

CORPORATE AFFAIRS AND AUDIT COMMITTEE

Date: Friday 23rd September, 2022
Time: 3.30 pm
Venue: Council Chamber

AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
To receive any declarations of interest.
4. Minutes - Corporate Affairs and Audit Committee - 22 July 2022 3 - 12
5. Annual Governance Statement 2020/2021 13 - 48
6. Highways Infrastructure Assets - Update 49 - 56
7. Teesside Pension Fund Provisional Audit Results Report - Year ended 31 March 2021 57 - 96
8. Mayoral Development Corporation (MDC) 97 - 104
9. Any other urgent items which in the opinion of the Chair, may be considered

Town Hall
Middlesbrough
Wednesday 14 September 2022

MEMBERSHIP

Councillors B Hubbard (Chair), J Platt (Vice-Chair), T Higgins, C 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 Friday 22 July 2022.

PRESENT: Councillors B Hubbard (Chair), T Higgins, C Hobson, T Mawston, D Rooney, M Saunders (as substitute for J Platt), and C Wright

ALSO IN ATTENDANCE: Councillors C Cooke, B Cooper, D Coupe, J Rathmell and M Smiles
P Jeffrey (Internal Auditor) (Veritau), M Thomas (Internal Auditor) (Veritau), S Reid (External Auditor) (Ernst Young) and M Rutter (External Auditor) (Ernst Young)

OFFICERS: S Bonner, C Breheny, G Cooper, A Hoy, D Johnson, A Johnstone, S Lightwing, A Pain, T Parkinson, A Wilson and I Wright

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillor J Platt

22/7 **WELCOME AND EVACUATION PROCEDURE**

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

22/8 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Higgins	Non pecuniary	Agenda Item 9 – Member of Teesside Pension Fund
Councillor Hubbard	Non pecuniary	Agenda Item 9 – Member of Teesside Pension Fund
Councillor Rooney	Non pecuniary	Agenda Item 9 – Member of Teesside Pension Fund

22/9 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 9 JUNE 2022**

The minutes of the Corporate Affairs meeting held on 9 June 2022 were submitted and approved as a correct record.

22/10 **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

The Annual Report of the Head of Internal Audit and the Annual Counter Fraud Report were presented to the Committee.

The purpose of the Annual Report was to provide Members with a summary of internal audit work undertaken in 2021/22 and provide an opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and internal control. An annual report setting out counter fraud activity and performance was also included.

The annual report was attached the Appendix 1 to the submitted report. It included a summary of findings from recently finalised audit work as well as the status of agreed audit actions.

The Auditor commented that in some cases progress had not been made within agreed timescales and where appropriate the target implementation date for those actions was extended. Where targets were six months beyond the deadline, detailed reasons were provided in the submitted report.

The report also included details of Veritau’s Quality Assurance and Improvement Programme (QAIP). This included ongoing quality assurance arrangements and activities, annual self-assessment, external assessments at least once every five years, as well as an annual survey of senior management in each client organisation.

Veritau also provided a counter fraud service to the Council. An annual report setting out counter fraud activity and performance was attached as Appendix 2 to the submitted report.

In relation to further audit work on a number of allegations made by former Executive Members, the Auditor was asked whether that work had been concluded. The Auditor confirmed that the audit field work was complete and the draft report was currently with management. It was possible that further work might be required. Once management had agreed the report it would be presented to the Corporate Affairs and Audit Committee, unless there was any referral to Standards Committee, which would take priority.

In light of failings in governance arrangements identified recently by the External Auditors, the Chair asked how the Internal Auditor had provided an opinion of substantial assurance in relation to a report on an audit of Governance Arrangements published in September 2021. The Internal Auditor explained that on the scope of the work undertaken for that particular audit, he was happy to provide an opinion of substantial assurance. There were areas where the Council did need to improve but there was no conflict in being able to give substantial assurance to one audit, whilst also addressing those other areas where he was not able to give substantial assurance.

AGREED as follows that the:

1. results of internal audit work and counter fraud work undertaken was received and noted.
2. opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control was noted.
3. significant control issues identified by internal audit which were considered relevant to the preparation of the Council's Annual Governance Statement were noted.
4. outcome of the Quality Assurance and Improvement Programme and the confirmation that the internal audit service conformed with the Public Sector Internal Audit Standards was noted.

22/11

AUDIT RESULTS REPORT 2020/21

The draft Audit Results Report for the Year Ended 31 March 2021 was presented for the Committee's consideration.

The audit was designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements.

The report contained the External Auditors' findings related to the areas of audit emphasis, views on Middlesbrough Council's accounting policies and judgements and material internal control findings. The report also included conclusions on the arrangements of Middlesbrough Council to secure value for money in its use of resources.

The Audit Planning Report presented at the 23 July 2021 Corporate Affairs and Audit Committee meeting provided an overview of the audit scope and approach for the audit of the financial statements. The audit had been carried out in accordance with this plan, with the following exceptions:

- Changes in materiality: EY revisited the planning materiality assessment using the draft Statement of Accounts. Based on the materiality measure of gross expenditure on provision of services, the overall materiality assessment was updated to £8.2 million (£7.9 million in the Audit Planning Report). This resulted in updated performance materiality at 75% of overall materiality of £6.1 million (£5.9 million in the Audit Planning Report). The threshold for reporting misstatements of £0.4 million remained as reported in our Audit Planning Report.
- Value for Money: in the Audit Planning Report, one risk of significant weakness was identified in the Council's arrangements to secure value for money through economic, efficient and effective use of its resources during 2020/21 relating to the provision of Children's Services. During the course of the audit, a second risk of significant weakness in the Council's arrangements in respect of Member and senior officer relationships was identified.

EY's audit work in respect of the Council was substantially complete. The following items relating to the completion of audit procedures were outstanding:

- The Council had not yet produced an Annual Governance Statement that all

signatories were comfortable signing. Further revisions to the Annual Governance Statement were expected and it would need to be reviewed by EY once it was agreed.

- Further guidance was awaited from CIPFA on modifications to the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which was expected to introduce changes to the required presentation of infrastructure assets within the financial statements which management would need to implement.
- Management signature of the Letter of Representation at the same time as the financial statements.
- Performance of final audit procedures, including a review for subsequent events which might impact or require disclosure within the financial statements, up to the date of the audit report.

Given that the audit process was still ongoing, EY would continue to challenge the remaining evidence provided and the final disclosures in the Statement of Accounts which could influence the final audit opinion, a current draft of which was provided in section 3 of the submitted report and confirmed that the financial statements:

- gave a true and fair view of the financial position of Middlesbrough Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

The key highlights in relation to the financial statements of the audit were presented and included:

- Audit differences: the total impact on the provision of services that would not be corrected was £2.9 million.
- Lease arrangements.
- Three instances of non-compliance –payments to a publicity company, response to the inspection period and a query from a member of the public.
- Audit risks.
- Misstatements due to fraud and error.
- Value of Land and Buildings.
- Disclosure in respect of the Transporter Bridge.
- Pension Fund Liability.
- Going concern.
- Exit payments.

In respect of the Council's arrangements to secure value for money, the Auditor concluded that there were significant weaknesses.

In relation to Children's Services, the audit focussed on management of progress against the improvement plan and evidence of further inspections by independent parties. EY was satisfied that satisfactory progress against the improvement plan was being made and the actions taken by the Council had been effective.

In relation to Member and senior officer relationships, the volume of correspondence had been significant. The evidence gathered led EY to conclude that governance arrangements at Middlesbrough Council were not as expected and were undermining good governance. There were multiple instances where decisions had been taken without following procedures and process and were contrary to the boundaries of Officers and Members. These included, but were not limited to:

- Significant changes to the Boho X project occurring outside the framework.
- Purchase of Covid tests outside of the required procurement process.
- Engagement of an individual to provide services that should have been provided by a Council employee.

In addition, EY's observations were that there was a pervasive lack of trust within the Council

between Officers and Elected Members, and between Elected Members, which was having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of Officers and Members not being adhered to.

In respect of the matters identified by the External Auditor, the following recommendations were made:

1. The Council should develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. It was the Auditor's view that it was the responsibility of all Elected Members and Officers to work together to address these serious matters. This would require the involvement of external specialists as the relationships within the Council had deteriorated to a point which the Council would not be able to remedy on its own.
2. Refresher training should be provided to all of the Council's Elected Members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.
3. Whilst it was recognised that the responsibility to declare actual or potential conflicts of interest sits with Members under both statute and the Council's Code of Conduct, given the observations of the External Auditor, it was recommended that management implement additional assurance checks over Elected Member Declarations of Interest, for example by cross-referencing to Companies House records or declarations made by Elected Members to other public bodies, to provide additional comfort over their completeness.
4. Management should undertake a review to establish whether there were any other arrangements at the Council which might have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they were appropriate and represented value for money for the Council.
5. Management should consider whether further assurance was required to establish whether the risks identified by the Council to date were complete and the actions taken to respond to those risks sufficient.
6. Management should work with internal audit to ensure that where future pieces of work identified evidence of wider risks which were not immediately followed-up on, those were reported, so that the Council's Officers and the Corporate Affairs and Audit Committee could decide whether further investigation was appropriate.
7. The Council should provide additional training to Members and Officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where those boundaries are not being adhered to, was understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.

The External Auditor commented that the most significant recommendations in the report would be highlighted in the audit opinion and would be followed up as part of the forthcoming annual audit. Where the Auditor was not satisfied, he would consider whether to exercise any statutory powers. The Auditor also extended his thanks to management for the assistance and excellent co-operation received under the circumstances.

Members of the Committee and other Councillors present at the meeting were given the opportunity to ask questions. The External Auditor, Chief Executive and Director of Finance provided answers as appropriate.

Questions were posed in relation to the decisions highlighted in the report that were taken outside of Council processes could not be answered at this point in time due to potential conflicts of interest with other ongoing investigations.

Members also discussed the Auditor's recommendations and the Chief Executive confirmed that appropriate resources would be committed to funding the improvements required.

AGREED as follows that the:

1. information provided was received and noted.
2. unadjusted audit differences were approved.
3. Auditor's recommendations at 1-7 above in relation to addressing the significant weaknesses in the Council's arrangements to secure value for money were approved.

22/12

ANNUAL GOVERNANCE STATEMENT 2020/21

The Chief Executive presented a report that summarised the impact of the serious and pervasive governance and cultural concerns that had been articulated by EY, the External Auditors, on the finalisation of the 2020/21 Annual Governance Statement (AGS) and the planned way forward.

In presenting their Value for Money judgement to the Council, EY had identified serious and pervasive governance and culture concerns with the operation of the Council. It was clear that the improvement required would demand widespread political acceptance of the issues raised and a fundamental change to the way that Elected Members behaved from across the political spectrum.

It was also clear that at times Officers had been complicit in the delivery of poor governance arrangements. Management action had been taken to address this and would continue to be taken.

Having considered the evidence base, the statutory Chief Officers were in agreement with the EY judgement and were also in agreement with the actions that were required to deal with those concerns.

As part of steps to ensure full understanding of the issues identified and the change required, significant correspondence and discussion had taken place between the three statutory Chief Officers, the Elected Mayor and Deputy Mayor, the Chair of Corporate Affairs and Audit Committee and Ernst Young.

The improvement required would only be achieved through a very rapid and widespread change in the political culture of the Council and a fundamental change in the way that Elected Members behaved. Following careful consideration of discussions that had taken place and other evidence available to them outside of the audit period, it was the view of the Head of Paid Service and the Section 151 Officer that there were significant risks that must be acknowledged and addressed fully, in order to afford the best opportunity for improvement.

In summary these related to:

- The sheer size and scale of cultural change required. Wholescale understanding of the concerns raised; full acceptance of them; an acknowledgement of the individual and collective contribution to failings and a demonstrable willingness to change behaviour was not yet evident.
- a belief that since April 2021 relationships between Elected Members and officers had deteriorated further and that as a result there now existed a more pervasive culture than that evidenced in 2020/21.

The Head of Paid Service and the Section 151 Officer were unable sign the AGS as was required, until such time that these risks were fully acknowledged and reflected within the document.

The Head of Paid Service and Section 151 Officer were intent on securing the required revisions and having the Statement agreed and signed by the relevant parties, as soon as these points could be properly documented and agreed by all signatories.

Members were advised that the 2021/22 Annual Governance Statement (AGS), due to be published in draft form once the 2020/21 AGS had been finalised, would confirm that these issues continued to exist. The report at Agenda Item 11 entitled 'Commencing a Corporate Governance Improvement Journey' set out in more detail the planned actions to engage all stakeholders further, develop a consensus of opinion on the fundamental issues and development of a way forward.

Committee Members and other Councillors present at the meeting were given the opportunity to ask questions, to which the Head of Paid Service and Section 151 Officer responded.

AGREED that the current position was noted and the planned approach to address the issues outlined was supported by the Corporate Affairs and Audit Committee.

In accordance with Council Procedure Rule No 61 – Motions without Notice – and with the Committee’s agreement, the meeting was adjourned for five minutes for the purpose of a comfort break.

22/13 **EXTERNAL AUDITORS LETTER OF REPRESENTATION**

A copy of the External Auditors’ Letter of Representation was presented in relation to the Statement of Accounts for the Year Ending 31 March 2022.

AGREED that the letter was approved and signed by the Chair of the Corporate Affairs and Audit Committee and the Director of Finance.

22/14 **APPROVAL OF THE AUDITED STATEMENT OF ACCOUNTS 2020/21**

A report of the Director of Finance (Section 151 Officer) was presented, the purpose of which was for Members to approve the Council’s Statement of Accounts for the 2020/21 financial year following completion of the external audit process and in line with statutory requirements.

Given the various issues on Governance presented in the External Auditors’ Audit Results Report as part of their value for money assessment, and that an update from CIPFA (Chartered Institute of Public Finance & Accountancy) on their consultation on highways infrastructure assets was awaited, the approval would be in principle at this stage. A number of subsequent actions would be required to close the approval/external audit process around the accounts.

The draft Statement of Accounts for 2020/21 was presented to the Corporate Affairs and Audit Committee on 5 August 2021 to provide Members with an understanding of the Council’s financial position, performance and cash flows at 31 March 2021 and how it had performed against its revenue and capital budget plans. Significant issues included within the financial statements were also discussed for information at that stage.

Details of the changes to the Statement of Accounts, including the unadjusted items, and further information in relation to Highways Assets were contained in the submitted report.

Further updates had been provided to the Committee on progress during the audit, principally on the 31 March and 9 June 2022. The various delays experienced on the audit of the accounts and why statutory date had not been met had been clarified. In order to complete the process an audit opinion was required from the External Auditor (EY) in relation to both a true and fair view on the financial statements presented and the value for money arrangements put in place by the Council.

The 2020/21 audit had been a significant undertaking for many local authorities. CIPFA reported that at the statutory date for these accounts of 30 September 2021 only 9% of English Local Authorities had completed their external audit. Although this had improved to 40% by 31 January 2022, it illustrated the scale of challenge for Councils given the impact of the Covid pandemic on their financial positions and transactions.

In addition, new regulations had been introduced on local audit firms following a number of high profile corporate failures in 2018/19 which were influenced by inaccurate financial reporting. This had resulted in more emphasis on the concept of a Local Authority as a going concern and additional assurances and evidence being sought by auditors as part of their review of the Statement of Accounts.

AGREED that the Audited Statement of Accounts for 2020/21, as attached at Appendix A to the submitted report, was approved on the following basis:

1. the audit was substantially complete for both the financial statements and value for money

assessment;

2. all relevant and appropriate adjustments had been made in the accounts as a result of the external audit process;
3. the list of unadjusted misstatements set out at paragraph 10 were not made within the accounts;
4. responsibility was delegated to the Interim Director of Finance (S151 Officer) to make any final adjustments to the Statement of Accounts for 2020/21 in respect of the CIPFA guidance on highways infrastructure assets;
5. any final changes to the Annual Governance Statement were incorporated into the Statement of Accounts before it was published on the Council's website.

