

CORPORATE AFFAIRS AND AUDIT COMMITTEE

<p>Date: Friday 28th April, 2023 Time: 2.00 pm Venue: Spencer Room, Town Hall, Middlesbrough</p>

AGENDA

1. Apologies for Absence
2. Declarations of Interest
To receive any declarations of interest.
3. Minutes - Corporate Affairs and Audit Committee - 10 and 16 March 2023 3 - 14
4. Statement of Accounts 2020/2021 15 - 340
5. Internal Audit Report: Senior Management Review 341 - 346
6. Any other urgent items which in the opinion of the Chair, may be considered

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Thursday 20 April 2023

MEMBERSHIP

Councillors B Hubbard (Chair), J Platt (Vice-Chair), T Higgins, C Hobson, T Mawston, D Rooney and M Storey

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 10 March 2023.

PRESENT: Councillors B Hubbard (Chair), C Hobson, T Mawston, D Rooney, J Rostron (as substitute for Councillor T Higgins), M Storey and G Wilson (as substitute for Councillor J Platt)

ALSO IN ATTENDANCE: D Kitson, Bevan Brittan

OFFICERS: C Benjamin, N Finnegan and S Lightwing

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors J Platt and T Higgins

22/57 **WELCOME AND EVACUATION PROCEDURE**

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

22/58 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor C Hobson	Non pecuniary	Agenda Item 7 – pre-disposed
Councillor B Hubbard	Non pecuniary	Agenda Item 7 – pre-disposed
Councillor G Wilson	Non pecuniary	Agenda Item 7 – pre-disposed

Councillors C Hobson, B Hubbard and G Wilson left the room at this point in proceedings and took no further part in the meeting.

22/59 **APPOINTMENT OF CHAIR**

Due to the Chair withdrawing from the meeting, the Monitoring Officer asked for nominations for a Chair for the meeting. Councillor D Rooney was nominated for the position of Chair.

On a vote being taken, it was **ORDERED** that Councillor D Rooney was appointed as Chair for the meeting.

22/60 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 16 FEBRUARY 2023**

The minutes of the Corporate Affairs meeting held on 16 February 2023 were submitted and approved as a correct record.

22/61 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.

22/62 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraphs 1, 2 and 4 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

22/63 **TO CONSIDER APPROVAL OF SETTLEMENT AGREEMENT**

A report of the Director of Legal and Governance Services (Monitoring Officer) was presented to seek the Committee’s approval for a settlement agreement.

ORDERED as follows:

1. The settlement agreement as set out in Appendix 1 to the submitted report was approved.
2. Responsibility for finalising the settlement agreement was delegated to the Council's Monitoring Officer.

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Thursday 16 March 2023.

PRESENT: Councillors B Hubbard (Chair), J Platt (Vice-Chair), C Hobson, D Rooney and M Storey

ALSO IN ATTENDANCE: M Rutter (External Auditor) (Ernst Young), R Smith (Internal Auditor) (Veritau) and M Thomas (Internal Auditor) (Veritau)

OFFICERS: S Lightwing, C Benjamin, A Johnstone, J Weston, A Hoy and G Welch

APOLOGIES FOR ABSENCE: Councillors T Higgins and T Mawston

22/63 **WELCOME AND EVACUATION PROCEDURE**

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

22/64 **DECLARATIONS OF INTEREST**

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

22/65 **RISK AND PERFORMANCE MANAGEMENT: ANNUAL ASSURANCE REPORT 2022**

A report of the Interim Head of Strategy, Governance and Information was presented to outline the Council's approach to performance and risk management, to summarise activity in the past year and planned activity for 2023 to provide the Committee with assurance that the Council had robust arrangements in place for these disciplines.

The Council's approach to these disciplines was articulated within the following policies:

- Performance Management Policy.
- Programme and Project Management Policy.
- Risk and Opportunity Management Policy.

The policies were scheduled to be reviewed during 2023 to ensure they continued to meet the organisation's needs in relation to these disciplines.

At a meeting of the Executive on 5 April 2022, a refreshed Strategic Plan workplan for the 2022-24 period and Directorate Priorities for 2022/23 was approved, which combined provide a cohesive approach to the delivery of key priority activities across Council services.

Significant work was also undertaken in the year to improve Directorate and strategic performance management, with the implementation of a monthly performance review cycle using an integrated performance dashboard drawn from a range of feeder systems which recorded different aspects of corporate performance.

The monthly Directorate and LMT performance reviews held throughout 2022/23 considered the following items on a 'by exception' basis, with only matters considered to require discussion or steer, raised:

- Actions agreed by the Executive (including responses to scrutiny reports).
- The Strategic Plan workplan (both in terms of activity and outcomes).
- Directorate priorities.
- The Council's portfolio of programmes and projects.
- Compliance indicators (e.g. completion of audit actions).
- Directorate and strategic risk registers.

Output from the monthly performance reviews was reflected in a quarterly update on wider corporate performance, to the Executive and Overview and Scrutiny Board; an approach which had served to significantly improve focus upon and strengthen delivery of corporate performance disciplines.

A refresh of the Strategic Plan was deferred in 2022/23 due to the need to consider the implications of several key White Papers over the past year, therefore the issue of articulating outcomes and measures, would be addressed in a full refresh of the Strategic Plan in 2023/24.

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

All projects within the Council's portfolio continued to be connected to overarching programmes and portfolios wherever possible to clearly articulate their contribution.

Currently there were projects in the portfolio that were being managed under the PPM framework. These projects were supported and monitored by the Portfolio Management Office (PMO) and were reported by exception to the monthly Directorate and Leadership Team performance review meetings and in the quarterly reports to the Executive and Overview and Scrutiny Board.

The Council's approach to PPM was also the base methodology for delivery of Strategic Plan workplan activities and all change and savings programme initiatives, requiring robust milestone delivery plans which were subject to the monthly performance management and governance regime for project delivery, as set out in detail in the PPM Framework. This included:

- Project / initiative business cases quality assured and assessed for viability.
- Review of performance against time, scope, cost and benefit.
- Management and mitigation of risks and issues.
- Approvals for change controls.

Monitoring of these activities would be further strengthened through alignment with the new performance management arrangements planned for 2023/24.

In 2022 Veritau completed an audit of the BOHO X project, which was the subject of a separate report to the Committee in April 2022. The audit findings identified management actions to address and implement, throughout 2022/23. All actions from that audit had been implemented and were listed at paragraph 22 of the submitted report.

The wider compliance of programmes and projects with the PPM framework would continue to be assessed periodically by the Council's internal auditor, Veritau, either through a scheduled audit or in response to specific governance concerns or requests from statutory or other senior officers.

The PPM Framework and associated project documentation would be further reviewed in 2023/24 and where appropriate, streamlined to ensure alignment with the new performance management arrangements currently in development.

During 2020 the Council's risk appetite was refreshed reviewed and revised to bring it in line with the Council's current financial standing so that risks were being captured and scored in line with this. All risk management documentation was also reviewed and updated to reflect these changes. On review, no changes were made to the Council's risk appetite during 2022. The purpose of strategic risk management was to capture the most significant risks the organisation was exposed to that could impact on its ability to deliver the strategic priorities outlined in the Strategic Plan.

The Council used risk registers to manage the various risks it identified. During 2022 the Council implemented a heat map approach to group risks into themes. These themes and movement within them were used to set out the risks facing the Council. During early 2023 a review of this approach was undertaken by senior officers and as a result further refinement of the approach would be made during 2023. This would be articulated within the refreshed Risk and Opportunity Management policy.

A summary of the Strategic Risk themes was considered every three months by the Executive as part of a report on performance against delivery of the Strategic Plan and other key performance measures, with the same report considered by Overview and Scrutiny Board.

The status of risks were reported by exception to the new monthly Directorate and Leadership Team performance review meetings described earlier in the report and in the quarterly reports to Members.

The Council had a corporate Risk Management Group in place which met on a quarterly basis to monitor risk management and to identify new and emerging risks to the organisation.

AGREED that the Committee noted the arrangements in place to manage performance and risk management within the Council, progress in the past year, and plans to further strengthen those arrangements.

22/66

ANNUAL ASSURANCE REPORT FOR BUSINESS CONTINUITY

A report of the Director of Legal and Governance Services (Monitoring Officer) was presented to outline the Council's approach to business continuity management, summarise activity in the past year and planned activity for 2023, to provide the Committee with assurance that the Council had robust arrangements in place, as required by the Civil Contingencies Act 2004.

The Council's Corporate Business Continuity Plan defined critical functions as those which, if interrupted could result in:

- risk of serious injury;
- risk of death;
- massive financial losses; or
- significant damage to the Council's reputation.

The Council would consider activating its business continuity plans if there was a business interruption event that:

- was likely to last for more than half a working day;
- affected a vulnerable group of service users;
- impacted on the delivery of key critical activities;
- restricted access to one of the key council buildings;
- could generate significant damage to the Council's reputation; or
- was highly likely to escalate into one of the above categories.

The Council had the following plans in place to respond to the variety of events that could occur:

- the Corporate Business Continuity plan;
- supporting Departmental Business Continuity plans;
- Relocation Plan;
- ICT Disaster Recovery Plan.
- Fuel Plan;
- Pandemic Plan.

The Council did not publish its business continuity plans as they outlined sensitive information around its critical functions and their recovery that could be misused and contained personal information relating to employees that had agreed to share personal contact details to enable the Council to get in touch with them quickly in the event of an incident. Paragraphs 8 to 14 of the submitted report outlined the content of the Council's plans in broad terms.

The Council aimed to test its plans at least once every 12 months, or produce a lessons learned report if a live incident had occurred during the past year. Due to the ongoing nature of the pandemic, no test was undertaken in 2022, however during 2023 a live test of business continuity was planned to ensure that senior managers understood their roles and responsibilities during an incident and to test the robustness of plans.

During the 2022 annual review of plans, there was an increased focus on the impact loss of power could have on critical activities to ensure services planned effectively for this event.

Details of the actions delivered in 2022 to ensure good governance in relation to business continuity were detailed in paragraphs 20 to 23 of the submitted report. During 2023/2024 further work would be undertaken to build on progress made as part of the Council's commitment to continual improvement in business continuity planning as follows:

Training

- Officers planned to undertake a cyber-attack/power cut exercise on a key system as the next ICT Disaster Recovery Plan exercise to test its effectiveness.
- Increase the number of trained loggists to support Business Continuity responses in an invocation.
- Refresh training to implement an eLearning package range in relation to Business Continuity capturing basic awareness raising and advanced practice.
- Produce and deliver loggist training to all nominated loggists within the Business Continuity Teams.

Documentation

- Undertake the annual full review and update of all business continuity plans to ensure they remained fit for purpose.
- Battleboxes to be updated by business-critical services to enable service delivery to be maintained in the event of a cyber-attack or power cut.
- Revision of plans to reflect occupation of the new main offices this year.
- Establish a corporate Business Continuity room in Fountain Court and refresh plans for the relocation site to ensure both are fully equipped to respond to a business interruption.

Communication

- Communications Plan for Business Continuity to be enhanced to cover communications in the absence of ICT system.

It was clarified that Middlesbrough Council considered disruption events that had taken place in other authorities as part of its planning and testing. The locations of Middlesbrough Council's two data centres were confirmed.

AGREED that the arrangements in place to manage business continuity within the Council, progress within the last year, and plans to further strengthen those arrangements were noted.

22/67

ANNUAL REPORT OF THE SENIOR INFORMATION RISK OWNER (SIRO)

A report of the Interim Head of Governance Policy and Information was presented to advise the Corporate Affairs and Audit Committee of arrangements in place to ensure the proper governance of information within the Council, progress made within the 2022 calendar year, risks and issues arising, and priorities for 2023.

The Council must create, protect, manage, share and disclose information in line with a complex legal framework. The report dealt principally with information governance arrangements relating to the following, and the risks arising from:

- Data Protection Act 2018 (DPA);
- UK General Data Protection Regulation 2016 (UK GDPR);
- Privacy and Electronic Communications Regulations 2003 (as amended);
- Environmental Information Regulations 2004 (EIR);
- Freedom of Information Act 2000 (FOI);
- Regulation of Investigatory Powers Act 2000 (RIPA); and
- Protection of Freedoms Act 2012 (PoFA).

The Council's activity in this area was largely regulated by the Information Commissioner's Office (ICO), with the Investigatory Powers Commissioner's Office (IPCO) acting as the regulatory body for RIPA and compliance with the Surveillance Camera Code of Practice and the relevant provisions of PoFA encouraged by the Biometrics and Surveillance Camera

Commissioner.

The Interim Head of Governance Policy and Information acted as the Council's Senior Information Risk Owner (SIRO)/Senior Responsible Officer (SRO) for Biometrics and Surveillance and RIPA, and was the owner of the Council's Information Strategy. The SIRO advised the Chief Executive and the Council's management team on information risk, reporting quarterly to the internal risk management group and annually to Leadership Team and to the Corporate Affairs and Audit Committee.

The submitted report provided an overview of compliance, issues and risks in 2022 in the following areas:

- ICO Consensual Audit 2019 and 2020 recommendations.
- Information Governance Framework.
- Statutory Information Requests.
- Physical Access.
- Surveillance Policy.

Performance reporting showed an increase in FOI/EIR compliance and Members noted this positive improvement.

During 2023 a refreshed approach to Information Strategy would be developed alongside the refresh of the Strategic Plan to ensure the operational aims of the Council aligned with the Strategic vision set by Members.

The Council's information asset registers were significantly developed in previous years and reviewed/consolidated with UK GDPR 'Records of Processing Activity' in 2019/20. Various in-year updates by individual Information Asset Owners would need to be merged with changes as a result of the Council's accommodation strategy, bulk transfer of records to digital formats, procurement of electronic systems – including the SharePoint Online migration and decommissioning of others.

In relation to Information Security, details of the numbers of personal data breaches and ICT/other security incidents were provided at paragraph 17 of the submitted report. Only two personal data breaches were reported to the ICO in 2022. Reported personal data breaches had decreased by 20% on the previously year, whilst ICT/other security incidents had increased, largely owing to more reports of lost or stolen ICT hardware devices. An update of actions taken in relation to Cyber Security and Records Management were also detailed in the submitted report. The Council had a list of 16 countries from which internet traffic was blocked, following guidance from the National Cyber Security Centre.

The Council's data protection activity over 2022 had involved strengthening governance of mandatory training and internal guidance, transparency obligations, information sharing arrangements, compliance checks on contractors and others, and data protection impact assessments (DPIA). Mandatory training compliance had improved with more directorates achieving and maintaining a rolling 95% of staff completions. The Council's suite of privacy notices had become more granular in line with ICO guidance and over 70 operational notices were now being maintained for individual services and thematic local authority functions.

A number of detailed agreements with a wide variety of partner organisations across various sectors, had been reviewed and updated or put in place to support lawful and ethical information sharing as part of normal service delivery.

Changes to streamline the DPIA process had ensured a balance is maintained between the efficiency of business management and the efficacy of risk controls. Similarly, the approach to legally required compliance checks and contracts with suppliers and others had been streamlined and diversified to make sure that checks were proportional and targeted where needed.

The key priority during 2023 will be to refresh the Information Strategy of the Council. As referenced within the body of this report, the refresh was timed to ensure that the new strategy reflected the refreshed strategic plan vision of the Council which would be delivered in 2023 to ensure the strategy aligned with that.

The second priority of the organisation would be the successful delivery of transition to SharePoint. SharePoint would transform how the Council stored, shared and used data on a day-to-day basis. Information governance considerations were embedded within the scope of the project to ensure that the benefits of SharePoint were maximised while ensuring a robust approach to information governance and security.

AGREED as follows that the Corporate Affairs and Audit Committee:

1. noted the position in respect of information risk set out in the report.
2. would be provided with the list of 16 countries from which internet traffic was currently blocked.

22/68 **SUSPENSION OF COUNCIL PROCEDURE RULE NO 5**

In accordance with Council Procedure Rule No 5, the Committee agreed to vary the order of business to deal with the items in the following order: Agenda Item 11, Agenda Items 7 to 12.

22/69 **UPDATE ON SECTION 151 OFFICER ARRANGEMENTS**

The Director of Legal and Governance Services (Monitoring Officer) provided an update on the Section 151 Officer arrangements for Middlesbrough Council.

The current Section 151 Officer's employment would cease on 31 March 2023, and it was proposed that the Section 151 Officer function was temporarily re-designated to the Head of Financial Planning, who was one of the current Deputy Section 151 officers, for a period of up to three months. Approval would be sought from full Council at an Extraordinary Meeting to be held on 22 March 2023 for the proposed re-designation of the function.

The Chief Officer Appointments Committee had delegated authority to the Chief Executive, in consultation with a representative group of Members from the Committee, to secure the appointment of an interim Section 151 Officer. The Extraordinary Council meeting on 22 March 2023 would also consider the appointment of an interim Chief Executive. In recognition that a new interim Chief Executive would be appointed it was appropriate that they should make the interim Section 151 Officer appointment as one of the first tasks of their new role.

AGREED that the proposed Section 151 Officer arrangements for Middlesbrough Council were noted.

22/70 **HEALTH AND SAFETY: ANNUAL ASSURANCE REPORT 2022**

A report of the Director of Legal and Governance Services (Monitoring Officer) was presented to outline the Council's approach to health and safety management and summarise activity in the past year and planned activity for 2023, in order to provide the Committee with assurance that the Council has robust arrangements in place, as required by the Health and Safety Act 1974.

The Council had a governance framework structure in place to oversee health and safety, ensure compliance with legal requirements and deliver ambitions in relation to Health and Safety.

The digitised health and safety management application (My Compliance) continued to be developed and its processes embedded within day-to-day risk management. As a significant level of data had built up in the system it had enabled the Council to improve the intelligence it could develop from:

- incident reporting and investigation;
- health and safety audits;
- fire risk assessment; and
- action tracking.

This had been used to improve understanding of the impact of violent incidents, unblock systematic issues to improve compliance and increase Officer and Member visibility and oversight. Regular reviews of underpinning documentation with the governance framework were undertaken.

During 2022 the Control of Substances Hazardous to Health (COSHH) procedures were refreshed. Reporting content for oversight of health and safety had also been refreshed, utilizing the new capabilities of My Compliance and Power BI to enable reports to focus on the lessons to be learned, trends and areas of concern, while providing assurance as to the robust datasets in place to track health and safety compliance.

A key focus of the team during 2022 had been the ongoing transition from Covid-19 to the new way of working and ensuring appropriate health and safety measures were embedded within that, as well as supporting the move of a significant number of staff and Members to Fountain Court.

The Council continued to deliver training and support to staff to ensure compliance with health and safety obligations and understanding of roles and responsibilities. In addition to the suite of e-learning materials that were already available to all staff, during 2022:

- Leadership and Management Team members attended an accredited one day IOSH Leading Safety Course.
- Face-to-face incident investigation awareness, evacuation chair and fire warden courses were delivered to supplement e-learning.
- e-learning resources were refreshed to enhance Manual handling training.

During 2023, further work would be undertaken to build on progress made within the previous action plan as part of the Council's commitment to continual improvement in health and safety management.

The health and safety unit would continue to monitor and assist in developing the digital solution linking Power BI and My Compliance, to further develop business intelligence capabilities.

The following policies and procedures will be produced, reviewed and uploaded onto the intranet:

- Personal Protective Equipment policy.
- Noise Procedure.
- Vibration Procedure.

In order to be compliant with legal duties, the Council must have a Legal register in place which provided details of legislation applicable to the Council. A gap analysis was currently underway to map leads for pieces of legislation, policies and procedures in place to regulate compliance and any gaps in those. Once complete and verified, actions would be brought forward if necessary to provide assurance around compliance.

Underpinning the procedures and training, as set out in the governance structure, were a series of audits that allowed the Council to test compliance with health and safety good practice. These would continue to be delivered during the year, with outcomes and actions tracked and used to shape future priorities.

In addition to the annual assurance report to the Corporate Affairs and Audit Committee, information on health and safety compliance was reported on a quarterly basis to:

- Departmental teams.
- The Leadership Management Team.
- The Corporate Health and Safety Steering Group which comprises Members and Trade Union representatives.

There was also Trade Union engagement.

AGREED that the arrangements in place to manage health and safety within the Council, progress within the last year, and plans to further strengthen those arrangements were noted.

completed since the last update report to the Corporate Affairs and Audit Committee.

A copy of the internal audit progress report was attached at Annex 1 to the submitted report. It reported on progress against the internal audit work programme. This included a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

The counter fraud progress report was contained in annex 2. It reported on progress against the counter fraud work programme. A range of work was detailed including activity to promote awareness of fraud, work with external agencies, and information on the level of fraud reported to date.

Members of the Committee raised several queries and some concerns in relation to recently circulated Audit Reports on Burials and Creditors.

The Chair requested that Final Audit Reports on the Middlesbrough Development Company and Senior Management Review should be finalised and brought to the Committee at the earliest opportunity, and preferably prior to the forthcoming elections in May 2023.

AGREED as follows that the:

1. report was received and noted.
2. progress of internal audit and counter fraud work in 2022/2023 was noted.

22/72

UPDATE ON 2020-2021 AND 2021-2022 AUDITS

A verbal update on the 2020-2021 and 2021-2022 Audits was provided.

