

AUDIT COMMITTEE

Date: Thursday 11th December, 2025 Time: 1.30 pm Venue: Mandela Room, Town Hall
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AGENDA

1. Welcome and Evacuation Procedure

In the event the fire alarm sounds attendees will be advised to evacuate the building via the nearest fire exit and assemble at the Bottle of Notes opposite MIMA.

2. Apologies for Absence

3. Declarations of Interest

4. Minutes - Audit Committee - 25 September 2025 3 - 8

5. Partnership Governance - Annual Assurance Report 9 - 14

6. Audit Committee Skills and Knowledge Audit Process 15 - 28

7. Treasury Management Mid-Year Review 2025/2026 29 - 42

8. Internal Audit and Counter Fraud Progress Report 43 - 72

9. External Audit Annual Report 73 - 116

10. Audit Committee Work Programme (Standard Item) 117 - 118

11. 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 3 December 2025

MEMBERSHIP

Councillors J Ewan (Chair), D Coupe (Vice-Chair), D Branson, I Morrish, M Nugent, G Wilson and L Young

Assistance in accessing information:

Should you have any queries on accessing the agenda and associated information please contact Rachael Johansson, 01642 726421, rachael_johansson@middlesbrough.gov.uk

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 25 September 2025.

PRESENT: Councillors J Ewan (Chair), D Branson, B Hubbard, M Nugent, G Wilson and L Young

ALSO IN ATTENDANCE: J Dodsworth (Veritau), M Kirkham (Mazars) and P Jeffrey (Internal Auditor) (Veritau)

OFFICERS: C Cannon, E Cowley, A Humble, R Johansson, A Johnstone, C Lunn and J Weston

APOLOGIES FOR ABSENCE: Councillors D Coupe

25/6 **WELCOME AND EVACUATION PROCEDURE**

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

25/7 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund

25/8 **MINUTES - AUDIT COMMITTEE - 10 JULY 2025**

The minutes of the Audit Committee meeting held 10 July 2025 were submitted and approved as a correct record.

25/9 **MINUTES - AUDIT COMMITTEE - 24 JULY 2025**

The minutes of the Audit Committee meeting held 24 July 2025 were submitted and approved as a correct record.

25/10 **MINUTES - AUDIT COMMITTEE - 31 JULY 2025**

The minutes of the Audit Committee meeting held 31 July 2025 were submitted and approved as a correct record.

25/11 **ANNUAL COMPLAINTS REPORT 2024-2025**

The Committee considered the annual report on complaints and compliments for the period April 2024 to March 2025. The report summarised complaint statistics and trends, lessons learned, and actions planned to strengthen complaints management over the next 12 months.

It was highlighted that lessons learned from complaints were a key driver for continuous improvement, with planned actions identified to further strengthen processes during 2025/26.

In discussion, a Member questioned whether the data was proportionate to population size, noting that without such context the figures could be difficult to interpret. The Head of Policy, Governance and Information advised that future reports would seek to provide additional context, and reminded Members that local authorities vary in size, culture and approach, with some being less explicit in recording complaints.

Members asked for assurance around the recording of complaints. They were advised that the Council had a comprehensive complaint recording process, however there would be circumstances where someone with a complaint may contact a department who would resolve

the matter for them quickly and that might not be logged, however all qualifying complaints received by the Corporate Complaints Team were logged.

AGREED that the Audit Committee:

1. Noted the complaints statistics and trends, including the outcomes the lessons learned from these.
2. Noted the planned actions to further strengthen the management of complaints over the next 12 months.
3. Considered the information presented and was satisfied that it provided sufficient assurance regarding the robustness of the Council's approach to managing complaints.
4. Requested additional contextual information, such as population size and differences in authority culture/approach, be incorporated into the next annual complaints/compliments report 2025/26.

25/12

FIRST ANNUAL REPORT OF THE AUDIT COMMITTEE

The Committee considered its first Annual Report, to be presented to Full Council in October 2025. The report summarised compliance with the CIPFA 2022 position statement, the results of the LGA effectiveness review, and the Committee's work programme.

Members confirmed the report reflected the Committee's activities, including scrutiny of risk management, treasury, counter fraud, external and internal audit, and Best Value Notice updates.

The report outlined how the Committee had sought and received assurance on major risks, including community cohesion, children's social care costs, town centre financial sustainability, and corporate governance.

It also set out the impact of Counter fraud work which had delivered significant savings and increased referrals. Internal Audit gave an overall Reasonable Assurance opinion, though Members raised concerns on timeliness and capacity, which were being addressed.

The report set out the concerns of the committee in relation to External Auditor's capacity to complete audits of the Council's accounts over the previous three years, with disclaimed opinions issued for three years' accounts. The Committee formally raised concerns about national audit capacity and rising costs.

Members endorsed the forward improvement plan, including enhanced training, development of an assurance framework and map, systematic feedback to Senior Officers, and recruitment of independent members.

The Committee concluded that the Annual Report demonstrated a strong commitment to governance, oversight, and continuous improvement.

AGREED that the Audit Committee:

1. Approved the content of the First Annual Report of the Audit Committee.
2. Approved the implementation of the recommendations arising from the review of the Audit Committee's effectiveness, and that progress against the agreed actions be monitored and reported back to future meetings of the Committee.
3. That the Annual Report and approved recommendations will be submitted to full Council for information.

25/13

RISK AND OPPORTUNITIES ANNUAL ASSURANCE REPORT 2024

The Committee received the Risk and Opportunities Annual Assurance Report 2024, which provided an update on the current content of the Strategic Risk Register and outlined progress made in the six months since the register was last presented to the Committee.

The Head of Policy, Governance and Information highlighted key movements within the strategic risk register, including new and emerging risks, risks that had been mitigated, and those requiring further monitoring. The report also outlined the governance arrangements in

place for managing strategic risks, including oversight responsibilities, escalation procedures, and links to the Council's wider assurance framework.

The Committee was informed of the ongoing work to strengthen reporting processes, improve consistency in how risks are recorded and monitored, and align the Strategic Risk Register with organisational priorities.

During consideration of the report, the following points were raised:

- Members noted the addition of one new strategic risk (SR-16: Dedicated Schools Grant deficit) and reduction in several existing risk scores reflecting improved control and assurance in those areas.
- It was noted that 18 mitigating actions had been completed, and that the February 2025 Internal Audit of Risk Management had provided a substantial assurance outcome.
- Reference was made to cyber security, with Officers confirming ongoing monitoring of arrangements and a commitment to provide further assurance on new ICT systems and disaster recovery plans.
- Members agreed that a 'deep dive' of strategic risk 15 (SR-15: Threats to Social Cohesion and Democratic Resilience) would support better understanding of key external threats.
- Further updates were requested on the mitigation of external financial risks, including those linked to liquidation.
- Members also requested that the outcomes of the external investigation into the school bus fire be tracked and reported back, with governance oversight to be considered if required.

AGREED that the Audit Committee:

1. Noted the current content of the Risk and Opportunities Annual Assurance Report 2024 and the Strategic Risk Register, together with the progress made in the six months since it was last shared with the Committee.
2. Considered the information provided and was satisfied that the management and oversight arrangements of the strategic risk register are appropriate, and that plans to further strengthen those arrangements are sufficient.
3. Requested a report for the December 2025 Committee meeting in relation to the management of strategic risk 15 (SR-15: Threats to Social Cohesion and Democratic Resilience).

25/14

ANNUAL REPORT OF THE SENIOR INFORMATION RISK OWNER (SIRO)

The Committee received the Annual Report of the Senior Information Risk Owner (SIRO), which provided an overview of the Council's information governance arrangements, including data protection compliance, information security incidents, and the progress made in strengthening controls and assurance over the past year.

The Head of Policy, Governance and Information outlined key developments over the reporting period, explaining that there had been increased organisational focus on information security, asset management and cyber resilience. Arrangements for data handling, incident reporting and response had been strengthened, and the implementation of audit recommendations was underway alongside planned improvements to governance processes. In addition, ongoing work was being undertaken to improve Subject Access Request compliance and timeliness across service areas.

The report also highlighted the role of the Senior Information Risk Owner in ensuring effective risk management, accountability and assurance across all information governance activity.

During discussion the following points were raised:

- Members noted that security incidents had almost doubled, driven primarily by thefts of copper cabling and other physical incidents, rather than increased cyber-attacks.
- Officers confirmed that FOBs are deactivated immediately when reported lost, and that additional security measures were being introduced to better protect Council assets.

- Members also noted the current Subject Access Request compliance rate of 72%. The Head of Policy, Governance and Information explained that while no benchmarking with other local authorities was planned, work was ongoing to improve timeliness and response rates.
- A Member referenced the Redcar and Cleveland Borough Council cyber-attack as a reminder of the ongoing risks to local authorities, and Officers confirmed that lessons learned had been incorporated into local arrangements and disaster recovery planning.
- Members were satisfied with the information presented and did not request further additional assurances at that stage.

AGREED that the Audit Committee:

1. Noted the position in respect of information governance as set out in the Annual Report of the Senior Information Risk Owner (SIRO) and the arrangements in place to manage the associated risks.
2. Considered the information provided and was satisfied that it provided sufficient assurance that information governance arrangements are appropriate.

25/15

AUDIT PROGRESS REPORT - MIDDLESBROUGH COUNCIL AND TEESSIDE PENSION FUND

The Committee received the Audit Progress Report from Forvis Mazars, covering both Middlesbrough Council and the Teesside Pension Fund.

The external auditor confirmed that the Council's draft accounts for 2024/25 were published on 30 June 2025, with the main audit work scheduled to commence in October 2025 and completion anticipated by February 2026, in line with the national backstop arrangements.

Work on the Value for Money (VFM) assessment was ongoing, with findings expected to be presented to the Committee in December 2025. At this stage, the auditor reported no significant issues to bring to Members' attention.

Members noted that the main Council audit would progress towards the February 2026 backstop date, with a further update report to be presented at the next meeting. No significant issues were reported at this stage.

AGREED that the Audit Committee:

1. Noted the Audit Progress Report from Forvis Mazars, including the update on the 2024/25 audit timetable, the Value for Money (VFM) assessment, and national publications.
2. Noted the planned timeline for completion of the main audit in line with the national backstop arrangements and agreed to receive further updates as the audit progresses.
3. Agreed that the external auditor would provide a further update to the Committee at the December 2025 meeting, including progress towards meeting the February 2026 backstop date for completion of the main Council audit.
4. Agreed that the findings of the Value for Money (VFM) assessment will be presented to the Committee by the external auditor upon completion.

25/16

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Committee received the Internal Audit and Counter Fraud Progress Report, which provided an update on the delivery of the 2024/25 Internal Audit and Counter Fraud Plan.

The report outlined progress made to date, including the number of audit reviews completed, work in progress, and the overall assurance levels provided. The report also included details of counter fraud activity undertaken during the period to 31 August 2025, outcomes of investigations, and work to strengthen control frameworks across service areas.

The Committee noted that overall delivery of the audit plan was on track, with several assignments completed and no critical issues identified to date. Areas of focus continued to include financial systems, governance, risk management, and key operational areas.

Counter fraud activity to the end of August 2025 included targeted work on Blue Badge misuse and Single Person Discount checks. Investigations and preventive work had achieved estimated fraud savings of approximately £330,000 during the reporting period. The team had also undertaken whistleblowing awareness work to encourage reporting and strengthen Council's counter fraud culture.

Members welcomed the progress update and note the contribution of internal audit to wider assurance. It was confirmed that assurance outcomes from completed work were being used to strengthen controls, and that all agreed actions would be monitored and followed up.

A specific discussion took place regarding the Burial Services Audit, which had received a moderate assurance rating. Members sought clarification on the findings and actions being taken to address identified issues. Officers confirmed that the implementation timescale for the service strategy had been revised to April 2026, and that an update would be provided to the December 2025 Committee meeting, in response to a request from the Chair for a Senior Officer to attend and present the update.

A query was also raised regarding Members' Allowances and Declarations, focusing on the arrangements for ensuring compliance and transparency. It was agreed that additional information clarifying the findings and assurance level of the audit would be circulated to Members ahead of the December 2025 meeting.

AGREED that the Audit Committee:

1. Noted the latest updates on internal audit and counter fraud work as set out in the progress report.
2. Requested a Burial Services Audit update to be presented at the December 2025 meeting, with a Senior Officer to attend, and to include the revised timescale for the service strategy in April 2026.
3. Requested additional information clarifying the findings and assurance level of the Members' Allowances and Declarations audit be circulated to Members ahead of the December 2025 Committee meeting.

25/17

MANAGEMENT OF THE DEDICATED SCHOOLS GRANT RISK WITHIN THE STRATEGIC RISK REGISTER

The Committee received a report providing an update on the management of the Dedicated Schools Grant risk within the Strategic Risk Register, with a particular focus on the High Needs Review. The Committee received a report providing an update on the management of the Dedicated Schools Grant risk within the Strategic Risk Register, with a particular focus on the High Needs Block deficit and its implications for the Council's overall financial position.

Officers outlined the current Dedicated Schools Grant position, including the statutory override arrangements and the cumulative deficit, highlighting the Council's exposure should the override be withdrawn. Members were advised that the Dedicated Schools Grant deficit represents a significant financial pressure and had therefore been added to the Strategic Risk Register as SR-16 to ensure enhanced governance and oversight.

Work was underway to develop a recovery plan in line with national guidance, with ongoing engagement with the Department of Education.

Members recognised the scale of the Dedicated Schools Grant financial risk and the importance of effective mitigation. Clarification was sought on the timing of the recovery plan, the potential implications of changes to funding arrangements, and the Council's position in the event of changes to the statutory override.

Members also requested further information on benchmarking mainstream funding levels to support comparative analysis and better understand how local pressures aligned with national trends. Officers agreed to circulate benchmarking information to Members.

It was noted that progress of the Delivering Better Value programme and the Special Educational Needs and Disabilities workforce development network would continue to be monitored, with updates provided to the Committee as appropriate.

A further update on the Dedicated Schools Grant position and the High Needs Review was requested for a future Committee meeting.

AGREED that the Audit Committee:

1. Noted the work undertaken regarding the management of the high needs' element of the Dedicated Schools Grant and the current position regarding the statutory override and the cumulative Dedicated Schools Grant deficit.
2. Requested a further update on the Dedicated Schools Grant position and High Needs Review to be scheduled for a future meeting.
3. Requested benchmarking information on mainstream funding levels be circulated to Members to support comparative analysis.

25/18

WORK PROGRAMME (STANDARD ITEM)

The Head of Policy, Governance and Information prepared a revised format of the Audit Committee Work Program for 2025/26. The updated document reflected the reports already scheduled and incorporated changes to align with the newly adopted Terms of Reference.

It was explained that the revised format provided clearer alignment with reporting requirements, ensured consistency with the Committee's responsibilities, and strengthened forward planning and oversight. The Committee was advised that certain elements of the new Terms of Reference required formal approval and that a report would be presented to Full Council in October 2025 to resolve these changes and ensure formal adoption.

To support Member engagement and provide an opportunity for independent discussion, it was further agreed that Member-only meetings with auditors would be arranged to take place ten minutes prior to each Pre-Audit Meeting.

The Committee welcomed the revised work programme format, noting that it would be circulated to all Members for reference.