22/15

LESSONS LEARNED - BEST VALUE AND EXTERNAL ASSURANCE WITHIN OTHER COUNCILS

A joint report of the Director of Legal and Governance Services and Director of Finance (Section 151 Officer) was presented to set out the outcome of an exercise to ensure the Council took the opportunity to learn lessons from corporate governance issues that had occurred in other local authorities.

The report identified actions to strengthen Middlesbrough Council's corporate governance arrangements and set them out within the body of the report.

The findings in the report were reflective of the governance concerns identified within the draft Annual Governance Statement 2020/21 and the External Auditor's Value for Money judgement for the same period.

AGREED that the following items were noted:

1. the outcome of lessons to be learned from other organisations and the planned responses.
2. progress made in relation to planned actions that were identified in response to the previous lessons learned report on government intervention at Liverpool City Council.
3. crossover between issues identified in this report and the draft Annual Governance Statement 2020/21, the External Auditors Value for Money judgement 2020/21 and the report to commence the Corporate Governance improvement journey.

22/16

COMMENCING A CORPORATE GOVERNANCE IMPROVEMENT JOURNEY

A joint report of the Chief Executive, Director of Legal and Governance Services and the Director of Finance was presented that set out how the Council intended to respond to the various corporate governance concerns that had been presented to the Corporate Affairs and Audit Committee.

The report summarised the ongoing work that had been undertaken to identify weaknesses within the Council's Corporate Governance framework, outlined the consequences of those ongoing weaknesses as well as the planned next steps.

The Council would commission the Chartered Institute of Public Finance and Accountancy (CIPFA) to complete an independent assessment of the issues identified to date, as well as undertaking a detailed engagement exercise with all stakeholders to consider whether there were other issues still to be identified and make recommendations on the proposed way forward.

In order to ensure that there was a broad consensus around the steps that need to be taken, CIPFA would complete a short piece of work to engage with Members from across the political spectrum, officers and other stakeholders. This work would be completed over six weeks and look to identify:

- A consensus on the issues that exist.
- Where there continue to be differing views on issues.
- Make recommendations on how weaknesses in the Council's processes could be addressed.
- Consider steps that could be taken to begin to address some of the underlying cultural issues which had existed for some time.

CIPFA would be uniquely placed to provide rapid, expert views on the effectiveness of current systems, policies and processes. The organisation was also currently providing support in a number of Councils that had been subject to government intervention and would therefore bring significant expertise to the table on what effective improvement and cultural change looked like.

The Council's proposed response had not been developed in isolation. The Chair and Vice-Chair of the Corporate Affairs and Audit Committee, the Mayor, Executive Member for Finance and Governance, Chief Executive, Monitoring Officer and the Section 151 Officer had all been engaged on this matter. The three Statutory Chief Officers had jointly led the development of the proposed approach.

A timetable had been put in place to ensure a rapid conclusion to this exercise so that the Full Council could collectively input into the process to identify the issues, while also enabling it to quickly move into delivery, in order to demonstrate a good pace of progress. Findings from the CIPFA work and a proposed action plan would be presented to Full Council for consideration. This would also set out the planned governance and reporting arrangements for the subsequent improvement plan to ensure all Members had the opportunity to comment and contribute.

A Member voiced concern about the timetable in light of the forthcoming local elections in May 2023. The Chief Executive commented that the first six weeks' work would be critical to understand where there was, and was not, agreement on the issues. Irrespective of the political or officer make-up of the Council, the tone and plan for improvements needed to be set. It was envisaged that the culture would not change in the next six months but with an open process and plan it was hoped that there would be some change in behaviour.

AGREED as follows that the Corporate Affairs and Audit Committee:

1. noted the information set out in the submitted report.
2. endorsed the commissioning of CIPFA to complete this diagnostic work.
3. recognised and took up the opportunities to act as champions of the process to proactively ensure that the recommendations of the External Auditor were effectively addressed.

22/17

COMMUNITY GOVERNANCE REVIEW

A report of the Returning Officer and Electoral Registration Officer was presented to seek the Committee's views and approval for the initial recommendations, following the first stage of the public consultation exercise and approve an amendment to the Community Governance Review timetable.

The Corporate Affairs and Audit Committee had delegated authority to agree the Community Governance Review Terms of Reference; to consider representations made; and to approve initial recommendations from the first stage of the public consultation.

Full Council would consider and approve the final recommendations after both consultations had taken place.

The report provided the Committee with the details of the processes undertaken and results of the first consultation, which included a Town-wide survey, a letter to a number of interested parties, a social media campaign and posters in community buildings.

Since agreeing the review timetable, the Local Government Boundary Commission for England had advised (April 2022) that any local authorities seeking change should submit their requests by 1 October 2022, to allow sufficient time for administrative and financial purposes (such as setting up the parish council and arranging its first precept).

The order should take effect on the 1 April following the date on which it is made. Electoral arrangements for a new or existing parish council would come into force at the first elections to the parish council following the reorganisation order. If the order was submitted by 1 October 2022, it would allow preparations for the conduct of those elections to be made. Therefore the Committee was asked to agree to a revised time-table for final approval.

Following a request, the Committee agreed to amend recommendation III (c), to propose that

the public were consulted on the number of Nunthorpe Parish Councillors being reduced to either 9 or 7 Councillors, rather than solely 9 as stated in the report.

AGREED that the Committee agree the draft recommendations for further public consultation as follows that:

I. The Stainton and Thornton Parish Council boundary was retained and unaltered.

II. The number of Parish Councillors to be elected for Stainton increased to 9 to cater for the large increase in the electorate.

III. Nunthorpe Parish Council was retained with the following proposed changes:

a) the Parish Council boundary for Nunthorpe Parish Council was extended to be co terminus with the Nunthorpe Electoral Ward Boundary to include: 1-29 Yew Tree Grove, TS7 8QX, 1-16 Milan Grove, TS7 0DQ (subject to a further consultation with those residents).

b) That the Principal Council electoral ward boundaries for Nunthorpe Ward were amended to include 12-16 Milan Grove and the Brethrens area.

c) That the number of Nunthorpe Parish Councillors be reduced to 9 OR 7 to mirror that of Stainton & Thornton Parish Council to ensure that electors had an equal voice within both communities.

IV. A further detailed review of community councils by the Stronger Communities Team was undertaken, to consider how the Council engaged with community groups and assessed what support was required/available.

V. Delegated authority was granted to the Chief Executive (in consultation with the Executive Member for Finance and Governance Portfolio Holder), to review the existing polling districts relating to the specific areas identified for Nunthorpe & Marton East and make such changes as they considered appropriate in the light of the final recommendations.

VI. A revised time-table for final approval which would result in a reduced period for the second consultation, from 6 weeks to 4 weeks was approved.

22/18

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

Panel Members paid tribute to Ian Wright, Director of Finance, who would be leaving the Authority in July 2022. The Chair thanked Ian on behalf of the Panel for all his hard work and wished him well for the future.

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MIDDLESBROUGH COUNCIL	
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Report of:	Chief Executive (Head of Paid Service), Director of Legal and Governance Services (Monitoring Officer) and the Director of Finance (Section 151 Officer)
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Submitted to:	Corporate Affairs and Audit Committee
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Date:	23 September 2022
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Title:	Annual Governance Statement 2020/21
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	Not applicable
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Why:	Not applicable
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Urgent:	Not applicable
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Why:	Report is not for an Executive committee of the Council.
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Executive summary	
This report sets out the finalised Middlesbrough Council Annual Governance Statement 2020/21.	

Purpose

1. The purpose of this report is to present the finalised Annual Governance Statement (AGS) 2020/21 which has now been agreed by the Mayor, Chief Executive and Section 151 officer.

Background and relevant information

2. As set out to committee in July 2022, in presenting their Value for Money judgement to the Council, EY identified serious and pervasive governance and culture concerns with the operation of the Council.
3. As a result of work required to ensure the scale and seriousness of that challenge were accurately reflected within the AGS, it was not able to be finalised in July when the audited Statement of Accounts 2020/21 were submitted for decision at committee.
4. Since that time the Mayor, Chief Executive and the Section 151 officer have worked together, alongside other senior members and the Monitoring officer to ensure that the AGS fully articulates the challenges facing the authority.

What decision(s) are being recommended?

5. That the Corporate Affairs and Audit Committee notes that the Annual Governance Statement has now been finalised and agreed by the Mayor, Chief Executive and the Section 151 Officer.

Rationale for the recommended decision(s)

6. The finalised AGS will contribute towards steps to complete the audit process for the 2020/21 period.

Other potential decision(s) and why these have not been recommended

7. Not applicable.

Impact(s) of the recommended decision(s)

Legal

8. There is a legal requirement that the Statement of Accounts is finalised within a statutory timetable. This timetable has already lapsed, however by finalising this AGS, the Council has taken steps towards bringing this accountancy process for the 2020/21 period to a close.

Strategic priorities and risks

9. The finalisation of this AGS impacts positively on the overall strategic risk of the organisation in relation failure to ensure good governance is in place.

Human Rights, Equality and Data Protection

10. Not applicable.

Financial

11. There are no direct financial costs associated with this report.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Embed the Annual Governance Statement within the Audited Statement of Accounts for 2020/21.	Head of Financial Governance and Revenues	30 September 2022

Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Lessons Learnt – Best Value Inspection of Liverpool City Council	5 August 2021
Corporate Affairs and Audit Committee	Boho X – draft findings from internal audit and proposed management response	6 April 2022
Corporate Affairs and Audit Committee	Statement of Accounts 2020/21;	22 July 2022
Corporate Affairs and Audit Committee	Lessons learned – Best Value and external assurance within other councils.	22 July 2022
Corporate Affairs and Audit Committee	Commencing a Corporate Governance Improvement Journey.	22 July 2022

Contact: Ann-Marie Johnstone, Interim Head of Strategy, Information and Governance

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Annual Governance Statement 2020/21

Introduction

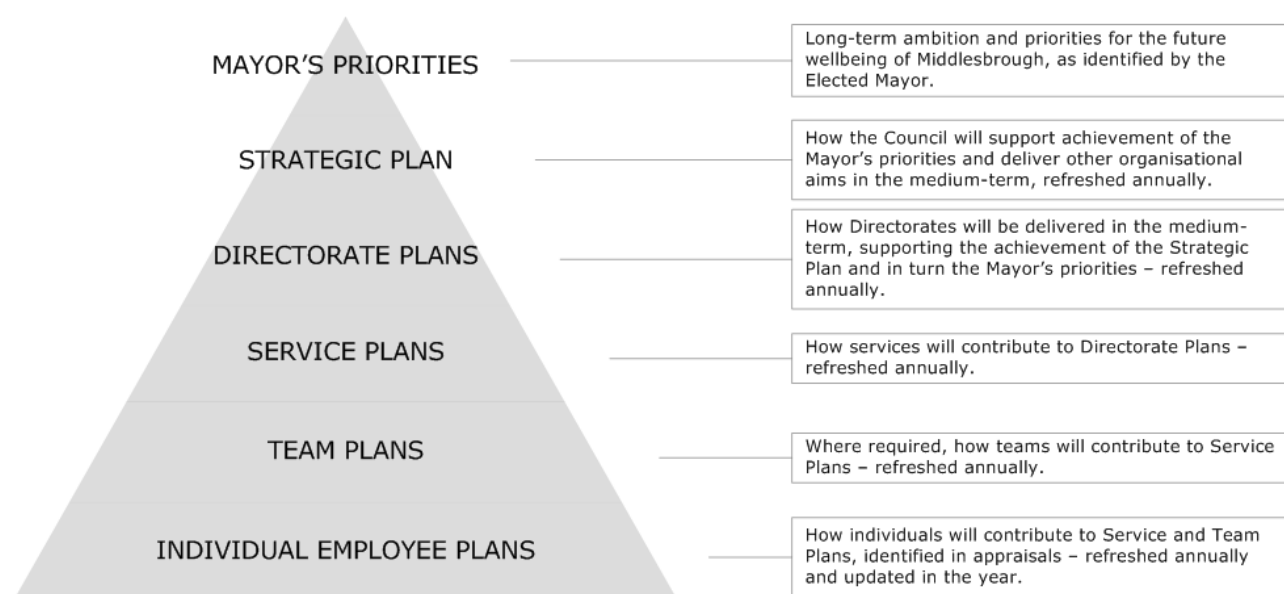
1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework and is reviewed annually. This framework comprises the culture, values, systems and processes of the Council, which together ensure that it does the right things, at the right time and in the right way.
2. The Code of Corporate Governance aligns with the latest CIPFA / Solace guidance, which sets out the following principles of good governance:
 - behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
 - ensuring openness and comprehensive stakeholder engagement;
 - defining outcomes in terms of sustainable economic, social and environmental benefits;
 - determining the interventions necessary to optimise the achievement of the intended outcomes;
 - developing the entity's capacity, including the capability of its leadership and the individuals within it;
 - managing risks and performance through robust internal control and strong public financial management; and
 - implementing good practices in transparency, reporting, and audit to deliver effective accountability.
3. The purpose of the Annual Governance Statement (AGS) is to assess the extent to which the Council complies with its Code of Corporate Governance, how it has monitored and improved the effectiveness of its governance arrangements in the past year, and identify actions to strengthen these arrangements going forward.
4. The AGS forms part of the Statement of Accounts that the Council must produce on an annual basis and as such must be approved by the Mayor of Middlesbrough and the Council's Chief Executive and Section 151 Officer.

Structure of the AGS

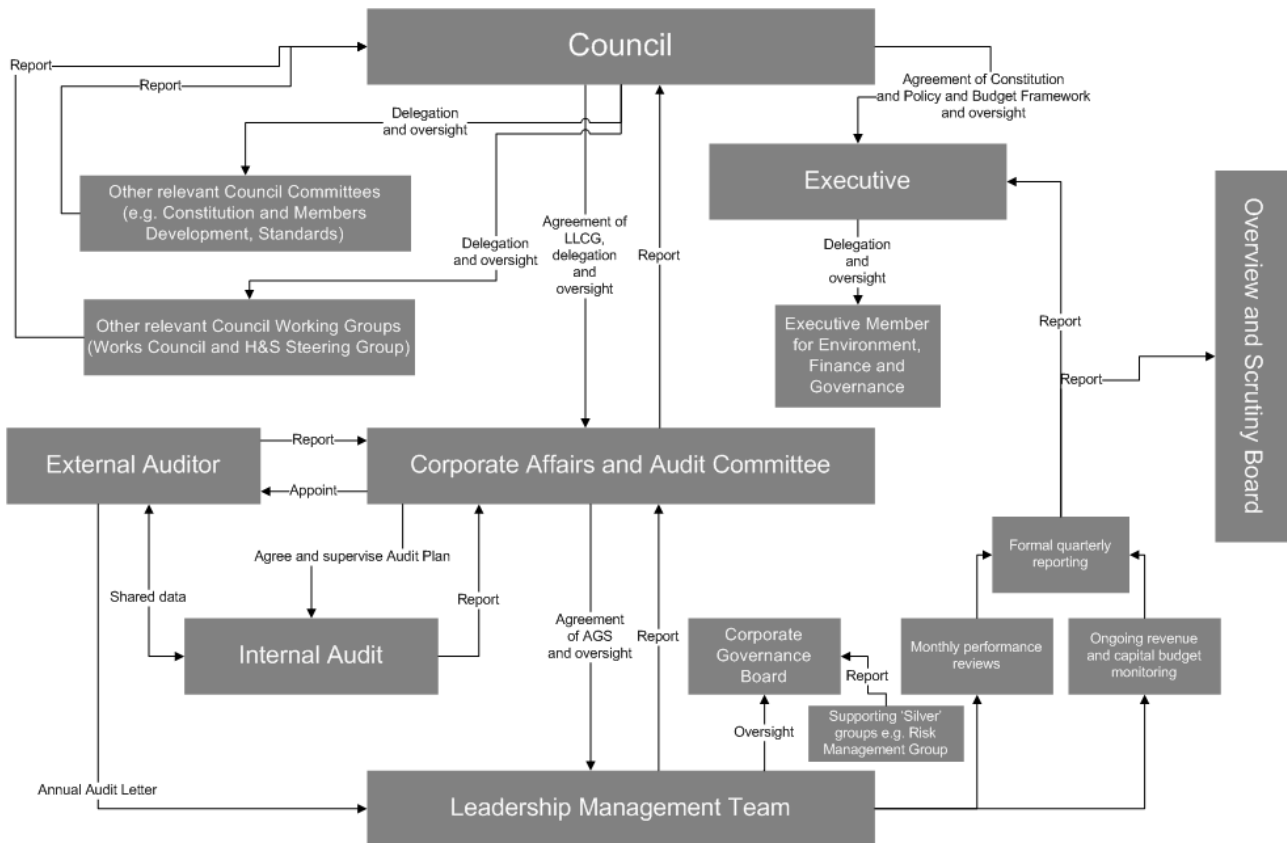
5. The AGS comprises the following sections:
 - an overview of the Council's governance arrangements;
 - progress made on governance during 2020/21;
 - issues that have arisen during 2020/21;
 - a position statement against the Code of Corporate Governance; and
 - conclusion and resulting governance priorities for 2021/22.
6. The development of the AGS was coordinated by the Strategy, Information and Governance service, in conjunction with statutory officers and other officers with responsibility for corporate governance processes, and with input from Internal Audit.

