

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 10 July 2025.

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

ALSO IN ATTENDANCE: C Andrew (Mazars), Kirkham (Mazars) and C Cooke - Elected Mayor (Elected Mayor/ Group Leader)

OFFICERS: A Humble, C Lunn, J Weston, A Humble and E Scollay

APOLOGIES FOR ABSENCE: None.

25/102 **WELCOME AND EVACUATION PROCEDURE**

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

25/103 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor D Branson	Non-Pecuniary	Spouse is a Member of the Teesside Pension Fund
Councillor D Coupe	Disclosable Personal Interest	Non-Executive Director of Border to Coast Pensions Partnership Limited
Councillor J Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor B Hubbard	Non-Pecuniary	Member of Teesside Pension Fund

25/104 **MINUTES - AUDIT COMMITTEE - 17 APRIL 2025**

The minutes of the Audit Committee meeting held on 17 April 2025 were submitted and approved as a correct record.

25/105 **DRAFT STATEMENT OF ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT - 2024/25**

The Director of Finance and Transformation (S151 Officer) submitted a report, the purpose of which was to allow Members the opportunity to:

- consider and discuss the draft Statement of Accounts (SOAs) for the 2024/25 financial year;
- to review the draft Annual Governance Statement (AGS), which needed to be published alongside the draft SOA, under the Accounts and Audit Regulation 2015, and the progress made in relation to continuous improvement activity;
- to note the key financial metrics in the draft financial statements, movements during the financial year; and
- to determine whether any dedicated training was required to understand these before the audited accounts returned for approval in February 2026.

The Head of Finance and Investment provided an overview of the report, together with some contextual background information. Mention was made of an Audit Committee training session that had been provided to Members earlier in the day.

The Committee considered the AGS section of the report, prior to considering the draft 2024/25 SOAs, certification and public inspection matters.

The Chief Executive provided an overview of the AGS to the Committee; the following matters were highlighted:

- The purpose of the AGS was to provide Members and the public with a comprehensive and clear account of how the Council had managed arrangements over the preceding 12-month period. It assessed the extent to which the Council complied with its Code of Corporate Governance; how it had monitored and improved the effectiveness of its governance arrangements in 2024/25; and how it had identified actions to strengthen those arrangements going forward.
- There were legislative requirements that required the Council to undertake a review of internal controls, which also indicated how any further necessary or intended action would be carried out.
- A significant amount of work had been undertaken to assist in tackling the backlog of unaudited accounts, which had been an issue for local authorities nationally.
- Section four of the AGS detailed the significant governance-related events that had occurred during 2024/25. Reference was made to:
 - The cessation of intervention in Children's Safeguarding Services.
 - The cessation of the Best Value Notice.
 - The permanent appointments to the Chief Executive and Section 151 Officer posts.
 - The completion of a Local Government Association (LGA) Corporate Peer Challenge review; closure of the discretionary Independent Improvement Advisory Board; and completion of delivery of the Corporate Governance Improvement Plan.
 - The closure of the Section 24 Action Plan.
- Appendix 1 of the AGS detailed the self-assessment of compliance with the Local Code of Corporate Governance; Appendix 2 detailed the Corporate Governance Priorities for 2025/26.
- The AGS was felt to be more streamlined in comparison to those of previous years - the intention had been to provide the key critical information to Members in a more effective manner.
- The AGS demonstrated a combination of the strong progress that had been achieved, together with an indication of the areas where further work was required.
- Full Council had committed to a continuous improvement plan; the first associated report would be considered by the Executive on 16 July 2025.

The Committee wished to place on record their thanks to the officers across the finance directorate for the work undertaken and the improvements made.

A discussion ensued in relation to the Local Government Finance Settlement, during which the following matters were raised:

- The Mayor advised of the importance of crossing Middlesbrough's boundary and actively lobbying government to achieve a fair and equitable settlement for the town. Reference was made to roles that the Mayor had on various outside bodies, including ANEC and SIGOMA, which assisted with this. It was felt that a fair funding formula had been achieved; consideration was given to other local authorities and their financial positions in terms of their spending and available reserves.
- The Director of Finance and Transformation referred to published research and some of the issues that had been raised, such as some local authorities potentially 'losing out' in the settlement, and then subsequently requesting some kind of compensation. Whether grant support would be offered in this regard remained to be seen.
- The Mayor advised that funding provision on a phased, three-year basis would be the favoured approach: 40% in the first and second years, and 20% in the third year. It was hoped that Council consensus would be achieved and SIGOMA would support this approach.
- A Member commented on the importance of receiving adequate financial support, as well as thorough consideration of the future issues facing the town. Reference was made to housing development and the limited capacity for this, together with the changing retail landscape and how this could alter the town centre.