With regard to the 2020-2021 audit the main outstanding issue was around Going Concern. In terms of the accounting standards, when the accounts were signed, the public and regulators had to be assured that the organisation was a going concern at that time and for the next twelve months. The Budget approved by Council on 27 February 2023 was currently being reviewed by the External Auditor and the aim was to have the audit signed off prior to the local elections in May 2023.

The External Auditor confirmed that EY was working through the disclosures in the financial statements. Whilst the Accounts would be published two years after the end of that financial year, Going Concern had to be assessed for the twelve month period from date of publishing. The narrative needed tweaking to capture the right period of the assessment. There had also been a disclosure issue in 2021-2022 that reached back to the previous set of accounts. Whilst quite minor it was a reasonably sized number.

The 2021-2022 audit was ongoing and the accounts would not be signed off before the May elections. Other local authorities were in a similar position. The Finance team would complete as much work as possible before 31 March 2023 and then move onto closing the 2022-2023 accounts before moving back to the audit work. It was anticipated that the 2021-2022 audit would be finished from July onwards. There was no capacity in the finance team to continue with an audit whilst trying to close a set of accounts.

AGREED that the information provided was received and noted.

22/73

APPOINTMENT OF RETURNING OFFICER AND ELECTORAL REGISTRATION OFFICER

A report of the Chief Executive was presented to seek approval for the appointment of Charlotte Benjamin, Director of Legal and Governance Services as the Returning Officer and the Electoral Registration Officer in accordance with the Representation of the People Act 1983.

Every district council in England was required by Section 35(1) of the Representation of the People Act 1983 Act to appoint an officer of the council to be the Returning Officer for elections of councillors of the county and every district council should appoint an officer of the council to be the returning officer for the elections of councillors of the district and an officer of the council to be the returning officer for elections of councillors of parishes or communities within the district.

Section 8(2)(a) of the Act also required the Council to appoint an officer to be the Electoral Registration Officer. The Electoral Registration Officer was responsible for the preparation and maintenance of the electoral register for any parliamentary constituency or part of a constituency within its area.

According to Section 24(1) (b) the returning Officer for Parliamentary Elections was the Chair of the Council, who delegated authority for the management of the election to the Acting Returning Officer who was the Electoral Registration Officer.

According to Section 28(1) of the Act, only the Electoral Registration Officer may act as the (Acting) Returning Officer at Parliamentary elections, therefore it made sense to ensure that one officer was appointed to both the roles and therefore responsible for all local and national elections and referenda.

It was highlighted that the duties of the Returning Officer were separate from the officer's duties as a local government officer. The Returning Officer was personally liable for the conduct of the election, and only Council could designate an alternative Returning Officer to discharge these functions. The Corporate Affairs and Audit Committee had delegated authority to consider and approve the appointment on behalf of the Council.

ORDERED as follows that:

1. The report was received and noted.
2. Charlotte Benjamin, Director of Legal and Governance Services, was appointed as the Returning Officer and Electoral Registration Officer for Middlesbrough Council.
3. The Returning Officer had the power to appoint deputies in the case of all elections.

22/74

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

None.

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MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance (S151 Officer)
Submitted to:	Corporate Affairs and Audit Committee
Date:	28 April 2023
Title:	Approval of Audited Statement of Accounts – 2020/21
Report for:	Decision
Status:	Public
Strategic priority:	All
Key decision:	Not applicable
Why:	Not applicable
Urgent:	Not applicable
Why:	

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 draft 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 issues were delegated to the Director of Finance to resolve before the audit opinion on the accounts could be issued by EY and the audit process for 2020/21 be brought to a close. In addition, since then there has been several further matters to consider as part of the finalisation of the accounts.

These matters have subsequently been resolved and the audit opinion is due to be signed on 27 April. Members can now formally approve the audited accounts without prescription, and these can be published on the Council website.

Purpose

1. The purpose of the report is for Members of the Committee to approve the Audited Statement of Accounts for 2020/21, following completion of the external audit.
2. Members should also note the final audit results reports from EY on the Council and Teesside Pension Fund accounts, which summarise the various issues and adjustments required since the audit commenced in June 2021. Also included are letters of representation for both sets of accounts. These are assurances from the Chief Finance Officer and the Chair of the Committee around various matters that underpin the accounts and the processes adopted.

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 the statutory date had not been met.
5. At the meeting on 22 July 2022, 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. Since that point the Annual Governance Statement has been revised and signed by appropriate officers. CIPFA & central government have issued a statutory over-ride in respect of highways infrastructure, up to 2024/25, for those local authorities who cannot at present comply with the local authority code of practice in this area.
7. As time has passed several other issues have been identified. The briefing note produced for the Committee on 8 February 2023 gave more details around the considerations for changes to the insurance provision, highways infrastructure and the going concern assessment re financial sustainability. These have either required changes to the financial statements, additional narrative disclosure, or both, to reflect the fact that the accounts are almost two years past the account's preparation date.
8. In recent weeks, a couple of further issues have needed to be considered and whether they have an impact on the accounts for 2020/21. These relate to the triennial revaluation of the Pension Fund at 31st March 2022, and the decision made by Executive in January to wind-up Middlesbrough Development Company. Any changes required for the items in both paragraphs 7 & 8 are included with the Audited Statement of Accounts and are noted in the external auditors final audit results reports.
9. Although the audit of the accounts is now complete for the 2020/21 financial year and these will provide a robust base for subsequent financial years accounts, the audit

certificate still cannot be issued by EY. This is because work is still on-going in relation to the value for money qualification on Governance. This position is noted within the audit opinion to the Council's accounts. A verbal update will be given to the Committee once the audit certificate has been received and the audit process for the year is fully complete.

What decision(s) are being recommended?

That the Corporate Affairs and Audit Committee:

- Approve the Audited Statement of Accounts for 2020/21, following completion of the external audit on the financial statements.
- Members should also note the final audit results reports on the accounts from the external auditor, and the letters of representation which give various assurances in relation to the accounts from council management.

Rationale for the recommended decision(s)

10. The approval of the audited statement of accounts and receiving reports from the external auditor are part of the terms of reference for the Committee and are a statutory requirement under the Accounts and Audit regulations.

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

11. Not applicable due to the statutory nature of the decision being made.

Impact(s) of the recommended decision(s)

Legal

12. 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 have been completed by 30 September 2021. However, under the Act there are provisions for continuation of the audit where it is not complete. The aim being to finalise the audit and publish the audited accounts as soon as possible afterwards.

Strategic priorities and risks

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

14. 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 future sets of accounts.

Human Rights, Equality and Data Protection

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

Financial

16. 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, except for the additional audit fees that will be associated with a prolonged audit period. All relevant issues are set out in Appendix 5 for your information.

Actions to be taken to implement the recommended decision

Action	Responsible Officer	Deadline
To publish the audited accounts for the Council for 2020/21 on the Council website.	Head of Finance and Investments	1 st week in May 2023

Appendices

1	<p>Appendix 1 – Final Audit Results report for Middlesbrough Council</p> <p>Appendix 2 – Final Audit Results report for the Teesside Pension Fund</p> <p>Appendix 3 – Letter of Representation for Middlesbrough Council</p> <p>Appendix 4 - Letter of Representation Teesside Pension Fund</p> <p>Appendix 5 – Audited Statement of Accounts for 2020/21</p>
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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
Corporate Affairs & Audit Committee	Highways infrastructure assets update	22 nd September 2022
Corporate Affairs & Audit Committee	Finalisation of the Statement of Accounts 2020/21	8 th February 2023

Contact: Justin Weston, Head of Finance & Investments

Email: Justin_weston@middlesbrough.gov.uk

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Middlesbrough Council

Final Audit Results Report

Year ended 31 March 2021

April 2023

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Building a better
working world

Private and Confidential

April 2023

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

Dear Corporate Affairs and Audit Committee Members

We are pleased to provide our final audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our audit conclusion in relation to the audit of Middlesbrough Council (the Council) for 2020/21.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Middlesbrough Council'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 also include our conclusions on the arrangements of Middlesbrough Council to secure value for money in its use of resources.

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

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

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Corporate Affairs and Audit Committee on 28 April 2023.



Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Contents



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

The 'Terms of Appointment 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 Middlesbrough Council 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 Middlesbrough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Affairs and Audit Committee and management of Middlesbrough Council for this report and 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

Changes from our draft report

We presented our draft Audit Results Report to the meeting of the Corporate Affairs and Audit Committee on 22 July 2022. At that time, we reported that our audit was substantially complete but there were several key issues still to be resolved, including the Annual Governance Statement and the national issue around accounting for infrastructure assets. These matters have now been resolved and our observations on these and other matters arising since our Draft Audit Results Report are reflected in the following sections of our report:

- ▶ Section 2 has been updated to include an additional significant risk we identified in relation to the accounting for infrastructure assets, as communicated verbally to previous meetings of the Corporate Affairs and Audit Committee.
- ▶ Section 2 has also been updated for our consideration of management's revised going concern assessment and financial statement disclosures, which have been updated to ensure they continue to cover a period of at least 12 months from the approval date.
- ▶ Section 3 has been updated for minor changes to the wording of our proposed audit report to include reference to the amendment to the CIPFA Code for infrastructure assets.

Section 4 has been updated to include an additional £3.25 million adjusted audit difference in relation to a provision for insurance liabilities which has arisen since our previous reporting.

Section 7 has been updated to include two further control observations in relation to the maintenance of infrastructure asset accounting records (page 39) and the useful lives of infrastructure assets (page 41). Management responses to these recommendations are still pending and management have agreed to update the Committee separately on these.

- ▶ Appendix D has been updated for minor changes to the wording of our proposed Letter of Representation to include reference to the amendment to the CIPFA Code for infrastructure assets.



Executive Summary

Scope update

In our Audit Planning Report presented 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 have carried out our audit in accordance with this plan, with the following exceptions:

Changes in materiality

We revisited our planning materiality assessment using the draft Statement of Accounts. Based on our materiality measure of gross expenditure on provision of services, we updated our overall materiality assessment to £8.2 million (£7.9 million in the Audit Planning Report). This results in updated performance materiality at 75% of overall materiality of £6.1 million (£5.9 million in the Audit Planning Report). Our threshold for reporting misstatements of £0.4 million remains as reported in our Audit Planning Report.

Value for Money

In our Audit Planning Report, we reported that we had identified one risk of significant weakness 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 our audit we identified a second risk of significant weakness in the Council's arrangements in respect of member and senior officer relationships. We provide further details of this risk, our response to it and our conclusions within section 5 of this report.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- ▶ **Financial sustainability**
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- ▶ **Governance**
How the Council ensures that it makes informed decisions and properly manages its risks.

▶ **Improving economy, efficiency and effectiveness**

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

In our Audit Planning Report, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of significant weakness in respect of the provision of children's services. We communicated our planned procedures which included making enquiries of management and reviewing the findings of subsequent monitoring visits by external parties. We have completed our planned procedures and are satisfied that the Council does have the arrangements in place we would expect with regards to this risk.

In addition, we identified a further risk of significant weakness in respect of member and senior officer relationships during the course of our audit. Our response to this risk included reviewing the work of internal audit and the evidence upon which it was based, reviewing correspondence received during the course of the audit, making enquiries of management and members as we deemed necessary, considering our own observations of officers and members. We have completed our planned procedures and have determined that there is a significant weakness in the Council's arrangements for how the Council ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Council ensures officers and members discharge their respective responsibilities in accordance with the Council's Constitution.

As a result of completing our planned value for money procedures we will report by exception details of the significant weakness in the auditor's report (see section 3). We plan to issue the VFM commentary at the same time as our auditor's report as part of issuing the Auditor's Annual Report. We include further details in section 5.



Executive Summary

Audit differences

Uncorrected misstatements would increase the deficit on provision of services by £2.927 million.

Management corrected identified misstatements with the effect of increasing the deficit on provision of services by £3.250 million.

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

Control observations

During the audit, we identified significant deficiencies in internal control. Further details on these observations are provided in section 5 and our recommendations to address these deficiencies are contained within our value for money commentary in Appendix E.

In addition, during the audit we identified observations and make improvement recommendations in relation to management's financial processes and controls in relation to:

- ▶ the maintenance of infrastructure asset accounting records;
- ▶ the useful lives of infrastructure assets
- ▶ the accurate recording of the terms of the Council's lease arrangements; and
- ▶ the recognition of provisions and allowances for irrecoverable debt.

Further details of our observations and our recommendations are provided in section 7.

Executive Summary

Other reporting issues

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

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

- ▶ Between October 2019 and November 2020, the Council engaged an external advisor through a local publicity company, at a cost of £32,000, to work directly with the Council's Mayor. The Council has been unable to explain the exact nature of services provided by this external advisor, however it has accepted that they likely included activities which fall within the scope of the role of the mayoral political assistant. This arrangement was terminated in November 2020 after it was assessed by the Council to be unlawful under The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002.
- ▶ Under the Local Audit and Accountability Act 2014, the Council is required to provide a period of 30 working days after publication of the draft financial statements during which local electors may inspect the draft Statement of Accounts and raise any questions on them to the Council. Due to a technical issue, the Council did not identify the one question received during the inspection period and did not therefore respond to this in a timely manner. The Council did respond to the query once the failure to respond to the original request was reported through other channels.

In most cases, the Council is required by the Freedom of Information Act 2000 to respond to requests for information within 20 days and by the Data Protection Act 2018 to respond to Subject Access Requests (SARs) within one month. For the 2020 calendar year, the Council reported compliance with these targets for 73% of information requests and 58% of SARs. Response times to such requests are specified in legislation therefore the Council's failure to respond consistently within these timescales is non-compliant with these pieces of legislation. Management has previously reported on this matter to the Corporate Affairs and Audit Committee.

We include recommendations in respect of each of these observations within section 7.

The deadline for local government bodies to submit their Whole of Government Accounts (WGA) submission for 2020/21 has been extended to 31 July 2022, and the National Audit Office (NAO) have not yet issued their instructions to auditors specifying the procedures we are required to perform over this submission. Until this work is concluded, we are unable to issue our audit certificate.

We have no other matters to report.



Executive Summary

Areas of audit focus

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

Fraud Risk: Risk of Fraud in Revenue and Expenditure Recognition

We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of fraud in revenue and expenditure recognition.

Fraud Risk: Misstatements due to Fraud or Error

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

Significant Risk: Valuation of Land and Buildings

We completed our planned procedures and are satisfied that the financial statements are not materially misstated as a result of inappropriate valuations of land and buildings.

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

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

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

Independence

Please refer to section 8 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

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

What judgements are we focused on?

We identified this risk as most likely to manifest within the recognition of Covid-related grant funding, the recognition of capital grants, the capitalisation of expenditure or the omission of expenditure from the financial statements.

What did we do?

- ▶ Reviewed the accounting treatment of new Covid-related grants for 2020/21 to confirm that they have been correctly accounted for as either a principle or agent arrangement;
- ▶ Tested a sample of new Covid-related grants to ensure that any terms and conditions were met prior to recognition as income;
- ▶ Tested a sample of capital grants and contributions to confirm that they have been recognised in accordance with agreed terms and conditions;
- ▶ Tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards;
- ▶ Tested samples of invoice postings and cash disbursements made after 1 April 2021 to confirm the expenditure to which they relate was recorded in the correct reporting period; and
- ▶ Reviewed minutes of Council and other key meetings to identify any potential accruals or provisions which may have been omitted from the financial statements.

Note: In our Audit Planning Report we reported that we would also test a sample of Revenue Expenditure Funded from Capital Under Statute (REFCUS) to confirm that it met the criteria set down in governing regulations. We performed this testing, but due to the immaterial balance we have not done so specifically as part of our response to this significant risk.

What are our conclusions?

Our testing of Covid-related grants which were new for 2020/21 identified grants which management had incorrectly assessed as being on an agency basis, meaning the Council had incorrectly assessed it had no control over their use, and hence had been excluded from the financial statements. Once this was identified, management undertook a review of all Covid-related grants and identified amounts totalling £5,363,000 which had been incorrectly omitted. Corresponding expenditure funded by these grants had also been omitted, therefore there was no net impact on the deficit on provision of services but gross income and expenditure were both understated by £5,363,000.

Management corrected the financial statements for this matter, however within the correction we identified one grant for £549,000 where the income had already been recorded but the expenditure had not. This income should not therefore have been included in management's adjustment, resulting in an uncorrected overstatement of income of £549,000.

We have no other matters to report in relation to this risk.

We are therefore satisfied, following management's adjustment, that the financial statements are not materially misstated as a result of fraud in revenue and expenditure recognition.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

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

What judgements are we focused on?

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

What did we do?

- ▶ Identified fraud risks during the planning stages of our audit (see previous risk);
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud; and
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements.

What are our conclusions?

Within our commentary on the Council's arrangements to secure value for money through economic, efficient and effective use of its resources, set out in Appendix E, we note several instances where the Council entered into transactions without following its normal procurement processes. In one case, the Council has subsequently assessed these transactions as being unlawful. We are however satisfied that the value of these transactions is not material to the financial statements.

We have not identified any other significant or unusual transactions, including from our review of manual journal entries, which we consider give rise to a misstatement of the financial statements or should be brought to the attention of the Corporate Affairs and Audit Committee.

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



Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

Land and buildings are the most significant assets on the Council's balance sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.

Our assessment is that the risk of misstatement is greatest in those assets whose value is dependent to a large extent on the existence and terms of commercial tenancies.

What judgements are we focused on?

We consider this risk to apply to the Council's investment properties, including assets held as assets under construction which will be classified as investment properties upon completion. We recognise an inherent risk over the valuation of other land and buildings.

What did we do?

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. rental terms to support valuations based on rental income);
- ▶ Considered the annual cycle of valuations to ensure that assets were valued within a five year rolling programme as required by the Code. We also considered if there were any specific changes to assets that occurred and whether these were communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries were correctly processed in the financial statements.

What are our conclusions?

Our testing identified a transposition error in the recording of the floor area of Centre Square 2 used by the Council's external valuer to inform their valuation of the asset. As a result, the valuation of this asset was overstated by £693,000.

Our review of disclosures relating to land and buildings also identified a few presentational errors, including misclassification of a £3,880,000 impairment of the Transporter Bridge as depreciation and an erroneous negative £1,190,000 disposal. These matters had no impact on the valuation of land and buildings recorded on the balance sheet.

We have no other matters to report in relation to this risk.

We are therefore satisfied that the financial statements are not materially misstated as a result of the valuation of land and buildings.

Whilst having no impact on the Council's 2020/21 financial statements, we would also highlight that the Council has acquired a number of commercial properties since 31 March 2021 the valuation of which will require careful consideration for the purposes of the 2021/22 financial statements.

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Areas of Audit Focus

Significant risk (new)

Accounting for infrastructure assets

What is the risk?

The Council has not maintained sufficiently detailed accounting records to enable it to identify individual infrastructure assets within the accounting records. As a result, it is unable to demonstrate that individual assets have been accounted for in accordance with the requirements of the reporting framework. In particular, the Council is unable to demonstrate that remaining asset balances have been derecognised when an asset has been replaced (for example a road re-laid).

There is a high probability that the valuation of infrastructure assets is materially misstated, however the Council lacks the necessary accounting records to quantify the extent of misstatement and make correcting entries.

What judgements are we focused on?

As this issue impacts a large number of local authorities, not just the Council, temporary amendments have been made to the Council's reporting framework to enable authorities and auditors to finalise statements of account whilst a longer term solution is sought. These changes include:

- An amendment to the CIPFA Code to remove the requirement to separately disclose the gross cost and accumulated depreciation and impairment, leaving only a requirement to disclose the net carrying amount; and
- A statutory override to allow local authorities to assume that net opening balances for infrastructure assets are correct.

We therefore focused on management's implementation of these amendments to the reporting framework into the financial statement disclosures and the movements in net value during the current year.

What did we do?

- Reviewed the amended financial statement disclosures for consistency with the revised reporting framework;
- Evaluated the useful lives applied to infrastructure assets in determining the depreciation applied during the current year.

What are our conclusions?

The financial statement disclosures appropriately reflect the changes which have been made to the reporting framework.

Our review of the useful lives applied to infrastructure assets noted that there is considerable variability in the useful lives applied and the useful lives adopted were not always in-line with the guidance ranges published by CIPFA or reflective of the different components of an asset which may exist.

We are content that net valuations at 31 March 2021 are materially correct, in part because of the statutory presumption that balances at 1 April 2020 were correct, however the risk of misstatement in net valuations due to inappropriate useful lives being applied will increase year-on-year.

Longer term, the amendments to the reporting framework are temporary and will apply only until 2024/25. Whilst the detailed requirements which will apply beyond this point are still to be determined, it is highly likely that they will require the Council to develop better information on the Council's infrastructure assets than it currently holds.

We include two recommendations relating to the accounting for infrastructure assets within section 7.



Areas of Audit Focus

Higher inherent risk

Valuation of defined benefit pension liability

What is the risk?

The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The defined benefit pension liability is the most significant liability on the Council's balance sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for the calculations can have a significant impact upon the financial statements.

What judgements are we focused on?

We focus on the appropriateness of assumptions used by the Council's actuary in valuing pension liabilities and the accuracy of pension asset valuations.

What did we do?