AGREED that the Audit Committee:

1. Noted the revised Audit Committee Work Programme for 2025/26.
2. Requested the revised work programme document be circulated to all Committee Members.
3. Noted a formal report to be submitted to Full Council in October 2025 to approve updated Terms of Reference for the Audit Committee.
4. Requested Member-only meetings with auditors be scheduled prior to each Pre-Audit Meeting.

25/19

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

None.

MIDDLESBROUGH COUNCIL

Report of:	Director of Legal and Governance Services, Charlotte Benjamin
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Submitted to:	Audit Committee
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Date:	11 December 2025
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Title:	Partnership Governance – Annual Assurance Report
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Report for:	Information
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Status:	Public
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Council Plan priority:	Delivering Best Value
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Proposed decision(s)

That the Audit Committee:

- **NOTES** the current position of the Council in relation to compliance with the Partnership Governance policy.
- **CONSIDERS** whether the information provided has given the Committee sufficient assurance that the Council has appropriate arrangements in place in relation to partnership governance.

Executive summary

This report sets out the arrangements in place to assess the health of existing key, strategic partnerships where Middlesbrough Council is a member, in some form.

1. Purpose

- 1.1 The purpose of this report is to outline the results of the annual assessment of the key partnerships that Middlesbrough council is a member of, against the Council's Partnership Governance Policy and supporting minimum standard.

2. Recommendations

- 2.1 That the Audit Committee:

- **NOTES** the current position of the Council in relation to compliance with the Partnership Governance policy.
- **CONSIDERS** whether the information provided has given the Committee sufficient assurance that the Council has appropriate arrangements in place in relation to partnership governance.

3. Background and relevant information

- 3.1 The Partnership Governance Policy has been in place since it was approved by Executive in February 2020. A revised version was agreed in December 2024 following completion of a planned triennial review.
- 3.2 The policy defines a partnership as 'an arrangement in which the Council agrees to collaborate with one or more legally independent organisations to achieve shared objectives and outcomes'.
- 3.3 Partnerships are key to the Council achieving its strategic objectives and their importance will inevitably increase in the coming years. It is critical that partnerships are managed with the same diligence as the internal activity described above to ensure that their contribution to the Council's strategic aims and priorities are maximised.
- 3.4 The key elements of the policy are:
- Each partnership will have a lead manager of appropriate seniority.
 - The business case for a partnership will be approved by the appropriate body in the Council before the Council formally enters into a partnership agreement.
 - All agreed partnerships will meet a minimum standard, with the level of detail required to be determined by the significance of the partnership in strategic and financial terms. This will include, for example, the partnership vision, aims and objectives, KPIs, governance arrangements, resourced action plan, and monitoring, review and dissolution processes. All formal partnership agreements and structures must be approved by Legal Services.
 - A partnership register will be maintained that lists and defines all partnerships, setting out how they contribute to the Council's strategic aims and priorities.
 - An annual review of the performance of significant partnerships will be integrated with the Council's performance management reporting and be informed by an assessment of the lead manager.
 - Training and guidance for those employees engaged in collaborative working will be provided.

Partnership Governance Register and Framework

3.5 The Partnership Governance Register assesses the health of existing partnerships across the following principles:

- 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 partnership'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.
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Partnership Governance Register 2025 update

3.6 Within the last annual assurance report on Partnerships governance, concerns around the Tees Valley Combined Authority (TVCA) were outlined. In April 2025, TVCA was issued with a Best Value Improvement Notice by Government.

3.7 As of December 2025, that Notice continues to be in place and TVCA has voluntarily established an Independent Advisory Board to oversee its improvement journey. TVCA have implemented a detailed improvement plan and is reporting progress on that to the Board and sharing it publicly. The [detailed improvement plan as of September 2025](#) is available on its website. It clearly articulates the actions being taken to improve the governance and performance of the Combined Authority. Council officers are supporting this improvement journey.

3.8 An annual assessment of the health of partnerships has been completed by the lead officers for those partnerships. The results are set out below:

Name of partnership or separate legal entity	Statutory	Significant	Governance		Performance	
Tees Valley Combined Authority (TVCA)	Yes	Yes	Red		Red	
River Tees Port Health Authority Board	Yes	Yes	Green		Green	
South Tees Health and Wellbeing Board	Yes	Yes	Green		Green	
North East Migration Partnership	No	Yes	Green		Green	
Middlesbrough Community Safety Partnership	Yes	Yes	Green		Green	
Middlesbrough Children's Trust	No	Yes	Green		Green	
South Tees Safeguarding Children's Partnership	Yes	Yes	Green		Green	
Teeswide Safeguarding Adults Board	Yes	Yes	Green		Green	
North East Procurement Organisation (NEPO)	No	Yes	Green		Green	
Cleveland Local Resilience Forum (LRF)	No	Yes	Green		Green	

Youth Offending Executive Management Board	Yes	Yes	Green		Green	
SHiFT Partnership	No	Yes	Green		Green	
NEW - Place Leadership Partnership	No	Yes	Emerging		Emerging	

3.9 There are no changes to the performance and governance ratings for key partnerships as result of the annual review.

3.10 A new partnership has been recorded in the table this year. It is the Place Leadership Partnership. The partnership which is currently in development, has representation from key public, private and voluntary sector organisations in the town. Once fully operational and adopted, it will support implementation of the following recommendation from the Local Government Association Corporate Peer Challenge team, which was accepted by Council in March 2025:

‘Develop in coproduction with communities, residents, partners and businesses a long-term vision for the town that is inclusive, practical and deliverable. By looking outwards and harnessing untapped potential to deliver its vision, this will enable everyone to understand and contribute to delivering shared ambitions for the benefit of Middlesbrough and its communities.’

3.11 Outputs from this group will be taken through the Council's decision-making processes as necessary to ensure alignment with decision-making governance requirements of the Council.

4. Other potential alternative(s) and why these have not been recommended

4.1 Not applicable. This report is for information only.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	It is anticipated that all activities set out in this report are achievable within existing and planned budgets.
Legal	The proposed activity is consistent with and will promote the achievement of the Council's legal duty to achieve Best Value.
Risk	<p>This report highlights current compliance with the Partnership Governance policy and planned actions to improve governance by TVCA. If delivered successfully this will have a positive impact on the following risks within the Strategic Risk Register:</p> <ul style="list-style-type: none"> SR-09 – If the Council's Corporate Governance arrangements are not fit for purpose and appropriate action is not taken to rectify this at pace, this could result, censure from the Council's auditors within a public interest report that would damage the Council's

	<p>reputation and/or in government formal intervention including removal of powers from officers and members and direction of council spend</p> <ul style="list-style-type: none"> SR-18 - If the governance arrangements of the Combined Authority (CA) are not fit for purpose, creating barriers to effective collaboration with the Council and adversely impacting the Council's ability to achieve its ambitions for the town. This misalignment could hinder regional development, compromise strategic initiatives, impact financially on the Council and damage stakeholder confidence.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no concerns that this report could have an adverse impact on these rights.
Reducing poverty	There are no concerns that this report, which is for information only, could have an impact on this.
Climate Change / Environmental	There are no concerns that this report, which is for information only, could have an impact on this.
Children and Young People Cared for by the Authority and Care Leavers	There are no concerns that this report, which is for information only, could have an impact on this. However the report does reference the existence of partnerships whose purpose is to improve outcomes for children. By ensuring that good governance in place, it increases the likelihood of partnerships being able to deliver their ambitions in this area.
Data Protection	There are no concerns that this report, which is for information only, could have an impact on this.

Appendices

Not applicable.

Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Partnership Governance Annual Assurance report	23 September 2023
Audit Committee	Partnership Governance – annual assurance report	14 December 2023
Executive	Partnership Governance Policy	4 December 2024
Audit Committee	Partnership Governance – annual assurance report	12 December 2024

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MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance and Transformation (Section 151 Officer) Andrew Humble and the Director of Legal and Governance Services (Monitoring Officer) Charlotte Benjamin
Submitted to:	Audit Committee
Date:	11 December 2025
Title:	Audit Committee Skills and Knowledge Audit Process
Report for:	Decision
Status:	Public
Council Plan priority:	Delivering Best Value

Proposed decision(s)
<p>That the Audit Committee:</p> <ul style="list-style-type: none"> • APPROVES proposed skills and knowledge audit form for Audit Committee members • AGREES to proactively engage with the process to complete the audit of skills and knowledge audit for all members over the next three months.

Executive summary
<p>This report sets out a proposed skills and knowledge framework for Audit Committee members.</p> <p>Members are asked to approve the assessment template and commit to completing the framework.</p> <p>Completed assessments will then be used to inform a proposed revised mandatory training programme for all members as well as supporting creation of bespoke training plans for individual members of the Committee.</p> <p>Compliance with mandatory training and progress against individual training plans will then be reported to the Committee regularly, by exception.</p>

1. Purpose

- 1.1 The purpose of this report is to present a proposed framework against which members of the Audit Committee can assess their current skills and knowledge and use this to identify training needs.

2. Recommendations

- 2.1 That the Audit Committee:
- **APPROVES** proposed skills and knowledge audit form for Audit Committee members
 - **AGREES** to proactively engage with the process to complete the audit of skills and knowledge audit for all members over the next three months.

3. Background and relevant information

- 3.1 At its meeting on 25 September 2025, the Committee agreed a series of actions in response to recommendations from the Local Government Association (LGA) Regional Advisor who had assessed the Committee's effectiveness.
- 3.2 This report is in response to the recommendations in relation to training for Committee members.
- 3.3 The detail of the recommendations is set out below to remind members of them and the agreed actions to be taken in response.

Recommendation	Proposed Response and actions	Target date(s)	Owner(s)
A training needs analysis (TNA) should be carried out for the Chair and each Committee member.	Officers will propose the areas on which Members should have training competencies in order to be able to consider all reports that the Committee needs to be able to consider fulfilling its terms of reference. Draft proposals will be consulted on with the Committee, External and Internal Audit.	31 October 2025	The Monitoring Officer and the Section 151 Officer
	This will be accompanied by proposed training solutions The proposed training needs framework will be brought to the Committee for consideration	11 December 2025	Head of Democratic Services and all members of the Committee

Recommendation	Proposed Response and actions	Target date(s)	Owner(s)
	All members of the Committee will engage with Democratic Services to complete a self-assessment against the training needs framework.	30 April 2026	Audit Committee members
	Review the mandatory training required for the Committee and its substitutes following this and propose a revised set of mandatory training sessions, covering the fundamental elements of the Committee's work.	30 April 2026	Audit Committee to approve
A training plan should be identified for each member of the Committee based on the TNA.	Training plan in place by June 2026 with reports on compliance to the Committee by exception going forward – no report would be prepared if all training was completed in line with agreed timescales	June 2026 onwards	Head of Democratic Services

- 3.4 This report addresses the first two agreed actions. As well as providing a framework against which the Committee could assess its effectiveness, the Chartered Institution of Public Finance and Accountancy (CIPFA) also provide a suggested knowledge and skills framework for Audit Committee members. The proposed skills and knowledge audit template attached at Appendix 1 sets out the expected skills and knowledge for an Audit Committee membership. It adheres to CIPFA's knowledge and skills framework template.
- 3.5 The Committee is asked to agree this skills and knowledge framework template. It is also asked to engage with officers over the next three months to complete their individual assessments.
- 3.6 The outputs from this process will be used to design a mandatory training programme for the Committee as well as bespoke training plans for Committee members in line with the rest of the actions that were agreed by the Committee at its September 2025 meeting as set out at 3.3 of this report.
- 4. Other potential alternative(s) and why these have not been recommended**
- 4.1 The Committee could choose to agree a different skills framework, however using the CIPFA model would provide greater assurance that the Committee is focussed on skills that CIPFA would expect to see within an effective Audit Committee, as articulated in its detailed guidance for Audit Committees.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	There were no costs directly associated with completion of this assessment however there may be costs associated with subsequent training delivery. If this is the case, they will be identified in a report to the Committee in April 2026 when it receives a detailed proposal for generic mandatory and bespoke training to support Councillors to be effective members of Audit Committee,
Legal	Completion of a skills and knowledge assessment will give the Committee greater assurance that its members have the skills and knowledge to ensure the Council's processes are adhering to legal requirements.
Risk	Ensuring Committee members have appropriate skills and knowledge will positively impact on the following strategic risks: <ul style="list-style-type: none"> SR-01 Failure to maintain a balanced budget and Medium-Term Financial Plan SR-09 - Corporate Governance arrangements are not fit for purpose.
Human Rights, Public Sector Equality Duty, and Community Cohesion	There are no specific impacts or implications directly arising from this report; however, an effective Audit Committee function will support the Council to ensure its practice, policies and decision making are legally compliant, thus ensuring positive impacts on these areas.
Reducing poverty	
Climate Change / Environmental	
Children and Young People Cared for by the Authority and Care Leavers	
Data Protection	

Appendices

1 Audit Committee – Skills and Knowledge Audit

Background papers

Body	Report title	Date
Audit Committee	Audit Committee Review of Effectiveness	13 March 2025
Audit Committee	Review of the Effectiveness of Audit Committee – Final Report, Recommendations and Next Steps	31 July 2025
Audit Committee	First Annual Report of the Audit Committee	25 September 2025

Contact: Ann-Marie Johnstone, Head of Governance, Policy and Information
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AUDIT COMMITTEE - SKILLS AND KNOWLEDGE AUDIT

Guidance Notes

Audit Committee agreed to complete training plans when it accepted all the LGA regional advisor's recommendations following a review of the Committee's effectiveness. A key role of the Committee is considering whether it has sufficient evidence to be assured that the Council is meeting expectations set out in the Local Code of Corporate Governance which sets out the systems and processes that should be in place to ensure compliance with the following principles:

- 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.

To do this the Committee needs to understand the areas of corporate governance that are in place to ensure compliance with these principles. This self-assessment will assist you to identify where you have development needs. The results of this will be a tailored training plan to be delivered to you over the next 12 months as well as generic mandatory training that will be delivered to all Committee members.

The table below sets out the knowledge and skills framework that CIPFA recommends an Audit Committee member should have in its 2022 guidance entitled 'Audit Committees: practical guidance for local authorities and police'.