- The Mayor referred to Council Tax and Business Rates and private individuals putting cases forward for exemption. The Committee heard that some private landlords had submitted cases for whole street exemption from Council Tax payments. Reference was also made to the development of existing buildings and the hope that developers with an intention to purchase and develop premises would acquire them for use by the people of the town. Exploration of other areas, such as holiday lets, was also taking place. In response to a query regarding the power to compulsorily purchase some buildings, the Mayor explained that this was a long and expensive process. Enforced sale processes were timelier, which could provide a more viable alternative option. Reference was made to another local authority that was currently trialling high street auctions whereby if buildings failed to attract tenants within a specified period, they would be auctioned off. It was difficult to attract potential developers to units that were close to others that had simply been purchased and left to stand empty.
- The Committee was informed that there had been a change to the fair funding formula in that students were now exempt from it. There was a cost to hosting students, which had now been recognised.

The Chair thanked the Mayor and Chief Executive for the information conveyed and invited the Head of Finance and Investment to present the draft SOAs, which was shown at Appendix 1 of the submitted report.

Members heard that there had been increased audit scrutiny since several high profile corporate failures were reported in 2019. The audit process had taken a long time to undertake and spread over several years; government intervention via backstop dates had been welcomed whilst a significant amount of audit work was carried out.

Members were reminded of the disclaimed audit opinions that had been made for the Council for the last three years, and the disclaimed opinion for Teesside Pension Fund for 2023/24. It was commented that although those opinions would influence audit going forward, it did not mean that the professionally produced accounts could not be relied upon. Auditors had not had a sufficient amount of time to properly review the accounts, hence the disclaimed opinions. It was felt that the figures represented a true and fair view.

There was a requirement for the draft SOAs for 2024/25 to be approved by the Director of Finance and Transformation and published on 30 June 2025, which had been met.

The public inspection period, where local taxpayers could inspect the accounts and request further information on any invoices, contracts, income received, etc., was now open. The period ran from 1 July 2025 to 11 August 2025. Officers would advise the Committee of any significant issues that had been raised in due course, as applicable. It was noted that Forvis Mazars could also be contacted with any issues during this period.

Central government intended, via the back stop process, to restore the timeliness and quality in local government external financial reporting for all local authorities by the 2027/28 financial year. It was highlighted to Members that further training in respect of more complex areas, such as pensions, could be arranged to take place before the next back stop date for the 2024/25 external audit, which was 27 February 2026, if required.

The Committee was advised that, firstly, the SOAs consisted of a Narrative Report from the Director of Finance and Transformation. This report provided an explanation of the Council's financial position and described the key activities/highlights for the Council during the year. The report also contained performance-based information that demonstrated what had been achieved using public funds during the financial year.

It was explained that the second section included the Council's financial statements. These were the core elements of the draft SOAs and included the movement in reserves statement, the income and expenditure statement, the balance sheet, and the cash flow statement for 2024/25.

The third section comprised the notes to the accounts, which included a detailed narrative explanation and figures that supported the key totals within the financial statements and other issues that were of interest to local authority stakeholders.

The accounts also included the Collection Fund, covering Council Tax and Business Rates

activities, and the accounts for the Teesside Pension Fund, for which Middlesbrough Council was the administering authority.

The final section was the AGS for the financial year in question, which set out how the Council had complied with best practice governance arrangements and any key risk and control issues that arose from that.

Members noted that there were some significant differences between the Council's financial statements, which were part of the SOAs document and its management accounts and were reported for budget and operational purposes. This related to technical accounting adjustments and timing issues in how certain totals were reported, to comply with accounting standards. Two important areas were the presentation of reserves and the net worth of the Council's balance sheet.

Members were referred to section 3.7 and the movement in reserves. It was explained that the total value of usable reserves in the Council's Balance Sheet, as on 31 March 2025, was £101.082m. This was an increase of £25.379m over the comparative figure in the previous year's accounts. In response to a query regarding the revaluing of debts and being able to use these reserves, the Committee was informed that the Council had an asset re-evaluation programme which, as part of the transformation agenda, meant that asset sales could be used to finance future service change. Asset sales had generated capital receipts: some had been used as part of the programme, those not used had rolled forward for future use. There had also been an increase in earmarked revenue reserves during the year.

