

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Date: Thursday 4th March, 2021
Time: 3.30 pm
Venue: Virtual Meeting

AGENDA

Please note: this is a virtual meeting.

The meeting will be live-streamed via the Council's [Youtube channel](#) at 3.30 pm on Thursday 4th March, 2021

1. Apologies for Absence
2. Declarations of Interest
To receive any declarations of interest.
3. Minutes - Corporate Affairs and Audit Committee - 4 February 2021 3 - 10
4. Capital Strategy 2021-2022 11 - 36
5. Audit Results Report - Middlesbrough Council - 2019/20 37 - 84
6. Audit Results Report - Teesside Pension Fund 2019/20 85 - 124
7. Certification of Claims and Returns - Annual Report 2019/20 125 - 134
8. Redmond Review 135 - 140
9. Internal Audit and Counter Fraud Plans 2021/2022 141 - 150

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| 10. | Internal Audit and Counter Fraud Progress Report | 151 - 164 |
| 11. | Update on Polling Stations and other Election Processes for 6 May 2021 Elections | 165 - 170 |
| 12. | Any other urgent items which in the opinion of the Chair, may be considered | |

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Wednesday 24 February 2021

MEMBERSHIP

Councillors J Rathmell (Chair), B Hubbard (Vice-Chair), T Higgins, J Hobson, T Mawston, D Rooney and C Wright

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, susan_lightwing@middlesbrough.gov.uk

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 4 February 2021.

PRESENT: Councillors J Rathmell (Chair), B Hubbard (Vice-Chair), T Higgins, J Hobson, T Mawston and D Rooney

PRESENT BY INVITATION: Councillors

ALSO IN ATTENDANCE: D Coupe and C Hobson (Executive Member for Finance and Governance)

OFFICERS: S Lightwing, Armstrong, C Benjamin, A Johnstone, S Reynolds, P Stephens, J Weston and I Wright

APOLOGIES FOR ABSENCE: Councillors C Wright

20/2 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

20/3 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 17 DECEMBER 2020**

The minutes of the Corporate Affairs meeting held on 17 December 2020 were submitted and approved as a correct record.

20/12 **SUSPENSION OF COUNCIL PROCEDURE RULE NO 5 - ORDER OF BUSINESS**

ORDERED that, in accordance with Council Procedure Rule No 5, the committee agreed to vary the order of business as follows: agenda items 5, 4, 6, 7, 8, 9, 10 and 11.

20/5 **UPDATE - COUNCIL'S DECISION MAKING PROCESS**

A report of the Director of Legal and Governance was presented to provide the Committee with an update in relation to the Council's decision making process. The report also highlighted information in relation to awareness raising and training carried out in relation to the decision making process.

The Council's Constitution set out how the Council operated, how decisions were made and the procedures which were followed to ensure that these were efficient, transparent and accountable to local people. The Constitution was a living document and details of the contents were included in the submitted report.

The Officer Scheme of Delegation identified powers delegated to officers, and was currently being reviewed and updated.

With regard to training, a decision making masterclass was delivered in November 2020 to the wider Leadership Management team and online materials were available on the intranet and the staff Middlesbrough Learns e-learning training portal.

Modern.GOV, the Council's new committee management system which was used for managing meetings, recording decisions, holding records of Members' interests, gifts and hospitality, and training records was phased in from the week beginning 21 December 2020.

The submitted report also set out details of decisions made including Special Urgent Decisions and those subject to call-in. Details of all Officer Delegated Decisions and all Executive Decisions taken during the period 1 January 2020 to 31 December 2020, were attached at Appendices A and B to the submitted report.

It was confirmed that the criteria for Special Urgent Decisions was contained in the Access to Information Procedure Rules within the Constitution.

It was highlighted that during the covid-19 pandemic an unusually high number of Officer Delegated Decisions had been made quickly to respond to the circumstances which were not subject to scrutiny. All key decisions were subject to call-in. Work was ongoing to raise awareness amongst Officers around the practice for making and recording decisions. It was suggested that consideration should be given to a process of scrutinising Officer Delegated Decisions.

With regard to the current provisions for virtual meetings, the Director stated that the changes to legislation made during the pandemic would expire in May 2021. There was some uncertainty as to whether further legislation would be required and the Council would continue to monitor the situation.

AGREED that the information provided was received and noted.

20/4

INTERNAL AUDIT CONSULTATION REPORT

The Internal Auditor presented a report to seek the views of Members on risk areas that should be considered a priority for the audit in 2021/2022 to help inform the preparation of the annual Audit Plan.

Internal audit provided independent and objective assurance and advice on the Council's operations to assist the organisation in achieving overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.

In coming to a view on the risks facing the Council, the opinions of the Corporate Affairs and Audit Committee and senior Council officers would be taken into account. The plan would also be informed by the Council's risk registers, relevant national issues and wider audit knowledge such as information about emerging risks identified through professional networks.

The Council's external auditors (EY) were also consulted to avoid possible duplication of work programmes and to maximise the overall benefit of audit activity. The draft plan would be presented to the Corporate Affairs and Audit Committee on 4 March 2021 for final approval.

Areas for consideration for inclusion in the Plan were listed at paragraph 11 of the submitted report. Suggestions from the Committee included the impact of leaving the EU on the Council's Business, the impact of the Covid-19 pandemic on the Council's Decision Making Process and School Attendance.

The Director of Finance confirmed that a Review of Asset Management Governance Arrangements and an audit of Senior Management Reviews over the last five years would be included in the Plan.

AGREED that the information provided was received and noted.

20/6

HEALTH AND SAFETY: ANNUAL ASSURANCE REPORT 2020

A report of the Director of Legal and Governance was presented to provide the Corporate Affairs and Audit Committee with an annual review of the corporate approach to the management of health and safety within the Council. The report also provided details of the proposed action plan in the year ahead.

Previously this report had also set out activity relating to employee wellbeing, however these matters would be reported separately to the Committee in future.

The Corporate Health and Safety Committee met on a quarterly basis to discuss health and safety performance and advise the Council on health and safety matters. The Leadership and Management Team were briefed on this report and any matters arising where appropriate.

The Health and Safety Unit was now up to full complement and work continued to develop team members in their new generic roles. The Covid-19 pandemic, and specifically building

closures, had impacted upon the Unit's ability to deliver a business as usual service. As a consequence, the opportunity had been taken to implement changes around policy, procedures, manager and staff training, in order to develop a fully-auditable health and safety system for the Council.

The Committee received a detailed update on progress made against the 2020/2021 health and safety action plan along with the key activity to be delivered during 2021/22, all of which was included in the submitted report.

In response to a query it was clarified that reported incidents reflected the national trend, with slips, trips and falls the highest number, and manual handling, the second main cause of accidents. The Council was looking to bring in some specialist training in relation to manual handling.

In relation to staff working at home, some of the health and safety procedures were dealt with by Human Resources. A Display Screen Procedure had been developed which would be presented to the next Corporate Health and Safety Committee for approval.

AGREED that the information provided was received and noted.

20/7

BUSINESS CONTINUITY MANAGEMENT: ANNUAL ASSURANCE REPORT 2020

A report of the Director of Legal and Governance Services was presented, the purpose of which was to outline the Council's approach to Business Continuity Planning, including testing, to summarise activity in the past year and planned activity for 2021, and to provide the Committee with assurance that the Council had robust arrangements in place as required by the Civil Contingencies Act 2004.

The Plans contained sensitive and personal information about staff and therefore they were not published. However in order to provide the Committee with assurance, the content of the Plans at high level was provided. In most cases the focus was not around specific incidents but on planning for multiple events. Risks were focused around serious injury, death, financial loss or reputation to identify critical services.

The Corporate Business Continuity Plan was the overarching plan for the organisation. This was supported by Departmental Business Continuity Plans, the ICT Disaster Recovery Plan, Relocation Plan, Flu Plan, Fuel Plan and this year a specific Coronavirus Pandemic Plan had been developed.

The Coronavirus Plan was structured by phase of response: pandemic preparedness, response, outbreak control, recovery and review, with each phase setting out the required processes and procedures along with the supporting documentation utilised. The Plan was kept under regular review as the national and local pandemic response developed.

The Council and its partners conducted a very strong response to the Covid-19 pandemic which had been commended by the Government. In line with good practice, the Council conducted a lessons learned exercise with staff involved in the first wave response.

The Council tested its plans at least once every 12 months, or produced a lessons learnt report if a live event had occurred during the past year. As such, due to Covid-19 a test was not undertaken in 2020.

The focus for the next year would be on continuing training and ensuring documentation was up to date, and continue communicating business continuity planning activities.

AGREED that the information provided was received and the Plan was noted.

20/8

PERFORMANCE AND RISK MANAGEMENT: ANNUAL ASSURANCE REPORT 2020

A report of the Director of Legal and Governance Services was presented to outline the Council's approach to performance and risk management and summarise activity in the past year and planned activity for 2021, in order to provide the Committee with assurance that the Council had robust arrangements in place for these disciplines.

The report replaced the previously separate reports on programme and project and risk management in order to more clearly outline the inter-relationship of governance of these disciplines with organisational performance management.

Revised Performance Management, Programme and Project Management and Risk and Opportunity Management Policies were approved by the Executive in February 2020, in order to maximise their impact on the Council's strategic aims and priorities, as set out within the Strategic Plan.

Middlesbrough Council approved a Strategic Plan for the period 2020-2023 on 15 January 2020 which included the Mayor's priorities. However, later that month, the Covid-19 Pandemic reached the UK.

The response to the Pandemic and the recovery from it, would have a significant impact on local people, communities and the local economy, and fundamentally change the way the Council does business in the future. On 16 December the Council approved a public consultation on a set of revised priorities for the remainder of the Elected Mayor of Middlesbrough's term. These priorities formed basis of a revised Strategic Plan to be considered by Council in February 2021.

While Covid-19 had been disruptive in terms of planned performance, a number of significant achievements had been made in line with the Council's Strategic Plan. These had been reported to the Executive and Overview and Scrutiny Board on a quarterly basis and were summarised in the December report to Council.

During the last 12 months there had been a strong focus on improving the use of performance data within Children's Services and embedding a strong performance management culture within the service. Corporate and Directorate officers worked closely together to deliver improvements to performance management that have been recognised and commended by the Government-appointed Commissioner, the Department for Education and the Independent Chair of the Service's Improvement Board

During the next year a detailed work plan that would underpin the new Strategic Plan would be considered by the Executive in March. An integrated monthly performance cycle would be implemented that would involve the development and provision of Directorate Plans and associated monitoring arrangements at that level.

The Programme and Project Management (PPM) policy and its underpinning framework provided a standardised approach to the governance of programmes and projects, including standard documentation.

Since the introduction of this policy in 2015, the Council's approach to PPM has matured and a number of improvements had been identified and implemented.

An analysis was undertaken in the year on the impact of Covid-19 on time, cost, scope and benefits. This informed the review of the Council's Medium-Term Financial Plan, budgeting for 2021/22 and the forthcoming revision of the Council's Strategic Plan and would be kept under continuous review.

A number of changes would be finalised by the end of 2020/21 to core documentation and support structure in place to reflect the above and enhance delivery of programmes and projects going forward and details were included in the submitted report.

During 2020 the Council risk appetite was refreshed reviewed and revised to bring it in line with the Council's current financial standing so that risks were being captured and scored in line with this. All risk management documentation had also been reviewed and updated to take on board these changes.

A summary of the Strategic Risk Register was considered every three months by the Executive as part of a report on performance against delivery of the Strategic Plan and other key performance measures, with the same report considered by Overview and Scrutiny Board. A summary of the Strategic Risk Register at Quarter Two 2020/21 was attached at Appendix 1 to the submitted report. The Committee was invited to look at this from a Work Programme perspective. Improvements to risk management that were underway were outlined in the submitted report.

The Council's risk management arrangements were audited during the year, and received an opinion of Substantial Assurance. During 2021/22 work would be undertaken to build on the progress made in 2020/21.

AGREED that:

1. the information provided was received and noted.
2. details of the social value model included in the Programme and Project Management framework would be circulated to Committee Members.

20/9

LESSONS LEARNT - CROYDON LONDON BOROUGH COUNCIL SECTION 114 NOTICE

A joint report of the Director of Legal and Governance Services and Director of Finance was presented to outline the lessons learnt following the issue of a Section 114 Notice at Croydon London Borough Council.

The report and planned actions were intended to provide the Corporate Affairs and Audit Committee with sufficient information to ensure it was able to keep the Council's arrangements for Corporate Governance under review, in line with the Committee's terms of reference.

In October 2020 Croydon London Borough Council's (CLBC) 151 officer issued a Section 114 Notice, meaning that in their opinion they were required to trigger section 114 of the Local Government Finance Act 1988 that stated: 'the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year was likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.' The report outlined the key findings from CLBC's auditors on the causes of that notice having to be issued.

On 23 October 2020, CLBC's external auditor, Grant Thornton, issued a public interest report. The Council had experienced deteriorating financial resilience for a number of years with spending pressures within both Children's and Adult Social Care and low levels of reserves which created a significant financial challenge in 2020/21. The size of the financial gap in 2020/21 increased due to the additional financial pressures as a result of the Covid-19 pandemic.

The Public interest report outlined the key factors including:

- Significant investment over the last three years in housing and commercial property (£545m of which £200m was loaned to its housing development arm for which no dividend had been returned).
- Investments in a hotel and retail park both of which failed and were criticised for 'not being grounded in sufficient understanding of the retail and leisure market'.
- A flawed strategy of attempting to invest its way out of financial challenges rather than controlling internal costs in children's and adult social care which had significant overspends.
- Incorrect treatment of overspends as 'one off' corporate adjustments.
- Failure to report a significant identified budget gap to full Council by either scrutiny or CLBC's Cabinet.

The Director of Finance outlined the position in Middlesbrough with regard to the key factors highlighted as follows:

- CLBC's net budget was almost three times that of Middlesbrough Council's with similar ranges of functions. If the equivalent borrowing figures were translated to Middlesbrough Council, there would have been borrowing of circa £182m in housing and commercial property, of which £67m would have been loaned for housing development over the last three years. In comparison, Middlesbrough Council has invested in £52m and loaned £7m for these type of investments to date. Any application for borrowing to invest on a commercial basis must be accompanied by confirmation from the Section 151 officer that there is no intention to buy investment

assets primarily for yield at any point in the next three years. Any business case for investment in these type of projects has an extensive due diligence exercise undertaken by senior officers in both Finance and Regeneration, with input from specialist experts where required.

Approval to proceed could only be given by the S151 Officer, in consultation with the Executive Member for Finance and Governance, on a case-by-case basis.

- Middlesbrough Council investments had always been based on regeneration of the town rather than the need to achieve a significant return in order to achieve a balanced budget. The Council took the prudent step of not assuming a profit will be achieved for the purpose of setting the budget to ensure that funding for services was protected, sustainable and realistic.
- Middlesbrough Council had never reported overspends as one off corporate adjustments.
- Budget monitoring was reported to Executive and Overview and Scrutiny Board on a quarterly basis. Middlesbrough Council also had year on year evidence of escalating potential future year funding gaps to Council for consideration to be addressed within the budget setting process, to ensure full Council were engaged and owned the decisions.

The Director of Finance gave a detailed explanation of the specific recommendations of Grant Thornton's Public Interest Report and provided an assessment of their applicability to Middlesbrough Council, which was also included the submitted report.

In relation to the scrutiny process within the Council, the Director commented that the approach at Middlesbrough was to be as transparent as possible on the budget and on finance issues.

Several Members commented that the financial information provided was clear and comprehensive. The Chair suggested that any future financial training should be provided for all Members, not solely the Corporate Affairs and Audit Committee Members.

Responding to a question, the Director explained that with regard to the purchase of the Captain Cook Shopping Centre, the conservative assumption in the budget was that there would be sufficient income to cover the cost of borrowing. In the short term, any surplus would go into a specific reserve fund. Once the Future High Street funds had been deployed and the medium term position was that there was a surplus, a decision would be made whether to budget for that or re-invest in another project.

AGREED that the report and the planned actions to ensure lessons were learnt from events at Croydon London Borough Council (LCBC) were noted, and the following planned actions were endorsed:

- to further strengthen visibility it was proposed that the reserves risk assessment was shared with scrutiny during the budget setting process going forward.
- investment plans were reviewed to ensure the impact of Covid-19 was taken into consideration.
- the training programme for Corporate Affairs and Audit Committee would be expanded to include Treasury Management.

20/10

ANNUAL REVIEW OF THE LOCAL CODE OF CORPORATE GOVERNANCE

A report of the Director of Legal and Governance Services was presented to report the outcome of the annual review of the local Code of Corporate Governance. The Code was approved by Council.

Regular reviews of the Code were necessary to ensure that the Council assessed its governance arrangements against industry best practice as described by CIPFA relevant codes of practice.

It was recommended that the Committee agreed that no changes to the local Code of Corporate Governance were required as a result of this annual review because there has

been no further change to the CIPFA Solace guidance 'Delivering Good Governance' (2016) which was used to inform the current code.

AGREED as follows that:

1. the information provided was received and noted.
2. no changes were made to Middlesbrough Council's current local Code of Corporate Governance, as adopted in 2017.
3. a copy of the Code would be emailed to all Councillors for information.

20/11

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

Review of Onestop and Caseworker

The Head of Strategy, Information and Governance provided a verbal update on the review of the Onestop process, plans for which had been delayed due to the Covid-19 pandemic.

A formal update would be provided to a future meeting of the Corporate Affairs and Audit Committee.

Stanhope Castle

The Executive Member for Finance and Governance informed the Committee that briefings on Stanhope Castle had been arranged for Executive, Members and Claimants, as well as report to Council.

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MIDDLESBROUGH COUNCIL

Report of:	Director of Finance – Ian Wright
Submitted to:	Corporate Affairs & Audit Committee – 4 March 2021
Subject:	Capital Strategy – 2021/22

Summary

Proposed decision(s)
For Members of the Committee to note the key elements of the Council’s capital strategy and to understand how the prudential indicators and treasury strategies ensure that this is affordable & sustainable over the medium term.

Report for:	Key decision:	Confidential:	Is the report urgent?¹
<i>Discussion</i>	<i>No</i>	<i>No</i>	<i>No</i>

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Not Applicable	Not Applicable	The Capital strategy is a best practice requirement that supports the Council’s medium term financial plan. There are a number of statutory matters covered by the Strategy which need approval before the start of each financial year.

Ward(s) affected
No direct impact on any wards.

What is the purpose of this report?

1. The Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services at the Council. In addition, it also gives an overview of how the associated risks are managed and the implications for future financial sustainability.
2. The report is an Appendix to the Revenue Budget & Medium Term Financial Plan report being considered by Council on 24th February. The two CIPFA codes that cover this area – the prudential code on capital finance and the treasury management code of practice for local authorities – both recommend that the capital strategy is independently scrutinised by a local authority committee outside the budget approval process. This encourages challenge, transparency and financial probity on these matters, as well as a best practice approach. Given its wider governance responsibilities, this Committee is best placed to undertake this role.

Why does this report require a Member decision?