AUDIT COMMITTEE MEMBER - SKILLS AND KNOWLEDGE AUDIT

Identifying your development needs

Councillor Name -

Date -

Knowledge Area	Details of Core Knowledge required	How the Audit Committee Member role is able to apply the knowledge	Member assessment of competency against the core knowledge required
Organisational knowledge	<ul style="list-style-type: none"> An overview of the authority's governance structures and decision-making processes. Knowledge of the organisational objectives and major functions of the authority. 	<ul style="list-style-type: none"> This knowledge will be core to most of the audit committee's activities, including the AGS review, internal and external audit reports and risk registers. 	
Audit committee role and functions	<ul style="list-style-type: none"> An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee. 	<ul style="list-style-type: none"> This knowledge will enable the audit committee to prioritise its work to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others. It will help the committee undertake a self-assessment and prepare its annual report. 	
Governance	<ul style="list-style-type: none"> Knowledge of the seven principles as outlined in Delivering Good Governance in Local Government: Framework CIPFA/Solace, 	<ul style="list-style-type: none"> The committee will review the local code of governance and consider how governance arrangements align to the principles in the Framework. The committee will plan the 	

Appendix 1

Knowledge Area	Details of Core Knowledge required	How the Audit Committee Member role is able to apply the knowledge	Member assessment of competency against the core knowledge required
	2016). <ul style="list-style-type: none"> The requirements of the AGS. How the principles of governance are implemented locally as set out in the local code of governance. 	assurances it is to receive to adequately support the AGS. <ul style="list-style-type: none"> The committee will review the AGS and consider how the authority is meeting the principles of good governance. The committee will receive audit reports and information on risks relating to governance 	
Internal audit	<ul style="list-style-type: none"> An awareness of the key principles of the PSIAS and the LGAN. Knowledge of the arrangements for delivery of the internal audit service in the authority and the charter. How the role of the head of internal audit is fulfilled. Details of the most recent external assessment and level of conformance with the standards. Internal audit's strategy, plan and most recent annual opinion. 	<ul style="list-style-type: none"> The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards. In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed. The audit committee chair is likely to be interviewed as part of the external quality assessment, and the committee will receive the outcome of the assessment and action plan. 	

Knowledge Area	Details of Core Knowledge required	How the Audit Committee Member role is able to apply the knowledge	Member assessment of competency against the core knowledge required
Financial management and financial reporting	<ul style="list-style-type: none"> Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. An understanding of good financial management practice as set out in the CIPFA Financial Management Code (FM Code) and the level of compliance with it. Knowledge of how the organisation meets the requirements of the role of the CFO as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016) and The Role of CFOs in Policing (2021). An overview of the principal financial risks the authority faces. 	<ul style="list-style-type: none"> Reviewing the financial statements prior to publication, asking questions. Receiving the external audit report and opinion on the financial audit. Reviewing both external and internal audit recommendations relating to financial management and controls. The audit committee should consider compliance with the FM Code and the role of the CFO and how this is met when reviewing the AGS. 	
External audit	<ul style="list-style-type: none"> Knowledge of the role and functions of the external auditor and who currently undertakes this role. Knowledge of the key reports and assurances that external audit will provide. 	<ul style="list-style-type: none"> The audit committee will meet with the external auditor regularly and receive their reports and opinions. Monitoring external audit recommendations and maximising the benefit from the audit process. The audit committee should monitor the relationship between the external 	

Knowledge Area	Details of Core Knowledge required	How the Audit Committee Member role is able to apply the knowledge	Member assessment of competency against the core knowledge required
	<ul style="list-style-type: none"> Familiarity with the auditor's most recent plan and the opinion reports. Knowledge about arrangements for the appointment of auditors and quality management undertaken. 	auditor and the authority and support the delivery of an effective service.	
Risk management	<ul style="list-style-type: none"> Understanding of the principles of risk management, including how it supports good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members and of the audit committee. Knowledge of the current risk maturity of the organisation and any key areas of improvement. 	<ul style="list-style-type: none"> In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements. Awareness of the major risks the authority faces is necessary to support the review of several audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. The committee should also review reports and action plans to develop the application of risk management practice. 	
Counter fraud	<ul style="list-style-type: none"> An understanding of the main areas of fraud and corruption risk that the organisation is exposed to. Knowledge of the principles of good fraud risk management practice in 	<ul style="list-style-type: none"> Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy. An assessment of arrangements 	

Knowledge Area	Details of Core Knowledge required	How the Audit Committee Member role is able to apply the knowledge	Member assessment of competency against the core knowledge required
	<p>accordance with the Code of Practice on Managing</p> <ul style="list-style-type: none"> the Risk of Fraud and Corruption (CIPFA, 2014). Knowledge of the organisation's arrangements for tackling fraud. 	<p>should support the AGS, and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.</p>	
Values of good governance	<ul style="list-style-type: none"> Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff (e.g. code of conduct). Knowledge of the whistleblowing arrangements in the authority. 	<ul style="list-style-type: none"> The audit committee member will draw on this knowledge when reviewing governance issues and the AGS. Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported. 	
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<ul style="list-style-type: none"> Effective Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> regulatory requirements treasury risks the organisation's treasury management strategy the organisation's policies and procedures 	<ul style="list-style-type: none"> Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny. 	

Appendix 1

Knowledge Area	Details of Core Knowledge required	How the Audit Committee Member role is able to apply the knowledge	Member assessment of competency against the core knowledge required
	<p>in relation to treasury management.</p> <p>See also Treasure your assets (Centre for Governance and Scrutiny, 2017).</p>		

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MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance and Transformation (S151 Officer) – Andrew Humble
Submitted to:	Audit Committee
Date:	11 December 2025
Title:	Treasury Management – Mid Year Review 2025/26
Report for:	Discussion
Status:	Public
Council Plan priority:	Delivering Best Value

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none"> • NOTES the mid-year Prudential Indicator results for 2025/26 as the Council's current position in relation to capital finance activities and overall indebtedness. (Tables 1- 5) • NOTES the performance of the treasury management function against the Council's approved strategy for the 2025/25 financial year to date. (Para 3.32 – 3.37) • DISCUSSES the performance in the year to date and ask for any further details or explanation they require either from the Executive and/or Officers, to assure themselves that appropriate governance is in place in this area.

Executive summary
<p>In accordance with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management, the Council is required to approve a Treasury Management Strategy and a set of Prudential Indicators on an annual basis. It is also required to undertake a mid-year review to understand how the Council is performing to date in this financial year.</p> <p>This process self-regulates the level of capital financing activities and the long-term affordability and value for money achieved in delivering capital investment for the Council. The report also gives assurance on managing the short, medium and long-term borrowing and investment decisions of the Council in an effective manner. The Treasury Management Strategy is therefore a critical foundation of the Council's financial management and governance framework.</p>

The report sets out the 2025/26 mid-year performance against the annual Treasury Management Strategy approved by Council and gives an analysis of the results achieved to date. The key points for Members to note on this are as follows:

Borrowing

- Treasury management activity has remained compliant with approved prudential management indicators during the first six months of 2025/26.
- The amount of borrowing required during the year is expected to be **£18.735m** compared to an approved budget of **£17.085m**. This is due to the approval of £1.600m in terms of a loan to Middlesbrough College, less other movements in the capital programme over the first six months. The borrowing requirement over the two subsequent financial years however is in line with council limits.
- The Council's underlying need to borrow, which reflects the total of all historical capital expenditure financed from borrowing, is called the Capital Financing Requirement (CFR) and is expected to be **£314.380m** on 31 March 2026.
- The Council does not borrow externally for the total amount of the CFR as it holds internal cash balances against which it borrows internally, as part of its Treasury Management Strategy. Total external debt was **£254.605m** on 30/9/25 and is expected to rise by a further £30m to **£284.605m** by the end of the financial year.
- The Council is therefore expected to be 'under borrowed' by **£29.775m or 9.5%** at the financial year end. This is good practice to avoid unnecessary revenue costs and to ensure effective cashflow management.

Investments

- All cash investments have been made in line with the Council's credit worthiness criteria, generally with either central government or other local authorities.
- Interest earned on these cash investments is expected to generate in the region of **£0.900m** for 2025/26 and this will reduce the net cost of capital financing.

Affordability

- The net annual revenue cost of financing the Council's current and historic debt, less income from its commercial investments and on its cash balances is **£12.205m or 8.5%** of the net revenue budget for the financial year. This reflects the cost of loan principal repayments (Minimum Revenue Provision - MRP) and interest on external borrowing.
- The affordability limit advised by the s151 Officer is for revenue costs of capital financing to be contained within **10% of the net revenue budget**, unless specific advice is given to Members as part of the budget setting process.

The long-term forecast shows costs approaching 10% by the end of the decade. This will limit the availability of borrowing as a source of funding future capital investment and more reliance will be required on external funding and capital receipts and/ or projects for which investment will reduce operating costs or increase operating income of the Council.

The main body of the report gives more details for Audit Committee on the framework used to manage treasury management and the capital financing position of the Council. Effective scrutiny in this context involves gaining assurance that activities comply with best practice and publicly examining decision making to help shape future strategies and

policies. This ensures that good governance is in place and that resources are used effectively and value for money is achieved.

Members should review the separate report that informed the budget setting process, and the prudential indicators originally set to support the revenue budget and capital programme on 19 February 2025, along with the details in this report.

1. Purpose

- 1.1 This report provides an important update to the Audit Committee on performance in relation to the Council's borrowing, investments, and cash-flow for the 2025/26 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It should be read in conjunction with the Council's revenue and capital quarter two budget monitoring report for 2025/26 to understand the full financial position of the Council.
- 1.2 The report also provides the mid-year Prudential Indicators results for 2025/26 in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which is best practice in terms of governance in this area.
- 1.3 The report gives Audit Committee members important information on the treasury management strategy, position on capital financing and prudential indicators, and whether these are contributing to the effective management of the capital programme and the resources allocated to pay for these, as part of the revenue budget process.

2. Recommendations

2.1 That the Audit Committee:

- **NOTES** the mid-year Prudential Indicator results for 2025/26 as the Council's current position in relation to capital finance activities and overall indebtedness. (Tables 1- 5)
- **NOTES** the performance of the treasury management function against the Council's approved strategy for the 2025/25 financial year to date. (Para 3.32 – 3.37)
- **DISCUSSES** the performance in the year to date and ask for any further details or explanation they require either from the Executive and/or Officers, to assure themselves that appropriate governance is in place in this area.

3. Background and relevant information

- 3.1 The Council's Treasury Management Strategy for 2025/26 (including prudential indicators) was approved at the annual budget setting meeting on 19 February 2025. The Authority both borrows and invests substantial sums of money to provide liquidity for its revenue and capital plans, and is therefore exposed to various financial risks, including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the treasury management strategy each year.
- 3.2 The Council is a net borrower overall. The borrowing required to fund its capital programme is significantly higher than its normal cash balances that are available for operational purposes and investments. As a result, the timing of capital financing

decisions has a significant impact on the overall treasury strategy within the Council, the total cost involved, and how risk is managed on day-to-day activities.

3.3 The structure of this report to assess performance against the 2025/26 approved treasury strategy for the financial year to date is as follows:

- Capital expenditure and financing for the financial year.
- The Council's overall borrowing need.
- Prudential indicators and any compliance issues.
- The treasury position on 30 September 2025.
- The economic background for the 2025/26 financial year so far.
- A summary of the Treasury Management Strategy approved for the financial year.
- Treasury Management activity and compliance to date.

Capital Expenditure and Financing 2025/26

3.4 The Council undertakes capital expenditure on long term assets, which can be financed as follows:

- immediately during the year of incurring the expenditure, through capital receipts, capital grants, contributions, or from the revenue budget.
- if insufficient immediate capital resources are available, prudential borrowing can be used to spread these costs over future financial years.

3.5 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies – predominantly the Public Works Loan Board (PWLB), other banks and financial institutions, or by utilising temporary cash resources within the Council (internal borrowing). The wider treasury activities also include managing the day-to-day cash flow position, its previous borrowing activities, and the investment of surplus funds from cash balances that are not required immediately. These activities are structured to manage risk foremost and then optimise performance where appropriate.

3.6 Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total forecast capital expenditure for the year and how this is expected to be financed. Further information on the capital variances at directorate level from the original budget and what impact this has had on the overall financing of the programme can be found in the 2025/26 Quarter Two revenue and capital budget monitoring report.

Table 1: Capital expenditure and financing: 2024-25 FY to 2027-28 FY

	2024/25 actual (£m)		2025/26 original budget (£m)	2025/26 forecast outturn (£m)	2025/26 variance (£m)		2026/27 original budget (£m)	2026/27 revised budget (£m)	2026/27 variance (£m)		2027/28 original budget (£m)	2027/28 revised budget (£m)	2027/28 variance (£m)
Prudential Borrowing	12.343		17.085	18.735	1.650		28.180	21.687	(6.493)		-	3.074	3.074
Capital Receipts	6.000		6.000	6.000	-		6.000	6.000	-		11.613	12.560	0.947
EFS Receipts	2.443		-	-	-		-	-	-		-	-	-
Flexible Use of Capital Receipts	4.447		7.500	6.132	(1.368)		6.750	10.827	4.077		6.250	5.294	(0.956)
Grants	31.693		43.230	35.339	(7.891)		15.558	33.059	17.501		-	-	-
Contributions	0.237		0.983	0.938	(0.045)		6.520	7.312	0.792		-	4.112	4.112
TOTAL	57.163		74.798	67.144	(7.654)		63.008	78.885	15.877		17.863	25.040	7.177

The Council's overall borrowing requirement

3.7 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This results from the historic capital activity of the Council and the resources used to pay for the capital expenditure over time. It represents 2025/26 and prior years' net capital expenditure which has not yet been paid for from revenue, capital receipts, or other external resources, and therefore must be met from borrowing.

3.8 The CFR will normally be a combination of external borrowing (from third parties in the form of loan arrangements) or from internal borrowing (from the council's own unapplied revenue and capital resources). External borrowing incurs both principal and interest costs as part of the Council's capital financing budget. Internal borrowing is from the Council's own cash resources and has an opportunity cost in that the cash is spent on capital activities, rather than being invested to earn interest.

3.9 Part of the Council's treasury role is to meet the funding requirements for this borrowing need. Depending on the funding requirements of the capital programme, the treasury team organises the Council's position to ensure that sufficient cash is available to meet the capital plans and general liquidity requirements. This may be sourced through borrowing from external bodies (such as the government, through the PWLB, or the money markets).

3.10 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory guidance is in place to ensure that capital expenditure is broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a principal loan repayment of the long-term borrowing need from the revenue budget.

3.11 The Council's capital financing requirement for the next three financial years is shown in Table 2 and represent a key prudential indicator for the Council. The CFR position at the mid-year position for 2025/26 is expected to be £314.380m which is £4.183m higher than forecast at the start of the financial year. This is due to £1.650m additional prudential borrowing from when the budget was set, plus £2.533m of technical adjustments to the CFR amount as part of the closure of the 2024/25 financial statements.

Table 2: expected change in the Capital Financing Requirement 2025/26 to 2027/28 FY

	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)
Opening CFR at 1 April	300.041	314.380	331.312
Add: Capital expenditure financed by borrowing	18.735	21.687	3.074
Less: Minimum Revenue Provision	(4.396)	(4.755)	(5.137)
Forecast closing CFR at 31 March	314.380	331.312	329.249
Approved CFR 2025/26 – budget setting	310.197	333.295	327.929
Variance on CFR since budget set	4.183	(1.983)	1.320

Mid-year Treasury Position for 2025/26

3.12 Whilst the measure of the Council's underlying need to borrow is the CFR, the Director of Finance and Transformation can manage the Council's actual borrowing position by:

- borrowing to the CFR level; or
- choosing to utilise some temporary cash flows instead of borrowing ("under borrowing").

3.13 Most local authorities have a degree of under borrowing within their CFR at present. This tends to be in the range of 10% - 20% of the total CFR. This means that external debt is lower than the need to borrow and other resources available have been used to bridge the gap. This strategy has been common as part of a Treasury Management approach to generating revenue savings in relation to annual capital financing costs, by deferring external borrowing, to a later point in time driven by cash flow/liquidity needs of the organisation. It also mitigates the Council's risk exposure on investments with external counterparties.