- ▶ Liaised with the audit team of the Teesside Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council. Note that the audit of the Pension Fund is also performed by EY;
- ▶ Assessed the work of the Pension Fund actuary (Aon Hewitt), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered any relevant reviews by our own EY actuarial specialists; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

What are our conclusions?

The Pension Fund auditor identified misstatements within the valuation of the Pension Fund's assets provided to the Council's actuary to inform the valuation of the Council's net pension liabilities. Further details of these misstatements are provided in the separate report of the Pension Fund auditor.

We have quantified the impact on the Council's financial statements as an understatement of the Council's pension assets of £5,947,000, and hence an overstatement by the same amount of the Council's net pension liabilities. The financial statements have been amended to correct this impact.

In addition, we noted that the Council had incorrectly presented the return on pension assets as income within the CIES when the correct treatment is to recognise the net cost of interest on pension liabilities and the return on plan assets as a net amount within expenditure. As a result, income and expenditure were both overstated by £6,224,000 however the net impact was correct. The financial statements have also been amended to correct this matter.

We have no other matters to report in relation to this risk.

We are therefore satisfied that the financial statements are not materially misstated as a result of the valuation of defined benefit pension liabilities.



Areas of Audit Focus

Higher inherent risk

Going concern and associated disclosures

What is the risk?

The Covid-19 pandemic has had a significant impact on local authority finances, with new expenditure streams being incurred, loss or reduction to existing income streams and new grant income streams arising. The Council has also seen significant cashflows passing through it where it acts as an agent.

Management will need to undertake their going concern assessment against the backdrop of ongoing uncertainty over the financial impact of the pandemic. They will also need to ensure that going concern disclosures within the financial statements appropriately present management's assessment.

What judgements are we focused on?

We focus on the completeness and accuracy of the going concern disclosures within the financial statements.

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What did we do?

- ▶ Challenged management's identification of events or conditions impacting going concern;
- ▶ Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);
- ▶ Reviewed the Council's assessment that it is appropriate for the financial statements to be prepared on a going concern basis;
- ▶ Reviewed the Council's cashflow forecast covering a period of at least 12 months from the reporting date, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- ▶ 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
- ▶ Challenged the disclosure made in the financial statements in respect of going concern and any material uncertainty.

What are our conclusions?

The Council has seen a significant increase in its level of usable reserves between 31 March 2020 and 31 March 2021, primarily due to the impact of the business rates reliefs given to businesses during the pandemic and the government decision to allow local authorities to spread the impact of these over a number of years. These amounts will naturally unwind over the next few years, and the Council's reserves have reduced since 31 March 2021.

Management's final going concern assessment is based upon the Council's 2023/24 budget, which includes £9.4 million of required savings as a result of a significant increase in budget for Children's Services to address overspends in 2021/22 and 2022/23.

An independent review of planned savings by CIPFA concluded that the Council is unlikely to deliver all of the planned savings. The Council has sufficient reserves to mitigate the likely impact of this over the going concern period, however the Council faces a challenging financial outlook over the medium term and further cost-saving measures are likely to be necessary.

We are satisfied that the financial statement disclosures adequately reflect these challenges, however we made a number of recommendations to management to enhance the disclosures.



03 Audit Report



Audit report

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

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the financial statements of Middlesbrough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- related notes 1 to 46, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give 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
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the

financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for the period to 30 April 2024.

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

Other information

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

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.



Audit report

Our opinion on the financial statements (continued)

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- ▶ 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.

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2021.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that the culture and governance arrangements at the Authority have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members. These include, but are not limited to:

- ▶ Significant changes to the design of the Authority's largest capital project, Boho X, occurring outside of the Authority's Programme and Project Management Framework;
- ▶ Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Authority's normal procurement processes; and
- ▶ Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority.



Audit report

Our opinion on the financial statements (continued)

In addition, where management commissioned work by the Authority's internal audit to investigate these matters the scope of this work was not always sufficient to provide assurance on the full extent of issues or the wider risks posed to the Authority as the work was narrowly defined and it was not always evident that there was follow-up of findings which indicated areas where additional risks may exist beyond the initial scope of work. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

The evidence on which our view is based

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

- ▶ Reviewed the work of internal audit, including in respect of changes to the design of Boho X, the purchase of Covid-19 tests and the delivery of mayoral assistance activities;
- ▶ Reviewed the evidence upon which the reports of internal audit were based;
- ▶ Reviewed correspondence received during the course of our audit, including from members of the Authority;
- ▶ Made enquiries of management as to their understanding of the culture at the Authority; and
- ▶ Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee.

The impact on Middlesbrough Council

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

In addition, there is a risk that the Authority has not identified all such instances where decisions may have been taken outside of the Authority's formal policies and procedures or the routes by which such decisions are being taken, and will therefore be unable to satisfy itself that such instances will not continue to occur.

The actions the Authority needs to take to address the weaknesses

We recommend that:

- ▶ the Authority develops a comprehensive Improvement Plan to address the cultural and governance issues which exist within the Authority. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This should include the involvement of external specialists;
- ▶ the Authority provides additional training to members and officers on the boundaries of respective responsibilities under the Authority's Constitution. The Authority should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan; and
- ▶ the Authority considers whether further assurance is required to establish whether the risks identified by the Authority to date are complete and the actions taken to respond to those risks sufficient.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution; and
- ▶ how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources.



Audit report

Our opinion on the financial statements (continued)

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 26, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the 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 Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Authority and determined that the most significant are:
 - The Local Government Act 1992,
 - The Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - The Local Government Finance Act 2012,
 - The Local Government Act 2003,
 - The Localism Act 2011,
 - The Local Government Pension Scheme Regulations 2013,
 - The LGPS (Administration) Regulations 2008,
 - The Local Audit and Accountability Act 2014,
 - The Accounts and Audit Regulations 2015 (as amended by The Accounts and Audit (Amendment) Regulations 2021),

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.



Audit report

Our opinion on the financial statements (continued)

- ▶ We understood how Middlesbrough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance, 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 Authority's committee minutes, through enquiry of employees to confirm Authority policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- ▶ We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures 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 manipulation of reported financial performance (through improper recognition of revenue and expenditure) and management override of controls to be our fraud risks.
- ▶ To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue and expenditure, we reviewed the accounting treatment of Covid-related grant schemes to ensure they had been correctly accounted for as either principal or agent, tested a sample of capital grants to confirm that they have been recognised in accordance with agreed terms and conditions, tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards and tested a sample of invoice postings and cash disbursements made after 31 March 2021 to confirm whether the expenditure to which they relate had been recorded in the correct reporting period.
- ▶ To address our fraud risk of management override of control, we tested specific journal entries by applying risk criteria to the entire population of journals. For each journal selected, we tested back to source documentation to confirm that journals were authorised and accounted for appropriately.

- ▶ We engaged forensics specialists to support our assessment of whether the significant weaknesses in arrangements, including specific instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures, gave rise to additional fraud risks.

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

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

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

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

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



Audit report

Our opinion on the financial statements (continued)

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

Certificate

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Middlesbrough Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Stephen Reid (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Edinburgh
[Date]

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Summary of unadjusted differences

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

Misstatements impacting the deficit on provision of services

- ▶ Our testing of the Council's trade receivables identified an invoice for £1,492,000 relating to Section 106 income which had been raised in error, and the Council had issued credit notes to clear this balance after the year end. As a result, the Council's income and trade receivables were overstated by £1,492,000.
- ▶ Our testing of the valuation of Centre Square 2 identified a transposition error in the floor area recorded by the Council's external valuer and used to inform their valuation of the asset. As a result, the valuation of this asset and the gain on revaluation recorded in the CIES were overstated by £693,000.
- ▶ As detailed in section 2 and on the next page, management made an adjustment to the pre-audit financial statements to correct for the incorrect classification of Covid-related grants as agency rather than principle. Within this correction, management double-counted one grant resulting in an overstatement of income, and earmarked reserves, of £549,000.
- ▶ Our testing of the Council's expenditure identified an amount of £159,000 which related to services to be received after 31 March 2021, and should therefore have been recognised as a prepayment rather than expenditure. Our extrapolation of this observation, and two other minor differences totalling £6,000, over the expenditure population estimated an overstatement of expenditure in the current year, and understatement of prepayments, of £2,704,000.
- ▶ Our testing of the Council's income from trading activities identified an amount of £25,000 which related to car parking income which should have been recorded in the prior period. Our extrapolation of this observation over the rest of the trading income population estimated an overstatement of income in the current period, and understatement of income in the prior period, of £2,897,000. We do however note that due to the limited scale of the Council's trading activities, the true misstatement is likely smaller than this.

The net impact of these audit differences, if corrected, would be to increase the deficit on provision of services by £2,927,000.



Audit Differences

Summary of adjusted differences

We highlight the following misstatements to the financial statements which management corrected in the final financial statements:

Misstatements impacting the deficit on provision of services

- ▶ As part of our discussions around the 2021/22 audit, management highlighted their intention to recognise a provision in the 2021/22 Statement of Accounts for insurance liabilities. We challenged management as to whether these liabilities also existed at 31 March 2021 and should be recognised within the 2020/21 Statement of Accounts, resulting in the recognition of additional provisions and expenditure of £3,250,000. A contingent liability has also been disclosed for insurance liabilities for which no claim had been received by the Council at 31 March 2021 but past experience suggests claims may be submitted in future for events occurring before 31 March 2021.

Misstatements impacting gross income and expenditure, but not the deficit on provision of services

- ▶ Our testing of pension disclosures identified that the Council had incorrectly presented the return on pension assets as income within the CIES when the correct treatment is to recognise the net cost of interest on pension liabilities and the return on plan assets as a net amount within expenditure. As a result, income and expenditure were both overstated by £6,224,000 however the net impact was correct; and

▶ Our testing of Covid-related grants which were new for 2020/21 identified grants which management had incorrectly assessed as being on an agency basis, meaning the Council had incorrectly assessed it had no control over their use, and hence had been excluded from the financial statements. Once this was identified, management undertook a review of all Covid-related grants and identified amounts totalling £5,363,000 which had been incorrectly omitted. Corresponding expenditure funded by these grants had also been omitted, therefore there was no net impact on the deficit on provision of services but gross income and expenditure were both understated by £5,363,000.

Misstatements impacting total comprehensive income and expenditure

- ▶ The auditor of the Teesside Pension Fund reported to us misstatements in the valuation of the pension fund's assets provided to the Council's actuary to inform their valuation of the Council's net pension liabilities. Based on this, we determined that the Council's net pension liability, and the actuarial loss for the period, was overstated by £5,947,000.

Misstatements within notes to the balance sheet

- ▶ Our testing of property, plant and equipment disclosures identified that the Council had incorrectly recorded an in-year impairment of the Transporter Bridge as accelerated depreciation rather than an impairment. As a result, depreciation for the year was overstated and impairments understated by £3,880,000;
- ▶ Our testing of property, plant and equipment disclosures also identified an erroneous amount which had been recorded as a reduction to disposals and an increase on revaluation (net nil impact) within the movements in accumulated depreciation. As a result, the impact of disposals on accumulated depreciation incorrectly increased the accumulated depreciation balance by £1,190,000 with an offsetting overstatement of the depreciation written out on revaluation; and
- ▶ Our testing of creditor balances identified that amounts due to individuals in relation to Housing Benefit had been incorrectly classified as owed to local authorities, resulting in an overstatement of amounts owed to other local authorities and understatement of amounts owed to other entities and individuals of £3,252,000.



Audit Differences

Comments on Disclosures

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

- ▶ Our testing of the disclosure of future amounts receivable by the Council under operating leases found that the amounts disclosed were overstated by £10,804,000 due to inaccurate lease information being recorded in the Council's leases register. This disclosure was also overstated by £10,282,000 in the prior year. We make a recommendation in relation to this matter within section 7 of this report.
- ▶ Within the disclosure of senior officer remuneration, an amount of £66,454 paid to the former Executive Director of Growth and Places was incorrectly reported as strain on the pension fund rather than compensation for loss of office. In addition, the total cost of this departure of £292,555 was incorrectly reported within the exit packages note as a voluntary departure when it was in fact a compulsory redundancy. Had this been a voluntary redundancy, approval by full council would have been required under the Council's Pay Policy Statement however this is not required for compulsory redundancies.
- ▶ The accounting treatment of the Dedicated Schools Grant was changed with effect from 1 April 2020, requiring the Council to treat the accumulated balance at this date of £2,783,000 as an unusable reserve rather than a usable reserve as had previously been the case. The draft financial statements omitted disclosure of this as an adjustment to opening balances, meaning that opening balances were inconsistent with the balances reported in the prior period.

Page 48 Within the disclosures relating to property, plant and equipment, the valuation of assets transferred to Sport & Leisure Management under a service concession arrangement had not been updated from the prior year. The valuation in the updated disclosure was higher than the prior year's disclosure by £2,591,000.

Page 48 In addition, we note that the final financial statements contained a number of casting errors and internal inconsistencies (due to rounding) which management have opted not to seek to correct.



05

Value for Money



Value for Money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We have previously reported to the Corporate Affairs and Audit Committee the outcome of our risk assessment of the risk of significant weakness in the Council's value for money arrangements - that we had identified one significant risk in relation to the provision of children's services.

In addition, we identified a further risk of significant weakness in respect of member and senior officer relationships during the course of our audit. Our response to this risk included reviewing the work of internal audit and the evidence upon which it was based, reviewing correspondence received during the course of the audit, making enquiries of management and members as we considered necessary and considering our own observations of officers and members.

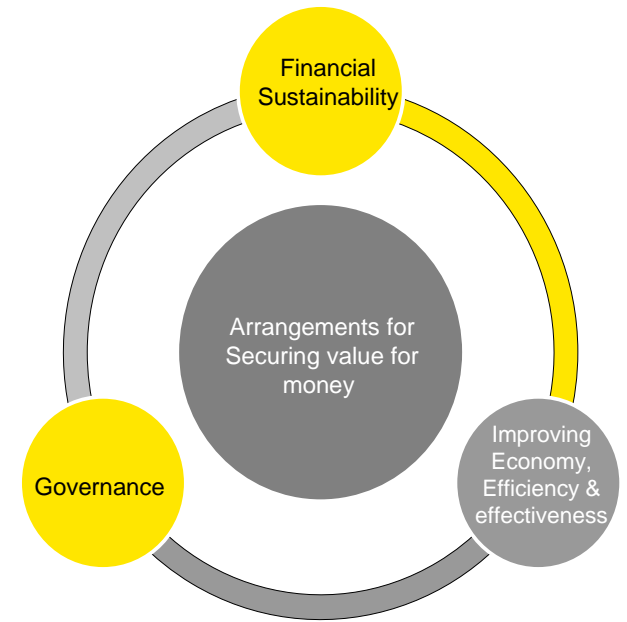
Status of our VFM work

We completed our planned procedures and determined that there are significant weaknesses in the Council's arrangements to secure value for money. As a result, we have reported by exception details of the significant weaknesses in our auditor's report (see section 3).

A copy of our auditor's commentary on the Council's value for money arrangements is included at Appendix E. We will also issue this commentary as part of our Auditor's Annual Report, which we intend to issue at the same time as our audit report.

We included a copy of our proposed auditor's commentary, including our recommendations to address the significant weaknesses in arrangements we have identified, in our report to the 22 July 2022 meeting of the Corporate Affairs and Audit Committee. Management began to implement their responses to our recommendations following the July meeting, and we provided an update on our assessment of management's progress against our recommendations to the 5 December 2022 meeting of the Corporate Affairs and Audit Committee.

We will provide a further update on our assessment of the Council's arrangements to secure value for money following the conclusion of our audit.





Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Provision of Children’s Services</p> <p>We qualified our value for money opinion for 2019/20 with regards to the provision of children’s social care services following the highly critical Ofsted inspection report published in January 2020.</p> <p>During 2020/21, the Council has been implementing an improvement plan developed to address the Ofsted inspection findings. Nevertheless, there remains a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children’s social care services during 2020/21.</p>	<p>Improving economy, efficiency and effectiveness</p>	<ul style="list-style-type: none"> ▶ Made enquiries of management to understand the progress being made against the Council’s Improvement Plan; ▶ Reviewed the findings of subsequent monitoring inspections of the Council’s children’s services as third party evidence of the progress being made by the Council; and ▶ Evaluated whether the above indicates that a material weakness in arrangements was present during 2020/21, and considered the implications for our auditor reporting.

Findings

In response to the Ofsted findings, the Council implemented a Children’s Services Improvement Plan. Delivery against this plan is overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board.

The appointed Commissioner for Children’s Services in Middlesbrough issued a 12-month review of the Council’s progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that “considerable progress has been made and there is evidence of real impact” and recommended that the Council be allowed to retain control of its Children’s Services. The report did however note that the Council’s Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children’s Services can be considered as adequate in all regards.

Whilst we note that the Council’s Children’s Services are not yet consistently delivering the expected levels of performance, this reflects the status of the service at the start of the 2020/21 financial year. The Council’s actions during the year to 31 March 2021, as assessed by the Commissioner for Children’s Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2020/21 to deliver against the Improvement Plan. We do not therefore report a significant weakness in the Council’s arrangements during the year ended 31 March 2021 in respect of the provision of Children’s Services, however we will continue to monitor the Council’s progress against the Improvement Plan.



Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Member and senior officer relationships</p> <p>During the course of our audit a number of matters were brought to our attention by management, internal audit, elected members and external parties which indicated potential weaknesses in the Council's governance arrangements and its ability to ensure Council policies and procedures were adhered to.</p> <p>We noted that a common theme to the matters brought to our attention were observations and concerns about strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes.</p> <p>Based on identification and initial assessment of these matters, we recognised a risk of significant weakness in respect of member and senior officer relationships.</p>	<p>Governance</p>	<ul style="list-style-type: none"> ▶ Reviewed the work of internal audit, including in respect of changes to the design of Boho X, the purchase of Covid-19 tests and the delivery of mayoral assistance activities; ▶ Reviewed the evidence upon which the reports of internal audit were based; ▶ Involved our EY Forensics specialists in the above procedures and the assessment of whether there were wider risks we needed to consider; ▶ Reviewed correspondence received during the course of our audit, including from Council members; ▶ Made enquiries of management and members, as we deemed necessary, as to their understanding of the culture at the Council; and ▶ Considered our own observations from direct interactions with officers and members, and from attendance at meetings of the Corporate Affairs and Audit Committee.

Findings

We have observed evidence which leads us to conclude that the culture and governance arrangements at the Council have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Council without following the Council's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members. These include, but are not limited to:

- ▶ Significant changes to the design of the Council's largest capital project, Boho X, occurring outside of the Council's Programme and Project Management Framework;
- ▶ Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Council's normal procurement processes; and
- ▶ Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority.

In addition, our observations are that there is a pervasive lack of trust within the Council between officers and elected members, and between elected members, which is having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of officers and members not being adhered to.



Value for Money

Findings (continued)

Where management commissioned work by internal audit to investigate these matters, the scope of this work was not always sufficient to provide assurance on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up of findings which indicated areas where additional risks may exist beyond the initial scope of work. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

Further details of our observations are set out in our auditor's commentary on the Council's value for money arrangements included at Appendix E. In our view, these are serious matters indicative of deep rooted cultural and relationship issues at the Council which require urgent action. We consider that the Council needs to take immediate action and we will be following up on the Council's response over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations.

Recommendations

In respect of the matters we have identified, we make the following recommendations to the Council:

- Page 53
- We recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.
 - We recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.
 - Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.
 - We recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council;
 - We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient;
 - We recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate; and
 - We recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.

Further details behind our recommendations are set out within our auditor's commentary on the Council's value for money arrangements included at Appendix E.

Management's responses to our recommendations are set out at Appendix F.



06 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements is consistent with the audited financial statements.

We have reviewed the draft Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. We do however note that further changes to the Annual Governance Statement are expected.

Whole of Government Accounts

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

The deadline for local government bodies to submit their Whole of Government Accounts (WGA) submission for 2020/21 has now passed and the Council is below the threshold at which the NAO requires us to perform detailed procedures. We cannot however formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Middlesbrough Council.

Other powers and duties

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

We do however note that we expect to see the Council take immediate action to respond to the recommendations we have raised within section 5 of this report and we will be following up on the Council's response to our recommendations over the next 6 months. If we are unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations. This would require a formal public response from the Council and be notified to the Secretary of State.

Other reporting issues

Other reporting issues

Other matters

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

Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;

- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;

▶ Any other matters significant to overseeing the financial reporting process;

▶ Findings and issues around the opening balance on initial audits (if applicable);

▶ Related parties;

▶ External confirmations;

▶ Going concern;

▶ Consideration of laws and regulations; and

▶ Group audits

We have included every significant matter we wish to bring to the attention of the Corporate Affairs and Audit Committee within this report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council 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 Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have no significant deficiencies in internal control to bring to the attention of the Corporate Affairs and Audit Committee, other than those highlighted in section 5 of this report.

On the following pages, we make recommendations to address other internal control matters identified during the course of the audit or to improve the Council's processes.