3. This report is for information and discussion by the Committee. No formal decisions are required.

Report Background

4. The capital strategy report for the Council covers the following areas:
 - How the Investment Strategy is funded;
 - The relevant prudential Indicators to monitor the performance, affordability and sustainability of the capital expenditure being proposed in line with the requirements of the prudential code;
 - Treasury Management arrangements in place for investing surplus funds and borrowing to fund capital expenditure;
 - The types of investments the Council makes as part of managing its cash balances – the Annual Investment Strategy;
 - Knowledge and skills of staff involved in the Treasury Management process;
 - Minimum Revenue Provision policy – including outlining how much the Council sets aside to re-pay debt built up to fund prior year's capital expenditure in the Borough.
5. Capital Expenditure relates to what the Council plans to invest in long-term assets and infrastructure (such as property, equipment, vehicles, roads etc.). The Council has to consider how this expenditure is paid for and what the long-term financial implications are of undertaking this investment. The Council is also permitted to borrow funds to finance the investment strategy under the Local Government Act 2003. It needs to consider the impact on the revenue budget of the level of borrowing being proposed, how it funds the repayment of this debt and the period over which this debt is repaid.
6. The Council must ensure the investment strategy is also prudent and affordable. Where elements of the Capital Plan are funded by borrowing (either externally or internally), the Council must set aside budgetary allocations in the revenue budget to repay this debt. These budgets include the interest payable to lenders on external borrowing and the setting aside of funds to re-pay the principal element of debt (known as the Minimum Revenue Provision).

Prudential Indicators and Capital Investment Plans

7. The Council demonstrates the concepts of affordability, sustainability and prudence on its investment plans by setting a range of Prudential and Treasury Management indicators. These are set out in the various tables in Appendix 1 and are key metrics to the Director of Finance when setting the budget plans each year. Any breach of these indicators during a year indicates either a higher level of indebtedness or a lower level of prudence on the capital activities of the Council than when the budget was set. The following paragraphs give a brief commentary on these key indicators
8. There is total outstanding debt of £223.900 million (including debt and lease liabilities) at 31 January 2021, with a further £10 million expected before 31st March 2021. Cash balances have been higher than normal during this financial year due to front loading of grants by government in relation to the Covid-19 response.
9. The forecast overall total long term external debt at the end of 2020/21 of £233.900 million should be compared with the estimated *Capital Financing Requirement* (the underlying value which the Council needs to borrow to fund capital activities) of £246.287 million. The Council therefore has an under-borrowed position of £22.387million, which provides some savings in interest payments as other revenue and capital cash has been used in lieu of borrowing. This is a key strategic decision each year as to whether the under-borrowing position is increased or reduced.
10. Table 6 in Appendix 1 shows the profile of outstanding debt over the whole of the medium term financial planning period and this will rise to a maximum of £258.000 million at 31st March 2023 before starting to reduce in the following financial year. This increase in debt is a direct result of the amount required to fund the investment strategy in each year.
11. The Council holds revenue budgets for repaying debt (known as Capital Financing Costs). The repayment of debt costs for 2020/21 are £9.542 million (8.2% of the net revenue budget for 2020/21). For comparison purposes the forecast capital financing costs in 2021/22 are expected to be £9.689 million (which represents 8.3% of the planned net revenue budget for 2021/22).
12. Table 9 in Appendix 1 shows that the proportion of capital financing costs is relatively stable at a time when the level of external debt is rising. This is due to the commercial income achieved on recent capital investments in Centre Square, Teesside Advanced Manufacturing Park and Captain Cook Square. It is important that these income levels are maintained otherwise the proportion of the revenue budget attributed to capital financing costs will start to increase.
13. It is also a statutory requirement for the Council to set an authorised limit for external debt at the start of each financial year. This is an amount beyond which it would be ultra-vires (or outside of its powers) to exceed in a particular financial year. The authorised limit for 2020/21 is £300.000 million with this being increased to £315.000 million for 2021/22 due to an increase in the level of borrowing needed for the investment strategy.

14. It should be noted that the authorised limit for the Council is currently much higher than either the level of external debt or the capital financing requirement. This is not uncommon within local authorities to build in extra headroom for unexpected capital investment, possible debt re-financing opportunities and the remote possibility of needing to borrow for exceptional revenue purposes. At present, the Council's authorised limit is set at £60m above its capital financing requirement and allows a degree of flexibility within the Council's planning processes and this legal limit. It should be noted that any unexpected debt financing in a year could breach some of the other prudential indicators so this would be identified as part of the quarterly performance monitoring reports to Executive.

Treasury Management

15. Treasury Management is defined as the management of the Council's cash flows, borrowing and investments, and the associated risks. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk and refinancing risk.
16. The Council is generally cash rich in the short term as many grants and contributions are paid in advance of need. As a result of this any excess cash is invested with an appropriate counterparty until the funds are required. When making an investment, the Council follows the advice set out in the Local Government Act 2003 and within the Treasury Management Code with paramount consideration given to the security of the sum invested, followed by the liquidity position of the Council and finally the interest rate achievable on the investment.
17. Given that credit criteria is the most important factor when making an investment decision, the Council receives regular updates from its external adviser, Arlingclose, on changes in credit ratings for individual financial institutions. They also advise on maximum amounts to be invested with each counterparty and maximum durations for any fixed term deposits made. This framework helps to protect against the loss of any sums invested (credit risk), ensures liquidity is not compromised and earns interest to support the revenue budget (not a major factor at present).
18. At 31st January 2021, the Council had cash balances of £20.800 million invested either on fixed term deposit with central government or in liquidity accounts with appropriate banks. The strategic level of cash holdings is a minimum of £15.000 million below which the Council will look to borrow to maintain liquidity.
19. In relation to external borrowing, the Council seeks to achieve a low but fairly certain cost of finance, whilst retaining the flexibility to borrow for short-term periods and to respond to demands of the Investment Strategy as needed. The Council therefore creates a balance between taking advantage of currently low rates of interest for short term borrowing (predominantly from other local authorities) versus the need to achieve certainty over rates of borrowing in the longer term from either government or financial institutions (mainly from the PWLB or other banks).
20. Out of the £223.900 million worth of external debt at 31st January 2021, 69% is long term from the Public Works Loan Board – the government agency for local authority borrowing and 31% is long term with financial institutions (generally banks). There is no short term borrowing in place at present. The average interest rate on this debt is around 2.5% with an average life to maturity of just under 25 years.

21. Current long term interest rates for borrowing from the PWLB are between 1% and 2.5% depending on the length of the loan (local authorities can borrow up to 50 years from central government) with short term rates being between 0.05% and 0.2% for up to one year in duration.
22. On local authority borrowing, there has been much interest from both regulators and the media in recent months around individual councils taking significant amounts of long term debt from the PWLB for the sole purposes of commercial activity – generally property investment. Under the Prudential Code, local authorities have lots of freedom to conduct and self-regulate their own borrowing and investment activities.
23. Both the Government and the Chartered Institute of Public Finance & Accountancy have said that borrowing for the sole purposes of commercial investment is against the spirit of the Code. The PWLB has outlawed any local authority applications for this type of activity from 1st April 2021 with Section 151 Officers having to confirm each year that their investment plans do not contain any of these types of activity. CIPFA is also updating the Prudential Code during 2021/22 to stop any borrowing for yield purposes.
24. Although the Council has undertaken some capital projects in recent years that have generated a revenue income stream as set out in paragraph 12 above, the primary aim has always been to regenerate the areas involved and to grow the wider economy within the Town. As a result, these activities would be able to continue under the Code and with funding from the PWLB if required.

Knowledge & Skills

25. The Capital Strategy provide details of the knowledge and experience in place by Officers and the access to external advice and guidance made available to enhance this. Council officers have a broad range of skills to ensure treasury management decisions are informed and risk-assessed on a consistent basis. The Council uses external consultants including Arlingclose to provide up to date and specialist advice which is bespoke for local government sector regulations, particularly focusing on risks and opportunities.
26. The Council also participates in a treasury management benchmarking club run by Arlingclose. This club provides access to data on other local authorities' approaches to Treasury Management, including strategic information, and the wider performance outputs of the Treasury Management activities.
27. As part of the Treasury Management Code, it is also a best practice requirement that elected members have the necessary skills & knowledge to scrutinise the Council's plans and processes in this area. Part of this will be achieved by bringing this report for discussion on an annual basis. In addition to this, it is intended to provide Members with further training on the capital and treasury strategies of the Council.

Minimum Revenue Provision

28. The Council is required to maintain a policy for the repayment of debt incurred over previous years. The policy is split into different elements which are influenced by when the borrowing was originally incurred, the type of assets and the useful economic life of the assets the borrowing is funding. The Council has in previous

years amended this policy to more accurately reflect the useful economic life of the funded assets. No changes are proposed to the MRP policy for 2021/22. This policy is set out at the end of Appendix 1.

What decision(s) are being asked for?

29. Although there is no formal decision to be made, Members should endorse the inclusion within the Terms of Reference for the Committee of the governance and scrutiny of the capital strategy going forwards.

Why is this being recommended?

30. No recommendations are being proposed.

Other potential decisions and why these have not been recommended

31. Not applicable

Impact(s) of recommended decision(s)

32. Although the report does not contain any recommendations, it will affect the workload and potentially the terms of reference of the Committee in the future. As a result, the update is mainly for information and discussion.

Legal

33. 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 or the capital finance and accounting regulations.

Financial

34. All relevant financial implications are outlined within the body of this report.

Policy Framework

35. There are no implications for the policy framework of the Council.

Equality and Diversity

36. There are no equality and diversity issues as part of this report.

Risk

37. 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.

Actions to be taken to implement the decision(s)

38. Not applicable to this report.

Appendices

Appendix 1 – Capital Strategy report for 2021/22 (This is appendix 6 to the current revenue budget, MTFP, investment strategy and capital strategy report being considered by Council as part of the budget setting process on 24th February 2021).

Background papers

There are no background papers to this report.

Contact: Justin Weston, Head of Finance & Investments
Email: Justin.weston@middlesbrough.gov.uk
Tel: (01642) 729582

CAPITAL STRATEGY REPORT 2021/22

Introduction

The Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services at the Council. In addition, it also gives an overview of how the associated risks are managed and the implications for future financial sustainability.

The report is a requirement of the 2017 Code of Practice on Treasury Management, issued by the Chartered Institute of Public Finance & Accountancy, and has been produced in an accessible way to enhance members' understanding of these often-technical areas. It is a replacement for the prudential indicator and treasury management report included within previous budget setting reports prior to 2019/20, but gives a wider context on the capital financing processes used by the Council.

Capital Expenditure and Financing

Capital Expenditure is where the Council spends money on assets, such as property, IT and vehicles that will be used for more than one financial year. In local government, this also includes spending on assets owned by other bodies, finance leases and loans & grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are generally not capitalised.

- For details of the Council's policy on the capitalisation of assets, see the accounting policies section of the annual statement of accounts on the Council's website (www.middlesbrough.gov.uk).

In the 2021/22 financial year, the Council is planning a total capital expenditure of £63.338m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2019/20	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000	£000
	Actual	Estimate	Estimate	Estimate	Estimate
Total Capital Expenditure – Investment Strategy	47.343	45.195	59.838	31.070	8.477
Total Capital Expenditure – Finance Leases	12.374	0.000	3.500	0.500	0.500
Total Capital Expenditure	59.717	45.195	63.338	31.570	8.977

The main areas of capital expenditure to be undertaken by the Council in 2021/22 include the new BOHO 10 scheme - £11.4m, Middlesbrough Development Company projects - £12.2m, Affordable Housing & Housing Growth schemes - £3.4m, Town Centre development projects £1.8m, School capital projects £11.7m, Disabled Facilities Grant schemes £2.7m, ICT related projects £3.6m, and Environment & Commercial Services projects £6.5m.

Governance: Service managers generally bid during the previous financial year to include projects in the Council's forward capital programme. Bids are collated by the Council's finance team who calculate the financing costs of each project (which can be nil if the project is fully externally financed). The Council's Management Team (CMT) appraises all bids based on a comparison of service priorities against financing costs and then makes recommendations to Members for which schemes progress against the capital resources available. The final capital programme to support the Medium Term Financial Plan is then presented to Executive during February and to Council in March each year for approval.

All capital expenditure has to be financed, from either external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and private finance initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
External sources	17.860	20.221	31.537	13.547	0.048
Own resources	2.038	6.425	14.811	5.951	8.273
Debt	39.819	18.549	16.990	12.072	0.656
TOTAL	59.717	45.195	63.338	31.570	8.977

Any external debt (loans and leases) must be repaid over time by other sources of finance. This comes from the revenue budget in the form of Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace/repay debt finance. The Council generally uses capital receipts to finance new capital expenditure rather than to redeem debt. The total cost of MRP included in the Council's revenue budget is as follows:

Table 3: Minimum Revenue Provision in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Cost to Revenue Budget	3.440	4.743	5.013	5.306	5.764

- The Council's minimum revenue provision statement for 2021/22 is available towards the end of this report.

The Council's cumulative amount of debt finance still outstanding is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure each year and then reduces with minimum revenue provision and capital receipts used to redeem debt.

The CFR is expected to increase by £8.9m or 3.6% during the 2021/22 financial year. This increase is due to the new capital expenditure funded by external debt of £17m less the MRP set aside of £5.0, plus other income streams of £3.1m.

Based on the above plans for expenditure and financing, the Council's estimated CFR for the period of the Medium Term Financial Plan is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
TOTAL CFR	232.481	246.287	255.164	261.630	256.223

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or be used to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts.

The Council plans to receive £14.6m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
TOTAL	1.968	5.358	14.597	5.951	8.273

- The level of capital receipts for each financial year is monitored between Regeneration, Finance and Valuation & Estates teams, and any significant changes are reported to Executive as part of the Quarterly budget updates.
- The Council has not adopted the Flexible Use of Capital Receipts Policy where these proceeds may be used for funding service transformation costs that would otherwise be classed as revenue expenditure

Treasury Management

Treasury Management is concerned with keeping sufficient but not excessive cash resources, available to meet the Council's spending needs, while managing the risks involved in these investments. Surplus cash is invested until required, whilst a shortage of cash will be financed by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

The Council is typically cash rich in the short-term as revenue income is received and before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. Revenue cash surpluses are therefore offset against capital cash shortfalls to reduce the overall borrowing amount required, as part of an integrated strategy on Treasury Management. This is in line with best practice.

The Council at the end of January 2021 had £223.9m of borrowing at an average interest rate of 2.5% and £20.8m of treasury investments at an average rate of around 0.1%.

Both investment and borrowing rates available to the Council continue to be at historic lows due to ongoing government policy plus also the impact of the current coronavirus pandemic. There is an outside chance that the UK could see a negative bank rate in the 2021/22 financial year for the first time in its history.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance for long-term capital projects whilst retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between using cheap short-term loans (currently available at variable rates between 0.05% & 0.5%) and long-term fixed rate loans where the future cost is known but interest costs are higher (currently between 1% to 2.5%). In recent years, the Council has also been in negotiation with funders around lease arrangements as an alternative method of securing external finance for its capital projects.

Projected levels of the Council's total outstanding debt (which comprises borrowing and relevant finance leases) are shown below, compared with its capital financing requirement (need to borrow)

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
External Debt	242.900	233.900	248.100	258.000	252.600
Capital Financing Requirement	232.481	246.287	255.164	261.630	256.223

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term where the benefits of short term borrowing may be taken. As can be seen from Table 6, the Council expects to comply with this in the medium term with debt being lower than the capital financing requirement in all relevant financial years. The only exception to this being at the end of the 2019/20 financial year where £20m of

additional borrowing was taken for grants to business and general liquidity purposes as a result of the Council's initial response to Covid-19. This funding was quickly reimbursed by Government and the short term debt borrowed was repaid during April 2020.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt levels start to approach the legal limit and is a more realistic rather than worst-case view of what will happen during the financial year. Any need to change these during the 2021/22 financial year from the original budget assumptions will be reported by the Director of Finance to the Executive at the earliest opportunity.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Authorised Limit (OB + £30m)	300.000	315.000	322.000	316.000
Operational Boundary (CFR + £30m)	280.000	285.000	292.000	286.000

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, which focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

Table 8: Treasury management investments in £millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Short-term investments	43.863	15.268	17.228	15.000	15.000
Longer-term investments	0.000	0.000	0.000	0.000	0.000
TOTAL	43.863	15.268	17.228	15.000	15.000

Governance: Decisions on treasury management in relation to investment and borrowing are made daily and are therefore delegated by the Director of Finance to the Head of Finance & Investments and staff within the financial governance team, who act in line with the treasury management strategy approved by Council. Quarterly updates on treasury

management activity are reported to Executive as part of the regular budget monitoring process.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to the revenue budget, offset by any investment income received. The net annual charge is reported as capital financing costs; this is compared to the net revenue stream i.e. the amount funded from council tax, business rates and general government grants. This is an important indicator around the affordability of the Council's capital plans going forwards.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20 actual	2020/21 forecast	2021/22 forecast	2022/23 forecast	2023/24 forecast
Financing costs (£m)	8.857	9.542	9.689	9.965	10.285
Net Revenue Budget (£m)	111.926	116.397	116.492	118.399	120.343
Proportion of net revenue stream	7.9%	8.2%	8.3%	8.4%	8.5%

Sustainability: Due to the very long-term nature of capital expenditure and its financing, the revenue budget implications of this expenditure incurred in the next few years could extend for up to some 50 years into the future.

The figures in table above remain relatively stable at a time when debt levels for the Council are still increasing. Members should be aware that this is as a result of various capital investments in commercial property made by the Council during 2019/20 and 2020/21 for regeneration purposes. This results in around £3.1m of income per year being credited to the capital financing budget by the end of the 2023/24 financial year. It is imperative and a key budget risk that these rental levels are maintained and the income assumed in the estimates above are generated. Progress will be reported as part of future budget monitoring and performance reports each quarter to Executive. The forecasts above may also differ slightly from the total included in the revenue budget for 2021/22 due to timing.

The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because appropriate resources have been allocated from the Council's medium term financial plan, any finance leases have been appropriately vetted and any borrowing plans have been fully costed and reviewed.

Table 10 – Total Borrowing required for each year of the MTFP

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
	Estimate	Estimate	Estimate	Estimate
Investment Strategy	18,549	16,490	10,572	156
Finance Leases	0	500	500	500
Debt Restructuring	0	0	0	0
Total	18,549	16,990	11,072	656

This takes into account any debt needed by the Council to either finance the capital programme, in respect of leasing arrangements, or to finance any debt restructuring required.

Current interest rates at present (with historical lows) mean that this is not possible for the next three financial years and therefore no amounts have been factored into the borrowing plans of the Council for this. If this situation changes, this will be reported to Executive at the earliest opportunity.

The prudential indicators & limits set out in this report are consistent with the Council's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices.

The Director of Finance confirms that these are based on estimates of the most likely and prudent scenarios, with in addition sufficient headroom over and above this to allow for operational management and some scope for flexibility. For example unusual cash movements or any unbudgeted capital expenditure required. Risk analysis and management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

Prudence – Treasury Management Indicators

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2021/22, 2022/23 and 2023/24 of 100% of its estimated total borrowing undertaken.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2021/22, 2022/23 and 2023/24 of 25% of its estimated total borrowing undertaken.

This means that the Director of Finance will manage fixed interest rate exposures on total debt within the range 75% to 100% and variable interest rate exposures on total debt within the range 0% to 25%.

It is also recommended that the Council sets upper and lower limits for the maturity structure (when the debt needs to be repaid) of its total borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period:

	<u>Upper limit</u>	<u>Lower limit</u>
under 12 months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	20%

Currently investments are limited to a maximum of 3 years, with any deals being arranged so that the maturity will be no more than 3 years and one month after the date the deal is arranged.

The maximum % of the total of all investments that have an outstanding period of one year or longer, at the time the investment is made, is 10%.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance and Investments has in excess of 20 years' experience in local government treasury management. There is similar experience within the finance teams in relation to budgeting & accounting for capital expenditure and financing. The Council also pays junior staff to study towards relevant professional qualifications including CIPFA, CIMA, ACCA, AAT and other relevant vocational studies.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- Further details on staff training and the policy on the use of external advisers can be seen with reference to its Treasury Management Practices document which is on the Council's website.

