodation for over 60's	(5)	-	6,154	332,535	338,689	-
Dorman Museum and Art Gallery Appeal Trust	(3)	-	3,310	-	3,310	-
Total	(1,148)	8,615	834,861	1,829,025	2,663,886	-

Notes Supporting the Cash Flow Statement

Note 46 Cash Flow Statement – Operating Activities

2021-22 £'000		2022-23 £'000
(363)	Interest Received	(583)
6,843	Interest Paid	6,494
-	Dividends Received	-

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2021-22 £'000		2022-23 £'000
16,050	Depreciation	15,977
3,539	Impairment and downward valuations	11,597
1,272	Amortisation	427
2,616	Increase / (decrease) in impairment for bad debts	23
7,959	Increase / decrease in creditors	(11,846)
(12,807)	Increase / decrease in debtors	(5,055)
(315)	Increase / decrease in inventories	(243)
28,464	Movement in Pension Liability	31,511
	Carrying amount of non-current assets and non-current assets held for sale, sold and de-recognised	
(2,561)	Other non-cash items charged to the net surplus or deficit on the provision of services	(5,140)
44,217	Net cash flows from operating activities	37,251

The surplus or deficit on the provision of services had been adjusted for the following items that are investing and financing activities:

2021-22 £'000		2022-23 £'000
	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	
8,726	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	740
(13,487)	Any other items for which the cash effects are investing or financing cash flows	(755)
(4,761)		(15)

Note 47 Cash Flow Statement – Investing Activities

The table below shows detail of Investing Activities

2021-22 £'000		2022-23 £'000
(34,809)	Purchase of property, plant and equipment, investment property and intangible assets	(38,510)
(10,000)	Purchase of short-term and long-term investments	(8,500)
13,487	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	755
(31,322)	Net cash flows from investing activities	(46,255)

Note 48 Cash Flow Statement – Financing Activities

The table below shows detail of Financing Activities

2021-22 £'000		2022-23 £'000
(154)	Amounts applied to Finance Lease Repayments (Capital Element)	(158)
(10,485)	Repayments of short- and long-term borrowing	37,402
(10,639)	Net cash flows from financing activities	37,244



Group Accounts



Introduction

The Council has only one material interest in terms of group relationships: a wholly owned subsidiary; Middlesbrough Development Company (MDC), which was formed in 2019 by the Council and is involved in housing growth within the Borough based on the Council's strategic plan. This is the second year of producing Group Accounts, and therefore prior period comparatives are presented as 'unaudited' as the 2021-22 audit process for the Council is still open.

Beyond MDC, the Council had interests in two other companies; a capital investment in a joint internal audit company Veritau Ltd (Tees Valley); and Digital City Trading Ltd which was dissolved in July 2023 but given their small financial input and influence, these need no further disclosure under the local authority accounting code of practice.

Before considering the financial information and group accounts involving MDC, it should be noted that following the consideration of a report to the Executive in January 2023, the MDC board of directors took a decision to close down the company. This was based on the operational and financial risks posed following the issue of CIPFA guidance in relation to local authority trading companies. The risks could be better managed within the Council, rather than via a company delivery vehicle, and as at the authorised for issue date (December 2023) the MDC closure plan is well advanced. Any residual activity will be transferred to and managed by the Council. The aim is to finalise its closure by the end of March 2024.

Company: Context and Projects

Middlesbrough Council is the only shareholder for MDC and has complete operational and financial control over the company and its activities. Board meetings of the company directors are held once a month and are supported by relevant council staff from the Regeneration and Finance directorates. Updates have been taken to the Council's Executive when any significant decisions or resources are required by the company.

MDC has completed two large-scale housing projects underway, Boho Village and Newbridge Court with just retention and project completion issues remaining. These two projects in total are for a combined value of around £15mm and are being funded by a combination of both council capital grants and prudential borrowing. Boho Village is in the process of being sold to registered social landlords, whilst Newbridge Court is primarily for rental income purposes via a mix of residential and commercial units. This will be for a period of up to 35 years, which will repay any borrowing costs. MDC was also in the early stages of a project to bring derelict housing back into use in the TS1 and TS3 postcodes plus specific initiatives to resolve a number of eyesore sites within the Borough, but this has now been stopped.

As at 31 March 2023, the company had been allocated £13.3m of funding with £8m issued as a commercial loan and £5.3m as Section 106 and brown field capital grant funding. The company had spent £11.5m of this on capital projects with £0.7m on general administration and was holding the remaining £1.1m in the bank as cash for future payments.

Group Accounts

The company's financial activities have been consolidated into the Council's Group Accounts on a line-by-line basis, after first realigning accounting policies with the Council where appropriate and eliminating any relevant intra-Group transactions. This is the relevant accounting practice when consolidation a subsidiary company.

The purpose of these Group Accounts is to provide a comprehensive position for Middlesbrough Council incorporating the company, which the Council owns and has significant influence over. The Group Accounts show the full extent of the Council's assets and liabilities, providing transparency on these additional arrangements and that these are beyond the totals given in the Council's own financial statements.

The Group Accounts include the following:

- Group Comprehensive Income and Expenditure Statement, which shows the income and expenditure of the Council in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.

- Group Movement in Reserves - shows the movement in the year on reserves held by the Council.
- Group Balance Sheet - reports the Council Group financial position at the year-end.
- Group Cash Flow Statement - shows the changes in cash and cash equivalents of the Group during the year.
- Notes to the Group Accounts – information provided where the balances are materially different to those in the single entity accounts or additional information is required for users of the accounts to understand the financial relationship.

The capital expenditure set out above plus the commercial loan have been incorporated into the group balance sheet, plus the creation of an unusable reserve for the capital grant funding which will be offset against future depreciation charges. The accumulated deficit on MDC's profit and loss account plus the grant funding reserve have been recognised as adjustments to the income and expenditure totals for the year. The group reserves have increased by £2.3m above the Councils' single entity accounts total by the incorporation of these amounts.

Group Movement in Reserves Statement

This statement is a combination of the Council's comprehensive income and expenditure position plus the accumulated deficit on Middlesbrough Development Company's accounts as at 31 March 2022. It also incorporates an unusable reserve for capital grant funding due to difference in accounting policy between the company accounts under UK GAAP and the Council's under IFRS.

2022-23	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Subsidiaries	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2022	(11,182)	(34,375)	-	(23)	(31,415)	(76,995)	(14,552)	(91,547)	(2,267)	(93,814)
<u>Movement in reserves during 2022-23</u>						-	-	-	-	-
Total Comprehensive Income and Expenditure	44,515	-	-	-	-	44,515	(362,375)	(317,860)	(2,257)	(320,116)
Adjustments between accounting basis & funding basis under regulation (Note 6)	(26,835)	-	-	23	(534)	(27,346)	27,346	-	(1)	(1)
Transfers to/(from) other reserves	(18,540)	21,144	-	-	(2,604)	-	-	-	-	-
Net Decrease / (increase) in year	(861)	21,144	-	23	(3,138)	17,169	(335,028)	(317,860)	(2,257)	(320,117)
Balance at 31 March 2023 carried forward	(12,043)	(13,231)	-	-	(34,553)	(59,826)	(349,580)	(409,406)	(4,524)	(413,931)

2021-22	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Subsidiaries	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	(10,500)	(35,044)	5	(51)	(7,930)	(53,519)	101,693	48,173	(1,036)	47,137
<u>Movement in reserves during 2021-22</u>						-	-	-	-	-
Total Comprehensive Income and Expenditure	(2,318)	-	-	-	-	(2,318)	(137,402)	(139,720)	(1,231)	(140,951)
Adjustments between accounting basis & funding basis under regulation (Note 6)	2,304	-	(5)	28	(23,485)	(21,158)	21,158	-	-	-
Transfers to/(from) other reserves	(669)	669	-	-	-	-	-	-	-	-
Net Decrease / (increase) in year	(682)	669	(5)	28	(23,485)	(23,476)	(116,244)	(139,720)	(1,231)	(140,951)
Balance at 31 March 2022 carried forward	(11,182)	(34,375)	0	(23)	(31,415)	(76,995)	(14,551)	(91,547)	(2,267)	(93,814)

Group Comprehensive Income and Expenditure Statement

This statement represents the income and expenditure of both the Council and Middlesbrough Development Company with intra-group transactions being removed and accounting policies being aligned as appropriate.

31 March 2022			Cost of Services by Service Area	Note	31 March 2023		
Gross Expenditure	Gross Income	Net Expenditure / (Income)			Gross Expenditure	Gross Income	Net Expenditure / (Income)
£000	£000	£000			£000	£000	£000
17,711	(3,222)	14,489	Regeneration	33,522	(7,986)	25,536	
15,804	(25,582)	(9,778)	Public Health and Public Protection	18,545	(24,631)	(6,085)	
78,451	(71,856)	6,595	Education	87,172	(69,585)	17,586	
60,120	(6,463)	53,657	Children's Care	66,063	(4,362)	61,700	
100,622	(57,191)	43,431	Adult Social Care and Health Integration	106,356	(51,701)	54,655	
49,259	(497)	48,762	Environment and Commercial Services	38,926	(210)	38,717	
65,561	(59,471)	6,090	Finance	61,543	(52,329)	9,214	
17,213	(1,774)	15,439	Legal & Governance Services	16,807	(1,873)	14,934	
10,901	(12,572)	(1,671)	Central Costs	7,178	(16,305)	(9,127)	
5,700	(5,310)	390	Covid Support	-	-	-	
421,344	(243,940)	177,403	Total Cost of Service	436,112	(228,983)	207,129	
265	(5,162)	(4,897)	Other Operating Income and Expenditure	308	(226)	81	
22,680	(14,229)	8,450	Financing & Investment Activities	22,386	(18,220)	4,166	
-	(184,506)	(184,506)	Taxation and Non-Specific Grant Income	-	(169,118)	(169,118)	
444,288	(447,837)	(3,549)	(Surplus) or Deficit on Provision of Services	458,804	(416,547)	42,257	
			<i>Items that will not be re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(4,271)	(Surplus) on revaluation of Property Plant and Equipment			(10,095)	
		(129,886)	Actuarial (Gains) on Pension Fund charged to the Pensions Reserve			(348,847)	
		(3,245)	Depreciation written out to the Revaluation reserve			(3,433)	
		(137,402)	Other Comprehensive Income and Expenditure			(362,375)	
		(140,951)	Total Comprehensive Income and Expenditure			(320,117)	

Group Balance Sheet

This statement represents the combined assets, liabilities and reserves for the Council and Middlesbrough Development Company, with intra-group transactions being removed and accounting policies being aligned where appropriate.

31 March 2022		31 March 2023
£000		£000
422,680	Property, Plant & Equipment	450,350
32,526	Heritage Assets	32,526
26,806	Investment Properties	31,116
1,439	Intangible Assets	2,574
309	Long-Term Investments	309
-	Pension Asset	107,390
8,803	Long-Term Debtors G7	9,067
492,563	Total Long-Term Assets	633,332
10,000	Short-Term Investments	18,500
125	Short-Term Assets Held for Sale	125
2,628	Inventories	2,871
57,794	Short-Term Debtors G7	60,585
25,035	Cash and Cash Equivalents G8	9,414
95,582	Total Current Assets	91,495
(22,648)	Short-Term Borrowing	(38,708)
(69,644)	Short-Term Creditors G9	(58,891)
(1,742)	Short-Term Provisions	(1,492)
(94,034)	Total Current Liabilities	(99,091)
1,548	Net Current Assets / (Liabilities)	(7,596)
(3,429)	Long-Term Provisions	(3,702)
(185,624)	Long-Term Borrowing G10	(206,965)
(1,297)	Other Long-Term Liabilities G11	(1,138)
(209,946)	Pension Liability	-
(400,296)	Total Long-Term Liabilities	(211,805)
93,815	Net Assets/(Liabilities)	413,931
(76,653)	Usable Reserves G12	(59,094)
(17,162)	Unusable Reserves G13	(354,837)
(93,815)	Total Reserves	(413,931)

Group Cash Flow

This statement reconciles the operating positions of the Council and Middlesbrough Development Company to their changes in cash balances during the financial year.

31 March 2022 £'000		31 March 2023 £'000
3,549	Surplus / deficit on provision of services	(42,257)
44,359	Adjustment to net surplus or deficit on the provision of services for non-cash movements	37,166
(6,201)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(2,661)
41,707	Net Cash Flows from Operating Activities (Note 46)	(7,752)
(36,120)	Investing Activities (Note 47)	(49,842)
(5,613)	Financing Activities (Note 48)	41,974
(27)	Net Increase or decrease in cash and cash equivalents	(15,620)
-		-
25,062	Cash and cash equivalents at the beginning at the reporting period (Note 34)	25,037
25,037	Cash and cash equivalents at the end at the reporting period (Note 34)	9,417

Notes to the Group Accounts

The group notes are largely the same as those specific within the Council only Statement due to the alignment of accounting policies between the two organisations. However, there are some areas to highlight as detailed below:

Note G1 Accounting Policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2022-23 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, supported by International Financial Reporting Standards (IFRS).

Middlesbrough Development Company is a subsidiary and has therefore been consolidated into the Group Financial Statements on a line-by-line basis.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment. Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures. Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies. The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

As the Company follows UK generally accepted accounting practice rather than internal financial reporting standards, there is a difference in how capital grants are treated in both the income and expenditure statement and the balance sheet. The company treats these as deferred and these are amortised over the life of the asset, to offset depreciation charges. The local authority, under IFRS, writes off capital grants in the year of application and does not defer. MDC's accounts have been aligned with the local authority practice before the balance sheet amounts have been consolidated. Further details are given in Note G14 below.

Note G2 Critical Judgements in Applying Accounting Policies

In applying the accounting policies laid out in [Note 1](#), the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events. In the accounts, these are as follows:

See amortisation of assets referred to in Note G1.

The treatment of costs incurred as either capital or revenue follows the accounting policies set out by the Council as there is no difference between UK GAAP and IFRS in this area. Capital referring to the expenditure having an economic or service benefit over a period more than one financial year. Revenue expenditure being consumed within the financial year it is incurred.

Note G3 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

As noted earlier in this section, the company is in the process of being wound up with the expected closure date being 31 March 2024. A set of group accounts will be produced for 2023-24 to report on the final position of the company prior to transfer of the financial activities, assets, and liabilities over to the Council to manage.

Note G4 Financing and Investment Income and Expenditure

The group notes are largely the same as those specific within the Council only Statement due to the alignment of accounting policies between the two organisations. However, there are some areas to highlight as detailed below:

2021-22 £000	Financing and Investment Income	2022-23 £000
6,939	Interest payable and similar charges	6,744
8,823	Trading Activities	13,997
(59)	Charges in relation to Investment property and changes in their fair value	(4,361)
6,977	Net Pension Interest Costs	6,006
(363)	Interest receivable and similar income	(583)
(13,867)	Trading Activities	(17,637)
8,450	TOTAL	4,166

The figures for 2022/23 incorporate a £389k cost relating to the trading activities of MDC during the financial year.

Note G5 Property, Plant and Equipment

The value of PPE shown in the group accounts differs from that of the single entity as follows:
For group accounting purposes MDC capital spend on PPE is currently for assets under construction.

31 March 2022 £'000		31 March 2022 £'000
416,784	Property Plant & Equipment – Middlesbrough Council	440,866
5,897	Plus: Middlesbrough Development Company	9,484
422,681	Total	450,350

The total value spent on the two main capital schemes are as follows:

Boho Village - £6.945m
Newbridge Court £4.624m

In addition, part of Boho Village has been sold as at 31st March 2023 for £2.085m. The above PPE value has been adjusted for this sale as the housing units are no longer owned by MDC.

Note G6 Financial Instruments

Although the company has an agreement to borrow up to £8.5m from the Council for the Boho Village scheme and the balance owing from the company was £6.063m at 31 March 2023, this amount is eliminated on consolidation of the two sets of accounts. The amount of borrowing for MDC is already factored into the Council's investment strategy to date and for the future and is shown within the Council's own notes to the accounts.

This note sets out the differences from the information contained in Notes 29-31 of the Council entity accounts to enable the reader to determine, more clearly, the impact of group company transactions.

Debtors and Cash

Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G7.

Creditors

Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G9.

Long Term Borrowing

The impact on long-term borrowing at 31 March 2023 is £6.063m at 31 March 2023. These transactions are eliminated on consolidation.

Income, Expense, Gains and Losses

These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities

The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments

The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Note G7 Debtors

The table below sets out both short and long-term debtors of the group. These have been consolidated and adjusted for intra-group transactions.

2021-22 £000	Long-Term Debtors	2022-23 £000
5,515	Cleveland Mall – Holiday Inn	5,329
169	Other Long-Term Debtors	1,056
3,119	The Welding Institute	2,682
-	Middlesbrough Development Company	-
8,803	Total	9,066

2021-22 £000	Short-Term Debtors	2022-23 £000
3,540	Trade Receivables	1,851
2,142	Prepayments	2,236
39,238	Other Receivables	44,280
33,310	Council Tax Receivables	34,667
5,787	Business Rates Receivables	5,755
(26,223)	Bad Debt Provision	(28,204)
57,793	Total	60,585

The long-term debtor in the Council's accounts for £6.063m is eliminated when the Council and Company's accounts are consolidated.

A short-term debtor of £23k for MDC is included in the table above under other receivables.

Note G8 Cash & Cash Equivalents

The table below sets out the cash & cash equivalent position of the group for the two entities combined.

2021-22 £000	Cash and Cash Equivalents	2022-23 £000
45	Cash held by the Council	53
2,490	Bank current accounts	2,661
22,500	Short-Term deposits with building societies	6,700
25,035	Total	9,414

The above table include £1.082m relating to cash held by MDC as at 31st March 2023. This is funding allocated by the Council that is yet to be spent by the company on capital projects or running costs.

Note G9 Creditors

The table below sets out the short-term creditors of the group. These have been consolidated and adjusted for intra-group transactions.

2021-22 £000	Short Term Creditors	2022-23 £000
(2,593)	Trade Payables	(7,056)
(59,576)	Other Payables	(43,843)
(7,475)	Receipts in Advance	(7,992)
(69,644)	Total	(58,891)

There is a £1k short term creditor amount relating to MDC in other payables within the table above.

Note G10 Long-Term Borrowing

2021-22 £000	Long-Term Borrowing	2022-23 £000
(186,232)	Long-Term Borrowing	(207,570)
780	Deferred Premiums	753
(172)	Deferred Discounts	(149)
(185,624)	Total	(206,965)

Any long-term borrowing undertaken by the Council is done on a corporate basis so the amounts relating to MDC are part of the total sums shown above.

Note G11 Other Long-Term Liabilities

2021-22 £000	Other Long-Term Liabilities	2022-23 £000
(1,297)	Deferred Revenue Income	(1,139)
(1,297)	Total	(1,139)

There are no amounts relating to MDC in the table above as they have been eliminated upon consolidation.

Note 12 Usable Reserves

2021-22 £000	Usable Reserves	2022-23 £000
(25,112)	Capital Grants Unapplied Reserve	(27,376)
(6,303)	Capital Contributions Unapplied Reserve	(7,177)
(10,840)	Uncommitted General Fund	(11,310)
(23)	Direct Revenue Funding Unapplied	-
(34,375)	Earmarked Reserves	(13,231)
(76,653)	Total	(59,093)

The reserves above have been reduced by £732k for the MDC accumulated profit and loss position as at 31 March 2023.

Note 13 Unusable Reserves

2021-22 £000	Unusable Reserves	2022-23 £000
(86,405)	Revaluation Reserve	(98,151)
(144,473)	Capital Adjustment Account	(148,317)
209,946	Pensions Reserve	(107,390)
(929)	Collection Fund Adjustment Account	(8,575)
943	Accumulating Absences Adjustment Account	1,032
3,756	Dedicated Schools Grant Adjustment Account	6,565
(17,162)	Total	(354,837)

The unusable reserves above have been increased by £5.257m as this holds the capital grant funding entries that still need to be recognised in MDC's accounts but will be eliminated when MDC is wound-up. See note G14 below.

Note G14 Deferred Grant Income

The major accounting policy difference between the Council and MDC relates to the treatment of capital grant funding. Part of the resources available to MDC is £5m of Section 106 monies received previously from developers and central government funding, which the Council can use on affordable housing and housing growth. This has been allocated to the scheme at Newbridge Court (formerly Tollesby Shops) and other operational costs from the running of the development company.

The Council follows international financial reporting standards where, grant income (whether revenue or capital based) is recognised as income when all conditions or performance obligations in respect of the funding have been met. MDC follows UK GAAP accounting where the grant funding is held in the balance sheet as a deferred liability until it is released to match future depreciation charges once the assets are operational. As a result, it has been necessary to align this accounting policy with the Council's for the purposes of producing the group accounts on a consistent basis.

As the additional income is not available to the Council for revenue purposes, it has been allocated to an unusable reserve before it is matched to the future capital charges. The movement on this account is as follows over the last two financial years:

2021-22 £000	Deferred Grant Income	2022-23 £000
(1,170)	Opening Balance - grant funding allocated	(2,610)
(1,440)	Additions in year	(2,647)
(2,610)	Closing Balance - grant funding allocated	(5,257)

Note G15 Share Capital & Ownership

Middlesbrough Development Company has total share capital of £1. The Mayor of Middlesbrough Council acts as the only shareholder for the company and in this regard, the Council has complete ownership of the entity. Following the decision to wind up MDC all assets and liabilities will transfer to the Council upon dissolution. As such, the Council guarantees all financial transactions whilst the company is operational.

Note G16 Audit of Accounts

Under Section 477 of the Companies Act 2006 (in respect of the current annual turnover of the company which is a deficit and the number of employees at 1) MDC is exempt from the requirement of the Act for the audit of its accounts for the financial year. However, due to the need to consolidate the accounts into the Council's group arrangements, the company directors have decided to appoint an external auditor and undertake an audit process. Further details on this can be seen in the financial statements for 2020-21, 2021-22 and 2022-23 which are available from the Middlesbrough Council website. www.middlesbrough.gov.uk

Collection Fund Accounts and Notes



Collection Fund Income and Expenditure Account

The Collection Fund summarises the transactions of the billing authority in relation to the collection from taxpayers and the redistribution to Local Authorities and the Government of Council Tax and Business Rates.