The Council's governance arrangements

7. The Committee structure in place within the Council during 2020/21 is set out Appendix 1. The terms of reference of all committees are published on the Council's [committee papers](#) site and [open data](#) site.
8. Committees take decisions in line with the Council's approved strategies and policies. The Strategic Plan is the Council's overarching business plan for the medium-term, and is typically refreshed on an annual basis. The plan was refreshed in February 2021 to reflect the impact of COVID-19 and UK's exit from the European Union on Middlesbrough and on the Council's strategic priorities. There is a 'golden thread' which runs from this document through the rest of the Council's governance and policy frameworks.



9. In making decisions, the Mayor and councillors are supported by a senior management structure that is designed to support effective compliance with the Council's legal and governance responsibilities, led by the three statutory officers (Head of Paid Service, Section 151 Officer and Monitoring Officer). Some decisions are delegated to senior officers. All delegations are required to be published on the Council's [website](#).
10. The Council's Constitution defines the respective roles of councillors and officers, outlines expected standards and behaviours and provides a framework to enable effective working relationships across the Council. The Constitution also provides direction on the various roles in place to ensure effective corporate governance within the Council.
11. Member and officer groups work together with the Council's auditors within the following structure to ensure compliance with the LCGG and its supporting policies and procedures (as set out in Appendix 2) and promote continuous improvement in governance, maximising its potential to deliver its priorities and value for money.



Progress made during 2020/21

Implementing actions from the 2019/20 AGS

12. The 2019/20 AGS outlined a range of actions that would be taken during 2020/21 to strengthen corporate governance. Progress on these is set out below and has been impacted by the pandemic, as relevant staff directed their capacity towards adapting current and innovating new governance arrangements to manage the Council's response.

Action	Lead officer	Status
Implement a case management tool to complement the revised member enquiries process for those Councillors who wish to use it.	Head of Strategy, Information and Governance	Completed. Training on a new tool was delivered to councillors who were initially interested in it. Following completion of training no councillor was willing to progress. Existing processes to be maintained.
Launch the Council's new open data site which will make published data more accessible.	Head of Strategy, Information and Governance	Completed.
Refresh the Strategic Plan and Medium Term Financial Plan (MTFP) during 2020/21 to reflect the impact of COVID-19 on the Council and amend supporting policies as necessary.	Head of Strategy, Information and Governance, Head of Financial Planning and Support	Completed.

Action	Lead officer	Status
Undertake population of the central partnerships register.	Head of Strategy, Information and Governance	Completed. Will be reported to members in 2022/23.
Refresh the Member Development framework to include delivery of training on diversity and ethics.	Head of Democratic Services	Completed.
Promote use of the Senior Member Development Framework.	Head of Democratic Services	Completed.
Continue to engage in local and regional planning activities to ensure the Council identifies and addresses the governance implications of BREXIT.	Head of Strategy, Information and Governance	Completed.
Continue to offer training on the Contract Management Framework to all contract managers during 2020/21.	Head of Strategic Commissioning and Procurement	Completed. Following initial roll out training is now offered in a rolling refresher programme four times a year.
Review the Strategic Procurement Strategy during 2020/21.	Head of Strategic Commissioning and Procurement	Completed.
Refreshed marketing and communications delivery plan in place during 2020/21.	Head of Marketing and Communications	Completed.
Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement.	Head of Marketing and Communications, Head of ICT, Head of Locality Working	Completed.
Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Director of Legal and Governance Services	Delayed. The ambition was to deliver this during 2021/22, however this will be delivered during 2022/23. Work has commenced.
Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year to refresh data and complete the Adults and Older persons sections.	Director of Public Health	Delayed. Capacity to deliver this has been adversely impacted by the pandemic. There is however a suite of demand modelling and assessments of need in place that shape service delivery.
During 2020/21 the (Middlesbrough Development) company's website will be developed further and information on meetings and decisions will start to be published where appropriate. The Council's 151 officer and the monitoring officer will receive all agendas, reports and minutes. Information on decisions made will also be reflected within the quarterly capital monitoring report to Members.	Director of Regeneration and Culture	Completed.
Establish an approach to reviewing delivery models to identify	Head of Strategy, Information and Governance	Completed.

Action	Lead officer	Status
changes required to delivery models.		
Progress joint strategic needs assessments for adults to ensure a joined up strategic oversight of the needs of the town.	Director of Public Health	Delayed. Capacity to deliver this has been adversely impacted by the pandemic. There is however a suite of demand modelling and assessments of need in place that shape service delivery.
Deliver the OFSTED Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.	Executive Director of Children's Services	Ongoing. Good progress continues to be made with positive changes and improvements to outcomes for children.
Continue to deliver the actions put in place to address the recommendations of the Information Commissioner's Office audit.	Head of Strategy, Information and Governance	Ongoing. 60 recommendations have been delivered. Eight outstanding actions remain, mainly delayed as a result of delays in reoccupation of buildings following 'work from home' restrictions.
Continue to hold regular meetings of the Constitution Committee to continue delivering the rolling review of the constitution during 2020/21.	Director of Legal and Governance Services	Ongoing. The committee met five times during 2020-21.

Internal Audit during 2020/21

13. During 2020/21 Internal Audit undertook the following audits:

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Purchasing Cards	Reasonable Assurance	0	2	2
FoI and Direct Marketing	Reasonable Assurance	0	2	5
Debtors	Reasonable Assurance	0	4	2
Creditors	Substantial Assurance	0	0	4
Payroll	Substantial Assurance	0	0	3
Reablement Service	Reasonable Assurance	0	2	0
Improvement Plan Governance	Substantial Assurance	0	1	0
Data Quality (Children's Services)	Substantial Assurance	0	0	1
Schools Themed Audit - Budgeting	Reasonable Assurance	0	0	4

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
Inclusion Strategy	Reasonable Assurance	0	2	4
Anti-Social Behaviour Management	Reasonable Assurance	0	2	3
Use of CCTV	Limited Assurance	2	5	1
Governance Arrangements	Substantial Assurance	0	0	2
Officer and Member Decision Making	Reasonable Assurance	0	0	6
Digitalisation	No Opinion Given	0	0	0
Teesside Pension Fund Administration	Substantial Assurance	0	1	2
Schools Themed Audit – Pupil Premium	Reasonable Assurance	0	0	8
Main Accounting	Reasonable Assurance	0	0	3
Cyber Security Awareness	Substantial Assurance	0	0	3
Pension Fund Investments	Substantial Assurance	0	0	1
Council Tax & NNDR	Substantial Assurance	0	0	0
Council Tax Support & Benefits	Reasonable Assurance	0	2	0
Social Care & Emergency Payments	Substantial Assurance	0	0	0
Project Management – Boho X	Limited Assurance	1	3	1
	Total:	3	26	55

14. The opinions used by Internal Audit during 2020/21 are explained below:

- Substantial Assurance – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- Reasonable Assurance – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
- Limited Assurance – Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

- No Assurance – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

15. The following categories of opinion are also applied to individual recommendations agreed with management:

- Priority 1 (P1) – A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
- Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
- Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

Corporate Affairs and Audit Committee during 2020/21

16. Corporate Affairs and Audit Committee reviews the Council's arrangements for corporate governance and makes recommendations as appropriate to ensure good governance and continuous improvement.

17. The committee met nine times during 2020/21, and considered the following corporate governance related items:

- Appointment of the 151 officer;
- Staff turnover;
- Statement of Accounts;
- Annual report of the Head of Internal Audit;
- Internal Audit progress report;
- Council and Teesside Pension Fund audit planning reports;
- Counter Fraud policy review;
- COVID-19 Support to staff;
- Boho X governance and project management arrangements;
- Audit results reports on the Council and the Teesside Pension Fund;
- Procurement policies, practices and financial regulations compliance;
- Update on legal services response to the issues identified in the OFSTED inspection;
- Tees Transporter Bridge;
- Letters of representation – the Council and Teesside Pension Fund;
- Overview of decision-making during 2020;
- Internal Audit Consultation report;
- Health and Safety annual assurance report;
- Business Continuity annual assurance report;
- Performance and Risk Management annual assurance report;
- Lessons learnt – Croydon London Borough Council Section 114 Notice;
- Annual Review of the Local Code of Corporate Governance;
- Capital Strategy 2021-22;
- Certification of Claims and Returns – annual report 2019/20;
- Redmond Review; and
- Update on polling stations and other election processes.

Overview and Scrutiny during 2020/21

18. Overview and Scrutiny Board (OSB), supported by a range of topic-specific panels, scrutinises Executive decisions and the performance of Council services. During 2020/21, scrutiny considered the following items that are relevant to corporate governance:

- quarterly reports on delivery of the Strategic Plan;
- the Executive Forward Work Programme;
- Middlesbrough Council COVID-19 Recovery plan and Terms of Reference;
- COVID-19 Update: Health, Adult Social Care and Public Health;
- Middlesbrough Council COVID-19 – Response and Test, Track and Trace;
- COVID-19 and governance updates from the Chief Executive;
- COVID-19 update: Education and Skills;
- COVID-19 and Finance update; and
- Middlesbrough Council's Response to COVID-19.

19. In addition, OSB considered two call-ins during 2019/20 relating to governance concerns, as set out below.

Executive Decision	Call in outcome	Executive final decision
Future accommodation	Referred back to the Executive because it was felt there was insufficient detail.	Recommendations of OSB were not endorsed.
Nunthorpe Grange Farm Disposal – Church Lane	Referred back to Executive because it was felt there was insufficient consultation.	Recommendations of OSB were not endorsed.

20. A call in of the decision on residual waste was also submitted but was not heard and the decision was subsequently reversed by Executive.

Other governance related events during 2020/21

COVID-19

21. Under the Civil Contingencies Act 2004 the Council is identified as a Category 1 responder, and as such has a legal duty to plan for and respond to emergencies in its area alongside other local responders, including the health sector and emergency services. It has legal duty to maintain the continuity of its business critical functions where it is possible to do so. It also has a duty to plan for recovery following an emergency incident.

22. The risk of a pandemic has been one of the highest on both the national and the Council's own risk register for a number of years. While locally the Council's response to the pandemic was robust, nationally it exposed weaknesses in national planning which also impacted locally.

23. During the period covered by this statement, those staff that could, worked from home, adapting quickly to ensure the Council's range of critical services could continue to be delivered. New technologies were adopted to ensure democratic processes could

resume remotely and some staff were diverted to new roles to support the pandemic response.

24. Business continuity plans were refreshed and additional plans developed to respond to the pandemic. Some corporate governance processes were varied to assist in the response to the pandemic. During 2020/21 the Chief Executive exercised authority delegated to him by the Mayor to make decisions of a policy, financial and operational nature in response to the COVID-19 emergency. Decisions made under this delegation were recorded and reported to Executive once it resumed remote meetings. As the pandemic progressed, officers worked to minimise the need to use this emergency delegation, taking decisions following business as usual processes where timescales allowed.
25. During the course of 2020/21 the Council administered and issued over £40m in business grants on behalf of the Government in response to the pandemic, and approximately £7m of support to households, providing assistance to 3,500 businesses and over 40,000 residents in some form.
26. When the town first entered lockdown in March 2020, new structures were put in place to support Middlesbrough's most vulnerable residents and these were stood back up in the two subsequent lockdowns.
27. The Council began to consider its recovery response to the pandemic during 2021/22 and recovery was adopted as one of the Council's nine strategic priorities in the Strategic Plan 2021-24.

Britain's Exit from the European Union

28. During 2020/21 the transition period following Britain's exit from the European Union ended. From 31 December 2020 free movement of goods and people ended and has been replaced by a series of agreements. This will continue to impact on the way the Council operates internally and externally as well as impacting on the economic outlook for the town.

Misconduct in a public office

29. During 2020/21, the then chair of the Council's Corporate Affairs and Audit Committee, Councillor Jon Rathmell was charged with misconduct in a public office in relation to a Community Council role, ultimately pleading guilty to that charge on 1 April 2021.
30. When this charge was initially made known, Councillor Rathmell was invited by the Monitoring Officer to consider standing down as Chair but declined to do so. Following his conviction, Councillor Rathmell was expelled from his political group and so automatically forfeited the position of Chair and a place on the Committee.
31. The Council is assured that Councillor Rathmell had no opportunity to improperly influence Middlesbrough Council expenditure or to act as a representative of the Council for financial or commercial purposes. While the Council was unable to take action to require an elected member to step down, it did explore how to strengthen local arrangements in this area and actions were included within this document.

Transporter Bridge

32. During 2020/21 the Council's Corporate Affairs and Audit Committee received a presentation on the outcome of a whistleblowing investigation that was triggered in 2019. The investigation found 'case for considerable concern', meaning fundamental failures existed within the control environment that exposed the Council to unacceptable levels of risk.
33. The resulting internal audit report contained seven priority one actions to address the issues. Significant work has been undertaken on the bridge which has mitigated the health and safety risk around the structure. Mitigations that isolated the bridge have been removed following this work.
34. The bridge remains closed to the public while its future operating and associated works are being determined. Subject to a final decision being taken on the future operating model for the bridge and due to the complex nature of the required surveys, assessments and cost profiling Internal Audit have agreed to a further extension of eight live milestones until April 2023. This decision supersedes previously agreed actions.

BOHO X

35. During 2020/21, in response to concerns from the Chair and Vice Chair of Corporate Affairs and Audit Committee, the Committee and other parties, an internal audit of the project management of Boho X was jointly commissioned by the Director of Finance (Section 151 Officer) and the Director of Legal and Governance Services (Monitoring Officer). That audit found that the project was not always managed in line with the Council's constitution. It identified concerns about the governance of the project, decision making, an ineffective culture of challenge. The report found that the third party contractor perceived that the Mayor had agreed changes to the project and that this was not something he was able to do within his constitutional role. Project Board minutes also recorded these changes had been made by the Mayor. Action has already been taken to address some of the issues raised. Further actions to address issues raised are identified within the action plan for this AGS and a more detailed plan will be developed in response to the Internal Audit findings.

Governance concern allegations

36. In May 2021, several former Members of the Council's Executive Committee made statements of concern on alleged Mayoral conduct in relation to activity conducted during 2020/21. Pre-formal fact finding has been conducted by Internal Audit as a precursor to any matters being conducted under the standards regime. This was commissioned by the Monitoring Officer, following consultation with the 151 Officer and the Head of Paid Service. This has identified weaknesses and incidents of non-compliance, by officers and Members, in relation to governance controls for procurement, financial governance and project management. Actions to address these weaknesses are reflected in the action plan for this statement. This work has been shared with the External Auditors and used to inform their Value for Money assessment.

Organisational culture and Member officer relationships

37. Relationships between officers and Members and relationships between Members have been strained on occasion and there are signs of distrust that must be addressed to ensure good governance can be maintained.
38. There are actions contained within the Annual Governance Statement (AGS) action plan to address this during 2022/23 to ensure the organisation continues to be well placed to meet the needs of the town.