Treasury Management Practices

Further details of how the treasury management function operates, the procedures used to manage banking, treasury and capital market transactions, how risk is managed by the in-house team and how this fits with the CIPFA Code of Practice is included in the Council's set of Treasury Management Practices.

This document is available to Members for further information on request.

ANNUAL INVESTMENT STRATEGY & TREASURY

MANAGEMENT POLICY STATEMENT 2021/22

1. In accordance with revised guidance from the Ministry of Housing, Communities and Local Government (MHCLG) a local authority must prepare and publish an Annual Investment Strategy which must be approved by full Council before the start of the financial year to which it relates.
2. The MHCLG guidance offers councils greater freedom in the way in which they invests monies, providing that prior approval is received from Members by approving the Annual Investment Strategy. The guidance also considers the wider implications of investments made for non-financial returns and how these can be evaluated.
3. The Local Government Act 2003, which also introduced the Prudential Code, requires that a local authority must have regard to such guidance as the Secretary of State issues relating to prudent investment practice.
4. In addition the Chartered Institute of Public Finance & Accountancy (CIPFA) has published a revised Code of Practice for Treasury Management in the Public Services in December 2017. This replaces the 2011 Code which had been adopted in full by Middlesbrough Council. The revised Code requires the Council to clearly state, in the Annual Investment Strategy document, its policy on effective control, and monitoring of its treasury management function. These controls are set out in Treasury Management Practices (TMP's) which have been approved as part of acceptance of the previous Code.
5. The revised Strategy, showing where the Guidance has determined Council policy, can be set out as:

ANNUAL INVESTMENT STRATEGY 2020/21

6. Middlesbrough Council will create and maintain as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
 - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
7. The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such

amendments will not result in the organisation materially deviating from the Code's key principles.

8. Middlesbrough Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, a mid-year review which will include an annual report on the previous year, in the form prescribed in its TMP's. Revised Strategies can be presented to the Council for approval at any other time during the year if the Director of Finance considers that significant changes to the risk assessment of significant parts of the authority's investments has occurred.
9. Middlesbrough Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Director of Finance. The execution and administration of treasury management decisions is further delegated to *the Head of Finance & Investments*, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's *Standard of Professional Practice on Treasury Management*.
10. Middlesbrough Council nominates the Corporate Affairs & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
11. The Council is very circumspect in its use of credit rating agencies with the section on Specified Investments setting out the current policy. Ratings are monitored on a real time basis as and when information is received from either our treasury management consultants or any other recognised source. Decisions regarding inclusion on the Approved List are made on the basis of market intelligence drawn from a number of sources.
12. All staff involved in treasury management will, under the supervision of *the Head of Finance & Investments*, act in accordance with the treasury management practices and procedures, as defined by the Council. Such staff will undertake relevant training, identified during the Council's induction process and, on an on-going basis, the Council's appraisal policy.
13. The general policy objective contained in the guidance is that local authorities should invest prudently the short-term cash surpluses held on behalf of their communities. The guidance emphasises that priority should be given to security and liquidity rather than yield. Within that framework the authority must determine a category of borrowers, who must be of "high credit quality" classified as **Specified Investments**, with whom it can invest surplus cash with minimal procedural formalities and further identify a category of borrowers classified as **Non-Specified Investments**, with whom it can also invest but subject to prescribed limits.
14. Although the guidance definition of Non-Specified Investments is "one not meeting the definition of a Specified Investment", the authority is required to identify which categories of investments are identified as prudent to use and the limits on any such investment either individually or in total. It is because some organisations do not subscribe to credit rating agencies that they have to be included as Non-Specified Investments, rather than any concern over their creditworthiness.

15. The guidance defines investment in such a way as to exclude pension fund and trust fund investments. In practice, Middlesbrough Council, in its role as Administering Authority for the Teesside Pension Fund, follows similar procedures as approved by Members as part of compliance with the CIPFA Code of Practice, albeit with different limits.

LIMITS & DEFINITION OF SPECIFIED INVESTMENTS

16. The following are currently determined as meeting the criteria for Specified Investments:
 17. The investment is made with the UK Government, or a local authority (as defined in the Local Government Act 2003), or a police authority, or fire, or a UK Nationalised Industry, or UK Bank, or UK Building Society.
 18. The investment is made with a Money Market Fund that, at the time the investment is made, has a rating of AAA.
 19. The investment is made with one of the bodies listed in section 4 of Schedule 1E of the current version of the Treasury Management Practices document which, at the time the investment is made, has a short-term "investment grade" rating with either Standard & Poors, Moody's Investors Search Ltd or Fitch Ratings Ltd (or in the case of a subsidiary the parent has such a rating). Where ratings awarded differ between the rating agencies any one award below investment grade will prevent the investment being categorised as a Specified Investment. The rating of all listed bodies must be monitored on a monthly basis. Where officers become aware of a downward revision of rating, that moves the body out of the "investment grade" category, between such monthly checks, the body should be removed from the list of Specified Investments and, if considered appropriate, the investment should be recalled.
20. All specified investments must be denominated in sterling and must be one where the authority may require it to be repaid or redeemed within 12 months of the date on which the investment is made and must be considered of high credit quality. This is defined as having met the criteria set out above. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 70%
- The maximum investment with any one counterparty is £15 million, except for the Debt Management Office which has no limit.
- The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15m.

LIMITS & DEFINITION OF NON-SPECIFIED INVESTMENTS

21. These categories of investment currently meet the criteria for non-specified investments:
22. The investment is made with a UK bank, or UK building society, or a UK subsidiary of an overseas bank.
23. The investment is made with one of the bodies listed in section 4 of Schedule 1E of the current version of the Treasury Management Practices document, which is not a Specified Investment.
24. The investment is for a period of one year or longer.
25. All non-specified investments must be denominated in sterling. The investment must not constitute the acquisition of share capital or loan capital in any body corporate.

- The maximum % of the total of all investments which can be non-specified investments, at the time the investment is made, is 30%.
 - The maximum investment with any one counterparty is £15 million
 - The maximum investment in any one group (i.e. a bank and its wholly-owned subsidiaries) is £15m.
 - The maximum % of the total of all investments that have an outstanding period of one year or longer, at the time the investment is made, is 10%.
26. The maximum period for which an investment can be made is 3 years, with the maturity date no more than 3 years and 1 month from the time the deal is agreed.
27. As referred to earlier in the report, borrowing should be kept at, or below, the expected capital financing requirement over the medium term to reduce the risk of exposure to interest rate fluctuations. The balance of 'net borrowing' (loans less investments) should also be monitored to, where prudent, minimise interest rate differences.
28. The Council considers that it is empowered by Section 12 of the Local Government Act 2003 for the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future. While not "borrowing to invest" it is prudent to invest monies raised in advance of expenditure. As required by the Guidance such investment is permitted providing the anticipated expenditure is within this or the next financial year or within a period of eighteen months, whichever is the greater.

TREASURY MANAGEMENT POLICY STATEMENT

29. Middlesbrough Council defines its treasury management activities as:
'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
30. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage those risks.
31. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
32. The high level policies and monitoring arrangements adopted by the Council for Borrowing and Investments are as follows:

Borrowing

- Any borrowing decisions will aim to strike an appropriate risk balance between securing low interest rates and achieving cost certainty over the periods for which funds are required. Economic forecasts available from our treasury management advisers and any other available sources will be used to form a view on the target borrowing rates and overall borrowing strategy;
- Any decisions should also look to maintain the stability and flexibility of the longer term debt portfolio, given the current low interest rate environment where short term borrowing or borrowing from internal resources offer revenue budget savings;
- The main sources of funding for external borrowing for the Council are the Public Works Loan Board, Other Local Authorities and private sector financial institutions;

Investments

- The CIPFA and MHCLG guidance require the Council to invest its funds prudently and to have regard to security, liquidity and yield when making these decisions;
- Security being the arrangements in place to protect principal sums invested by a local authority;
- Liquidity being to ensure that enough cash resources are available on a day to day basis for transactional needs;
- Yield being the interest rate and total financial return applicable to the investment being made;

- With these strategic issues in mind, the management of credit risk (or security) is key to the Council's investment strategy and any subsequent activity. The Council uses the external advisers' credit worthiness matrix to determine limits with individual counterparties.

MINIMUM REVENUE PROVISION POLICY 2021/22

INTRODUCTION

33. Local authorities are required each year to set aside some of their revenue income as provision for debt repayment. There is a simple duty for an authority each year to make an amount of revenue provision, which it considers “prudent”. (Minimum Revenue Provision) MRP Guidance makes recommendations to authorities on the interpretation of that term.
34. Authorities are legally obliged to “have regard” to any such guidance – which is exactly the same duty as applies to other statutory guidance including, for example, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG Guidance on Investments.
35. Authorities are asked to prepare an annual statement of their policy on making MRP and to have this approved by the body before the start of each financial year.

MEANING OF “PRUDENT PROVISION”

36. The main part to the guidance is concerned with the interpretation of the term “prudent provision”. The guidance proposes a number of options. It explains that provision for repayment of the borrowing, which financed the acquisition of an asset, should be made over a period bearing some relation to that over which the asset continues to provide a service or has economic benefit. It should also cover the gap between the Capital Financing Requirement and the various sources of capital income available to the Council to finance its capital programme, such as capital receipts, capital grants, contributions and direct revenue financing.

OPTIONS FOR PRUDENT PROVISION

Option 1: Regulatory Method

37. For debt supported by (Revenue Support Grant) RSG in previous years, authorities will be able to continue to use the formulae in regulations, since the RSG was provided on that basis.

Option 2: CFR Method

38. This is a technically simpler alternative to Option 1 and may also be used in relation to supported debt. While still based on the concept of the Capital Financing Requirement (CFR), which can be derived from the balance sheet, it avoids the complexities of the formulae in the regulations.

Option 3: Asset Life Method

39. For new borrowing under the Prudential system (from 2008) for which no government support is given, there are two main options. Option 3 is to make provision for debt repayment in **equal annual instalments** over the estimated life of the asset for which the borrowing is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.
40. The formula allows an authority to make **voluntary extra provision** in any financial year that this is affordable.
41. In the case of the construction of a new building or infrastructure, MRP would not need to be charged until the new asset comes into service. This “**MRP holiday**” would be perhaps 2 or 3 years in the case of major projects and could make them more affordable. There would be a similar effect in the case of Option 4 under normal depreciation rules.

Option 4: Depreciation Method

42. Alternatively, for new borrowing under the prudential framework for which no Government support is being given, Option 4 may be used. This means making MRP in accordance with the standard rules for depreciation accounting.
43. Councils will normally need to follow the standard procedures for calculating depreciation when making this revenue provision.

Option 5: 2% Annuity Method

44. This method recognises the time value of money and the useful life of the assets funded from borrowing and is seen as a fairer way of charging MRP. It is supported by the Council’s treasury management advisers (Arlingclose) and is being adopted by many local authorities nationally as the way of accounting from pre 2008 debt.

**2021/2022 MINIMUM REVENUE PROVISION -
STATEMENT FOR MIDDLESBROUGH COUNCIL**

45. The Secretary of State recommends that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to the full council as part of its budget setting process. The statement should indicate which of the options listed above are to be followed in the financial year.
46. For supported capital expenditure Middlesbrough Council intends to use option 5, a 2% annuity basis for the coming financial year.
47. For unsupported capital expenditure Middlesbrough Council intends to use option 3, the asset life method for the coming financial year.

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Middlesbrough Council Audit Results Report

Year ended 31 March 2020

February 2021

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Agenda Item 5

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world

Private and Confidential

February 2021

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our final audit results report in respect of our audit of Middlesbrough Council (the 'Authority') for the year ended 31 March 2020. We have now completed our audit and this report provides an update on the matters noted as outstanding when we presented our provisional audit results report to the November 2020 meeting of the Corporate Affairs and Audit Committee.

We set out in section 1 of our report the updates to our report since we presented our provisional audit results report.

We confirm that we will issue an unqualified audit opinion on the financial statements. As previously communicated, we will be issuing a qualified value for money opinion in respect of the provision of Children's Services following the Ofsted inspection findings published in January 2020.

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

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



Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

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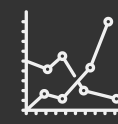
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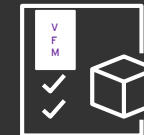
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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

Changes to our report

We presented our provisional audit results report to the meeting of the Corporate Affairs and Audit Committee on 26 November 2020. This report contains the following updates now that our audit is complete:

- ▶ **Page 7** - The status of our audit has been updated to reflect that our audit is now complete.
- ▶ **Pages 7, 12 and 22** - We updated our observations in respect of the Centre Square finance leases to note the audit difference previously reported as agreed in principle but still subject to quantification has been quantified as an overstatement of borrowings and the revaluation loss on investment properties of £8.5 million. The final financial statements include correction of this audit difference.
- ▶ **Page 14** - We updated our response to the risk over defined benefit pension liabilities to confirm that we have concluded the impact of excluding the proposed remedy for age discrimination ('McCloud') in respect of deferred and pensioner members would not be material to the Council's financial statements.
- ▶ **Page 15** - We updated our response to the risk over going concern and associated disclosures to reflect we have now reviewed management's going concern disclosures and cashflow forecasts for the 2021/22 financial year. Management made some enhancements to these disclosures as a result of audit challenge, but we otherwise have nothing additional to report.
- ▶ **Pages 17-20** - We included our audit report within Section 3.
- ▶ **Page 29** - We updated our narrative in respect of the governance statement to confirm we have now reviewed the draft governance statement and have no matters to bring to your attention in respect of this statement.
- ▶ **Page 33** - We have now quantified the impact on our audit fee of the additional work required this year to respond to the impact of the Covid-19 pandemic on the financial statements.
- ▶ **Appendices** - We have removed what was Appendix D (Outstanding Matters) as all matters have now been resolved.

Other than these amendments we have no updates to provide to the information we reported in our provisional audit results report.

Executive Summary

Scope update

In our Audit Planning Report presented at the 5 March 2020 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum presented at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan and addendum, with the following updates to the scope of the audit:

Materiality

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £9 million, with performance materiality at 75% of overall materiality of £6.8 million, and a threshold for reporting misstatements of £0.45 million. Our materiality threshold was set at 1.8% of the Authority's gross expenditure on provision of services. These thresholds were set in reference to the prior year Statement of Accounts.

The basis of our threshold, as 1.8% of gross expenditure on provision of services, remains appropriate however we reassessed the monetary value of our materiality levels upon receipt of the draft Statement of Accounts for 2019/20. Our audit procedures have been performed using a materiality of £8 million, with performance materiality at 75% of overall materiality of £6 million, and a threshold for reporting misstatements of £0.4 million.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the Authority due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 8.

Executive Summary

Status of the audit

We have now completed our audit of the Council's financial statements for the year ended 31 March 2020 and performed the procedures outlined in our Audit Planning Report and Audit Planning Report Addendum. We will be issuing an unqualified opinion on the Authority's financial statements. As previously communicated, we will be issuing a qualified value for money opinion in respect of the provision of Children's Services following the Ofsted inspection findings published in January 2020.

We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of Teesside Pension Fund. We have completed our review of the Pension Fund Annual Report and will issue our consistency opinion on the Pension Fund Annual Report at the same time as our opinion on the Council's financial statements.

We will also issue certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office at the same time.

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. The impact of this unadjusted audit difference would be to increase expenditure and decrease debtors by £0.6 million. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £3.8 million on the total comprehensive income and expenditure (£8.5m on the deficit on provision of services) which have been adjusted by management. Details can be found in Section 4 - Audit Differences.

Areas of audit focus

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

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

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

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

Executive Summary

Control observations

Based on the work undertaken in line with our responsibilities, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks related to the Authority's arrangements for securing value for money:

- ▶ the provision of Children's Services; and
- ▶ the financial sustainability of the Authority.

As communicated in our Audit Planning Report Addendum, we are unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20 given the significant findings raised by the Ofsted inspection published in January 2020. We are therefore issuing a qualified value for money opinion in respect of the provision of children's social care services.

Except for the provision of children's social care services, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Other reporting issues

We are in the process of finalising our review of the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority, including evaluating how the governance statement reflects the oversight during the year of the Authority's governance forums.

We can confirm that the Authority does not meet the size thresholds set out in the National Audit Office's Whole of Government Accounts (WGA) Group Audit Instructions which would require us to perform detailed testing of the Authority's WGA submission. We have not therefore performed detailed testing and have nothing to report in respect of the Authority's WGA submission.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

What judgements are we focused on?

We have considered the income and expenditure streams of the Council and our assessment is that the risk is most prominent with regards to inappropriate recognition of capital grants and contributions against revenue expenditure, inappropriate capitalisation of revenue expenditure and the omission of expenditure from the financial statements.

What did we do?

- ▶ We tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions.
- ▶ We tested a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it meets the criteria set down in governing regulations.
- ▶ We tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards.
- ▶ We tested samples of invoice postings and cash disbursements made after 1 April 2020 to confirm whether the expenditure to which they relate has been recorded in the correct reporting period.
- ▶ We reviewed minutes of Council and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

What are our conclusions?

Our testing has not identified any misstatements arising from fraud in revenue and expenditure recognition, or other matters relating to this risk to bring to your attention.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- ▶ We tested a sample of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements to ensure they were appropriate. Sample items were identified for testing based upon characteristics which could be indicative of management override;
- ▶ We reviewed accounting estimates for evidence of management bias; and
- ▶ We evaluated the business rationale for any significant and / or unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside of the Council's normal course of business.

We are therefore content that the financial statements are not materially misstated as a result of fraud or error.

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Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded on the balance sheet.

Material impairment was recognised in the draft statements in respect of Centre Square and the Teesside Advanced Manufacturing Park (TAMP).

What did we do?

- Page 48
- ▶ We considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
 - ▶ We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
 - ▶ We consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer.
 - ▶ We reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
 - ▶ We considered changes to useful economic lives as a result of the most recent valuation.
 - ▶ We tested accounting entries to ensure they have been correctly processed in the financial statements.
 - ▶ We ensured that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty basis of valuation this year.
 - ▶ We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of both Centre Square and TAMP.

What are our conclusions?

During the year, the Authority completed or was close to completion of three significant new investment properties - the two Centre Square buildings and TAMP. All three developments were undertaken to generate, rather than satisfy, demand and no tenancy agreements were in place at the time of their first valuations as at 31 March 2020.

We asked our EY Real Estate specialists to review the valuations of these three assets and concluded that their valuations were within the expected ranges. We do however note that the Authority's valuer adopted cautious assumptions about future occupancy levels and this resulted in valuations which were towards the bottom end of our expected range.

The draft financial statements included impairment charges of £13.6 million for TAMP and £7.9 million for the Centre Square buildings. TAMP was constructed by the Authority, however the Centre Square assets are recognised under finance leases. We identified that the initial recognition of both these assets and the finance lease liabilities was overstated by £8.5 million.

The valuation as at 31 March 2020 is unaffected by the misstatement of the valuation on initial recognition, however the in-year revaluation loss of £7.9 million has been revised to a gain on revaluation of £0.6 million.



Areas of Audit Focus

Significant risk

Valuation of land and buildings (continued)

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded on the balance sheet.

Material impairment was recognised in the draft statements in respect of Centre Square and the Teesside Advanced Manufacturing Park (TAMP).

What did we do?

- Page 49
- ▶ We considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
 - We sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
 - We consider the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that have occurred and whether these were communicated to the valuer.
 - ▶ We reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
 - ▶ We considered changes to useful economic lives as a result of the most recent valuation.
 - ▶ We tested accounting entries to ensure they have been correctly processed in the financial statements.
 - ▶ We ensured that appropriate disclosure has been made in the financial statements concerning the material valuation uncertainty basis of valuation this year.
 - ▶ We utilised EY Real Estates, our internal specialists on asset valuations, to review the valuations of both Centre Square and TAMP.