2021-22 Total £'000		2022-23		
		Council Tax £'000	Business Rates £'000	Total £'000
	Income			
(75,895)	Council Tax receivable	(78,190)	-	(78,190)
(21,774)	Business Rates receivable	-	(32,992)	(32,992)
(97,669)	Total Income	(78,190)	(32,992)	(111,182)
	Expenditure			
	Precepts and Demands:			
60,611	Middlesbrough Council	63,789	-	63,789
9,163	Cleveland Police and Crime Commissioner	9,644	-	9,644
2,770	Cleveland Fire Authority	2,915	-	2,915
	Business Rates			
17,818	Payments to Central Government	-	15,650	15,650
356	Payments to Cleveland Fire Authority	-	313	313
17,461	Payments to Middlesbrough Council	-	15,337	15,337
170	Costs of Collection	-	172	172
	Bad & Doubtful Debts			
8	Write Offs	9	71	79
(10,253)	Provision for Bad Debts	1,059	465	1,524
(950)	Provision for Appeals	-	418	418
97,155	Total Expenditure	77,416	32,424	109,840
(21,554)	Contributions towards previous year's estimate Collection Fund Deficit / (Surplus)	(981)	(12,036)	(13,017)
(22,067)	Deficit / (Surplus) for the Year	(1,756)	(12,603)	(14,359)
	COLLECTION FUND BALANCE			
24,762	Balance brought forward at 1 April	(9,224)	13,826	4,602
(22,067)	Deficit / (Surplus) for the year (as above)	(1,756)	(12,603)	(14,359)
2,695	Balance carried forward at 31 March	(10,980)	1,222	(9,758)
	Allocated to:			
(1,733)	Middlesbrough Council	(9,174)	599	(8,575)
(1,125)	Cleveland Police and Crime Commissioner	(1,387)	-	(1,387)
(218)	Cleveland Fire Authority	(419)	12	(407)
5,771	Central Government	-	611	611
2,695	Balance carried forward at 31 March	(10,980)	1,222	(9,758)

Notes to the Collection Fund

Note C1 Income from Council Tax

Calculation of the Council Tax base

The Council Tax replaced the Community Charge on the 1 April 1993 and is a tax based on property valuation bandings (A to H). There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The Council's tax base i.e., the number of chargeable dwellings in each band (adjusted for discounts where applicable), converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax	Band D Equivalent Dwellings
			£'000	
A*	29	5/9	29,156	16
A	18473	6/9	22,286,689	12,315
B	8011	7/10	11,275,652	6,231
C	9093	8/9	14,626,959	8,083
D	4770	9/9	8,632,126	4,770
E	2375	11/9	5,253,070	2,903
F	876	13/9	2,289,836	1,265
G	496	15/9	1,495,994	827
H	29	18/9	104,961	58
44,152			65,994,443	36,468
Less: Adjustments for assumed non-collection based on budgets assumption of 96.6% collection rate			(2,243,811)	(1,240)
Total			63,750,632	35,228

A* - Band A properties receiving Disabled Relief

The average Council Tax for band D dwellings for Middlesbrough Council was £1,809.67.

Note C2 Income from Business Rates

In 2013-14, the administration of Non-Domestic Rates (NDR) changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectible rates due. In Middlesbrough's case the local share is 49%. The remainder is distributed to the preceptors, which for Middlesbrough are Central Government (50%) and Cleveland Fire Authority (1%).

The total non-domestic rateable value at 31 March 2023 was £103,873,487 (£101,659,272 at 31 March 2022) and the national non-domestic multiplier for the year was 51.2p (51.2p in 2021-22).

Note C3 Previous Years Council Tax Deficit / Surplus

The Council has a statutory requirement to provide details each January of the projected Council Tax deficit or surplus at the end of the financial year. The estimated previous year's Council Tax deficit or surplus is payable to / from the Collection Fund by the Billing Authority and Precepting Authorities in proportion to amounts raised or owing:

2021-22 £'000		2022-23 £'000
818	Middlesbrough Council	1,186
125	Cleveland Police and Crime Commissioner	-
38	Cleveland Fire Authority	54
981	Total Deficit / (Surplus)	1,240

Note that for 2021-22 the £0.981m is after the deduction of 1/3rds of the Exceptional Balance of £1.039m, which is to be financed in 2023-24.

Note C4 Council Tax and Business Rates Provisions

Following a detailed balance sheet review, the s151 officer has revised the methodology to calculate the Collection Fund Bad Debt provision in order to comply with International Accounting Standard 37 (IAS37), which has adopted a long-term data driven methodology to forecast debt write off. This led to a reduction in the Bad Debt provision in 2021/22 of £7.920m. This methodology has been applied to 2022-23 to ensure a consistent basis for calculating the provision amount below leading to an increase in provision of £1.520m of which Middlesbrough's share was £1,109m.

The methodology for the provision for appeals is the same as previous years as this is based on live data from the Analyse Local system.

The total provisions held for the Collection Fund at 31 March 2023 are set out in the table below:

	Council Tax BDP £'000	Business Rates BDP £'000	Provision for Appeals £'000	Total £'000
Opening Balance as at 1 April 2022	(16,107)	(8,010)	(3,579)	(27,696)
Reductions in the provision in year	-	-	-	-
Increase in the provision in year	(1,054)	(464)	(418)	(1,936)
Closing balance as at 31 March 2023	(17,161)	(8,474)	(3,997)	(29,632)

Teesside Pension Fund Accounts and Notes



Note	Description	Page
	Description of Teesside Pension Fund	141
	Teesside Pension Fund Accounts and Net Asset Statement	143
1	Basis of Preparation	144
2	Accounting Standards issued not yet Adopted	144
3	Summary of Significant Accounting Policies	145
4	Critical Judgements, Sensitivities and Accounting Estimates	148
5	Assumptions made about the Future and other Major Sources of Estimation Uncertainty	149
6	Contributions	150
7	Benefits Payable	150
8	Transfers in from Other Pensions Funds	150
9	Other Income	151
10	Payments to and on account of leavers	151
11	Management Expenses	151
12	Investment Income	151
13	Investment Assets	152
14	Financial Instruments	158
15	Actuarial Valuations	164
16	Current Assets	165
17	Current Liabilities	165
18	Additional Voluntary Contributions	166
19	Related Party Transactions	166
20	External Audit Costs	166
21	Senior Employees' Remuneration	166
22	Events after the Balance Sheet Date	167
	The Compliance Statement	168

Teesside Pension Fund Statement of Accounts

Introduction

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by Middlesbrough Council and the Council is the reporting entity for the Fund.

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

The Council has delegated decision making in relation to the Fund to the Pension Fund Committee. The day-to-day administration of the Fund and the operation of the management arrangements and investment portfolio is the responsibility of the Director of Finance (Section 151 Officer) of the Council.

The Pension Fund Committee consists of representatives of the employers of the Fund (specifically Councillors of the Local Authority employers together with one representative chosen from the other scheme employers), and employee representatives (from relevant Trade Unions) and makes decisions without reference to the Council. The Pension Fund Committee sets investment strategy and recommends investment decisions. An independent Pensions Board exists and operates as a scrutiny panel to ensure the Pension Fund Committee acts within the statutory and regulatory framework.

Operation

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to employees and former employees of the Teesside local authorities and of those bodies admitted to the Fund, and in some circumstances payment of benefits to those individual's dependants; collectively referred to as members. The benefits paid to members include retirement pensions, dependant's pensions, death grants and lump sums.

The Fund is financed by contributions from members, employers and the income from the Fund's investment portfolio of some £5.06 billion at 31 March 2023. The funding policy aims to ensure that the assets held by the scheme are adequate to meet the future liabilities (members' pensions and lump sums) of the Fund allowing for future changes to pensions and pay.

Financial Statements

The Fund's accounts provide information on the financial position, membership, investment performance and risks associated with the Fund. They show the results of the Fund's stewardship in managing the resources entrusted to it and provide information on the income and expenditure of the Fund and the investments it controls.

While membership rose in 2022/23, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Net withdrawal of funds was £78.9 million (2021/22 £64.2 million). During the year, the overall value of the Fund decreased by £4 million to £5.03 billion.

Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff, are free to choose whether to join the scheme, remain in the scheme or make their own arrangements. Teaching staff have access to their own defined benefit scheme the details of which are provided in the Councils financial statements.

The tables overleaf summarise the membership of the scheme over recent years showing an overall increase in all categories of members: active members, members who have deferred rights and those who are drawing pensions.

Membership of the Fund	2018	2019	2020	2021	2022	2023
Active	23,295	22,724	23,438	24,238	25,937	26,198
Deferred	23,243	23,361	23,488	23,322	26,350	27,225
Pensioner	22,757	23,983	24,651	25,366	26,254	26,915
Total	69,295	70,068	71,577	72,926	78,541	80,338

Summary of Changes in Membership	Active Members	Deferred Members	Pensioner Members	Dependents	Total
At 01-APR-2022	25,937	26,350	22,948	3,306	77,541
Adjustments	(1,448)	(75)	(681)	7	(2,197)
New Members	4,873	1,986	1,460	272	8,591
Change in Status	(1,399)	(47)	(181)	-	(1,627)
Leavers	(1,765)	(989)	(6)	(210)	(2,970)
At 31-MAR-2023	26,198	27,225	23,540	3,375	80,338
% of Total Membership	32.6%	33.9%	29.3%	4.2%	100.0%

Employers participating in the Teesside Pension Fund Accounts include:

- Scheduled bodies - local authorities or similar bodies whose staff are automatically entitled to be members of the Fund.
- Admission bodies - organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admission bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following outsourcing to the private sector.



Fund Accounts for the year ended 31 March 2023

2021-22			2022-23
£000		Note	£000
	Dealings with members, employers and others directly involved in the Fund		
(97,666)	Contributions	6	(106,953)
(2,371)	Transfers in from other pension funds	8	(4,896)
(3,626)	Other income	9	(2,561)
(103,663)	Total Income from Members		(114,410)
153,758	Benefits payable	7	162,355
5,974	Payments to and on account of leavers	10	20,435
159,732	Total Expenditure to Members		182,790
56,069	Net / withdrawals from dealings with members		68,380
8,128	Management expenses	11,20	10,473
64,197	Net withdrawals including fund management expenses		78,853
	Returns on investment		
(49,933)	Investment income	12	(48,840)
(492,353)	Profits and losses on disposal of investments and changes in the market value of investments	13	(24,791)
(542,286)	Net returns on investment		(73,631)
(478,089)	Net (increase)/decrease in the net assets available for benefits during the year		5,222
4,559,485	Net assets of the scheme as at 1 April		5,037,574
5,037,574	Net assets of the scheme as at 31 March		5,032,352
2021-22	Net Assets Statement as at 31 March		2022-23
5,036,271	Investments Assets	13	5,030,582
12,806	Current Assets	16	14,102
(11,503)	Current liabilities	17	(12,332)
5,037,574	Net assets of the Fund at 31 March		5,032,352

Notes to Teesside Pension Fund Accounts

Note 1 Basis of Preparation

The accounts are prepared on a going concern basis; that is, on the assumption that the Council will continue to operate as the administering authority for the Pension Fund and the Pension Fund will continue to meet its financial obligations until at least 31/12/2025, this period being at least twelve months from the approval of these financial statements.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which states that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Council is established under the Local Government Regulations 2013 as an Administering Authority of the Local Government Pensions Scheme and is therefore a statutory body expected to be a going concern until notification is given that the body will be dissolved, and its functions transferred.

The Pension Fund has carried out an assessment on its financial position and performance during 2022/23 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of c. £5.03b as at 31 March 2023. £4.32b (85%) of this is held in assets which are considered to be liquid, and which could be converted to cash if required (including £0.33b actually held as cash).
- In 2023/24 the Fund paid out £207.0m in benefits and other outgoings and received contributions and other income of £126.4m. The shortfall of £80.5m was met in part by £60.4m of investment income, with the remaining £20.1m met from the cash assets of the Fund.
- The Fund has estimated that in the twenty-month period from 1 April 2024 to 31 December 2025 it will pay out approximately £395 million in benefits and other outgoings and is forecasting contribution and other income in the region of £205 million. This shortfall in contribution income versus benefits and other expenditure of £190 million will be met partly from other regular investment income, which is estimated to be at least £125 million over the period to 31 December 2025 with the remaining £65 million being taken from the Fund's cash balance, which was £199 million on 31 March 2024.

On this basis, management believes it is appropriate to continue to prepare the financial statements on a going concern basis, and that there are no material uncertainties in relation to this basis of preparation.

The statement of accounts summarises the Fund's transactions for the 2022/23 financial year and its position at year end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, which is based upon international Financial Reporting Standards (IFRS), as amended for the UK local government sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits, which fall due after the end of the financial year.

Note 2 Accounting standards issued but not yet been adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is no recognition for low-value and short-term leases). CIPFA/LASAAC have however deferred implementation of IFRS16 for local government to 1 April 2024 due to the impact of Covid-19.
- IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

These standards have no impact on the fund in the current financial year.

Note 3 Summary of Significant Accounting Policies

Accruals

The accounts have been prepared on an accrual's basis, and the accruals threshold set by management is £10,000. The exception to this accruals basis is individual transfer values, which are recognised on a cash transfer basis.

Fund Account – Revenue Recognition

Contributions Income

Normal contributions, from both the members and the employers, are accounted for on an accrual's basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations. Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year-end are accrued, according to the accrual's threshold.

Transfer Values

Transfer values represent the sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfer values in and out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits, are accounted for on a receipt's basis within transfers in. Bulk transfers are accounted for on an accrual's basis in accordance with the terms of the transfer agreement.

Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

Interest Income

Interest income is recognised in the Fund account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

Distributions from Pooled Funds

Distributions from Pooled Funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

Property Related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is accounted for on an accrual's basis.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including properties) are recognised as income or

expense and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Any withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non-recoverable tax.

Management Expenses

The Code requires management expenses to be split by admin expenses, oversight and governance and investment management expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's guidance, "Accounting for Local Government Pension Scheme Management Expenses (2020)".

Administrative Expenses

All administrative expenses are accounted for on an accrual's basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for actuarial, audit and legal fees are paid directly by the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accrual's basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accrual's basis. Fees of external investment managers and the Fund's custodians are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the Council's in house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Property Expenses

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net rents from properties.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement

The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

Foreign Currency Transactions

Foreign income and sales and purchase of investments in foreign currencies received during the year have been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2023.

Net Assets Statement

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at 31 March 2023. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account. Any assets where its contractual terms must give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding are valued at amortised cost and recognised in the Fund account. The value of investments as shown in the net assets statement have been determined as follows.

Market Quoted Investments

Investments are valued at fair value as at 31 March 2023, as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income, which is reinvested in the Fund, net of applicable withholding tax.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned is accrued within the investment income receivable.

Unquoted Investments

Unlisted securities, including partnerships, are valued regarding latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships and using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value.

Freehold and Leasehold Properties

Properties are shown as valued at 31 March 2023. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition). All valuations are professional opinions on a stated basis, coupled with any appropriate assumptions. A valuation is not a fact, it is an estimate. The degree of subjectivity involved will inevitably vary from case to case, as will the degree of certainty, or probability.

Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, Northern Trust. Exceptions to this are directly owned properties, money market cash deposits and specified unquoted investments, which would be registered in the name of the administering authority. Where the Custodian does not provide a custody service, they utilise third party Sub Custodians, who are appointed by the Custodian. The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result of action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

Outstanding Commitments

The Fund has made commitments to investments, which are not included in the accounts of the Fund until the monies have been drawn down by the relative manager. These are shown in Note 13.

Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Disposal of Investments

Profits/losses on the disposal of investments are realised when the transactions are legally complete.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS26 (Accounting and Reporting by Retirement Benefit Plans) and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 15.

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd as the current provider. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements in the year. AVCs are not included in the accounts in accordance with Regulation 4 (1) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 but are disclosed as a note only ([Note 18](#)).

Value Added Tax

Expenses and property purchase costs are charged net to the Pension Fund. The VAT is reclaimed via Middlesbrough Council's VAT regime.

Note 4 Critical Judgements, Sensitivities and Accounting Estimates

Unquoted Private Equity, Infrastructure and Other Alternative investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, infrastructure, other debt, and other alternative investments. They are inherently based on forward-looking estimates and judgements involving many factors. They are also categorised within level 3 of the fair value hierarchy in note 14 where the valuation is not based on observable market data. These are valued by the investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of these investments at 31 March 2023 was £1,091,160,000 (£735,505,000 at 31 March 2022).

Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

Freehold and Leasehold Property

Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).

By nature, property valuations require significant judgement and come with a degree of uncertainty, as the market value of a property can only be accurately known at the point of sale.

Note 5 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of the Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made considering historical experience, current trends and other factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2023 and 31 March 2022. The actuarial estimate that the impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £2,489m. The actuarial estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £137m.
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Unobservable market values amount to £4,320b and are relating to infrastructure, real estate, and pooled equity vehicles
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the relevant parts of the current RICS Red Book.	The effect of variations in the factors supporting the valuation would be an increase or decrease 19.5% in the value of directly held property £73.9m, on a fair basis of £378.9m.

Note 6 Contributions

Contributions from both members and employers are accounted for on an accrual basis in the payroll period. The employers' percentage rate is set by the actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

		2021-22	2022-23
		£000	£000
Employers	Normal	(67,214)	(73,562)
	Additional Contributions	(12)	(12)
	Deficit Recovery Contributions	(506)	(158)
Members	Normal	(29,934)	(33,221)
Total		(97,666)	(106,953)

Analysis of Total Contributions

		2021-22	2022-23
		£000	£000
Administering Authority – Middlesbrough Council		(12,629)	(14,788)
Scheduled Bodies		(72,217)	(79,669)
Admission Bodies		(12,820)	(12,496)
Total		(97,666)	(106,953)

Note 7 Benefits Payable

Pensions/lump sum benefits payable include all amounts known to be due at the end of the financial year.

		2021-22	2022-23
		£000	£000
Pensions		127,421	134,792
Commutations and lump sum retirement benefits		22,750	24,684
Lump sum death benefits		3,587	2,879
Total		153,758	162,355

Analysis of Total Benefits

		2021-22	2022-23
		£000	£000
Administering Authority – Middlesbrough Council		24,119	26,174
Scheduled Bodies		95,869	100,137
Admission Bodies		33,770	36,044
Total		153,758	162,355

Note 8 Transfers in from Other Pension Funds

Transfer values represent the sums receivable in respect of members who have joined the Fund during the financial year.

		2021-22	2022-23
		£000	£000
Individual transfers in from other schemes		(2,371)	(4,896)
Total		(2,371)	(4,896)

Note 9 Other Income

	2021-22	2022-23
	£000	£000
Capital Costs of Early Retirements	(2,748)	(1,578)
Other income	(878)	(983)
Total	(3,626)	(2,561)

Note 10 Payments to and on account of leavers

	2021-22	2022-23
	£000	£000
Refunds to members leaving scheme	199	11,761
Payments for members joining state scheme	483	211
Individual transfers to other schemes	5,292	8,463
Total	5,974	20,435

Note 11 Management Expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. This includes administrative expenses, investment management expenses and oversight and governance costs.

This note does not cover all expenses that have been incurred by individual funds as these are covered within the movement of funds.

	2021-22	2022-23
	£000	£000
Administrative costs	2,238	2,470
Investment management expenses	5,474	7,331
Oversight and governance costs	375	672
Total	8,087	10,473

All investment management expenses are accounted for on an accruals basis. Fees of external managers and custodian are agreed in respective mandates governing their appointments.

	2021-22	2022-23
	£000	£000
Management fees	3,959	6,793
Custody fees	25	21
Transaction costs	939	-
Loans & investment support service charges	551	517
Total	5,474	7,331

Note 12 Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the fund on the date of dividend.

	2021-22	2022-23
	£000	£000
Income from pooled investment vehicles	(33,525)	(24,838)
Net rents from properties (see note below)	(15,554)	(15,237)
Interest on cash deposits	(854)	(8,765)
Total	(49,933)	(48,840)

Rental Income and Property Expenses

	2021-22	2022-23
	£000	£000
Gross Rental income	(16,172)	(17,096)
Property Expense / (Income)	618	1,859
Net Rents from Properties	(15,554)	(15,237)

Note 13 Investment Assets

The Pension Fund invest in several types of assets in order to maximise the return on the investment for the Fund.

2022-23	Value at 01-APR-2022	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31-MAR-2023
	£000	£000	£000	£000	£000
Equities	1,710	-	1,129	(720)	2,119
Pooled Investment Vehicles	3,773,227	385,196	(55,828)	84,781)	4,187,376
Pooled Property Investments	60,230	15,000	-	(9,792)	65,438
Properties	335,521	87,416	-	(19,322)	403,615
Loans	20,000	4,534	-	-	24,534
Directly Held – Private Equity	26,500	13,580	-	-	40,080
	4,217,188	505,726	(54,699)	54,947	4,723,162
Cash Deposits	817,250				334,350
Other Investment Balances	1,833				3,226
Net Investment assets	5,036,271				5,060,738

2021-22	Value at 01-APR-2021	Reclassified Assets	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31-MAR-2022
	£000	£000	£000	£000	£000	£000
Equities	90	1,621	-	-	1,620	1,710
Pooled Investment Vehicles	3,869,990	(21,621)	1,163,001	(1,672,195)	432,431	3,773,227
Pooled Property Investments	64,040	-	-	(8,197)	4,387	60,230
Properties	277,200	-	4,406	-	53,915	335,521
Loans	-	-	20,000	-	-	20,000
Directly Held – Private Equity	-	20,000	6,500	-	-	26,500
	4,211,320	-	1,193,907	(1,680,392)	492,353	4,217,188
Cash Deposits	340,650					817,250
Other Investment Balances	1,847					1,833
Net Investment assets	4,553,817					5,036,271

Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Realised loss was £1,128,891 and unrealised gain was £25,920,219. Prior year realised profit was £228,314,613 and unrealised gain was £264,038,252.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £4,155,600. (21/22 £938,946). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes, the transaction costs have been re-allocated to expenses.

Investments Analysed by Fund Manager

The funds equities are mainly managed externally by Border to Coast. Private equities, infrastructure, other alternatives, and other debt are all managed in-house with the only exception being the direct property portfolio managed by CBRE Limited.

- for 2022/2023 the value at 31 March 2023 of the direct property portfolio was: £403,615,188
 - for 2021/2022 the value at 31 March 2022 of the direct property portfolio was: £335,520,529
- The remainder of the Fund is all managed in-house.