Post-OFSTED improvement journey

39. In December 2019 OFSTED completed an inspection of the Council's compliance with the Inspection of Local Authority Children's Services (ILACS) framework. The outcome of that inspection was a judgement across four categories:

Judgement	Grade
The impact of leaders on social work practice with children and families	Inadequate
The experiences and progress of children who need help and protection	Inadequate
The experiences and progress of children in care and care leavers	Inadequate
Overall effectiveness	Inadequate

40. In 2020/21 a three-year plan was developed to deliver sustained improvement and change in Children's Services, monitored by a monthly Multi-Agency Strategic Improvement Board with a highly-experienced independent chair. The board receives progress reports on delivery of the improvement plan, has oversight of key performance metrics to track impact and considers themed reports on key practice issues. These three elements give the board a comprehensive overview of the delivery and impact of improvement work. The strategic board is supported by an operational board and weekly meetings with senior managers within Children's Services.
41. A [report from the Commissioner](#) released in June 2020 stated that good progress has been made to date to respond to the challenges set out in the OFSTED report and at this stage the Commissioner believes the Council should retain its safeguarding services. Progress since that time has remained positive.

Reference:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889009/Middlesbrough_Commissioner_s_Report.pdf

Governance interventions in other local authorities

42. During the period of this statement HM Government commissioned a statutory inspection of Liverpool City Council (LCC) following investigations by Merseyside Police which resulted in a number of arrests on suspicion of fraud, bribery, corruption and misconduct in public office with significant connections to LCC. The findings of the inspection commissioned by the Government were subsequently published within a [Best Value report](#).

43. In addition, since the period of this statement, a series of external investigations have been conducted at [Slough](#), [Wirral](#) and [Sandwell](#) councils. All reports identified a range of governance failings that require addressing. Two of the investigations were as a consequence of requests to capitalise expenditure because of budget pressures, the other was in response to governance concerns. Detailed lessons learned from these councils are set out within a separate report to the Corporate Affairs and Audit committee for visibility and resulting actions will be incorporated into the proposed Corporate Governance Improvement Plan.

In line with the Council's commitment to learning lessons from governance failings elsewhere, a self-assessment has been completed against the recommendations arising from the investigations and resulting actions have been embedded within this statement where necessary.

Middlesbrough Development Company activity during 2020/21

44. Middlesbrough Development Company (MDC) is a local authority trading wholly-owned company limited by shares, with the Council as the sole shareholder.

45. During 2020/21 MDC met monthly. From January 2021, key decisions taken by the company have been published at www.middlesbroughdevelopmentcompany.co.uk.

46. The Council's Section 151 Officer and Monitoring Officer began to receive all agendas, reports and minutes for the company during 2020/21, in line with the planned action from the 2019/20 Annual Governance Statement. Information on decisions made will also be reflected within the quarterly capital monitoring report to elected members.

47. There has now been guidance published on local authority owned companies in 2022 and a review is being conducted to assess alignment with that recent guidance.

Surveillance

48. The Council reviewed its policies relating to overt and covert surveillance during the year and identified a number of areas in which controls should be strengthened. An overarching Surveillance Policy, which will cover CCTV, RIPA, non-RIPA covert surveillance and the surveillance of employees will be brought forward for Executive approval during 2021/22. Approval of this policy will entail a number of procedural changes within CCTV (addressing the findings of the internal audit of CCTV undertaken during the year) and non-RIPA covert surveillance practice. An annual report on surveillance will be presented to Corporate Affairs and Audit Committee from 2022.

Inspection of account process

49. During the public inspection of accounts process for 2020/21, one question was received in total for further information on the financial statements from a member of the public. Unfortunately this was not identified by the council finance team until a month after receipt due a systems error. Once aware, the information was provided quickly and some further questions were also answered to resolve this query, however as a result the Council did not comply with this within the timescales required by statute. Steps have been taken to prevent a reoccurrence of this error.

Position statement against the Council's Code of Corporate Governance

Self-assessment

50. The Council has completed a position statement against its Code of Corporate Governance for the 2020/21 year, informed by:
- the professional opinion of statutory and other officers with responsibility for the development and maintenance of the Council's internal control environment;
 - reports from Overview and Scrutiny, and Corporate Affairs and Audit Committee's examinations of governance processes; and
 - findings from Internal Audit's review programme, and engagement with the Council's external auditor.
51. The detailed position statement is at Appendix 2 and is reflective of governance risk levels as outlined in the Council's strategic and directorate risk registers.
52. In summary, the Council continues to demonstrate governance processes are in place for the most part, however it is clear that there are control weaknesses to be addressed to improve adherence to those processes. In addition, a number of actions have also rolled over to 2021/22, having been delayed as a result of the impact of the COVID-19 pandemic on the Council. As a result of the issues identified within this statement and the range and varied nature of them, it is planned that the Council will launch a Corporate Governance Improvement Plan (CGIP), overseen by a multi-disciplinary officer board using the Council's Project Management Framework, with robust scrutiny of action delivery and reporting to Corporate Affairs and Audit Committee, Overview and Scrutiny Board and Executive on a regular basis to demonstrate delivery of actions and also to assess the impact of those actions. This will provide assurance to members on action being taken and ensure that if control weaknesses continue to exist even after action, further actions can be identified to address those. This will also include engagement with Internal and External Audit to provide assurance around delivery.

Internal Audit opinion

53. The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the Council's audit charter. These require the Head of Internal Audit to bring an annual report to the Corporate Affairs and Audit Committee. The report must include an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
54. The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating at the Council when the opinion was issued in 2021, was that it provides **Reasonable Assurance**. No reliance was placed on the work of other assurance providers in reaching this opinion.
55. In giving this opinion, attention was drawn to the following significant control weakness which was considered relevant to the preparation of the 2020/21 Annual Governance Statement.
56. An audit of the CCTV schemes operated across the Council found that there is no central register available that identifies the location of all CCTV camera equipment

across the Council. Therefore, the Council is unable to confirm that all CCTV schemes are compliant with the Surveillance Camera Code of Practice and the relevant legislation.

57. The overall opinion given above was based on work that had been undertaken directly by internal audit in 2020/21, and on cumulative knowledge gained through ongoing liaison and planning with officers. However, in giving the opinion, Internal Audit noted that COVID-19 had significantly affected the Council over the last year, with a wide ranging impact on business operations and controls. While the work of Internal Audit was directed to the areas that were most at risk, or provided most value for the Council, it was not possible to conclude on the full extent of the impact of COVID-19 on the Council's operations.
58. During 2021/22 further work undertaken by Internal Audit has identified issues which will be reflected in the 2021/22 Internal Audit opinion. This is likely to result in a lower level of assurance being issued.

External Audit opinion

59. The assessment of the Council's External Auditor is that a shift is required in the Council's culture in order to be able to achieve good governance. The Council has engaged with the External Auditor as a consultee during the preparation of this annual governance statement.

Conclusion

60. This Annual Governance Statement demonstrates that governance processes are in place for the most part, however it is clear that there are control weaknesses to be addressed to improve adherence to those processes.
61. The learning from activity undertaken does identify however, that the actions of officers and elected members are not always in accordance with these and as a result, more significant issues and responsive actions are required to improve culture and provide greater assurance.
62. Member to member and member to officer relationships have deteriorated further in the 2021/22 financial year resulting in a more dysfunctional culture than that evident in 2020/21. Both members and officers have the responsibility for this in terms of the result of further dysfunctionality and in terms of repairing this situation. The diagnostic work undertaken by CIPFA will provide an evidence base to either confirm or disprove this.
63. In addition, there is not any evidence of wholesale acceptance and understanding of the cultural issues that exist and the impact that they have on governance processes.
64. The scale of culture change required is therefore considerably greater than that evident during the audit period 2020/21 and represents a very significant risk to noticeable improvement being made within the next 6 months. It demands wholesale understanding of the issues; full acceptance of them; an acknowledgement of the individual and collective contribution to dysfunction and; a demonstrable willingness to change behaviour from both elected members and officers.

65. The work required to achieve the shift in culture required to ensure good governance will be complex and take a significant amount of time and effort. Independent expertise will be required provided by CIPFA to ensure that balance is achieved in assessing governance issues across the Council; the creation of a 100 day action plan to address identified issues and; to provide quality assurance in respect of the impact of completed actions. The outcome of this work will inform a "Phase 2" action plan. The following arrangements will be put in place to ensure proactive and appropriate delivery of these actions:

- An Improvement Board consisting of statutory officers and elected members that is politically balanced with an independent chair will be created.
- A dedicated post to drive the delivery of agreed actions.
- Adoption of the existing Project and Performance Management Frameworks.

66. Improvement Plans will be designed to improve governance highlighted by the independent review by:

- Improving officer and elected member understanding of respective roles and responsibilities
- Improving working relationships among and between elected members and officers
- Better standards of behaviour amongst all members in line with the Nolan principles and organisational values
- Adopting a planning cycle and associated processes in respect of Strategic and Medium-Term Financial Plans.

Signed on behalf of Middlesbrough Council



Andy Preston
Elected Mayor of
Middlesbrough
6 September 2022

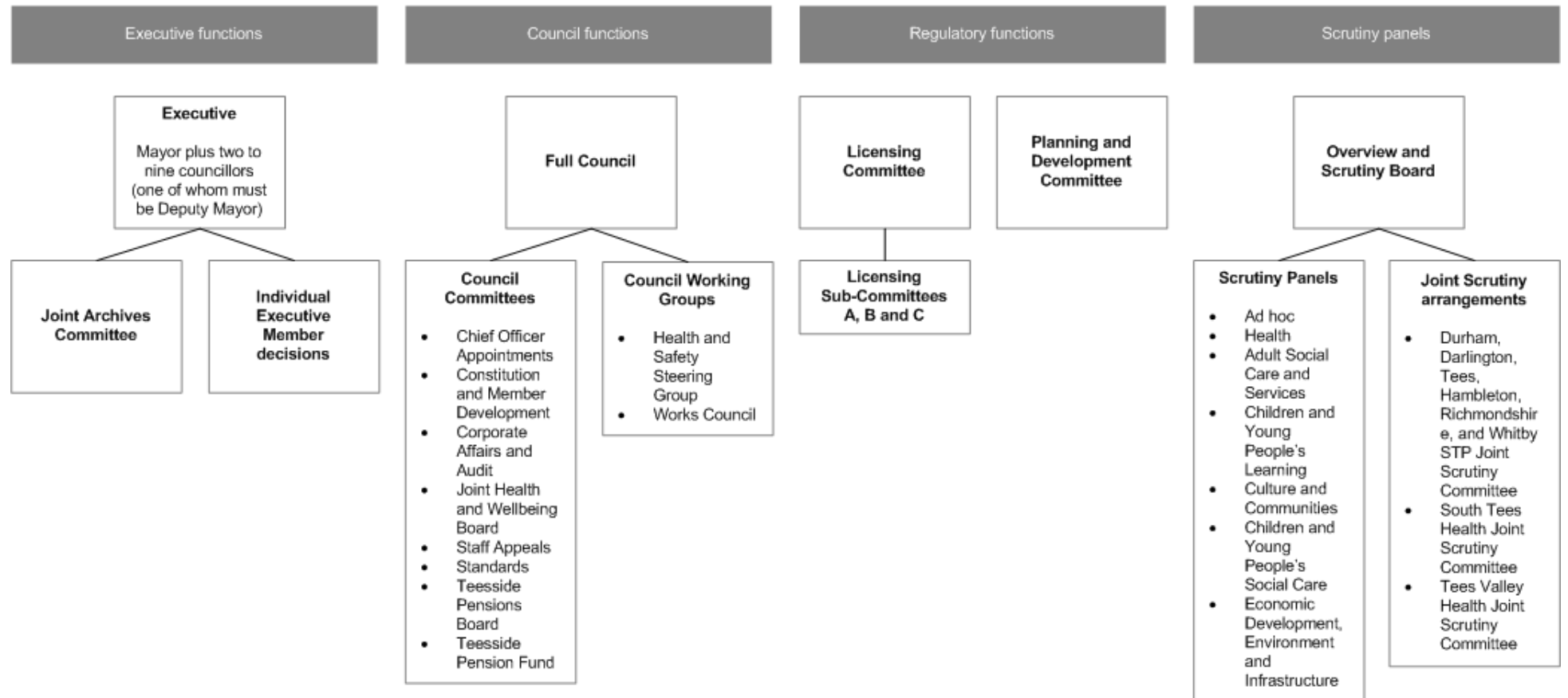


Tony Parkinson
Chief Executive
6 September 2022



Helen Seechurn
Section 151 Officer
6 September 2022

Appendix 1: Middlesbrough Council Committee Structure 2020/21



Appendix 2: Position statement against the Council's Code of Corporate Governance

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.</p> <ul style="list-style-type: none"> Behaving with integrity Demonstrating strong commitment to ethical values Respecting the rule of law 	<ul style="list-style-type: none"> Work diligently and with integrity to achieve the Elected Mayor's Priorities for Middlesbrough. Clearly document expected behaviours, and decision-making processes, for members and officers, and regularly review these. Effectively communicate expected behaviours to members and officers, and provide appropriate training on ethical behaviour. Ensure members, statutory officers, other key post holders are able and supported to fulfil their duties and meet their responsibilities. Ensure compliance by maintaining effective audit committee, internal audit and scrutiny functions, and standards and disciplinary processes. 	<ul style="list-style-type: none"> Constitution and supporting documentation clearly set out expected behaviours and decision-making processes, including member and officer relationships, codes of conduct, financial procedure rules and schemes of delegation. Constitution updated during 2020 to reflect COVID impacts to ensure meetings continued to be conducted effectively and in line with best practice. Additional guidance was issued to support this. Corporate values (one of which is integrity) in place and embedded within employee recruitment and selection, induction, appraisal and development. They were refreshed during 2020/21. Comprehensive member induction process and member development programme was delivered for the first year of the current term of office (19/20). Member and officer declarations of interests registers in place, and requested to be updated annually but there is a requirement that Members notify the Monitoring Officer electronically of any changes through the Council's committee management system, Modern.gov. Training for members on the code of conduct in place with a high level of compliance, and with all members individually signed up to the code. The action to deliver refreshed training in 20/21 has been slipped to 2021/22 as a result of COVID and its impact on capacity to deliver. Comprehensive member handbook in place to provide guidance and signpost support, and members' enquiries service in place to assist with casework and data requests. Statutory officers clearly identified and appropriately supported. The Council 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. Member training on appropriate use of social media to ensure that posts and engagement are in line with the Member code of conduct and other constitutional requirements. Refresher training on ethics has been identified as prudent in light of increased standards complaints and the misconduct in public office conviction. Action is required to ensure greater understanding, acceptance and compliance with the officer and member protocol (including hospitality rules) within Middlesbrough Council's constitution for all members and senior officers. Implementation of lessons learned from other councils - Develop a Member code of conduct protocol for licencing matters to complement the planning code of conduct already in place for that quasi-judicial function to ensure members have guidance on their quasi-judicial role. Improved understanding and adherence to the officer code of conduct and increased understanding of the key role of providing effective advice and challenge Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher impact assessment training for key officers. Increased awareness of the role of the Monitoring officer, to ensure officers are aware that they can seek advice and guidance on governance matters as well as escalation to line managers or use of HR or whistleblowing processes.