What are our conclusions?

We understand that since the valuation date, a number of medium or long-term tenancy agreements have been concluded covering the majority of floor space in the Centre Square buildings. We would therefore expect these assets to increase in value at their next valuation as some of the uncertainty over future occupancy levels unwinds.

As noted in our Audit Planning Report Addendum, the valuation of the Authority's land and buildings as at 31 March 2020 was provided by the Authority's external valuer on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

Other than the assets discussed on the previous page, the Authority has relatively few assets, compared to other local authorities, which are of a commercial nature or held for capital appreciation and where the impact of Covid-19 on property values is likely to be most significant.

The financial statements include disclosure of this valuation basis as a critical judgement. We are content that these disclosures are appropriate.

This basis of valuation has not impacted the assurance we have been able to obtain over the valuation of property assets. We are therefore satisfied that land and buildings are not materially misstated.



Areas of Audit Focus

Inherent risk

Valuation of defined benefit pension liabilities

What is the risk?

Accounting for the Authority participating in the Local Government Pension Scheme (LGPS) involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Authority by the Authority's actuary.

ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

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We liaised with the audit team of the Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. The audit of the Pension Fund is also performed by EY and shares the same Engagement Manager and Senior as our audit of the Authority.

- ▶ We assessed the work of the Pension Fund actuary (Aon Hewitt), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors and the review of this work by our own EY actuarial team.
- ▶ We reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

What are our conclusions?

The audit of the Teesside Pension Fund identified misstatement within the asset values provided to the Authority's actuary to inform the preparation of the Authority's IAS 19 report.

Management has assessed the impact on the Authority's allocated share of the Pension Fund's assets and quantified an overstatement of the Authority's pension assets of £4.7 million. We concur with this assessment and the amount has been adjusted for in the Authority's financial statements - see Section 4.

The valuation of the Authority's pension liabilities as at 31 March 2019 were adjusted in 2018/19 to reflect the estimated impact of addressing age discrimination within the LGPS highlighted by the McCloud legal case. The valuation of liabilities at 31 March 2020 continues to include this adjustment, updated in-line with other assumptions.

On 16 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) published the proposed remedies for removing age discrimination from the LGPS. We are satisfied that the assumed remedy reflected in the valuation of the Authority's pension liabilities as at 31 March 2020 is materially consistent with the remedies proposed by MHCLG for active members.

The valuation of scheme liabilities as at 31 March 2020 does not include the impact of remedies affecting deferred and pensioner members. We are satisfied, following consultation with our EY Pensions specialists, that the impact on liabilities for deferred and pensioner members would be immaterial.

The Authority's net pension liabilities were also impacted by decreases in the valuation of pension assets in the fourth quarter of the year as a result of the Covid-19 pandemic. We have obtained assurance from the Pension Fund auditor over these movements.



Areas of Audit Focus

Inherent risk

Going concern and associated disclosures

What is the risk?

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires that the financial statements of Local Authorities are prepared on a going concern basis, unless there is an intention by government that the services provided by the Authority will no longer be provided.

Due to the unpredictability of the current environment, we believe that there is a need for additional disclosures to be made by the Authority in the financial statements, that detail the full financial and operational impact of Covid-19 during 2020/21 and beyond.

What did we do?

- ▶ We reviewed management's assessment of going concern, including management's identification of the events or conditions impacting upon going concern, including for consistency with the financial statements and for evidence of bias.
- ▶ We reviewed the financial modelling and forecasts prepared by management, including any updates to the Medium Term Financial Plan. This included consideration of the key assumptions, any stress testing applied to those assumptions and potential risks to future cashflows.
- ▶ We reviewed the liquidity position of the Authority for a period of at least 12 months from the date of our audit report.
- ▶ We reviewed the going concern disclosures within the financial statements to ensure they are appropriate and represents a true and fair view of the Authority's financial position.

What are our conclusions?

On 2 September 2020, the Council approved the transfer of the £4.9 million balance on the Authority's Investment Fund Contingency Reserve into the General Fund to cover the estimated £4.4 million impact of the Covid-19 pandemic on the Authority's 2020/21 budget. Our review of management's estimation of the impact of the pandemic on the Authority's 2020/21 budget has not identified any issues with this estimate.

The Authority has sufficient reserves to absorb management's estimate of the impact on the 2020/21 budget, but will need to agree a budget for 2021/22 which balances after allowance for the impact of Covid-19 as further reserves are not available for transfer.

Our review of management's cashflow forecasts to 31 March 2022 also did not identify any matters. The Authority has sufficient liquidity, including from planned borrowing, to support management's forecast cashflows over the period to 31 March 2022.

The financial statement disclosures in respect of going concern have been expanded as a result of audit challenge on the extent of disclosures, and we are content the disclosures within the final statements are adequate and appropriate,



03 Audit Report



Audit report

Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the financial statements of Middlesbrough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 45, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- Give a true and fair view of the financial position of Middlesbrough Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information.

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

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

We have nothing to report in this regard.



Audit report

Audit report

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

Ofsted undertook an inspection of the Council's Children's Services, with findings announced in January 2020. The inspection took place over a two week period commencing in late November 2019 and looked at three areas; the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate.

Actions to address the identified weaknesses, which include the development of an improvement plan, the creation of a multi-agency strategic board and a multi-agency operational board to oversee implementation of the plan and recruitment to senior posts have now commenced but were not completed at 31 March 2020.

The issue above is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and managing risks effectively and maintaining a sound system of internal control.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Middlesbrough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 20, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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



Audit report

Audit report

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the Middlesbrough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

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



Audit report

Audit report

Use of our report

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

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Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Edinburgh
xx February 2021



04 Audit Differences





Audit Differences

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

Summary of unadjusted differences

We have identified one audit difference which management have agreed to remain unadjusted. This concerns the incorrect recognition of £0.6 million of costs incurred in securing the surrender of a lease, to enable sale of the associated land. This amount was originally recognised in 2018/19 and continues to be carried on the Authority’s balance sheet, when the correct treatment would have been to expense the amount at the time the costs were incurred. Clearance of this balance would increase the deficit on provision of services and net liabilities by £0.6 million.

Summary of adjusted differences

Differences impacting the Comprehensive Income and Expenditure Statement

We have identified two audit differences, which have been adjusted by management, which impact upon the Authority’s total comprehensive income and expenditure for the period:

- ▶ Overstatement of finance lease liabilities and leased assets on initial recognition of the Centre Square finance leases of £8.5m arising from the non-discounting of future cashflows when assessing the present value of minimum lease payments. As these assets were revalued at year-end, and no misstatement of the year-end valuations has been identified, correction of this matter resulted in a decrease to borrowings and the revaluation loss charged to the deficit on provision of services during the year;
- ▶ Understatement of the defined benefit pension liability as a result of overstatement of the Pension Fund’s assets within the information provided by the Pension Fund to the actuary to inform the calculation of individual employer liabilities, including that of the Authority. Correction of this matter resulted in an increase in net pension liabilities and the actuarial loss on pension assets of £4.7m.

Differences not impacting the Comprehensive Income and Expenditure Statement

We have identified several other audit differences which are between lines within the balance sheet or the supporting notes, and hence do not impact upon the Authority’s total comprehensive income and expenditure for the period. These are:

- ▶ A misclassification of £4.3 million within the creditors note, resulting in an overstatement of amounts due to central government bodies and an understatement of the amounts due to other entities. This arose from a late adjustment to release Covid-19 funding received in March 2020 from deferred income, however the adjustment to deferred income was made to a different line in the creditors note than the line containing the original balance.
- ▶ A misclassification of £1.9 million within the property, plant and equipment note, resulting in an overstatement of surplus assets and an understatement of land and buildings. This arose from a scaling error presenting the actual transfer of accumulated depreciation between these categories of £1,918 as £1,918,000.

continued on next page...



Audit Differences

Summary of adjusted differences

- ▶ A misclassification of £1.1 m between borrowings and creditors, resulting in an understatement of borrowings and an overstatement of creditors. This arose from the separate recognition of accrued interest within creditors when the correct treatment is to include accrued interest within borrowings balances.
- ▶ An overstatement of £0.6 million of both cash and creditors, arising from the incorrect carry forward of balances in respect of school bank accounts.

Comments on disclosures

During the course of our audit we have identified a number of disclosure matters which management have agreed to amend, including:

- ▶ **Going concern** - the disclosure supporting the adoption of the going concern basis of preparation in the draft Statement of Account was one paragraph. As set out earlier in the report, we expect to see more extensive disclosures supporting the adoption of the going concern basis. We expect these disclosures to include commentary on both the Authority's reserves position, including the planned transfer between reserves in 2020/21, and the Authority's liquidity position.
- ▶ **Valuation uncertainty** - we agreed with management a number of enhancements to disclosures in the financial statements of the uncertainty caused by the Covid-19 pandemic, including in respect of property, plant and equipment valuations and the valuation of pension assets.
- ▶ **Expenditure and Funding Statement** - we noted that the positioning and labelling of the Expenditure and Funding Statement gave the impression this was a primary statement, when it is in fact a note to the financial statements.
- ▶ **Officer's remuneration** - we identified the omission of one individual from the disclosures and the incorrect aggregation of salary and exit packages as a single figure, when the reporting framework requires separate disclosure.
- ▶ **Exit packages** - we identified some factual errors within the disclosure of exit packages.
- ▶ **Expected credit losses** - we identified that the Authority had not disclosed its quantification of expected credit losses on amounts owed to the Authority as balances were presented net of allowed for amounts. The requirement is to disclose both the gross balance owed and the amount allowed for as expected credit losses.
- ▶ **Statement of Cash Flows** - we identified a line in the Statement of Cash Flows which represented an amount other than what was described. This was simply a descriptive error and the amount was correct.
- ▶ **Restatements** - we identified that both the Comprehensive Expenditure and Income Statement and the Expenditure and Funding Statement had restated the prior period comparatives to reflect changes in the structure of the Authority, however neither was labelled as restated in the disclosures.
- ▶ **Internal Consistency** - we noted several instances of internal inconsistency or casting errors.



05

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

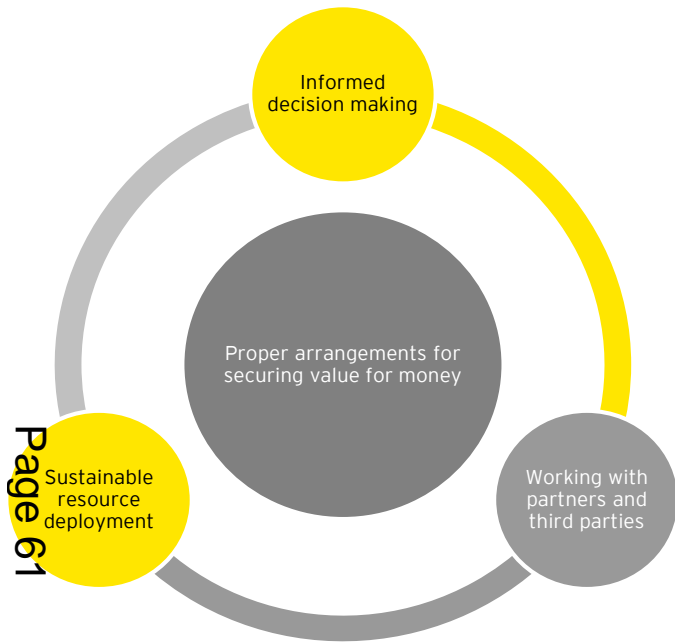
For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



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Impact of Covid-19 on our Value for Money assessment

On 16 April 2020, the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment, auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we require to bring to your attention.

In light of the observations and conclusions set out in the Ofsted report of January 2020, we are unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20. We have therefore qualified our value for money opinion in respect of the provision of children's social care services, further details of which are provided on the next pages.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial Sustainability	Sustainable resource deployment	<p>We have reviewed the financial outturn of the Authority against budget and note that the Authority’s revenue activities were overbudget by £6.6 million for 2019/20. As a result, the Authority’s general fund balance at 31 March 2020 was down to the minimum level prescribed by the Section 151 Officer. The overspend in 2019/20 was driven by children’s services, which as a directorate overspent by £7.2 million with all other parts of the Authority delivering a net underspend of £0.6 million.</p> <p>We made enquiries of management and reviewed the assumptions used in the 2020/21 budget, which was set prior to the Covid-19 pandemic, to confirm they were reasonable. We note that the budget includes an additional £3.5 million of funding for children’s services to mitigate demand pressures in that service, in addition to more general inflationary pressures. Despite these challenges, we note that the Authority had identified schemes for the full £6.4 million of required savings to achieve a balanced budget in 2020/21 without utilising reserves.</p> <p>We also made enquiries of management and reviewed assumptions used to quantify the impact of the Covid-19 pandemic on the 2020/21 budget. Management estimate that they will need to utilise £4.4 million of reserves in 2020/21 due to additional cost pressures and lost income as a result of the pandemic, after allowing for additional funding. The Authority has insufficient reserves within the general fund to accommodate this impact, therefore management has proposed to release the £4.9 million set aside in the Investment Fund Contingency Reserve to maintain the general fund above the minimum prescribed level of £9.4 million.</p> <p>Management therefore have arrangements in place to manage the impact of the Covid-19 pandemic on the Authority for 2020/21, however future budgets will need to address the longer term impacts of the pandemic without ongoing reliance on reserves.</p>

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Provision of Children's Services	Take informed decisions	<p>On 24 January 2020, the Office for Standards in Education, Children's Services and Skills (Ofsted) released the results of its inspection of the Council's children's social care services performed between 25 November 2019 and 6 December 2019. The report concluded that the quality of the Council's children's services had deteriorated since the previous inspection in 2015 and were now inadequate.</p> <p>Following publication of the Ofsted report, management developed an Improvement Plan to address the findings raised by Ofsted. Given its wide reaching scope, it took time for management to implement the Improvement Plan and, due to the relatively late stage of the year at which the Ofsted report was released, this was still in progress at the year-end.</p> <p>On 4 June 2020, the Secretary of State appointed Commissioner for Children's Services in Middlesbrough published a follow-up report which concluded that the Council should be "commended" for its response to the Ofsted report and that "there is sufficient confidence in the changes being made to indicate that this is not a Local Authority where we should move quickly to consider alternative delivery mechanisms".</p> <p>On 23 September 2020, Ofsted performed their first monitoring visit to the Authority since their report. The final report from Ofsted on the monitoring visit has not been released as of the date of this report, however we have reviewed the draft version provided to management. We note it identifies several areas of children's social care services where the Authority has made improvements since the original report, however it also highlights the significant work still to be done by the Authority to bring the quality of other parts of the service up to the required standard.</p> <p>Whilst the original Ofsted inspection took place between 25 November 2019 and 6 December 2019, the nature of the issues raised are such that the report's findings are indicative of the effectiveness of the Council's children's social care services for the period between 1 April 2019 and the dates of inspection.</p> <p>The reports of the appointed Commissioner for Children's Services in Middlesbrough and the Ofsted monitoring visit support that the Authority has since put in place appropriate governance structures to respond to the Ofsted findings, and we note management's understanding of the performance of the service in particular is highlighted as an area of improvement.</p> <p>The majority of these structures were however implemented very late in, or after, the period under audit. We are therefore unable to conclude that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2019/20. Accordingly, we have qualified our value for money opinion for 2019/20 with regards to the provision of children's social care services.</p> <p>We expect that we will continue to monitor management's implementation of the Improvement Plan, including any further assessments by external parties, as part of our 2020/21 audit.</p>



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have no observations to note in respect of the annual governance statement.

Whole of Government Accounts

Alongside our work on the financial statements, we may also be required to review and report to the National Audit Office on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

For 2019/20, the Authority falls below the size thresholds requiring us to undertake detailed testing of the Authority's WGA return.

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting processes. We have one such matter to report.

We noted during the course of the audit that the advertised inspection period for the draft Statement of Accounts, of 27 July 2020 to 4 September 2020, lasted for 29 working days, and therefore did not meet the required 30 working day minimum inspection period required by the Accounts and Audit Regulations 2015. This was due to the fact the bank holiday on 31 August 2020 had not been taken into accounts. The inspection period was extended to 7 September 2020 after this matter was raised with management.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



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08

Independence

Confirmation and analysis of audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Corporate Affairs and Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of Responsibilities of Auditors and Audited Bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.

We confirm that we have undertaken non-audit work, in the form of reporting accountant certification reviews of claims and returns. Non audit work is work not carried out under the Code

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee - Code Work (notes 1,2)	TBC	91,078
Total Audit Fee - Code Work	TBC	91,078
Housing Benefit certification work	12,800	10,500
Teacher's Pensions certification work	5,000	4,500
Total Non-Audit Work	17,800	15,000
Total Fees	TBC	122,002

Note 1 - Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We have proposed a fee for our 2019-20 audit of £152,959, however we have not been able to agree this variation with management and have therefore asked PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £88,578.

Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations and on the efficiency of the financial statement production and audit. The additional fee we have requested, based on the cost to us of the additional work performed, and are discussing with management is £24,750.

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
- ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
- ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
- ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - ▶ Tax advocacy services
 - ▶ Remuneration advisory services
 - ▶ Internal audit services
 - ▶ Secondment/loan staff arrangements

An absolute prohibition on contingent fees;

Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;

- ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
- ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
- ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
- ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



09

Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




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

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

We have tested each of these assertions substantively for all material balances included in the Balance Sheet. This is the same as our approach in prior years.

Appendix B

Summary of communications

Date 	Nature 	Summary 
22/01/2020	Meeting	The audit team met with Veritau, recently appointed as the Authority's internal auditor, to discuss our respective audit plans for 2019/20 and matters of common interest.
04/02/2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
05/03/2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
09/03/2020	Meeting	The audit team met with management, including the Chief Executive, to discuss the findings of the Ofsted report on children's services and the Authority's response to the findings.
14/06/2020	Meeting	The audit team met with management at the start of our year-end audit fieldwork to discuss key audit issues and agree on the practical aspects of undertaking the audit whilst working remotely.
08/07/2020	Meeting	The audit team met with management, including the Chief Executive, to discuss the impact of Covid-19 on the Authority and the implementation of the Authority's response to the Ofsted findings.
30/07/2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
02/10/2020	Meeting	The audit team met with management to discuss the Authority's budget for 2020-21, including the assumptions used and level of savings required.
11/11/2020	Meeting	The audit team met with management to discuss the main issues arising during the course of the audit and the arrangements for completion of our audit.
26/11/2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.




In addition to the above specific meetings and reports, the audit team hold monthly meetings with the Authority's Section 151 Officer and other senior officers involved in financial reporting where developments in the Authority, emerging audit topics and the status of our audit are standing agenda items. Meetings since February have also included the impact on the Authority of the Covid-19 pandemic.

In line with government guidance and EY policy, discussions since the start of the Covid-19 pandemic have been held remotely.




Appendix C

Required communications with the Corporate Affairs and Audit Committee ('the Committee')




There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report; and Audit Planning Report Addendum
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)

Required communications with the Committee (continued)




			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Page 76 Financial statements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)	
	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity’s related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)	

Required communications with the Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. 	Audit Results Report (this report)	
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report (this report)	
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report (this report)	

Appendix C

Required communications with the Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance.	Audit Results Report (this report)	
Material inconsistencies or misstatements of fact identified in other information which Management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)	
Auditor's report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed; ▶ Breakdown of fee information at the completion of the audit; and ▶ Any non-audit work 	Audit Planning Report; and Audit Results Report (this report)	
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report (to be presented at future meeting)	

Management representation letter

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

Management Representation Letter

[Date]

Ernst & Young
Citygate
St James’ Boulevard
Newcastle-upon-Tyne
NE1 4JD

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council (“the Council”) for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Middlesbrough Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local **Authority** Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because **[management to specify rationale]**.