The following investments represent more than 5% of the net assets of the scheme.

Security	Market Value 31-MAR-2022 £000	% of net assets of the scheme	Market Value 31-MAR-2023 £000	% of net assets of the scheme
Border to Coast PE Overseas Dev Mkts	1,608,520	31.95%	1,647,397	32.56%
Border to Coast PE UK Listed Equity	615,588	12.23%	646,205	12.77%
SSGA MPF Pacific Basin Ex-Japan Index	334,706	6.65%	320,026	6.32%

In addition, the following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund and Investment Panel.

Asset Class / Security	Market Value 31-MAR-2022 £000	% of asset class	Market Value 31- MAR-2023 £000	% of asset class
UK Equities				
Border to Coast UK Listed Equity	615,588	99.72%	646,205	99.67%
Overseas Equities				
Border to Coast Overseas Developed Markets	1,608,520	66.41%	1,647,397	67.24%
SSGA MPF Pacific Basin ex-Japan Index	334,706	13.82%	320,026	13.06%
SSGA MPF Euro Ex UK Equity Index Sub Fund	122,869	5.07%	132,964	5.43%
Border to Coast Emerging Market Hybrid Fund	210,824	8.70%	203,394	8.30%
Private Equities				
Crown Co Investment Opp II PLC	25,331	6.90%	27,528	5.71%
Unigestion SA	25,421	6.92%	27,546	5.71%

Pantheon Global Co-Investment Opportunities IV	26,412	7.19%	32,568	6.75%
Crown Growth Global Opportunities III	34,019	9.26%	37,392	7.75%
Border to Coast Private Equity Series 1A	72,562	19.76%	92,098	19.09%
Border to Coast Private Equity Series 1B	0	0.00%	26,727	5.54%
Infrastructure				
Border to Coast Infrastructure Series 1A	45,996	18.57%	72,911	18.13%
Border to Coast Infrastructure Series 1B	12,421	5.01%	21,321	5.30%
Border to Coast Infrastructure Series 1C	22,408	9.05%	36,987	9.20%
JP Morgan IIF UK I LP	36,125	14.58%	80,512	20.02%
Gresham House BSI Infrastructure LP	21,166	8.54%	22,759	5.66%
Other Alternatives				
Border to Coast Climate Opportunities Series 2A	0	0.00%	10,244	5.70%
Darwin Leisure Prop Units - Class C	23,488	20.48%	23,447	13.06%
Darwin Bereavement Services Fund - Class B	17,042	14.86%	18,087	10.07%
Darwin Bereavement Services Fund - Income Units	10,264	8.95%	30,309	16.88%
Darwin Leisure Development Fund – Class D	18,656	16.26%	19,865	11.06%
Darwin Leisure Property Fund K - Income Units	15,449	13.47%	34,420	19.17%
Hearthstone Residential Fund 1	9,675	8.43%	9,605	5.35%
Hearthstone Residential Fund 2	0	0.00%	9,836	5.48%
Gresham House BSI Housing Fund LP	13,588	11.85%	15,406	8.58%
Other Debt				
Insight IIFIG Secured Finance II Fund	24,676	47.20%	47,966	53.48%
Greyhound Retail Park Chester	20,000	38.25%	20,000	21.84%
Pantheon Senior Debt Secondaries II	7,609	14.55%	18,057	19.72%
Direct Property				
Doncaster (Omega Boulevard)	37,800	11.27%	31,200	7.73%
Birmingham (Bromford Central)	23,950	7.14%	20,200	5.00%
London (51/54 Long Acre)	0	0.00%	31,000	7.68%
Swindon (Symmetry Park, Unit 1)	0	0.00%	31,150	7.72%
Graftongate Investments Ltd (Leonardo)	0	0.00%	24,725	6.13%
Property Unit Trusts				
Standard Life Investments European Property Growth Fund	39,036	64.81%	34,842	53.24%
LAMIT - Local Authorities Property Fund	4,723	7.84%	3,944	6.03%
Hermes Property	5,064	8.41%	16,608	25.38%
Threadneedle Property	4,114	6.83%	3,399	5.19%
Legal and General Managed Property Fund	7,294	12.11%	6,646	10.16%

Geographical Analysis of Investments

	As at 31 March 2022		As at 31 March 2023	
	£000	%	£000	%
United Kingdom	1,261,457	30%	1,465,896	31%
Overseas	2,955,731	70%	3,227,110	69%
Total	4,217,188	100%	4,693,006	100%

Quoted Equities

	As at 31-MAR-2022	As at 31-MAR-2023
	£000	£000
UK quoted	1,701	2,110
Overseas quoted	9	9
Total	1,710	2,119

Pooled Investment Vehicles and Properties

	As at 31-MAR-2022	As at 31-MAR-2023
	£000	£000
UK Equity	615,588	646,205
Pooled Property investment Vehicle	60,230	65,438
Private Equity	340,778	442,431
Infrastructure	247,734	402,107
Other Alternative Investments	114,709	179,599
Other Debt	32,284	67,023
UK Unit and Investment Trusts Total	1,411,323	1,802,803
Overseas Equities	2,422,134	2,450,012
Overseas Unit and Investment Trusts Total	2,422,134	2,450,012
Total	3,833,457	4,252,814

UK Properties

	As at 31-MAR-2022	As at 31-MAR-2023
	£000	£000
Freehold	268,521	345,415
Leasehold	67,000	58,200
Total	355,521	403,615

Cash Deposits

	As at 31-MAR-2022	As at 31-MAR-2023
	£000	£000
Sterling Cash deposits	817,250	334,350

Other Investment Balances

	As at 31-MAR-2022	As at 31-MAR-2023
	£000	£000
Cash deposits with custodian	1,470	1,470
Interest due on cash deposits	363	1,756
Total	1,833	3,226

Outstanding Commitments

As at 31 March 2023, the Fund had the following outstanding commitments.

	Initial Commitment	Capital Payments made	Outstanding commitments at 31 March 2023
Infrastructure			
	GBP	GBP	GBP
Border to Coast Infrastructure Series 1A	100,000,000	59,821,475	40,178,525
Border to Coast Infrastructure Series 1B	50,000,000	21,970,573	28,029,427
Border to Coast Infrastructure Series 1C	50,000,000	32,201,193	17,798,807
Border to Coast Infrastructure Series 2A	150,000,000	16,059,102	133,940,898
Border to Coast Infrastructure Series 2B	150,000,000	0	150,000,000
Capital Dynamics Clean Energy Infrastructure Fund VIII	20,000,000	14,100,754	5,899,246
Capital Dynamics Clean Energy Infrastructure Fund VIII - Co Investment	10,000,000	7,050,377	2,949,623
Gresham House, British Strategic Investment Infrastructure Fund	20,000,000	19,070,660	929,340
Gresham House, British Strategic Investment Infrastructure Fund II	25,000,000	12,383,298	12,616,702
Innisfree PFI Continuation Fund	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	10,000,000	8,352,712	1,647,288
Total GBP	595,000,000	200,718,642	394,281,358
	EUR	EUR	EUR
Access Capital Infrastructure Fund	23,000,000	15,622,040	7,377,960
Access Capital Infrastructure Fund II	20,000,000	14,476,403	5,523,597
Access Capital Infrastructure Fund II (Fund 2)	15,000,000	7,961,781	7,038,219
Ancala Infrastructure Fund II	23,000,000	16,925,167	6,074,833
Foresight Energy Infrastructure	17,000,000	9,931,380	7,068,260
Total EUR	98,000,000	64,916,771	33,083,229
	USD	USD	USD
Blackrock Global Energy & Power Infrastructure Fund III	25,000,000	20,195,569	4,804,431
Blackrock Global Renewable Power III	25,000,000	12,377,208	12,622,792
Total USD	50,000,000	32,572,777	17,427,223
Other Alternatives			
	GBP	GBP	GBP
Bridges Evergreen TPF Housing Co-Investment LP	5,000,000	765,180	4,234,820
Gresham House Housing Fund	20,000,000	13,944,083	6,055,917
Hearthstone Residential Fund 2 LP	20,000,000	10,453,507	9,546,493
Total GBP	45,000,000	25,162,769	19,837,231
	EUR	EUR	EUR
La Salle Real Estate Debt Strategies IV	25,000,000	8,782,275	16,217,725
Total EUR	25,000,000	8,782,275	16,217,725

	USD	USD	USD
Border to Coast Climate Opportunities Series 2A	80,000,000	10,243,486	69,756,514
Total USD	80,000,000	10,243,486	69,756,514
Other Debt			
	GBP	GBP	GBP
St Arthur Homes	16,000,000	4,534,442	11,465,558
Total GBP	16,000,000	4,534,442	11,465,558
	USD	USD	USD
Pantheon Senior Debt Secondaries II	25,000,000	16,367,215	8,632,785
Total USD	25,000,000	16,367,215	8,632,785
Private Equity			
	GBP	GBP	GBP
Border to Coast Private Equity Series 1A	100,000,000	60,369,403	39,630,597
Border to Coast Private Equity Series 1B	50,000,000	25,378,167	24,621,833
Border to Coast Private Equity Series 1C	50,000,000	17,282,757	32,717,243
Border to Coast Private Equity Series 2A	100,000,000	3,126,918	96,873,082
Border to Coast Private Equity Series 2B	100,000,000	6,508,313	93,491,687
Capital Dynamics LGPS Collective for Pools 18/19	10,000,000	6,429,550	3,570,450
GB Bank Limited	28,000,000	20,080,050	7,919,950
Hermes Innovation Fund	20,000,000	13,019,125	6,980,875
Foresight Regional Investments IV	5,000,000	747,988	4,252,012
Total GBP	463,000,000	152,942,271	310,057,729
	EUR	EUR	EUR
Access Capital Fund VIII Growth Buy-Out Europe	30,000,000	16,792,109	13,207,891
Access Capital Co-Investment Fund Buy-Out Europe II	22,000,000	9,050,000	12,950,000
Capital Dynamics Mid-Market Direct V	20,000,000	13,803,038	6,196,962
Crown Growth Global Opportunities III	30,000,000	22,950,000	7,050,000
Unigestion Direct II	25,000,000	17,819,008	7,180,992
Unigestion Secondary V	50,000,000	23,000,000	27,000,000
Unigestion Direct III	37,500,000	5,426,563	32,073,437
Total EUR	214,500,000	108,840,718	105,659,282
	USD	USD	USD
Blackrock Private Opportunities Fund IV	25,000,000	21,171,123	3,828,877
Capital Dynamics Global Secondaries V	22,000,000	14,373,458	7,626,542
Crown Co-Investment Opportunities II	30,000,000	19,785,000	10,215,000
Crown Co-Investment Opportunities III	30,000,000	10,350,000	19,650,000
Crown Global Opportunities VII	40,000,000	18,920,000	21,080,000
Crown Secondaries Special Opportunities II	25,000,000	15,487,500	9,512,500
Pantheon Global Co Investment Opportunities IV	30,000,000	23,268,429	6,731,571
Total USD	202,000,000	123,355,510	78,644,490

Note 14 Financial Instruments

Net Gains and Losses on Financial Instruments

Financial Assets	2021-22	2022-23
	£000	£000
Fair Value through profit and loss account	(492,353)	(24,791)

Fair Value of Financial Instruments

	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	As at 31-MAR-2022			As at 31-MAR-2023		
Financial Assets	£000	£000	£000	£000	£000	£000
Equities	1,710			2,119		
Pooled Investments	3,773,227			4,211,910		
Pooled Property Investments	60,230			65,438		
Loans		20,000			24,534	
Directly Held – Private Equity	26,500			9,924		
Cash		817,250			334,350	
Other investment balances		1,833			3,226	
Sundry debtors		12,806			14,102	
	3,861,667	851,889	0	4,289,3913	376,212	0
Financial Liabilities						
Sundry creditors			(11,503)			(12,332)
	0	0	(11,503)	0	0	(12,332)
Net Financial Assets	3,861,667	851,889	(11,503)	4,289,391	376,212	(12,332)

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31 March annually. Cash flow adjustments can be used where valuations at 31 March could not be obtained.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Valuation of Financial Instruments

	Level 1	Level 2	Level 3	Total
Value as at 31-MAR-2023	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	9,461	3,096,216	1,159,179	4,264,856
Loans and receivables	376,212	0	0	376,212
Financial Liabilities at amortised cost	(10,942)	0	0	(10,942)
Total Financial Assets	374,731	3,096,216	1,159,179	4,630,126

Valuation of Financial Instruments

	Level 1	Level 2	Level 3	Total
Value as at 31-MAR-2022	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	10,547	3,037,721	813,399	3,861,667
Loans and Receivables	851,889	0	0	851,889
Financial Liabilities at amortised cost	(11,503)	0	0	(11,503)
Total Financial Assets	850,933	3,037,721	813,399	4,702,053

Sensitivity of Assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classification described above are likely to be accurate to within, the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023.

Valuation of Financial Instruments carried at fair value – 31 March 2023

	Assessed valuation range (+/-)	Value at 31-MAR-2023	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Private Equity	19.12%	442,431	527,024	357,838
Directly Held – Private Equity	19.12%	9,924	11,821	8,027
Pooled Investments - Infrastructure	19.12%	402,107	478,990	325,224
Pooled Investments - Other Alternatives	19.12%	179,599	213,939	145,260
Pooled Investments - Other Debt	19.12%	67,023	79,838	54,208
Pooled Investments - Property	14.90%	58,095	66,751	49,439
Total		1,159,179	1,378,363	939,996

Valuation of Financial Instruments carried at fair value – 31 March 2022

	Assessed valuation range (+/-)	Value at 31-MAR-2022	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Private Equity	18.75%	340,778	404,674	276,882
Directly Held – Private Equity	18.75%	26,500	31,469	21,531
Pooled Investments - Infrastructure	18.75%	247,734	294,184	201,284
Pooled Investments - Other Alternatives	18.75%	114,709	136,217	93,201
Pooled Investments - Other Debt	18.75%	32,285	38,337	26,231
Pooled Investments - Property	7.05%	51,393	55,016	47,770
Total		813,399	959,898	666,900

Reconciliation of Fair Value Measurements within level 3 during 2022-23

	Market Value 01-APR-2022	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/Losses	Market Value 31-MAR-2023
	£000	£000	£000	£000	£000	£000
Pooled Investments – Private Equity	340,778	98,961	(17,487)	20,179	0	442,431
Directly Held – Private Equity	26,500	13,580	0	(30,156)		9,924
Pooled Investments – Infrastructure	247,734	163,747	(28,866)	19,492	0	402,107
Pooled Investments – Other Alternatives	114,709	68,252	(2,424)	(938)	0	179,599
Pooled Investments - Other Debt	32,284	36,202	(5,485)	4,021	0	67,023
Pooled Investments – Property	51,393	15,000	0	(8,298)	0	58,095
Total	813,399	395,742	(54,262)	4,300	0	1,159,179

Reconciliation of Fair Value Measurements within level 3 during 2021-22

	Market Value 01-APR-2021	Category Transfers	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/Losses	Market Value 31-MAR-2022
	£000		£000	£000	£000	£000	£000
Pooled Investments – Private Equity	149,794	(20,000)	129,514	(17,569)	99,039	0	340,778
Directly Held – Private Equity	0	20,000	6,500	0	0	0	26,500
Pooled Investments – Infrastructure	146,7255		91,739	(13,256)	22,526	0	247,734
Pooled Investments – Other Alternatives	90,328	(4,495)	23,394	(641)	6,123	0	114,709
Pooled Investments - Other Debt	0	4,495	27,620	(2,253)	2,422	0	32,284
Pooled Investments – Property	46,670		0	(8,197)	10,865	2,055	51,393
Total	433,517		278,768	(41,916)	140,975	2,055	813,399

Nature and Extent of Exposure to Risk Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Responsibility for the Fund's risk management strategy rests with the Teesside Pension Fund Committee. The Funding Strategy Statement and the Statement of Investment Principles identify and analyse the risks faced by the pension's operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund identifies, manages, and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates.
2. The asset liability study which is carried out every three years or more frequently if required considers alternative asset allocations for the Fund and the long-term impact on employer contribution rates.
3. Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Pension Fund Committee.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Strategy Statement and the Investment Strategy Statement.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk could reasonably occur in future periods after the market value date of 31st March 2023.

2022/23 Price Risk		Value as at 31-MAR-2023	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	2,110	12.30%	2,370	1,851
	Non-UK	8	12.89%	10	7
	Total	2,118		2,380	1,858
Managed and Unitised Funds	UK Equities	646,205	12.30%	725,688	566,722
	UK Alternatives	377,323	19.12%	449,467	305,179
	Non-UK Equities	2,450,012	12.89%	2,765,818	2,134,205
	Non-UK Alternatives	779,275	19.12%	928,272	630,278
Directly Held – Private Equity	UK	9,924	19.12%	11,821	8,027
	Total	4,262,739		4,881,066	3,664,253
Total		4,264,857		4,883,446	3,646,267

2021/22 Price Risk		Value as at 31-MAR-2022	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	Asset Type
Equities	UK	1,701	14.98%	1,956	1,447
	Non-UK	9	12.96%	10	8
	Total	1,710		1,966	1,455
Managed and Unitised Funds	UK Equities	615,588	14.98%	707,803	523,373
	UK Alternatives	262,147	18.75%	311,300	212,994
	Non-UK Equities	2,422,134	12.96%	2,736,042	2,108,225
	Non-UK Alternatives	533,589	18.75%	633,637	433,541
Directly Held - Private Equity	UK	26,500	18.75%	31,469	21,531
	Total	3,859,958		4,420,250	3,299,665
Total		3,861,667		4,422,216	3,301,120

Interest Rate Risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in cash. The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2023 is set out below:

Asset Type at 31 March	2021-22	2022-23
	£000	£000
Cash and cash equivalents	817,250	334,350
Other Investment balances	1,833	3,226
Total	819,083	337,576

Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31-MAR-2023	£000	£000	£000
Cash and cash equivalents	334,350	836	(836)
Other Investment balances	3,226	8	(8)
Total	337,576	844	(844)

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31-MAR-2022	£000	£000	£000
Cash and cash equivalents	817,250	2,043	(2,043)
Other Investment balances	1,833	5	(5)
Total	819,083	2,048	(2,048)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Pension Fund Committee is informed quarterly of the Fund's currency exposure.

The following tables summarise the Fund's currency exposure as at 31 March 2022 and as at 31 March 2023, showing the sensitivity analysis of foreign exchange movements.

Currency Risk 31-MAR-2023	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	8	8.54%	9	7
Euro	242,039	5.10%	254,383	229,695
US Dollar	266,289	8.86%	289,882	242,696
Total	508,336		544,274	472,398

Currency Risk 31-MAR-2022	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	9	8.10%	10	8
Euro	173,031	5.20%	182,029	164,033
US Dollar	202,445	8.30%	219,248	185,642
Total	375,485		401,287	349,683

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the Fund considers the likely

volatility associated with foreign exchange rate movements to be as shown above. A percentage strengthening/weakening of the pound against the various currencies in which the fund holds investments would decrease/increase the net assets available to pay benefits as highlighted above.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contribution's receivable from the Fund's participating employers.

The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Annual Report.

Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31 March 2023. The LGPS Regulations require that a risk assessment of any new transferee admission body is carried out, and that a bond or guarantee is obtained where necessary.

The Teesside Pension Fund Committee must approve the admission of any new body. Bonds or guarantees have been obtained for the Fund's admission body employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

Collateral and other Credit Enhancement

The pension fund does not use collateral and other credit enhancement.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund holds in-house cash resources to meet the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost. Apart from investments in private equity, infrastructure partnerships and other alternatives there are no commitments to contribute further capital to any of the existing fund investments. When private equity, infrastructure partnership and other alternatives capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

Note 15 Actuarial Valuations

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

To check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. Typically, each final triennial valuation report is published around a year after the effective date. An Actuarial Valuation was carried out as at 31st March 2022 using the 'Projected Unit Method' which produced the following results;

	31-MAR-2019	31-MAR-2022
	£m	£m
Net Liabilities	3,561	4,351
Assets	4,088	5,036
Surplus	527	685
Funding Level	115%	116%

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2022 were:

Funding Assumptions

Pension Increase Rate (CPI)	2.7%
Salary Increase Rate	3.7%
Discount Rate	4.25%

The assumed life expectancy from age 65 (years) assumptions

Mortality Assumptions:	Years
Longevity at 65 for current pensioners:	
• Men	20.90
• Women	23.90
Longevity at 65 for future pensioners:	
• Men	21.90
• Women	25.50

Note 16 Current Assets

Current assets are cash and any other asset that will be turning into cash within one financial year.

Debtors	31-MAR-2022	31-MAR-2023
	£000	£000
Other Debtors	2,723	4,029
Sundry Debtors	615	1,145
Contributions due in respect of	Employers	4,161
	Members	2,755
Cash balances	748	618
Total	12,806	14,102

Analysis of Debtors	31-MAR-2022	31-MAR-2023
	£000	£000
Other local authorities	4,736	4,379
Other entities and individuals	7,322	9,105
Add cash balances	748	618
Total	12,806	14,102

Note 17 Current Liabilities

Current Liabilities are the amounts owing within the next financial year.

Amounts due within one year	31-MAR-2022	31-MAR-2023
	£000	£000
Rents received in advance	(2,774)	(2,559)
Accrued expenses	(7,715)	(8,258)
Other payables	(1,014)	(1,515)
Total	(11,503)	(12,332)

Analysed by	31-MAR-2022	31-MAR-2023
	£000	£000
Other local authorities	(1,121)	(1,117)
Public Corp & Trading Funds	(5,499)	(5,452)
Other entities and individuals	(4,883)	(5,763)
Total	(11,503)	(12,332)

Note 18 Additional Voluntary Contributions (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested with the Fund's nominated AVC providers, the Prudential Assurance Co Ltd. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The value of AVC investments are as follows:

Prudential AVC balances

	2021-22	2022-23
	£000	£000
With Profits and Deposit Accounts	4,312	4,134
Unit Linked Accounts	4,021	4,304
Total	8,333	8,438

The total value of AVC contributions paid to Prudential during the year, was £2,302,204.17 (2021-22 was £1,862,863.44).