3.14 The Council's treasury management debt and investment position is organised by the corporate finance service to ensure adequate liquidity for revenue and capital spending needs, security for investments, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices. These practice statements are available for officers, members, auditors, regulators, and members of the public to review if required.

3.15 A summary of outstanding balances is shown below.

Table 3 – summary of borrowing and investments and movement since 2024/25-year end position

<i>Treasury Position</i>	2024/25 Outturn Principal (£m)	Average Rate (%)	2025/26 mid-year Principal (£m)	Average Rate (%)
Public Works Loan Board	225.604	3.76	225.069	3.79
LOBO loans	13.000	6.83	13.000	6.83
Other loans	14.838	3.82	16.536	3.85
Total Debt	253.442		254.605	
Cash Investments	(21.555)	4.45	(22.245)	4.17
Net Debt	231.887		232.360	

3.16 Almost 90% of the Council's total debt is with central government via the PWLB on 30 September 2025. These loans vary in length from between 5 – 45 years and in essence, these match the lives of the capital assets they are financing. Most of the Lender Option Borrower Option (LOBO) and other debt was taken out by the Council in the early 2000's when interest rates were higher, but these options were more attractive than borrowing from central government at the time. Due to the terms and conditions on these loans, there is no option to refinance them in the short term and switch to PWLB loans at lower rates of interest.

3.17 Cash investments are temporary surpluses in liquidity that are either invested with central government (via the debt management office) or with other local authorities with a cash need to borrow. Over £0.900m in interest is forecast to be earned during 2025/26 on these balances at an average rate of around 4.0%.

3.18 The Council's total debt outstanding as on 30 September 2025 was £254.605m. The Council's revised CFR position is estimated to be £314.380m at Quarter Two. This means that the Council was "under borrowed by £59.775m or 19.1%. Most borrowing to date has therefore been to replace maturing short-term debt and most of the capital programme borrowing for the financial year still needs to be taken.

3.19 This "under borrowed" amount is currently financed by internal borrowing from cash balances (usable reserves) which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position has the dual effect of reducing revenue costs incurred by the General Fund budget because borrowing costs are generally greater than investment returns. It also reduces

counterparty risk by reducing our exposure to the inherent risks that exist in commercial banks and other financial institutions.

3.20 **Gross Borrowing and the CFR** – in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2024/25) plus the estimates of any additional capital financing requirement for the current (2025/26) and next two financial years (2026/27 & 2027/28). This essentially means that the Council is not borrowing to support revenue expenditure and allows the Council some flexibility to borrow in advance of its immediate capital needs in 2025/26, if required.

3.21 Table 4 sets out the Council's gross borrowing position against the CFR and shows **compliance with this prudential indicator** as debt levels continue to be lower than required over the medium term.

Table 4 – Gross Borrowing to Capital Financing Requirement comparison in millions

	2024/25 Actual	2025/26 Original	2025/26 Mid-year	2026/27 Forecast	2027/28 Forecast
Gross External Borrowing	253.442	292.388	284.605	316.785	319.859
Capital Financing Requirement	300.041	310.197	314.380	331.312	329.249
(Under)/Over borrowing	(46.599)	(17.809)	(29.775)	(14.527)	(9.390)
% of CFR	15.5	5.7	9.5	4.4	2.9

3.22 **The Authorised Limit** – The Authorised Limit is the “Affordable Borrowing Limit” required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.

3.23 **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.

3.24 **Actual financing costs as a proportion of net revenue expenditure** - This identifies the trend in the revenue cost of capital (borrowing and other long term obligation costs net of investment income) as a proportion of the Council's net revenue budget. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential indicators in millions

	2024/25 actual	2025/26 mid-year	2026/27 forecast	2027/28 forecast
Authorised Limit (£m)	328.000	331.000	354.000	348.000
Operational Boundary (£m)	318.000	321.000	344.000	338.000
Capital Financing Requirement (£m)	300.041	314.380	331.312	329.249
Financing costs (£m)	11.405	12.205	13.732	14.226
Net Revenue Budget (£m)	143.190	143.304	148.601	152.176
Proportion of net revenue budget (%)	7.8%	8.5%	9.2%	9.4%

3.25 The table above also shows the profile of debt required to fund the capital programme over the whole of the medium-term financial planning period, and that this will rise to a maximum of £331.312m on 31st March 2027. This increase in indebtedness is a direct result of the amount required to fund the capital programme in each financial year and any additional cash flow demands, due to the use of reserves and debt refinancing.

3.26 Although the Council does not have relatively highly debt levels against its comparator authorities, the strain on the revenue budget is increasing, particularly against the 2025/26 and 2026/27 budgets. When CIPFA introduced the Capital Finance Code of Practice in 2007, a nominal amount of 10% of the net revenue budget was suggested as being a maximum threshold for sustainability and prudence. Although some councils have exceeded this over the years the S151 Officer's advice is to contain capital expenditure financed by borrowing at a level which remains below this benchmark. This is particularly important given the Council's overall financial position and the low level of unrestricted revenue reserves.

3.27 The levels though do remain aligned to the operational boundary (the Council's capital planning total) and are within the authorised limit approved by Members, which is the statutory limit for the Council in relation to external debt.

Economic Background 2025/26

3.28 A summary of the general economic conditions that have prevailed through the first six months of the 2025/26 financial year is attached at Appendix 1 for information. This has been provided by the Council's external treasury adviser and gives some context on the current economic drivers that are influencing interest and bond rates at present.

Summary of the Treasury Management Strategy agreed for 2025/26.

3.29 Treasury Management is defined as 'the management of the Council's cash flows, borrowing and investments, and the associated risk'. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk and refinancing risk.

- 3.30 The borrowing approach outlined in the treasury strategy was to achieve the optimum value for money for the revenue budget by a combination of long-term borrowing from the Public Works Loan Board when interest rates reached a trigger rate of below 4.75% and the maturity term of the new borrowing fitted in with the Council's current debt portfolio. If these conditions did not exist when cash balances fell below £10.000m, then short term borrowing would be considered for the minimum period possible, given that interest rates were expected to rise over the period. Additionally short-term borrowing would be capped at a maximum of 20% of the total of the Council's gross external debt balance.
- 3.31 The approach to investing cash balances is to follow the relevant government and CIPFA guidance in prioritising and protecting the principal sums involved by only investing with institutions on the Council's approved lending list. This factor is paramount and more important than the fact that higher interest rates that could be achieved on riskier and illiquid investments with longer duration terms. Only 10% of total investments could be deposited for periods over one financial year given the higher levels of risk associated with these products.

Treasury Management activity during 2025/26

- 3.32 During the financial year so far, the Council has maintained an under-borrowed position. This means that the capital borrowing need, (the CFR), was not fully funded with loan debt. Internal cash balances underpinning the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments needed to be considered.
- 3.33 All borrowing and investment activity undertaken so far during the financial year has been in line with the approved strategy agreed, with no exceptions.
- 3.34 A total of £10.000m of new long-term borrowing was undertaken from the PWLB, with £8.837m repaid on either maturity or annuity loans. The total level of external debt for the Council rose by £1.163m during the first six months of 2025/26. Significant borrowing (circa £30m) is still required to fund the capital programme and other liquidity requirements over the remainder of the financial year. Any borrowing decisions will be undertaken in line with the Council's approved treasury management policy and via consultation with external advisers. All the costs of the above debt decisions have been factored into the medium-term financial plan and are fully funded.
- 3.35 Investments were made with either central government or other local authorities on an almost daily basis to ensure that the Council's overall liquidity position was protected. All principal sums invested have been repaid on time by each counterparty. The total interest earned on these temporary cash balances for 2025/26 is expected to be £0.900m and helps to balance the overall net capital financing budget of £12.205m.
- 3.36 The Council's Treasury Management function has complied with all the relevant statutory and regulatory requirements to date during 2025/26, which limit the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the code of Practice for Treasury

Management means both that its capital expenditure is prudent, financially affordable, and sustainable, and its treasury practices demonstrate a low-risk approach.

3.37 Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Arlingclose, the Council's advisers, have proactively managed the debt and investments so far over the financial year.

4. Other potential alternative(s) and why these have not been recommended

4.1 Not relevant as the report is for discussion and scrutiny purposes only.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	<p>All relevant financial implications are outlined within the body of this report and the supporting Appendix 1. The capital programme and financing being recommended in the budget report continues to remain affordable within the approved MTFP and revenue budget parameters. However, the Council needs to manage and prioritise its future capital investment and associated funding strategies more strictly over the term of the MTFP to maintain the revenue cost of capital investment within affordable and prudent parameters.</p> <p>The prudential and treasury management indicators and processes remain robust and within prudent limits over the term of the MTFP.</p> <p>Tables 3-5 outlines the key debt metrics, and the capital financing costs as a % of the net revenue budget over the medium-term financial planning period.</p>
Legal	There are no direct legal implications of this report. All activity on capital financing, investments and borrowing is under current local authority powers, under either the local government act 2003 or the capital finance and accounting regulations.
Risk	Any risk related issues are set out within the report. Risk management is an integral part of the Council's treasury management strategy, and these are considered as part of business-as-usual activities and are set out in more detail within the Treasury Management Practices document maintained by the corporate finance team.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report
Reducing poverty	There are no applicable issues to consider within this report

Climate Change / Environmental	There are no applicable issues to consider within this report
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report
Data Protection	There are no applicable issues to consider within this report

Appendices

1	Economic Background – 2025/26 Financial Year – first six months
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Background papers

Body	Report title	Date
Council	Prudential Indicators and Treasury Management Strategy Report – 2025/26	19 February 2025

Contact: Justin Weston, Head of Corporate Finance (Deputy S151 Officer)
Email: justin_weston@middlesbrough.gov.uk

Economic Background – 2025/26 Financial Year (first six months)

The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium- and longer-term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down 0.2% from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 Gross Domestic Product (GDP) report, annual growth was revised upwards to 1.4% y/y. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish Monetary Policy Committee (MPC) members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The Bank of England (BoE)'s MPC cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term, whilst over the medium-term outlook will be influenced by domestic and global developments.

Arlingclose, the Council's treasury management adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to



constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Against a backdrop of uncertain US trade policy and pressure from President Trump, the US Federal Reserve held interest rates steady for most of the period, before cutting the Fed Funds Rate to 4.00%-4.25% in September. Fed policymakers also published their new economic projections at the same time. These pointed to a 0.50% lower Fed Funds Rate by the end of 2025 and 0.25% lower in 2026, alongside GDP growth of 1.6% in 2025, inflation of 3%, and an unemployment rate of 4.5%.

The European Central Bank (ECB) cut rates in June, reducing its main refinancing rate from 2.25% to 2.0%, before keeping it on hold through to the end of the period. New ECB projections predicted inflation averaging 2.1% in 2025, before falling below target in 2026, alongside improving GDP growth, for which the risks are deemed more balanced and the disinflationary process over.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on most of the banks on its counterparty list at 6 months. The other banks, with higher risk factors, remain on 100 days.

After spiking in early April following the US trade tariff announcements, UK credit default swap (CDS) prices have since generally trended downwards and ended the period at levels broadly in line with those in the first quarter of the calendar year and throughout most of 2024.

Overall, at the end of the period CDS prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Council's counterparty list recommended by remain under constant review.

MIDDLESBROUGH COUNCIL	
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Report of:	Head of Internal Audit, Veritau
Submitted to:	Audit Committee
Date:	11 December 2025
Title:	Internal Audit and Counter Fraud Progress Report
Report for:	Information
Status:	Public
Council Plan priority:	Delivering Best Value

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none">• Notes the update on internal audit and counter fraud work undertaken.

Executive summary
<p>This report provides the committee with:</p> <ul style="list-style-type: none">• an update on internal audit and counter fraud work undertaken.

1. Purpose

- 1.1 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 committee.

2. Recommendations

2.1 That the Audit Committee

- Notes the latest update on internal audit and counter fraud work.

3. Background and relevant information

- 3.1 Internal audit provides independent and objective assurance and advice on the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 3.2 The work of internal audit is governed by the Accounts and Audit Regulations 2015, the Council's internal audit charter and relevant professional standards. These include the Global Internal Audit Standards and the Application Note: Global Internal Audit Standards in the UK Public Sector.
- 3.3 Fraud is a significant risk to the public sector. Annual losses are estimated as being as high as £59 billion in the United Kingdom. Veritau is engaged to deliver a counter fraud service for Middlesbrough Council. The service helps the Council to mitigate fraud risks and to take appropriate action where fraud is suspected.
- 3.4 The Audit Committee has oversight of the work of both internal audit and the counter fraud team. Regular progress reports keep members of the committee informed of the work of both teams over the course of the financial year. They also can be assessed against the planned activity set out in respective work programmes approved by the Committee at the beginning of the year (April 2025).

Internal Audit Progress report

- 3.5 The internal audit progress report is contained in appendix 1. This includes a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

Counter Fraud Progress report

- 3.6 The counter fraud progress report is contained in appendix 2. A range of work is detailed including activity to promote awareness of fraud, work with external agencies, and the result of investigative work undertaken for the Council.

4. Other potential alternative(s) and why these have not been recommended

4.1 This report is for information. There are no other options available.

5. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	There are no specific impacts or implications.
Legal	There are no specific impacts or implications.
Risk	There are no specific impacts or implications.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no specific impacts or implications.
Climate Change / Environmental	There are no specific impacts or implications.
Children and Young People Cared for by the Authority and Care Leavers	There are no specific impacts or implications.
Data Protection	There are no specific impacts or implications.
Financial (including procurement and Social Value)	There are no specific impacts or implications.

Appendices

1	Internal Audit Progress Report December 2025
2	Counter fraud progress Report December 2025

Background papers

Body	Report title	Date
n/a	n/a	/a

Contact: Stuart Cutts
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Internal Audit Progress Report 2025/26

Date: 11 December 2025

APPENDIX 1

CONTENTS

3	Background
3	Internal Audit progress
4	Follow Up
5	Annex A: Internal Audit work in 2025/26
7	Annex B: Current audit priorities
13	Annex C: Summary of key issues from audits finalised
14	Annex D: Summary of progress on ongoing audits
17	Annex E: Audit opinions and priorities for actions
18	Annex F: Follow up of agreed audit actions



BACKGROUND

- 1 Internal audit provides independent and objective assurance and advice about the council's operations. It helps the organisation to achieve its overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015, the Council's internal audit charter, and relevant professional standards. These include the Global Internal Audit Standards and the Application Note: Global Internal Audit Standards in the UK Public Sector.
- 3 In accordance with the professional standards the Head of Internal Audit is required to report progress against the internal audit plan (the work programme) agreed by the Audit Committee, and to identify any emerging issues which need to be brought to the attention of the committee.
- 4 The internal audit work programme was agreed by this committee in April 2025.
- 5 Veritau has adopted a flexible approach to work programme development and delivery. Work to be undertaken during the year is kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the council.
- 6 The purpose of this report is to update the committee on internal audit activity up to 28 November 2025.