Management representation letter (continued)

Management Representation Letter (continued)

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

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 17 December 2020.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter (continued)

Management Representation Letter (continued)

7. From 25 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Reserves

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

H. Use of the Work of a Specialist

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

I. Retirement benefits

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

Yours faithfully,

Tony Parkinson, Chief Executive



Ian Wright, Finance Director

Charlotte Benjamin, Monitoring Officer

Appendix E

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on the Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> ▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> ▶ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▶ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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About EY

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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Teesside Pension Fund Audit Results Report

Year ended 31 March 2020

February 2021

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Agenda Item 6

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world



Private and Confidential

February 2020

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our final audit results report in respect of our audit of the Teesside Pension Fund (the 'Fund') for the year ended 31 March 2020. We have now completed our audit and this report provides an update on the matters noted as outstanding when we presented our provisional audit results report to the November 2020 meeting of the Corporate Affairs and Audit Committee.

We set out in section 1 of our report the updates to our report since we presented our provisional audit results report.

We can confirm that, as indicated in our provisional audit results report, we will be issuing an unqualified audit opinion on the financial statements. Our final opinion does not include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty', as was indicated in our provisional audit results report, as we have subsequently concluded this narrative is not required.

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

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

We welcome the opportunity to discuss the contents of this report with you at the forthcoming meetings of the Corporate Affairs and Audit Committee and the Pensions Committee.

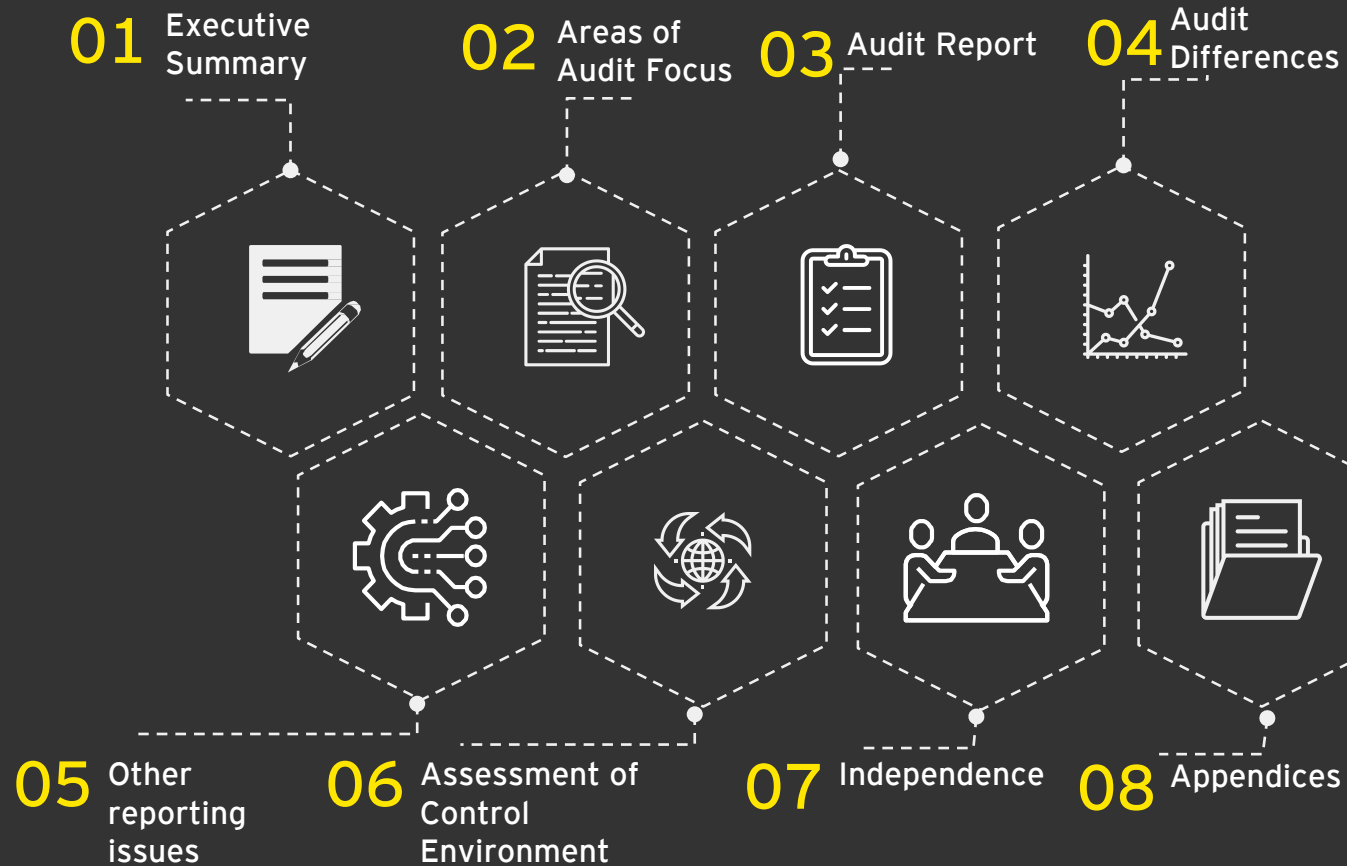
Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

Changes to our report

We presented our provisional audit results report to the meeting of the Corporate Affairs and Audit Committee on 26 November 2020. This report contains the following updates now that our audit is complete:

- ▶ **Page 6** - we have updated the status of our audit to reflect it is now complete;
- ▶ **Page 7** - we have now completed our review of the Pension Fund Annual Report and provide an update on this work;
- ▶ **Pages 14 and 15** - we now include a copy of our proposed auditor's report - which does not include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty', as was indicated in our provisional audit results report, as we have subsequently concluded this narrative is not required; and
- ▶ **Appendices** - we have removed what was Appendix D (Outstanding Matters) as all such matters have now been resolved.

Other than these amendments we have no updates to provide to what we reported in our provisional audit results report.

Scope update

In our Audit Planning Report tabled at the 5 March 2020 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum tabled at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan, as updated to respond to the risks of Covid-19.

Materiality

In our Audit Planning Report Addendum, we communicated that our audit procedures would be performed using a materiality of £37.4m, with performance materiality, at 75% of overall materiality, of £28.0m, and a threshold for reporting misstatements of £1.9m. We have considered whether any change to our materiality is required in light of observations during the course of our audit. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report Addendum remain appropriate.

Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 7.



Executive Summary

Status of the audit

We have now completed our audit procedures and can confirm we will be issuing an unqualified opinion on the Fund's financial statements.

Audit differences

We identified £6.9m of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. We have also identified audit differences with an aggregated impact of £33.1m which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

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

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

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



Executive Summary

Control observations

During the audit we identified one control observation, relating to management's review and challenge of information provided by the Fund's custodian, and made an improvement recommendation in relation to management's financial processes and controls. Further details are set out in Section 6. We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Other reporting issues

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. We have completed our review of the Pension Fund Annual Report and will be issuing an unqualified consistency opinion. We have no matters to report from our review of the Pension Fund Annual Report.

Independence

Please refer to Section 7 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks in our planning.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

What did we do?

- ▶ We identified fraud risks during the planning stages of our audit;
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside Teesside Pension Fund's normal course of business.

We are therefore content that the financial statements are not materially misstated as a result of fraud or error.



Areas of Audit Focus

Significant risk

Valuation of unquoted pooled investment vehicles

What is the risk?

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

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

Additional considerations for Covid-19

Unquoted assets are either level 2 or level 3 on the fair value hierarchy, which means quoted market prices are not available and valuation is reliant on the use of inputs derived from observable market data (level 2) or are not based on observable market data (level 3). The approach usually taken to value these assets, which sometimes relies on adjusting valuations or other observable information as at 31 December, has had to change because of the market volatility brought about by Covid-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of Covid-19 on investment values has been properly accounted for in the financial statements.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We compared the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances;
- ▶ We agreed a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence;
- ▶ We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.



Areas of Audit Focus

Significant risk

Valuation of unquoted pooled investment vehicles (continued)

What did we do (continued)?

- ▶ We enquired of management as to what steps they have taken to ensure the accuracy of valuations provided by investment managers accurately reflect the impact of Covid-19 on investments; and
- ▶ We have considered whether the planned audit procedures, detailed above, provided sufficient audit assurance over the impact of Covid-19 on investments. We opted to perform the following further procedures, in addition to those set out in our plan:
- ▶ We requested management obtain updated valuations as at 31 March 2020 from investment managers, to capture any subsequent revisions to valuations made as more information about market conditions at the reporting date emerged, and compared these valuations to those used in the financial statements.

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What are our conclusions?

We identified a number of differences between the amounts included within the financial statements and the confirmations provided by investment managers and the Fund's custodian, including:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- ▶ Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end;
- ▶ An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ A number of smaller variances which have a net impact of understating assets by £7.0m.

We have considered the impact of the errors identified in our assessment of the control environment, further details of our observations and recommendations are provided in section 6.

Our procedures covered 100% of the population.

Review of the updated valuations obtained from investment managers did not identify any significant changes in valuations which required reflecting in the financial statements.

Management have agreed to adjust for some of the identified misstatements detailed above which amounts to a net £24.4m. The net impact of identified misstatements which management have not agreed to adjust amounts to £7m. Further details of which are provided in section 4.



Areas of Audit Focus

Significant risk

Valuation of directly held property

What is the risk?

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

Additional considerations for Covid-19

In-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS), the Fund's property valuer provided their valuation of the Fund's directly held property at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of Covid-19 on the property market, were free from material misstatement.

What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained the valuation report from the external valuer (Cushman and Wakefield) and reconciled the valuations provided to those utilised within the financial statements;
- ▶ We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts;
- ▶ We engage EY Real Estate experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations; and
- ▶ We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the accounts concerning the material valuation uncertainty.

What are our conclusions?

Our review of the valuations of the Fund's directly held property has not identified any misstatements.

We do however note that of the sample of 10 properties we requested our EY Real Estate experts to review, 5 were valued towards the upper end of the expected range of valuations and 5 were in the middle of the expected range. We would therefore consider the Fund's valuations, whilst reasonable, to be towards the higher end of expectations.

Properties valued towards the upper end of the expected range were predominantly retail properties, where the impact of Covid-19 on valuations has been greatest.

The valuations of property assets at 31 March 2020 were provided to management by their valuer on the basis of a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market. The draft financial statements presented for audit did not include disclosure of this fact, however following audit challenge this has been disclosed as a critical judgement, sensitivity and accounting estimate in the final statements.



03 Audit Report



Audit report

Audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts on pages 98 to 101 and pages 127 to 135, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

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

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

We have nothing to report in this regard.



Audit report

Audit report

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities - Teesside Pension Fund set out on page 22, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
February 2021



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £33.1m, which have been corrected by management that were identified during the course of our audit:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;

An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;

Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end.

Summary of unadjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £6.9m, which have been identified during the course of our audit but not corrected for within the financial statements:

- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ An understatement of £7.0m as the aggregated net impact of a number of smaller differences identified between the financial statements and investment manager confirmations, excluding those differences separately detailed above. The majority of these differences are timing differences whereby the financial statements do not reflect purchases or sales occurring prior to the year end.

We ask that these differences be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation.

Source of differences

We have raised a recommendation to address the common source of some of these misstatements within Section 6 of our report.



Audit Differences

Comments on disclosure notes

The following matters relating to the disclosures within the financial statements have been identified during the course of our audit and corrected by management:

- ▶ **Material valuation uncertainty** - the draft financial statement did not include reference to the fact directly held property valuations have been prepared on the basis of a material valuation uncertainty;
- ▶ **Going concern** - the draft financial statements did not specifically state that the financial statements had been prepared on a going concern basis, nor did they include management's assessment as to why the adoption of the going concern basis is appropriate;
- ▶ **Outstanding commitments** - the draft financial statements did not include disclosure of the Fund's outstanding commitments to investment managers (note this was inserted prior to inclusion in the draft Middlesbrough Council Statement of Accounts);
- ▶ **Geographical Analysis** - we identified misclassifications within the disclosure of the geographical analysis of the Fund's assets totalling £33.8m;
- ▶ **Financial instruments** - the draft financial statements incorrectly identified directly-held property assets as financial instruments; and
- ▶ **Miscellaneous** - we made a number of recommendations to improve the disclosures within the financial statements, including several instances of internal inconsistency.



05 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

Other powers and duties

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

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have nothing to report in relation to this.



06

Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified one significant deficiency in the design or operation of an internal control which led to a material misstatement of the financial statements, as reported in sections 2 and 4. We have made a recommendation to address this deficiency on the next page.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



Assessment of Control Environment

Area	Management review of information provided by the Fund's custodian	Rating
Page 107 Observation and recommendation	<p>Management rely on information provided by the Fund's custodian when preparing the financial statements. Our audit procedures identified a number of issues with this information, including:</p> <ul style="list-style-type: none">▶ Differences between the asset valuations recorded by the custodian and the asset valuations provided by investment managers, most notably a £22.5m difference on one large investment;▶ The double-counting of a £19.6m investment by the custodian, whereby both a disposed of investment and its replacements were included in the year-end valuation report. The splitting of the investment occurred in September 2019; and▶ Timing differences, such that asset valuations provided by the custodian as at 31 March 2020 did not reflect purchases and sales which took place prior to 31 March 2020, with a net impact of understating assets by £16.0m. <p>Whilst the net impact of the above was not material, the absolute value of identified misstatements was material. The aggregate impact of all misstatements identified during the audit, including the above, was also material. We therefore consider there to be a risk of material misstatement arising from errors in the information provided by the Fund's custodian remaining uncorrected and being utilised in the production of the financial statements.</p> <p>We recommend that management review the processes in place for assuring the information provided by the Fund's custodian is accurate and complete. Where timing differences are known to exist, management should ensure that they have processes in place to determine the impact on the financial statements and, where appropriate, the information provided by the custodian should be adjusted prior to inclusion within the financial statements.</p>	
Management comment	<p>We have been working with the Fund's custodian to ensure the processes for updating manager valuation information (including the on-boarding of new managers or investments) are robust. We are also closely monitoring the figures provided by the custodian to ensure we keep track of any payments to or from managers that may not be reflected in the custodian's figures (typically, because of timing issues), and will ensure appropriate adjustments are made to quarterly and year-end valuations.</p>	



07

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

Note 1 - Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We outlined to management that we believe the fee for the Pension Fund should be set at £55,574. Management have not agreed to the proposed increase and we have therefore asked the PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £21,972.

Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. The additional fee we have requested, based on the cost to us of the additional work performed, and are discussing with management is £12,455.

Note 3 - IAS 19 Procedures

For 2019/20 a fee will be charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Such additional fees are permissible under the PSAA contract and will represent a scale fee variation requiring PSAA approval. The fee for the provision of IAS 19 assurances to the auditor of the Care Quality Commission (CQC), which is not subject to the NAO Code of Audit Practice, is covered by a separate engagement agreement between ourselves and the Fund and does not require approval by PSAA. Management may opt to recharge such fees to the relevant member bodies.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken audit work, in the form of IAS 19 procedures on behalf of the auditors of some participating employers of the Fund.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee (note 1, 2)	TBC	21,972
IAS 19 Procedures - Code (note 3)	6,000	-
Total Audit Fees	TBC	21,972
IAS 19 Procedures - CQC (note 3)	2,000	2,000
Total Fees for Non-Audit Services	2,000	2,000
Total Fees	TBC	23,972

New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
 - ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
 - ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
 - ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - ▶ Tax advocacy services
 - ▶ Remuneration advisory services
 - ▶ Internal audit services
 - ▶ Secondment/loan staff arrangements
- Page 110
- ▶ An absolute prohibition on contingent fees;
 - ▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
 - ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
 - ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
 - ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
 - ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



08 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.




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

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

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement. This is the same as our approach in prior years.

Appendix B

Summary of communications





Date 	Nature 	Summary 
22 January 2020	Meeting	The audit team met with Veritau, recently appointed as the internal auditors of Middlesbrough Council (as the administering authority), to understand the scope of their planned work in respect of the Pension Fund.
4 February 2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
5 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
1 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Pensions Committee.
14 June 2020	Meeting	The audit team attended the meeting of the Pensions Committee, where amongst other agenda items management presented a paper on the impacts of Covid-19 on the Fund's investments.
22 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Pensions Committee.
30 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
14 August 2020	Meeting	The audit team met with management to discuss the status of our audit, significant audit findings to date and arrangements for completion of our audit.
26 November 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.
9 December 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Pensions Committee.

In addition to the above specific meetings and reports, the audit team met with the management team multiple times throughout the audit to discuss the progress of the audit and audit findings. In line with government guidance and EY policy, meetings since the start of the Covid-19 pandemic have been held remotely.

Appendix C

Required communications with the Corporate Affairs and Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:



		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; ▶ Significant difficulties, if any, encountered during the audit; ▶ Significant matters, if any, arising from the audit that were discussed with management; ▶ Written representations that we are seeking; ▶ Expected modifications to the audit report; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)






Our Reporting to you

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty; ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report (this report)
Financial statements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; ▶ The effect of uncorrected misstatements related to prior periods; ▶ A request that any uncorrected misstatement be corrected; ▶ Corrected misstatements that are significant; and ▶ Material misstatements corrected by management 	Audit Results Report (this report)
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Corporate Affairs and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and ▶ A discussion of any other matters related to fraud 	Audit Results Report (this report)
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management; ▶ Inappropriate authorisation and approval of transactions; ▶ Disagreement over disclosures; ▶ Non-compliance with laws and regulations; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)



Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report; and Audit Results Report (this report)
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and ▶ Enquiry of the Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of. 	Audit Results Report (this report)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee (continued)

Our Reporting to you

Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed; ▶ Breakdown of fee information at the completion of the audit; and ▶ Any non-audit work 	Audit Planning Report; and Audit Results Report (this report)

Management representation letter

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

Management Representation Letter

[Date]

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle-upon-Tyne
NE1 4JD

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [management to insert rationale].

Management representation letter (continued)

Management Representation Letter (continued)

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ Involving financial improprieties;
 - ▶ Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
 - ▶ Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
 - ▶ Involving management, or employees who have significant roles in internal control, or others; or
 - ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ▶ Additional information that you have requested from us for the purpose of the audit; and
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on 9 December 2020.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

Management representation letter (continued)

Management Representation Letter (continued)

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Page 121 D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information disclosed on pages 98 to 101 and pages 127 to 135 of the Middlesbrough Council Statement of Accounts 2019/20.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

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

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

Management representation letter (continued)

Management Representation Letter (continued)

J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

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

L. Estimates - Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the Covid-19 pandemic.

Yours faithfully,

Tony Parkinson, Chief Executive

Ian Wright, Director of Finance

Charlotte Benjamin, Director of Legal and Governance Services

Schedule of unadjusted audit differences



The following relates to the overstatement of investment assets in the financial statements:

	Dr (£'000)	Cr (£'000)
Change in market value	6,957	
Investment assets		6,957

Appendix E

Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Teesside Pension Fund 
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> ▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019. ▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> ▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▶ Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> ▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> ▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales. ▶ We do not currently provide any non-audit services to you.

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Certification of Claims and Returns Annual Report 2019/20

Middlesbrough Council

February 2021

Page 125

Agenda Item 7

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

February 2021

Dear Corporate Affairs and Audit Committee Members

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies, and must complete returns providing financial information to government departments. In some cases, these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them.

This report summarises the results of our work performed on Middlesbrough Council's (the Council) claims and returns for 2019/20.

We carried out our work in respect of the Council's Housing Benefit claim in accordance with the Housing Benefit Assurance Process ("HBAP") Module 1 2019/20, issued by the Department for Work and Pensions ("DWP").

We also carried out our work in respect of the Council's Teachers' Pensions End of Year Certificate in accordance with the Reporting Accountants Guidance TP05 (FY 19/20 Version 1), published on the Teachers' Pensions website.