Note 19 Related Party Transactions

The Fund is administered by Middlesbrough Council. During the reporting period, the council incurred costs of £1,175,000 (2021/22: £1,147,000) in relation to the administration and management of the fund and was reimbursed by the fund for these expenses. Middlesbrough Council is one of the largest members of the pension fund and made employer contribution payments of £9.5 million over the period (2021/22 - £8.6 million).

Note 20 External Audit Costs

The external fees payable to the Fund's external auditors Ernst & Young LLP.

	2021-22	2022-23
	£000	£000
Fees payable to our current external auditors, EY, with regard to their services carried out as appointed auditor.	41	35
Total Fees	41	35

Note 21 Senior Employees' Remuneration

	2021-22	2022-23
	£000	£000
Key Management Personnel		
Short Term Benefits	66	63
Post-Employment Benefits	8	7
Total	74	70

Director of finance paid via agency from August 2022 - Penna PLC £114,000

Note 22 Events after the Balance Sheet Date

Virgin Media Limited v NTL Pension Trustees II Limited

In June 2023, the UK High Court (*Virgin Media Limited v NTL Pension Trustees II Limited*) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment is subject to appeal, and the Court of Appeal heard the arguments on 26 and 27 June 2024.

The Local Government Pension Scheme is a contracted out defined benefit scheme and amendments have been made during the period 1996 to 2016 which could impact member benefits. Work is being performed by the Government Actuary's Department as the Local Government Pension Scheme actuary to assess whether section 37 certificates are in place for all amendments and some of these have been confirmed however, at the date of these financial statements, the full assessment is not complete. Until this analysis is complete, we are unable to conclude whether there is any impact on the assessed actuarial present value of promised retirement benefits under IAS 26, or if it can be reliably estimated. As a result, Teesside Pension Fund does not consider it necessary to make any allowance for the potential impact of the Virgin Media case in the disclosure of the actuarial present value of promised retirement benefits in its financial statements.

The Compliance Statement

The Compliance Statement

Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Governance Compliance Statement provides further detail on how the Administering Authority carries out and delegates its functions under those regulations and how it complies with guidance given by the Secretary of State. The statement is maintained and published by Middlesbrough Council, copies are available on application, or it can be seen at the Fund's website at appendix A of the document at the following link:

<https://www.teespen.org.uk/media/sdamv4hv/teesside-pf-governance-policy-and-compliance-statement.pdf>

Full details of the changes to the scheme, along with updated scheme guides, are on our website at www.teespen.org.uk

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved by the Pension Fund Committee in March 2021 and contains statements on:

- Investment responsibilities, setting out the key responsibilities of the Teesside Pension Fund Committee, key officers of the Fund, the Fund's Custodian, and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The existing investment management arrangements, including details of the Fund's commitment to investment pooling through its jointly owned pooling company Border to Coast.
- The Fund's position as a responsible investor and its promotion of ethical, social and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<https://www.teespen.org.uk/media/3a2hapcd/investment-strategy-statement-2021-04-april-2021.pdf>

The Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013, require each Administering Authority, to produce a Funding Strategy Statement, setting out a long-term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
 - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
 - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - Take a prudent longer-term view of funding liabilities.
- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The latest Funding Strategy Statement was approved by the Pensions Fund Committee and was effective from March 2023, and can be seen at

<https://www.teespen.org.uk/media/5n2lay4p/tees-2022-valuation-fss-30-march-2023.pdf>

Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the XPS group (previously Kier Business Services Ltd) as administrator and the Pension Fund Committee to act in a similar manner to a Board of Trustees

The Policy also sets out the:

- Terms of reference of the Pension Fund Committee.
- Structure of meetings.
- Membership; and
- Principles of governance.

The latest policy document can be viewed at:

<https://www.teespen.org.uk/media/sdamv4hv/teesside-pf-governance-policy-and-compliance-statement.pdf>

Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all its stakeholders, including the members, the employers and other external organisations. For example, we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all of our active and pensioner members; this allows us to inform participants of any scheme changes which may be made.

A Communications Policy Statement has been drawn up in order to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement can be seen at:

<https://www.teespen.org.uk/about-us/communications-policy/>

Statement of the Actuary for the year ended 31 March 2023

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants;
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term);
- where appropriate, ensure stable employer contribution rates;
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy;
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £5,306m, were sufficient to meet 116% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £684m.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund's assets.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2022
Discount rate	4.25%
Salary increase assumption	3.70%
Benefit increase assumption (CPI)	2.70%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.9 years	23.9 years
Future Pensioners*	21.9 years	25.5 years

*Aged 45 at the 2022 Valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority and on the Fund's website.

Experience over the period since 31 March 2022

Markets were disrupted by the ongoing war in Ukraine, a short-term change in UK fiscal policy and global inflationary pressures. As a result, asset returns have lagged expectation while members received a higher than anticipated benefit increase of 10.1% in April 2023. However, these impacts were more than offset by a material increase in expected future returns due to rising interest rates which decreased the value placed on the Fund's liabilities. Therefore, Fund's funding level increased in the year to 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.



Steven Law FFA

22 May 2023

For and on behalf of Hymans Robertson LLP

Schedule of Contribution Rates

Net rate of contribution payable by each employing Organisation for the period 1 April 2022 to 31 March 2023 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

	Employers Rate %	Employees £000	Employers £000
Ad Astra Academy Trust	17.5%	259	779
All Saints Academy	17.5%	41	116
Ash Trees Academy	17.5%	53	161
Badger Hill Academy	17.5%	13	39
Beamish Museum Ltd	19.2%	140	579
Beyond Housing	23.4%	424	1,508
Billingham Town Council	17.7%	8	24
Bulloughs Cleaning Services	17.9%	4	12
Business and Enterprise North East Ltd	24.5%	3	103
Caldicotes Primary Academy	17.5%	11	35
Care and Custody Health Ltd	15.9%	5	12
Care Quality Commission	17.9%	886	2,036
Carmel Education Trust	19.7%	418	1,268
Catcote Academy	17.5%	123	370
Caterlink - RCBC	21.5%	6	23
Caterlink - St Oswald's	22.3%	3	13
Churchill's (Collaborative Trust)	17.5%	1	1
Churchill's (Outwood Grange)	20.6%	4	13
Churchill's Hardwick Green	20.6%	2	7
Churchill's Harewood	20.6%	0	1
Churchill's Yarm Primary	20.6%	1	4
Cleveland College of Art and Design	15.2%	137	326
Cleveland Fire Brigade	14.8%	251	572
Conyers School	17.5%	167	501
Creative Management Services (Galileo)	29.4%	3	12
Creative Management Services Ltd	29.4%	1	8
Dyke House Academy	17.5%	90	263
Easterside Academy	17.5%	33	100
Eden Academy Trust Limited	17.5%	76	224
Egglescliffe Primary School	17.5%	9	29
Emmanuel Schools Foundation	17.5%	82	244
Endeavour Academies Trust	17.5%	139	403
Enquire Learning Trust (Central)	17.5%	102	205
Extol Academy Trust (Eldon Grove)	17.5%	115	342
Fabrick Housing Group	20.1%	924	2,655
Falcon Education Academies Trust	17.5%	33	99
Frederick Nattrass Primary Academy	17.5%	24	69

Freebrough Academy	17.5%	49	143
Future Regeneration of Grangetown	30.9%	2	10
Galileo Multi Academy Trust	17.5%	229	675
Grangefield Academy	17.5%	56	168
Green Lane Primary Academy	17.5%	38	117
Guisborough Town Council	17.7%	7	20
Hardwick Green Primary Academy	17.5%	26	78
Harrow Gate Primary Academy	17.5%	32	93
Hartlepool Borough Council	12.4%	3,483	6,693
Hartlepool Care Services Ltd	27.9%	0	2
Hartlepool College of Further Education	15.2%	183	463
Hartlepool Sixth Form College	15.2%	21	55
Holy Trinity Primary School	17.5%	15	45
Horizons Specialist Academy Trust	17.5%	276	817
Hutchinson's Catering	17.9%	2	8
Hutchison Catering - AET	17.9%	23	71
Hutchison Catering - Extol	17.9%	1	5
Ian Ramsey Church of England Academy	17.5%	49	140
Ingleby Barwick Town Council	17.7%	1	8
Ingleby Manor Free School & Sixth Form	17.5%	42	122
Ironstone Academy Trust - Ormesby Primary School	17.5%	15	46
Ironstone Academy Trust - Zetland Primary School	17.5%	20	62
James Cook Learning Trust	17.5%	69	207
Kader Academy	17.5%	24	71
KGB Cleaning Ltd – LJS	14.8%	0	1
KTS Academy	17.5%	88	272
Legacy Learning Trust	17.5%	205	438
Liberata UK Ltd	0.0%	38	0
Lingfield Academy Trust	17.5%	64	199
Lockwood Parish Council	17.7%	1	4
Loftus Town Council	17.7%	4	12
Manor Community Academy	17.5%	63	187
Mbro and Stockton Mind	17.9%	2	8
Mellors Catering Ltd - Dormanstown	21.2%	0	2
Mellors Catering Services Ltd (Central)	17.9%	1	5
Mellors Catering Services Ltd (Normanby)	17.9%	3	9
Mellors Ironstone	17.9%	2	5
Mellors NPCAT	17.9%	3	0
Mellors Riverdale	18.6%	0	1
Mellors Skelton	40.6%	1	4
Melrose Learning Trust	19.7%	36	106
Middlesbrough College	15.2%	418	976
Middlesbrough Council	11.5%	5,314	9,474

Mitie Cleveland Fire	NA	1	3
NEAT Academy Trust	17.5%	53	148
Nicholas Postgate Catholic Academy Trust	17.5%	361	2,080
NMRN Trading	15.8%	3	7
Normanby Primary School	17.5%	45	97
North East Learning Trust	19.7%	58	172
North Ormesby Primary Academy	17.5%	14	41
North Shore Academy	17.5%	51	148
Northern Lights Learning Trust	17.5%	25	76
Norton Primary Academy	17.5%	28	80
Nunthorpe Academy	17.5%	118	262
Nunthorpe Primary Academy	17.5%	16	50
Oak Tree Primary Academy	17.5%	30	91
Oakdene Primary School	17.5%	20	62
One Awards Limited	22.2%	9	37
One IT Services and Solutions Ltd	15.6%	58	111
One IT Services Ltd - Porter	15.9%	2	5
ONsite Building Trust	19.3%	3	9
Our Children 1st Academy Trust	17.5%	45	137
Outwood Academy Acklam	17.5%	76	228
Outwood Academy Bishopsgarth	17.5%	49	144
Outwood Academy Bydales	17.5%	31	89
Outwood Academy Normanby	17.5%	64	187
Outwood Academy Ormesby	17.5%	56	162
Outwood Academy Redcar	17.5%	36	106
Outwood Riverside	17.5%	68	80
Overfields Primary School	17.5%	14	44
Pentland Academy	17.5%	33	101
Police & Crime Commissioner for Cleveland	14.5%	76	150
Prince Regent Street Trust	17.5%	64	193
Redcar & Eston CIC	17.9%	10	26
Redcar and Cleveland Borough Council	10.2%	3,770	5,936
River Tees Multi Academy Trust	17.5%	44	235
Riverdale Primary School	17.5%	10	31
RM Education	18.9%	1	2
Rose Wood Academy	17.5%	27	82
Saltburn, Marske & New Marske Parish Council	17.7%	3	9
Skelton and Brotton Parish Council	17.7%	4	11
Skelton Primary School	17.5%	31	88
SLM Charitable Trust (MBC)	11.5%	53	93
SLM Community Leisure Charitable Trust	10.2%	28	88
SLM Fitness & Health Ltd (MBC)	11.5%	5	10
SLM Fitness and Health Ltd	10.2%	3	9

SLM Food & Beverage Ltd (MBC)	11.5%	2	4
SLM Food and Beverage Ltd	10.2%	2	5
South Tees Development Corporation	20.2%	140	324
St Aidan's Primary School	17.5%	20	60
St Francis of Assisi	17.5%	23	69
St Mark's Academy	17.5%	39	119
St Mary's CE Primary School	17.5%	8	23
Steel River Academy Trust	17.5%	90	274
Stockton Borough Council	13.1%	5,751	11,825
Stockton Riverside College	15.2%	470	1,141
Tascor Services Ltd - PFI	19.3%	0	2
Tees Active Limited	18.2%	95	255
Tees Valley Collaborative Trust	17.5%	139	398
Tees Valley Combined Authority	15.3%	407	838
Tees Valley Community Asset Preservation Trust	17.0%	0	1
Tees Valley Education Trust	17.5%	140	407
Teesside University	15.8%	2,573	5,824
Teesville Primary School	19.7%	19	50
The Chief Constable for Cleveland	14.5%	1,805	3,956
Thornaby C of E Primary	17.5%	22	67
Thornaby Town council	17.7%	2	4
Unity City Academy	17.5%	68	197
Veritau Tees Valley	10.2%	9	13
Viewley Hill Academy Trust	17.5%	20	62
Vision Academy Learning Trust	17.5%	333	980
Whitecliffe Academy	17.5%	10	32
XPS Administration Ltd	11.5%	26	58
Yarm Primary School	17.5%	18	54
		33,465	73,488



Annual Governance Statement

Annual Governance Statement 2022-23

Introduction

Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework and is reviewed annually. This framework comprises the culture, values, systems and processes of the Council, which if in place and complied with, will ensure that it does the right things, at the right time and in the right way. As set out in the draft 2021/22 Statement of Accounts, the Council is continuing to experience challenges in meeting these standards though is continuing to work to address areas of weakness or non-compliance. This is something that has continued into 2022/23 and 2023/24 and is therefore reflected in the structure and content of this statement.

Note that the audit of 2021-22 draft statement of accounts and accompanying 2021-22 Annual Governance Statement (AGS) are still to be finalised as a result of local and national audit issues. Therefore, for the purposes of this statement, progress updates and significant governance issues updates will be reported against that draft AGS statement which was presented to Audit Committee on 5 December 2022.

The Code of Corporate Governance aligns with the latest CIPFA / Solace guidance, which sets out the following principles of good governance:

- behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- ensuring openness and comprehensive stakeholder engagement;
- defining outcomes in terms of sustainable economic, social and environmental benefits;
- determining the interventions necessary to optimise the achievement of the intended outcomes;
- developing the entity's capacity, including the capability of its leadership and the individuals within it;
- managing risks and performance through robust internal control and strong public financial management; and
- implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The purpose of the AGS is to assess the extent to which the Council complies with its Code of Corporate Governance, how it has monitored and improved the effectiveness of its governance arrangements in the past year and how it has identified actions to strengthen these arrangements going forward.

Scope of responsibility

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and its arrangements for the management of risk.

2.2 Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

2.3 The Council is committed to operating in a manner which is consistent with the seven principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016 Edition. This AGS outlines how the Council has complied with these principles, which it has adopted as its Local Code of Corporate Governance and also how it meets the requirements of regulations 6(1) (a) and (b) of the Accounts and Audit Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

Review of effectiveness

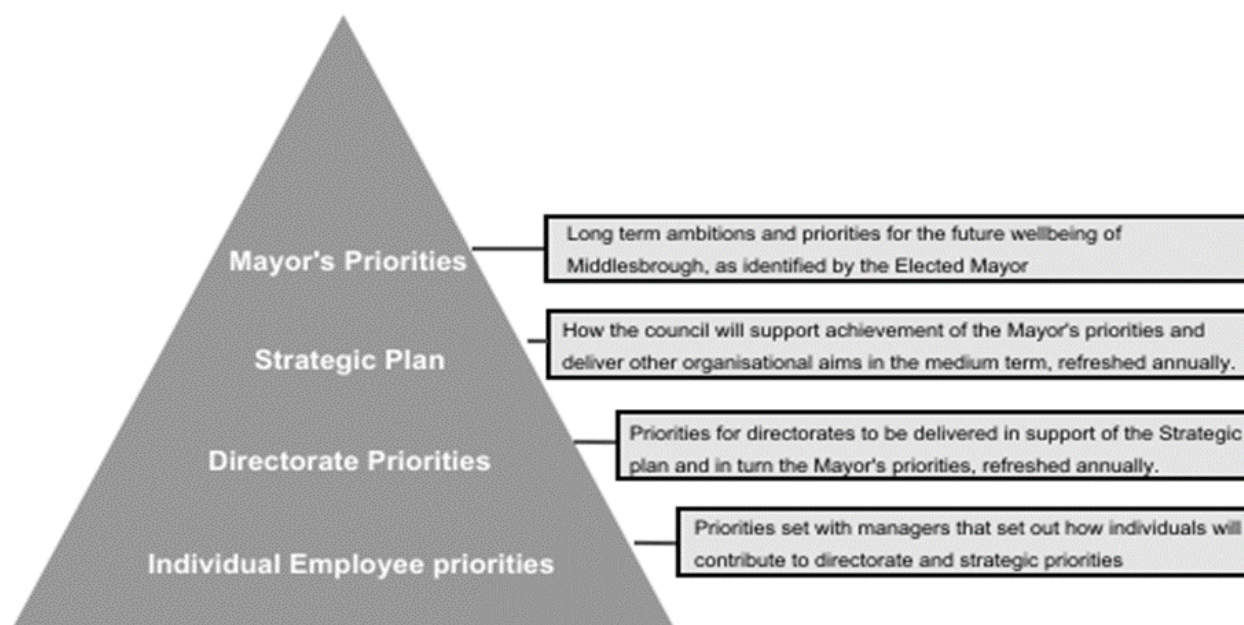
Outlined below are the arrangements in place to review the effectiveness of the governance framework and the sources of information and assurance on which this statement is based.

The Council's governance arrangements in place during 2022-23

The Committee structure in place within the Council during 2022-23 is set out Appendix 2. The terms of reference of all committees are published on the Council's [committee papers](#) website.

Committees take decisions in line with the Council's approved strategies and policies. The [Strategic Plan](#) was the Council's overarching business plan for the medium-term that was in place during 2022-23. In April 2022 the underpinning work programme was refreshed by Council to cover the period up until 2024. During 2023-24 the Council Plan was further developed to reflect the incoming Mayoral priorities (arising from elections in May 2023), and the organisation's and town's priorities and needs.

There is a 'golden thread' which runs from these documents and throughout of the Council's governance and policy frameworks. The diagram below reflects the arrangements that were in place during 2022-23.

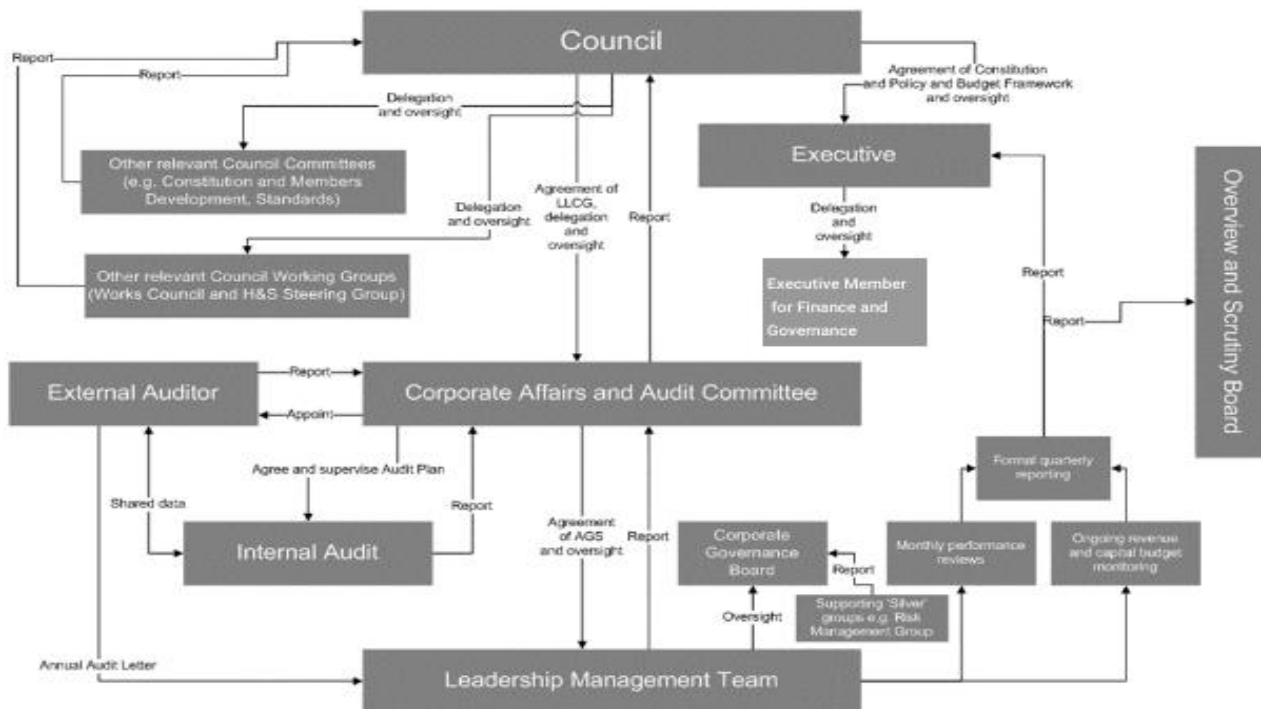


During 2023-24 the performance structure around directorate plans have been refreshed to strengthen governance. In making decisions, the Mayor and councillors are supported by a senior management structure that is designed to support effective compliance with the Council's legal and governance responsibilities, led by the three statutory officers (Head of Paid Service, Section 151 Officer and Monitoring Officer). Some decisions are delegated to senior officers. All delegated decisions are required to be published on the Council's [website](#).

The Council's [Constitution](#) defines the respective roles of councillors and officers, outlines expected standards and behaviours and provides a framework to enable effective working relationships across the Council. The Constitution also provides direction on the various roles in place to ensure effective corporate governance within the Council. The whole constitution was reviewed in 2022-23 to ensure it reflected the lessons that need to be learned from the Corporate Governance Improvement journey. This was brought forward during 2023-24 in the form of a revised constitution that has been completed during 2023-24 for member consideration and adopted by full Council in September 2023.

The diagram below sets out how governance issues are considered across the Council's committee structure and supporting functions and the reporting routes that are followed. Again, this reflects arrangements that

were in place for 2022-23. In 2023-24 the audit and corporate affairs functions have been separated out into two separate committees. This has been done in order to have a clear separation between the audit functions and the corporate affairs functions of the authority.