Assessment of Control Environment

Area	Maintenance of infrastructure asset accounting records	Rating
Observation	<p>As noted in section 2, the Council has not maintained appropriate accounting records to allow it to account for infrastructure assets in accordance with the requirements of the reporting framework. Specifically, the Council is not able to separately identify individual assets within its accounting records and, therefore, cannot evidence that individual assets have been accounted for appropriately.</p> <p>The reporting framework has been modified for 2020/21 so that the Council does not need to separately disclose the gross cost and accumulated depreciation and impairment of infrastructure assets, only the net valuation, and can assume that the net valuation as at 1 April 2020 was correct. These modifications are however temporary, applying only until the 2024/25 financial year.</p> <p>The detailed requirements which will apply after 2024/25 are still to be determined, however it is highly likely that they will require the Council to develop better information on the Council's infrastructure assets than it currently holds.</p>	
Recommendation	<p>The Council should review how it records its expenditure on infrastructure assets, in particular to allow it to separately identify individual assets within its accounting records.</p> <p>In addition, the Council should review what information it holds for existing assets in other forms, for example within the highways team, and how this can be used to disaggregate existing accounting records.</p>	
Management response		

Assessment of Control Environment

Area Application of procurement processes **Rating**

Area Inspection of the accounts **Rating**

Page 60 **Observation**

Our audit procedures identified a number of instances where goods or services were procured outside of the Council's normal policies and procedures, including the provision of mayoral support activities and the purchase of unusable Covid-19 tests.

The Council's policies allow for formal exemptions to full procurement processes to be applied, as may have been appropriate during the pandemic response, however the fact an exemption was applied and the reason for doing so should be clearly documented.

The Council has been unable to evidence documentation of an exemption in the cases noted.

Observation

Under the Local Audit and Accountability Act 2014, the Council is required to provide a period of 30 working days after publication of the draft financial statements during which local electors may inspect the draft statements and raise any questions on them to the Council. Due to a technical issue, the Council did not identify the one query received during the inspection period and did not therefore respond to the query in a timely manner. The Council did respond to the query once the failure to respond to the original request was reported through other channels.

Recommendation

We recommend the Council review its procurement processes to ensure that policies and procedures are either applied in full, or clear documentation is made of the reasons why exemptions have been applied.

Recommendation

We recommend that management review the process by which electors may raise queries during the accounts inspection period to ensure that any requests received during the inspection period for the 2021/22 Statement of Accounts are identified and responded to in a timely manner.

Management response

Procurement policies and procedures are in place, however updated e-learning training guides on procurement practice will be developed along with improved links through business partner relations with service directorates. Enhanced detail will be recorded on exemption forms following approvals. Procurement will also introduce a Best Value process to facilitate a smarter procurement process for lower value procurement of goods and services.

Management response

The process has been reviewed and a number of compensating controls have been added for the inspection of accounts process for the 2021/22 accounts. These will avoid this issue re-occurring and will mean any inspection requests are dealt with in a timely manner.

Assessment of Control Environment

Area Accuracy of leases register **Rating**

Observation

Our testing of lease-related disclosures found a number of issues with inaccurate information being recorded in the Council's leases register. In addition to causing a misstatement of disclosures, inaccurate information on the Council's lease arrangements may have a negative impact on the accuracy of financial forecasting and expose the council to operational risks, such as being unaware a lease has expired.

In 2024/25, the Council will adopt IFRS 16, a new accounting standard for leases which will increase the balances recognised on the balance sheet. Accurate information on the terms of the Council's leases will be key to successful adoption of this new standard.

Recommendation

We recommend management review the process by which lease information is updated and reviewed within the Council's leases register to ensure that information recorded in the register is complete and accurate.

Management response

All leasehold interests are now recorded on the TF system with quarterly reviews matched against Delegated Approvals (DA) for any changes. A revised DA notification system is currently in development and will go live by end August 2022.

Area Useful lives of infrastructure assets **Rating**

Observation

In considering how the Council has applied the reporting framework amendments for infrastructure assets, we undertook a more detailed review of the useful lives applied to individual infrastructure assets.

Our review noted that there is considerable variability in the useful lives applied and the useful lives adopted were not always in-line with the guidance ranges published by CIPFA or reflective of the different components of an asset which may exist.

We are content that net valuations at 31 March 2021 are materially correct, in part because of the statutory presumption that balances at 1 April 2020 were correct, however the risk of misstatement in net valuations due to inappropriate useful lives being applied will increase year-on-year.

Recommendation

We recommend that management review the useful lives applied to infrastructure assets, including whether different useful lives should be applied to different components of each asset, against both the CIPFA guidance and the Council's own past experience of the frequency with which assets are replaced.

Management response

Page 61

Assessment of Control Environment

Area	Response to freedom of information and subject access requests	Rating
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Page 62 Observation	<p>In most cases, the Council is required by the Freedom of Information Act 2000 to respond to requests for information within 20 days and by the Data Protection Act 2018 to respond to Subject Access Requests (SARs) within one month. For the 2020 calendar year, the Council has reported compliance with these targets for 73% of information requests and 58% of SARs. Response times to such requests are specified in legislation therefore the Council's failure to respond consistently within these timescales is non-compliant with these pieces of legislation.</p> <p>Management have recognised the need to address a backlog of cases and have implemented a recovery plan to facilitate this.</p>
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Recommendation	<p>We recommend the Council continues to review progress against the recovery plan and take further steps if the Council's compliance rate with statutory timescales does not sufficiently improve.</p>
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Management response	<p>The Council has increased resources to deal with both SARs and FOIs to improve compliance with statutory timescales. Records show a significant improvement in compliance with SARs. Currently there are 7 overdue SARs remaining and we anticipate this backlog will be fully addressed by the autumn. This is a much improved position from 31/3/20 where there were 19 overdue, many significantly delayed. A further report on performance on SARs will be considered by Leadership Management team in August 2022.</p> <p>FOI compliance is much improved, with the number of FOIs answered outside of statutory timescales continuing to reduce and the average number of days to respond is also improving.</p>
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Assessment of Control Environment

Area	Allowances for bad and doubtful debt	Rating
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Observation Page 63	<p>Our testing of the Council's allowances for bad and doubtful debt noted that key assumptions within the calculations, in particular around the recoverability of aged debt, have not changed for a number of years. Whilst management did include manual adjustments to account for the impact of the pandemic in specific circumstances, there was a limited evidence base for the size of these adjustments.</p>
	<p>There have been significant changes to the economic environment at both the macro and local level since many of the assumptions used were set, therefore there is a risk that these are no longer appropriate and the Council is not accurately calculating its exposure to irrecoverable balances.</p>

Recommendation	<p>We recommend that management review the assumptions used to inform the calculation of allowances for bad and doubtful debt to ensure they remain appropriate. Management should also ensure their calculations comply with the requirements of accounting standards, including the 'expected loss' model of IFRS 9 for non-statutory balances.</p>
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Management response	<p>This item referred mainly to the bad debt provisions around council tax and business rates. In previous years, an element of professional judgement had been used, as opposed to collection data, which needs to be evidenced better to comply with IFRS9. As part of the 2021/22 closure process, collection rate data from the revenues and benefits team over the last 20 years has been used on both provisions to inform a new approach to the aged bad debt provisions. This has been evidenced as part of the collection fund closure working papers. These have been reviewed by the three relevant heads of Service for Finance and then discussed and approved with the Director of Finance. This new approach has been used to prepare the collection fund outturn position and is included within the Balance Sheet amounts for 2021/22.</p>
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Update on prior year recommendations

We have no update to provide on prior year recommendations as we did not make any recommendations to address internal control matters as part of our 2019/20 audit.

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 Council, its members and senior management and its affiliates, including all services provided by us and our network to the Council, 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 1st 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 following slide includes a summary of the fees that you have paid to us in the year ended 31st March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has been provided on a contingent fee basis. 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 has been submitted.

We confirm that we have undertaken non-audit work in respect of the Council's annual Housing Benefit and Teachers Pension returns. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

EY Transparency Report 2022

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period to 1 July 2022:

https://www.ey.com/en_uk/about-us/transparency-report

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 28 April 2023.

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 - Council (note 1)	88,578	88,578	88,578
Base scale fee - Pension Fund (note 1)	21,972	21,972	21,972
Increase for changes in risk and regulatory environment - Council (notes 2,3,8)	81,850	N/A	53,960
Increase for changes in risk and regulatory environment - Pension Fund (notes 2,3,8)	39,359	N/A	14,033
Revised Base Fee	231,759	110,550	178,543
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)	240,259	110,550	184,543
Additional audit fee for response to specific audit findings - Council (notes 6,7,8)	170,000 - 190,000	N/A	20,745
Additional audit fee for response to specific audit findings - Pension Fund (notes 6,7,8)	5,000	N/A	5,202
Total Audit Fee	415,259 - 435,259	110,550	210,490
Non-audit services - Housing Benefit Certification Work	13,450	N/A	12,800
Non-audit services - Teachers Pension Certification Work	5,250	N/A	5,000
Total Fees	433,959 - 453,959	110,550	228,290

Notes on following page

Confirmation and analysis of audit fees

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 £64,381 for the Council and £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 and the new framework applicable to our value for money assessment. 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 amounts of £24,750 for the Council and £12,455 for the Pension Fund as the additional fees 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. For 2020/21, this has included an exceptional level of audit effort to address the additional risk of significant weakness relating to member and senior officer relationships reported in section 5 which, due to its nature, has had to be performed by the most senior members of the audit team. Audit resources have also been required to respond to a very high level of correspondence we have received during the course of the 2020/21 audit, response to the risks of misstatement of infrastructure assets and review multiple iterations of the going concern assessment due to the extended audit timetable. Due to uncertainty over the timing of concluding our audit, we have not yet finalised quantifying the additional fees which are commensurate with the additional work undertaken for the audit of the Council but estimate this will be in the range £170,000 to £190,000. We have quantified the additional fees commensurate with the additional work undertaken as £5,000 for the Pension Fund.
- 8) PSAA provided final additional fee determinations of £74,705 for the Council and £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.



09

Appendices

Audit approach update

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

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

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

We have tested each of these assertions substantively for all material balances included in the Balance Sheet.

Appendix B

Summary of communications

Date 	Nature 	Summary 
03/03/21	Meeting	The audit team met with the Council's internal auditors to discuss our respective audit plans for 2020/21 and matters of common interest.
14/04/21	Meeting	The audit team met with management to discuss developments during 2020/21, key audit issues and audit arrangements for our 2020/21 audit.
23/07/21	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
22/07/22	Report	The audit team presented our Draft Audit Results Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
05/12/22	Report	The audit team presented an update on management's progress against the value for money recommendations included in our draft auditor's commentary as part of the Draft Audit Results Report.
28/04/23	Report	The audit team will present our Final Audit Results Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.

In addition to the above specific meetings and reports, senior members of the audit team meet with the Section 151 Officer and senior finance staff every 6 weeks to discuss developments at the Council, the status of the audit and any emerging matters.

The senior members of the audit team have also held various meetings with senior officers, including the Section 151 Officer, Monitoring Officer and Chief Executive, during the course of the audit to discuss the risk of significant weakness in respect of member and senior officer relationships, our observations in this area and the Council's response to those observations. Members of the audit team have also met with members on several occasions, following requests from members.

The audit team also met on a weekly basis with members of the Council's finance team throughout the periods where detailed audit procedures were being performed, along with ad-hoc meetings on specific topics where deemed appropriate.



Appendix C

Required communications with the Corporate Affairs and Audit Committee

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





Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report (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; and ▶ Other matters, if any, significant to the oversight of the financial reporting process. 	Audit Results Report (this report)
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <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; and ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report (this report)

Appendix C

Required communications with the Corporate Affairs and Audit Committee




Our Reporting to you

Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether events or conditions constitute a material uncertainty related to going concern; ▶ Whether the use of the going concern assumption is appropriate in preparation and presentation of the financial statements; ▶ The appropriateness of related party 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)
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)

Appendix C

Required communications with the Corporate Affairs and Audit Committee




Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats; ▶ Safeguards adopted and their effectiveness; ▶ An overall assessment of threats and safeguards; and ▶ Information about the general policies and process within the firm to maintain objectivity and independence; <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report (July 2021); and</p> <p>Audit Results Report (this report)</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations; and ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report (this report)</p>
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 	<p>Audit Results Report (this report)</p>
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. 	<p>Audit Results Report (this report)</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	<p>Audit Results Report (this report)</p>

Appendix C

Required communications with the Corporate Affairs and Audit Committee

Our Reporting to you

Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)

Management representation letter

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

Management Representation Letter

[Date]

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

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council ("the Council") for the year ended 31 March 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 position of Middlesbrough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), that are free from material misstatement, whether due to fraud or error. 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.

Management representation letter (continued)

Management Representation Letter (continued)

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because *[management to specify rationale]*.

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

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

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

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

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

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

- ▶ involving financial improprieties;
- ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

▶ involving management, or employees who have significant roles in internal controls, or others; or

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council, Executive and Overview and Scrutiny Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates: *[TBC]* for Council, *[TBC]* for Executive and *[TBC]* for Overview and Scrutiny Board.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2021. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter (continued)

Management Representation Letter (continued)

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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

7. From 2 March 2021 through the date of this letter we have disclosed to you, to the extent that we are aware, (1) 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

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

E. Going Concern

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

F. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, 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 Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us (see section G).

I. Reserves

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

Management representation letter (continued)

Management Representation Letter (continued)

J. Use of the Work of a Specialist

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

K. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuations of land and buildings have taken into account all relevant information, and the effects of the Covid-19 pandemic, of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of land and buildings.
3. We confirm that the significant assumptions used in making the valuation of land and buildings appropriately reflect our intent and ability to carry out the Council's intentions on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the Covid-19 pandemic on valuation certainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of land and buildings.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the Covid-19 pandemic.

L. Retirement benefits

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

Yours faithfully,

Andrew Humble, Interim Section 151 Officer

Cllr Hubbard, Chair of Corporate Affairs and Audit Committee



Appendix D

Management representation letter (continued)

Management Representation Letter (continued)

Schedule of unadjusted differences

- ▶ An overstatement of income and debtors of £1,492k due to incorrect recognition of an invoice for Section 106 amounts raised in error;
- ▶ An overstatement of the valuation of Centre Square 2 of £693k due to a transposition error in the asset size used by the Council's external valuer;
- ▶ An overstatement of income and earmarked reserves of £549k due to double-counting of a Covid-related grant;
- ▶ An extrapolated overstatement of expenditure of £2,704k relating to non-recognition of prepayments for amounts relating to future periods; and
- ▶ An extrapolated overstatement of income of £2,897k relating to late recognition of amounts related to earlier period.



Appendix E

Commentary on value for money arrangements

We include below a copy of our commentary on the Council's arrangements for securing value for money from its use of resources. This commentary will also be included as part of our Auditor's Annual Report, which we intend to issue at the same time as our audit report.

Commentary of value for money arrangements

Scope and risks

We have complied with the NAO's 2020 Code (2020 Code) and the NAO's Auditor Guidance Notes in respect of VFM. We presented our VFM risk assessment to the 5 August 2021 Corporate Affairs and Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of minutes from the Council's committees and Section 151 Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team. We reported that we had identified one risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

Provision of Children's Services

We qualified our VFM opinion for the year ended 31 March 2020 in respect of the Council's provision of children's social care services following an assessment by Ofsted in December 2019 that services were inadequate. Following the Ofsted inspection, the Council put in place an Improvement Plan and subsequent reports by the appointed Commissioner for Children's Services in Middlesbrough and Ofsted supported that the Council has put in place appropriate governance structures to respond to the Ofsted findings.

Nevertheless, there remained a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during the year ended 31 March 2021.

We responded to this risk by making enquiries of management to understand the progress being made against the Improvement Plan and reviewing the findings of subsequent external assessments of the Council's Children's Services as third party evidence of the progress being made by the Council. Based on the insight gained from these procedures, we formed an assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that no significant weakness existed. Further details of our assessment are provided within the 'How the body evaluates the services

it provides to assess performance and identify areas for improvement' section below.

During the course of our audit, additional matters came to our attention which indicated a further risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021. We therefore recognised a further significant risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

Member and Senior Officer Relationships

During the course of our audit a number of matters were brought to our attention by management, internal audit, elected members and external parties which indicated potential weaknesses in the Council's governance arrangements and its ability to ensure Council policies and procedures were adhered to. We noted that a common theme to the matters brought to our attention were observations and concerns about strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. Based on identification of these matters and in accordance with the proper arrangements criteria set out in the 2020 Code, we recognised a risk that the Council did not "have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

We responded to this risk by following up on each of the individual matters brought to our attention through enquiries of management and the Council's internal auditor, review of reports and other documentation, including reports commissioned by management to investigate the more serious concerns raised and consideration of the consistency of the information obtained in the course of these enquiries with other information obtained during the course of our audit. Based on the insight gained from these procedures, we formed our assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that significant weaknesses did exist, and provide further details of these in the sections below.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Reporting

We completed our VFM arrangements work in [TBC] and identified a significant weakness in the Council's VFM arrangements in relation to member and senior officer relationships and the impact of these on the Council's governance processes. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report. We include within the VFM commentary below the associated recommendation(s) we have agreed with the Council.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- ▶ Governance
How the Council ensures that it makes informed decisions and properly manages its risks;
- ▶ Improving economy, efficiency and effectiveness
How the Council uses information about its costs and performance to improve the way it manages and delivers its services; and
- ▶ Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services.

Introduction and Context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a

governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Governance

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

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

The Council also has an Overview and Scrutiny Board whose role is to scrutinise the performance of Council functions and the decisions taken by Executive committees. The Overview and Scrutiny Board is supported by 7 Scrutiny Panels and a joint committee with Redcar and Cleveland Council, with each able to refer decisions back to the Executive for further consideration.

The Corporate Affairs and Audit Committee receives reports on the Council's internal control environment from internal and external audit and monitors the implementation of recommendations to address identified weaknesses.



Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

The Council's largest project during the year was the development of a specialist digital office space known as Boho X. The Council's Executive originally approved a 60,000 square foot design for this project in March 2019, before approving a revised 20-floor 100,000 square foot design in March 2020. Between March 2020 and August 2020, the design of Boho X changed again from the 100,000 square foot design to a revised 6-floor 60,000 square foot design. We have not sought to assess the merits of each Boho X design nor the strength of the evidence base informing them.

Under the Council's Constitution, elected members have no role in the delivery of projects, however changes in design were recorded by the external contractor as being approved by the Council's Mayor and followed meetings between the contractor and the Mayor which were held without Council officers being present. The changes in design were not submitted through the formal project change control process, as required by the Council's Programme and Project Management Framework (PPMF), and no meetings of the Internal Project Board were held during the period when changes occurred. The impact of the Covid-19 pandemic was cited by the Council as the reason for the change in design during public consultation and approval by the Executive of the revised design, however there is no documentation of the reasons for the change to support this assertion and the decision-making process remains unclear. Whilst the Council's Mayor understood that he had been authorised to discuss changes to the design with the external contractor by a senior officer, in our view the communication on which this was based did not explicitly provide such authority and such approval would in any event have been contrary to the Council's Constitution and the PPMF. It is therefore our assessment that there have been significant weaknesses in the Council's management of the Boho X project which undermine the Council's ability to demonstrate that the project represents value for money for taxpayers.

In addition to the changes in design for the Boho X project, we have identified several other transactions entered into by the Council during the year where Council policies and procedures were not followed and where a lack of adherence to the respective roles of officers and members was a key factor. These included the purchase of Covid-19 antibody tests which were not approved for use by the Medicines and Healthcare Products Regulatory Authority and therefore could not be used as the Council had intended, and the provision of political and

administrative support to the Mayor by an outside party. In both cases, concerns about the proposed transactions were raised by senior officers prior to the transactions being entered into however both subsequently proceeded without following the Council's proper procurement processes. Whilst the monetary value of these transactions was not significant in the context of the financial statements, they demonstrate that the weaknesses identified in the Boho X project were not a one-off and that there are wider weaknesses in the Council's arrangements in particular where reliant on appropriate working between officers and elected members.

We have also noted multiple further examples of difficult relationships between officers and members, and between members, across a number of areas in the course of performing our audit work. As part of our reporting on the Council's audit for the year ended 31 March 2018, we reported that:

"We have observed that the relationship between some Councillors and senior officers is strained. This appears to be due to a mutual level of mistrust. Officers consider that the level of challenge provided by some Councillors is excessive. Officers have also noted that they are required to spend disproportionate amounts of time on issues that, in their opinion, have been previously addressed. We note that concerns about the style of communication between members and officers have also been expressed that have resulted in Standards Committee action.

In contrast, some members consider that the information provided by officers, in relation to their challenge, is in some cases not adequate or is deliberately withheld, and as a result they are unable to make informed decisions. This has also led to members sharing concerns directly with internal and external audit regarding ongoing matters as a way to address their concerns, rather than being confident to address matters with the responsible statutory officers and ultimately the head of paid service."



Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Since 2018 there have been a number of changes to both the senior officers of the Council and to elected members. Despite these changes, our observations during the year ended 31 March 2021 are that a lack of trust is still pervasive within the organisation and is undermining the effectiveness of the Council's governance arrangements. In our view these are serious matters indicative of deep rooted cultural and relationship issues which require urgent action. This lack of trust extends beyond the relationships between officers and members to the relationships between members, in particular between the Council's Executive and other members. This in turn hinders efforts to improve the relationships between officers and all members, as officers feel they are regarded by members as 'taking sides' in areas of disagreement between members.

1. We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.

We consider that the Council needs to take this step as an immediate action and we will be following up on the Council's response to our recommendation over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations. This would require a formal public response from the Council and be notified to the Secretary of State.