INTERNAL AUDIT PROGRESS

- 7 A summary of audits underway and those finalised in the year to date, is included in annex A. It also details other work undertaken by internal audit during the year.
- 8 One final report and two draft reports have been issued since the last report to this committee. A further two other audits are at the fieldwork complete stage.
- 9 Seven audits are currently in progress, of which a number are at, or nearing the final stages of fieldwork. We have also started planning on six other audits.
- 10 The work programme, showing current priorities for internal audit work in 2025/26, is included at annex B. Alongside the work in the 'do now' and 'do next' categories are indicative timescales for when work commenced or is expected to commence, and projected dates for final reports to be produced. These timescales may be subject to change, for example if work priorities change as a result of ongoing risk assessment and work planning.

- 11 Annex C provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee.
- 12 Annex D provides details of progress on ongoing audits that have progressed beyond the planning stage. This includes when audits were started, commentary on progress including any issues that have caused delays and expected timescales for completion.
- 13 Annex E lists our definitions for action priorities and overall assurance levels.

FOLLOW UP

- 14 All actions agreed with services as a result of internal audit work are followed up to ensure that issues are addressed. As a result of this work we are generally satisfied that sufficient progress is being made to address the control weaknesses identified in previous audits.
- 15 A summary of the current status of follow up activity is included at annex F.

ANNEX A: INTERNAL AUDIT WORK IN 2025/26

Audits in progress

Audit	Status
Debtors	Draft report issued
Information security	Fieldwork complete
Savings plans and delivery	Fieldwork complete
Schools themed audit – budget management and purchasing cards	Fieldwork in progress
ASC financial assessments	Fieldwork in progress
No recourse to public funds (CS)	Fieldwork in progress
Business continuity	Fieldwork in progress
Planning applications	Fieldwork in progress
Cyber security – malware protection	Fieldwork in progress
Benefits	Fieldwork in progress
Section 17 payments	Planning
Creditors	Planning
TPF – financial controls	Planning
Foster carers	Planning
Children's Commissioning (follow-up)	Planning
Asset management	Planning

Further explanation of audit progress status

Status	Further explanation
Planning	Working with officers to define and agree the scope and timing of work.
Fieldwork in progress	A specification has been issued and agreed with officers. Target dates for key work deadlines agreed as part of the specification.
Fieldwork complete	Fieldwork has been completed. Closing meetings to discuss findings and/or quality assurance of completed work is being undertaken.
Draft report issued	A report with findings has been shared with officers. Appropriately focused agreed actions need to be provided by officers before an agreed final report can be issued.

Final reports issued

Audit	Reported to Committee	Opinion
Treasury management	July 2025	Substantial Assurance
Teesside Pension Fund – Investments	July 2025	Substantial Assurance
Procurement cards (follow-up)	July 2025	Reasonable Assurance
Commercial property income Regen	July 2025	Reasonable Assurance
Domestic abuse	July 2025	Limited Assurance
Server admin (IT)	July 2025	Substantial Assurance
Council Tax and NNDR	July 2025	Substantial Assurance
Members' allowances and declarations of interest	July 2025	Reasonable Assurance
VAT Accounting	September 2025	Substantial Assurance
Homelessness	September 2025	Reasonable Assurance
Anti-social behaviour management	December 2025	Reasonable Assurance

Other work in 2025/26

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- ▲ A review of grant claims including those relating to:
 - ▲ Delivering Better Value in SEND
 - ▲ Bus Service Operators
 - ▲ City Region Sustainable Transport Settlements
 - ▲ Middlesbrough Council's Community Learning Service (MCLS)
- ▲ Work supporting District Centre Improvement Grant (DCIG) processes

ANNEX B: Current priorities for internal audit work in 2025/26

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Corporate & cross cutting			
Category 1 (do now)			
Savings plans and delivery	The fieldwork has been completed, and a closing meeting arranged for early December with the deputy s151 officer to discuss findings. Savings plans reviewed are: ASC02, 06, 08, 11, 13, CS04, CC04, 05, 07	June 2025	April 2026
Information security	Site visits have been undertaken, and closing meeting was held with officers on 26 November 2025.	September 2025	April 2026
Business continuity	The specification was agreed and issued in September. Work is in progress.	September 2025	April 2026
Asset management	Initial planning is underway.	November 2025	April 2026
Partnerships	We have been unable to make progress in planning this audit. Discussions have been held with relevant senior officers, and further discussions are planned.	TBC	TBC

¹ This is the expected date the audit findings will be included in reports to the Audit Committee. The report will potentially be finalised sooner than this, and the date of issue will be included when reported to the Audit Committee.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Category 2 (do next)			
Procurement	Initial planning underway. The focus is likely to be on the post implementation of the new Procurement Act. An audit of the new breaches' procedure had been considered but this is more likely to take place during 2026/27 to allow it more time to bed in.	Q4 2025/26	September 2026
Priorities Fund	Initial planning underway. We considered a request to defer this audit due to some ongoing work on the governance of the project. The audit is now likely to take a retrospective review of the Fund and identify any lessons to be learned.	Q4 2025/26	September 2026
Records management	Planned for Q4.	Q4 2025/26	September 2026
Corporate complaints	Planned for Q4.	Q4 2025/26	September 2026
Financial resilience	Planned for Q4. This will build on the work undertaken in relation to savings plan and delivery.	Q4 2025/26	September 2026
Performance management	Deferred to Q4 at request of service whilst new performance framework is implemented.	Q4 2025/26	September 2026

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Financial / Corporate systems			
Category 1 (do now)			
Debtors	A draft report was issued on 28 November 2025.	June 2025	April 2026
Benefits	Specification was agreed with officers in November 2025.	November 2025	April 2026
The Pension Fund (TPF) – Financial controls	Initial planning underway. Arranging opening meeting with officers.	November 2025	April 2026
Creditors	Specification was issued to officers on 13 November 2025.	October 2025	April 2026
Category 2 (do next)			
Main accounting	Planned for Q4.	Q4 2025/26	July 2026
TPF – Investments	Planned for Q4.	Q4 2025/26	July 2026

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
ICT			
Category 1 (do now)			
Cyber security – malware protection	Specification agreed with officers in November 2025	September 2025	April 2026
Category 2 (do next)			
To be confirmed (TBC)	In December 2025 we will discuss with the recently appointed IT manager any remaining IT risks/ audits for possible Q4 work	TBC	TBC
Operational audits			
Category 1 (do now)			
Schools themed audit (Budget Management and Purchasing Cards)	Fieldwork is close to completion.	February 2025	April 2026
No Recourse to Public Funds (CS)	Fieldwork is close to completion.	April 2025	April 2026

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Financial assessments (Adult's)	Fieldwork is in progress.	March 2025	April 2026
Planning applications	Specification was agreed at the end of September. Fieldwork is in progress.	September 2025	April 2026
Section 17 payments	Specification was issued to officers on 7 November 2025.	January 2026	April 2026
Foster carers	Initial planning underway.	November 2025	July 2026
Children's Commissioning (follow-up)	Initial planning underway.	November 2025	July 2026
Category 2 (do next)			
Climate change	Initial planning underway. This has been deferred to Q4 as the service is currently reviewing the Green Strategy. Director has approved a February 2026 start.	Q4 2025/26	September 2026
Direct payments (follow-up)	Planned for Q4.	Q4 2025/26	July 2026
Schools themed audit (2026)	Planned for Q4. Theme to be agreed.	Q4 2025/26	July 2026

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
No Recourse to Public Funds (ASC)	Planned for Q4. This will follow-on from the work within CS.	Q4 2025/26	July 2026
Housing development	Deferred to Q4 at request of service as new Housing Development manager is in post.	Q4 2025/26	July 2026

ANNEX C: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
Anti-social Behaviour Management	Reasonable Assurance	Policies and procedures, performance monitoring and reporting, the use of data analysis, risk registers monitoring and review.	November 2025	<p>Two significant priority findings reported.</p> <p>Performance metrics have not been established and aligned with the council's new neighbourhood model approach, and metrics are not monitored.</p> <p>Discussions evidencing monitoring of targets and risks are not documented.</p>	<p>Targets that align with the priorities of the neighbourhood model will be established and monitored. Performance against these targets will be reported to Community Safety Partnership meetings.</p> <p>Discussions of targets and risks in Community Safety Partnership and Active Intelligence mapping meetings will also be documented</p> <p>Deadlines for completion of both actions set for 28 February 2026.</p>

ANNEX D: SUMMARY OF PROGRESS ON ONGOING AUDITS

Audit	Specification issued	Scope	Details on progress	Target final report date	Target committee date
Adult Social Care financial assessments <i>Fieldwork in progress</i>	March 2025	Policies and procedures, guidance, completion of assessments, reviews.	The start of fieldwork was delayed due to a combination of officer availability, and then prioritisation of other work. Fieldwork has been delayed due to issues in providing us with access to the relevant systems.	January 2026	April 2026
Schools themed audit – budget management <i>Fieldwork in progress</i>	March 2025	Financial monitoring arrangements, budgeting, use of supply teachers, purchasing cards.	Fieldwork took place during the summer term and some final queries are now being resolved.	December 2025	April 2026
No recourse to public funds (CS) <i>Fieldwork in progress</i>	April 2025	Procedures, management of cases, accessing and approving funds, transition to adult's services.	Fieldwork commenced in May 2025 and is largely complete. An outstanding issue needs to be resolved and this has been escalated to management.	December 2025	April 2026

Audit	Specification issued	Scope	Details on progress	Target final report date	Target committee date
Debtors <i>Draft report issued</i>	June 2025	Raising of invoices and credit notes, pursuing debt, reconciliation of income, debt management and write-off.	Draft report issued on 28 November 2025.	December 2025	April 2026
Savings plans and delivery <i>Fieldwork complete</i>	July 2025	Assessment of savings proposals, action plans, monitoring.	Fieldwork is complete, closing meeting planned for early December.	December 2025	April 2026
Information security <i>Fieldwork complete</i>	September 2025	Security of personal and sensitive data, extent of general security weaknesses.	Physical security reviews were undertaken by visiting Middlesbrough House, Fountain Court and Resolution House. All visits have been completed and a closing meeting is booked for 26 November 2025.	December 2025	April 2026
Business continuity <i>Fieldwork in progress</i>	September 2025	Policies, plans, roles and responsibilities, governance arrangements.	Fieldwork started in October 2025 and is ongoing.	January 2026	April 2026
Planning applications <i>Fieldwork in progress</i>	September 2025	Compliance with legislation and guidance, compliance with policies and procedures.	Fieldwork started in September 2025. A mid-point meeting was held 13 November. Work is ongoing.	February 2026	April 2026

Audit	Specification issued	Scope	Details on progress	Target final report date	Target committee date
Benefits <i>Fieldwork in progress</i>	November 2025	Reviewing applications, payments and procedures and monitoring of overpayments and adjustments.	Specification was agreed with officers in November 2025	February 2026	April 2026
Cyber security – malware protection <i>Fieldwork in progress</i>	November 2025	Compliance with policies and procedures. Security patches, web and email services.	Specification was agreed with officers in November 2025	March 2026	April 2026

ANNEX E: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

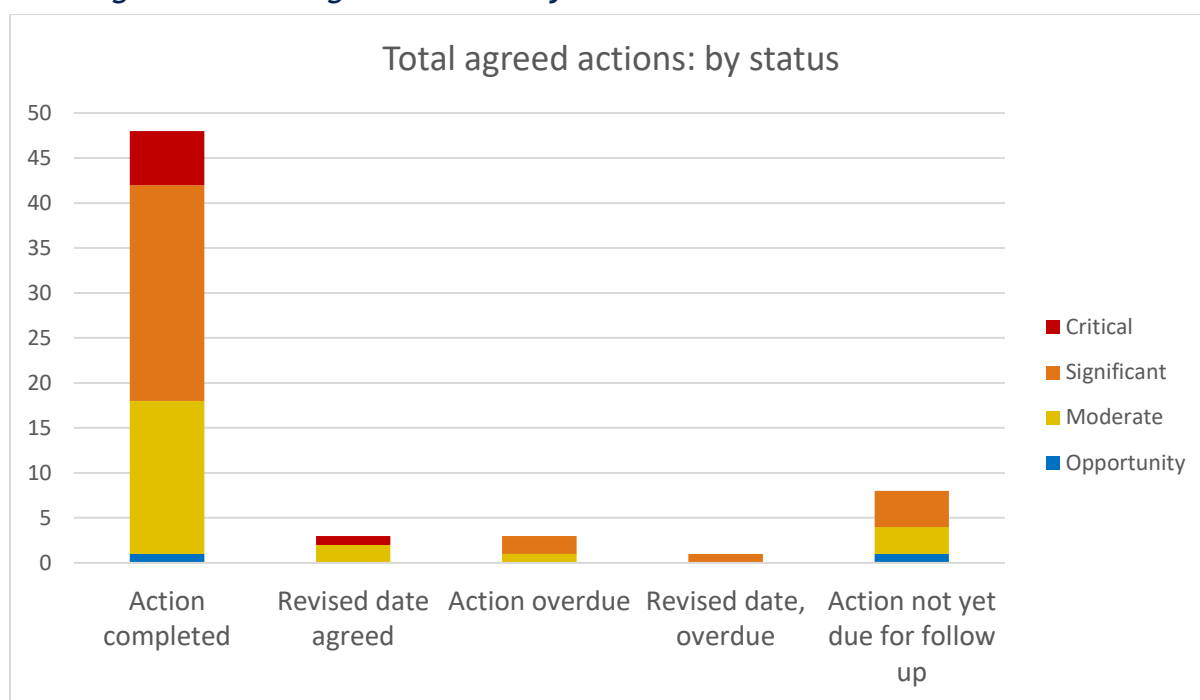
Priorities for findings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes, but the system objectives are not exposed to risk.

ANNEX F: FOLLOW UP OF AGREED AUDIT ACTIONS

- 1 Follow-up work is carried out through a combination of notifications via the Council's Pentana system, questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary.
- 2 Where responsible officers have not taken the action they agreed to, issues are escalated to more senior officers. Ultimately, they may be referred to the Audit Committee in accordance with the follow-up and escalation procedure.
- 3 In figure 1, below, the status of agreed actions from follow-up activity undertaken between 1 April 2025 – 14 November 2025 is shown.
- 4 For clarity, the figure shows the results of follow up activity for this period, regardless of when actions were originally due (that is, it includes actions which were due prior to 1 April 2025 but which are still being followed up).
- 5 For completeness, it also shows actions which have been agreed in finalised audits, but which have not yet fallen due and so have not been followed up.