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

We welcome the opportunity to discuss this report with you at the Corporate Affairs and Audit Committee meeting on 4 March 2021.

Yours faithfully

Stephen Reid
Partner
For and on behalf of Ernst & Young LLP

Contents

01 Housing benefits subsidy claim



02 Other assurance work



03 2019/20 certification fees



The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letters dated 15 October 2020 and 26 October 2020.

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

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or associate partner contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£60,750,393
Amended / Not amended	Not amended
Audit findings	Yes
Fee - 2019/20	£12,800
Fee - 2018/19	£10,500

Findings from 2018/19

We set out below the findings from the 2018/19 certification work, along with information as to whether these issues were also identified in 2019/20.

1. Misclassification of expenditure as a backdated expense (Rent Allowances)

Testing in 2018/19 identified 29 cases where expenditure had been incorrectly classified as backdated. Our testing for 2019/20 identified four cases where expenditure was incorrectly classified as backdated expense. See point 1 of our findings for 2019/20.

Incorrect calculation of earnings (Rent Allowances)

Testing in 2018/19 identified three cases where the claimant's earnings were incorrectly assessed, resulting in underpayments. Our testing for 2019/20 has not identified any instances where earnings had been incorrectly calculated.

Incorrect property leaving date used (Non HRA Rent Rebates)

Testing in 2018/19 identified two cases where an incorrect property leaving date was used, resulting in one overpayment and one underpayment. Our testing for 2019/20 identified one case where the incorrect property leaving date had been used. See point 2 of our findings for 2019/20.

Findings from 2019/20

We set out below the findings from the 2019/20 certification work.

1. Misclassification of expenditure as a backdated expense (Rent Allowances)

Testing of our initial sample identified no instances where expenditure had been incorrectly classified as backdated. However, as errors were found in this area in 2018/19, we were required to extend our sample testing. Due to the small population, we were required to test all claims included as backdated. From this additional testing, we identified four cases where expenditure had been incorrectly classified as backdated. The total value of these errors was £1,161.

2. Incorrect property leaving date used (Non HRA Rent Rebates)

Testing of our initial sample identified no instances where the property leaving date used to calculate the payment was incorrect. However, as errors were found in this area in 2018/19, we were required to extend our sample testing by 40 cases. From this additional testing, we identified one case where an incorrect property leaving date had resulted in an underpayment. The value of this underpayment was £29. We have not extrapolated this error as the Council has no eligibility to subsidy from DWP for benefits not paid, therefore they have no impact on the subsidy claim submitted to DWP.



02

Other assurance work





Other assurance work

Certification of Teachers' Pensions Return

During 2019/20, we acted as reporting accountants in relation to the Council's Teachers' Pensions return. During our review of the Council's End Of Year Certificate ("EOYC") form, we identified the following matters which were reported to Teachers' Pensions:

1. We noted that the Responsible Finance Officer had not signed and dated the EOYC, as required by Teachers' Pensions. Management has confirmed that this was due to physical restrictions arising from the Covid-19 pandemic, and that the EOYC was approved electronically.
2. We noted that the total contributions figure reported in the EOYC was £0.98 lower than the amount notified to the Council by Teachers' Pensions in their email of 28 April 2020.
3. We identified that the contribution amounts reported in the EOYC differed from the amounts calculated by application of the relevant contribution rates to the contributory salary amounts also reported in the EOYC. The net impact of these differences was that the reported contribution amounts were lower than our recalculation by £19.11 for teachers' contributions and £11.15 for employer contributions.
4. We noted differences between the contributory salary and contribution amounts reported in the EOYC and the Council's payroll records. Per the Council's payroll records, contributory salaries were £29.91 lower than the amount reported in the EOYC, teachers' contributions were £0.03 higher than the amount reported in the EOYC and employer contributions were £0.95 higher than the amount reported in the EOYC.

highlighting these matters, we note there is no minimum value for the reporting of exceptions to Teachers' Pensions.



03

2019/20 certification fees





2019/20 certification fees

Our fees for the 2019/20 work are detailed below.

Claim or return	2019/20	2018/19
	£	£
Housing Benefits subsidy claim	12,800	10,500
Teachers' Pension return	5,000	4,500
Total	17,800	15,000

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ED None

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MIDDLESBROUGH COUNCIL

Report of:	Director of Finance – Ian Wright
Submitted to:	Corporate Affairs & Audit Committee – 4 March 2021
Subject:	Redmond Review

Summary

Proposed decision(s)
For Members of the Committee to note the key points of the Redmond Review & discuss next steps for compliance at the Council

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Information & Discussion	No	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Not Applicable	Not Applicable	The Redmond Review makes recommendations around the Council’s relationship with external audit and the framework for financial reporting going forwards.

Ward(s) affected
No direct impact on any wards.

What is the purpose of this report?

1. To update Members on the findings & recommendations of the Redmond Review and subsequent progress since its release in September 2020.
2. This Review has implications for the Committee, due to its responsibility for considering the findings of the external auditor in relation to the Statement of Accounts and then approving those audited accounts for publication each year.

Why does this report require a Member decision?

3. The report is for information and discussion.

Report Background

4. On 8 September 2020, the Government published the results of an independent review, commissioned by MHCLG and led by Sir Tony Redmond (an ex-local authority chief executive and chief finance officer) into the effectiveness of local authority financial reporting and external audit. Local authority accounts are complex and the Review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. The review was conducted before the current Covid-19 pandemic and the audits of the 2019-20 accounts for local authorities.
5. The key findings of the report are as follows:
 - An ineffective balance between price and quality with 40% of external audits relating to the 2018-19 financial year failing to meet required reporting deadlines, in part due to under-resourcing and lack of experienced staff.
 - A lack of co-ordination and regulation of audit activity across the sector.
 - Outcomes from statutory accounts and external audit work not always being effectively communicated and presented to the local authority and public.
 - The technical complexity of statutory accounts limiting public understanding of the financial position of local authorities and reducing the effectiveness of any scrutiny processes.
6. Members will be aware from previous discussions that the findings from the Review have a direct bearing and relevance to the audit of the Council's 2019/20 accounts. In summary:
 - The statutory deadline of the end of November for the audit has not been met and is now only just complete towards the end of February.
 - There is an ongoing dialogue with the external auditors over a large increase in the level of fees payable for this work.
 - The timeliness of the Council's ability to publish the audited results of the 2019/20 audit means that they will be quickly superseded by the 2020/21 accounts.
 - The accounts are very complex and are not understood by the public or other stakeholders. This has been demonstrated by no questions during the public inspection of accounts period over the last two years and Members needing specific training and direction when reviewing and scrutinising the accounts.
 - Due to the regulatory demands on local authority accounts, most of the additional audit work has been on areas of material value that involve technical complexity and professional judgement when preparing. These areas do not have immediate or even medium term bearing on the Council's financial position.
7. The external audit for 2019/20 (started late June 2020, finished late February 2021) has had a significant drain on capacity for both the local authority finance team and for the local audit team. This is in the middle of a public health pandemic with staff working predominantly from home and at a time when the Council does not have a Chief Accountant in post. The preparations for the 2020/21 closure of accounts are behind normal and all staff involved in the year-end accounts, including auditors,

have had little break and time to recover from this process. As a result, the Review is very welcome in its attempt to tackle and take forward many of these issues.

8. 23 recommendations were made as part of the Review, with the key ones outlined below. The implementation of some of these requires changes to primary legislation. However, many of them can be implemented without.
9. The recommendations can be considered in four main themes as summarised below:

External Audit Regulation and Oversight

- The creation of an Office of Local Audit Regulation to procure, manage and regulate external audits. Some of the existing regulatory responsibilities, which currently sit with various other bodies including the Public Sector Audit Appointments Committee (PSAA), to transfer to the new body.
- Revisions to the current fee structure for external audits to ensure adequate funding is available and resources are deployed accordingly.
- Additional skills training for those involved in local audits and the amendment of statute to allow audit firms with the requisite capacity, skills and experience to bid for local audit work.
- Consider the deadline for publication of audited local authority accounts in consultation with the NHS, with a view to extending the deadline from 31 July to 30 September.

Financial Reporting

- A simplified and standardised financial statement of service information and costs be made available to the public to allow comparison with the annual budget and council tax. This new statement would be prepared in addition to the statutory accounts and would be subject to audit.
- CIPFA/LASAAC to look again at the composition of the statutory accounts to see if improvements can be made to simplify their presentation and enhance their usefulness and understandability.

Governance

- The composition of audit committees be examined to ensure they have the required knowledge and expertise. Consideration should be given to the appointment of at least one suitably qualified, independent, financially literate member to support the Chair and other elected representatives in scrutinising local authority finances.
- To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30 September each year, irrespective of whether the financial accounts have been certified.
- A formal requirement for statutory officers (Chief Executive, Monitoring Officer and Section 151 Officer) to meet, at least annually, with the Key Audit Partner.

Financial Resilience and Sustainability

- The current framework for seeking assurance on financial sustainability is reviewed by MHCLG to help address the gap between stakeholder expectations and what the auditor is required to do.
- The sharing of key concerns relating to service and financial viability, between local auditors and inspectorates, prior to completion of the external auditor's report.
- In addition, an update to the NAO's Code of Audit Practice that will be applicable from 2020-21 will require auditors to provide a narrative statement on the arrangements an authority has in place to secure value for money.

10. It is expected that a number of recommendations will be in place for the audit of the 2021-22 accounts, at least in part. For instance, it is proposed that for 2020-21's accounts the new standardised financial statement of service information and costs is produced on a trial basis, with full implementation as an audited statement in the following financial year.
11. Assuming that the recommendations are implemented, the key implications for the Council and the Committee will include:
 - A likely increase in audit fees; with evidence suggesting audit fees collectively are at least 25% lower than required to fulfil current local audit requirements effectively.
 - The requirement for the auditor to present an annual report to Full Council.
 - The appointment of at least one suitably qualified independent member to Audit Committee to assist with scrutinising the accounts.
 - An additional requirement to produce a standardised statement of service information and costs.
 - A revised timetable for the statutory accounts process, with a change in the reporting deadline for local audit from 31 July to 30 September.
12. A copy of the Redmond Review, which includes an executive summary and more details on the findings reached and recommendations made, can be found at the following: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>
13. One recommendation that has been initially rejected by MHCLG when considering the Review is the creation of an independent regulator (OLAR). The view from Government is that further time is needed for the role of the PSAA to become embedded and that this organisation could take the lead on some of the other regulatory functions suggested by Sir Tony Redmond.
14. A consultation has also recently been released by MHCLG on proposed legislation to move the statutory date for local authority committee approval of the 2020/21 audited accounts from 31 July each year to 30 September. This is on a trial basis for the next two years to see if this has any impact on the level of local authority audits that are not meeting the required deadline for external financial reporting. The closing date for comments on this is 1st March.
15. MHCLG and the National Audit Office are currently in the process of establishing a sector led working party to take forward the other recommendations. Progress on this will be reported to Members at regular intervals going forward.

What decision(s) are being asked for?

16. The report is for information and discussion purposes only.

Why is this being recommended?

17. No recommendations are being proposed.

Other potential decisions and why these have not been recommended

18. Not Applicable.

Impact(s) of recommended decision(s)

19. Although the report does not contain any recommendations, it will affect the workload and potentially the constitution of the Committee in the future. As a result, the update is mainly for information at this stage with Members to monitor the position and any actions and legislative requirements that may arise.

Legal

20. The Local Audit & Accountability Act 2014 and the Audit and Accounts Regulations 2015 are the main legal provisions outlining external audit and local authority financial reporting currently. These regulations will be updated as required to facilitate the implementation of specific elements of the Review.

Financial

21. Additional funding for the implications of the Redmond Review was announced by Government as part of the draft Local Government Financial Settlement in December. Details of allocation to individual local authorities for this have yet to be announced.

Policy Framework

22. There are no implications at this stage for the policy framework of the Council.

Equality and Diversity

23. There are no equality and diversity issues as part of this report.

Risk

24. There are no immediate risk related issues as part of this report.

Actions to be taken to implement the decision(s)

25. Not applicable to this report. Further updates will be provided to Members as and when decisions are required by the Committee.

Appendices

No appendices are attached to this report.

Background papers

No background papers were used in the preparation of this report.

Contact: Justin Weston, Head of Finance & Investments
Email: Justin.weston@middlesbrough.gov.uk
Tel: (01642) 729582

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Report of:	Head of Internal Audit, Veritau
Submitted to:	Corporate Affairs and Audit Committee, 4 March 2021
Subject:	Internal audit and counter fraud plan 2021/22

Summary

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none"> • approves the internal audit and counter fraud plan for 2021/22

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Information	No	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
<p>Internal audit work contributes towards achieving the Council’s priorities by identifying any potential control issues which may obstruct that achievement. The prevention and detection of fraud as well as the recovery of losses helps the Council to ensure the effective use of public funds for the benefit of residents and to achieve its strategic goals.</p>	<p>Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls in place to enable delivery, ensure value for money and achieve better outcomes for local people.</p>	<p>Delivering balanced budgets, maintaining front line services, and addressing budget shortfalls are priorities for the Council. Ensuring appropriate controls are in place and preventing fraud from occurring and recovering loss helps the Council achieve these aims.</p>

Ward(s) affected
None.

¹ Remove for non-Executive reports

What is the purpose of this report?

1. To seek Members' approval for the planned programme of internal audit and counter fraud work to be undertaken in 2021/22

Why does this report require a Member decision?

2. Internal audit professional standards require that an annual audit plan is produced based on an assessment of risk. The plan is required to be approved by this committee as part of its responsibility for overseeing the work of internal audit.

Report Background

3. Internal audit provides independent and objective assurance and advice about 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.
4. The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
5. The standards and the Council's audit charter require that the Head of Internal Audit gives an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The basis for the opinion is the programme of work that internal audit carries out.
6. The purpose of this report is to present an internal audit and counter fraud plan for 2020/21 to the committee for approval.

Internal Audit plan

7. Appendix 1 sets out proposed internal audit work for 2021/22. The planned work is based on an initial assessment of risk undertaken by Veritau alongside discussions with chief officers and members. These discussions will continue in the lead up to the 2021/22 audit year.
8. As in 2020/21, the plan is a high-level document with an allocation of days for key areas of assurance. The detailed audits to be included within these areas will be agreed with officers in the coming months. The plan is also flexible so will be updated if the council's priorities or risks change during the year.
9. It is expected that the Covid-19 pandemic and the Council's response to it will be a significant priority for the Council throughout 2021/22. Veritau will continue to set time aside to provide support and challenge for this. The flexibility of the plan will assist this.
10. Total days allocated to internal audit assurance in 2021/22 are 555.

Counter Fraud Plan

11. Proposed areas of counter fraud work in 2021/22 are set out in Appendix 2. No estimate of time is made for each area as this will depend on the levels of

suspected fraud reported to the team. The priorities for the work programme are set annually in the Council's Counter Fraud Strategy Action Plan and annual Fraud Risk Assessment.

12. Total days allocated to counter fraud work in 2021/22 are 150.

What decision(s) are being asked for?

13. That the committee:

- approves the internal audit and counter fraud plans for 2021/22

Why is this being recommended?

14. Internal audit professional standards require that an annual audit plan is produced based on an assessment of risk. This plan has been produced following consultation with officers and members.

Other potential decisions and why these have not been recommended

15. This report is for approval. There are no other options available.

Impact(s) of recommended decision(s)

Legal

16. There are no specific risks.

Financial

17. There are no specific risks.

Policy Framework

18. There are no specific risks.

Equality and Diversity

19. There are no specific risks.

Risk

20. The Council will be non-compliant with the Public Sector Internal Audit Standards if the internal audit plan is not approved by the committee, and it may be subject to increased scrutiny and challenge.

Actions to be taken to implement the decision(s)

21. Any requests for additional assurance or clarification by Members of the Committee will be responded to accordingly.

Appendices

Appendix 1 – internal audit plan 2021/22

Appendix 2 – counter fraud plan 2021/22

Background papers

No background papers were used in the preparation of this report

Contact: Max Thomas

Email: max.thomas@veritau.co.uk



Middlesbrough Council

Internal Audit Plan 2021/22

Assistant Director – Audit Assurance:
Deputy Head of Internal Audit:
Head of Internal Audit:

Phil Jeffrey
Richard Smith
Max Thomas

Date: 4 March 2021



1 Introduction

- 1.1 This plan sets out the proposed 2021/22 programme of work for the internal audit and counter fraud service provided by Veritau for Middlesbrough Council.
- 1.2 In accordance with the Public Sector Internal Audit Standards (PSIAS), internal audit is required to produce an indicative annual audit plan. The plan is a working document, and changes are made throughout the year to reflect changes in risk and any issues that may arise.
- 1.3 The content of the plan has been subject to consultation with senior officers and needs to be formally approved by the Corporate Affairs and Audit Committee. Specific work to be carried out will be agreed through the Council's client management arrangements and updates provided to the Committee. The internal audit work programme will also be discussed with the Council's external auditors, to ensure that there is no duplication of effort. Further details about the approach to audit planning can be found in the Audit Charter.

2 2020/21 Internal Audit and Counter Fraud plan

- 2.1 The Council continues to face significant budgetary pressures, increasing demand for services and a number of other challenges including the ongoing response to the Covid-19 pandemic. To reflect this, the approach adopted is to focus on higher risk systems / areas including those:
 - where the volume and value of transactions processed are significant, or the impact if risks materialise is very high, making the continued operation of regular controls essential;
 - areas of known concern, where a review of risks and controls will add value to operations;
 - areas of significant change which may include providing direct support / challenge to projects, reviewing project management arrangements, or consideration of the impact of those changes on the control environment for example where the reduction in resources may result in fewer controls.
- 2.2 Internal audit resources are limited and the plan is intended to ensure the available resources are prioritised towards those systems which are considered to be the most risky and / or which contribute the most to the achievement of the Council's priorities and objectives.
- 2.3 The plan includes an allocation of days for key service areas within the Council. The individual audits to be included within these areas and the scope of those audits will be agreed with officers during the year.

2.4 Details of the 2021/22 internal audit plan are set out below:

Area	Days	Potential audits / activity
Corporate & cross cutting	80	Financial planning and resilience Budgeting and savings plans Corporate governance Strategic planning Risk management and emergency planning Performance management and data quality Partnerships Procurement and contract management Ethics, culture, workforce planning Home working Training & Development Investment Strategy Information governance and data protection Environment, climate change and waste Health and safety Project governance and management Covid-19 response
Financial / corporate systems	80	Payroll / personnel Main accounting / general ledger Debtors and creditors Capital accounting and assets Council Tax/NNDR and benefits Treasury Management
ICT	40	Strategy and governance ICT risk management ICT information security Cyber security ICT asset management ICT change management (including Office 365 rollout) Digitalisation and automation
Adult Social Care & Health	75	Budget management Social care referrals and assessments Liberty Protection Safeguards Public health Environmental health
Children's Services	75	Ofsted improvement plan response Commissioning

Area	Days	Potential audits / activity
		Budget management Social care referrals and assessment Special Educational Needs and Disability EHC plans Maintained schools themed audits Measures to improve school attendance
Environment and Community Services	30	Estates Housing strategy and homelessness Highways and fleet management Commercial property management
Regeneration and Culture	30	Planning Transporter Bridge and other asset maintenance Town Hall strategic management
Teesside Pension Fund	30	Pension fund governance
Contingency	15	New or emerging risks
Follow-ups	50	Follow-up of previous actions
Liaison and reporting	50	Liaison with officers Committee reporting Audit planning and resourcing External audit liaison Support and advice Assurance mapping
TOTAL	555	



Middlesbrough Council

Counter Fraud Plan 2021/22



1. INTRODUCTION

- 1.1 This plan sets out the activities that the counter fraud service will deliver for Middlesbrough Council. A total of 150 days of counter fraud work has been agreed for 2021/22. This work will comprise reactive investigations which are determined by referrals received from officers and the public about suspected fraud. Other work will be undertaken in accordance with priorities determined by the Counter Fraud Risk Assessment and Counter Fraud Strategy Action Plan (presented to the Corporate Affairs and Audit Committee in September).