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

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

Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council. A gifts and hospitality register is also maintained and available for public inspection.

Like many organisations, the Council is reliant on self-reporting by elected members and officers of any conflicts of interest, however we have identified a small number of instances where declarations made by elected members were either incomplete or inconsistent with previous declarations. We have also observed that there is a lack of trust between elected members that relevant interests are declared at decision making meetings, which contributes to a lack of confidence from some elected members in decisions being taken.

2. We therefore recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.

3. Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.



Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

As a local authority with a mayoral model, the Council is entitled to utilise its resources to appoint a mayoral political assistant. A mayoral political assistant is a local government employee who undertakes research and provides administrative support to the Mayor. The mayoral political assistant post is a politically restricted post, and there are strict rules set out within The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 which govern appointments to this post. These include that the role must be performed by an employee of the Council. The Council's mayoral assistant post has remained vacant since September 2019.

Between October 2019 and November 2020, the Council engaged an external advisor through a local publicity company, at a cost of £32,000, to work directly with the Council's Mayor. The Council has been unable to explain the exact nature of services provided by this external advisor, however it has accepted that they likely included activities which fall within the scope of the role of the mayoral political assistant. This arrangement was terminated in November 2020 after it was assessed by the Council to be unlawful under The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002. The payments made to the publicity company under this arrangement were therefore also unlawful, however we note they were not material to our opinion on the Council's financial statements.

The arrangement was entered into by the Council without following either the Council's recruitment policies, which would have applied to a permanent employee of the Council, or the Council's procurement policies, which would have applied to an external supplier. Payments to the publicity company were directly approved by the Council's Chief Executive despite the Council not being able to explain the nature of services received. Notwithstanding the lawfulness of the arrangement, by making payments to a supplier without understanding the nature of services being received in exchange for those payments the Council is unable to demonstrate that the payments represented value for money for taxpayers.

4. We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.

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

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

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

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

A number of the matters which have been brought to our attention during the course of our audit were also reported to senior officers and the Council commissioned several reviews by internal audit to respond to the matters raised. These included reports on the management of the Boho X project, the purchase of the Covid-19 tests and the completeness of member declarations of interest. In our view, the scope of this work was not always sufficient to provide assurance to management on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up on findings which indicated areas where additional risks may exist beyond the initial scope of work. Budget limitations were cited as a reason for this, however the reports produced did not highlight these areas for consideration of follow-up work by officers or the Corporate Affairs and Audit Committee. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.



Appendix E

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.

6. We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.

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

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

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

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

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

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

Financial performance against budget and updated forecasts for the remainder of the year are presented to the Council's Leadership Management Team and

Executive on a quarterly basis, along with proposals for corrective actions where required.

Improving economy, efficiency and effectiveness

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

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

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

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

Business intelligence dashboards are used by both Council leadership and service line management to monitor key performance indicators across the Council's services and track the implementation of previously agreed actions.

In January 2020, the Council's provision of childrens social care services was rated inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted), who noted that 'leaders have not sufficiently focused on the significant areas of weakness to ensure that the needs of children and care leavers are properly met'. Our value for money opinion in 2019/20, issued in accordance with the 2015 Code of Audit Practice extant at the time, was qualified in respect of this matter.

In response to the Ofsted findings, the Council implemented a Children's Services Improvement Plan. Delivery against this plan is overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

The appointed Commissioner for Children's Services in Middlesbrough issued a 12-month review of the Council's progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that "considerable progress has been made and there is evidence of real impact" and recommended that the Council be allowed to retain control of its Children's Services. The report did however note that the Council's Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children's Services can be considered as adequate in all regards.

Whilst we note that the Council's Children's Services are not yet consistently delivering the expected levels of performance, this reflects the status of the service at the start of the 2020/21 financial year. The Council's actions during the year to 31 March 2021, as assessed by the Commissioner for Children's Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2020/21 to deliver against the Improvement Plan. We do not therefore report a significant weakness in the Council's arrangements during the year ended 31 March 2021 in respect of the provision of Children's Services, however we will continue to monitor the Council's progress against the Improvement Plan.

The provision of childrens social care is a key financial pressure for the Council. Whilst the Council has invested additional resources in the delivery of the Childrens Services Improvement Plan, it is management's expectation over the medium term that the improvements in service delivery will ultimately decrease costs by more effectively meeting the needs of service users during the earlier, lower cost, stages of care.

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

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

Each partnership arrangement has a dedicated lead manager who is responsible for managing the partnership's performance and governance. A register is

maintained of all Council partnerships and the performance of significant partnerships is included in quarterly performance reporting to the Executive and Overview and Scrutiny Board.

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

Through the Multi-Agency Strategic Board and Multi-Agency Operational Board, the Council has worked particularly closely during 2020-21 with the Department for Education (DfE) and the DfE appointed Commissioner for Children's Services in Middlesbrough on the delivery of the Council's Childrens Services Improvement Plan.

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

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

The Council has a Strategic Procurement Strategy and Contract Management Framework which are used to provide a framework for the commissioning of services and evaluation of the services received under awarded contracts.

The monitoring of the performance received from suppliers is integrated into the Council's overall processes for monitoring the delivery of its services to service users, as detailed above.



Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Financial sustainability

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

The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following three years. Key inputs to this exercise include forecasts for pay and non-pay inflation, changes in the level of demand for the Council's services and changes in funding received from central government. The MTFP for 2021-24 also included consideration of additional costs and funding relating to the Covid-19 pandemic.

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

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

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

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding. For the 2021-22 budget, a budget gap of £1.626 million was identified.

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

The level of savings identified and incorporated into the Council's budget exceeds the required level of savings to provide additional buffer against the non-achievement of planned savings. For the 2021/22 budget, identified savings exceeded required savings by £0.695 million.

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

The impact of changes to the Council's financial plans are modelled through a minimum of 3 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle.

The Council aims to meet the costs of its day-to-day activities from available funding, but borrows for capital investment purposes. The impact of planned borrowing (i.e. interest charges) is incorporated into the Council's revenue budget and MTFP.

During 2020/21, management undertook a self-assessment against the CIPFA Financial Management Code, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Several actions were identified to strengthen the Council's processes, however no major weaknesses were noted.

Under the Council's constitution there is a clear delineation between the responsibility for setting the Council's strategic objectives, which sits with members and the Executive, and the responsibility for delivery of the operational activities which underpin the strategic objectives, which sits with officers. We have however identified multiple instances, as detailed above, where the involvement of members strayed into operational matters. We also note that where this occurred, it was often known to officers and insufficient challenge was provided to members on the boundaries of members' and officers' respective responsibilities. A lack of adherence to the delineation between strategic and operational responsibilities increases the risk that operational decisions are taken which are not optimal for the Council or the Council is unable to demonstrate represent value for money. Examples of this noted above include the Boho X project and the purchase of Covid tests.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

7. We therefore recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.

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

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

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

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

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

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures. During 2020-21, management released a previously held Investment Fund Reserve to offset the impact of the Covid-19 pandemic on the Council's finances.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal

activities. During 2020/21, the Council increased this minimum level from £9.4 million to £11 million, effective from 2021/22, to reflect higher uncertainty in the Council's financial projections, including the ongoing impact of the Covid-19 pandemic. At 31 March 2021, the Council's General Fund balance was above the £9.4 million minimum level in effect for 2020/21 at £10.5 million and is forecast to increase to the revised minimum level of £11 million during 2021/22.

The Council's MTFP produced during 2020/21 included a balanced budget for 2021/22 and indicative budgets for 2022/23 and 2023/24. The MTFP forecast a budget deficit of £0.6 million in 2022/23, which the Council intends to finance from reserves, and a budget deficit of £3.1 million for 2023/24 which the Council will need to address in future MTFPs.

Management responses to our recommendations

What was the recommendation?	What is management's response?	What is the timescale?
<p>1. We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own.</p>	<p>The Council has proposed, within the draft Annual Governance Statement, that a Corporate Governance Improvement journey is commenced. It is intended that this will be informed by the views of external specialists, CIPFA, who have been commissioned to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration.</p> <p>In order for this to be successfully delivered, it will require full buy in from all stakeholders in this process. There is a significant risk that this action cannot be achieved if this is not gained. This is reflected within the Annual Governance Statement and has been highlighted to EY.</p>	October 2022
<p>2. We therefore recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.</p>	<p>Refresher training on the code of conduct was provided to members during 2021/22 (27/9/21). 21 members attended that training. Training also included ethics within public life. Following the event the training presentation was emailed to all Councillors</p>	Complete
<p>3. Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.</p>	<p>Member refresher training was delivered during 2022 on the code of conduct and included information on hospitality requirements and registers of interests. A separate micro session was also delivered on members interests on 22 Sept 21. As standard materials from all training events is sent out to all councillors.</p> <p>While it is an Elected Member's sole responsibility to ensure that they appropriately declare interests, the Council will undertake periodic spot checks on a risk based basis at least three times a year of one or more Members' declarations during 2022/23 to assess whether there are ongoing compliance issues.</p>	March 2023



Appendix F

Management responses to our recommendations

What was the recommendation?	What is management's response?	What is the timescale?
4. We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.	The council will consider the findings of the pre-formal fact finding to date and use this to propose a scope of reviews that will test similar arrangements to those that were within the scope of the pre-formal fact-finding. This will be embedded within the Internal Audit programme for 2022/23.	March 2023
5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.	<p>The Council has recently refreshed its approach to Risk Management and tasked all senior officers to review existing risks. This is an ongoing exercise.</p> <p>Senior Managers will consider whether risk has been fully identified as part of steps in response to recommendations and to establish whether there are additional areas of Council business that that require further governance review.</p> <p>Risk register content is available to LMT on the dashboard, performance against existing risk is presented on a monthly basis and risk register content is reviewed regularly within the quarterly performance report. The Q1 process will include an assessment of risk changes as a result of the VfM judgement and the update of the Annual Governance Statement.</p>	August 2022
6. We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.	Management will work with Veritau to build the highlighting of identified wider risks into the audit reporting process. The reporting of these risks will then be built into regular Internal Audit updates to Corporate Affairs and Audit Committee.	October 2022



Appendix F

Management responses to our recommendations

What was the recommendation?	What is management's response?	What is the timescale?
<p>7. We therefore recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.</p>	<p>There is a planned action within the Annual Governance Statement to complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers during 2022/23.</p> <p>This is supplemented by training already delivered during 2021/22 on roles and responsibilities in a range of corporate governance areas:</p> <ul style="list-style-type: none"> ▶ Refresher senior leadership development work programme delivered by the Local Government Association to ensure officer and member roles continue to be understood and adhered to. <p>And other training planned for delivering during 2022/23:</p> <ul style="list-style-type: none"> ▶ Refreshed training approach to ensure senior officers training encompasses the full suite of corporate governance training; ▶ Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers; ▶ Refreshed and strengthened training to officers delivering projects to ensure project and wider Council decision making governance is understood and adhered to; ▶ Delivery of training to all Members on roles and responsibilities in relation to Programme and Project Management; ▶ Delivery of training for Senior Officers on the officer code of conduct and the provision of effective advice and challenge; ▶ Complete mandatory refresher training on the officer and member protocol within Middlesbrough Council's constitution for all members and senior officers. <p>The Council has also commissioned CIPFA to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration. As a result of this work, it is likely that further training needs will be required to drive required culture changes that are needed.</p>	<p>Various - as reflected in the Annual Governance Statement</p>

Teesside Pension Fund Audit Results Report

Year ended 31 March 2021

September 2022

Recirculated April 2023

Page 91

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

Building a better
working world



Private and Confidential

08 September 2022

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Corporate Affairs and Audit Committee. This report summarises our 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.

A handwritten signature in black ink, appearing to read 'H. Rohimun'.

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 96
In 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.

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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
	<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 122	<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)

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

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ey.com

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

27th April 2023

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Middlesbrough Council ("the Council") for the year ended 31 March 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 position of Middlesbrough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor due to either their size, nature and/or the potential reinstatement work involved.
6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

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

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Executive and Overview and Scrutiny Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates: 26 April 2023 for Council, 18 April 2023 for Executive and 18 April 2023 for Overview and Scrutiny Board.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2021. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 2 March 2021 through the date of this letter we have disclosed to you, to the extent that we are aware, (1) 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not

they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Going Concern

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

F. Subsequent Events

1. Other than the decision to wind-up Middlesbrough Development Company as described in Note 5 to the financial statements, there have been no events, including events related to the Covid-19 pandemic, subsequent to the 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 Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us (see section G).

I. Reserves

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

J. Use of the Work of a Specialist

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

K. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuations of land and buildings have taken into account all relevant information, and the effects of the Covid-19 pandemic, of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of land and buildings.
3. We confirm that the significant assumptions used in making the valuation of land and buildings appropriately reflect our intent and ability to carry out the Council's intentions on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the Covid-19 pandemic on valuation certainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of land and buildings.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the Covid-19 pandemic.

L. Retirement benefits

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

Yours faithfully,

Andrew Humble, Section 151 Officer

Cllr Hubbard, Chair of Corporate Affairs and Audit Committee

Schedule of unadjusted differences

An overstatement of income and debtors of £1,492k due to incorrect recognition of an invoice for Section 106 amounts raised in error;

An overstatement of the valuation of Centre Square 2 of £693k due to a transposition error in the asset size used by the Council's external valuer;

An overstatement of income and earmarked reserves of £549k due to double-counting of a Covid-related grant;

An extrapolated overstatement of expenditure of £2,704k relating to non-recognition of prepayments for amounts relating to future periods; and

An extrapolated overstatement of income of £2,897k relating to late recognition of amounts related to earlier period.

Ernst & Young
2 St Peters Square
Manchester
M2 3DF

27 April 2023

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 local authority code, and are free of material misstatements, including omissions. We have approved the financial statements.¹

¹ ISA 580.10, ISA 210,6(b)(i)

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.² 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 and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls
6. We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.³ We have not corrected these differences identified and brought to our attention by the auditor because they are not material.

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.⁴
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.⁵
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. 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

² ISA 580.22, ISA 210.6(b)(ii)

³ ISA 450.14

⁴ ISA (UK) 240.39(a)

⁵ ISA (UK) 240.39(b)

- 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.⁶

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.⁷
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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.⁸⁹
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date 17 April 2023.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.
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

⁶ ISA (UK) 240.39(c),(d), and ISA (UK) 250A.16

⁷ ISA 580.11(a), ISA 210.6(b)(iii)

⁸ ISA 580.11(b)

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.¹⁰

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

E. Going Concern

1. Note 1 to the financial statements discloses 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. Other than the 31 March 2022 triennial valuation described in Note 21 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.¹¹

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.

H. Independence

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

I. Derivative Financial Instruments

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

¹⁰ ISA 501.12

¹¹ ISA 560.9

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

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the actuarial valuation and the 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

Pooled Investment Vehicles, Property Valuations, and the Actuarial Valuation

1. We confirm that the significant judgments made in making the above estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates. .
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out the financial statement preparation on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
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 , including due to the COVID-19 pandemic.

N. Climate-Related Matters

1. Whilst recognising that the Climate Change Governance and Reporting Regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of

climate-related matters has been considered, as well as the impact resulting from the commitments made by the Fund, in the financial statements.

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

Yours faithfully,

Andrew Humble, Interim S151 Officer

Cllr Hubbard, Chair of Corporate Affairs and Audit Committee

Appendix 1: Uncorrected Misstatements

Communication schedule for uncorrected misstatements

Communication schedule for uncorrected misstatements												
Entity:		Teesside Pension Fund			Period Ended: 31-Mar-2021			Currency: GBP				
Uncorrected misstatements			Analysis of misstatements Debit/(Credit)								Income statement effect of the prior period	
No.	W/P ref.	Account (Note 1)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period		Prior period Debit/(Credit)	Non taxable
		(misstatements are recorded as journal entries with a description)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit) (Note 2)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable		
	21 TPF Pooled Investment Vehicles	When agreeing pooled investment vehicles to investment manager confirmations we identified a total net understatement of £26.4m.		26,400,000					(26,400,000)			
Total of uncorrected misstatements before income tax			0	26,400,000	0	0	0	(26,400,000)	0		0	
Total of uncorrected misstatements			0	26,400,000	0	0	0	(26,400,000)	0		0	

Middlesbrough Council - Statement of Accounts 2020/21



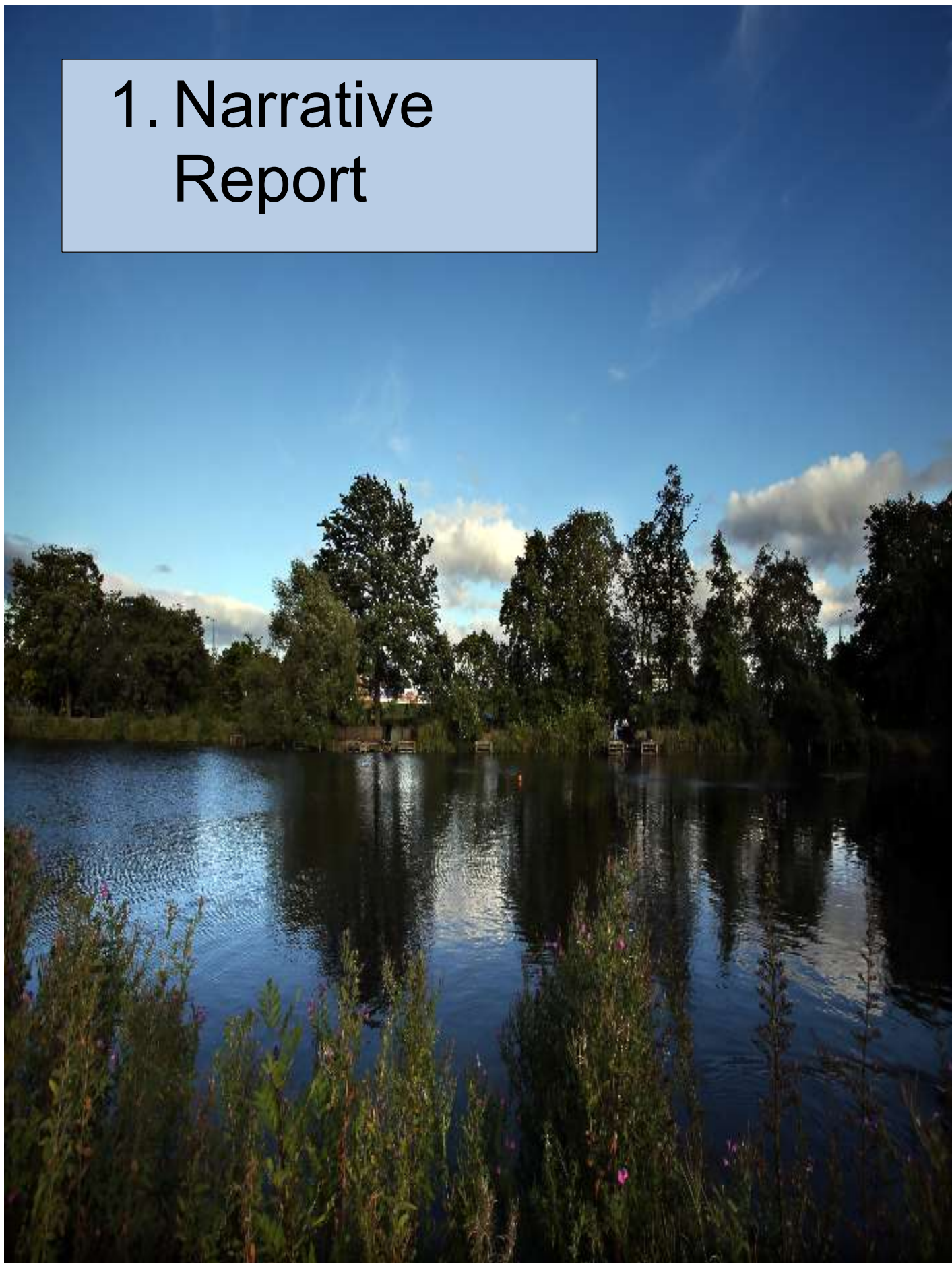
Covid-19 Vaccination Bus – Central Middlesbrough

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1. NARRATIVE REPORT AND WRITTEN STATEMENTS	2. CORE FINANCIAL STATEMENTS	3. NOTES TO THE ACCOUNTS	4. COLLECTION FUND	5. TEESSIDE PENSION FUND	6. ANNUAL GOVERNANCE STATEMENT	7. GLOSSARY OF TERMS
Narrative Report	Movement in Reserves Statement	Detailed Notes to the Accounts	Income and Expenditure Account	Pension Fund Statement of Accounts		
Independent Auditors report – Middlesbrough Council	Comprehensive Income and Expenditure Statement		Notes to the Collection Fund	Notes to the Pension Fund		
Independent Auditors report – Teesside Pension Fund	Balance Sheet					
Statement of Responsibilities Middlesbrough Council	Cash Flow Statement					
Statement of Responsibilities – Teesside Pension Fund						
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The Statement of Accounts for Middlesbrough Council provides an overview of the Council's financial position at 31 March 2021 and a summary of its income and expenditure during the 2020/21 financial year. The accounts are, in parts, technical and complex as they have been prepared to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) as prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, and International Financial Reporting Standards. The accounts are available on the Council's website: www.middlesbrough.gov.uk under Open Data; Annual Report and Statement of Accounts.