		<p>complies with the CIPFA statement on the role of the Chief Financial Officer (2016).</p> <ul style="list-style-type: none">• Effective Corporate Affairs and Audit Committee, internal audit and scrutiny arrangements in place, with members trained appropriately.• Policies in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed.• Member standards arrangements and employee disciplinary procedures in place and updated regularly.• Proactive approach to equality and inclusion in place, engaging staff, acting on intelligence and reporting progress. The Council has engaged staff online (and offline for staff with no ICT access) during Covid using a variety of methods to support maintenance of a positive, inclusive culture.	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Ensuring openness and comprehensive stakeholder engagement.</p> <ul style="list-style-type: none"> • Openness • Engaging comprehensively with institutional stakeholders • Engaging with individual citizens and service users effectively 	<ul style="list-style-type: none"> • Document and operate a culture of openness and transparency within the organisation. • Maintain a culture of accountability, so that members and officers understand what they are accountable for and to whom they are accountable. • Consult appropriately with stakeholders on the development of its budget, key plans and service development. • Maintain effective decision making processes, ensuring that reports to decision makers clearly set out stakeholder views where relevant. • Publish all Executive and Committee reports and decision papers, unless there is a legitimate need to preserve confidentiality on the basis of the statutory tests. • Publish on its website information on the Council's strategies, plans and finances as well as on outcomes, achievements and challenges. 	<ul style="list-style-type: none"> • Stated commitments to transparency within the Strategic Plan and supporting strategies such as the Information Strategy and annual SIRO Report. • Constitution and supporting documentation clearly set out accountabilities and delegated authorities. • Consultation on Strategic Plan priorities; and annual budget consultation in place. • Corporate consultation and impact assessment policy in place (refreshed during 2020/21), ensuring that stakeholders (including third party providers) are engaged appropriately and views considered in decision making. • Committee diary planner published on an annual basis, approved by members and accessible via the Council's website. • Executive Forward Work Programme in place, setting out planned decisions in the coming four months on the online committee system. • All public Executive and Committee agendas, papers and minutes are published via the Council's website. Officer-delegated decisions are also published. • Virtual meeting solutions in place for Councillor meetings while Covid-19 restrictions are in force to ensure transparency around decision-making. • Key strategies and plans are clearly published on the Council's website / open data site, and regularly updated. • Information on performance and expenditure sent to all households annually as part of Council Tax billing. • The Council complies with Open Data requirements, publishing statutorily required and other datasets such as the Freedom of Information Act publication scheme on its open data site. The Council proactively seeks to publish information for which there is a demand. 	<ul style="list-style-type: none"> • A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. • Undertake a review of digital engagement capabilities post Covid-19 including the Council's website to meet appetite for digital engagement. • Refresher training on ethics has been identified as prudent in light of increased standards complaints and the misconduct in public office conviction • Action is required to ensure greater understanding, acceptance and compliance with the officer and member protocol (including hospitality rules) within Middlesbrough Council's constitution for all members and senior officers. • Improved understanding and adherence to the officer code of conduct and increased understanding of the key role of providing effective advice and challenge • Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher impact assessment training for key officers. • Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. • Work during 2021/22 has identified weaknesses in understanding across elements of the corporate governance framework. Refreshed training will ensure senior officers training encompasses the full suite of corporate governance disciplines.

		<ul style="list-style-type: none">Plans with the digital and marketing and communications strategies to advance in the current approach.	
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Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Defining outcomes in terms of sustainable economic, social and environmental benefits.</p> <ul style="list-style-type: none"> Defining outcomes Sustainable economic, social and environmental benefits 	<ul style="list-style-type: none"> Clearly set out its contribution to delivery of the Mayor's priorities for Middlesbrough, and use this as the basis for its overall strategy, planning and other decisions. Define outcomes through robust consideration of appropriate evidence bases, such as the Joint Strategic Needs Assessment. Ensure that it delivers defined outcomes on a sustainable basis within available resources. Effectively identify and manage risks to the achievement of targeted outcomes. Manage customer expectations effectively when determining priorities to make best use of resources, and ensure fair access to services. 	<ul style="list-style-type: none"> Strategic Plan and Directorate Priorities Plans in place which outline how the Council plans to deliver the Council's priorities for Middlesbrough, Strategic Plan is part of the Council's policy framework – reports to decision makers set out how recommendations would impact on strategic objectives if approved. Consultation on Strategic Plan priorities; and annual budget consultation in place. Joint Strategic Needs Assessment and supporting assessments in place for children and young people – the children and young people's assessment was refreshed during 2017/18. Market position statements use needs assessments to inform commissioning priorities. Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and Capital Investment Strategy. Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Customer Strategy and Charter in place, identifying what customers can expect from the Council, alongside specific service eligibility criteria. 	<ul style="list-style-type: none"> Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year and complete the Adults and Older persons JSNA. Recent guidance on the conduct of local authority owned arm's length companies has been issued that Middlesbrough Development Company should be assessed against to ensure it is operating in line with it. A recent audit of the BOHO X project has identified governance improvements required in relation to project governance.

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Determining the interventions necessary to optimise the achievement of the intended outcomes.</p> <ul style="list-style-type: none"> • Determining interventions • Planning interventions • Optimising achievement of intended outcomes 	<ul style="list-style-type: none"> • Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved. • Ensure that external and internal stakeholders are engaged with when the Council is determining how services should be planned and delivered, and the outcome of consultations is considered when decisions are made. • Ensure achievement of social value through service planning and commissioning. • Ensure that it has clear and robust planning and control cycles for its strategic and operational plans, priorities and targets. • Determine appropriate KPIs to demonstrate service and project performance, and provide members and senior managers with timely updates on these. • Ensure medium and long term resource planning is realistic, sustainable and inclusive. • Prepare budgets that are aligned to the strategic objectives of the organisation and its MTFP. 	<ul style="list-style-type: none"> • Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. • Corporate consultation and impact assessment policy in place, ensuring that stakeholders engaged appropriately and views considered in decision making. • Guide to social value in procurement and commissioning in place. • Strategic Procurement Strategy in place. Contract management framework now also in place. • 'How to do Business with Middlesbrough Council' guidance for providers in place. • Annual reports to Corporate Affairs and Audit committee on disposals on the grounds of social value provided where appropriate. • Corporate planning cycle considers targeted outcomes and annual budgeting over the medium-term within the context of the Council's Medium-Term Financial Plan and capital Investment Strategy. • Performance, Risk and Programme and Project Management frameworks provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. 	<ul style="list-style-type: none"> • A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate, and timely taking of decisions that can be taken by officers. • Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout. Rollout to commence from March 2022. • The council's report committee formats and supporting processes should be reviewed to ensure they continue to be robust, and the opportunity is taken to learn lessons from Best Value reports completed by government on the governance processes of other councils. • Recent guidance on the conduct of local authority owned arm's length companies has been issued that Middlesbrough Development Company should be assessed against to ensure it is operating in line with it. • Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it.

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Developing the Council's capacity, including the capability of its leadership and the individuals within it.</p> <ul style="list-style-type: none"> Developing the Council's capacity Developing the capability of the Council's leadership and other individuals 	<ul style="list-style-type: none"> Regularly review operations to ensure that it is continuing to deliver services that are effective, including the use of benchmarking and sectoral research. Work collaboratively and in partnerships where added value can be achieved. Maintain an effective approach to organisational development to ensure continued capacity and capability to deliver. Clearly define roles, responsibilities and terms of engagement for members and employees. Maintain and regularly review its schemes of delegations that outline the types of decisions that are delegated and those that are reserved for collective decision-making. Develop the capabilities of members and senior management to achieve effective shared leadership. Ensure there are appropriate structures in place to encourage public participation. Ensure that systems are in place to ensure that members and staff can be both held to account for performance, and supported as appropriate. 	<ul style="list-style-type: none"> Performance Management Policy set out how corporate performance will be managed. Directorates review performance internally. Business intelligence dashboards are have been implemented to facilitate this. Range of benchmarking and other tools are used within Directorates to contextual performance and drive improvement. Wider Leadership Management Team in place to enable broader consideration of key policy issues. Key strategic partnerships in place, such as the South Tees Health and Wellbeing Board. The organisational development ambitions of the Council are embedded within the Strategic Plan which clearly outlines corporate approach to organisational development. Constitution and supporting documentation clearly set out member and officer role profiles, relationship protocol and schemes of delegation. Corporate consultation policy and online consultation portal in place. Plans with the digital and marketing and communications strategies to advance in the current approach. Processes in place for public involvement in determining scrutiny priorities, for the public to petition Council and to register questions to be considered by full Council. Clear employee appraisal and development process and member development programme in place. 	<ul style="list-style-type: none"> A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. The Council must continue on its improvement journey to address issues raised by OFSTED in relation to its safeguarding services for children to ensure all children are safe receive consistently good care that results in sustained improvement to their lives and their families lives. Ensure managers understand how they are expected to act to be in line with the refreshed organisation's values. Action is required to ensure greater understanding, acceptance and compliance with the officer and member protocol (including hospitality rules) within Middlesbrough Council's constitution for all members and senior officers. The refreshed corporate values mean that training to support adherence to them must also be refreshed. Improved visibility of forthcoming issues, risk, changes, and opportunities is required.

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Managing risks and performance through robust internal control and strong public financial management.</p> <ul style="list-style-type: none"> Managing risk Managing performance Robust internal control Managing data Strong public financial management 	<ul style="list-style-type: none"> Embed a proportionate approach to risk management within all activities, ensure that progress is reviewed regularly and that risk is considered as part of decision making. Ensure effective performance management of service delivery and provide members and senior managers with timely updates on service performance and progress towards outcomes. Ensure reports to decision makers on services are fair, balanced, and analyse options and the risks associated with those options, to ensure Best Value is achieved. Ensure effective, member-led scrutiny is in place that provides constructive challenge and debate on objectives and policies before, during and after decisions are taken. Ensure an effective, risk-led Internal Audit service is in place to provide assurance on the overall adequacy and effectiveness of the Council's governance arrangements. Ensure effective counter fraud and anti-corruption policies and arrangements are in place. Ensure effective internal control arrangements exist for sound financial management. Maintain an effective audit committee function. Ensure effective arrangements are in place to collect, store, use and share data, including processes to safeguard personal data. Put in place arrangements to ensure that data used to support decision-making is accurate and clear. Ensure financial management arrangements support both long term outcome delivery and day-to-day operations. 	<ul style="list-style-type: none"> Performance Management; Risk and Opportunity Management; and Programme and Project Management policies provide for regularly tracking of progress and addressing issues and risks, with reporting to members and senior managers as appropriate. Risk is a standard section in reports to decision makers. Reports to decision makers developed using a standard format to ensure effective, fair, and evidence-based decision making. Wide-ranging annual scrutiny programme in place, examining policy and performance. Urgent decision process and records in place and reported to Council annually. Effective internal audit arrangement in place, utilising the Council's plans and risk registers to identify priorities. Policy in place for counter-fraud, bribery and corruption; complaints; procurement; and whistleblowing, and regularly reviewed. Money Laundering Policy. Effective Corporate Affairs and Audit committee in place clear terms of reference and a full and trained membership. Information Strategy in place to provide systematic approach to information governance, including data protection and data quality. Robust financial management procedures in place relating to medium-term financial planning, budget setting, procurement and contract management. Internal audit opinion is that overall the Council has a reasonable overall control environment. 	<ul style="list-style-type: none"> Risk management and insurance should be more closely linked to exploit opportunities to improve risk management of insured and uninsured costs. A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers. Action required to ensure understanding of, and compliance with, procurement processes of the organisation. Assess and embed compliance with the Partnerships Governance policy. Review the Council's approach to risk and insurance as part of consideration for future insurance options as part of insurance contract considerations. Develop a five year capital investment strategy around highways infrastructure that will inform the MTFP to ensure that roads are adequately funded and prioritised.

Local Code of Corporate Governance		Self-assessment	
Principle / supporting principles	To meet these requirements, the Council will:	Evidence of compliance with this principle	Areas for improvement
<p>Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p> <ul style="list-style-type: none"> Implementing good practice in transparency Implementing good practices in reporting Assurance and effective accountability 	<ul style="list-style-type: none"> Provide reports in plain English wherever possible, ensuring that they are easy to access and interrogate and balancing transparency requirements with clarity. Report regularly on performance, delivery of value for money and stewardship of resources. Report on compliance with good governance principles within its Annual Governance Statement, including an action plan for continued improvement. Ensure compliance with good governance principles extends to its partnership arrangements. Ensure that recommendations made by external audit are addressed. Ensure that the internal audit service has direct access to members to enable it to provide assurance with regard to governance arrangements. Welcome and positively engage with peer challenges, reviews and inspections of its services. 	<ul style="list-style-type: none"> Standard template for reports to decision makers designed to advance proposition logically and simply, and reduce duplication of information. Training for report writers ongoing, including expectations around use of plain English. Quarterly results reports to Executive and scrutiny covering performance, financial and risk updates. Annual Governance Statement complying with the standard set out in the Local Code of Corporate Governance. Governance arrangements in place for key strategic partnerships, such as the South Tees Health and Wellbeing Board, with improvement activity underway. Recommendations made by external audit are addressed as a matter of priority through the most appropriate route. Internal audit reports its plans, progress and findings regularly to the audit committee. Agreed actions from internal audit are tracked by DMTs until completion. Council proactively seeks peer challenge, publishing findings and responses and commissioning follow-ups. There are positive relationships with statutory inspectorates and regulators. 	<ul style="list-style-type: none"> Assess and embed compliance with the Partnerships Governance policy. Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher impact assessment training for key officers Strengthened Programme and Project Management Framework to address issues identified within the Boho X Internal Audit Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it. It has been some time since the Council has had an independent assessment of its corporate governance. Action is needed to seek an LGA Corporate Peer Challenge review within the next two years to provide an external review of the Council's corporate governance arrangements. Provision of an independent Technical Advisor to the Corporate Affairs and Audit Committee to support challenge An internal audit of CCTV schemes operated across the Council found that there is no central register available that identifies the location of all CCTV camera equipment across the Council. Actions were identified to strengthen the governance arrangements in relation to CCTV schemes.

Appendix 3: Corporate governance priorities for 2021/22

Actions delayed from 2020/21

	Areas for improvement	Action	Outcome(s)	Lead officer	Deadline
1	A robust officer scheme of delegations and sub-delegations is required to ensure effective, appropriate and timely taking of decisions that can be taken by officers.	Continue to implement a scheme of sub-delegations where appropriate to further improve governance around officer delegated decisions.	Improved, more timely and transparent officer decision-making.	Director of Legal and Governance Services	March 2023
2	Ensure the needs of the town's population are accurately understood.	Refresh the Joint strategic Needs Assessment (JSNA) for children and young people this year and complete the Adults and Older persons JSNA.	A refreshed needs assessment that continues to identify the needs of the town's population and identifies where those needs may differ.	Director of Public Health with support from the Interim Head of Strategy, Information and Governance	March 2023

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2021/22 actions

Culture and Behaviour

	Issue	Action	Outcome(s)	Lead officer	Deadline
3	Refresher training on ethics has been identified as prudent in light of increased standards complaints and the misconduct in public office conviction.	Revise members' code of conduct and deliver training on it to all members, including ethics.	Members understand expectations in relation to conduct.	Head of Democratic Services	Complete
4	Increased awareness of the role of the Monitoring officer, to ensure officers are aware that they can seek advice and guidance on governance	Raise awareness of the role of the Monitoring officer, in particular giving advice and guidance to officers on governance.	Increased awareness of routes to seek advice and guidance in relation to governance procedures.	Monitoring Officer	Complete

	Issue	Action	Outcome(s)	Lead officer	Deadline
	matters as well as escalation to line managers or use of HR or whistleblowing processes.				
5	Action required to ensure understanding of, and compliance with, procurement processes of the organisation.	Transition to OPEN, the NEPO e-procurement system that is being put in place for the North East, replacing the current contract management framework with an end to end product once fully rollout.	Compliance with framework requirements	Head of Commissioning and Procurement	March 2023
6	The Council must continue on its improvement journey to address issues raised by OFSTED in relation to its safeguarding services for children to ensure all children are safe receive consistently good care that results in sustained improvement to their lives and their families lives.	Continue to deliver the OFSTED Improvement plan, in particular those actions that have been identified to strengthen leadership within Children's Safeguarding Services.	That services to safeguard children are robust and appropriate.	Executive Director of Children's Services	Ongoing
7	Work during 2021/22 has identified weaknesses in understanding across elements of the corporate governance framework. Refreshed training will ensure senior officers training encompasses the full suite of corporate governance disciplines.	Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training.	Ensure managers and members continue to act in line with the policies, strategies and procedures of the organisation.	Head of Human Resources and the Monitoring Officer	October 2022
8	Action required to ensure understanding of the Equality Act and the impact assessment process, supplementing mandatory equality and inclusion training with refresher	Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers.		Head of Strategy, Information and Governance	March 2023