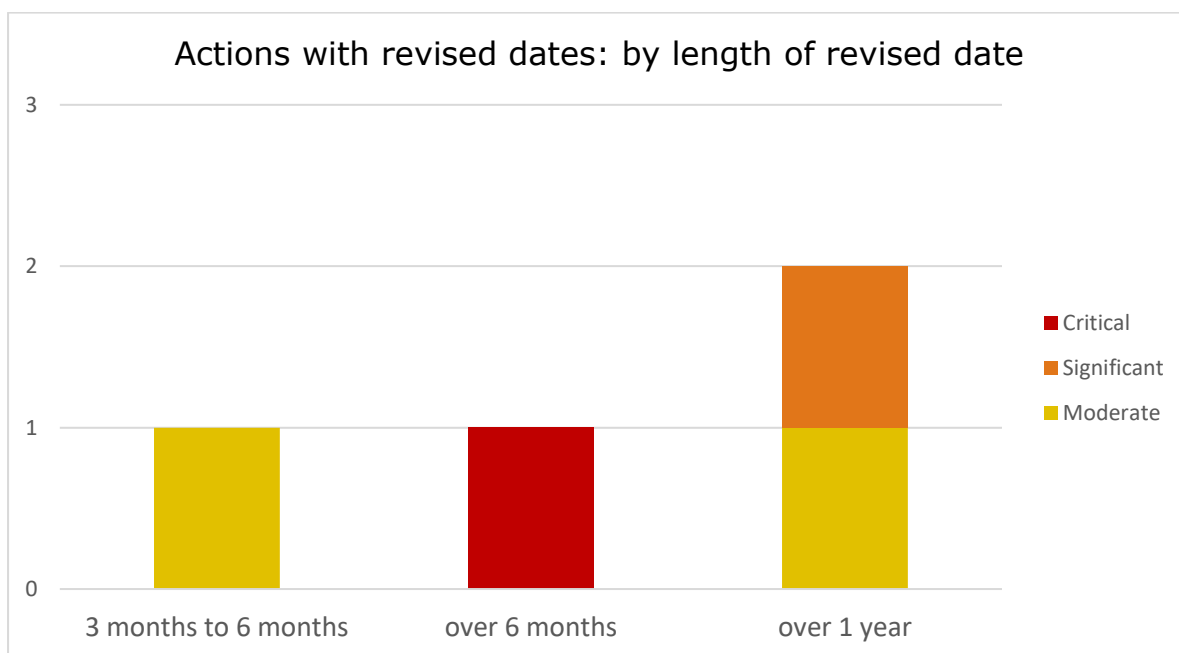
Figure 1: Total agreed actions by current status



- 6 A total of 55 actions have been followed up in the last twelve months. Of these, 48 have been satisfactorily implemented. Eight actions are not yet due for follow-up as their original implementation date has not passed at the time of reporting.

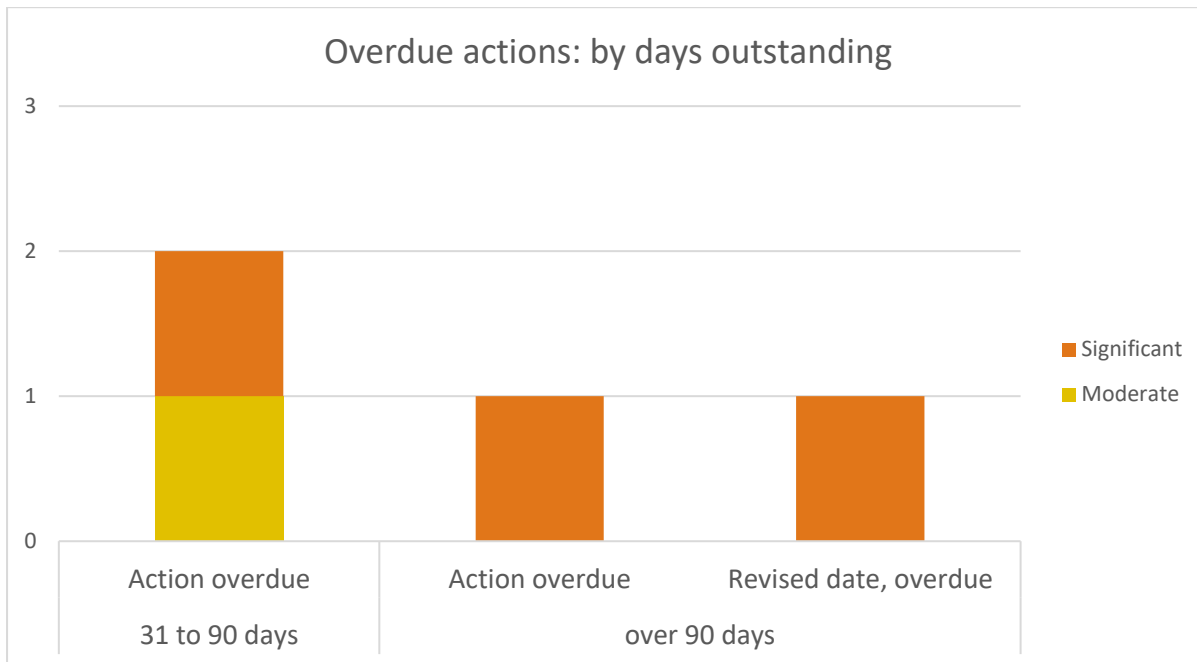
- 7 A total of four outstanding actions have had their original implementation timescale extended. A revised implementation date has been agreed with the action owner. We agree revised dates where the delay in addressing an issue will not lead to unacceptable exposure to risk and where the delays may be unavoidable. Although lengthy or continued revision of implementation dates can increase the risk of issues occurring. Figure 2, below, shows how long dates have been extended beyond original implementation dates.

Figure 2: Length of revised dates agreed for action implementation



- 8 At the time of reporting, four actions are overdue. This is shown in figure 3, below.

Figure 3: Length of time actions have been overdue



- 9 Two significant actions have been overdue for more than 90 days beyond the original due date. One action relates to an audit of burials, and the relevant officer (Director – ECS) attended the July meeting of this committee to discuss progress made in implementing the action. The service has advised us that a strategy has been drafted and is being reviewed by Directors. The other relates to monitoring of domestic abuse cases against practice standards. This is currently being followed up and has been escalated with officers.
- 10 The other two overdue actions relate to two audits: domestic abuse and Teesside crematorium. These actions are currently being followed up with the responsible officers.

Counter Fraud Progress Report 2025/26

Date: 11 December 2025

APPENDIX 2

CONTENTS

- 3** Background
- 3** Counter Fraud Management
- 4** Multi-Agency Work
- 4** Investigative Work



BACKGROUND

- 1 Fraud is a significant risk to the public sector. Fraud is the most common offence in the UK, accounting for 41% of all crime¹. The National Audit Office estimates that fraud and error cost the taxpayer between £55 and £81 billion in 2023/24 and only a fraction of this was detected². Financial loss due to fraud can reduce a council's ability to support public services and cause reputational damage.
- 2 Veritau provides a corporate fraud service to Middlesbrough Council which aims to prevent, detect and deter fraud and related criminality. We use qualified criminal investigators to support departments with fraud prevention, proactively identify issues through data matching exercises, and investigate suspected fraud. To deter fraud, offenders face a range of outcomes, including prosecution in the most serious cases.
- 3 The counter fraud team also plans and takes part in counter fraud campaigns (eg the National Fraud Initiative), undertakes fraud awareness activities with staff and the public, and maintains and updates the Council's counter fraud framework and associated policies.
- 4 The purpose of this report is to update the Audit Committee on counter fraud activity in 2025/26.



COUNTER FRAUD MANAGEMENT

- 5 A key objective for the counter fraud team is to raise the awareness of council employees of fraud risks facing the Council. In October the counter fraud team worked with the communications team to highlight the danger of cybercrime as part of cybersecurity awareness month. Employees were advised to:
 - never open attachments or click links from unknown senders
 - verify senders by checking email addresses carefully
 - report any suspicious emails to the ICT team
 - not reply or engage with scammers
 - be aware that scammers will try to pressure employees into bypassing process and internal controls.
- 6 This year bespoke training has been provided to the revenues, benefits, and social care assessment teams.
- 7 Veritau shares alerts on fraud threats identified by partners in the counter fraud community, including the National Anti Fraud Network (NAFN). When Veritau identifies threats that could affect other local authorities then a threat report is made so all NAFN members are aware. Recent alerts from

¹ [Progress combatting fraud \(Forty-Third Report of Session 2022-23\)](#), Public Accounts Committee, House of Commons

² [An overview of the impact of fraud and error on public funds](#), National Audit Office

NAFN have included details of two bank accounts used by fraudsters who impersonate trusted council suppliers to divert payments, an individual using false documents to apply for Discretionary Housing Payments, and an organisation believed to be making FOI requests to councils in order to gather information to target the estates of individuals who are ill or have died intestate.



MULTI-AGENCY WORK

- 8 The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and other public sector bodies in the UK. The work of the NFI is overseen by the Public Sector Fraud Authority (PSFA) and the exercise runs every two years. The results of the 2024/25 datamatching exercise (12k data matches) are still in the process of being reviewed by the counter fraud team and other services across the Council.
- 9 The PSFA is in the process of running supplementary NFI data matches relating to care home residents and direct payment recipients. These matches were last run in 2019 but were stopped due to a change in the law. They have now resumed following an amendment made to the Local Audit and Accountability Act 2014 this year. Data will be provided to the PSFA in November with resulting matches expected next year.



INVESTIGATIVE WORK

- 10 Between 1 April and 31 October 2025, the counter fraud team logged 78 referrals of suspected fraud. Eleven investigations have been completed this year and there are currently 33 cases under investigation. To date £176k of loss has been identified.
- 11 A ten-year fraud against the council tax reduction scheme (CTRS) was stopped following an investigation this year. A homeowner failed to update the Council about their income and residency during the course of their CTRS claim which resulted in them receiving £11k in council tax discounts they were not entitled to. They were issued a formal warning and invoiced for the loss.
- 12 A Middlesbrough resident received a formal warning for falsely claiming a single person discount over a four-year period. They were issued a bill of almost £1500.
- 13 The counter fraud team supports the Council to recover losses identified as part of investigations. Counter fraud savings³ are tracked by monitoring repayments to the Council and calculating the value of stopping ongoing

³ Counter fraud savings consist of money recovered during the course of the year (debts may have been calculated in previous years as well as the current financial year) and 12 months of savings where an ongoing fraud has been stopped through the work of the counter fraud team.

frauds. In 2025/26 £366k of counter fraud savings have been made to date.

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Auditor's Annual Report
Middlesbrough Council – year ended 31 March 2025

November 2025

Contents

A

B

Page 74

01	Introduction
02	Audit of the financial statements
03	Commentary on value for money (VFM) arrangements
04	Other reporting responsibilities
05	Audit fees and other services
06	Audit of the Pension Fund
A	Appendix A: Further information on our audit of the Council’s financial statements
B	Appendix B: Further information on our audit of the Pension Fund’s financial statements

Our reports are prepared in the context of the ‘PSAA Statement of Responsibilities of Auditors and of Audited Bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to Middlesbrough Council. It has been prepared for the sole use of the Audit Committee as the appropriate group charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

01

Introduction

Page 75

Introduction

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for Middlesbrough Council (‘the Council’) for the year ended 31 March 2025. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice (‘the Code’) issued by the National Audit Office (‘the NAO’). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Page 76

Opinion on the financial statements

We expect to issue our audit report before the backstop date of 27 February 2026. We expect our opinion on the financial statements to be disclaimed.

Reporting to the group auditor

In line with group audit instructions issued by the NAO, we have undertaken work on the Council’s Whole of Government Accounts (WGA) return in line with their instructions. We have been unable to conclude our work as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us.



Value for money arrangements

In our audit report we expect to report that we are not satisfied arrangements were in place for the Council to secure economy, efficiency and effectiveness in its use of resources. We identified significant weaknesses in arrangements and include recommendations in this report. Section 3 provides our commentary on the Council’s arrangements, the weaknesses identified, and a summary of our recommendations.

02

Audit of the financial statements

Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council’s financial position as at 31 March 2025 and of its financial performance for the year then ended. Our audit report, which we expect to issue before the backstop date of 27 February 2026, will give a disclaimed opinion on the financial statements for the year ended 31 March 2025

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

03

Our work on value for money
arrangements

VFM arrangements


Overall Summary





VFM arrangements – Overall summary

Our approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- 

Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- 

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

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.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information;
- information from internal and external sources, including regulators;
- knowledge from previous audits and other audit work undertaken in the year; and
- interviews and discussions.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. Our work could lead to two distinct types of recommendation:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
<div>  <div>Financial sustainability</div> </div>	11	Yes – see risk 1 on page 12	Yes – see recommendations 1 and 2 on page 23	No
<div>  <div>Governance</div> </div>	15	Yes – see risk 2 on page 16	No	No
<div>  <div>Improving economy, efficiency and effectiveness</div> </div>	19	Yes – see risk 3 on page 20	Yes – see recommendation 3 on page 23	No

VFM arrangements

Financial Sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services



VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<div>Page 84</div> <p>Financial sustainability As part of the 2024/25 budget setting process, the Council made a request for, and received, exceptional financial support from the Government in order to balance the budget for 2024/25. The approach to budget setting has improved but needs to focus further on underlying assumptions to ensure funding gaps that could threaten the delivery of services and financial plans are identified and mitigated. The Council decision to seek such support in order to meet its spending commitments is evidence of a significant weakness in arrangements for planning to bridge funding gaps and identifying achievable savings.</p>	<p>Our work included reviews of:</p> <ul style="list-style-type: none">• budget setting reports, including the application for exceptional financial support;• budget monitoring reports;• outturn reports• updated medium term financial plans;• transformation programme and• links between MTFP and other plans, for example, people strategy. <p>Conclusion The Council has made significant improvement in addressing issues that presented during 2024/25, for example introducing a new budget setting approach and transformation programme, but there is still work to be done to improve arrangements for financial sustainability. The financial position and the transformation required to ensure affordable services are provided require ongoing attention.</p>

Overall commentary on Financial Sustainability

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

Our review of minutes and supporting papers confirms that medium-term financial planning arrangements were in place in 2024/25. We considered the Medium Term Financial Plans (MTFPs) covering 2024/25 to 2026/27, and the new approach for 2024/25 to 2026/27. We have also reviewed the proposed 2026/27 budget and MTFP approach and timetable.

We have considered the Council’s performance in delivering it’s MTFP, including identified saving targets. In 2024/25, in common with other local authorities, the Council experienced significant cost pressures linked to delivering demand-led services and as a consequence of inflation. In 2025/26 the Council continues to report significant financial pressures, including significant demand pressures and service cost increases.

As part of the 2024/25 budget setting and overhaul of the MTFP arrangements, the Council made a request for and received in principle approval for exceptional financial support (EFS) from the Government as the Council could not meet its spending commitments from its income. The outturn for 2024/25 was better than originally expected and allowed the Council to use £2.443 million of the £13.4 million approved in principle EFS, with the value being funded through the flexible use of capital receipts to support transformation.

The quarter one revenue outturn for 2025/26 forecasts an overspend of £10.677 million for the year. Actions are planned to mitigate this but if this is not successful, the Council is proposing the use of central contingencies and other budgets totalling £6.195 million to reduce the potential overspend to £4.482 million.

Overall commentary on the Financial Sustainability reporting criteria – continued

As with many other local authorities, there is also an ongoing risk around the Dedicated Schools Grant deficit which is currently £22m. The significant and growing deficit is a result of the costs of providing support for special educational needs and disabilities (SEND) exceeding the formula-driven, ring-fenced grant from Government. The position is unsustainable and without significant additional external funding support, improved prevention and changes to delivery models are needed. The Council's 2021 SEND and Disability Strategy was adopted to address leadership, governance and systems issues and led to additional specialist resources and places. The Council recognises the deficit is a strategic risk and that further action is needed and a new SEND and inclusion strategy is being developed.