1. Narrative Report



Albert Park Lake

Narrative Report

Review of the Year

Middlesbrough Council is a large and diverse public sector organisation. The aim of this Narrative Report is to provide both guidance and context to the accounts, presenting a summary of the Council's financial position, financial performance and non-financial activities for the year, its prospects for future years and briefly explaining the key accounting statements. A separate summary of accounts document is also available this financial year to ensure that the information in the Statement of Accounts is as accessible as possible, and this is available via the Council's website (www.middlesbrough.gov.uk).

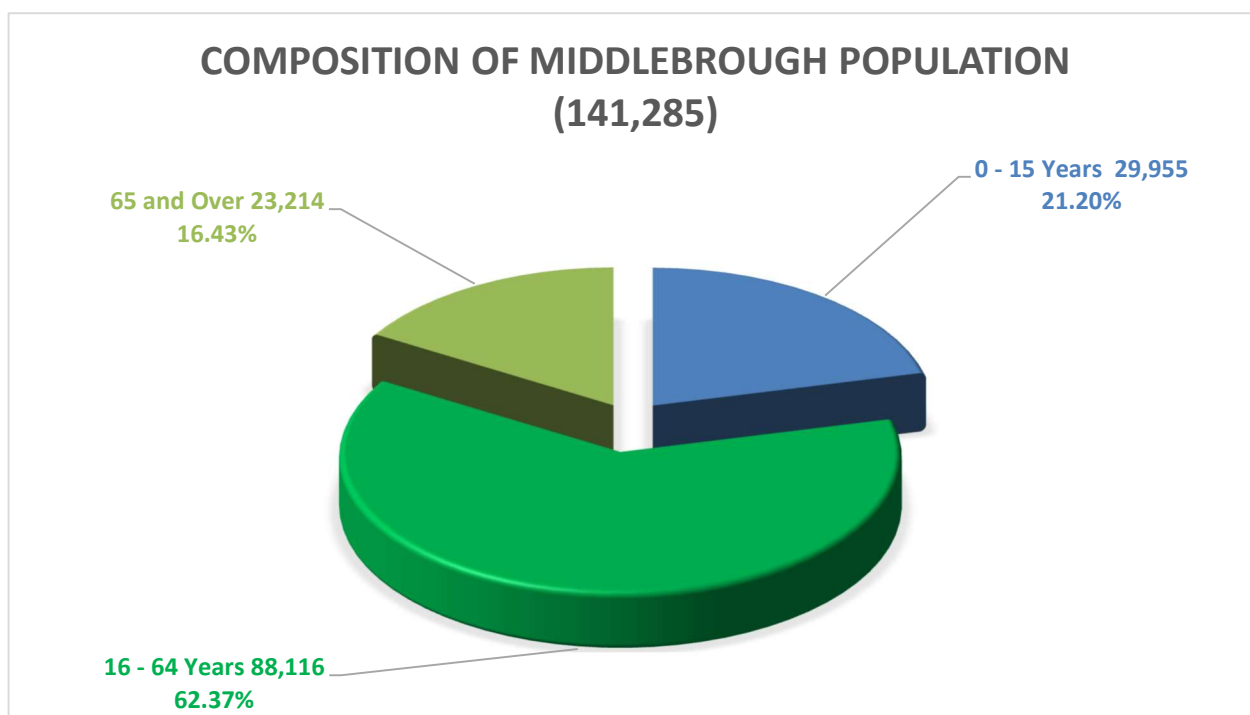
At 31 March 2021, the United Kingdom was starting to emerge from an unprecedented public health pandemic due to Covid-19 following an arduous 12 months with four specific periods of lockdown restrictions. Although most of the long-term effects of the virus are at present still difficult to forecast, a return to normal now seems possible in the latter part of 2021, largely due to the success of the UK vaccination programme. The Narrative Report and the Statement of Accounts will aim to give the appropriate context as to how the Council responded to the pandemic and what impact it has had on the Council's financial position and performance during the year. It will also consider its future prospects given that a number of local authorities have reported financial problems expected in the short to medium term.

Background to the Council

Middlesbrough Council came into existence following the abolition of Cleveland County Council in 1996. It is a unitary local authority providing a range of services to the people of Middlesbrough.

The Council works with local residents, businesses, public sector partners and the voluntary and community sector to improve local social, economic and environmental wellbeing for all and to secure the long-term sustainability of the town. It is one of the largest employers in the Tees Valley area, providing work for more than 3,000 people.

Population and Related Economic Statistics



Source: Office of National Statistics Mid-Year Estimates 2020

The composition of the local population drives the focus of the services provided by the Council most notably through increasing demand for Children’s and Adult Social Care. In recent years, there has been a greater focus on economic growth, particularly in relation to the town centre, and housing.

Economic data from Nomis Official Labour Market Statistics for the period January 2020 – December 2020 shows the following:

	Middlesbrough	North East	Great Britain
Gross Weekly Pay (Median)	£517.50	£523.50	£587.10
Unemployment rate (16 – 64) (as proportion of economically active)	7.3%	6.4%	4.6%

The Council’s various strategies are set around meeting the needs of its residents driven by the demographic profile of the town.

Political Structure in 2020/21

The local government elections of May 2019 created real change in the town as it was the first time since its creation in 1996 that the Labour Party has not held control at the Council. This is the second financial year under the leadership of the independent Mayor, Andy Preston, who has developed a new Strategic Plan and ambitions for the Town, supported by Executive Members

The Executive is the Council's principal decision making body, considering significant issues in connection with, for example, community safety, leisure, education, social services, highways and the environment as well as making recommendations to Council on the annual revenue budget and investment strategy. The Council had an independent led administration during 2020/21 with a Labour member as Chair of the Overview and Scrutiny Board, which scrutinises the work of the Executive.

Meetings of the Executive took place every four weeks chaired by the Mayor with each member of the Executive having designated responsibilities (known as portfolios). These were undertaken virtually from June 2020 to March 2021. Meetings have returned to in person where required from mid-May 2021.

Middlesbrough Council consists of 20 wards with between one and three Councillors representing each ward. All councillors serve a maximum four-year term. The political make-up of the Council at 31 March 2021 was:

Elected Members	47
Mayor Andy Preston (Independent)	1
Middlesbrough Independent Councillor’s Association	10
Middlesbrough Independent Group	13
Labour	18
Conservative	3
Independent	2

The 2020/21 financial year has been a unique one for the Council with the ongoing Covid-19 pandemic plus it being the first full year of the new Mayor’s Strategic Plan and priorities. Much of the first half of the year was based on the Council’s response to the first lockdown ensuring that public services continued in a safe and reliable way. There was then particular focuses on distributing grants to businesses to ensure these stayed viable whilst they were closed due to the government restrictions, and with supporting the vulnerable in the community – many of whom had to shield or were out of work. The Strategic Plan was updated because of the expected long-term impact of Covid-19 on the Town and many of the priorities have had to be revised to take into account the recovery process from the pandemic. The Council’s Medium Term Financial Plan was revised on a regular basis as the financial impact was quantified and central government introduced new funding streams and initiatives.

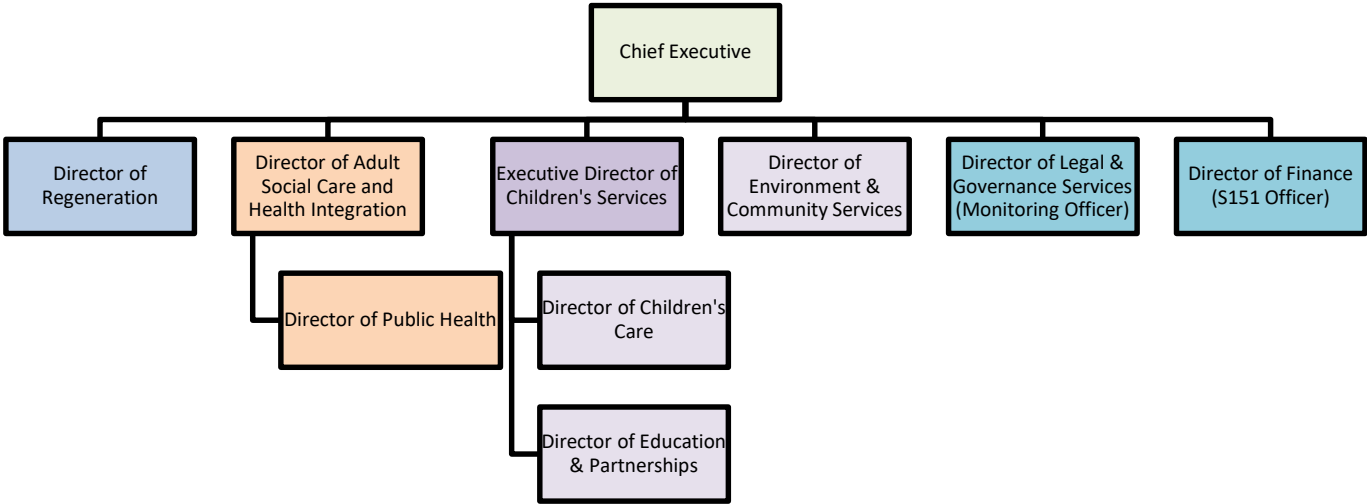
The Executive as the main decision making body were also relatively new in their posts with limited local government experience in comparison with the previous administration. 2020/21 was a learning year for the Council and this been significantly influenced by the impact of Covid-19.

It should also be noted in May 2021, just after the end of the financial year, that five of the six members of the Executive who had been in post since May 2019 resigned due to some allegations of impropriety against the Mayor. These have been refuted, are currently being investigated by Officers and will be dealt with via the appropriate process if required. The Mayor has recruited a number of new Executive Members and continues to lead the Council and make decisions. The Members who resigned continue to act as ward councillors and backbenchers within the Council

Management Structure

Leadership Team

The senior management structure of the Council at 31 March 2021 is set out below:



During June 2020, the Chief Executive implemented a restructure of Leadership Management Team (LMT) following the departure of the Strategic Director of Finance, Governance and Support and the redundancy of the Executive Director of Growth & Place. The Strategic Director (Section 151 Officer) was replaced by a Director of Finance post covering a narrower portfolio of duties. The Executive Director post was not replaced and instead its direct reports, the Director of Regeneration and Director of Environment & Community Services, took on some of these duties. These are also now line managed by the Chief Executive.

The Mayor’s Ambitions for Middlesbrough and the Strategic Plan

Andy Preston is the Mayor and first citizen of Middlesbrough for the period 2019-2023. 2020/21 is the first full year of the Mayor’s Strategic Plan, which was developed during 2019 and agreed by Council in February 2020. In February 2021, the Plan was refreshed to reflect the impact, of Covid-19 and the UK’s exit from the European Union, on Middlesbrough and on the Council’s strategic priorities.

Mayor’s Priorities (2020-2023)

The current Strategic Plan is based around the following key themes, with specific Mayoral priorities within each theme:

- People – Working with communities and other public services to improve the lives of our residents.
- Place – Securing improvements in Middlesbrough’s housing, infrastructure and attractiveness, improving the town’s reputation, creating opportunities for local people and improving our finances.
- Business – Promoting investment in Middlesbrough’s economy and making sure we work as effectively as possible to support our ambitions for People and Place.

This Plan is the Council's overarching business framework, outlining how they contribute to delivering the Mayor's priorities. There is a 'golden thread', which runs from this document through the rest of the Council's governance and policy frameworks. Progress against the plan is reviewed on a quarterly basis and reported to both Executive and Overview & Scrutiny Board.

Investment Strategy for Middlesbrough

An update of the Medium Term Financial Plan (MTFP) was presented to Council on 26 February 2020; the report included the £142.3m million Investment Strategy for Middlesbrough for the period 2020/21 to 2022/23, supported by £99.0 million of the Council's own resources. The investment will support a number of major regeneration schemes plus supporting the town centre and growing affordable housing in the immediate vicinity.

- Acquisition of Town Centre properties;
- The construction of the two new major Boho buildings (8 & 10);
- The development of new housing in the town via Middlesbrough Development Company;
- Affordable Housing & Housing Growth Schemes;
- East Middlesbrough Community Hub;
- A66 Throughabout; and
- The development of Middlesbrough rail and road connectivity.

Customer Strategy Programme

The vision of the Council's Customer Programme is to transform delivery of services to the community & customers, providing everyone with excellent service and access to self-serve through an extensive range of channels and platforms.

The Council's ambition is for a customer-owned culture, with self-serve facilities, improved payment facilities and transactional online services. This will be underpinned by a simple, service led and driven website and intranet, with straight-to-the-point e-forms, all underpinned by a knowledge-based customer relationship management system, reducing the need for face to face contact. Customers will experience an overall improvement and flexibility in their choice of how to access Council services and the drive for 'digital by default' will increase access to Council services as a result.

Our Values

Our Values are a critical element of the Council's strategy to create a brighter future for Middlesbrough. Our Values are at the heart of everything we do and form the foundation for how we operate, behave and make decisions.

Our Values:

- Passionate - We believe in Middlesbrough and are proud about the Town;
- Integrity – We are open and transparent and treat everyone with respect;
- Creativity – We have the courage to try new ideas and new ways of working;
- Collaboration – We work with others to make Middlesbrough better; and
- Focus – We are clear about what we will deliver to meet the needs of the Town.

Performance

The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance, together with associated action and a quarterly reporting process gives them the necessary information to discharge these responsibilities.

The Council uses a narrative update approach to measure performance during each quarter of the financial year and any issues. Although most priorities are broadly on track in terms of the Mayor's initial ambitions, these have needed to be flexible and revised due to the pandemic and the changing levels of the virus in the Middlesbrough area. The recovery aspect of the Covid-19 response has been integrated as part of the Council's strategic priorities going forward in the newly agreed 2021-24 plan.

Below are the main priorities that were monitored by the Executive during 2020/21. These were set in February 2020 and were part of the Strategic Plan of the Council for 2020-23.

Tackling crime and anti-social behaviour head on

The impact of Covid-19 on crime and anti-social behaviour (ASB), both nationally and within Middlesbrough, remains significant. At 46.2 incidents per 1,000, the combined recorded crime and ASB measure in Middlesbrough showed a 14% decrease at the end of Quarter Four 2020/21 from the end of Quarter Three. The rate at Quarter Four was also 7% below the rate for the same period in 2019/20, and 14% lower than 2018/19

The Council continues to implement a range of actions to tackle crime and anti-social behaviour in the town in partnership with Cleveland Police and other agencies, with street wardens issuing 1,281 warnings and 303 Fixed Penalty Notices in total during 2020/21. January and February 2021 saw a crackdown on properties involved in drug dealing in Newport ward.

Concern about the potential longer-term impact of Covid-19 on mental health and substance misuse has been well reported nationally. The new commissioning model for complex needs launched in April 2021 will seek to address these issues by improving outcomes for people with complex, multiple needs.

Ensuring Middlesbrough has the very best Schools

The Department for Education has announced that exams in 2021 will not go ahead as normal due to the ongoing pandemic. As in 2019/20, GCSEs, AS and A Levels will be awarded grades based on teacher assessment.

Outwood Academy Riverside, Middlesbrough's first new secondary school in a generation, moved into its new temporary base at Russell Street during February 2021. Work on the school's permanent campus next to Middlesbrough College is due to start early next year, and it is expected to open in early 2024.

During Quarter Four, Middlesbrough pledged to be the first town or city in the UK to ensure every child will have access to an internet device to support their education. The Council will spend £350,000 on laptops and tablets to support more than 1,000 children.

Ensuring our Town is an absolute leader on Environmental Issues

In Quarter Four Middlesbrough was named a "Tree City of the World" by The Arbor Day Foundation and the Food and Agriculture Organisation of the United Nations in recognition of its commitment to urban forestry.

On 1 September 2020, the Executive approved consultation on the adoption of an emerging Green Strategy to deliver on the Council's obligations to address climate change.

Household recycling levels are lower than the national and regional average in the Town. The Council continues to provide targeted education and training to the local community to try to encourage greater levels in line with government priorities and targets.

Promoting the welfare of and protecting our children, young people and vulnerable adults / Transforming Children's Services

The Child Protection (CP) Plan rate rose from 178.4 per 10,000 to 201.6 at Quarter Three, while the rate of children looked after (CLA) by the Council decreased from 204.0 per 10,000 at Quarter Two to 194.5. This increase in CP is an ongoing trend, at year-end 2019/2020 it was 116.5 per 10,000. While the decrease in the rate of CLA by the Council is positive, both CP and CLA rates continue to be the highest in the North East.

The declining rate of children looked after by the Council since its high of 211.0 per 10,000 in July 2020 can be attributed to improvement work being undertaken within the Children's Care services. Following the OFSTED inspection, thresholds have been reviewed and re-aligned, and new strategies to help reduce the number of children in care are starting to bear fruition, examples of which are detailed below. A good indicator that improvement work is having results can be seen when comparing our figures with

those of other local authorities, where they are seeing a continuing rise in CLA.

The continuing increase in the rate of children subject to CP also demonstrates a re-alignment of thresholds, and the continuing efforts of the Council to ensure that children receive the right level of support for their needs. Schools have reported a greater level of complexity in cases, partly due to the lack of available earlier interventions during the first national lockdown, which prevented the escalation of risk. One third of assessments completed have domestic abuse as a factor, due to a higher level of need presented, which reaches a social care threshold due to lockdowns and a reduced early intervention offer.

Working with communities to improve local health and wellbeing / Joining up health and social care

The Council has developed a health inequalities toolkit to support Covid-19 recovery planning and ensure proper consideration was given to the impact the virus has and will continue to have on groups and individuals. This toolkit was approved during Quarter Three, and Health Scrutiny Panel has acknowledged it as a key tool for developing inclusive economies. Advanced public health practitioners have been allocated to support each of the recovery work streams in the identification and mitigation of health inequalities as part of recovery.

In addition, a community champion's model was established, with 41 community champions recruited covering a range of targeted groups, and a citizen-led approach to local communications adopted, with 21 grants of up to £5,000 issued to develop tailored messaging around testing, self-isolation and vaccination for targeted groups.

The Council is also continuing to provide support to the health and social care sectors. During Quarter Three, it has worked closely with the NHS to support hospital discharges as part of efforts to ensure the NHS is not overwhelmed by cases during the current wave of the pandemic. It is also continuing to act as a co-ordinator for PPE supplies for the care sector, and education.

Working with local communities to redevelop Middlesbrough's disadvantaged estates

Locality working is now operating in both the areas agreed by the Executive during Quarter Two, with a small number of operational staff physically using the locality hubs and a wider multi-agency team working remotely. A strategic Design and Implementation Group is meeting monthly to oversee the development of action plans based on community-led priorities.

Community involvement work has been delayed by the current Covid-19 lockdown however; communication with key community members has enabled locality managers to plan community projects that will resume as soon as restrictions lift. In addition, significant work has taken place in Newport linked to 'safer streets' and this is having positive impacts on the neighbourhood.

Transforming our Town Centre

Town centre footfall decreased by 11% in Quarter Three from Quarter Two (from 2,610,000 to 2,311,000). The decrease was primarily driven by reduced footfall in November, at just under half a million. Footfall in December, with Christmas and late night shopping, increased to 1,048,000 – the highest monthly figure since recording commenced in February 2020. However, the continued closure of some premises, national consumer confidence and most particularly the continued absence of the office-based town centre workforce will continue to have an impact on footfall within the town centre.

Building more Town Centre homes – and protecting our green space

137 houses were completed during Quarter Four increasing performance from 35% to 37.1% of the overall Investment Prospectus target. Also in the final quarter of the year, Middlesbrough received an allocation of £14.1 million from the Future High Streets Fund. This will help to boost the town's population and create a regional leisure hub. The Council's bid also envisaged 650 new town centre homes for around 1,500 residents, with retail space converted to ensure the town has the right mix to attract footfall and spending. Investment will also be channelled to key projects including the old Town Hall, the Captain Cook pub, the replacement for the Southlands Centre and Captain Cook Square.

Making Middlesbrough look and feel amazing

The 20-week initiative to purge Middlesbrough's potholes was successfully completed during the final quarter of the year. The scheme repaired 5,350 defects (equivalent to 26,750 individual potholes), with 13,898m² patches completed and 17,663m² of carriageway surfacing undertaken by the Council's main contractor. Street cleanliness also improved significantly during 2020/21 with the proportion of sites inspected classed as acceptable increasing to 93%, up from 88.5% in the previous year.

Implementing our Cultural Strategy

The Council's performance venues remained closed for all of the year in line with Covid-19. However, Middlesbrough Mela 2020 received national recognition, being named as a winner in the 'Best Online Mela' category by the UK Bhangra Awards 2020. The impact of Covid-19 on the Council's culture ambitions will continue to be a key focus of its Recovery Plan when activity is resumed.

Improving Middlesbrough's Rail Connectivity

A £35m local partnership has been formed to transform Middlesbrough train station, with support from rail operators. The scheme will deliver more train services to the town, including a direct rail link to London, platform extensions to accommodate longer trains and major customer service improvements. It will be a major contributor to the regeneration of the surrounding area, with accompanying business units on Zetland Road. Works commenced in January 2021 with the extension of platform 2.