	Issue	Action	Outcome(s)	Lead officer	Deadline
	impact assessment training for key officers.				
9	A recent audit of the BOHO X project has identified governance improvements required in relation to project governance	Refreshed and strengthened training to officers delivering projects to ensure project and wider Council decision making governance is understood and adhered to.	Improved compliance with the requirements of the PPM policy and supporting framework.	Strategic Delivery Manager	September 2022
10		Delivery of training to all Members on roles and responsibilities in relation to Programme and Project Management	Improved compliance with the requirements of the PPM policy and supporting framework.	Strategic Delivery Manager	Complete
11	The refreshed corporate values mean that training to support adherence to them must also be refreshed.	Launch the revised Management Framework, to ensure managers understand how they are expected to act to be in line with the refreshed corporate values.	Ensure managers and members continue to act in line with the culture, values and policies of the organisation.	Head of Human Resources	Complete
12		Refresh training materials on the Council's Organisational Development system to align training with compliance with the values		Head of Human Resources	Complete
13		Refresher senior leadership development work programme delivered by the LGA to ensure officer and member roles continue to be understood and adhered to.		Monitoring Officer	Complete
14		Launch an expanded 360 project to cover a wider cohort of managers.		Head of Human Resources	Complete
15	Improved understanding and adherence to the officer code of conduct and increased understanding of the key role of providing effective advice and challenge	Delivery of training for Senior Officers on the officer code of conduct and the provision of effective advice and challenge		Monitoring Officer	September 2022

	Issue	Action	Outcome(s)	Lead officer	Deadline
16	Action is required to ensure greater understanding, acceptance and compliance with the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers.	Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers.	Members and officers understand their roles clearly	Monitoring Officer	March 2023
17	Council's constitution for all members and senior officers.	Member refresher training on the code of conduct will include information on hospitality requirements and registers of interests.	Assurance that members understand their obligations in relation to receipt of gifts and hospitality.	Head of Democratic Services	Complete
18		Constitution and Member Development committee to consider amendments to the constitution to strengthen and clarify the actions that can be taken in response to councillors failing to complete mandatory training.	There is greater assurance that members are acting in rolls for which they have received an appropriate level of training.	Head of Democratic Services	Complete
19	Member training on appropriate use of social media to ensure that posts and engagement are in line with the Member code of conduct and other constitutional requirements.	Deliver training to members on use of social media.	Members understand how social media should be used appropriately and in line with expectations for conduct set out in the constitution.	Head of Democratic Services	Complete

Systems and processes

	Issue	Action	Outcome(s)	Lead officer	Deadline
20	Risk management and insurance should be more closely linked to exploit opportunities to improve risk management of insured and uninsured costs.	Review the Council's approach to risk and insurance as part of consideration for future insurance options as part of insurance contract considerations.	Strengthened relationship between risk and insurance management.	Director of Finance and Head of Strategy, Information and Governance	Complete
21	Implementation of lessons learned from other councils - Develop a Member code of conduct protocol for licencing matters to complement the planning code of conduct already in place for that quasi-judicial function to ensure members have guidance on their quasi-judicial role.	Develop a Member code of conduct protocol for licencing matters to complement the planning code of conduct already in place for that quasi-judicial function	Strengthened support for members conducting quasi-judicial functions.	Head of Democratic Services	Complete
22	Develop a five year capital investment strategy around highways infrastructure that will inform the MTFP to ensure that roads are adequately funded and prioritised.	Develop a five year capital investment strategy around highways infrastructure that will inform the MTFP.	Ensure an appropriate approach to highways infrastructure has appropriate financial planning in place to support it.	Director of Environment	May 2022
23	The council's report committee formats and supporting processes should be reviewed to ensure they continue to be robust, and the opportunity is taken to learn lessons from Best Value reports completed by government on the	Review the council's report committee formats and supporting processes	Assurance that the Council's committee report formats are robust.	Head of Strategy, Information and Governance	Complete

	Issue	Action	Outcome(s)	Lead officer	Deadline
	governance processes of other councils.				
24	The council's report committee formats and supporting processes should be reviewed to ensure they continue to be robust, and the opportunity is taken to learn lessons from Best Value reports completed by government on the governance processes of other councils.	Review the council's report committee formats and supporting processes	Assurance that the Council's committee report formats are robust.	Head of Strategy, Information and Governance	Complete
25	A recent audit of the BOHO X project has identified governance improvements required in relation to project governance	Revised PPM policy and supporting PPMF to address issues identified within the BOHO X Internal Audit	Policy and supporting framework are strengthened to improved adherence to required governance processes.	Strategic Delivery Manager	Complete
26	An internal audit of CCTV schemes operated across the Council found that there is no central register available that identifies the location of all CCTV camera equipment across the Council. Actions were identified to strengthen the governance arrangements in relation to CCTV schemes.	A central register of all public space surveillance camera equipment operated by the Council, including the location of each piece of equipment, its asset reference and the manager responsible, will be developed and maintained by the SPoC.	Assurance that all CCTV schemes are compliant with the Surveillance Camera Code of Practice and the relevant legislation.	Director of Environment and Head of Strategy, Information and Governance	Complete in part. Action to asset tag equipment will be completed during 2022/23.
27	Provision of an independent Technical Advisor to the Corporate Affairs and Audit Committee to support challenge.	The Section 151 officer to recruit an independent Technical Advisor to support the Corporate Affairs and Audit Committee.	Improved challenge from the Corporate Affairs and Audit Committee, with independent support	Director of Finance	March 2023

	Issue	Action	Outcome(s)	Lead officer	Deadline
28	Recent guidance on the conduct of local authority owned arm's length companies has been issued that Middlesbrough Development Company should be assessed against to ensure it is operating in line with it.	Review the decision making of Middlesbrough Development Company to assess compliance with best practice in relation to asset disposals and acquisitions during 2020/21	Provide assurance that asset acquisitions and disposal processes by the Middlesbrough Development Company align with the Council's internal policies on this area.	Director of Regeneration to liaise with Internal Audit	July 2022 – delayed, audit commenced in September 2022
29	Key Performance Indicators with targets will strengthen the Council's Strategic plan and increase transparency around the impact of actions on the achievement of aims within it.	Strengthen the approach to the Strategic plan including inclusion of key measures of success to be agreed by full. Council when it is next refreshed.	Increased visibility and approval of KPIs to measure the impact of actions to deliver the aims of the Strategic Plan will improve transparency and accountability.	Interim Head of Governance, Strategy and Information	March 2023
30	It has been some time since the Council has had an independent assessment of its corporate governance. Action is needed to seek an LGA Corporate Peer Challenge review within the next two years to provide an external review of the Council's corporate governance arrangements.	Seek an LGA Corporate Peer Challenge review within the next two years to provide an external review of the Council's corporate governance arrangements.	Provision of external assurance that the Council has an accurate understanding of its corporate governance arrangements and compliance.	Interim Head of Strategy, Information and Governance	April 2024

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance (S151 Officer)
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Submitted to:	Corporate Affairs and Audit Committee
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Date:	23 September 2022
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Title:	Highways Infrastructure Assets - Update
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	Not applicable
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Why:	Not applicable
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Urgent:	Not applicable
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Why:	
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Executive summary

This report follows on from the ‘approval of the audited Statement of Accounts’ for the 2020/21 financial year considered by the Committee on 22 July 2022. At that point, Members approved the accounts following the Audit Results Report from Ernst & Young (EY). However, this was subject to further updates on the finalisation of the Annual Governance Statement for that year and on Highways Infrastructure Assets.

Both of these issues were delegated to the Director of Finance to resolve and sufficient clarity is needed on these two issues before the audit opinion on the accounts can be issued by EY and the audit process for 2020/21 be brought to a close.

The Annual Governance Statement for 2020/21 has now been agreed and signed (see previous report on the agenda) and we now have a proposed way forward on Highways Infrastructure Assets that will be the basis of the report and is for Member’s information.

Purpose

1. The purpose of the report is to update Members on the Highways Infrastructure Assets position for 2020/21 following the Chartered Institute of Public Finance & Accountancy's review on this subject earlier this year.
2. A way forward on this issue, which is acceptable to both the Council and to the external auditors, will allow EY to issue their opinion on the financial statements and to close the audit process for that financial year. This would be useful given the length of the current audit and the need to move on with the audit of the 2021/22 accounts for the Council which have now been prepared.

Background and relevant information

3. The draft Statement of Accounts for 2020/21 was presented to this Committee on 5th August 2021 which gave Members an understanding of the Council's financial position, performance and cash flows at 31st March 2021, and how it had performed against its revenue and capital budget plans. Significant issues included within the financial statements were also discussed for information at that stage.
4. Further updates have been given to the Committee on progress during the audit, principally on the 31 March, 9 June and 22nd July 2022 when EY's audit results report and an updated Statement of Accounts were presented. These reports explained the various delays experienced so far on the audit of the accounts and why statutory date had not been met.
5. At the meeting on 22 July, the Committee approved the audited statement of accounts subject to; the annual governance statement being finalised and agreed by the Mayor, the Chief Executive & the Director of Finance, and the Highways Infrastructure Assets issue, which had been raised during the audit being resolved.
6. A signed annual governance statement for 2020/21 is included within the agenda papers for this meeting. In order for EY to issue their audit opinion for the financial year, a resolution on the position on highways assets is required.

Highways Infrastructure Assets

7. The report to the Committee on 9th June 2022 sets out the current issue on this subject and the reasons why this was delaying external auditors issuing opinions on the financial statements. In summary, this relates to an uncertainty on whether these assets have been fully depreciated over their useful life before they have been replaced. If this is not the case then the totals in the balance sheet for these assets could be materially misstated. Further details on this subject are included in Appendix 1 for Members information, as this is a technical area of the accounts.
8. The total of these assets stated in the Council's Balance Sheet as at 31st March 2021 is as follows:

- Gross Book Value:	£221.151M
- Accumulated Deprecation:	(£88.224M)
- Net Book Value	<u>£132.927M</u>

9. The above balances contain the main types of highways asset, including roads, bridges, street furniture, adopted land etc. They do not include becks, flood prevention assets or the Transporter Bridge, which are also accounted for as infrastructure. The accounting policy for these at present is to capitalise at historic cost when recognised and then to depreciate their value over the useful economic life of the asset, which would normally be between 25 – 40 years. The amounts are recorded in the Council's fixed asset register along with other types of tangible assets such as property, plant & equipment.
10. CIPFA undertook some work via an urgent task and finish group in April and May of this year to assess what was needed as a temporary solution to allow any open 2020/21 audits to be finalised. Some guidance was initially published based on the conclusions of the group and a consultation was held seeking stakeholder views from the wider sector, which closed on 14 June 2022. The main issue to note being that these assets have long life spans and that local authorities only hold partial and insufficient records in relation to their individual histories, particularly where de-recognition is concerned.
11. The current advice from CIPFA is inconclusive. From their perspective, the issue is complicated and needs further work and consultation with stakeholders before a final solution is recommended. This work is ongoing with late 2022/early 2023 suggested as timescales for a possible resolution.

Limitation of Scope – Audit Opinion

12. The lack of definitive guidance by CIPFA is problematic for any local authority with audits still open for the 2020/21 financial year. Local audit firms are unable to sign-off audit opinions on the financial statements at present given this issue.
13. There are discussions at both national and local levels about how to resolve this particular impasse. One simple option is for the local authority to keep its accounts open until a way forward is proposed by CIPFA. However, this might take a significant time to resolve, as councils would need to undertake the appropriate work to review and restate account balances even once any guidance is finalised. This work would then have to be audited and assessed for reasonableness. There may also be reputational issues for keeping the accounts open for even longer and practical issues around how much audit work could be done on the 2021/22 accounts in the interim. The second option available may be to adopt a limitation of scope position.
14. In an audit, a limitation of scope is a situation where auditors cannot obtain sufficient appropriate evidence to make a conclusion on certain account balances, transactions or events. This is the position with highways assets where local authorities hold some data but the accounting records do not generally record and adjust for de-recognitions (or disposals) in sufficient detail. The normal approach to this would be for the auditors to modify their opinion on the financial statements as a result.
15. The limitation of scope approach is attractive for some Councils. It would allow the audit process for 2020/21 to be completed with a view from EY that the financial statements give a true and fair view in all regards and for all key balances, except for Highways Infrastructure Assets. This would allow the Council to publish their audited Statement of Accounts for 2020/21 and EY to move on with their audit of the 2021/22 accounts.
16. Although Middlesbrough's highways service does maintain an information management system (Symology) and some of the information that is required for the accounting

process is recorded within this system. We are not confident that this is sufficient to restate the balances needed back to 2011 when international financial reporting standards were first introduced. Although further work could be done to extract the information and to use local knowledge to fill in the gaps, this is seen as a large piece of work that could take several months. The current accountancy fixed asset register does not also provide the level of detail required in relation to new additions and de-recognitions to be able to account for these assets in a reasonable way.

17. We are however more confident that Symology can be used to capture the correct level of data going forwards and that this work can be linked with the Council's fixed asset register to produce the correct capital accounting entries going forwards.
18. As a result, the view of the Director of Finance (as responsible financial officer) is that the limitation of scope option to close the external audit for 2020/21 brings more benefits than disadvantages and that the Council should pursue this option with EY. It is also sensible given the circumstances as it allows the maximum certainty on the Council's financial position and to stakeholders.
19. At present, we are only aware of one other local authority who has finalised their audit on this basis. This is Cambridgeshire County Council. However, given the current position on a formal view from CIPFA taking some time, we are aware that a number of Councils are now proposing a limitation of scope way forward to close their audits for the financial year.
20. The Council finance team will continue to work with the Highways service to see what information is needed/available to resolve this issue, both retrospectively and going forwards. We will also monitor the position on future CIPFA guidance, changes to the accounting code of practice and will bring updates to the Committee on an interim basis.
21. Although this is a S151 Officer decision rather than for the Committee to make, we are interested in Member's views on the subject before confirming to EY. In advance of the meeting if Members feel they need more information or would welcome a discussion on the subject, this can be arranged.
22. If the Committee agree with the Director of Finance's view on this EY will need to modify their audit results report for the 2020/21 financial year. The auditor will give an update on this at the meeting if this is the proposed way forward.

What decision(s) are being recommended?

That the Corporate Affairs and Audit Committee:

- Note the contents of the report and the position on the audit process for 2020/21;
- Form a view as to whether they support the Director of Finance's advice to accept a limitation of scope option in relation to Highways Infrastructure assets for the year in question.

Rationale for the recommended decision(s)

23. The limitation of scope option will allow the completion of the external audit process for the financial year and confirm the material balances in the accounts at 31st March 2021. It will also allow the audit of accounts for 2021/22 to be progressed.

Other potential decision(s) and why these have not been recommended

24. The only other option available to the Council is to leave the accounts open until a solution is recommended by CIPFA and agreed with EY.

Impact(s) of the recommended decision(s)

Legal

25. The external audit of the Statement of Accounts is a legal requirement under the Accounts & Audit Regulations 2015. Under the amended coronavirus regulations for 2021, the audit process should be complete by 30th September 2021. However, under the Act there are provisions for continuation of the audit where it is not complete. There is currently a notice on the Council's website that indicates that the audit is not yet complete and under which statutory provision this can occur. The aim being to finalise the audit and publish the audited accounts as soon as possible afterwards.

Strategic priorities and risks

26. As the Statement of Accounts covers all financial transactions of the Council, it encompasses all strategic priorities and risks.

27. The main risks associated with the late completion of the external audit and publication of the accounts are:

- Reputational (i.e. how this is seen by other external bodies and the public in terms of the Council not being able to publish these on time); and
- The impact that this has on the capacity of the internal finance team to plan and deliver the next set of accounts as at 31st March 2022.

Human Rights, Equality and Data Protection

28. There are no relevant considerations in these areas in respect of this report.

Financial

29. Although the Statement of Accounts is the main method of external financial reporting to the public and other stakeholders by the Council, there are no specific financial implications of the content of this report or the external audit not yet being complete.