Internal Audit

During 2022-23 Internal Audit undertook and reported to Corporate Affairs and Audit Committee in July 2023 that of its 2022-23 audit work it had finalised 18 audits during the year which are set out at Appendix 1. Of those, 13 received substantial assurance, two received only limited assurance and in three no opinion was given. As at July 2023, there were nine audits that were ongoing. The two audits that resulted in limited assurance were in relation to burials and the project management of Boho X which is set out in this statement in Section 5. The burials audit contained 6 priority 2 actions and 1 priority 3 action. The audit found that while policies were compliant with guidance, legislation and good practice, they had not been reviewed in some time. It also found some incidences of non-compliance of practice with legislation in relation to several audited processes, this has now been addressed and all actions from that audit have now either been implemented or are planned to be implemented by April 2024.

Corporate Affairs and Audit Committee

Corporate Affairs and Audit Committee was responsible for reviewing the Council's arrangements for corporate governance and making recommendations as appropriate to ensure good governance and continuous improvement.

The committee met 10 times during 2022-23, and considered the following corporate governance related items:

- Boho X report on draft findings of an internal audit and planned management responses
- Performance and Risk annual assurance report
- Business Continuity annual assurance report
- Internal Audit Work Programme for 2022-23
- Annual assurance report on decision making
- A report on exemptions from Standing Orders
- 2020-21 Statement of Accounts and a range of progress reports
- Internal Audit and Counter Fraud progress reports

- Audit results report 2020-21
- External auditors letter of representation
- Lessons learned – Best Value and External assurance within other councils
- Commencing a Corporate Governance Improvement Journey
- Community Governance review
- Mayoral Development Corporation
- Teesside Pension fund audit results year end March 2021
- Annual Assurance report on procurement
- Annual Assurance report on Partnership Governance
- Counter Fraud Framework
- External Audit – Value for Money Governance update
- Draft Annual Governance Statement 2021-22
- External Auditor's Audit planning reports 2021-22 for Council and the Pension Fund
- Capital Strategy mid-year update
- Annual Review of the Local Code of Corporate Governance
- Internal Audit Work Programme 2023-24
- Appointment of External Auditors 2023-24
- Annual report of the Senior Information Risk Owner
- Health and Safety Annual Assurance report.

Council

During 2022-23 full Council received reports on a number of governance issues. It was agreed that because of the significance of these issues that they should be reported to all members in the full council forum. Reports received relevant to this statement included:

- The findings of the CIPFA analysis, commissioned following EY's Value for Money judgement;
- A report which was agreed that recommended acceptance of all findings from CIPFA and the establishment of a Corporate Governance Improvement Plan and supporting Member and officer governance structure; and
- Two further reports setting out progress against the Improvement Plan.

Overview and Scrutiny

Overview and Scrutiny Board (OSB), supported by a range of topic-specific panels, scrutinises Executive decisions and the performance of Council services. During 2021-22, scrutiny considered the following items that are relevant to corporate governance:

- quarterly reports on delivery of the Strategic Plan and compliance with key corporate governance disciplines;
- quarterly reports on budget outturns,
- the Executive Forward Work Programme. and
- governance updates from the Chief Executive.

There was one scrutiny call-in during 2022-23 of an Executive decision. This related to the new Nunthorpe community facility. The decision was referred to the Executive for further consideration; the outcome of which was that Executive agreed to proceed with the original decision.

Significant governance related events during 2022-23 and significant events post 2023-24

The Council is expected to set out significant governance events that have occurred during the reporting period, and their impact on the Council's governance arrangements. Both the 2020-21 AGS and the draft 2021-22 AGS identified weaknesses in the Council's corporate governance arrangements which, while action had been taken, continued to exist in 2022-23 and beyond. This section sets out key events,

including those that have occurred outside the 2022-23 period but which need to be included in this statement because of their relevance to the governance arrangements that were in place in 2022-23. This section is extensive and has been laid out chronologically where it is practical to do so. This section outlines:

2022-23 Event	Date
Reporting of an audit in relation to the Boho X project to Audit Committee	April 2022
Value for Money Judgement non-statutory recommendations issued by the External Auditor	July 2022
Best Value Notice issued by Government	January 2023
Statutory recommendations issued by the External Auditor	August 2023
summary of the Council's Governance improvement actions taken in response to the above and ongoing	ongoing
An update on the activity delivered during 2022-23 to address concerns around Member to Member and Member to Officer relationships	Throughout 2022-23
Adherence to Council governance in relation to commissioning and procurement	March 2023
Government creation of the Middlesbrough Development Corporation	February 2023
Completion of a full OFSTED inspection against the ILACS framework	March 2023
Budget management actions taken in 2022-23 to respond to budget overspends	Throughout 2022-23

Post 2022-23 key events:

Event	Date
Decision taken to close the Middlesbrough Development company	September 2023
Senior Management Structure appointments	January 2024
Best Value Notice extended for a further 6 months by Government	January 2024
External Audit updated Value for Money Interim report for audit years 2021/22 and 2022/23	July 2024
Best Value Notice not renewed and revocation of Government intervention on Children's Services	September 2024

Boho X

An internal audit of the project management of the BOHO X project was undertaken during 2021-21. The findings of this audit identified five Priority One internal audit actions. The Section 151 Officer and the Chief Executive provided an overview of the detailed findings of this audit to the Corporate Affairs and Audit Committee in April 2022 and therefore within this reporting period, although relating to events that were within the 2020-21 audit period. The purpose of the report was to provide assurance to the Committee that officers recognised the seriousness of the findings and give assurance to the committee that these issues were being tackled by setting out the governance actions to address them. These actions were embedded within the 2020-21 Annual Governance Statement improvement plan. All five priority actions have been delivered to ensure the issues identified in the audit are addressed with appropriate governance measures to ensure they cannot reoccur.

Value for Money Judgement recommendations

As set out earlier in this document, in July 2022, the Council's External Auditors issued a Value for Money judgement on the Council's governance that was in place during 2021-22. The report stated that:

'We have observed evidence which leads us to conclude that the culture and governance arrangements at the Council have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.'

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Council without following the Council's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members. These include, but are not

limited to:

- Significant changes to the design of the Council's largest capital project, Boho X, occurring outside of the Council's Programme and Project Management Framework;
- Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Council's normal procurement processes; and
- Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority.

In addition, our observations are that there is a pervasive lack of trust within the Council between officers and elected members, and between elected members, which is having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of officers and members not being adhered to.

Where management commissioned work by internal audit to investigate these matters, the scope of this work was not always sufficient to provide assurance on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up of findings which indicated areas where additional risks may exist beyond the initial scope of work. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those, subject to enquiry.

Further details of our observations are set out in our auditor's commentary on the Council's value for money arrangements included at Appendix E. In our view, these are serious matters indicative of deep rooted cultural and relationship issues at the Council which require urgent action. We consider that the Council needs to take immediate action and we will be following up on the Council's response over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations.'

The auditors made seven recommendations to the Council in July 2022 which are set out below, along with an update on delivery against them:

Recommendation	Update on delivery
<p>We recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.</p>	<p>Complete</p> <p>2022-23 - A plan was put in place and has been delivered during 2022-23. That plan was set out at a Council meeting in October 2022. Progress against the Plan was reported to all Members during 2022-23. Progress against the plan was overseen by an Improvement Board that included external specialists. This Board was chaired by a representative of the Local Government Association. The Board met in November, December, January and February during 2022-23.</p> <p>2023-24 - Council agreed to development of phase three of the plan in July 2023 and a detailed delivery plan was submitted for information in September 2023. The Council has appointed an Independent Improvement Advisory Board (IIAB) which will oversee delivery of the plan.</p>
<p>We recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'),</p>	<p>Complete</p> <p>2022-23 - Refresher training on the code of conduct was provided to members during 2021-22. 21 members attended that training. Training also included ethics within public life. Following the event the training presentation was emailed to all Councillors.</p> <p>The whole induction programme for members has been reviewed as part of the governance improvement journey during 2022-23. This included</p>

<p>as set in the Council's Constitution.</p>	<p>specifically refreshing training on the code of conduct, the Nolan principles and declarations of interest.</p> <p>2023-24 - The refreshed training has been delivered as part of the induction for new members following the 2023 local elections.</p> <p>As part of this training development was transferred from Members Services to the Council's training specialists within its Organisational Development team.</p> <p>The refreshed training package was developed in consultation with members as part of the improvement plan work undertaken during phase 2 and delivered to all councillors and the Mayor following local elections in May 2023.</p>
<p>Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.</p>	<p>Complete.</p> <p>2022-23 - Member refresher training was delivered during 2022 on the code of conduct and included information on hospitality requirements and registers of interests. A separate micro session was also delivered on members interests on 22 Sept 21. As standard materials from all training events is sent out to all councillors.</p> <p>Audits were completed on the following sample basis during 2022-23 and are ongoing in 2023-24:</p> <ul style="list-style-type: none"> ▪ One Councillor per 4 months audited (3 per year) – choice made on risk analysis basis ▪ One meeting attended by the Councillor picked at random within the period in question ▪ The meeting minutes checked for any declarations of interest ▪ Information cross checked against the register of interest, companies house records, and whether there were any potential interests in respect of any outside bodies that the member has been appointed to by the council ▪ Any potential discrepancies will be highlighted to the monitoring officer ▪ A record of the audits has been kept for assurance purposes. <p>2023-24 - Members have been reminded during the induction process following the May 2023 local elections that they are responsible for declaring their interests appropriately within communications and specific training delivered by an external specialist.</p>
<p>We recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.</p>	<p>Complete.</p> <p>2023-24 - The Council considered the findings of the pre-formal fact finding to date and used this to propose a scope of reviews that will test similar arrangements to those that were within the scope of the pre-formal fact-finding. Lessons learned from these and other complaints where they relate to corporate governance were presented to Corporate Affairs and Audit Committee during 2023-24.</p>
<p>We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and</p>	<p>Complete.</p> <p>2022-23 - The Council refreshed its approach to Risk Management and tasked all senior officers to review existing risks. During 2022-23 it was agreed to reinstate the Strategic Risk Register in its previous form as part</p>

<p>the actions taken to respond to those risks sufficient.</p>	<p>of the review of the risk and Opportunity Management Policy. The refreshed risk register is now in place.</p>
<p>We recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.</p>	<p>Complete.</p> <p>2022-23 - There is ongoing monitoring of this as part of our monthly liaison meetings and Veritau will be addressing this action within their regular reports to Corporate Affairs and Audit Committee.</p>
<p>We recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.</p>	<p>Complete.</p> <p>2022-23 - Mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution was completed for all members and senior officers during 2022-23.</p> <p>This was supplemented by training already delivered during 2021-22 on roles and responsibilities in a range of corporate governance areas:</p> <ul style="list-style-type: none"> ▪ Refresher senior leadership development work programme delivered by the Local Government Association to ensure officer and member roles continue to be understood and adhered to. And other training planned for delivering during 2022-23: ▪ Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training. ▪ Refresher training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers. ▪ Refreshed and strengthened training to officers delivering projects to ensure project and wider Council decision making governance is understood and adhered to. ▪ Delivery of training to all Members on roles and responsibilities in relation to Programme and Project Management. ▪ Delivery of training for Senior Officers on the officer code of conduct and the provision of effective advice and challenge. ▪ Complete refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers. <p>During 2021-22 the Council commissioned CIPFA to undertake an independent diagnostic piece of work, engaging with all stakeholders that identified further issues in relation to training and understanding of roles. These were included within the Corporate Governance Improvement Plan, delivered during 2022-23.</p> <p>2023-24 - One key output has been the refreshed induction training programme for members, delivered following the 2023 Local Elections.</p> <p>During 2023-24 a new People and Cultural Transformation Strategy will be put in place to further embed adherence to roles, clarity around expected behaviours, corporate values and the Nolan Principles across the organisation (staff and elected members are within scope). This will be tracked by the overarching Corporate Governance Improvement Plan (Phase 3).</p>

	A refreshed Member Development Strategy will also be delivered in 2023-24.
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On 10 July 2024, the Council's External Auditor issued its updated Value for Money interim report with commentary that covered the interim findings for the audit years 2021/22 and 2022/23. 11 of the 13 recommendations in that report are as per the table above, however the Auditors made an additional two recommendations to the Council in response issues raised within an internal audit review of a decision to purchase the Crown former public house in 2022/23:

- We recommend that management review the processes for identifying and communicating where the facts or conditions set out in committee papers change between the date on which papers are published and the date on which the committee meeting is held, to ensure that where there are changes in circumstances relevant to decisions being made this is shared with decision makers prior to decisions being taken.'
- 'We recommend that management develop an action plan to address each of the recommendations raised by internal audit in their report into the acquisition of the Crown Pub.'

Actions to address these recommendations are embedded within the draft 2023/24 action plan. A review of the process for managing any changes to reports that occur between publication and meetings will be undertaken by the Monitoring Officer and completed by December 2024.

The 2023/24 Annual Governance Statement (AGS) Action plan for delivery in 2024/25 includes actions to respond to the recommendations of internal audit and details of that internal report which made five recommendations in relation to the process which are summarised below:

- Effective processes should be put in place to ensure compliance with Council policy on asset acquisition to ensure there is a mechanism in place that assesses all sites of interest, criteria for determining the extent they would meet policy objectives, a scoring mechanism and formalised, recorded decision making of these assessments that adheres to the Constitution.
- Ensure property acquisitions are managed by the relevant professional service and all discussions with property owners are formally documented.
- Ensure a full business case is in place prior to progressing a property acquisition, including appropriate valuations and setting out a clear evidence base.

In addition, Internal Audit also identified that the Council should continue to work to ensure officers feel empowered to challenge arrangements within their appropriate professional boundaries to ensure that reports requesting decisions present the full facts and include a clear assessment of risks. This will be something that is tested by Internal Audit within its audit programme during 2024/25.

Best Value Notice issued

On 24 January 2023, the Department for Levelling Up, Housing and Communities (DLUHC) issued a Best Value Notice. The notice was formal notification that the Department for Levelling Up, Housing and Communities had concerns about the Council in relation to:

- Serious concerns highlighted by the external auditor, published in July 2022, around governance arrangements.
- Cultural and governance issues further investigated in the CIPFA review published in September 2022.

The notice stated that DLUHC expects:

'You to continue in your efforts to deliver against your agreed action plan, accepted at full Council on 30 November 2022, at pace and meet the set milestones, also setting out clearly how success will be measured.'

'That you will continue in your efforts to implement cultural change, particularly in relation to the relationships between officers and members, and that this will be an important focus of the Improvement Board'

'To complement existing engagement between the Authority and the Department, we expect that contact at working level should occur on a quarterly basis initially, recognising that this may change according to need over time. We expect any requests for information to be fully and promptly met. The Department will also look to the Governance Improvement Board for assurance on your Authority's plan and its delivery as part of our engagement on this matter.'

In September 2024, government wrote to Middlesbrough Council to state that:

'Ministers are reassured as to Middlesbrough's capacity to comply with its Best Value Duty under the Local Government Act 1999 and the Notice will not be reissued at this time. We recognise the efforts of the council and its staff and members who have worked at pace to support the delivery of the achievements to date and expect to see this rate of improvement sustained'.

External Auditor Statutory recommendations

On 18 August 2023, the Council's External Auditor issued a report to update on the Council's Value for Money arrangements that had been in place in 2022-23 and issued 11 statutory recommendations in relation to required improvement in the Council's governance arrangements. This was the culmination of the review of the Council's progress since the External Auditor initially made 7 non-statutory recommendations within their 2020-21 Audit Results Report which was considered by Corporate Affairs and Audit Committee in July 2022. In addition to existing concerns previously identified in relation to culture and governance the External Auditor identified three new areas of concern:

- Finance and sustainability
- Contacting and procurement
- Middlesbrough Development Company.

The full report sets out that while there were signs of an improvement in pace in which the Council was addressing significant cultural and governance weaknesses, overall progress was less than expected since EY's last report in November 2022. The auditors also highlighted further significant weaknesses in the Council's arrangements to secure value for money in its use of resources.

The statutory recommendations were unanimously accepted at a Council meeting in September 2023 and an action plan agreed to address them at pace. Progress against that action plan is reported to all members at every business meeting of Council and at every meeting of the Council's Audit Committee. It is also reported to the Independent Improvement Board that was put in place in 2022-23 and which meets on a monthly basis. The statutory recommendations are set out below in full, along with a summary of progress against them as of February 2024:

No.	Statutory Recommendation	Position as at February 2024
1	We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan.	Complete. The plan was presented to Council in September 2023 and is in delivery.
2	We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions.	Underway. Actions are on track to put in place a protocol by March 2024 and to complete a senior management review. Arrangements have also been put in place to ensure stability around the Chief Executive and 151 Officer posts in the medium term with a path to permanence for those posts agreed for the longer term. This was set out in a report to Council in January 2024.
3	We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice, and ensuring that the refreshed	Complete. The revised constitution was put in place in September 2023. Training to all staff and members was delivered on it through e-learning and face to face training

	Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented.	as part of the corporate governance training programme which will complete delivery in March 2024. In early February 2024, training completion rates were at 87% and rising.
4	We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities	<p>Ongoing. All actions set out to deliver this will be complete by March 2024. Actions delivered to date include implementation of stringent controls over expenditure including vacancy control panels led by the Chief Executive; monthly s151 Officer led budget challenge sessions; development and the implementation of financial recovery plans to reduce the overspend from £11.563m at the end of Quarter One 2023-24, to £5.544m at the end of Quarter three.</p> <p>The budget development process for 2024-25 includes a programme of savings including transformation, demand management and efficiency proposals together with revised and reduced services in order to reduce the Council's expenditure to more sustainable levels.</p>
5	We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieves the outcomes required for the resources invested. Where opportunities to improve service delivery models re identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.	<p>Ongoing. The Council's approach to transformation and supporting governance and financing of that programme is in development as part of the service and financial planning process for 2024-25 and over the period of the MTFP to 2026-27. The Programme and its financing plan will be considered and approved by Executive and then Council on 28 March at which point it will be incorporated into the Council's Budget and Policy framework. The Transformation Programme to redesign service delivery from a lower cost base will run over two to three years from 2024-25 and will be fundamental to the Council's financial recovery and achieving financial resilience.</p>
6	We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022-23 and 2023-24 financial years and ensure future forecasting reflects lessons learnt.	<p>Ongoing. Activity is on track to develop sensitivity analysis and demand and cost modelling in demand led, high spending services in order to link operational activity and financial monitoring more effectively. This work will be developed further during 2024-25 to enhance budget monitoring and forecasting providing timely insight to enable effective decision making and control of services to maintain delivery within budget.</p>
7	We recommend that the Council conclude its review of its Financial and Contract Procedure rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and	<p>Complete. The review was complete and agreed by Council as part of the report seeking approval of the revised constitution in September 2023.</p>

	Contract Procedure rules do not currently address contract extensions.	
8	We recommend that, once the Financial and Contract Procedure rules are finalised, training is provided to all officers who are involved in contracting, procurement or financial decision making to ensure that the Financial and Contract Procedure rules are understood and adhered to.	Complete. Training has been delivered during 2023-24. Training combined face to face and e-learning. Completions are at 92% Only 12 staff missed the face-to-face element due to sickness and leave. They will complete the training in February 2024. Management reporting will be developed through 2024-25 identify areas of non-compliance to enable proactive interaction of the Procurement Team to work with service areas to drive compliance and provide targeted training on an ongoing basis.
9	We recommend that the council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any further remedial action is necessary.	Ongoing. The outcome of the review is on schedule to be presented at the March 2024 Audit Committee meeting.
10	We recommend that the council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period.	Complete. The review was complete, and a plan put in place to manage the closure of the company.
11	We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.	Ongoing. Work to close the company and present a final report to Executive is on track to be complete by the end of March 2024 and reported to Executive in April 2024.

Adherence to Council governance in relation to commissioning and procurement

In 2022-23, issues were highlighted in regard to procurement practices within Childrens Service regarding the engagement of a provider to deliver managed Social Work Teams. The practices undertaken were out with the Council's procurement guidelines and as such this was reported to the Section 151 officer. A resulting investigation was completed which deemed documented procurement processes had not been followed. Action has been taken to rectify the arrangements through compliant procurement route. Furthermore, the appointment during 2022-23 of the Interim Executive Director of Childrens Services, and Director of Children's Care did not follow procurement routes for the appointment of interim staff. This was rectified and the engagements were secured through the Neutral Vendor Framework. The non-compliance with procurement requirement has been flagged as an area of concerns by the Council's External Auditors.

Governance improvement actions

During 2022-23 and into 2023-24, the Council has:

2022-23

- Continued to deliver against the existing Corporate Governance Improvement Plan, regularly reporting progress to Council meetings.
- Established an internal oversight Board, along with task and finish groups. The Board and groups comprised of officers and members from across all political groups.

2023-24

- A progress update reported to full Council in July 2023 set out progress to date and plans to rescope the focus of the corporate governance improvement plan to reflect movement since it was first put in place and to also include actions to address the Council's financial resilience.
- Delivered a follow up report to Council in September 2023, setting out phase three of the Corporate Governance Improvement Plan in further detail, refining scope to focus on the governance and culture challenges facing the organisation, as well as the addressing budgetary pressures.
- Established an Independent Improvement Advisory Board (IIAB) to oversee delivery of Corporate Governance improvement work.
- Completed a fundamental review of the Constitution, including financial regulations and contract procedure rules.
- Delivered cultural change workshops with Members from the previous administration (pre-May 2023) and embedded good practice around culture and behaviours within a revised approach to member inductions for the incoming administration of councillors and Mayor.
- Commenced development of a People, which will encompass officers and members to embed best practice in relation to culture and behaviours through the Council's corporate Values and the Nolan Principles.
- Fortnightly officer level engagement with DLUHC officials is in place and has been ongoing for some months.
- The IIAB chair has engaged with DLUHC as well.
- IIAB meetings commenced in October 2023 and the first public report of the board was considered by Executive in January 2024.

Organisational culture and Member officer relationships

As set out in the 2020-21 AGS, Member to Member and Member to officer relationships deteriorated further in the 2021-22 financial year resulting in a more dysfunctional culture than that evident in 2020-21. During 2022-23, the Corporate Governance improvement plan that was put in place, included actions to address this.