Developing Middlesbrough as a residential, leisure & commercial centre

The £2.3 million Boho 8 project – the latest element of the hugely successful Boho quarter and the first development within Middlesbrough's Digital City project – was completed in January 2021. Plans for Boho X, the flagship project for the digital area with funding from the Tees Valley Combined Authority was also developed further. The Boho Village project (in partnership with Middlesbrough Development Company) to build 61 new apartments in Middlehaven also started on site at the end of March 2021.

Plans to build an urban farm in an historic part of Middlesbrough were approved in Quarter Four. The farm will provide a street café and shop selling produce grown on site, and facilitate the creation of jobs for local people.

Winning investment and creating jobs

Commercial and housing investment in Middlesbrough remains in line with targets, with 54.8% (£342,286,853) of the overall Investment Prospectus targets achieved at the end of the quarter – up from 52.2% (£326,086,853) at the end of Quarter Three. As with previous quarters, the rate of growth remains low given the ongoing pandemic.

The number of new jobs attributable to the Investment Prospectus increased to 33.3% (1,666 total jobs) of the overall Investment Prospectus target (up from 26.2% / 1,354 jobs at the end of Quarter Three), driven by the new jobs brought by companies moving into Middlesbrough Centre Square offices.

The rise in unemployment as a result of Covid-19 poses a significant risk to living standards – claimant count in Middlesbrough has been steadily rising since December 2020, where it was at 10%, and has increased to 10.5% at the end of Quarter Four – 3.3% higher than the regional average.

Introducing a new era of openness and transparency

During 2020/21, the Council continued to ensure its democratic processes were accessible to the public by broadcasting all formal committee meetings. Following the cessation of regulations to enable remote committee meetings to be held, the Council reverted to in-person meetings from the end of Quarter Four.

Over 1,225 datasets are now available on the Council's Open Data site. The site continues to be refreshed on a weekly basis with additional data added in response to requests from residents, members, regulators, and others.

Creating positive perceptions of our Town on a national basis

A Marketing and Communications Delivery Plan for 2021-23 was finalised during Quarter Four, and is

now in place. The delivery plan was presented to the Corporate Management Team and the Ad-Hoc Scrutiny Panel during Quarter Four for their views. Alongside priority work relating to Covid-19, the Marketing and Communications team continued to concentrate on media activity linked to the Council's strategic priorities.

Being recognised as a good Employer

Employee sickness absence decreased from an average of 4.7% of working time at the end of Quarter Three to an average of 4.4% during Quarter Four. At the same point in 2019/20 this stood at 4.3%.

The Council continues to support its workforce through the pandemic via the provision and effective utilisation of remote working technologies and a range of individual support initiatives, including face-to-face counselling. While under current restrictions, employees must work at home wherever possible, an exceptions process is in place to allow employees access to office space in view of their household & personal circumstances, subject to a robust managerial risk assessment. Taking into account illness from Covid-19, the 2020/21 sickness figures strongly suggest enabling home working has had a positive impact on employee health and wellbeing, and this will inform the Council's future working arrangements.

Directorate Achievements

Regeneration

- Provided 3,389 separate Covid-19 related business grants totalling £15.3m.
- Successfully letting 78% of the available space in Centre Square buildings 1 and 2.
- Successfully letting 59% of the available space at Tees Advanced Manufacturing Park with a further 27% completing in 2021/22.
- Acquisition of the Captain Cook Shopping Precinct.
- Securing £44,000,000 of Governments grants from the Towns Fund / Future High Street Fund / Brownfield Housing Fund for a number of regeneration initiatives including:
 - Repurposing of the Captain Cook Shopping Precinct into a high quality leisure destination
 - The creation of 1,200 houses / apartments in and around the town centre / Middlehaven
 - Contribution to the expansion of Middlesbrough College campus
 - Contribution to the creation of community facilities at Nunthorpe and East Middlesbrough.
- Completion of the Boho 8 building, providing 10,000 square feet of high quality office space for the expanding digital sector.
- Supported the cultural partnership to work with over 450 artists and bring in over £1million fundraised income.
- Raised significant funding for Middlesbrough Mela through a new strategic relationship with Tees Valley Community Foundation.

Environment and Community Services

- The Locality Working model was launched within Newport & North Ormesby wards, resulting in multi-disciplinary teams from the Council, Cleveland Police, Cleveland Fire, and Thirteen being co-located within the communities. This joint working and collaborative approach has led to improved community cohesion, improved health, safety, local economy and outcomes for children.
- Significant works to improve security and safety by the installation of CCTV units in various locations in addition to the development of a new alley gate management system.
- Adoption of a new approach to tackling environmental crime by creating the "flying squad" and increasing enforcement, resulting in a rise in prosecutions and a reduction in fly tipping.

- The Urban Tree Planting scheme has resulted in the planting of 1,200 trees throughout the town.
- The Highways service carried out a “Pothole Purge” to improve road conditions in each ward within the town.
- Completion of flood alleviation initiatives at Saltersgill and Marton West Beck in conjunction with the Environment Agency.

Public Health and Public Protection

- Built a community champions model as part of our Covid-19 response and secured £480,000 national funding to expand and develop this approach.
- Secured up to £5m investment over 3 years across local authorities and police to take a whole system approach to tackling drug related deaths and other associated issues through Project ADDER (Addiction, Diversion, Disruption, Enforcement and Recovery).
- Delivered activities to 937 children and young people at Easter 2021 as part of the Holiday Activities Fund.
- The Keeping Well at Home TV programme features were broadcast across Teesside and Tyne and Wear on North East Live, from the 23rd November 2020 – 16th April 2021 and reached 7,930,000 viewers, with an average of 40% of viewers aged over 65 and 30% aged between 50-64 years.
- Launched a new healthy start vitamin scheme during Covid-19, which has seen 3,500 families receive healthy start vitamins, which is approximately more than a 50% increase on previous years.
- Secured funding to increase the emotional health and well-being/SEND offer within our School Nursing Service to support Covid-19 recovery.
- Successful with a joint bid for research funding with Teesside University to further look locally at the impact of Covid-19 on babies and families born in lockdown.
- Mobilised a seven day Covid-19 response to schools across Middlesbrough supporting on all reported positive cases, tracking of close contacts, risk assessments, outbreaks and interpretation of guidance. The service, which led to over 13,000 children having to isolate between September 2020 and the end of March 2021 because of being a close contact.
- Worked in partnership to develop a multi-agency best start pathway, which will be launched in July 2021 in Newport and North Ormesby to provide additional support to families from the anti-natal period until the baby is 2 years old.
- Secured funding to launch a literacy coach working with families with children under two, to encourage reading, supporting the development of literacy, speech, language and communication skills across the family.
- Successfully supported bids for schools to offer affordable warmth vouchers to their vulnerable families who were struggling to pay for increased energy costs with families being at home all the time during Covid-19.
- Secured funding for mental health interventions in schools to reduce inequalities from Covid-19.
- Successfully launched the emotional wellbeing network.

Children's Services

- Continued to demonstrate improvement since the 2019 Inspecting Local Authority Children's inspection.

- DFE commissioner reviews in May 2020 and November 2020 – reviewed Middlesbrough Council's capacity to improve and agreed at these points that alternative delivery models were not required and appropriate improvements were evident.
- Ofsted monitoring visit in September 2020 reported positive improvement to MACH and Assessment service with thresholds having been realigned and green shoots of improvements to practice.
- Delivery of Future for Families service, our edge of care model.
- Opening of Daniel Court 16+ provision.
- Significant reduction in children in care numbers throughout the year because of improved monitoring of permanency and use of commissioned Innovate Service to good effect.
- Increase in year of the use of in house fostering capacity.
- Children and families received Free School Meals (even when at home, in isolation or 'lock down').
- All children who needed to receive free laptops and internet access to ensure they could participate in high quality online learning were provided with them.
- Positive Focused visit from Ofsted focusing on key elements on education.
- Moved Youth Offending Service and Special Education Needs & Disabilities to hybrid delivery models with investment in technology to allow staff to be effective whilst home based and visiting young people's homes.

Adult Social Care and Health Integration

- Continued delivery of adult social care services throughout the Covid-19 pandemic. This has required resourcefulness and resilience from staff as they have had to work in flexible and evolving ways in the face of an unprecedented operational challenge.
- The service continues to score more highly than the England average on all included measures in the 2020/2021 Adult Social Care Outcomes Framework survey, a statutory return submitted by service users.
- Completed the renovation of Cavendish House in order to provide a new base for the Connect Service and to co-locate the directorate's preventative services.
- Our hospital social work team based at James Cook University Hospital provided extended hours hospital discharge support, seven days per week, throughout the peaks of the Covid-19 pandemic response.
- Reviewed and re-configured our Occupational Therapy Team to improve prompt access to high quality occupational therapy services.
- Continued to operate the Disabled Facilities Grant, which has supported vulnerable individuals to access a range of initiatives including the winter warmth scheme.
- Established and operated a warehouse base co-ordinating PPE supplies for the Tees Local Authorities during the pandemic. This supported Middlesbrough Council in providing and distributing PPE supplies to our social care providers at the time during the pandemic when PPE was in short supply through the normal supply chain.

Legal and Governance Services

- Democratic Services implemented a new committee management system (Modern Gov) to promote greater transparency and openness for the public. It also supports the Council's green and digital strategies.
- Human Resources have supported the workforce of the Council through the pandemic period whether it is successful working from home, working on direct service delivery within the restrictions of the lockdown and giving direct advice to Managers and employees on Covid-19 symptoms & testing.

- Strategy Information and Governance have co-ordinated the Council's response to the Pandemic whilst adapting the strategic plan and priorities of the organisation to ensure it was still effective and measurable whilst many employees worked from home.
- ICT Services have supported the technical elements of the Children's Improvement Plan and implemented Voicescape, an intelligent telephony system specifically designed to improve performance data collection, reduce staff time on telephone and improve the Revenue and Benefits service. They have also supported almost 2,000 to work from home keeping the IT infrastructure of the Council up to date and working efficiently.
- Legal services have restructured and created two new head of service posts based around People and Places. A number of solicitor posts have been filled following vacancies in recent years.

Finance

- We achieved an unqualified set of Financial Statements from our external auditor for 2019/20.
- Finance led an upgrade of the Council's finance system, Business World, to the latest version of the operating software, Milestone 7.
- A successful budget process was completed for 2021/22 with all Members of the Council voting for the proposed council tax rise of 2.75%. This was achieved through maximum consultation with political groups and the senior leadership team of the Council.
- Successful completion of all Covid-19 and non-Covid-19 financial returns during the year. The monthly Covid-19 returns in particular have been an important element in ensuring that local authorities have been properly funded for the costs caused by the pandemic.
- The Revenues & Benefits Service have successfully managed multiple new grant schemes relating to grants to businesses with income in excess of £30m distributed in a timely and effective way. New policies have been formulated quickly whilst ensuring that appropriate governance processes have been in place to ensure any fraudulent activity has been identified.
- A new centralised approach to managing the Council's overall debt portfolio has been agreed by the senior leadership team. This has been led by the Revenue & Benefits Service, who already manage significant volumes of council tax and business rates debt. The aim of the new approach being to enhance the customer experience whilst reducing debt levels and improving cash flow to the Council.
- The Pensions, Governance and Investments team have introduced a revised investments strategy following agreement by the Pension Fund Committee. This is to move away from equity investments and into alternative investments due to the current economic climate. This policy will continue during 2021/22.
- The Teesside Pension Fund also invested in a new start up bank, based in Middlesbrough that will be looking to lend to new and developing small and medium sized enterprises.
- The Commission & Procurement team have co-ordinated the vaccination programme for the Council whilst ensuring appropriate levels of personal protective equipment has been purchased, stored and distributed to all those within the Council who have needed it when continuing to deliver services.
- The Valuation and Estates team have updated the assets disposal and purchases policies to ensure the highest standards of governance are applied to these areas, whilst facilitating the purchase of the new civic centre for the Council at Fountain Court within eleven working days of the Executive's decision.

Governance

The Council's governance arrangements that underpin the Council's processes and financial systems are set out in the Annual Governance Statement that follows the financial statements and notes to the accounts. (see Section 6).

Future Challenges/Uncertainties

Children's Services

The Council's Children Services department has been heavily scrutinised since an inadequate judgement across all aspects of service provision following an Ofsted inspection in 2019. The Council has responded to this by putting in place an improvement plan within the first three months and then working closely with the Department for Education, Ofsted Inspectors, the DFE appointed Commissioner and other key partners. There have been a number of interim visits by Ofsted over the past twelve months, which have positively commented on the response made by the Council, the overall direction of travel and the progress made in implementing the actions in the Improvement Plan.

Some of the initiatives put in place by the Director of Children's Services have managed to alleviate part of the demand led pressures and has reduced the budget overspend by around a third from £7m to just over £4.2m in one year with some assistance from Covid-19 funding.

The latest visit by Ofsted in May 2021 looked at how the children's services care system has performed and continued to improve during the Covid-19 pandemic. A team of five inspectors looked at the Council's early help, social work, fostering and adoption services, against the backdrop of Covid-19 restrictions. The Council's swift response to the pandemic was noted.

In summary, the report commented that senior leaders within the Council are overseeing a "comprehensive programme of improvement" and have a good understanding of what has been achieved and what still needs to change. The report comments on new practice standards within the service that provide clearer expectations of staff. Children have been visited regularly and safely during the pandemic. Social workers were found to be "creative and persistent" in their approach. Inspectors found this work to be making a difference to children's lives. The Multi-Agency Children's Hub has also continued to strengthen delivery.

The report highlights two new areas for improvement, in addition to the issues identified in the Ofsted inspection of 2019 that are already the subject of a comprehensive improvement plan. They are:

- Ensuring vulnerable children and those in care, including those with special educational needs and/or disabilities, receive the education they are entitled to.
- Understanding the identity and diverse needs of children and their families. A better understanding would help decisions around assessment, planning and support.

A further monitoring visit by Ofsted is due to be undertaken towards the end of 2021, however they seem to be content that improvement is being made and that the services can continue to remain with the Council in the short to medium term.

Covid-19

The ongoing pandemic continues to pose a number of challenges and uncertainties for local authorities going forwards. There is reference to Covid-19 and its impact throughout this narrative report and the draft Statement of Accounts. The UK's vaccination programme goes from strength to strength and gives optimism for the future.

However, the rates of virus transmission continue to increase with cases of the delta variant throughout the country. This poses a threat to the government's roadmap out of the pandemic, assuming that vaccinations manage the link between cases and hospitalisation/deaths and that the pressure on the National Health Service is not overwhelming, the public may be able to return to a sense of normality in the latter part of 2021. There are though, significant risks to the journey out of Covid-19 and scientists and medical officers are already raising concerns about progress over the next few months and the possibility of further lockdowns.

The Council has received notification from central government about funding for the first quarter of 2021/22 with £5.3m allocated, and can claim additional funds from the Sales Fees and Charges scheme and from the Contain Outbreak Management Fund. The service and financial risk is therefore unknown and could be potentially severe for the country and local government sector. The Council is well prepared for these risks as part of its financial planning process over the medium term.

Brexit

Although somewhat superseded by Covid-19 during the 2020 & 2021, the impact of the Country's departure from the European Union is still uncertain and will only be fully understood over the coming years. The Council has planned appropriately and is aware of the main elements of the deal agreed with Brussels at the end of December last year. The principal impact on the Council will be the form of legislative changes moving from EU to UK statute but these will only become apparent once the UK government has introduced these updated laws. A small amount of funding has been allocated by the government to each local authority in recognition of the additional workload that will face Council's during the initial phase of the exit from the EU.

The Local Government Finance Settlement

A new Local Government finance system was expected to be implemented commencing from the 2022/23 financial year following the outcome of the Fair Funding Review. The new system was intended to be based upon 75% retention of Business Rates by Local Government and an end to the Revenue Support Grant system. It is not yet clear what the detailed arrangements for Local Government Finance will look like going forwards. The timescale for implementation of these proposals has been delayed initially due to Brexit and then subsequently due to Covid-19. The 2022/23 & 2023/24 settlements are currently anticipated to be one-year funding agreements based on the previous system and is expected just before Christmas each year as normal. The earliest any new funding system could be introduced would be 1 April 2024.

Middlesbrough Development Company

During 2018/19, the Council created MHome, a Housing Delivery Vehicle (HDV) as a local authority trading wholly owned company limited by shares with the council as the sole shareholder. Following rebranding in mid-2019 the name of the company was changed to Middlesbrough Development Company (MDC). During 2019/20, the Board of Directors of MDC met 6 times. In 2020/21 this changed to a regular monthly meeting.

The Board of Directors consists of a managing director employed by the company, Middlesbrough Council's Mayor, two Middlesbrough Councillors and one nominated senior Middlesbrough Council officer. This allows a broad range of skills knowledge and experience to be brought to Board meetings and when considering both operational and strategic decisions. It also means that the plans and priorities of the company can be made in the light of ongoing developments at the Council and vice versa. During the next financial year, the company's website will be developed further and information on meetings and decisions will start to be published where appropriate.

MDC has taken the following significant decisions:

- £5.4m investment into redeveloping Tollesby Shops funded by a combination of Council grant funding plus a small commercial loan – February 2020;
- £7.7m investment in the Boho Village project in partnership with Bright Ideas acting as developer. This is fully funded by commercial loan from the Council – October 2020;
- £17m investment in the CSI residential tower on the old Cleveland Scientific Institute site in the town centre. This is also fully funded by commercial loan by the Council. – April 2021.

Boho Village was on site at the end of March 2021. Tollesby Shops is forecast to start on site in July 2021 with CSI still in the planning & development phase. All the projects are expected to be completed over a 12-24 month period thereafter.

In all cases, MDC will aim to attract external funding as a first priority. However, if external funding is not viable and the Council determines a particular project needs to be undertaken a commercial loan can be offered. Any loans are subject to approval by the Council's Director of Finance and are made at a market rate of interest to avoid state aid implications. The loans for Boho Village and CSI above are for repayment over a 35-year term. All loans can be repaid by MDC over the term of the loan via income generated as part of the project. If a development is sold as a whole then the loan can be repaid in full at that point which minimises the level of risk to the Council.

A number of additional pipeline projects are also in development by MDC and business cases will be prepared for these once they are ready for consideration.

During 2020/21 £0.915m was transferred to MDC for the Tollesby Shops project. The total funding from the Council being £1.565m since inception (£1.170m via grant funding and £0.395m by commercial loan). A balance of £0.254m was unspent at 31 March 2021. As the level of transactions between the company and the Council are below the materiality threshold for the 2020/21 accounts, group accounts have not been prepared to allow the company to be consolidated into the Council's financial position. However, the continued progress on Boho Village and Tollesby plus the approval of CSI means that this will be exceeded next year and group financial statements will need to be prepared to comply with the local authority code of practice.

Financial Review 2020/21

Revenue Budget

In preparing the 2020/21 revenue budget and Medium Term Financial Plan, the following principles, consistent with budget strategies in previous years and statements made by Executive have been adopted:

- to ensure that resources are directed to Council priorities in accordance with the agreed Mayor's strategic vision;
- to maximise the efficient, effective and economic use of resources, in conjunction with partners where appropriate;
- to keep Council Tax increases in line with Government assumptions on income raising;
- to make services fully accountable for their own budgets and spending, including additional pressures. Calls on the Medium Term Financial Plan should only be made when local and directorate resources are exhausted and all requests are required to be approved by the Council's Corporate Management Team;
- to maintain appropriate medium term budget planning and monitoring processes, ensuring known commitments are provided for and budgets are set in real terms with the effect on service delivery clearly identified;
- services will receive, in full, the impact of contractual inflationary increases (including pay awards). No inflation will be provided for general supplies and services, which are expected to be met form efficiency savings;
- to support budgetary investment in economic growth to drive increase in income through Council Tax and Business Rates;
- on termination of a specific grant, a business case for any continued funding will be prepared which will need to be assessed against other pressures on the Medium Term Financial Plan;
- all specific reserves require approval by the S151 Officer where reserves exist these will be reviewed regularly by the S151 officer as part of the Medium Term Financial Pan refresh to ensure that they are still required; uncommitted funds may need to be used to fund pressures elsewhere;
- any revenue budget where there has been a significant underspend for two or more years will be reviewed with a view to reallocating funds;
- the Investment Strategy will be reviewed regularly to ensure an ongoing need for allocated funding with a view to reallocating funds that are not required;
- any new schemes for approval within the Investment Strategy must be firstly approved by the Council's Corporate Management Team;
- a consistent framework for budgeting for staff costs will be implemented; and
- to ensure effective budget consultation processes are followed.

In setting the revenue budget for 2020/21, service budget reductions totalling £6.4 million were approved by the Council on 26 February 2020 together with a 3.99% increase in Council Tax (1.99% increase in general council tax and an increase in the adult social care precept of 2.00%).

The revenue budget for 2020/21 was set at £116.397 million, funded as set out below:

	£m
Revenue Support Grant	12.154
Business Rates Top Up Payment	27.299
Local Share of Business Rates	17.659
Council Tax	58.707
Collection Fund Balance	0.578
Total net revenue budget in 2019/20	116.397

Budget Outturn 2020/21

The Budget Outturn position was reported to Executive on 15 June 2021 and summarised the Council's financial outturn in respect of the revenue budget and capital programme. It also covered the impact of the pandemic on the Council's financial position.