2. 2021/22 COUNTER FRAUD PLAN

- 2.1 A summary of planned areas of work is set out in the table below.

Area	Scope
Counter Fraud General	Monitoring changes to regulations and guidance, review of counter fraud risks, and support to the council with the maintenance of the counter fraud policy framework. This will include completion of the annual counter fraud risk assessment and review of the counter fraud policy and strategy.
Proactive Work	This includes: <ul style="list-style-type: none">raising awareness of counter fraud issues and procedures for reporting suspected fraud - for example through training and provision of updates on fraud related issuestargeted proactive counter fraud work - for example through local and regional data matching exercisessupport and advice on cases which may be appropriate for investigationadvice and guidance on measures to deter and prevent fraudpromotion of the council's whistleblowing arrangements
Reactive Investigations	Investigation of suspected fraud affecting the council. This includes feedback on any changes needed to controls and procedures to prevent fraud recurring.
Covid-19 response work	Counter fraud checks to detect fraudulent applications for Covid-19 grants. Investigation of potential fraud highlighted through post assurance work. Assisting the council to recover money lost to fraud through grants.
National Fraud Initiative (NFI)	Coordinating the submission of data to the Cabinet Office and the distribution of matches from the NFI data matching programme.

Report of:	Head of Internal Audit, Veritau
Submitted to:	Corporate Affairs and Audit Committee, 4 March 2021
Subject:	Internal Audit and Counter Fraud progress report

Summary

Proposed decision(s)
<p>That the Committee:</p> <ul style="list-style-type: none"> notes the progress in delivering the 2020/21 internal audit and counter fraud plan and the outcomes from work completed since the last report to this committee.

Report for:	Key decision:	Confidential:
Information	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
Receiving details of internal audit and counter fraud work completed will help the Committee perform its role. Internal audit and counter fraud work contributes towards achieving the Council's priorities by identifying potential issues which may obstruct that achievement.	Internal Audit assists management in delivering their priorities by working to an annual programme of work that includes assignments linked to corporate risks and priorities, and which seeks to add value by assessing the quality of controls, ensure value for money and achieve better outcomes for local people.	Delivering balanced budgets, maintaining front line services, and addressing budget shortfalls are priorities for the Council. Ensuring appropriate controls are in place and preventing fraud from occurring and recovering loss helps the Council achieve these aims.

Ward(s) affected
None.

What is the purpose of this report?

1. To provide Members with an update on progress with the delivery of internal audit and counter fraud work and on reports issued and other work completed since the last update report to this committee.

Why does this report require a Member decision?

2. Internal audit professional standards require that internal audit reports to the committee on progress with the delivery of audit plans and on the findings and conclusions from work completed.

Report Background

3. Internal audit provide 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.
4. The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
5. Fraud is a significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom. Veritau are 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.
6. The purpose of this report is to provide an update on internal audit and counter fraud work carried out in 2020/21. The Council's internal audit and counter fraud plan was approved by this Committee in March 2020.

Internal Audit Progress report

7. Appendix 1 summarises the progress made in delivering 2020/21 internal audit work.
8. The audits listed are those that have been agreed with management as a priority for review during the year and which have either commenced or have been scheduled to take place. It is expected that no further audits will be added to the programme of work although support will continue to be provided where this is requested. For example, if additional assurance is required to support the Council's Covid-19 response before the end of the year.
9. A number of areas have been added to the work programme since the last report to this committee in December. These include work relating to Covid-19, such as a review of arrangements relating to supplier relief, post-assurance work on business grants paid out and the returns provided for the government's income compensation scheme. A number of other audits have needed to be deferred including commissioning (within Children's Services), the housing delivery vehicle and public health. These audits will be considered along with other priorities for inclusion in the 2021/22 audit plan.

10. All audits continue to be carried out remotely, for example through virtual meetings with officers and sharing of information electronically. This continues to provide some challenges and it is recognised that the Council's staff continue to be under significant pressure. We have regular liaison meetings with the S151 Officer and other key contacts who are providing support with helping to progress work and address any difficulties that arise.
11. We have continued to prioritise financial system audits that were not completed in 2019/20 due to the Covid-19 pandemic. An audit of debtors has now been finalised and other financial systems audits are either underway or are scheduled to commence soon. Work has also started or has been scheduled across other service areas. This includes work across each of the Council's directorates.
12. Work completed since the previous report to this Committee includes improvement plan governance (following the Council's Ofsted inspection in 2019), anti-social behaviour management, the Council's reablement service and its inclusion strategy for younger people.
13. A summary of work completed since the last report to this Committee, including the number of actions agreed and key issues identified, is included in Appendix 2.
14. Veritau has continued to follow-up the actions agreed by the previous internal audit service. A summary of the number of new actions agreed and implemented during 2020/21 can be found in Appendix 3.

Counter Fraud Progress report

15. The Council approved a new Counter Fraud Policy, Counter Fraud and Corruption Strategy (with associated action plan), as well as considering an updated Fraud Risk Assessment in September 2020. Revised Whistleblowing and Anti-Money Laundering policies were agreed in December 2020.

Covid-19 Related Fraud Risks

16. Councils have been given responsibility for the administration of Covid-19 grants to businesses across a number of schemes, e.g. Small Business Grant Fund, Local Authority Discretionary Grant Fund and Retail, Hospitality and Leisure Grant Fund. These schemes have been targeted by organised criminals operating nationally and internationally as well as false applications for grants by local businesses.
17. The Department for Business, Energy, and Industrial Strategy (BEIS) has required all councils administering grants to undertake an independent review of payments made during the first phase of lockdown. This work for Middlesbrough Council will be undertaken by the counter fraud and internal audit teams. A sample of payments will be taken, evidence scrutinised and checks made with external data sources to identify potential fraud and error.

National Fraud Initiative

18. The 2020/21 National Fraud Initiative (NFI) is underway. The NFI is a mandatory exercise run through the Cabinet Office every two years which matches a diverse set of data from all councils in the UK as well as other organisations like HMRC and local government pension authorities.

19. Checks were made to ensure that the Council had met the fair processing requirements. Data was then gathered, formatted, and uploaded to the Cabinet Office on schedule. The first tranche of data matches was released in February. There are over 5,500 matches across a range of Council areas.
20. The NFI will also examine Covid-19 payments this year. Grant payment data will be used to detect where businesses have erroneously or fraudulently accessed multiple grants, payments that may have been made to accounts linked to organised crime, and if state aid thresholds have been breached.

Fraud Awareness

21. Raising awareness of fraud with staff and how to report it is a key objective for the counter fraud team. The team has met with key service areas to arrange fraud awareness sessions and has already delivered training to members of staff in the Human Resources department. Further work is planned to help promote and raise awareness of the Council's whistleblowing procedure.

What decision(s) are being asked for?

22. That the committee:
 - notes the progress in delivering the 2020/21 internal audit and counter fraud plan and the outcomes from work completed since the last report to this committee.

Why is this being recommended?

23. Internal audit professional standards require that progress in delivering internal audit work, and the findings and outcomes from audit work are reported to the committee.

Other potential decisions and why these have not been recommended

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

Impact(s) of recommended decision(s)

25. There are no implications to this report in relation to:

- ***Legal***
- ***Financial***
- ***Policy Framework***
- ***Equality and Diversity***

Risk

26. The Council will fail to comply with proper practice for internal audit if Members are not regularly updated on progress of and outcomes from internal audit work.

Actions to be taken to implement the decision(s)

27. Any requests for additional assurance or clarification by Members of the Committee will be responded to accordingly.

Appendices

Appendix 1 – internal audit progress report February 2021

Appendix 2 – final internal audit reports issued

Appendix 3 – summary of agreed internal audit actions

Background papers

No background papers were used in the preparation of this report

Contact: Phil Jeffrey

Email: phil.jeffrey@veritau.co.uk

Contact: Jonathan Dodsworth

Email: jonathan.dodsworth@veritau.co.uk

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INTERNAL AUDIT WORK 2020/21

PLANNED AUDIT WORK 2020/21	STATUS
Corporate & Cross-Cutting	
Use of CCTV	Fieldwork underway
Purchasing Cards	Draft report issued
Fol and SAR	Fieldwork complete
Governance Arrangements	Fieldwork underway
Officer and Member Decision Making	Fieldwork underway
Project Management	Fieldwork underway
Digitalisation	Fieldwork complete
Cyber Security Awareness	Planned Q4
Assets review	Fieldwork underway
Covid-19 response	
Supplier relief	Planning commenced
Grants post-assurance	Planning commenced
Income compensation scheme	Fieldwork underway
Financial / Corporate Systems	
Debtors (Accounts Receivable)	Reasonable Assurance
Creditors (Accounts Payable)	Fieldwork underway
Payroll	Fieldwork underway
Council Tax & NNDR	Planning commenced
Council Tax Support & Benefits	Planned Q4
Main Accounting	Fieldwork underway

PLANNED AUDIT WORK 2020/21	STATUS
Adult Social Care & Health	
Reablement Service	Reasonable Assurance
Social Care and Emergency Payments	Planning commenced
Children's Services	
Improvement Plan Governance	Substantial Assurance
Data Quality	Draft report issued
Schools Themed Audit – Budgeting	Fieldwork underway
Schools Themed Audit – Pupil Premium	Fieldwork underway
Inclusion Strategy	Reasonable Assurance
Environment and Community Services	
Anti-Social Behaviour Management	Reasonable Assurance
Car Parking Income (follow-up)	Planned Q4
Regeneration and Culture	
Transporter Bridge	Work complete
Teesside Pension Fund	
Pension Fund Administration	Planning commenced
Pension Fund Investments	Planning commenced
Other work	
Troubled Families certification	Ongoing throughout the year (Q2, Q3 complete)
MCLS subcontracting review	Work complete
TVCA grant certification	Work complete

PLANNED AUDIT WORK 2020/21	STATUS
Homes England compliance	Work complete
Trust Funds certification	Work complete

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AUDITS COMPLETED AND REPORTS ISSUED

Final Reports Issued

The table below shows audit reports and other work finalised since the last report to this committee in December 2020. In all cases the actions have been agreed with management, and will be followed up by internal audit when the due date is reached.

Audit	Opinion	Agreed actions			Work done / issues identified
		P1	P2	P3	
Improvement Plan Governance	Substantial Assurance	0	1	0	A review of the governance arrangements in place to deliver the improvement plan following the Ofsted inspection in 2019. We found that the arrangements were effective and are helping to deliver planned improvements.
Debtors (Accounts Receivable)	Reasonable Assurance	0	4	2	An audit of the debtors system at the Council. The main issues identified related to invoices not being raised promptly, application of VAT and the debt recovery process including the write-off of debts.
Reablement Service	Reasonable Assurance	0	2	0	An audit of the reablement service which provides short-term assessments and support services to residents leaving primary care and re-entering community care. We found that performance monitoring and reporting within the service could be improved and there was a need to ensure clear strategic objectives are identified.
Anti-Social Behaviour Management	Reasonable Assurance	0	2	3	A review of strategies, policies and processes to address anti-social behaviour. We found that no

Audit	Opinion	Agreed actions			Work done / issues identified
		P1	P2	P3	
					performance framework was in place and complaint response times were not being monitored.
Inclusion Strategy	Reasonable Assurance	0	2	4	An audit of the Council's inclusion strategy, which aims to promote achievement and well-being for all young people. We found that scrutiny and challenge of the action plan in place could be improved, This includes demonstrating how lapsed deadlines and actions are addressed.
Troubled Families Q3	No opinion given	0	0	0	A quarterly review of claims included in the most recent troubled families submissions. No issues were identified.
Trust Funds certification	No opinion given	0	0	0	An annual audit of three trust funds for which the Council is the trustee. No issues were identified.

Follow up of internal audit agreed actions

1. A total of 33 actions have been agreed with management as a result of internal audit work completed in 2020/21. A summary of the priority of these actions is included below:

Priority of actions	Number of actions agreed
1	7
2	15
3	11
Total	33

2. The table below provides an analysis of the actions which have been agreed, by directorate:

Priority	ECS	Finance	ASC&H	L&G	Children's	R&C
1	0	0	0	0	0	7
2	2	4	2	1	3	3
3	4	2	0	1	4	0
Total	6	6	2	2	7	10

3. Of the 33 agreed actions, ten were due for implementation before the end of February 2020. 9 (90%) have been satisfactorily implemented. The remaining action is currently being followed up with the relevant service area. The other actions will be followed up when their implementation dates are due.

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Report of:	Returning Officer – Tony Parkinson
Submitted to:	Corporate Affairs and Audit Committee – 4 March 2021
Subject	Update on polling stations and other election processes for 6 May 2021 elections

Summary

Proposed decision(s)	
<ol style="list-style-type: none"> 1. That members note the government’s May 2021 Elections Delivery Plan, including guidance on proxy voting, campaigning, door knocking and leafleting during the current lockdown. 2. That members note possible changes to polling station locations as listed at Paragraph 4.6 	

Report for:	Key decision:	Confidential:	Can be called-in:
Noting	No	No	No

Contribution to delivery of the 2018-22 Strategic Plan		
Business	Place	People
Not applicable	Not applicable	Not applicable

Ward(s) affected
All Wards

What is the purpose of this report?

1. To update Members on recent government guidance and delivery plans for May 2021 Elections (Appendix 1) and to advise of possible changes to the location of a number of polling stations as listed at Paragraph 4.6, in response to further guidance that was recently issued to schools in respect of use of a school as a polling station.

Why is this report necessary?

2. In light of the unprecedented global pandemic, the government last year postponed for one year the scheduled local polls that were due to take place in May 2020. The coronavirus pandemic and the phased exit from the lockdown will present particular challenges for Returning Officers (ROs), Electoral Registration Officers (EROs) and the Elections team in preparing for and

delivering the 2021 polls. This report highlights some key considerations from the government and some mitigating actions in preparing for those upcoming polls that Members should be aware of.

Background

3. The UK Government published their policy paper on the May 2021 polls delivery plan on 5 February 2021. A copy of a summary of the guidance is attached at Appendix A.
- 3.1 The vast majority of electoral rules and procedures will remain as they were at the previous local, mayoral and Police and Crime Commissioner Elections, and other local elections and referendums, which took place between 2016 and March 2020.
- 3.2 The UK Government does not support all-postal voting and it does not propose to introduce early voting or change the hours of polling.
- 3.3 However, running elections during a pandemic poses a number procedural and operational issues for a Returning Officer and the Elections team.

Polling Stations

4. The Government policy paper on the May 2021 polls delivery plan states that given the importance of avoiding any further disruption to education, schools should not be used as polling stations, where alternative venues are available.
- 4.1 The guidance states that the UK Government particularly discourages the use of schools where it would result in closure and will provide support to Returning Officers to explore the use of other community or commercial facilities, to minimise disruption to schools where they are the only available option. Middlesbrough has 28 schools which are currently used as polling stations.
- 4.2 In preparation for the elections due to take place on 6 May 2021, the premises previously agreed by committee as polling stations were contacted.
- 4.3 At present a number of schools have indicated that if their premises were to be used as a polling station, the school would need to be closed.
- 4.4 In addition to there being issues with the use of schools, some of the community venues that are used as polling stations have vulnerable people accessing the premises and have therefore also expressed their reticence/refusal for use.
- 4.5 As a consequence of the pandemic and the above guidance the Returning Officer using emergency delegated powers has requested that the Elections Team find temporary alternative venues to be used for this election only. This includes use of community or private venues and/ or Mobile stations. Although mobile station availability will also be an ongoing concern as all other local authorities will be undertaking the same reviews.
- 4.6 A list of premises that the Council are unable to use for these elections, and the proposed alternative venue for each polling station is included below. However, situations change daily and therefore current and alternative polling station venues may still be subject to change.

Name of current Polling Station requiring temporary alternative locations	Alternative Venue to be used for the 6 May 2021 elections
St Edwards RC Primary School	Aapna House (old Library site) TBC following site visit
Waiting Room, Berwick Hills Primary School,	Berwick Hills Baptist Church TBC
Pallister Park Primary School,	Old Middlebeck Social Club Homerton Road TBC following site visit
Kader Academy,	WEST ACKLAM CENTRE, TBC
Newham Bridge Primary School	Replace with Mobile Station TBC
Captain Cook Primary School	Marlon Library TBC following site visit
Hemlington Hall Academy	Replace with Mobile Station in car park TBC
Otterhill Court Community Centre	Replace with Mobile Station in car park at the Oaks TBC
Viewley Hill Academy,	Hemlington Children's Centre TBC following site visit
Lingfield Primary School	Replace with Mobile Station in car park TBC
Glastonbury House	Replace with Mobile Station in car park TBC following site visit
Lingfield Ash Meeting Hall	Replace with Mobile Station in car park TBC following site visit
Bellamy Courts Residents Lounge	Replace with Mobile Station in car park TBC following site visit

4.7 Where it is not possible to find alternative venues the Returning Officer may consider still need to consider utilizing schools.

4.8 In order to mitigate some of the concerns for the public social distancing and other safety measures will be in operation in polling stations, as in all public spaces. Marshalls will be placed at each station and voters and staff will be asked to wear a face covering whilst in polling stations.

4.9 Hand sanitiser will be available and, where appropriate, screens and distance markings will be in use. Polling stations will be set up to maximise ventilation, and frequent touch points cleaned at regular intervals.

4.10 Voters will be encouraged to bring their own pen or pencil with which to mark their ballot paper.

Nominations and information on campaigning

5. For potential candidates, the Government aims to reduce the travel and contact involved in completing their nomination form by reducing the number of subscribers that are required. Further detail on the change will be provided in secondary legislation laid on 8 February, followed by further guidance in late February.

5.1 Further information on permitted face-to-face campaigning and organising, including the delivery of leaflets by party volunteers, or independent candidates

and their supporters, will be published before the beginning of the regulated election period dependent on the phased release from lockdown.

Alterations to proxy arrangements

6. Local authorities are able to contact all Clinically Extremely Vulnerable people in their areas to make them aware of the options to use a proxy or postal vote. Absent vote deadlines are unchanged.
- 6.1 The UK Government is amending secondary legislation to further support proxy voting for people affected by coronavirus close to the polls.
- 6.2 Changes will allow those self-isolating because of coronavirus exposure, testing or symptoms to apply for a proxy vote until 5pm on polling day, without having to find someone to attest their application. This will also be available to those who test positive for the virus. If a person already has a proxy appointed to vote for them, but the proxy is then affected by COVID-19, there will also be the ability to make an alternative proxy arrangement.
- 6.3 Agents and candidates will continue to be able to be provided with the list of people who have been granted a proxy vote, as a check against fraudulent behaviour.
- 6.4 Royal Mail have agreed to prioritise the delivery of elections mail.

Postal Voting

7. Those wishing to use a postal vote should apply early and Returning Officers should encourage them to do so.
- 7.1 All existing security measures will remain in place to ensure the integrity of the postal vote process.
- 7.2 The Council is conducting a social media campaign to try and encourage more electors to register for a postal vote. A leaflet advising on how to register for a postal vote will also be delivered to every household at the same time as the poll cards for 6 May election are delivered.