Actions within the Corporate Governance Improvement Plan, delivered in 2022-23 included:

- An initial refresh of the Member / Officer protocol which has since been further developed to include more examples of positive behaviours and expectations. The refreshed document was included in the revised constitution adopted in September 2023.
- Staff and member surveys were undertaken in November 2022, August 2023 and December 2023 to assess Member to Officer and Member to Member relationships progress. The first two surveys were of all staff and all Members. The last survey focussed on Executive Members and Senior Officer relationships. This survey showed a marked improvement in perceptions around the health of relationships.
- Development of communications protocol for officers and members.

- Creation of an informal meeting space for members in the Town Hall and creation of member parking spaces in Fountain Court, to improve access to staff and encourage opportunities for engaging outside of formal meetings.
- Recommendations around alignment of Executive Member portfolios with officer and scrutiny panel structures.
- A refreshed approach to Member inductions, is currently in delivery.

Following completion of much of the initial phase of work, the decision of the Council's Chief Executive to step down from his role, the 2023 local elections and the wider governance issues outlined in this statement, the decision was taken to rescope the Corporate Governance Improvement Plan. The elections held in May 2023, resulted in a significant number of Member changes to the Council, as well as a newly elected Mayor.

The rescoped Corporate Governance Improvement Plan has been in place since September 2023.

Creation of the Middlesbrough Mayoral Development Corporation

In 2022-23 an order was laid before Parliament to create a Mayoral Development Corporation covering Middlesbrough town centre and Middlehaven. The MDC is a statutory body that will take on planning powers within the boundaries of the corporation. The planned timeline is that during 2023-24, the corporation will identify assets, currently held by the Council, to be transferred into its control from the Council. A report to full Council during 2022-23 set out the possible implications on finances, assets, and planning powers. It has powers to issue discretionary business rate relief and will be delivering regeneration through the development and implementation of a Masterplan.

Childrens Services Ofsted inspection

In December 2019 OFSTED completed an inspection of the Council's compliance with the Inspection of Local Authority Children's Services (ILACS) framework. In March 2023 a further full inspection was held which identified that while improvement had been made across all four categories, further work was required in order to achieve a 'Good' Ofsted rating.

Judgement	2019 Grade	2023 Grade
The impact of leaders on social work practice with children and families	Inadequate	Requires improvement to be good
The experiences and progress of children who need help and protection	Inadequate	Requires improvement to be good
The experiences and progress of children in care and care leavers	Inadequate	Requires improvement to be good
Overall effectiveness	Inadequate	Requires improvement to be good

During 2023/24 the Council continued to deliver against its improvement plan for Children's Services, with oversight provided by the statutory board put in place by the Department for Education. In September 2024 this intervention was ceased when government ended its intervention in recognition of improvements to children's safeguarding services.

Budget Management

2022-23

Quarterly budget monitoring and forecasting operated during 2022-23:

- The Quarter One budget monitoring report to Executive on 6 September 2022 reported a forecast overspend of approximately £9m for 2022-23. This was mainly due to pressures relating to additional

inflation, the increased pay award, and increased demand, placement and agency costs within Children's Services which had not been anticipated at budget setting.

- The pressures in children's social care were recognised as the single biggest risk to the Council's financial stability and further measures were identified to work closely with the Executive Director of Children's Services to establish more robust management and control measures.
- The Council implemented an in year financial recovery plan in response to escalating financial pressures in Children's service during the year. The Financial Recovery Plan reduced the forecast overspend from £9.012m (7.6%) at Quarter One to £2.755m (2.3%) at year end. Within this sum, the Children's Care overspend was £55.587m, £9.423m (20.8%) against its approved budget of £45.409m.

During 2022-23, the incoming Executive Director of Children's Services committed to delivering several actions to mitigate spending within Children's Services as set out below and which includes an update on implementation, provided by the Interim Executive Director of Children's Services:

Commitment	Update on delivery in 2022-23
Subjecting cases of children looked after by the Council to ongoing audit, consistent decision-making processes and a solutions panel chaired by the Director of Children's Care.	Children In Care Panels are held weekly, chaired by the Director of Children's Care. The Panel reviews all placements/ resource issues and planning for looked after children. Monthly deep dive audits are in place.
Development of Stronger Families teams within Early Help and Prevention to increase skills to support additional work and complexity at this level to prevent future young people entering care.	This is in place and fully functioning with Early Help practitioners in Stronger families supporting around 1000 children. While the rate of children looked after has climbed slightly from March 2022 to March 2023, the number of children and young people supported at the Early Help stage by the Council and its partners has increased significantly.
Development of the Middlesbrough Multi Agency Children's Hub (MACH) to secure the consistency of thresholds and increasing step-downs to early help and more timely support for children and young people.	This is fully embedded and recent Ofsted inspection of children's safeguarding found it to be effective regarding the consistency of thresholds. Early Help workers are placed within the MACH to help inform appropriate step-downs. Despite this there have been reduced step downs to early help.
Utilising two specialist project teams to support referral and assessments at the front door of Children's Care.	These were brought in by previous Executive Director of Children's Services to do this work. Now completed and current leadership team have overseen the exiting of these two teams and resumed business as usual practice.
Continuing to keep internal residential places at a high occupancy level. Re-opening Rosecroft in late summer, once registered, will produce a further 5 places. Plans to increase Fir Tree by 1 place later in 2021-22. Other Internal Residential opportunities are to be reviewed as invest to save models when identified and assessed. Potential sale of any spare places that are not occupied with Middlesbrough young people to neighbouring Tees Valley Local Authorities.	2022-/23 showed occupancy of approx. 80% in consideration of appropriate staffing and matching of young people. Rosecroft opened as planned and supports up to 5 children at any time. Fir tree place capacity was also increased. The invest to save project is underway to increase internal provision and reduce spend. Despite this, the percentage of children cared for in Children's homes owned by the Council has only increased slightly from 2.3% in May 22 to 2.5% in March 2023.
All external residential placements are being reviewed by a specialist project team set up by the incoming Executive Director of Children's Services to ensure that no children are in residential care who could be fostered or safely returned to their families or the care of relatives. In addition, this team will look at all cases that are nearing	This work was undertaken by one of the managed teams and ended in November 2022. On-going work is overseen by the department in a weekly panel. Despite this the percentage of children cared for in external residential placements has increased from 7.5% in May 2022 to 8.2% in March 2023.

requirement for residential care with the aim of making sure that all alternative options for support are fully explored before residential provision is approved.	
Work continues to build on increasing the number of internal foster placements achieved over the past 2 years, allowing children to be placed in high quality, local authority foster care as an alternative to more expensive agency placements.	Offer to in-house foster carers has been reviewed and payment/ training offer increased. This has resulted in increased number of applications, assessment and recruitment of in-house carers. The Council is aiming to have 22 new carers in place by September 2023. Despite this the overall number of children placed with internal foster carers has reduced slightly from 109 to 101. This reflects an ongoing challenge for the service in attracting and retaining foster carers in the environment in which they are operating.
An in-depth review is taking place of the processes around the placement of children with friends and family to ensure that these are only made where necessary and that financial support represents value for money.	Thorough assessments inform placement with connected carers & packages of support provided in line with government recommendations.
Maximising, where appropriate, health contributions from Clinical Commissioning Group (CCG) and education contributions from the Dedicated Schools Grant (DSG).	We have a dedicated health practice lead responsible for ensuring this takes place. He is based within commissioning and attends weekly CIC panel.

Despite these actions being taken, only some achieved their intended outputs and even where that occurred and had some impact on the profile of the care provided, the service failed to contain expenditure within the approved budget. The year end outturn of £54.832m represents an overspend of £9.423m (21%) on an approved budget of £45.409m which had already been increased by £5.6m in year – initially on a temporary basis. The overspend was driven by:

- The impact of high inflation on the cost of packages, complexity of the needs of children
- A dependency upon agency staff given difficulties in recruiting permanent social care staff. Whilst difficulties in recruitment is a national issue, the DCS believes that it is exacerbated in Middlesbrough as a result of a poor Ofsted judgement and a full ILACS pending, in 2022-23.
- A shift of internal foster carers to Independent Foster Agencies due to them paying higher rates together with the impact of the cost of living crisis. Corrective action to balance payments was taken towards to the end of 2022-23, which appears to have stemmed further flow.

The increasing expenditure pressures during the year resulted in a review and rebasing of the Children's care budget for 2023-24 to £54.649m which aligned with the 2022-23 outturn. CIPFA were engaged in reviewing the budget and savings proposals of the Council, with a particular focus upon children and reported in January 2023. They noted that *'whilst the plan is looking to tackle the right issues in the right way, this is still being developed but whilst intent is clear, the evidence to support delivery is not'*. Key risks that were noted included, the lack of stable management, ambitious delivery timescales that were not supported by detailed delivery plans, a lack of financial discipline in the directorate and lack of forecasting information.

Given the limited impact of the actions above, the outgoing Executive Director of Children's Services implemented measures to control within budget during 2023-24 including:

- Measures to recruit and retain a permanent and stable workforce through conversion of agency to permanent staff, an updated recruitment campaign, implementation of market forces supplement, a new cohort of trainees in our social work academy.
- A sufficiency strategy is in place to increase in-house residential provision through the purchase and renovation of properties in the local area.
- In the last 12 months 10 new fostering households have been to panel and have been approved, currently there are 7 assessments awaiting panel and two awaiting applications. In total if the new

assessment and applications are approved this equates to 27 placements at a lower cost. On 1st October 2023 Middlesbrough Council joined the Foster with North East Pathway to support with all new fostering enquiries and training for foster carers. They have developed a marketing and communications strategy to attract new fostering enquiries regionally. The Foster with North East Brand was developed together with a website, online information evenings and targeted social media campaigns to attract new fostering enquiries.

- There has been an increase in the offer to in-house foster carers, that has generated 18 new applicants to date, of which 5 have been approved, 10 more will be approved by September 2023, whilst 3 remain in the application stage. Subject to approval, this will generate placements for at least 24 children at lower cost than Independent Fostering Agencies.
- Increased oversight and scrutiny, by the incoming Executive Director of Children's Services (DCS) and Director of Children's Care (DCC) is in place around all decisions through attendance at regular panels, where there is associated spend, including children being accommodated into care, request for placements & care packages.

2023-24

The Council's critical financial position was identified in May 2023 upon review of the month 2 financial forecast by the new Director of Finance. Enhanced budget management and control measures, supported by the Executive, were introduced by the Director of Finance during Quarter One in response to a forecast overspend of £11.563m as follows:

- An increase in frequency of management revenue budget monitoring and forecasting from quarterly to monthly.
- Monthly budget challenge and review sessions chaired by the Director of Finance to be held for each Directorate, working collaboratively with Directors, their Management Teams and Finance Business Partners to ensure focus on budgetary control and proactive management actions to remain within approved budget.
- Monthly review and challenge of financial and operational performance at Leadership Management Team (LMT) chaired by the interim Chief Executive.
- Director Accountability Agreements signed by LMT to demonstrate commitment to managing within the approved budget and focus upon areas of identified risk.
- Quarterly budget challenge and review sessions for each Directorate chaired by the Executive Member for Finance & Governance and attended by Executive Members for relevant Directorates.
- Requirement for Directorate adverse variances to be addressed through the development of Financial Recovery Plans by Directors in consultation with their relevant Executive Member, and delivery to be monitored through the budget challenge framework.
- Savings tracker to be utilised to report progress on delivery of savings and enable targeting of management actions.
- Measures to improve the quality and timeliness of budgetary reports over the course of the year initiated.

The pressures in children's social care required further measures to establish control through closer working between the Director of Finance and the Executive Director of Children's Services in order to establish more robust management and financial control measures.

Across all service areas, financial recovery plans were required to reduce the forecast overspend. New financial recovery plans required short term investment in order to prime transformation and efficiency work within the year were developed. The s151 Officer agreed that from Q2, the revised balance on the Change Fund Reserve following the balance sheet review of up to £1.488m be made available subject to approval of a business case in order to fund expenditure on transformation and efficiency on an ongoing basis in order to reduce the overspend and operate from a lower cost base.

The forecast outturn at Q3 has reduced to £5.544m (4.4%) compared to the net budget of £126.354m, with the main variances summarised below:

	£m
Adult Social Care	1.358
Children's Social care	2.884
Education & Partnerships	1.443
Environment and Community Services	0.943
Other variances (Regeneration, Legal and Governance, Finance and Central)	(1.084)
Total	5.544

Expenditure pressures in adults and children's social care continue to be driven by a combination of increased prices, demand and complexity of demand resulting in more expensive provision to meet the needs of vulnerable adults and children. Within Education and Partnerships, the overspend is due to the increased prices and the numbers of children with an EHCP with a resulting increase in SEND transport costs in relation to school transport. Pressures in Environment and Communities are due to the increased cost of waste disposal.

The measures to invest in capacity to deliver in-year change and savings, have been taken to address the shortfalls in capacity identified during monthly budget challenge sessions and alongside work to develop a programme of budget savings targeted to deliver the 2024-25 budget proposals to address an identified £18m budget gap in 2024-25 primarily due to pressures in the service areas summarised above. These service areas of statutory responsibility referenced above have been unable to fully control expenditure within budget during 2023-24 under existing operating arrangements and so an overspend is unavoidable in 2023-24. These service areas will be subject to transformation and redesign and demand management and efficiency measures during 2024-25 in order to establish more financially sustainable service models for the medium to long term.

2024-25

The 2024-25 budget includes savings proposals of £13.910m in 2024-25 rising to £21.028m in 2026-27. However, this has not been sufficient to enable a lawful and balanced budget to be set for 2024-25. A shortfall of £4.7m remains and is reliant upon the Council receiving Exceptional Financial Support (EFS) to from DLUHC to enable it to capitalise this expenditure and fund via borrowing in order to achieve financial balance. This will avoid the statutory requirement for the s151 Officer to issue a s114 Notice to the Council and will buy time for the Council to develop and implement a large scale Transformation Programme to deliver financial recovery. The programme will be required to deliver both planned savings plus a minimum of a further £8m of savings to be deliverable in 2025-26 in order to balance the MTFP.

The Transformation Programme will be overseen by a strategic board led by the Elected Mayor with cross party participation. Delivery will be led by the Chief Executive. The programme governance and individual programme themes are currently under development with the support of external consultants experienced in financial turnaround. The programme will be underpinned by an enhanced programme management and governance framework and appropriate resources to ensure robust and deliverable plans are in place. Programme themes will be led by Directors of the LMT and will have dedicated resources to ensure delivery to plan and realisation of required savings. The programme will be implemented in full from 1 April 2024 subject to approval by the Executive and Council during March 2024.

Alongside the Transformation plan, the measures taken to strengthen the Council's financial management and forecasting during 2023-24 will continue to be developed during 2024-25 to achieve integrated service and financial management underpinned and informed by focused data analytics to establish a consistent approach to activity based costing. There will be focus upon the review and refinement of financial processes, systems and procedures together with addressing the development needs of finance staff and service budget holders in order to develop more effective financial planning, budget management and forecasting. These measures will serve to address the external auditor's statutory recommendations 4, 5 and 6 as set out in paragraph 5.9.

Middlesbrough Development Company

During 2022-23 a decision was taken to wind down the Middlesbrough Development Company (MDC), which was agreed by the Company and is in process.

Established as a local authority trading wholly owned company limited by shares, with the Council as the sole shareholder, Internal Audit undertook an assessment of the company during 2022-23, using Local Partnerships and CIPFA best practice guidance on local authority trading companies. This [audit](#) identified a range of governance concerns in relation to the governance arrangements of the company. The Council has addressed the lessons to be learned from this by putting in place a policy which sets out required standards for partly and wholly owned council companies.

In August 2023, the Corporate Affairs and Audit Committee considered a [report](#) on the outcome of an internal audit investigation into the company's governance. In September 2023 Executive considered a report on the management of the company's closure which also set out the governance measures that would be put in place during that period to provide assurance to the Council that value for money was being achieved and there would be adherence to the Partly and Wholly Owned Council Companies Policy.

Best Value Notice Extension 2023-24

In January 2024 the Best Value Notice, first issued during 2022-23 was extended for a further six months, remaining on a non-statutory footing. Government in their communications with the Council recognised the effort and pace undertaken since January 2023 in relation to governance improvements. The notice sets out that government expects the Council to:

'Continue to work with the Independent Improvement Board established in Middlesbrough to support the council to deliver the council's locally led improvement strategies, organisational transformation and to monitor progress of the application of the improvement board recommendations and delivery of improvements against the serious concerns highlighted by the external auditor, published in July 2022, around governance arrangements, and cultural and governance issues further investigated in the CIPFA review published in September 2022.'

Continue in your efforts to deliver against your agreed action plan, accepted at full Council on 30 November 2022, at pace and to meet the set milestones and success measures established.

Continue in your efforts to implement cultural change, particularly in relation to the relationships between officers and members, and that this will be an important continuing focus of the Independent Improvement Board.

Work with the Department as you deliver on your Best Value requirement to secure the financial recovery and return to financial sustainability through setting a balanced 3-year MTFP over the period to 2026-27.'

Senior Management Structure

There has been a significant movement in key posts within the Council's senior leadership team during 2022-23. There were interim arrangements in place at the end of 2022-23 for the statutory functions of the Head of Paid Service, the Section 151 officer (Director of Finance), the Executive Director of Children's Services and Director of Children's Care following the departure of previous postholders.

The incoming Executive Director of Children's Services and the Director of Children's Care post were both appointed to on a permanent basis in 2023-24. In January 2024, the interim postholders of Chief Executive and Section 151 officer were extended until March 2025 to provide stability and leadership with experience of improvement and transformation through a period of significant change and transition for the Council. A plan has been agreed which sets out the path to appointment of permanent individuals to those posts before 31 March 2025 which will provide for comprehensive handover to ensure continuity and stability is maintained to support the Council's improvement journey.

Position statement against the Council's Code of Corporate Governance

Self-assessment

The Council has completed a position statement against its Code of Corporate Governance for the 2022-23 year, informed by:

- the professional opinion of statutory and other officers with responsibility for the development and maintenance of the Council's internal control environment;
- reports from Overview and Scrutiny, and Corporate Affairs and Audit Committee's examinations of governance processes; and
- findings from Internal Audit's review programme and other work completed by Internal Audit, and engagement with the Council's external auditor.

The detailed position statement is at Appendix 3 and is reflective of governance risk levels as outlined in the Council's strategic and directorate risk registers.

In summary, while the Council can demonstrate that governance processes are in place for the most part, the significant control weaknesses that were identified in the 2020-21 Annual Governance Statement and draft 2021-22 Annual Governance Statement continued to exist, as reflected in the findings of EY, CIPFA and in the implementation and renewal of the Best Value Notice issued by DLUHC.

As set out previously, in response to the EY judgement, the Council commissioned CIPFA during 2022 to complete an independent review of its governance arrangements which informed a Corporate Governance Improvement Plan, along with establishment of an appropriate governance structure which includes a multi-disciplinary member and officer board that aligns with the Council's Project Management Framework. Progress was reported to Council on a regular basis to demonstrate delivery of actions and also to assess the impact of those actions during 2022-23. During 2023-24 a revised approach was brought forward to ensure those issues continued to be addressed while also ensuring a wider range of issues are brought within the scope of the Corporate Governance Improvement agenda.

Internal Audit opinion

The overall [opinion](#) of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council is that it provides Limited Assurance, following identification of a number of governance weaknesses which it concluded, 'were not limited to one specific area or audit and were instead indicative of wider issues around relationships between members and officers, and a lack of clear separation of their respective roles'.

External Audit judgement

The Council's External Audit function was provided by Ernst & Young LLP (EY) during 2022-23. The judgement of the Council's External Auditor will be provided to Audit and Affairs Committee alongside the final version of this document upon conclusion of the 2023-24 audit.

Conclusion

As was the case in the 2020-21 and 2021-22 Annual Governance Statement, the Council continues to demonstrate that while there are governance processes in place for the most part, it is clear that significant control weaknesses in relation to compliance with those processes continued to exist in some areas during 2022-23. These are being addressed by both the Corporate Governance Improvement Plan and the action plan in place to respond to the Section 24 recommendations issued by the Council's External Auditors.

The seriousness of the Council's governance weaknesses was reinforced by the Best Value Notice issued in January 2023 and extended in January 2024, with a new focus on financial sustainability. The Council welcomes the government's acknowledgement of progress made to date, which was echoed by the first report of the Independent Improvement Advisory Board which was presented to Executive in January 2024.

As set out in the body of this statement, work was undertaken during 2022-23 and 2023-24 and will continue moving forward by both officers and Members working collaboratively with common purpose in order to address the concerns expressed by DLUHC and the Council's External Auditors, EY. There is however much more to be done to secure an effective culture that embeds the Council's values and Nolan Principles within its operations.

Phase three of the Council's Corporate Governance Improvement Plan and the action plan addressing the recommendations within the Section 24 report of the External Auditor will underpin the organisations approach to Service and financial planning and transformation.

Signatures of the Chief Executive, 151 officer and Elected Mayor will be added to the finalised document.

Appendix 1 Internal Audits completed during 2022-23

87% of audit activity where an opinion was given resulted in either a substantial or reasonable assurance judgement being made, compared to 86% of audits that were reported in the 2021-22 draft AGS.