Actions to be taken to implement the recommended decision

Action	Responsible Officer	Deadline
To agree the limitation of Scope option for Highways Infrastructure Assets in order to close the external audit for 2020/21.	Director of Finance	TBC as depends on internal process within EY to ratify this option for Middlesbrough.

Appendices

1	Appendix 1 – CIPFA note on Infrastructure Assets
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Background papers

Body	Report title	Date
Corporate Affairs & Audit Committee	Draft Statement of Accounts 2020/21	5 th August 2021
Corporate Affairs & Audit Committee	Statement of Accounts (Financial Element)	31 st March 2022
Corporate Affairs & Audit Committee	Infrastructure Assets & Statement of Accounts 2020/21	9 th June 2022
Corporate Affairs & Audit Committee	Audited Statement of Accounts 2020/21	22 nd July 2022

Contact: Justin Weston, Head of Finance & Investments

Email: Justin_weston@middlesbrough.gov.uk

Audit Delays – Reporting of Infrastructure Assets in the Local Authority Accounts

You may be aware of an issue relating to the reporting of infrastructure assets which has led to delays in local authority audits, principally for highways authorities.

The issue is a technical accounting one and arises principally because of information availability relating to these assets.

Accounting for infrastructure in local government has not historically been considered to be an area of significant audit risk, due to the inalienable nature of the assets and the use of a historical cost basis of accounting. However, concerns raised by a local government auditor that some authorities are not applying component accounting requirements appropriately have recently come to light via audit network discussions convened by the National Audit Office. The underlying issues appear to be more prevalent than anticipated and we understand this is now an area of focus for all local audit firms.

The issue raised by auditors is in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. There are also related issues for the reporting of gross historical cost and accumulated depreciation.

Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at an asset measurement described as 'current value'. The valuation process for these assets was deemed to be too costly, and therefore infrastructure assets are held in local authority balance sheets at depreciated historical cost.

Normal custom and practice for (highways) infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code.

This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.

CIPFA has offered to assist resolution by providing additional guidance and by pursuing whether any augmentations to the Accounting Code would assist with the situation. The CIPFA LASAAC Local Authority Accounting Code Board (CIPFA LASAAC) has agreed to consider such proposals.

Further information on the issue may be found [here](#).

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Teesside Pension Fund Provisional Audit Results Report

Year ended 31 March 2021
September 2022

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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'.

Building a better
working world



Private and Confidential

08 September 2022

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our provisional audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Teesside Pension Fund for 2020/21.

Our audit of Teesside Pension Fund ('the Fund') for the year ended 31 March 2021 is nearing completion. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements.

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

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 welcome the opportunity to discuss the contents of this report with you at the Corporate Affairs and Audit Committee meeting on 22 September 2022.

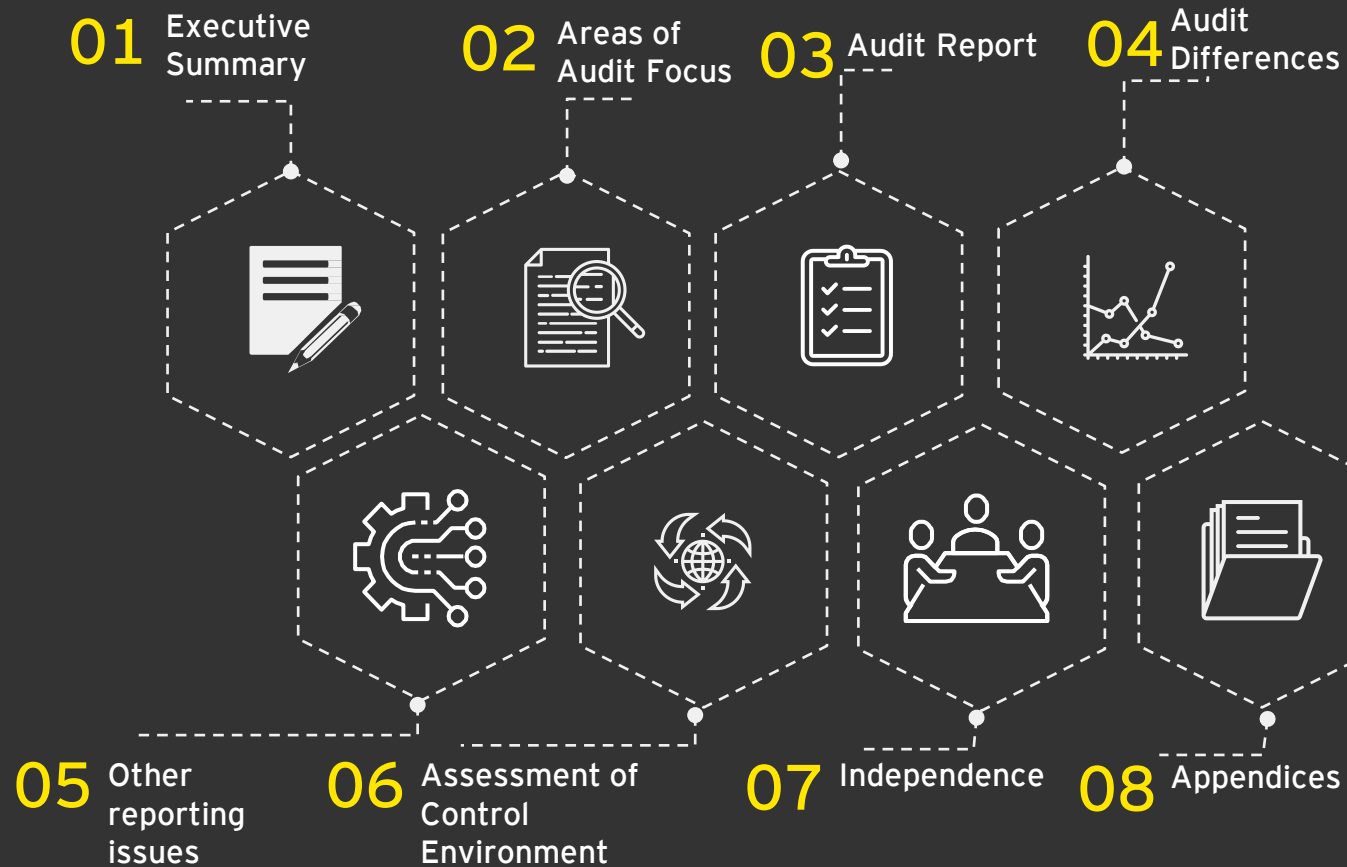
Yours faithfully

Hassan Rohimun

Partner

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01

Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 23 July 2021 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £34.2m and our threshold for reporting misstatements would be £2.3m. At year end we updated our assessment and confirmed that these levels remained appropriate.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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 undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Status of the audit

We have completed a significant proportion of our audit of Teesside Pension Fund's financial statements for the year ended 31 March 2021 and are in the process of performing the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the outstanding items set out in Appendix B, we expect to issue an unqualified opinion on the Fund's financial statements. However until work is complete, further amendments may arise.

The Pension Fund audit has to be signed off at the same time as the Council audit, and therefore the Pension Fund audit will not be signed until the Council audit is concluded.

Executive Summary

Audit differences

- ▶ We identified a number of audit differences which have been adjusted for by management. Details of these are included in Section 4 of this report.
- ▶ We identified one audit difference which is unadjusted. We identified a total net understatement of investments by £26.4m. This was primarily due to timing differences - the valuation reports used by the Pension Fund when preparing the accounts contain report as at December 2021 whereas the year end valuation provided to us by Fund Managers as part of our confirmations process are as at March 2021. Management chose not to adjust for this error due to it being immaterial.

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 identified some consistency issues within the Annual Report which management are going to adjust for. Once these updates have been made we will be in a position to issue our consistency opinion.

Areas of audit focus

Page 62
our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Teesside Pension Fund. This report sets out our observations in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Misstatements due to fraud or error

We did not identify any misstatements.

Valuation of unquoted pooled investment vehicles

Included within the initial draft accounts presented to us for audit was the quarter three valuations rolled forward to produce a year end valuation. Upon receipt of the year end confirmations it was apparent that the valuations were higher than the amounts included in the accounts, which resulted in a net understatement of investments by £26.4m. Management chose not to adjust for this valuation movement due to it being immaterial.

We did not identify any further misstatements.

Valuation of directly held property

Our EY Real Estate Team reviewed a sample of properties and concluded that all valuations were within an acceptable range. No misstatements were identified.

Going Concern Compliance with ISA 570

We have not identified any events or conditions that suggest managements assumption of going concern is inappropriate.

Please note that until our final review procedures are complete (as documented in Appendix B), we cannot confirm that the above list of audit differences is complete. Upon completion of our outstanding procedures, we will issue a final audit results report to the Corporate Affairs and Audit Committee.



Executive Summary

Areas of audit focus

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

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

There are no matters to date, other than 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 or Management.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. Through our audit work, we have not identified any significant weaknesses in controls that we wish to bring to your attention.

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.

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, assessing accounting estimates and identifying significant unusual transactions.

What are our conclusions?

Subject to conclusion of the outstanding matters detailed in Appendix B :

- 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.



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.

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.

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; and
- ▶ Reviewed the basis of valuation to ensure this is in line with accounting policy.

What are our conclusions?

Included within the initial draft accounts presented to us for audit was the quarter three valuations rolled forward to produce a year end valuation. Upon receipt of the year end confirmations it was apparent that the valuations were higher than the amounts included in the accounts. This resulted in a net understatement of investments by £26.4m. Management chose not to adjust for this valuation movement due to it being immaterial.

Subject to conclusion of the outstanding matters detailed in Appendix B we have not identified any further misstatements.



Areas of Audit Focus

Significant risk

Valuation of directly held property

What is the risk?

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

What judgements are we focused on?

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.

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; and
- ▶ We engaged EY Property experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations.

What are our conclusions?

Our EY Property Experts have concluded their work on a sample of investment properties and found the valuations in the accounts to be within an acceptable range.

Subject to conclusion of the outstanding matters detailed in Appendix B, we have not identified any misstatements.



Areas of Audit Focus



Going concern

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.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Fund will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Fund is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Corporate Affairs and Audit Committee.

We have performed the following procedures to address this risk:

- ▶ We challenged management's identification of events or conditions impacting going concern;

We tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);

We reviewed the Fund's assessment that it is appropriate for the financial statements to be prepared on a going concern basis;

We undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and

- ▶ We challenged the disclosure made in the accounts and annual report in respect of going concern and any material uncertainty.

Subject to conclusion of the outstanding matters detailed in Appendix B, we have not identified any events or conditions that suggest managements assumption of going concern is inappropriate.



03 Audit Report - Draft



Audit report - Draft subject to the conclusion of outstanding procedures

Audit report - draft

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 2021 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 21. 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 2020/21.

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 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt

on the authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises the information included in the Statement of Accounts 2020/21 pages 107 to 109, and 135 to 143, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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

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

We have nothing to report in this regard.



Audit report - Draft subject to the conclusion of outstanding procedures

Audit report - draft

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 Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 27, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the 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.

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

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how Teesside Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management/head of internal audit/those charged with governance/any other and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of employee handbooks and other information.



Audit report -Draft subject to the conclusion of outstanding procedures

Audit report - draft

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

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

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations to be our fraud risk.

To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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 the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



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.

Please note that until our final review procedures are complete (as documented in Appendix B), we cannot confirm that the below list of audit differences is complete. Upon completion of our outstanding procedures, we will issue a final audit results report to the Corporate Affairs and Audit Committee.

Summary of unadjusted differences

When agreeing pooled investment vehicles to investment manager confirmations we identified a total net understatement of £26.4m.

Summary of adjusted differences

- In Note 5 of the accounts the net pension liability was incorrectly shown as £103.658m, this should have been £127.045m as per the actuary report.
- Note 13 of the accounts included information regarding a material uncertainty on property valuations as per the Cushman and Wakefield valuation report, however this had been rolled forward from the prior year incorrectly, as there was no material uncertainty included in the Cushman and Wakefield report for 2020/21.
- Note 15 of the accounts incorrectly disclosed the life expectancy for women over 65 as 25.3 years, this should have been 25.4 years as per the actuary report.
- In the schedule of contribution rates, we found that the rates included for Middlesbrough and Stockton Mind, and Mitie Cleveland Fire, were incorrectly disclosed at 17.5%. These should have been 17.9% as per supporting documentation.
- We reconciled the cash deposits per the accounts with the Northern Trust Custodian Report and found a difference of £8.1m. This was caused by journal entries incorrectly being posted to the April 2021 ledger instead of the March 2021 ledger.
- We found an overstatement of £8.75m in the investment cash balance in the accounts when compared to the third party confirmations.
- We found that in the first draft of the financial statements the capital commitments note was omitted.
- We also identified some inconsistencies between the annual report and the accounts.



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 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 identified some consistency issues within the Annual Report which management are going to adjust for. Once these updates have been made we will be in a position to issue our consistency opinion.

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.

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 Authority's financial reporting process. They include the following:

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

Subject to the conclusion of outstanding procedures we did not note any significant findings in relation to the above points.



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 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.



07

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 2020/21 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm we have not undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services outside of the Statement of responsibilities issued by the PSAA has been submitted.

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 23 July 2021.

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 22 September 2022.

We confirm we have not undertaken non-audit work outside of the Statement of Responsibilities of Auditors and Audited Bodies as issued by the Public Sector Audit Appointments Ltd (PSAA).

As part of our reporting on our independence, we set out a summary of the fees for the year ended 31 March 2021.

Description	Proposed final fee 2020/21 £	Scale Fee 2020/21 £	Final Fee 2019/20 £
Base scale fee - Pension Fund (note 1)	21,972	21,972	21,972
Increase for changes in risk and regulatory environment - Pension Fund (notes 2,3,8)	39,359	N/A	14,033
Revised Base Fee	61,331	21,972	36,005
IAS 19 Procedures (Code Work) (note 4)	8,500	N/A	6,000
IAS 19 Procedures (Non-Code Work) (notes 4,5)	-	N/A	2,000
Revised Base Fee (inc. IAS 19 Procedures)	69,831	21,972	44,005
Additional audit fee for response to specific audit findings - Pension Fund (notes 6,7,8)	5,000	N/A	5,202
Total Audit Fee	74,831	21,972	49,207

Notes on following page

Confirmation and analysis of audit fees

Note - Fees in addition to the scale fee (with the exception of IAS 19 procedures) have to be agreed by the PSAA.

Notes

- 1) The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) in March 2020.
- 2) 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. In our Audit Planning Report we reported that we had submitted proposals of £33,602 for the Pension Fund to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk for our 2019/20 audits. The amounts shown for 2019/20 in the table reflect the final amounts determined by PSAA (see note 8).
- 3) The amounts reported for 2020/21 are the amounts we have communicated to management and will submit to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk for our 2020/21 audits. In addition to the factors applicable to the 2019/20 audits, which remain relevant for the 2020/21 audits, the level of audit work required for 2020/21 was impacted by the adoption of the new auditing standard ISA 540: Auditing Accounting Estimates and Related Disclosures. Amounts for these factors have been based on anticipated fee impacts communicated by PSAA to auditors and audited bodies.
- 4) As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. Management may opt to recharge this fee to the relevant member bodies.
- 5) In 2019/20, the provision of IAS 19 assurances to the auditor of the Care Quality Commission was not covered by the NAO Code of Audit Practice (2015) and we performed this work under a separate engagement agreement between ourselves and the Pension Fund. From 2020/21, this work is now covered by the new NAO Code of Audit Practice (2020) and the fee reflected within the fee for IAS 19 work performed under the Code of Audit Practice.
- 6) In 2019/20, we performed additional procedures over what we planned at the start of our audit, to respond to the impacts of the Covid-19 pandemic on the financial statements. This 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. In our Audit Planning Report we reported £12,455 for the Pension Fund as the additional fee we determined as commensurate with the additional work undertaken, which we had submitted to PSAA. The amounts shown for 2019/20 in the table reflect the final amounts determined by PSAA (see note 8).
- 7) Where we identified significant risks and other areas of audit focus as part of our 2020/21 audits, as reported to the Corporate Affairs and Audit Committee, we undertook additional procedures to obtain the appropriate levels of evidence to support our opinion. The amount of £5,000 for the Pension Fund represents our current estimate of the additional fees we have determined as commensurate with the additional work undertaken, however until our audits are concluded further procedures may be required.
- 8) PSAA provided a final additional fee determination £19,235 for the Pension Fund in respect of 2019/20 audits. These amounts were not broken down further by PSAA, therefore for the purposes of the table on the previous page we have apportioned these amounts between the increase for changes in risk and regulatory environment and additional audit fee for response to specific audit findings in proportion to the amounts originally requested.