The Count

8. Stockton Council are the lead authority for the direction and co-ordination of these regional elections and the compilation of the regional results. Due to social distancing requirements each authority will be conducting the verification and the Count for both elections in their own venues and submitting results electronically to Stockton who will announce the results.
- 8.1 Verification for both elections will take place after the close of Poll on Thursday 6 May and the Count for both elections will take place on Friday 7 May all at Middlesbrough Sports Village. As the primary election The Police and Crime Commissioner Count will take place first starting at 10:00am, followed by the Tees Valley Combined Authority Mayoral election at approximately 2:00pm.
- 8.2 Social distancing and other safety measures such as floor marshalls will be in operation in the Count venue. With everyone wearing a face covering.

8.3 Hand sanitiser will be available and, where appropriate, screens and distance markings will be in use. The venue will be set up to maximise ventilation, and frequent touch points cleaned at regular intervals.

Impact(s) of recommended decision(s)

Legal

9. The UK Government is providing an indemnity to Returning Officers for the Police and Crime Commissioner elections.

9.1 In view of the exceptional circumstances, they will also provide an indemnity for local elections in respect of COVID-19 risks. This will prevent any gaps in coverage where existing local authority insurance does not include risks resulting from coronavirus

Financial

10 An estimated £92 million of government grant funding will be provided to local authorities for the elections; of this, £31 million is an uplift to directly address costs associated with making the elections COVID-19 secure. It is unclear at this time, what proportion of this funding Middlesbrough Council will receive

10.1 This funding is for reasonable additional costs. It might be used to fund the hiring of alternative venues; to procure additional PPE; to hire stewarding staff; or for cleaning to minimise disruption to schools.

10.2 Increased costs of the Police and Crime Commissioner elections will be met by the UK Government. This will include the necessary additional costs of running these polls, such as protective equipment, the hiring of larger or more expensive venues to enable distancing or where usual venues are unavailable, or additional cleaning requirements.

10.3 Additional costs in relation to the Tees Valley Combined Authority Mayoral election will be recharged to the TVCA.

Policy Framework

11 The report does not impact on the overall budget and policy framework.

Wards

12 The report impacts on all wards.

Equality and Diversity

13 The report impacts on all groups equally.

Risk

14 Risk assessments have been developed for each aspect of an election and project teams are reviewing and amending procedures to ensure appropriate measures are in place and ensure the plans remain flexible to ensure delivery of a safe election.

Actions to be taken to implement the decision(s)

Appendices

Appendix A – Summary of May 2021 polls delivery plan

Background papers

May 2021 polls delivery plan



1. Home (<https://www.gov.uk/>)
 2. Coronavirus (COVID-19) (<https://www.gov.uk/coronavirus-taxon>)
 3. May 2021 polls delivery plan (<https://www.gov.uk/government/publications/may-2021-polls-delivery-plan>)
- Cabinet Office (<https://www.gov.uk/government/organisations/cabinet-office>)

Policy paper

May 2021 polls delivery plan

Published 5 February 2021

Contents

1. Ministerial foreword
2. Executive summary and introduction
3. Electoral process and how it will run in May 2021
4. Public health and social distancing
5. Nominations and campaigning
6. Voting
7. Delivery of polls

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1. Ministerial foreword

Safe and secure elections are the cornerstone of our democracy.

In light of the unprecedented global pandemic, the government last year postponed for one year the scheduled local polls that were due to take place in May 2020, as well as subsequent by-elections. In the year that has intervened, Returning Officers, the government and their partners have made extensive preparations to be able to hold these polls on 6 May 2021 in a way that minimises the risk of spreading the coronavirus.

Successful elections have been held around the world while the pandemic has been happening – in Ireland, France, Italy, Portugal, Israel, South Korea and the United States, and a range of elections are due to be held between March and May.

Our public health response – not least the vaccination programme, which we plan will have reached all nine priority cohorts by May – means that we can commit to go ahead with these polls with confidence. The government is working with the Electoral Commission to ensure that we are setting out clearly how social distancing and other rules apply specifically to all aspects of the polls. We will maintain the choice for voters between in person and absent voting (using a postal or proxy vote).

The United Kingdom has a world-class electoral system, delivered in each area by the statutorily independent Returning Officer. We have the utmost confidence in the ability of the Returning Officers to run these polls in a way that meets the highest standards of both public safety and democratic integrity.

There will be challenges – for example, finding alternative polling station and count locations when the normal locations are unavailable, and additional staff to support public health measures like social distancing. The government has allocated additional funding to support local authorities with COVID-19 pressures and we have said that election costs are a priority for this funding.

There will be an estimated £92 million of government funding that will be provided to Returning Officers and local authorities for the elections; of this, £31 million is an uplift to directly address costs associated with making the elections COVID-19 secure.

This package of funding will support Returning Officers to secure venues and staffing and run COVID-19 secure elections. The Barnett formula will apply, meaning that our partners in the Welsh and Scottish Governments will also receive additional funding.

The changes we will be making for voters and electoral staff will be similar to those in workplaces and public spaces like the many essential services across the country that have continued to function successfully. The government is also supporting the Census, which will be going ahead this spring in a COVID-secure way.

Everyone who feels comfortable going to a supermarket or a post office should also feel confident attending a polling station in May. We encourage anybody who is shielding, or who would prefer not to attend a polling station, to apply for a postal or proxy vote ahead of the polls.

As the economy recovers from COVID-19, locally elected representatives will be able to help build back better. We hope that every elector will take the opportunity to have their say in May's elections with the confidence that the right precautions are in place.

Chloe Smith, Minister of State for the Constitution and Devolution (Cabinet Office)

2. Executive summary and introduction

The May 2021 polls will take place in a way that is fundamentally similar to previous polls – but there will be differences, as there have been in many areas of life during the pandemic. We are working closely with Returning Officers and other partners, including the Electoral Commission, the Local Government Association, Society of Local Authority Chief Executives (Solace), the Association of Electoral Administrators, the Devolved Administrations and political parties to put in place sensible measures to protect public health and overcome practical challenges.

The Electoral Commission (<https://www.electoralcommission.org.uk/>) has already published extensive guidance on conducting elections in a COVID-19 context that can be found on its website. This is part of an ongoing process of providing support and advice that is updated as and when necessary.

This document describes how these polls will proceed, from announcement to results, and then covers the four major areas that we are addressing: public health and social distancing; nominations and campaigning; voting; and the delivery of elections.

In summary, the government is making the following commitments:

1. Voters will have a choice between in person and absent voting. Postal and proxy voting will be supported, and proxy voting rules changed so that those affected by COVID-19 in the days before the poll can still vote.
2. We will work with our partners to make sure that voters, electoral staff, candidates, campaigners and the wider public are protected to the maximum extent possible from the spread of disease. We will be clear about how existing public health regulations and guidance apply to essential voting activities.
3. Candidates and their agents will have additional guidance on the specific application of social distancing and other regulations to their activities, including nominations and campaigning.
4. Returning Officers and local authorities will have support from the government that they need to deliver the elections, including additional funding for the extra costs the necessary public health measures will generate.

This Delivery Plan applies to all polls in England and to Police and Crime Commissioner elections in England and Wales on 6 May 2021.

Senedd and Scottish Parliament elections are also being held on 6 May 2021. These are the responsibility of the Welsh and Scottish Governments, and are not covered in this plan. A complete list of all elections is published by the Electoral Commission (<https://www.electoralcommission.org.uk/who-we-are-and-what-we-do/elections-and-referendums/upcoming-elections>).

This means that in Wales, both devolved and reserved polls will be running in combination. We are working particularly closely with the Welsh Government to deliver these elections in as consistent a way as possible and provide clarity to voters in Wales.

Where this delivery plan covers matters that are devolved to Wales, such as social distancing regulations, the advice and guidance here applies to England only.

3. Electoral process and how it will run in May 2021

The rules for these polls are set out in legislation and guidance. The polls will run as normally as possible, and we will put in place sensible measures to protect against spread of disease and overcome practical challenges.

The electoral process formally begins with the notice that a poll is going to take place and, for elections, the nominations process where candidates are required to obtain signatures from a certain number of supporters in order to get their name onto the ballot paper. Campaigning will be ongoing

up until the elections.

Voters will continue to have access to three methods of voting:

- in person at a polling station
- by postal vote
- by proxy vote

We are changing the rules for proxy voting to ensure that anyone who is self-isolating can request a proxy vote at the last minute – up to 5pm on polling day itself. We are working with suppliers, local authorities and Royal Mail, who are ensuring the COVID-19 secure and effective operation of the postal vote system, from the issuing of postal vote applications to the point where they are counted. We will also work with local authorities who will ensure the COVID-19 secure and effective operation of polling stations. Voting in person will still be available for all those who would like to, and there will be no change to the hours of polling.

Following the closure of polling stations, votes must be counted and results announced as soon as is practicable. As with the voting process, we will work with local authorities and Returning Officers who will ensure this process is COVID-19 secure and effective. We expect the counts may take more time than for previous polls. However, results should of course still be announced before the terms of new elected officials begin.

The rest of this Delivery Plan sets out how the government will take action to support the successful delivery of the May 2021 elections in this way.

4. Public health and social distancing

At every stage in the preparations and delivery of these polls we must all prioritise the protection of public health and minimise risk of coronavirus transmission. Voting in a polling booth is a private activity, in order to ensure the secrecy of the ballot. There is no reason why social distancing within a polling station cannot be maintained.

The Electoral Commission has already published extensive guidance for electoral administrators, candidates and their agents on the operation of an election during the COVID-19 context. We will work with them to ensure the guidance is updated as necessary, in accordance with wider restrictions, and to ensure that requirements are clear at every stage of the process, from nominations to the count. Returning Officers should also refer to the government's existing guidance on social distancing (<https://www.gov.uk/government/publications/coronavirus-covid-19-meeting-with-others-safely-social-distancing/coronavirus-covid-19-meeting-with-others-safely-social-distancing>), protective equipment (<https://www.gov.uk/government/collections/coronavirus-covid-19-personal-protective-equipment-ppe>) and COVID-19 safe workplaces (<https://www.gov.uk/guidance/working-safely-during-coronavirus-covid-19>), which will all need to be applied in an election context. They will make risk-based assessments to determine exactly how these measures should apply for each location and circumstance.

Social distancing and other safety measures will be in operation in polling stations, as in all public spaces. Everyone should wear a face covering in polling stations and at counts, and we will amend the government guidance on face coverings (<https://www.gov.uk/government/publications/face-coverings-when-to-wear-one-and-how-to-make-your-own/face-coverings-when-to-wear-one-and-how-to-make-your-own>), and the relevant legislation, to clarify this.

Hand sanitiser will be available and, where appropriate, screens and distance markings will be in use. Polling stations will need to be set up to maximise ventilation, and frequent touch points will need to be cleaned at very regular intervals. All touch points should be cleaned before and after use.

Voters (and companions of disabled voters) should bring their mask, as they would wear in any indoor public place, and we will be encouraging them to bring their own pen or pencil with which to mark their ballot paper.

The government will ensure that the regulations and guidance governing the COVID-19 response take into account the need for essential elections activity. For example, regulations are already clear that:

- voting is a permitted, lawful reason to leave your house during general restrictions;
- elections staff can leave home for work where it is not reasonably possible to work from home
- premises and business can open for the purposes of voting, counting of votes or associated activities
- Test and Trace is not required for polling stations (unless a voter remains in the building for some other purpose)

The government remains absolutely clear that anyone who has tested positive for coronavirus, or is displaying symptoms, should self-isolate. We strongly advise that voters in this position take advantage of the new rules on proxy voting outlined below if it is too late to apply for a postal or regular proxy vote.

Anyone travelling to a polling station should consider the government's safer travel guidance (<https://www.gov.uk/guidance/coronavirus-covid-19-safer-travel-guidance-for-passengers>), including for car-sharing (<https://www.gov.uk/guidance/coronavirus-covid-19-safer-travel-guidance-for-passengers#car-sharing>). The government will be recommending that political parties and candidates do not engage in the common practice of offering car lifts to members of the public to and from polling stations, given this has been identified as a particular risk of spreading the virus.

What to expect in polling stations during coronavirus

- Social distancing (inside and outside venues)
- Limited number of people inside polling stations
- Masks worn by staff and voters
- Voters bring their own pen or pencil
- Maximum ventilation
- Plastic screens (where appropriate)
- Hand sanitiser
- Regular cleaning

5. Nominations and campaigning

The nominations process is a key part of our electoral system and it is important that all candidates have local support, but we must balance this with the need to minimise contact. For potential candidates standing for elected office, we are introducing measures to reduce the travel and contact involved in completing their nomination form. Further detail on the change will be provided in secondary legislation that will be laid on 8 February, followed by further guidance in mid-February.

Campaigning is an essential part of the democratic process, and voters deserve to be well informed before going to the polls. Many forms of campaigning can be carried out without increased face-to-face contact – including online campaigning, campaigning by telephone, and delivery of leaflets by post or other commercial delivery services (who are already operating, without causing additional circulation of campaigners). The government has already updated election expenses for council candidates, which will provide greater opportunity for such candidates to campaign via digital channels and utilise paid-for delivery services in their regulated election period.

We have been clear that under the current national lockdown, leafleting and door-knocking by party activists is not permissible. However, it is vital that voters are fully informed and all candidates have a level playing field in making their case to the electorate in order for elections to be fair and effective. Further information on permitted face-to-face campaigning and organising, including the delivery of leaflets by party volunteers, or independent candidates and their supporters, will be published before the beginning of the regulated election period. The government believes it is important that political parties' views are taken on board, so will continue to use the Parliamentary Parties Panel to engage on this guidance, prior to its formal publication.

6. Voting

It is important to the democratic integrity of these polls that COVID-19 secure and accessible voting is available to all those who are eligible to vote and would like to do so.

There are three ways to vote in the UK:

- in person at a polling station
- by postal vote
- by appointing a proxy to vote for you

These will all be available to voters in 2021. The vast majority of electoral rules and procedures will remain as they were at the previous local, mayoral and Police and Crime Commissioner elections, and other local elections and referendums, which took place between 2016 and March 2020.

We recognise that the pandemic may change people's needs and preferences. The government does not support all-postal voting, as this increases the risk of fraud, and removes choice from voters. The government does not propose to introduce early voting – this is unnecessary given voters can already vote early by post, and the additional resources required to staff early polling stations would make the elections harder to deliver given COVID-19 staffing pressures.

Local authorities are able to contact all Clinically Extremely Vulnerable people in their areas to make them aware of the options to use a proxy or postal vote and they will be supported in their efforts by targeted communications from the Electoral Commission.

As usual, applications for postal or proxy votes can be made until 11 (postal) or 6 (proxy) working days before the polls, at 5pm. An emergency proxy vote is available in certain limited circumstances (such as illness) until 5pm on polling day, though this requires attestation that you meet the criteria.

We recognise that those who wish to vote in person may have those intentions disrupted by the pandemic. The government is amending secondary legislation to further support proxy voting for people affected by coronavirus close to the polls. In particular, these changes will allow those self-isolating as a result of coronavirus exposure, testing or symptoms to apply for a proxy vote in the days leading up to polling day and until 5pm on the day itself, without having to find someone to attest their application. This will also be available to those who test positive for the virus, on the same basis. If a person already has a proxy appointed to vote for them, but the proxy is then affected by COVID-19, there will also be the ability to make an alternative proxy arrangement. It remains vital that those who need to self-isolate continue to do so.

Agents and candidates will continue to be able to be provided with the list of people who have been granted a proxy vote, as a check against fraudulent behaviour.

The government is also taking steps to support an increase in capacity to process postal votes, so that everyone who would like to use a postal vote will be able to do so, and so those votes can be processed in a COVID-19 secure, effective and timely manner. Royal Mail have agreed to prioritise the delivery of elections mail including delivery and return, when completed, of ballot packs, in the same way as it does now for coronavirus tests. We will work closely with the suppliers of postal vote materials, Returning Officers, and the Royal Mail to make this process run as smoothly as possible.

Those wishing to use a postal vote should apply early, and Returning Officers should encourage them to do so. Anyone can apply for a postal vote and voters have the option of requesting a postal vote until further notice (a permanent postal vote) or solely for this election, or a particular time period. All existing security measures will remain in place to ensure the integrity of the postal vote process and the government continues to strongly discourage the collection of postal ballots from voters for submission to the Returning Officer by campaigners (so-called 'vote harvesting'). It is the government's intention to ban this practice altogether through legislation at the earliest opportunity.

Voting Methods

Polling station: Voters (and companions of disabled voters) should wear masks (unless exempt) and bring their own pen. Social distancing should be maintained at all times.

Postal Vote: Those wishing to use a postal vote should apply early. Anyone can apply for a postal vote and voters have the option of requesting a postal vote until further notice (a permanent postal vote) or solely for this election, or for a particular time period.

Proxy Vote: Those wishing to use a proxy vote out of personal preference should apply early. Emergency proxy votes are already available in certain circumstances, such as illness close to polling day. The government is amending secondary legislation to further support proxy voting for people who are affected by the pandemic close to polling day. In particular, these changes will allow those self-isolating as a result of coronavirus exposure, testing or symptoms to apply for a proxy vote in the days leading up to polling day and until 5pm on the day itself, without having to find someone to attest their application, or to change who is appointed as their proxy if the proxy is affected by coronavirus. This will also be available to those who test positive for the virus, on the same basis.

If you are self-isolating, you should not go out to vote. You can obtain an emergency proxy.

7. Delivery of polls

Statutorily independent Returning Officers are responsible for the delivery of elections in each local authority and have made extensive plans for the delivery of the polls on 6 May.

Identifying suitable venues to act as polling stations, count locations and other electoral locations (for example, for the opening of postal votes) represents a challenge for this election. Some usual venues will not be suitable because of the difficulty in social distancing or because they are being used for other priority activities, such as for vaccinations. Given the importance of avoiding any further disruption to education, schools should not be used where alternative venues are available. We particularly discourage the use of schools where it would result in closure, and will provide support to Returning Officers to explore the use of other community or commercial facilities, and to minimise disruption to schools where they are the only available option.

The second major delivery challenge for this election will be ensuring there are sufficient elections staff. We expect Returning Officers to need more staff to:

- support social distancing and other protective measures
- manage any increase in postal and proxy votes
- replace any local authority staff normally used for elections who have been redeployed onto other urgent COVID-19 response roles
- replace those who usually volunteer to work on elections who prefer or are unable to carry out public-facing duties for health reasons

The government will work with the sector to provide what support it can to recruitment of sufficient people.

In December, the government published final allocations for a further £1.55 billion of funding to local authorities in order to support additional burdens on them resulting from coronavirus. Local authorities have flexibility to use part of this unringfenced funding to support Returning Officers to deliver these elections, and we indicated when announcing allocations that local election costs should be considered locally as a priority for which this funding can be used.

Increased costs of the Police and Crime Commissioner elections will be met by the government. We have been clear that this will include the necessary additional costs of running these polls, such as protective equipment, the hiring of larger or more expensive venues to enable distancing or where usual venues are unavailable, or additional cleaning requirements. We will publish guidance to local authorities shortly on how we will approach this. Returning Officers should be assured that they will be supported in making the necessary decisions to deliver these polls.

There will be an estimated £92 million of government funding that will be provided to Returning Officers and local authorities for the elections; of this, £31 million is an uplift to directly address costs associated with making the elections COVID-secure.

This funding is for reasonable additional costs. It might be used to fund the hiring of alternative venues; to procure additional PPE; to hire stewarding staff; or to expedite cleaning to minimise disruption to schools. The Barnett formula will apply where relevant, meaning that our partners in the Welsh and Scottish Governments will also receive additional funding.

As is standard practice, the government is providing an indemnity to Returning Officers (who, as statutorily responsible officers take on the risks associated with delivering the polls personally) for the Police and Crime Commissioner elections. In view of the exceptional circumstances, we will also provide an indemnity for local elections in respect of COVID-19 risks. This will prevent any gaps in coverage where existing local authority insurance does not include risks resulting from coronavirus.

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