Recommendation		
1	Page 85	The Council's current DSG deficit is £22m and is forecast to grow to £55m in the next 3 years.
		The Council should continue to implement initiatives to: <ul style="list-style-type: none">• improve prevention and early intervention;• transform provision and reduce costs while maintaining standards; and• identify income to offset high needs spend.

The 2025/26 budget includes planned funding of qualifying revenue expenditure on transformation of £7.5 million in accordance with the agreed flexible use of capital receipts policy. Council Directors have been asked to develop further recovery plans and mitigations to reduce forecast overspends and seek to deliver a balanced budget.

The continued reliance on EFS and the growing DSG deficit are evidence of a significant weaknesses in arrangements.

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

Our review of the MTFPs issued during 2024/25 and to date provides assurance that forecasts are based on assumptions including the Council's latest understanding of Government funding arrangements, local revenue assumptions, service demand and other cost pressures. Arrangements for identifying and delivering savings include a timetable for consultation with stakeholders ahead of approval before each financial year. The

revised MTFP arrangements include a more disciplined approach to budget setting and require in-year spending to be funded from in-year resources to protect reserves. Budget monitoring reports explain that failure to control expenditure will lead to draw down of the EFS or a call on reserves. Such an approach is not sustainable, which the Council recognises, and the transformation programme is designed to address this. The Council's access to EFS allows some flexibility in the short-term but there is an ongoing need to deal with a structural deficit. The new senior management team aims to address this in the development of future budgets and MTFP and via the transformation programme.

The lack of a sustainable MTFP is evidence of a significant weakness in arrangements.

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

In 2024/25 the Council's MTFP was aligned with the Council plan which sets out the Council's strategic direction and ambitions for the area. Our review of the 2025/26 updated MTFP confirmed that the MTFP arrangement is now based on assumptions available at the time of approving the plan. The scale of financial recovery required is less significant than in previous years reflecting anticipated changes in central funding and involves savings of £7.0 million in 2025/26 and £1.65 million in 2026/27. In-year monitoring reports, however, suggest the planned savings are not currently being delivered; the quarter one position reported in September 2025 highlights an expected overspend against budget and increasing pressures.

Financial control measures were agreed and implemented in July 2023 and continue to be applied. These measures include modernising and transforming service delivery; risk rating of savings and detailed monitoring of savings achievement; development of a pipeline of new transformation projects; more robust budgetary control; more director engagement; and more stringent financial control of budgets and restraint on non-essential spending. These measures resulted in a better than forecasted outturn in 2024/25.

The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions impact on the forecast financial position. There is regular budget monitoring including forecast of outturn reports which support the identification of in-year pressures, whether savings are being achieved and if resources need to be redirected to areas in need. We reviewed the 2024/25 outturn and noted the in-year pressures, such as those in Children's services, were clearly reported and have been reflected in the MTFP. Financial planning arrangements, however, involve an unsustainable reliance on EFS from the Government.

The lack of a sustainable MTFP is evidence of significant weaknesses in arrangements in 2024/25.

Overall commentary on the Financial Sustainability reporting criteria – continued

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

At the highest level, the Council has a Council Plan and vision, there is a transformation programme in place, and a new people strategy has been developed. This is part of the Council’s strategic planning framework and the MTFP is part of this Framework. We confirmed that arrangements were in place for the development of the MTFP including linking the financial plan to the Council’s corporate objectives to ensure the priorities of the Council are delivered, scrutinising the MTFP, and documenting key assumptions with each savings plan being risk assessed to advise Members of the impacts. We confirmed a similar timetable exists for setting the 2026/27 budget which is evidenced in the reports to the May and September 2025 Executive meetings and includes the high-level forecast position for 2025/26 to 2028/29.

In line with the Prudential Code and the Council’s capital strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting process. This is designed to ensure investments are fully funded. The capital plan is included in the MTFP including the capital strategy. A detailed capital plan is included in the MTFP.

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 MTFP process aims to reflect changes that affect the Council’s financial plans. The budget is monitored on a regular basis at department level ahead of reporting to the Executive. We reviewed outturn reports presented during 2024/25 and 2025/26 to date and noted that they reflect in-year changes, for example, demand pressures in Children’s Services which have been tracked and reported throughout the year. The 2024/25 outturn report records an underspend of £2.3 million, which is 1.6% of the approved budget totalling £143.2 million. The underspend has allowed the Council to improve the reserves position. Improved financial monitoring and control arrangements applied during 2024/25 include internal challenge and recovery procedures.

Consistent with the prior year and other local authorities, Children’s Services continue to report significant overspends in-year, reporting a £3.8 million overspend in 2024/25, offset by underspends elsewhere. The Council continues to closely monitor this service and develop mitigation plans to reduce overspends in the medium to long-term. In recent years this included reviewing, controlling and rebasing the children’s services budget and reviewing social care practice. This is alongside national efforts to address the exceptionally high cost of external residential care placements.

Overall, unrestricted useable reserves have increased from £1.1 million (31 March 2024) prior to the allocation of the Collection Fund balance of £8.3 million (1 April 2024) to £10.5 million (31 March 2024).

Our review of committee reports and attendance of Audit Committee, provides assurance that the Council monitors and identifies mitigations to manage any changes in demand and assumptions in the MTFP. The Council also has an established risk management framework, with regular reviews and reporting to Audit Committee. Attendance of Audit Committee meeting confirm it receives regular risk management updates.

As part of the 2024/25 budget setting and MTFP update the Council made a request for and received in principle approval for exceptional financial support from the Government as the Council could not meet its spending commitments from its income. The continued development and implementation the transformation programme during 2025/26 is required to stabilise the Council’s finances.

The lack of a sustainable MTFP during 2024/25 is evidence of a significant weakness in arrangements.

Summary: overall commentary on the financial sustainability reporting criteria

Our work identified significant weaknesses in financial sustainability arrangements, as set out in this section and summarised below:

- 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
- how the body plans to bridge its funding gaps and identifies achievable savings
- how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- 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 level of reserves is low and the Council’s MTFP and transformation programme rely on the identification of further savings, the success of the new financial monitoring and control arrangements and the availability of exceptional financial support from the Government.

VFM arrangements

Governance

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



VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risk of significant weakness in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<div>Page 88</div> <p>Governance During 2023/24 the Council continued the process of reviewing and revisiting its Constitution and ensuring that the requirements of the Constitution were embedded in its decision-making processes. In addition, the Member development strategy and programme, which forms part of the culture and governance improvement plan, had not been delivered. These arrangements are needed to mitigate the risks of decision-making that could be unlawful or lead to significant loss or exposure to significant financial risk, or to reputational risks such as conflicts of interest. The lack of an up-to-date Constitution and Member development programme are evidence of a significant weakness in arrangements for making properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.</p>	<p>We reviewed:</p> <ul style="list-style-type: none">• Internal audit plan and reports;• Annual Governance Statement;• Transformation Plan;• response to unplanned changes and informed decision making;• risk management arrangements; and• standards monitoring. <p>Conclusion The Council has made progress has and addressed the previous value for money recommendation on governance arrangements.</p>

Overall commentary on Governance

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 Audit Committee seeks assurance about the adequacy of the Council’s risk management framework and associated control environment.

The Council has an externally provided internal audit service provided by Veritau. The Internal Audit Plan is reviewed by the Council’s Audit Committee to determine the priorities of the internal audit activity, consistent with the Council’s goals. The Plan is discussed with the Audit Committee and service leads ahead of being finalised.

The 2024/25 Plan was presented to the Audit Committee in February 2024. We attend meetings of the

Committee and confirmed that progress against the plan was reported at each meeting. The annual Head of Internal Audit Opinion was presented to the July 2025 Audit Committee meeting and provided an overall ‘reasonable’ level of assurance in line with the 2023/24 position. Internal Audit reports have been presented to the Audit Committee at each of the meetings.

We confirmed through our attendance at Audit Committee that Members challenge management where recommendations are not implemented within the agreed timeframe. We observed Member scrutiny of matters raised in Internal Audit reviews.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Internal Audit's compliance with the Public Sector Internal Audit Standards has been subject to external review. As detailed in the annual Head of Internal Audit report 2024/25, the review concluded that Veritau's internal audit activity generally conforms to the Public Sector Internal Audit Standards and, overall, the findings were very positive.

A Risk Management Policy and Strategy is in place and the annual risk management assurance report for 2024/25 will be considered by the Audit Committee in September 2025. The overall opinion of the Head of Internal Audit on the risk management framework is that it provides 'reasonable assurance'. We have confirmed, via our attendance at the Audit Committee, there has been regular reporting against the Risk Management Strategy in the year.

Veritau also provides the Council with counter fraud services. A Counter Fraud and Corruption Strategy is in place and has been subject to review. Counter Fraud activity has been reported throughout the year to the Audit Committee alongside other internal audit reporting.

We considered the Council's Annual Governance Statement (AGS), including considering the requirement for the AGS to be kept up to date and cover issues up to when the opinion on the financial statements is given for each year. We note the Council has appropriately included an update in the AGS.

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

The Council's financial planning arrangements include the identification and evaluation of risks to the Council's finances. We reviewed budget setting arrangements, and no matters were identified that would indicate a significant weakness in arrangements. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks.

The Chartered Institute of Public Finance and Accountancy (CIPFA) review of financial management arrangements in April 2024 scored the Council as two out of five stars, concluding that reasonable arrangements are in place. The review acknowledged the change and improvements that were already in progress within the Corporate Governance Improvement Plan and have now largely been implemented. CIPFA recommended the Council enhance its existing plan in selected areas. The report concluded that the successful implementation of the Recover, Reset, Delivery Transformation Portfolio is critical to evidencing the required culture change and to securing improvement and maturity in financial management arrangements.

How the Council 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

We reviewed Council minutes and confirmed there was regular reporting of the financial position during 2024/25. This included details of movements in the budget and forecast outturn between quarters. The reports detailed the in-year position as well as planned mitigations. We reviewed the 2024/25 outturn and confirmed in-year pressures, such as those in Children's services, were clearly reported and have been reflected in the MTFP. Financial controls introduced in July 2023 helped to reduce the overspend in 2023/24 and resulted in an overall underspend in 2024/25, reducing the need to rely on EFS flexibilities.

The financial statements timetable were delivered in 2024/25 with draft accounts published on 30 June 2025.

How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Council has a Constitution and Scheme of Delegation which set the framework for decisions. The Constitution has been reviewed and updated, and training has been provided to Members and officers on the format and the decision-making processes to ensure good practice.

The Council uses a standard report format for its committees and has a supporting report author checklist.

We reviewed Council minutes in the year and have not identified evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

Overall commentary on the Governance reporting criteria - continued

The 2024/25 AGS, sets out progress against the following improvement areas identified in the previous year:

- summary of the Council’s culture and governance improvement actions taken - we note these are recorded as substantially delivered;
- CIFPA good practice for Audit Committees: we note progress is continuing to date;
- partnership arrangements: reestablished Towns Board; and
- procurement weaknesses: review of processes complete.

Significant progress has been made, we note there were no significant deficiencies remaining during the 2024/25 financial year.

How the Council monitors and ensures appropriate standards are maintained

The Council’s Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The financial statements records material related party transactions as well as senior officer pay and Members’ allowances.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by members. It is responsible for advising and arranging relevant training relating to the requirements of the Code of Conduct. The most recent quarterly report taken to Committee in July 2025 shows a significant reduction in the number of complaints with 21 complaints in 2024 and 24 in 2025, much reduced from 59 in 2023.

Summary: overall commentary on the governance reporting criteria

Our work identified progress which has addressed the significant weaknesses in governance arrangements which we reported last year.

VFM arrangements

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<div>Page 92</div> <p>The Council's performance during the year was monitored by the Executive and measured against the Council Plan. While the 2023/24 quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress, we did not see evidence of a clear link between the Council Plan priorities, the strategic workplan and the detailed outcomes and measures reported.</p> <p>Without this link there is a risk that poor service performance is not identified and addressed.</p> <p>The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements for evaluating service provision and identifying areas for improvement.</p>	<p>We reviewed:</p> <ul style="list-style-type: none">• Updated Council plan and performance monitoring.• Transformation programme.• Partnership working.• Procurement arrangements• Relevant internal audit reports <p>Results of our work</p> <p>The Council has made significant improvement in addressing issues that presented during 2024/25, for example introducing a new Council Plan based on the Mayor's priorities, but there is still work to be done to improve arrangements for improving economy, efficiency and effectiveness. The lack of a fully embedded Plan with links between the Mayor's priorities and the performance management framework is a cause of concern.</p>

Overall commentary on Improving Economy, Efficiency and Effectiveness

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

The Council has a performance management framework and assessment arrangements use a series of indicators. Corporate performance against key performance indicators is presented to Executive on a quarterly basis.

The Council's financial performance is reported on a regular basis to Executive with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR implications and equality impact assessments.

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

A new Council Plan 2024-27 has been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Initiatives and workplans to support delivery of the

ambitions and measures of success, and the proposed performance and governance arrangements, were approved during a meeting of the Executive on 10 April 2024. There has, therefore, been clear progress in 2024/25 which demonstrates a more robust approach to the delivery of key priority activities across Council services.

The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2024/25 the quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress. Our work, however, identified a lack of evidence of a clear link between the Council Plan priorities in 2024/25, the strategic workplan and the detailed outcomes and measures reported. Management has sought to address this weakness in the development of the 2024 to 2027 Plan.

The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements in 2024/25.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness - continued

2024/25 has also seen the implementation of new waste collection arrangements which, despite being successful attracted some adverse responses from Members. Delivering the Best Value duty and applying the principles of continuous improvement are usefully seen as a process during which even the most capable and best practice authorities can experience errors or shortcomings. Unless these are regular and material, such authorities usually treat such occurrences as learning experience rather than opportunities for deflection or pinpointing blame. The Council's improvement initiatives may involve isolated examples where delivery and implementation is not perfect, but Member engagement will be key to generating momentum and maintaining a proper sense of direction.

[How the Council 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 ensures it is represented at a senior level in its key partnerships, such as partnerships with health. The Council has, for example, a well-established partnership with Health via the Better Care Fund.

A partnership annual report was taken to Audit Committee 12 December 2024 which included a self-assessment for each of the 12 significant partnerships that existed during 2024/25. While partnerships were assessed as being generally in a sound state by the lead officers who self-assessed compliance with governance standards and those marked performance as "Amber" in the prior year have improved, Tees Valley Combined Authority is now assessed as red, the report includes details of planned actions to address this.

Examples of new partnerships include:

- Executive 14 February 2024, levelling up partnership, the purpose of the report was to seek Executive approval for Middlesbrough Council to accept £20.816 million of Levelling Up Partnership (LUP) funding and agree, as the Accountable Body, to deliver and enable local partners to deliver the package of proposed projects.

[How the Council commissions or procures services, how the Council ensures this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits](#)

Key commissioning and procurement decisions are taken by skilled and trained officers to ensure compliance with legislation, professional standards and internal policies. Access is readily available to professional legal and procurement advice.

There is evidence that the Council has arrangements in place for procurement and a new two-year corporate procurement strategy 2023-2025 was taken to Executive 10 April 2024. As part of the updated strategy, an options appraisal has been developed concerning the most cost-effective delivery model for procurement across the Council. The strategy recognised the opportunity that procurement activity has in maximising added value and efficiencies with a focus on achieving value for money, alongside collaborating with internal and external partners. The aim is to offer an outstanding procurement experience for stakeholders and suppliers that is transparent, provides opportunities for local businesses, delivers best value for Middlesbrough's residents and supports achievement of the Council's strategic priorities.