Other communications

EY Transparency Report 2021

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2021.

[EY UK Transparency Report 2021 | EY UK](#)






08 Appendices

Appendix A

Required communications with the Corporate Affairs and Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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.	Audit Planning Report - July 2021	
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Planning Report - July 2021	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Planning Report - July 2021	

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Page 86	<ul style="list-style-type: none"> ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Audit Results Report (this report)
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	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)

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report (this report)
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report - July 2021 Audit Results Report (this report)

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Page 88	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit Results Report (this report)

Appendix A




		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report (this report) Management Representation Letter
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report (this report)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report (this report)
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report (this report)

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Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Internal review	We are still completing our internal review procedures to ensure the quality of our work.	EY
Final statements and Annual Report	We need to review these to ensure that agreed changes have been implemented as expected.	EY
Management Representation Letter	Receipt of signed management representation letter.	Management / Corporate Affairs and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report.	Management / EY

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 Teesside Pension Fund ("the Fund") for the year ended 31 March 2021. 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 01 April 2020 to 31 March 2021 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2021, 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 2020/21.

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 2020/21.
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 2020/21, 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 2020/21 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. There was one unadjusted audit difference identified which resulted in an understatement of investments by £26.4m. We believe that the effects of any unadjusted audit differences, 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 and brought to our attention by the auditor because they are immaterial to the financial statements.

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 noncompliance 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
 - 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.
 - 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 meetings of members of the management of the Fund and committees of members of the management of the Fund held through the period to the most recent meeting on the following date July 2022.
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

Management representation letter (continued)

Management Representation Letter (continued)

balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund. The Scheme holds annuity policies which have not been recognised and recorded as an asset of the Scheme in the financial statements as they are not considered material in relation to the net assets.

7. 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.

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

9. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the applicable financial reporting framework.

10. From the date of our last management representation letter 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.

D. Liabilities and Contingencies

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

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

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent.

E. Going Concern

1. The financial statements disclose all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Report.

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

Management representation letter (continued)

Management Representation Letter (continued)

H. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme 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.

I. 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.
2. 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.

J. 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.

K. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 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.

L. 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.

M. Estimates

1. We confirm that the significant judgments made in making the directly held property, complex pooled investment vehicles, private equity, pooled investment properties and actuarial valuation have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out our investment strategy on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty are complete and are reasonable in the context of the applicable financial reporting framework.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements.

Yours faithfully,

Helen Seechurn, Director of Finance

Cllr Brian Hubbard, Chair of Corporate Affairs and Audit Committee

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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MIDDLESBROUGH COUNCIL	
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Report of:	Director of Regeneration
Submitted to:	Corporate Affairs and Audit Committee
Date:	23 September 2022
Title:	Middlesbrough Mayoral Development Corporation
Report for:	Information
Status:	Public
Strategic priority:	Town centre
Key decision:	Not applicable
Why:	Report is for information only
Urgent:	Not applicable
Why:	

Executive summary	
<p>The Tees Valley Mayor and Middlesbrough Mayor have announced an ambition for a Mayoral Development Corporation (MDC). This report provides this committee with an overview of the governance arrangements that will apply to this process and where they are within Middlesbrough Council’s remit.</p> <p>The aim of a Mayoral Development Corporation is to accelerate major regeneration initiatives, in a defined area / scope, by dedicating specialist capacity; securing additional investment; and, streamlining processes.</p> <p>The process is in the very early stages of a TVCA request to the Secretary of State, for permission to establish a Mayoral Development Corporation, and its high-level objectives.</p> <p>The next stages of the process will progress to formal consultation by the Secretary of State, and this process will be Middlesbrough Council (and elected members’) opportunity to consider any specific proposals and their implications.</p> <p>Should a Mayoral Development Corporation progress, any Council involvement, both financially (assets) and in terms of governance (influencing the constitution) will be considered as a material change to the Council’s Budget and Policy Framework and would, therefore, require determination by Full Council.</p>	

Purpose

1. The purpose of this paper is to give members of the Corporate Affairs and Audit Committee an overview of the governance process for the proposed Mayoral Development Corporation and the next steps in the process.

Background and relevant information

2. The Tees Valley Mayor and Middlesbrough Mayor have announced an ambition for a Mayoral Development Corporation (MDC).
3. The aim of a Mayoral Development Corporation is to accelerate major regeneration initiatives, in a defined area / scope, by dedicating specialist capacity; securing additional investment; and, streamlining processes.
4. The establishment of a Mayoral Development Corporation is a power available to devolved, city-region authorities under the Localism Act 2011, albeit a case must be made to the relevant Secretary of State and formal approval must be granted.
5. This is a unilateral decision available to the Tees Valley Mayor, members of Middlesbrough Council are not able to determine whether a MDC can be established, or not. However, as the 'Host Authority', Middlesbrough Council is a principal statutory stakeholder and will have great influence on how the MDC is shaped.
6. The initial stages of the process to create a Mayoral Development Corporation have commenced but this amounts to an initial expression of interest / formal letter to the Secretary of State, to commence the process. This is informed by a provisional consultation held over June / July 2022. This only establishes the ambition to establish an MDC and the proposed area (red line boundary) within which the MDC's powers / influence would apply.
7. Upon receipt of the request, the Secretary of State will commence a detailed statutory consultation exercise to involve major stakeholders. Middlesbrough Council, as host authority, will be the principal statutory consultee in this exercise. This will provide the opportunity to express any governance, democratic, accountability and financial concerns to inform the establishment of an agreed Constitution for any MDC structure. This process will involve detailed discussion and engagement with elected members.
8. It is important to stress that the process is in the very early stages and many of the logistical factor and required financial appraisals can only be detailed once the scope of the Secretary of State's consultation is known. This is not to obfuscate the process, or material concerns of elected members, rather it is recognition that we are at the start of a collaborative process and any potential impacts can only be assessed as details of any framework, come forward.
9. However, Middlesbrough Council's initial thinking is based on the fundamental requirements that:
 - a) should any financial assets be proposed to be pooled within an MDC, this cannot prejudice Middlesbrough Council's financial position and would need to be protected / compensated accordingly; and,

- b) the Constitution of the MDC and any proposed transfer of powers, should properly reflect / protect the democratic mandate of Middlesbrough's elected members and the primacy of local powers, strategic objectives and adopted plans.

10. Details of specific proposals, development sites, investments are not known in any detail at this stage. When specifics are known, each factor will be assessed for implications and offered for member consideration. This is likely to inform the conditions, protections, and covenants which the Council would highlight as a response to the next stage (Secretary of State – Statutory Consultation). However, some frequently asked questions are set out below.

Frequently Asked Questions

11. What planning powers may be included?

An MDC has the ability to deliver all planning powers which a local authority enjoys, albeit in the applications for major developments. Routine planning issues would remain locally-determined. Statutory consultations would still have to be delivered and decisions would have to be made with respect to national and local policies (i.e. local plan which can only be established by Middlesbrough elected members and planning legislation.

For example, the MDC could instigate Compulsory Purchases, S106 agreements, and all other planning powers currently available to Middlesbrough Council, with respect to major developments. It is envisaged that the MDC will apply for full planning powers and delegate many routine powers back to the local authority for the development area.

12. Will the Planning Committee make the decisions?

An MDC would have the power to determine major planning applications within the MDC boundary area. All appeals would still have to go through the Secretary of State, as now.

13. Who sits on the MDC Board?

This is a matter for the MDC Constitution. Middlesbrough Council's opportunity to shape the Constitution would be through the Secretary of State consultation process. The only (currently) known roles for any proposed MDC board would be Tees Valley Mayor, Middlesbrough Mayor, and Middlesbrough Chief Executive. Others will be appointed by the Tees Valley Mayor.

14. Who agrees the MDC Constitution?

As Tees Valley Combined Authority would be accountable body for the MDC, all Tees Valley Leaders must, unanimously, agree the MDC Constitution.

15. Is business rates income included?

Potentially. Local business rates would remain with the Council but the MDC could make a case for the retention and use of the other Circa. 50%, which currently goes to Central Government. This would retain more business rates income locally.

16. Can the findings of the online consultation be shared?

Officers will secure this from TVCA and circulate to members.

17. A figure of £10m has been referred to in the press, has this already been allocated to the proposed development area?

It is understood that £10m has been allocated in the Tees Valley Investment Plan specifically to pump-prime the delivery of an MDC.

18. Does MDC funding / investment / borrowing use the Council's borrowing powers?

In terms of new funding for the development corporation, this should not implicate Council borrowing powers as the new body would be responsible for its own debt. It is understood that TVCA are the accountable body for the new MDC and, presumably, liable for any legacy debts, should the organisation cease. Any assets pooled in the development corporation would need to give clear limits on liabilities, whilst ensuring that any existing debt / income / servicing costs are honoured and agreed as being compensated for / not prejudiced by any development corporation activity.

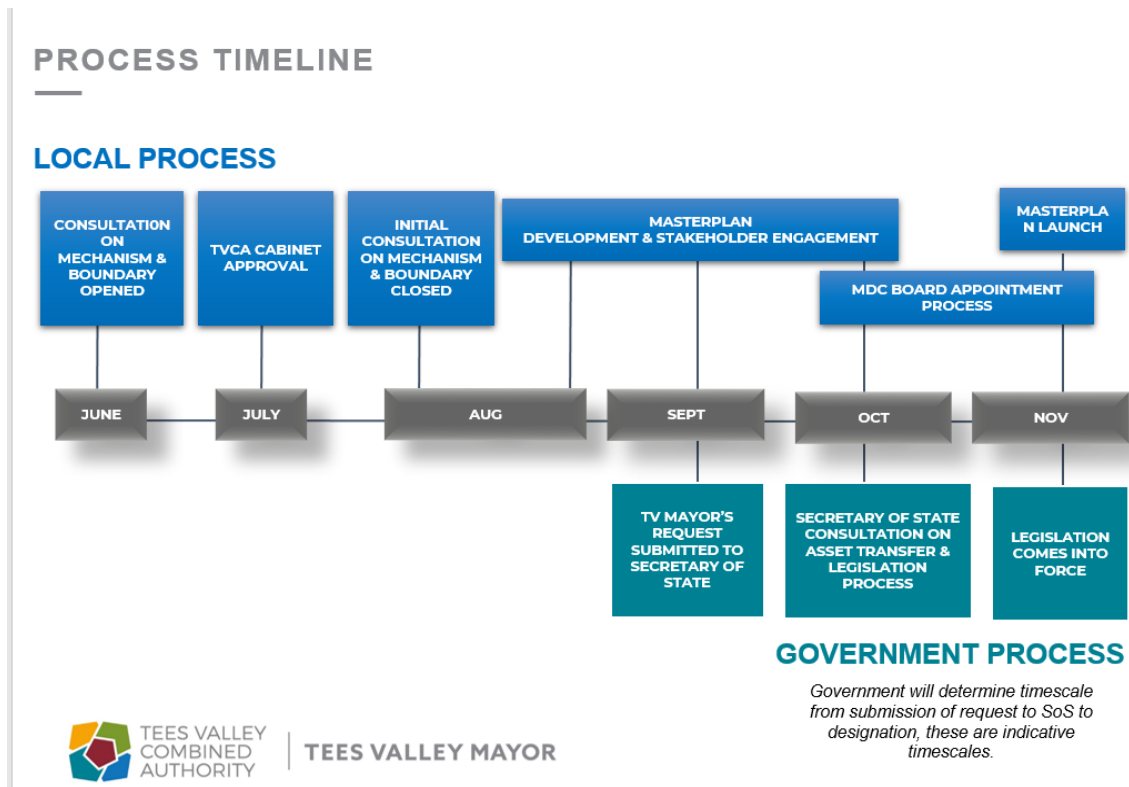
19. How will Middlesbrough Council's strategic objectives be met?

It is anticipated that any pooling of such assets would have appropriate conditionality to ensure that no major departure from the existing policy and strategy drivers – protections would include: control on any onward disposal, provisional agreement of purpose and aim; and minimum guarantees about valuation, recovery of outlay and overage – in the event of an agreed disposal.

Protections will be required to clarify the position in the event of dispute or divergence of strategic priorities. This would need to clarify which party, if any would have primacy over strategic objectives and any form of veto over the objectives / strategic interests of the over. This would include matter such as planning, policy, strategy and anything which creates any form of statutory, maintenance, obligation, limitation, or revenue burden on the other party.

20. As more specific development proposals, site and details emerge, these will be assessed and considered so that members have a full understanding of any risks and conditionalities.

Projected Timeline for Decision Making



What decision(s) are being recommended?

21. That the Corporate Affairs and Audit Committee:

- I. notes the report for information

Rationale for the recommended decision(s)

22. The establishment of an MDC is in the initial stages and additional details for consideration will seek member input as any detailed proposals emerge.

Other potential decision(s) and why these have not been recommended

23. N/A

Impact(s) of the recommended decision(s)

Legal

24. The power to request an area to be designated as an MDC is a devolved power to the Tees Valley Mayor under the Localism Act 2011.

25. In response to the Secretary of State consultation (date to be confirmed) Middlesbrough Council's interests can be protected in terms of appropriate conditions, covenants and expectations for the constitution of an MDC. The Secretary of State

would then consider the required statutory instruments required to establish the proposed MDC.

26. Should a Mayoral Development Corporation progress, any Council involvement, both financially (assets) and in terms of governance (influencing the constitution) will be considered as a material change to the Council's Budget and Policy Framework and would, therefore, require determination by Full Council.

Strategic priorities and risks

27. The aim of a MDC is to provide additionality by establishing new capacity and resources to deliver Middlesbrough's strategic ambitions. This will naturally align with existing local plans and policies which are locally determined, and whilst new masterplans and strategies are likely to emerge, this will be shaped in partnership with Middlesbrough Council. However, local democracy and accountability is key so measures to protect the interests of Middlesbrough Council can be shaped and recommended in shaping the constitution for the MDC.
28. Middlesbrough and its residents are facing a significant period of stretched local resources. This could limit the availability of regeneration investment in the coming years. An MDC opens new funding opportunities to maintain regeneration momentum and make central Middlesbrough a strategic priority for the entire Tees valley.
29. The MDC is anticipated to deliver major regeneration schemes only. Day to day support and administration of the Town Centre is anticipated to stay with Middlesbrough Council. Specialist capacity and resources will supplement the regeneration service and its functions, with significant and major regeneration initiatives continuing to be delivered in-house.

Human Rights, Equality and Data Protection

30. No Human Rights, Equality or Data Protection issues arise from this report.

Financial

31. It is possible that some Council assets within the proposed red line boundary will be sought to be acquired by the MDC, albeit the precise scale and scope of this acquisition is, as yet, unknown.
32. Many of the Council-owned, strategic assets in the area have been purchased via prudential borrowing (debt) and/or generate an income stream against which the Council is reliant.
33. As such, in considering whether Middlesbrough Council 'pools' any strategic assets in an MDC, it would need to be absolutely satisfied that the assets value was recovered to the Council, or that the income was retained to service any debt provision and / or revenue income, to ensure that any future planned income from the assets, is retained.
34. In engaging in discussions on a potential MDC, the working assumption is that any asset transfer would not be considered if it were to financially disadvantage or prejudice the Council's financial position. This would be an absolute precondition of any asset transfer.

35. It is theoretically possible for the Secretary of State to insist on the transfer of certain assets (through powers separate to those of establishing an MDC), essentially as a public sector Compulsory Purchase. However, it is assumed that the Council, as a minimum, would have to be compensated for such an acquisition.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
N/A	N/A	N/A

Appendices

1	N/A
2	
3	

Background papers

Body	Report title	Date
N/A	N/A	N/A

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