After being informed that changes had been made to the Council's bad debt provision policy, with more collection rate information being used, a Member queried the current figure of the bad debt provision fund. In response, Members were advised that there was £27.3m of provisions. It was explained that the Council had a significant amount in provision to cover debt write-offs for at least ten years.

The Committee heard that, at the start of the 2024/25 municipal year, there was an aim to generate assets and increase reserves; the AGS provided a clear view of the status of the usable reserves.

Members were referred to pages 51 and 52 of the agenda pack that showed an income and expenditure statement and balance sheet relating to each service area. Reference was made to the controls used by officers and the key testing methods applied by auditors, in respect of the budget versus assets performance. It was indicated that, during the period, the Council spent £529.8m across directorates, with £501.5m of income being raised. When adjustments were considered for pensions, etc., the £28.3m deficit was amended to reflect the figure detailed in the outturn report.

Details regarding assets – long-term, heritage and intangible – were provided to the Committee. The balance sheet showed £487m in long term assets; £33.6m in heritage assets; and £5.6m in intangible assets.

Members were informed that £21m in cash from a capital or revenue source had been controlled through the Treasury Management Strategy. Details in relation to short and long-term borrowing were also provided and it was noted that £255m of debt had been used to fund programmes. In terms of liabilities, the Committee was advised of the net position of £260.4m, which had decreased from £279m – achieved through the sale of assets and financing of capital through debt. This activity was reflected on the balance sheet.

In response to a query, Members heard that long-term debt related to the capital programme and, under legislation, a minimum revenue position needed to be achieved. For Middlesbrough, approximately £5m needed to be set aside to achieve the minimum revenue position. Debt for all local authorities had tended to increase. Short-term debt was relative to the size of the local authority - for larger local authorities, this amount was greater.

A Member raised a query in relation to loans and refinancing reviews and options. In response, the Head of Finance and Investment referred to Lender Option Borrower Option (LOBO) loans that had been taken out in the 2000s when interest rates were quite low, and which gave the lender opportunity to amend the rates. Historic debt had since been changed to public borrowing loans; a lot of the Council's debt was around current interest rates. It was

noted that there were always opportunities for refinancing debt.

A discussion ensued in respect of the Dedicated Schools Grant (DSG). A Member highlighted the £7.9m overspend and queried whether this would be written off. In response, the Committee was advised that the government had delayed the decision regarding this. It was possible that the historic deficit may be written off, but a decision was yet to be made. The £7m+ overspend each year would continue to occur, which would not be written off. The historic deficit across the country was monumental and there would still be issues going forward. It was a high risk to the Council and had been placed on the Strategic Risk Register as such. An announcement in relation to SEND reforms was due in September 2025. The Committee considered funding options for SEND, and how other local authorities had managed their finances in comparison to Middlesbrough. It was suggested that Members receive further information as to the management of this risk at the 25 September 2025 meeting.

Members discussed the topic of reserves and considered Middlesbrough's position in comparison to that of other areas, such as the Shetlands and the London Boroughs. Reference was made to Council Tax and other income streams that could increase the level of reserves.

A Member referred to page 106 of the agenda pack and queried the £5.7m compensation figure. In response, officers explained that the matter referred to the valuation of scrap metal and was due to be considered by the courts in September 2025. The fund had been set aside, but none of it paid out.

The Director of Finance and Transformation indicated that if Members had any further queries or comments in respect of the draft statement, to please forward them to him.

Following the discussion, the Head of Policy, Governance and Information suggested to the Committee that, in addition to the three recommendations noted in the report, that a fourth be added as follows: *'That a presentation on the management of the DSG risk within the Strategic Risk Register be provided at the 25 September 2025 Committee meeting'*. The Members agreed this.

The Chair thanked the officers for their attendance and contributions to the meeting.

AGREED that:

- 1.) The draft Statement of Accounts for 2024/25 had been approved by the Director of Finance and Transformation for publication on 30 June 2025, and these were currently on the Council website, was noted.
- 2.) The draft annual governance statement for 2024/25, which had been approved by the Mayor, the Chief Executive and the S151 Officer, was noted.
- 3.) The public inspection period, where local taxpayers could inspect the accounts and request further information on any invoices, contracts, income received, etc., in the period 1 July 2025 to 11 August 2025 was noted.
- 4.) A presentation on the management of the Dedicated Schools Grant (DSG) risk within the Strategic Risk Register would be provided at the 25 September 2025 Committee meeting.

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ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.

None.