Summary: overall commentary on the improving economy, efficiency and effectiveness reporting criteria

Our work identified a significant weakness in arrangements, as set out in this section and summarised below:

- **how financial and performance information has been used to assess performance to identify areas for improvement:**

The lack of embedded performance management arrangements in 2024/25 is evidence of a significant weakness in arrangements.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

Page 94



VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements		Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
1	Financial sustainability The Council is still reliant on EFS to set a balanced budget.	●			The Council should continue to strengthen the approach to budget setting to ensure assumptions remain data driven and realistic, and planned savings are subject to a detailed delivery plans and risk assessment.	The Council has made progress in improving arrangements but there is still work to do to ensure financial sustainability.
	Financial sustainability The Council has a significant and growing DSG deficit.	●			The Council should continue to implement initiatives to: <ul style="list-style-type: none">• improve prevention and early intervention;• transform provision and reduce costs while maintaining standards; and• identify income to offset high needs spend.	The Council has taken action and plans further measures to manage the high needs element of the DSG, but the forecast deficit remains a risk to the Council's financial sustainability.
3	Performance management arrangements A new Council Plan 2024-27 has been developed which articulates the Mayor’s four priorities and outlines the approach that will be taken to address those priorities. Our work, however, identified a lack of evidence of a clear link between the Council Plan priorities in 2024/25, the strategic workplan and the detailed outcomes and measures reported.			●	The Council should ensure the Mayor’s priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals.	The Council has made progress in improving arrangements but there is still work to do to ensure arrangements are fully embedded for improving economy, efficiency and effectiveness.

VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in a prior year

As part of our audit work in previous years, we identified the following significant weaknesses and made recommendations for improvement in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Council’s progress against the recommendations made, including whether the significant weakness is still relevant in the 2024/25 year.

Previously identified significant weakness in arrangements		Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
Page 96	1	Financial sustainability	<p>1 The Council should continue to strengthen the approach to budget setting to ensure assumptions remain data driven and realistic, and planned savings are subject to a detailed delivery plans and risk assessment.</p> <p>2 The Council needs to implement a financial recovery plan to ensure services can be provided within available resources and should:</p> <ul style="list-style-type: none">complete a baseline assessment of the affordability of services in their current form;develop a detailed plan to address the deficit including further savings for 2025/26;ensure sufficient information is provided to Members so they can monitor the delivery of planned savings. <p>3 The Council should continue to apply the additional spending controls agreed in July 2023 to address the forecast in-year deficit.</p>	<p>The Council updated the MFTP as part of the budget setting process for 2025/26 and launched a transformation programme in April 2024 to deliver financial recovery.</p> <p>The Council delivered an underspend against budget and did not make use of the full EFS approved in principle.</p> <p>The 2025/26 budget is still reliant on EFS and an overspend is forecast for 2025/26.</p>	The Council has made progress in improving arrangements but there is still work to do to ensure financial sustainability.

VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in a prior year - continued

Previously identified significant weakness in arrangements		Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
Page 97 2	<p>Governance</p> <p>During 2023/24 the Council continued the process of reviewing and revisiting its Constitution and ensuring that the requirements of the Constitution were embedded in its decision-making processes.</p> <p>In addition, the Member development strategy and programme, which forms part of the culture and governance improvement plan, had not been delivered. These arrangements are needed to mitigate the risks of decision-making that could be unlawful or lead to significant loss or exposure to significant financial risk, or to reputational risks such as conflicts of interest.</p>	Governance	The Council should apply and embed arrangements in line with the culture and governance improvement plan.	The Council has delivered the governance actions in the culture and improvement plan which has now been replaced by a continuous improvement plan.	The Council has made progress in improving arrangements and has addressed the significant weakness in arrangements.
	<p>The lack of an up-to-date Constitution and Member development programme are evidence of a significant weakness in arrangements for making properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.</p>				

VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in a prior year - continued

Previously identified significant weakness in arrangements		Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
Page 98 3	Improving Economy, Efficiency and Effectiveness The Council's performance during the year was monitored by the Executive and measured against the Council Plan. While the 2023/24 quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress, we did not see evidence of a clear link between the Council Plan priorities, the strategic workplan and the detailed outcomes and measures reported. Without this link there is a risk that poor service performance is not identified and addressed. The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements for evaluating service provision and identifying areas for improvement..	Improving the 3Es	<p>The Council should ensure</p> <ul style="list-style-type: none">the Mayor's priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals; andsufficient information is provided to Members so they can monitor service delivery.	<p>A new Council Plan 2024-27 has been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Supporting initiatives and workplans to support delivery of the Council Plan 2024-27 ambitions and measures of success and the proposed performance and governance arrangements were approved at a meeting of the Executive on 10 April 2024 for implementation in 2024/25.</p>	<p>The Council has made progress in improving arrangements but there is still work to do to ensure arrangements are fully embedded for improving economy, efficiency and effectiveness.</p>

Other reporting responsibilities

Other reporting responsibilities

Wider reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the group auditor

Whole of Government Accounts (WGA)

The National Audit Office (NAO), as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data,. We have been unable to conclude our work as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us.

Audit fees and other services

Audit fees and other services

Fees for our work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2025. We have not yet completed our work for the 2024/25 financial year, so are not yet able to confirm our final fees.

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£348,214	£190,646 *

* 60% of scale fee

Fees for other work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 'Confirmation of our independence'.

Area of work	2024/25 fees	2023/24 fees
Housing Benefits Subsidy Assurance	TBC	£15,000
Teachers' Pensions	TBC	£6,130

Audit of Teesside Pension Fund

Audit of Teesside Pension Fund

Summary of key information

As the auditor for Teesside Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year ended 31 March 2025.



Opinion on the Pension Fund financial statements
We have not yet issued our audit report. Our opinion on the financial statements is expected to be issued before the backstop date of 27 February 2026



Risks, misstatements and internal control recommendations
A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix B. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Page 104

Consistency report
We have not yet concluded that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Middlesbrough Council.



Wider reporting responsibilities
We have not exercised any of these powers as part of our Teesside Pension Fund's 2024/25 audit.



Significant difficulties during the audit
We have not yet completed our audit work for the Pension Fund.

Fees for our work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2025. We have not yet completed our work for the 2024/25 financial year, so are not yet able to confirm our final fees.

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£117,860	£102,380
Fee variations	TBC	£7,840

Appendices

Appendix A: Further information on our audit of the Council's financial statements

Appendix B: Further information on our audit of the Pension Fund financial statements

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Revenue recognition (there is a rebuttable presumption that there is a significant risk of fraud in revenue recognition for all entities).</p> <p>For Middlesbrough Council we see the risk of fraud in revenue recognition as being principally in relation to:</p> <ul style="list-style-type: none">• Fees and charges income.	<p>We will address this risk by carrying out a range of substantive procedures including:</p> <ul style="list-style-type: none">• testing significant grants and capital receipts recorded around year end to ensure they have been recognised in the appropriate year;• testing year end receivables; and• obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.
<p>Management override of controls (a mandatory significant risk for all entities).</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process.</p>	<p>In line with our methodology, we plan to address the management override of controls risk by carrying out audit work on:</p> <ul style="list-style-type: none">• accounting estimates;• journal entries; and• significant transactions outside the normal course of business or otherwise unusual.

Appendix A: Further information on our audit of the Council’s financial statements

Significant risks and audit findings - continued

Risk	Our audit response and findings
<p>Valuation of property, plant and equipment</p> <p>The 2024/25 financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Council’s holding of property, plant and equipment (PPE).</p> <p>Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	<p>We will:</p> <ul style="list-style-type: none">• critically assess the Council’s arrangements for ensuring that land and buildings valuations are reasonable and not materially misstated;• critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers;• consider the competence, skills and experience of the valuers and the instructions issued to the valuers;• substantively test revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; and• where necessary, perform further procedures on individual assets to ensure the basis of valuations is appropriate.
<p>Valuation of the net defined benefit pension liability</p> <p>The 2024/25 financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• critically evaluate the Council’s arrangements relevant controls for making estimates in relation to pension entries within the financial statements; and• challenge the reasonableness of the Actuary’s assumptions that underpin entries made in the financial statements, using an expert commissioned by the National Audit Office;• critically assess the competency, objectivity and independence of the Actuary;• liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;• compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and• agree data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.

Appendix A: Further information on our audit of the Council’s financial statements

Summary of uncorrected misstatements for the Council

We have not yet completed our audit work for the Council.

Appendix A: Further information on our audit of the Council’s financial statements

Internal control observations for the Council

We have not yet completed our audit work for the Council.

Appendix A: Further information on our audit of the Council’s financial statements

Follow up on previous year recommendations for the Council

We have not yet completed our audit work for the Council.

Appendix B: Further information on our audit of the Pension Fund’s financial statements

Significant risks and audit findings

As part of our audit of the Pension Fund, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls (a mandatory significant risk for all entities). Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process.</p>	<p>In line with our methodology, we plan to address the management override of controls risk by carrying out audit work on:</p> <ul style="list-style-type: none">• accounting estimates;• journal entries; and• significant transactions outside the normal course of business or otherwise unusual.
<p>Valuation of investments within level 3 of the fair value hierarchy As at 31 March 2023 the fair value of investments classified within level 3 of the fair value hierarchy was £1,413.9m. The values included in the accounts are based on those provided by investment managers, updated by the Pension Fund for cash movements, where the most recently available information from fund managers is at a date prior to the year end. Level 3 assets are those assets where values are based on unobservable inputs, and consequently the estimation uncertainty for these assets is more significant than for assets valued at level 1 and 2.</p>	<p>We plan to address this risk by completing the following additional procedures on a sample basis:</p> <ul style="list-style-type: none">• agree holdings from fund manager reports to the global custodian’s report;• agree valuations included in the Pension Fund’s underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;• agree the investment manager valuations to audited accounts or other independent supporting documentation, where available;• where audited accounts are available, check that they are supported by an unmodified opinion;• review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and• where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund’s financial statements.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Summary of uncorrected misstatements for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Internal control observations for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

Appendix B: Further information on our audit of the Pension Fund's financial statements

Follow up on previous year recommendations for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

Contact

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Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London, EC4M 7AU. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: GB 839 8356 73



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Theme	Report	Authors	24/07/25	31/07/25	25/09/25	11/12/25	19/02/26	16/04/26	26/27 mtg 1	26/27 mtg 2
Governance, Risk and control	Health and Safety Annual Assurance report	A Johnstone	x							
Governance, Risk and control	Complaints annual assurance report	A Johnstone		x						
Governance, Risk and control	Risk annual assurance report expanded to include an overview on progress made in addressing risks	A Johnstone		x						
Governance, Risk and control	Mid-year Risk Update expanded to include an overview on progress made in addressing risks	A Johnstone				x				
Governance, Risk and control	Senior Information Risk Owner (SIRO) annual report	A Johnstone		x						
Governance, Risk and control	Presentation on the management of the Dedicated School Grant risk within the Strategic Risk Register	C Cannon and A Humble		x						
Governance, Risk and control	Overview of Risks within the Strategic Risk Register – rolling programme from LMT leads	Various / A Johnstone				x	x	x		
Governance, Risk and control	Annual Assurance Report on Partnership Governance	A Johnstone			x					
Governance, Risk and control	Annual review on financial procedure rules compliance	J Weston				x				
Governance, Risk and control	Annual Assurance Report on Decision Making	C Benjamin / A Wilson				x				
Governance, Risk and control	Annual Assurance Report on Business Continuity	A Johnstone				x				
Governance, Risk and control	Local Code of Corporate Governance	A Johnstone				x				
Governance, Risk and control	Annual Assurance Report HR	N Finnegan				x				
Governance, Risk and control	Annual Procurement Report 24/25	C Walker				x				
Governance, Risk and control	Performance Management assurance report	C Benjamin					x			
Governance, Risk and control	Programme and Project Management Framework assurance report	G Cooper					x			
Governance, Risk and control	Outcome of the review of Internal Audit Services	A Humble					x			
Governance, Risk and control	Annual assurance report on the governance around revenue and capital budgets and the effectiveness of budget monitoring processes	A Humble						x		
Governance, Risk and control	Annual Assurance report on actions taken to reduce the likelihood of fraud	J Weston					x			
Governance, Risk and control	Annual review of the effectiveness of Internal Audit Service (from 27/28 onwards)	A Humble								
Governance, Risk and control	Corporate Governance Assurance policy, framework and implementation plan	J Weston / A Johnstone					x			
Governance, Risk and control	Independent Members Benchmarking exercise	J Weston					x			
Governance, Risk and control	Training needs framework for Audit Committee Members	J Weston / A Wilson?			x		x			
Governance, Risk and control	Progress against training plans by exception	A Johnstone / A Wilson / J Weston				x	x			x
Financial and governance reporting	Treasury Management Mid-Year Review 2025/6	J Weston			x					
Financial and governance reporting	Update to committee on comparative reserves performance	A Humble and J Weston				x				
Financial and governance reporting	Final Statement of Accounts 2024/25	J Weston				x				
Financial and governance reporting	Treasury Management Report	J Weston				x				
Financial and governance reporting	Letter of Representation on the Accounts from the Director of Finance	J Weston				x				
Internal Audit	Head of Internal Audit annual report and counter fraud annual report future years format to be amended to include information on analysis of resources available to deliver the work and their sufficiency	P Jeffrey	x						x	
Financial and governance reporting	Draft Statement of accounts including AGS	J Weston / A Johnstone	x					x		
Internal Audit	Veritau internal audit work programme 2026/27	P Jeffrey				x				
Internal Audit	Veritau counter fraud plan 2026/27	P Jeffrey				x				
Internal Audit	Internal Audit future year Consultation Report	P Jeffrey				x				
Internal Audit	Internal Audit and Counter Fraud progress reports	P Jeffrey		x	x		x			
External Audit	Audit Strategy Memorandum for the Council	Cath Andrew (Forvis Mazars)	x					x		
External Audit	Audit Strategy Memorandum for Teesside Pension Fund	Thomas Backhouse (Forvis Mazars)	x					x		
External Audit	Progress report – Forvis Mazars	Cath Andrew (Forvis Mazars)		x			x			
External Audit	Pension Fund Audit Progress Report – Forvis Mazars	T Backhouse		x			x			
External Audit	Forvis Mazars Auditors Annual Report	Cath Andrew (Forvis Mazars)			x					
External Audit	Forvis Mazars – Audit Completion Report 2024/25	C Andrew				x				
External Audit	24/25 Audit Completion report for the Pension Fund	Thomas Backhouse				x				
Accountability	Annual review of the Committee's effectiveness	A Johnstone		x				x	x	
Accountability	Draft Annual Report of the Committee	A Johnstone								
Misc	Audit Committee work programme	A Johnstone	x	x	x	x	x	x		
Misc	Outcome of benchmarking approach to Independent persons report	J Weston				x				
Misc	Ad hoc attendance and reporting as necessary by LMT members to set out reasons why significant audit actions have not been delivered	various	x	x	x	x	x	x		

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