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Payroll	Substantial Assurance	0	0	3
Towns fund governance	Substantial Assurance	0	1	0
Asset maintenance	Substantial Assurance	0	0	0
Teesside Pension Fund – overpayments	Substantial Assurance	0	0	0
Schools themed audit – purchasing cards & asset management	Substantial Assurance	0	6	9
Future High Streets Fund	Substantial Assurance	0	1	1
Home working	Substantial Assurance	0	1	2
ICT change management	Substantial Assurance	0	0	1
Benefits - overpayments	Substantial Assurance	0	0	0
Main Accounting	Substantial Assurance	0	0	1
Teesside Pension Fund – investments	Substantial Assurance	0	0	0
Firewalls (ICT)	Substantial Assurance	0	0	0

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Creditors	Reasonable Assurance	0	1	6
Burials	Limited Assurance	0	6	1
Project management – Boho X	Limited Assurance	5	6	1
CCTV (follow-up)	No Opinion Given	1	1	0
Senior management reviews	No Opinion Given	0	0	0
Supplier relief	No Opinion Given	0	0	0
	Total:	6	23	25

The opinions used by Internal Audit during 2022-23 are explained below:

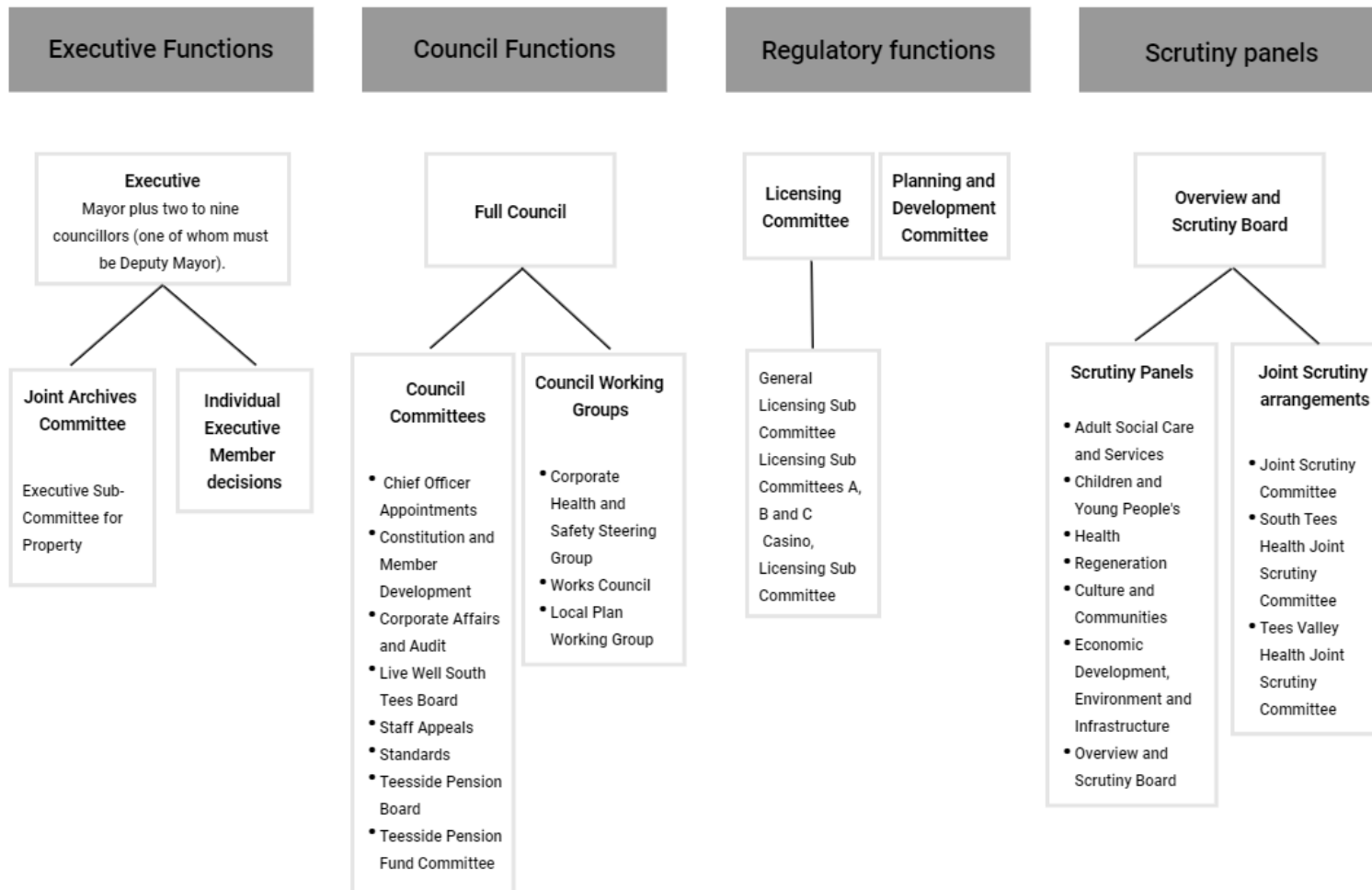
- Substantial Assurance – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- Reasonable Assurance – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
- Limited Assurance – Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
- No Assurance – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited

The following categories of opinion are also applied to individual recommendations agreed with management:

- Priority 1 (P1) – A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
- Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.

- Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

Appendix 2 Middlesbrough Council Committee Structure 2022-23



Appendix 3: Position statement against the Council’s Code of Corporate Governance as at February 2024

Page 632

Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.</p> <ul style="list-style-type: none"> Behaving with integrity Demonstrating strong commitment to ethical values Respecting the rule of law 	<ul style="list-style-type: none"> Work diligently and with integrity to achieve the Elected Mayor’s Priorities for Middlesbrough. Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these. Effectively communicate expected behaviours to members and officers and provide appropriate training on ethical behaviour. Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities. Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes. 	<ul style="list-style-type: none"> Constitution and supporting documentation set out expected behaviours and decision-making processes, including member and officer relationships, codes of conduct, financial procedure rules and schemes of delegation. This was refreshed in 2023/24. Corporate values (one of which is integrity) in place and embedded within employee recruitment and selection, induction, appraisal and development. They were refreshed during 2020/21. During 2023/24 promotion of these values will be refreshed as part of the refresh of the People Strategy. Appraisals have been reintroduced during 2023/24. Member induction process and member development programme. This was refreshed during 2022/23 to reflect the lessons that needed to be learned from 	<ul style="list-style-type: none"> Sample checks of declarations of interest undertaken during the year to support members to comply with their obligations. Quarterly reports to standards on complaints investigations and statistics. Feedback sought from members after each induction session as part of the revised member induction process. Equality and inclusion annual report in place which provides an assessment of the diversity of the workforce and identify positive and negative trends and proposed responses. Annual complaints report in place that includes information on positive and negative trends and proposed responses. Progress on development and delivery of the People Strategy, appraisals and Corporate Governance training tracked within the 	<ul style="list-style-type: none"> The Council is developing a revised People Strategy approach during 2023/24 that support officers and Members to understand corporate values and the Nolan Principles and how they should be reflected in behaviours. During 22/23 the Council undertook a review of its constitution with the support of members and CIPFA as part of the Corporate Governance improvement journey. The revised Corporate Governance Improvement Plan and the Section 24 Action plan both contain actions which will strengthen compliance with this principle. A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action). This will

		<p>both the EY and CIPFA reports to provide a new approach which was delivered to the incoming cohort of members following the May 2023 local elections.</p> <ul style="list-style-type: none"> • Member development strategy in place. • Member and officer declarations of interests registers in place and requested to be updated annually but there is a requirement that Members notify the Monitoring Officer electronically of any changes through the Council's committee management system, Modern.gov. • Training for members on the code of conduct in place embedded within the induction session and will be further strengthened by the forthcoming People Strategy. • Statutory officers clearly identified and appropriately supported. The Council complies with the CIPFA statement on the role of the Chief Financial Officer (2016). • Effective Audit Committee, internal audit and scrutiny arrangements in place, 	<p>Corporate Governance Improvement Plan.</p>	<p>be addressed following the fundamental review of the constitution in 2024.</p>
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		<p>with members trained appropriately.</p> <ul style="list-style-type: none"> • Policies in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing. • Member standards arrangements and employee disciplinary procedures in place and updated regularly. • Proactive approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress. The Council has engaged staff online (and offline for staff with no ICT access) during Covid using a variety of methods to support maintenance of a positive, inclusive culture. • Comprehensive corporate governance training programme in place and being delivered during 2023/24. • Corporate Governance Improvement Plan and Section 24 Action plan in place to address governance weaknesses identified by CIPFA, the Council, External Auditors and Government. 		
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Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> Openness Engaging comprehensively with institutional stakeholders Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> Document and operate a culture of openness and transparency within the organisation. Maintain a culture of accountability, so that members and officers understand what they are accountable for and to whom they are accountable. Consult appropriately with stakeholders on the development of its budget, key plans and service development. Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant. Publish all Executive and Committee reports and decision papers, unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests. Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges. 	<ul style="list-style-type: none"> Stated commitments to transparency within the Strategic Plan and supporting strategies. Strategic Plan to be refreshed in 2023/4 and renamed Council plan. Constitution and supporting documentation set out accountabilities and delegated authorities. This was refreshed in 2023. Consultation on Strategic Plan priorities was undertaken on the plan in place during 22/23. Annual budget consultation in place. Corporate consultation and impact assessment policy in place (refreshed during 2020/21). Committee dates accessible via the Council's website. Executive Forward Work Programme in place, setting out planned decisions in the coming four months on the online committee system. All public Executive and Committee agendas, papers and minutes are published via the Council's 	<ul style="list-style-type: none"> Annual SIRO report in place that sets to compliance with good practice in relation to information governance Annual complaints report in place that includes information on positive and negative trends and proposed responses. Reports on compliance with a range of statutory transparency measures around information rights are considered by senior officers on a monthly basis and compliance measures are included in data presented to Executive and Overview and Scrutiny Board on a quarterly basis. 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers (20/21 action). This will be updated following a refresh of the Constitution during 2024. The approach to the development of a new Strategic Plan (renamed as the Council Plan) during 23/24 will include development of supporting Key Performance Indicators with targets to strengthen the plan and increase transparency around the impact of actions on the achievement of aims within it. As is clear in the body of this report, there are ongoing weaknesses in understanding across elements of the corporate governance framework which are continuing to be addressed. The

		<p>website. Officer-delegated decisions are also published.</p> <ul style="list-style-type: none"> • Meetings of full Council are broadcast online. • Key strategies and plans are clearly published on the Council's website / open data site, and regularly updated. • Information on performance and expenditure sent to all households annually as part of Council Tax billing. • The Council complies with Open Data requirements, publishing statutorily required and other datasets such as the Freedom of Information Act publication scheme on its open data site. The Council proactively seeks to publish information for which there is a demand. • During 22/23 the Council undertook a review of its constitution with the support of members and CIPFA as part of the Corporate Governance improvement journey. The revised Corporate Governance Improvement Plan and the Section 24 Action plan both contain actions which will 		<p>forthcoming People Strategy will support work to address this.</p>
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		strengthen compliance with this principle.		
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Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> Defining outcomes Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> Clearly set out its contribution to delivery of the Mayor's priorities for Middlesbrough, and use this as the basis for its overall strategy, planning and other decisions. Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment. Ensure that it delivers defined outcomes on a sustainable basis within available resources. Effectively identify and manage risks to the achievement of targeted outcomes. Manage customer expectations effectively when determining priorities to make best use of resources and ensure fair access to services. 	<ul style="list-style-type: none"> Strategic Plan and Directorate Priorities Plans in place which outline how the Council plans to deliver the Council's priorities for Middlesbrough. Strategic Plan is part of the Council's policy framework – reports to decision makers set out how recommendations would impact on strategic objectives if approved. Consultation on Strategic Plan priorities; and annual budget consultation in place. Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and Capital programme. Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and 	<ul style="list-style-type: none"> Monthly performance reporting on delivery against Strategic and directorate priorities to senior managers Quarterly performance and finance reporting on delivery against strategic and directorate priorities to Executive and Overview and Scrutiny Board. Portfolio Management Office in place that assesses delivery of projects against time, cost and scope and reports on this on a monthly basis to senior managers. 	<ul style="list-style-type: none"> The approach to the development of a new Strategic Plan (renamed as the Council Plan) during 23/24 will include development of supporting Key Performance Indicators with targets to strengthen the plan and increase transparency around the impact of actions on the achievement of aims within it. Complete the refresh the Joint strategic Needs Assessment (JSNA) based on a life course. Delivery of the action commenced during 2021/22 however delivery has been delayed. This will be delivered in 2024.

		<p>addressing issues and risks, with reporting to members and senior managers as appropriate.</p> <ul style="list-style-type: none">• Customer Charter in place, identifying what customers can expect from the Council, alongside specific service eligibility criteria.• Resources for statistics presence held on the Council's intranet, internet and open data site.		
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Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> • Determining interventions • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved. • Ensure that external and internal stakeholders are engaged with when the Council is determining how services should be planned and delivered, and the outcome of consultations is considered when decisions are made. • Ensure achievement of social value through service planning and commissioning. • Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets. • Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these. • Ensure medium and long term resource planning is 	<ul style="list-style-type: none"> • Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. The report format was refreshed in 2023. • Corporate consultation and impact assessment policy in place, ensuring that stakeholders engaged appropriately and views considered in decision making. • Guide to social value in procurement and commissioning in place. • Strategic Procurement Strategy in place. Contract management framework now also in place. • 'How to do Business with Middlesbrough Council' guidance for providers in place. • Annual reports to Corporate Affairs and Audit committee on disposals on the grounds of social value provided where appropriate. • Corporate planning cycle considers targeted 	<ul style="list-style-type: none"> • Finance and Legal services consider draft reports to assess compliance with required content and accurate depiction of financial impacts – measure implemented in 2022/23. • Annual equality and inclusion report in place that includes information on positive and negative trends. • Annual complaints report in place that includes information on positive and negative trends and proposed responses. • Pre-contract compliance checks procedure in place. • Guidance for contract managers in place to ensure compliance checks are undertaken during the life of the contract. • Refreshed contract and financial procedure rules in place and training 	<ul style="list-style-type: none"> • Refreshed Medium Term Financial Strategy to be put in place during 2023/24 to cover a 3-year period • A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate, and timely taking of decisions that can be taken by officers. (20/21 action). This action will be completed following a refresh of the constitution in 2024. • The approach to the development of a new Strategic Plan (renamed as the Council Plan) during 23/24 will include development of supporting Key Performance Indicators with targets to strengthen the plan and increase transparency around the impact of actions on the achievement of aims within it. • Review of the Strategic Procurement Strategy

	<p>realistic, sustainable and inclusive.</p> <ul style="list-style-type: none"> • Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP. 	<p>outcomes and annual budgeting.</p> <ul style="list-style-type: none"> • Capital Programme, to be refreshed in 2023/24. • Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. • Partly and Wholly Owned Council Companies policy in place. 	<p>delivered to key staff to ensure understanding and compliance.</p>	<ul style="list-style-type: none"> • Complete a review of the governance of company in place to deliver the Council's internal audit functions to assess compliance with the Partly and Wholly Owned Council Companies policy.
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Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> Developing the Council's capacity Developing the capability of the Council's leadership and other individuals 	<ul style="list-style-type: none"> Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research. Work collaboratively and in partnerships where added value can be achieved. Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver. Clearly define roles, responsibilities and terms of engagement for members and employees. Maintain and regularly review its schemes of delegations that outline the types of decisions that are delegated and those that are reserved for collective decision-making. Develop the capabilities of members and senior management to achieve effective shared leadership. Ensure there are appropriate structures in place to encourage public participation. 	<ul style="list-style-type: none"> Performance Management Policy sets out how corporate performance will be managed. Directorates review performance internally. Business intelligence dashboards have been implemented to facilitate this. Range of benchmarking and other tools are used within Directorates to contextual performance and drive improvement. Wider Leadership Management Team in place to enable broader consideration of key policy issues. Key strategic partnerships in place, such as the South Tees Health and Wellbeing Board. The organisational development ambitions of the Council are currently embedded within the Strategic Plan which outlines corporate approach to organisational development. Constitution and supporting documentation set out member and officer role 	<ul style="list-style-type: none"> Monthly performance reporting on delivery against Strategic and directorate priorities to senior managers Quarterly performance and finance reporting on delivery against strategic and directorate priorities to Executive and Overview and Scrutiny Board. Quarterly reports to standards on complaints investigations and statistics. 	<ul style="list-style-type: none"> Ongoing delivery of the Corporate Governance Improvement programme during 2023/24 and 2024/25 The Council will bring forward a People Strategy for both Staff and Members during 2024 to increase focus on the Council's organisational development. Refreshed approach to consultation and community engagement to be developed in 2024. A revised supporting policy will then be developed. A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action). To be actioned following the refresh of the Council's constitution in 2024. The Council must continue on its improvement journey, to address issues raised by OFSTED in

	<ul style="list-style-type: none"> • Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate. 	<p>profiles, relationship protocol and schemes of delegation.</p> <ul style="list-style-type: none"> • Corporate consultation policy and online consultation portal in place. • Plans with the digital and marketing and communications strategies to advance in the current approach. • Processes in place for public involvement in determining scrutiny priorities, for the public to petition Council and to register questions to be considered by full Council. • The member development programme was refreshed during 2022/23 and commenced delivery following the May 2023 local elections. • Formal appraisals in place. • Refreshed constitution in place. 		<p>relation to its safeguarding services for children to ensure all children are safe receive consistently good care that results in sustained improvement to their lives and their families lives. (20/21 action)</p>
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Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> Managing risk Managing performance Robust internal control Managing data Strong public financial management 	<ul style="list-style-type: none"> Embed a proportionate approach to risk management within all activities, ensure that progress is reviewed regularly and that risk is considered as part of decision making. Ensure effective performance management of service delivery and provide members and senior managers with timely updates on service performance and progress towards outcomes. Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved. Ensure effective, member-led scrutiny is in place that provides constructive challenge and debate on objectives and policies before, during and after decisions are taken. Ensure an effective, risk-led Internal Audit service is in place to provide assurance on the overall 	<ul style="list-style-type: none"> Performance Management; Risk and Opportunity Management; and Programme and Project Management policies provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Risk is a standard section in reports to decision makers. Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. The format was refreshed in 2023/24. Wide-ranging annual scrutiny programme in place, examining policy and performance. Urgent decision process and records in place and reported to Council annually. Effective internal audit arrangement in place, utilising the Council's plans and risk registers to identify priorities. 	<ul style="list-style-type: none"> Risk information is reported to senior managers on a monthly basis as part of the monthly performance report Information on risks is included within quarterly reports to members on performance. During 2022/23 a Children's services improvement board was in place to support delivery of actions to improve the service. As a result, the service was judged as improved in its 2023 inspection, compared to the 2019, however further improvements were required to be considered good by Ofsted. Pre-contract compliance checks procedure in place. Guidance for contract managers in place to ensure compliance checks are 	<ul style="list-style-type: none"> Refresh the Information Strategy during 2024. A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action). To be actioned following the refresh of the constitution in 2024. The limited assurance judgement from Internal Audit which will continue to be addressed by the continued delivery of the Corporate Governance Improvement Plan and the section 24 action plan put in place to respond to the statutory recommendations of the External Auditor.

	<p>adequacy and effectiveness of the Council's governance arrangements.</p> <ul style="list-style-type: none"> • Ensure effective counter fraud and anti-corruption policies and arrangements are in place. • Ensure effective internal control arrangements exist for sound financial management. • Maintain an effective audit committee function. • Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data. • Put in place arrangements to ensure that data used to support decision-making is accurate and clear. • Ensure financial management arrangements support both long term outcome delivery and day-to-day operations. 	<ul style="list-style-type: none"> • Policy in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed. Money Laundering Policy. • Effective Corporate Affairs and Audit committee in place clear terms of reference and a full and trained membership. • Information Strategy in place to provide systematic approach to information governance, including data protection and data quality. To be refreshed in 2024. • Information Governance Policy Framework in place. • Financial management procedures in place relating to medium-term financial planning, budget setting, procurement and contract management. • Corporate Governance Improvement Plan and Section 24 Action plan in place to address governance weaknesses identified by CIPFA, the Council, External Auditors and Government. 	<p>undertaken during the life of the contract.</p> <ul style="list-style-type: none"> • Monthly budget monitoring and monthly challenge sessions are in place as part of a range of measures put in place by the Section 151 officer to address budget overspends. • Quarterly budget challenge sessions are in place with Executive members. • Robust savings recovery plans are in place. • The Director of Finance has issued spending restrictions across the organisation with effect from 1 July 2023. 	
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Local Code of Corporate Governance		Self-assessment		
Principle / supporting principles	To meet these requirements, the Council will:	Policies / processes in place	Compliance measures in place	Areas for improvement / planned actions
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> Implementing good practice in transparency Implementing good practices in reporting Assurance and effective accountability 	<ul style="list-style-type: none"> Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity. Report regularly on performance, delivery of value for money and stewardship of resources. Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement. Ensure compliance with good governance principles extends to its partnership arrangements. Ensure that recommendations made by external audit are addressed. Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements. Welcome and positively engage with peer 	<ul style="list-style-type: none"> Standard template for reports to decision makers designed to advance proposition logically, simply, and reduce duplication of information. Performance management policy in place Information Governance Policy framework in place to ensure compliance with information rights and transparency good practice. Governance arrangements in place for key strategic partnerships, such as the South Tees Health and Wellbeing Board, with improvement activity underway. Partnership Governance policy in place Recommendations made by External Audit are addressed as a matter of priority through the most appropriate route. Internal audit annual plan reported to Corporate Affairs and Audit Committee. 	<ul style="list-style-type: none"> Finance and Legal services consider draft reports to assess compliance with required content and accurate depiction of financial impacts – measure implemented in 2022/23. Quarterly results reports to Executive and scrutiny covering performance, financial and risk updates. Annual Governance Statement complying with the standard set out in the Local Code of Corporate Governance. Annual assurance reports to Corporate Affairs and Audit Committee from SIRO and on partnership governance and performance management. Internal Audit reports its plans, progress and findings regularly to the audit committee. Agreed actions from internal audit are tracked by DMTs until completion. 	<ul style="list-style-type: none"> The approach to the development of a new Strategic Plan (renamed as the Council Plan) during 23/24 will include development of supporting Key Performance Indicators with targets to strengthen the plan and increase transparency around the impact of actions on the achievement of aims within it. Seek an LGA Corporate Peer Challenge review within the next year to provide an external review of the Council's corporate governance arrangements

	challenges, reviews and inspections of its services.			
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Appendix 5: Corporate governance priorities for 2023-24

2020-21 AGS actions update

Action	Lead officer	Deadline	Status
Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Director of Legal and Governance Services	March 2023	Delayed. Action reprofiled to be delivered in 2024, following completion of the fundamental review of the Council's Constitution. Action to be complete by December 2024.
Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year and complete the Adults and Older persons JSNA.	Director of Public Health with support from the Interim Head of Strategy, Information and Governance	March 2023	Complete
Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout.	Head of Commissioning and Procurement	March 2023	Action cancelled. This was an action NEPO had decided to take however it has not yet delivered it, it is not within the Council's control to manage the timescales and procurement governance is being maintained.

Actions identified within the draft 2021-22 Annual Governance Statement for delivery in 2022-23 update

Issue	Action	Lead officer	Deadline
<p>The 2020/21 AGS identified that while there were governance processes in place for the most part, there were control weaknesses that needed to be addressed. In particular that process identified there were concerns about Member to Member and Member to Officer relationships that needed to be addressed as a matter of urgency. The Council’s External Auditors stated in its 2020/21 Value for Money judgement that the Council should ‘develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.’</p>	<p>Develop a Governance Improvement plan for noting by full Council during 2022/23 that identifies actions to improve the culture of the organisation and reflect detail of that plan within the final version of this document.</p>	<p>Chief Executive</p>	<p>Complete</p>
<p>The 2020/21 Audit results report of the council’s External auditors identified concern in relation to accurate declarations of interest. It stated ‘Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council’s Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.’</p>	<p>The Council will undertake periodic spot checks on a risk-based basis at least three times a year of one or more Members’ declarations during 2022/23 to assess whether there are ongoing compliance issues</p>	<p>Head of Democratic Services</p>	<p>Complete</p>
<p>Within the 2020/21 Audit reports report External Auditors also recommended that Management should work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council’s officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate</p>	<p>Management will work with Veritau to build the highlighting of identified wider risks into the audit reporting process. The reporting of these risks will then be built into regular Internal Audit updates to Corporate Affairs and Audit Committee</p>	<p>Section 151 Officer</p>	<p>Complete. There is ongoing monitoring this as part of monthly liaison meetings between the Council and its internal auditors.</p>

Issue	Action	Lead officer	Deadline
Within the 2020/21 audit results report it was identified that the Council's procurement processes required strengthening.	Updated e-learning training guides on procurement practice will be developed along with improved links through business partner relations with service directorates. Enhanced detail will be recorded on exemption forms following approvals. Procurement will also introduce a Best Value process to facilitate a smarter procurement process for lower value procurement of goods and services	Head of Commissioning and Procurement	Complete.
Weaknesses in relation to the Council's recording of leasehold interests was identified by the Council's External Auditors as part of its assessment of the Council's control environment.	All leasehold interests are now recorded on the TF system with quarterly reviews matched against Delegated Approvals (DA) for any changes. A revised DA notification system is currently in development and will go live by end August 2022	Head of Commissioning and Procurement	Complete
It was identified during the development of the Partnership Governance Register that there were entities that would benefit from an appropriate governance framework.	Develop and implement a governance framework for wholly or partly owned Council companies that aligns with best practice guidance.	Head of Governance, Policy and Information	Complete
Following completion of the first register and annual assurance report, it would be prudent to assess continued impact within the next annual review.	Assess and embed compliance with the Partnerships Governance policy.	Head of Governance, Policy and Information	Complete
Whole Council response required to ensure that it responds effectively to the cost of living crisis impact on its budget position and its ability to meet increased demand for services	Complete a refresh of the Medium Term Financial Plan position to provide assurance to the organisation that there is good financial governance in place.	Chief Executive and Section 151 officer	Complete

Issue	Action	Lead officer	Deadline
There are areas for improvement within the next refresh of the Council's Strategic Plan to ensure that it is better able to differentiate between actions the Council can deliver and actions to be delivered in partnership. Strengthened measures within the plan will also enable improved assessment of impact.	Ensure Key Performance Indicators with targets are embedded within the Council's Strategic plan when next refreshed. (21/22 action)	Head of Strategy, Business and Customer	Complete
It has been some time since the Council has had an independent assessment of its corporate governance. Action is needed to seek an LGA Corporate Peer Challenge review within the next two years to provide an external review of the Council's corporate governance arrangements.	Seek an LGA Corporate Peer Challenge review within the next two years to provide an external review of the Council's corporate governance arrangements.	Head of Governance, Policy and Information	Originally planned for April 2024, reprofiled October 2024 as part of the Corporate Governance Improvement Plan. To be completed in January 2025.
<p>Significant overspending was identified within Childrens services. During 2021/22 The incoming Executive Director of Children's Services also committed to delivering several actions to mitigate spending within Children's Services including:</p> <ul style="list-style-type: none"> ▪ Subjecting cases of children looked after by the Council to ongoing audit, consistent decision-making processes and a solutions panel chaired by the Director of Children's Care. ▪ Development of Stronger Families teams within Early Help and Prevention to increase skills to support additional work and complexity at this level to prevent future young people entering care. ▪ Development of the Middlesbrough Multi Agency Children's Hub to secure the consistency of thresholds and increasing step-downs to early help and more timely support for children and young people. ▪ Utilising two specialist project teams to support referral and assessments at the front door of Children's Care. ▪ Continuing to keep internal residential places at a high occupancy level. Re-opening Rosecroft in late summer, once registered, will produce a further 5 places. Plans to increase Fir Tree by 1 place later in 2021/22. Other Internal Residential opportunities are to be reviewed as invest to save models when identified and assessed. Potential sale of any spare 	Delivery of actions set out to address overspends within Children's Services as set out in the body of this AGS.	Executive Director of Childrens Services	Complete

Issue	Action	Lead officer	Deadline
<p>places that are not occupied with Middlesbrough young people to neighbouring Tees Valley Local Authorities.</p> <ul style="list-style-type: none"> ▪ All external residential placements are being reviewed by a specialist project team set up by the incoming Executive Director of Children's Services to ensure that no children are in residential care who can be fostered or safely returned to their families or the care of relatives. In addition, this team will look at all cases that are nearing requirement for residential care with the aim of making sure that all alternative options for support are fully explored before residential provision is approved. ▪ Work continues to build on increasing the number of internal foster placements achieved over the past 2 years, allowing children to be placed in high quality, local authority foster care as an alternative to more expensive agency placements. ▪ An in depth review is taking place of the processes around the placement of children with friends and family to ensure that these are only made where necessary and that financial support represents value for money. ▪ Maximising, where appropriate, health contributions from Clinical Commissioning Group (CCG) and education contributions from the Dedicated Schools Grant (DSG). 			
<p>A robust of evidence-based needs should be regularly undertaken to ensure that the key decisions made by the Council are evidence based.</p>	<p>Complete the refresh the Joint strategic Needs Assessment (JSNA) based on a life course. Delivery of the action commenced during 2021/22 however delivery has been delayed. This will be delivered in 2024.</p>	<p>Director of Public Health</p>	<p>Complete</p>

Actions identified within this 2022-23 AGS for delivery in 2024-255

The Council has put in place comprehensive plans to deliver Corporate Governance improvements and address, in detail, the statutory recommendations made by its External Auditors. During 2024 these action plans will continue to be delivered. Reports on their progress are considered on a monthly basis by the Independent Improvement Advisory Board, the Council's Audit Committee and full Council both receive progress reports at every business meeting they hold. Copies of these reports are available on the Council's website.

Issue	Action	Lead officer	Deadline
There are a range of serious corporate governance weaknesses that are identified within this statement, and which have been identified by the Council's External Auditors, CIPFA, Government and the Council itself.	Continue to be addressed by the Corporate Governance Improvement Plan and the section 24 action plan put in place to respond to the statutory recommendations of the External Auditor and the governance weaknesses identified by CIPFA, Government and the Council itself.	Chief Executive	October 2024
<p>There are a number of corporate governance weaknesses identified within this statement that require co-ordinated, concerted action in order to address the weaknesses identified in Member to Member and Member to Officer relationships.</p> <p>There is also a need to ensure that staff at all levels have the capacity and the capabilities to be able to deliver effective Council services for residents and businesses.</p>	The Council is developing a revised People Strategy approach during 2023/24 that support officers and Members to understand corporate values and the Nolan Principles and how they should be reflected in behaviours.	Chief Executive and Director of Legal and Governance Services	Complete
Ensuring that decisions which can be exercised by officers within the Council are supported by an effective scheme of sub-delegations and that decisions taken through this route are properly recorded and publicised.	A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. (20/21 action). This will be addressed following the fundamental review of the constitution in 2024.	Director of Legal and Democratic Services (Monitoring Officer)	December 2024
The Council should have in place a Strategic business plan which sets out how the priorities of the Mayor will be reflected within its key, overarching strategic planning document and there should be effective performance measures in place to provide assurance as to the effectiveness of actions being taken to deliver the ambitions set out within that strategic plan.	The approach to the development of a new Strategic Plan (renamed as the Council Plan) during 23/24 will include development of supporting Key Performance Indicators with targets to strengthen the plan and increase transparency around the impact of actions on the achievement of aims within it.	Head of Strategy, Business and Customer	Complete
Following adoption of the Partly and Wholly Owned Council Companies Policy, the Council needs to assure itself that the company established to deliver its internal audit functions also complies with this policy.	Complete a review of the governance of company in place to deliver the Council's internal audit functions to assess compliance with the Partly and Wholly Owned Council Companies policy.	Director of Finance	Complete

The Council needs to regularly review its policies and strategies to ensure they are fit for purpose. A review of this strategy is scheduled.	Review of the Strategic Procurement Strategy	Head of Commissioning and Procurement	Complete
The Council should be regularly engaging its residents and businesses in order to understand their views on its operation and address areas of weakness.	Refreshed approach to consultation and community engagement to be developed in 2024. A revised supporting policy will then be developed	Head of Governance, Policy and Information	March 2025
The Council must ensure that its Children's Safeguarding services are fit for purpose, with all children and their families receiving appropriate, consistently good care and support and that value for money is achieved from investments.	The Council must continue on its improvement journey, to address issues raised by OFSTED in relation to its safeguarding services for children to ensure all children are safe receive consistently good care that results in sustained improvement to their lives and their families lives. (20/21 action)	Executive Director of Childrens Services	Complete
Robust information governance is necessary to ensure the Council not only appropriately safeguards the extensive data it holds, but that it is also able to effectively use that data to inform service delivery and decision making.	Refresh the Information Strategy during 2024.	Head of Governance, Policy and Information	November 2024

Glossary of Terms



Glossary of Terms

Accounting Period

The period of time covered by the accounts; normally a period of 12 months commencing on 1 April and ending as at the balance sheet date of 31 March.

Accrual

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the balance sheet date.

Accrued Benefits

The benefits for service up to a given point in time, whether vested rights or not.

Actuarial Gains and Losses

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

Actuarial Valuation

A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Accumulated Absences Account

A requirement under IFRS is that the Council must make an accrual in its accounts at year end for any annual leave earned but not taken by employees at the end of the financial year.

Admitted Bodies

Organisations that participate in the Teesside Pension Fund under an admission agreement between the Fund, and the relevant organisation.

Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an outsourcing to the private sector.

Annual Governance Statement

The Annual Governance Statement is compiled following the review by the Council of the effectiveness of the systems of internal control and governance arrangements.

Assets Held for Sale

Assets held for sale are those where the value of the asset will be recovered by selling the asset rather than through usage. To be classed as held for sale the asset must meet the following criteria:

- be available for immediate sale in its present condition.
- Its sale must be highly probable.
- management expects the sale to take place within twelve months.

Assets Under Construction

At any time, some projects will be incomplete and will need to be classified as 'fixed assets under construction. It is usual for assets under construction to be recognised but recorded as non-operational until they are available for use, at which point they are recognised as operational assets.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor.

Balance Sheet

A statement of the balances and reserves at the Local Authority's disposal, the net current assets employed in its operation and the value of fixed assets held.

Budget

A statement reflecting the Council's spending plans for a specific period. The annual revenue budget is normally finalised and approved in February prior to the commencement of the new financial year.

Capital Charges

A charge to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or which adds to the value of an existing fixed asset.

Capital Adjustment Account

The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Capital Financing

The methods of financing capital expenditure. This includes borrowing, direct revenue financing, leasing, the use of capital receipts, capital grants and external contributions.

Capital Grant

Grant from Central Government used to finance specific schemes in the capital programme.

Capital Receipts

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e., to repay outstanding borrowing or to finance new capital expenditure. Any receipts which have not yet been utilised, are referred to as "Capital Receipts Unapplied".

Cash and Cash Equivalents

Cash equivalents are - "short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". They are shown in the Balance Sheet along with cash under the heading "Cash and Cash equivalents".

Collection Fund Account

This account records the income received by the Council in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and to the general fund.

Community Asset Transfer

A change in management and/or ownership of land or buildings from public bodies (most commonly local authorities) to communities (community and voluntary sector groups, community enterprises, social enterprises, etc.)

Component Accounting

Where assets can be broken down into different components which have a material value and substantially different economic lives, then each component should be separately valued.

Contingency

The sum of money set aside to meet unforeseen expenditure or liability.

Contingent Asset

A contingent asset arises in a situation where a potential inflow or economic benefit to the authority will only be confirmed by the occurrence or otherwise of some future event but where the value of the benefit cannot be measured reliably.

Contingent Liability

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

Creditors

Amounts owed by the Council for work done, goods received, or services provided by the end of the financial year for which payment has not yet been made.

Current Assets

An asset which will be consumed or cease to have material value within the following financial year (e.g., stocks and debtors).

Current Liabilities

These are amounts owed by the Council due for payment within the following financial year (e.g., creditors or cash overdrawn).

Current Service Costs (Pensions)

The increase in the present value of a defined benefit pension scheme's liabilities arising from an employee's service in the current financial year.

Curtailement (Pensions)

An event that reduces the expected years of future service of present employees in a defined benefit pension scheme or reduces the defined benefits for some or all of their future service.

Debtors

Income due to the Council for services carried out or grants/contributions due in the financial year for which payment has not been received by the end of that year.

Deferred Pensions

Individuals who have ceased to be active members of a pension scheme but are entitled to benefits payable at a later date.

Defined Benefit Scheme

A pension scheme which calculates benefits due from the scheme independently to the contributions payable and the return on the investments made by the scheme.

De-minimis

For capital accounting, a de-minimis value is set below which any items of expenditure are excluded from the capital accounts and instead treated as revenue expenditure. The Council's de-minimis levels are outlined in the statement of accounting policies.

Depreciation

The allocation of the cost of consuming a tangible asset over its useful life. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Direct Revenue Financing

The financing of capital projects from revenue resources.

Discretionary Benefits

Retirement benefits, which the employer has no legal, contractual, or constructive obligation to award, and which are awarded under the authority's discretionary powers.

Earmarked Reserves

Funding set-aside to be used for a specific purpose at some point in the future.

Expected Rate of Return on Pension Assets

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

Transactions that fall outside of the ordinary activities of the council and are not expected to reoccur.

Non-Current Assets

Assets that have a useful life and yield benefits to the Council and the services it provides for a period of more than one year.

General Fund

The main revenue account used to fund the cost of providing Council services. The main sources of income credited to the fund are the council tax and business rates precepts and the revenue support grant (RSG) from central government.

Heritage Assets

A tangible asset with historical, artistic, scientific, technological, geophysical, or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Impairment

The diminishing in quality, strength, amount, or value of an asset.

IFRS - International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board and specify exactly how organisations must maintain and report their accounts. Local Authorities have had to prepare their accounts in accordance with IFRS requirements since April 2010.

Intangible Assets

An asset that is not physical in nature. Examples of this type of asset include IT software and other licences and patents and trademarks.

Investment Property

An investment property is defined as a property, which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate.

Leases

A lease is a contract between a lessor and leasee for the hire of a specific asset with the ownership of the asset being retained by the lessor. There are two main types of lease, operating and finance leases.

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee and the minimum lease payments amount to substantially all (90% or more) of the fair value of the leased asset. An operating lease is a lease other than a finance lease.

Local Management of Schools

Under the Local Management of Schools Funding arrangements, the Council is required to pass on the calculated share of each funding stream budget directly to all its schools. Individual schools have direct responsibility for managing their budgets and any surplus or deficit incurred in the financial year is carried forward to the following financial year as part of the schools' balances earmarked reserve.

Materiality

A figure is classified as material if its omission or misstatement could influence decisions users take on the basis of the financial statements.

Minimum Revenue Provision (MRP)

The minimum amount Local Authorities are required to set aside each year for the repayment of outstanding long-term debt.

Movement in Reserves Statement

This statement highlights the movement in the year for the earmarked reserves held by the Council. This is split between 'usable reserves' (those held to fund future expenditure) and unusable reserves (technical accounting adjustments).

Non-Domestic Rates (also known as Business Rates)

Charges paid by occupiers of non- domestic properties for council services. The charge is calculated by multiplying the rateable value of a property by a multiplier set by Central Government.

Net Book Value

The current value of a fixed asset after taking account of depreciation.

Non-Operational Assets

Fixed assets owned by the Council but not currently being used in the delivery of services. They include surplus properties awaiting disposal, investment properties and assets under construction.

Operational Assets

Fixed assets owned by the Council and used in the delivery of Council services.

Operating Segments

The breakdown of the Council's activities into distinct service divisions/ outcome areas.

Past Service Cost

The increase in the present value of a defined pension scheme liabilities relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events

There are two types of post balance sheet events. Adjusting events are those events that provide additional evidence of conditions that existed at the balance sheet date and require adjustments to be made to the accounts. Non adjusting events are those events after the balance sheet date which provide evidence of conditions not existing at the balance sheet date. These may require disclosure in the accounts stating the nature of the event and an estimate of the financial impact.

Precept

The levy made on the council by other bodies for income collected from Council taxpayers on their behalf e.g., Fire or Police Authority.

Provisions

Funds set aside to cover liabilities which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability is currently not known.

Prudence

The **accounting** principle that requires liabilities and expenses to be recorded as soon as they occur, but revenues only when they are assured or realised.

Related Parties

Two or more parties are considered to be related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same sources; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own separate interests.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, or for, a related party irrespective of whether a charge is made.

Revaluation Reserve

The balance sheet reserve that records increases in the valuation of fixed assets that have not yet been realised through the disposal of the asset. Decreases in asset valuations are also taken to the revaluation reserve if an asset has previously had an increase in valuation.

Revenue Expenditure

The day-to-day costs incurred in providing Council services. This includes staffing, supplies & services, transport, and utility costs etc.

Revenue Support Grant

The main source of Central Government grant funding for Local Authorities.

Scheduled Bodies

Local authorities or similar organisations whose staff are automatically entitled to become members of the

Teesside Pension Fund.

Specific Grants

Government grants awarded to Local Authorities and earmarked for specific services, e.g., Standards Fund Grant for Children’s Services.

Stocks (Inventories)

Goods or merchandise available for sale or distribution held at the balance sheet date. This can include the following:

- goods or other assets purchased for resale.
- consumable stores.
- raw materials and components purchased for incorporation into products for sale.
- products and services in intermediate stages of completion.
- long-term contract balances and finished goods.

Unusable Reserves

Reserves that are held by the Council for accounting purposes. The gains or losses in these reserves are unrealised and as a result are not available for future use by the Council.

Usable Reserves

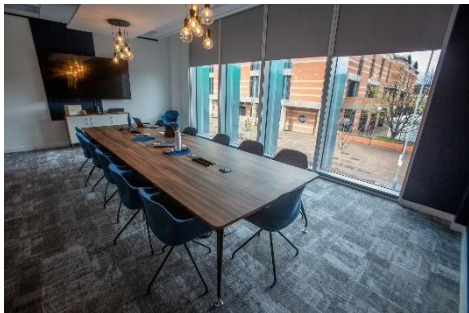
Unutilised resources set aside to allow planning for future Revenue & Capital expenditure.

Useful Life

The period over which the Council will derive benefits from the use of a fixed asset.

Work in Progress

The total value of the materials and labour costs incurred to date on unfinished projects.



Audit Committee Work Programme 24/25

Committee date	Report title / subject	Lead / author
25 July 2024	This audit programme	A Johnstone
	Veritau internal audit and counter fraud work programme 2024/25	P Jeffrey
	Risk annual assurance report	A Johnstone
	Health and Safety Annual Assurance report	A Johnstone
	SIRO annual report	A Johnstone
	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone
	Council VfM 2021/22 and 2022/23	M Rutter
	Audit Strategy Memorandum for the Council	Cath Andrew (Mazars)
	Audit Strategy Memorandum for Teesside Pension Fund	Cath Andrew (Mazars)
22 August 2024	Complaints annual assurance report 2023/4	A Johnstone
	2023/4 Statement of accounts including AGS	J Weston / A Johnstone
	Verbal status update on Reset of Local Government Audits	M Rutter
	Progress report – Mazars	Cath Andrew (Mazars)
	Head of Internal Audit annual report	P Jeffrey
	Draft Statement of Accounts including Annual Governance Statement 2023/24	J Weston / A Johnstone
	HOLDING – possible update on BV notice status	A Johnstone
	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone
	Progress report – Mazars	Cath Andrew (Mazars)
3 October 2024	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone
	Internal Audit and Counter Fraud progress reports	P Jeffrey
	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone

	Annual assurance report on procurement	L Grabham
	Internal Audit and Counter Fraud progress reports	P Jeffrey
	Progress report – Mazars	Cath Andrew (Mazars)
	Pension Fund Audit Results Reports for both the 2021/22 and 2022/23 audits	Richard Tebbs (EY)
	BV Notice update	A Johnstone
5 December 2024	EY Audit Completion Report	M Rutter
	Letter of Representation on the Accounts from the Director of Finance	M Rutter
	Approval of the Statement of Accounts for 2021/22 and 2022/23	D Middleton
12 December 2024	Forvis Mazars Auditors Annual Report 2023/24 – title may change if it only covers VfM	Cath Andrew (Forvis Mazars)
	Annual Assurance Report on Partnership Governance	A Johnstone
	Direct Payments Audit report	E Scollay
	Treasury Management Mid-Year Review 2024/5	J Weston
	25/26 Internal Audit Consultation Report	P Jeffrey
	Internal Audit and Counter Fraud Progress Reports	P Jeffrey
6 February 2025	Annual Assurance Report on Decision Making	S Lightwing / A Wilson
	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone
	Annual assurance report on business continuity	A Johnstone
	Local Code of Corporate Governance	A Johnstone
	Annual assurance report HR	N Finnegan
	Progress report – Forvis Mazars	Cath Andrew (Forvis Mazars)
	Treasury Management overview	Justin Weston
	Mid-year risk update	A Johnstone
Additional meeting may be required	Forvis Mazars – Audit Completion report 2023/24	C Andrew
13 March 2025	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone

	Performance Management	G Cooper
	PPMF assurance report	A Johnstone
	HR Annual Assurance report	N Finnegan
	Veritau internal audit and counter fraud work programme 2025/26	P Jeffrey
	Self assessment of the effectiveness of the Audit Committee	A Johnstone / Justin Weston
	Progress report – Forvis Mazars	Cath Andrew (Forvis Mazars)
	Counter Fraud Framework and refresh of the Counter Fraud Strategy	J Dodsworth (Veritau)
April	Possible additional meeting required by the Committee	

Items to note

Change the standard wording on assurance reports to ask the committee if the information is sufficient to give them assurance that appropriate governance arrangements are in place

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