Revenue

The Council's total net revenue expenditure for 2020/21 was £114.006 million, a net underspend of £2.391 million against the net budget of £116.397 million. The table below summarises the final revenue position by Directorate.

Directorate	Full Year Budget £'000	Full Year Outturn £'000	Over/(under) spend £'000	Transfers to reserves £'000	Final Outturn Position £'000
Regeneration	3,702	2,547	(1,155)		(1,155)
Environment and Community Services	21,725	20,910	(815)		(815)
Public Health and Public Protection	(2,767)	(3,488)	(721)	439	(282)
Education and Partnerships	2,129	1,831	(298)		(298)
Children's Care	38,357	42,590	4,233		4,233
Adult Social Care and Health Integration	37,998	36,049	(1,949)	1,599	(350)
Legal and Governance Services	8,410	8,687	277		277
Finance	1,384	1,193	(191)		(191)
Central Budgets	5,459	3,687	(1,772)		(1,772)
COVID Pressure (see table below)				416	416
Revenue outturn	116,397	114,006	(2,391)	2,454	63

From this underspend, it was agreed by the Council's Executive to transfer £0.439 million of the Public Health grant underspend to a Public Health Reserve and £1.599 million to an Adult Social Care Covid-19 Recovery Reserve. Both of these transfers are to help fund the future costs of Covid-19 recovery by the Council. Once these have been taken into account the revised overspend against the revenue budget is **£0.063m** for the financial year.

As with previous financial years, the significant revenue budget pressure experienced during 2020/21 continues to be in relation to Children's Services where additional costs on Children's Care (mainly residential agency placements, in-house foster carers, independent fostering agency payments and family and friends' allowances) ended up being £4.2m over budget. This compares with £7.9m over budget in the 2019/20 financial year and illustrates that some of the initiatives introduced over the last couple of years are starting to take effect as placements are managed more effectively and care packages are reviewed. Demand though still remains high within the Borough and above the additional resources that have been allocated to the directorate via the budget process in recent years.

This over spend position corporately for the Council was mitigated by planned savings requirements co-ordinated across all directorates and through stringent financial controls on expenditure budgets, such as staff savings, and an additional focus on income generation via new initiatives such as the Teesside Advanced Manufacturing Park. An additional £1.1m was released via S31 Business rates grant, which had been kept in contingency for previous years.

Given the minor underspend position, general reserves at the end of the 2020/21 financial year are at £10.5m, which is above the minimum threshold of £9.4m recommended by the Director of Finance.

Covid-19 and the financial impact on 2020/21

The Covid-19 pandemic has had a significant impact on all local authority finances and this will last for years to come in line with the impact on the Country's national finances. The government recognised this immediately in terms of additional funding but also the role that these organisations would play in leading the fight against the pandemic at a local level. In total, four tranches of funding were received for general Covid-19 support during 2020/21 totalling £15.574m. £0.877m of this was used in the previous financial year leaving £14.697

available for use.

The Sales Fees & Charges Scheme (SFC) scheme, which part funds income shortfalls, involves a 5% deductible rate, whereby local authorities will absorb losses up to 5% of their planned budgeted 2020/21 income, with the Government compensating them for every 75p in the pound of any relevant loss thereafter. Two claims totalling £3.3m have been made under the scheme in the financial year with a third claim covering the final part of 2020/21 for £1.1m made at the end of May 2021. The SFC scheme will continue operating for the first quarter of 2021/22.

A national allocation of Test, Trace and Trace funding was also announced in June 2020. This funding is ring-fenced for the testing regime and for any potential local outbreaks. The allocation for Middlesbrough was £1.566m. The Council spent £0.879m of this funding in 2020/21 with £0.687m being available for use in 2021/22.

During 2020/21 the Government also announced a Clinically Extremely Vulnerable (CEV) grant of £0.538m to provide support those at most risk from Covid-19. £0.340m was used, with £0.198m being rolled forward to 2021/22.

A further Contain Outbreak Management Fund was announced during October 2020 to provide funding to local authorities to support public health activities, such as local enforcement and contract tracing. This was originally based on an amount per head of population depending on which tier a local authority was in. This funding was then extended during the subsequent national lockdown in the early months for 2021. The total amount allocated to Middlesbrough for 2020/21 was £3.968m and this was fully utilised in the financial year.

Various specific grant funding totalling approximately £5.3m was also provided to Adult Social Care, comprising on Infection Control, Workforce Capacity Fund and Rapid Testing.

Also in the spending review and local government finance settlement the Government announced that as well as allowing local authorities to spread collection fund deficits (council and business rates losses) over the next 3 years, they would compensate Councils for 75% of any losses below a pre-determined income threshold.

The financial impact of the Covid-19 pandemic is summarised below:

	<u>Grant Allocation 2020/21 £m</u>	<u>Actual 2020/21 £m</u>	<u>Cost to Council 2020/21 £m</u>
Extraordinary costs incurred		10.697	
Commercial income losses		0.499	
Unachievable Change Programme savings		1.803	
Total Covid-19 General Support grant (2020/21)	14.697	12.999	-1.698
Sales, Fees and Charges (SFC) income loss grant (2020/21)	4.411	6.525	2.114
NET COST TO COUNCIL OF COVID-19 2020/21			0.416
<u>OTHER COVID-19 GRANTS</u>			
	<u>Grant Allocation 2020/21 £m</u>	<u>Actual 2020/21 £m</u>	<u>Grant Remaining £m</u>
Clinically Extremely Vulnerable (CEV)	0.538	0.340	0.198
Test And Trace	1.566	0.879	0.687
Contain Outbreak Management Fund (COMF)	3.968	3.968	0.000
Total Other Covid-19 Grants	6.072	5.187	0.885

Additional Expenditure & Income

There was an additional £10.7m of expenditure above the specific grant funding allocated by government. This included £1.3m for Adult Social Care due to a temporary increase in fees to the care market in line with government guidance. £2.2m was incurred due to delays in placements of Children. £1.3m in procurement and storage of personal protective equipment. £1m in increased highways maintenance work and waste disposal and collection costs. A further £1m was payable in support of the SLM Leisure Trust due to staff being furloughed and impacts on the subsidy required as part of the leisure contract. There was also additional ICT equipment required of £0.6m to allow staff to work from home.

The impact of the lockdown closure of facilities and service has resulted in a loss of totalling £7m for 2020/21, across a broad range of areas. The main areas are as follows:

- Car Parking (£1.9m)
- Cultural activities (Town Hall, Middlesbrough Theatre, Museums, Parks) (£0.9m)
- Catering income from schools (£0.5m)
- Adult Social Care - In house day centre care provision (£0.7m)
- Libraries and Community Hubs – room hire, book sales, and fines (£0.1m)
- Highways - Capital Works and Street Permit income (£0.2m)
- Education Services income from schools (£0.2m)
- Council run Nurseries and Children’s Centres (£0.4m)
- Council Tax Court Costs and Housing Benefits Overpayments (£0.8m)
- Commercial Rents - business units, industrial estates, shops, bus station (£0.2m)
- Capital Finance - Rent and Interest (£0.2m).

Council Tax and Business Rates Income

During the year, there were a number of issues caused by Covid-19 that resulted in significant losses in these areas. These are accounted for in the Collection Fund, a separate legal fund outside of the revenue budget:

- There was an increase in people claiming Local Council Tax Support due to the economic impact of the pandemic. This led to a reduction in the level of council tax collected as those on support only pay 20% of their regular bill. Although the government provided £2.8m of support for this hardship issue, there was still an effect on the collection rate and income generated.
- Housing growth levels may have reduced due to the disruption caused by the pandemic and this will lead to lower income level if less than budgeted.
- The amount of relief given to businesses, particularly for Leisure, Hospitality and Retail, was increased from 33% to 100% because of the pandemic. This resulted in a pressure of circa £17m. Most of this was compensated by S31 grant from Government.
- The level of outstanding council tax and business rates debt has increased and the Council had to review the potential to collect that debt and increase the levels of the bad debt provision where appropriate.
- Government agreed to pay 75% of income losses below an identified threshold due to the pandemic. The Council did not qualify for either of these due to improved collection rates later in the year.

The final outturn position after the various pressures on the Collection Fund was as follows:

Funding	Total Deficit £000	Share with preceptors %	Share of Deficit £000	S31 Grant	Final Deficit £000	3-year spread £000
Council Tax	2,978	83.35	2,482	-	2,482	827
Business Rates	21,784	49.00	10,674	(10,555)	119	40
Total	24,762		13,156	(10,555)	2,601	867

The final outturn positions for council tax and business rates were much improved from the statutory amounts incorporated into the budget setting in February 2021 by approximately £0.4m per year over the 3-year spread period to 2023/24. The improved amounts will be incorporated into the next MTFP refresh.

Capital

The table below summarises the capital outturn position for 2020/21 for each directorate.

Directorate	Revised Budget £'000	Full Year Outturn £'000	Over/ (under) spend £'000
Regeneration	25,180	24,960	(220)
Environment and Community Services	8,993	7,524	(1,469)
Public Health and Public Protection	0	0	0
Education and Partnerships	4,912	4,093	(819)
Children's Care	395	414	19
Adult Social Care and Health Integration	3,597	3,012	(585)
Legal and Governance Services	1,713	1,596	(117)
Finance	405	479	74
Total	45,195	42,078	(3,117)

Following a review of schemes, the Council approved a revised capital budget for 2020/21 of £45.195 million as part of its medium-term investment strategy. The Council spent £42.078 million (93%) of this revised budget at the year-end. Out of this £0.105 million is not required going forwards due to a number of completed schemes. This leaves £3.012 million available for carry forward and this amount has been factored into a rolled forward investment strategy, approved by Executive on 15 June 2021.

The £3m underspend is a combination of delays due to joint tender arrangements on the inspection of bridges and other structures (£1.1m), delays on Middlesbrough Development Company council funded schemes (£0.7m) due to funding issues, and delays on other capital schemes resulting from a lack of contractor availability due to the pandemic or other Covid-19 related delays. These under budget positions were offset by bringing forward the sale of the new civic centre at Fountain Court (£1.8m).

Balance Sheet

The Balance Sheet shows the value of assets and liabilities of the Council and sets out the revenue and capital reserves available for future investment. It also allows for comparison with the previous financial year-end and can be used to make judgements around the organisation's financial position

A summary of the Balance Sheet at the 31 March 2021 is set out below:

31 March 2020 (£000)		31 March 2021 (£000)
456,813	Long Term Assets	466,872
97,557	Current Assets	77,391
(100,165)	Current Liabilities	(92,923)
(465,554)	Long Term Liabilities	(499,512)
(11,349)	Net Assets	(48,172)
(41,934)	Usable Reserves	(53,520)
53,283	Unusable Reserves	101,692
11,349	Total Reserves	48,172

The key headline messages to note in relation to the Balance Sheet at 31 March 2021 are as follows:

- Long-term assets continue to increase due to the Council's current ambitions on its investment strategy.
- Current assets are lower than last financial year due to cash balances held for Covid-19 initial response purposes used during the financial year. There are also less Assets held for Sale due to the pandemic.
- Current liabilities have reduced slightly during the financial year. This is due to £20m short-term borrowing taken out in March 2020 originally as part of the Covid-19 response being repaid in year. This has been

offset by increasing amounts now owed to central government where ring-fenced Covid-19 funding has been allocated, used and now needs to be repaid if not all required.

- Long-term liabilities have increased mainly due to the current valuation of the pension fund and the incorporation of a number of recent landmark legal cases into pension's entitlement and higher pension liabilities as a result.
- Also affecting the current and long-term liabilities, is the creation of a provision for insurance claims, calculated using information from the insurance fund actuarial valuation carried out in the 2021/22 financial year. This information was not available when the draft accounts for 2020/21 were published. The Directorates have been charged appropriately and this has been funded from reserves. The total provision created was £3.250 million.
- In 2020/21 the pension fund investments performed strongly following the initial impact on the markets of Covid-19. However looking forward, corporate bond rates remain low due to the fragile nature of the UK economy and this is keeping liability levels on pensions higher than they would usually be, whilst assets on the pension fund struggle due to low interest rates.
- Usable reserves have increased significantly in line with the trend seen for most local authorities. Almost all of this relates either to Covid-19 funding allocated by the government and not yet spent or is where the Council is providing from its own resources for future Covid-19 costs. The main financial pressures are expected to hit local authorities in the couple of years after Covid-19 recovery begins.
- Unusable reserves reflect the technical accounting adjustments required to comply with proper accounting practice. Most of the losses are unrealised in nature and do not have an immediate impact on the Council's revenue budget or medium term financial plan. The year on year change at 31 March 2021 reflects unrealised pension and capital accounting losses, plus the transfer of any negative dedicated school grants for a 3-year period. Under regulation, these DSG losses cannot be charged to the General Fund account.

The Council's balance sheet continues to be in a negative net worth position (i.e. the liabilities are greater than the assets held by the Council by £48m following a £37m loss on the Income and Expenditure statement this year. Although in the private sector this would usually be a position of some concern, it is not unusual in the local authority sector.

The deficit on the pension liabilities for current and former Middlesbrough employees continues to grow and is now at £308m in total. An increase of £25m during 2020/21 mainly due to corporate bond rates continuing to be low and court judgements continuing to increase liabilities. Although the loss will not crystallise at any one point in time but will be made up of benefits over the next 20-30 years, it erodes the current financial position of the balance sheet in line with IAS19 principles on retirement benefits.

It is also worth reiterating that both long-term assets and liabilities, subject to specialist valuation and professional expert techniques, are less reliable in the current year than in the past, due to the inherent level of uncertainty created by Covid-19. Where professional judgement has been involved, regular discussions have been held with valuers and actuaries about the issues involved and prudent conclusions have been made by the Council when considering these results. The balance sheet values are reasonably depressed as a result but should recover in the future. The Council is comfortable with these issues in the short term and until a greater degree of normality has returned, where any negative net worth should unwind. No specific measures are being undertaken within the Medium Term Financial Plan to cater for this.

Annual Statement of Accounts

The Statement of Accounts is the main method of external financial reporting produced by the Council. It is a complex and technical document, which comprises a number of sections and financial statements following the CIPFA Code of Practice on local authority accounting. These are as follows:

Narrative Report - this introductory section provides information on the format of the Statement of Accounts as well as a review of the financial position, performance and cash flows of the Council for the financial year 2020/21.

Statement of Responsibilities - this details the responsibilities of the Council and the Director of Finance (Section 151 Officer), concerning the Council's financial affairs and the Statement of Accounts.

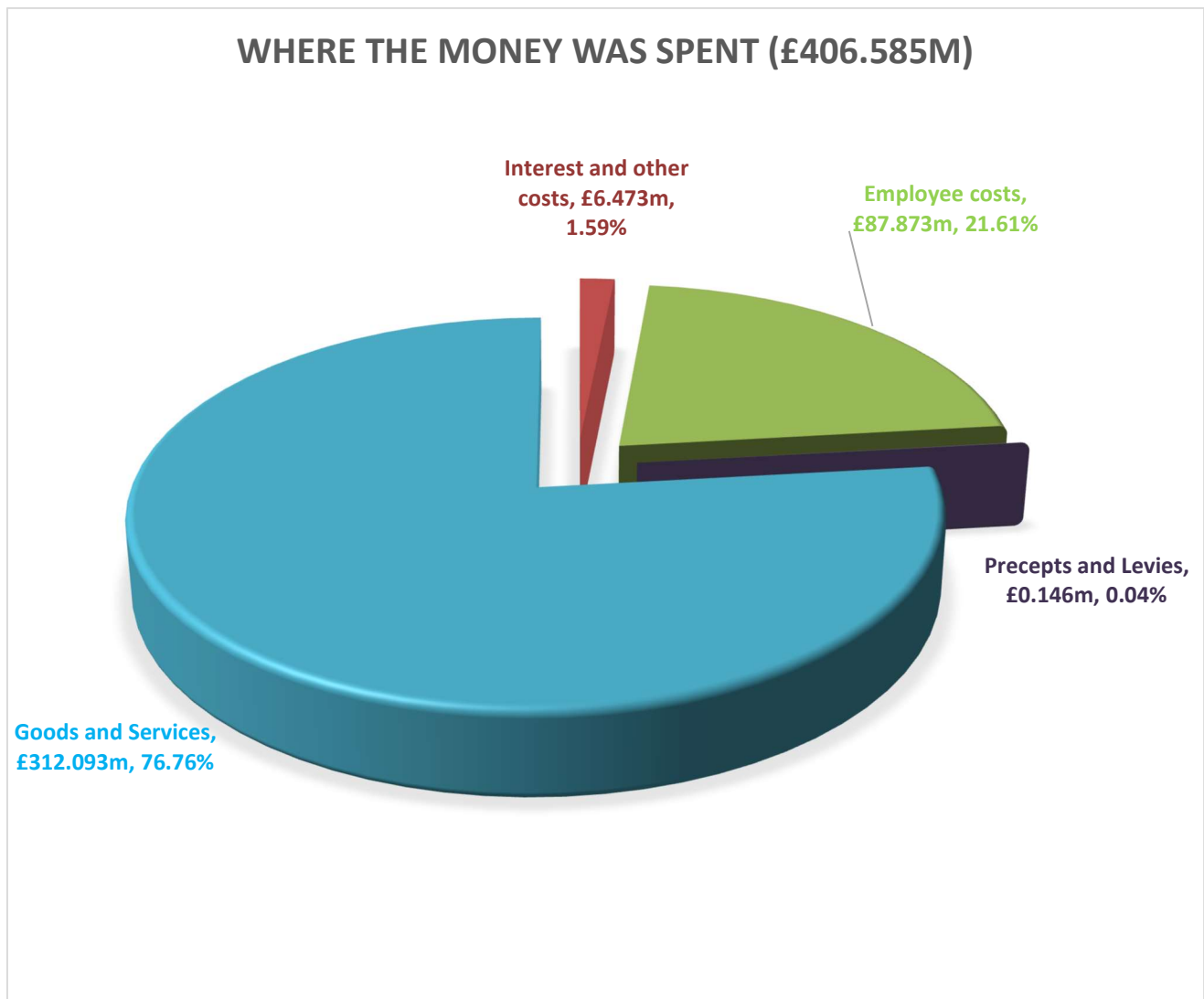
Independent Auditor's Report to the Council - the external auditor, Ernst & Young LLP have prepared this report, which is included after the accounts have been audited.

Annual Governance Statement - the Council is required to carry out an annual review of the effectiveness

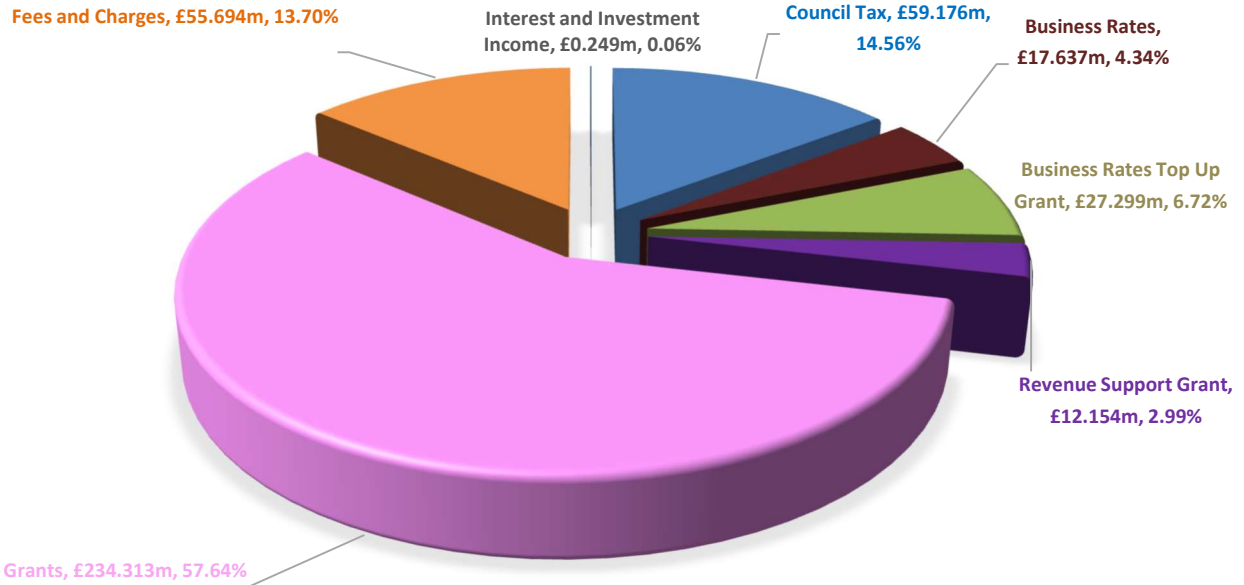
of the system of internal control and to include a status report with the Statement of Accounts. This Statement explains how the Council has complied with the Code of Corporate Governance during 2020/21 and that this will be published with the audited accounts.

The **Core Financial Statements** comprise:

- The **Comprehensive Income and Expenditure Statement** – shows the income and expenditure of the Council in line with statutory regulations, international financial reporting standards and CIPFA Accounting Code of Practice requirements.
- The charts below and overleaf illustrate where the money has come from and how it has been spent.
- The totals in the financial statement are higher/lower than those set out below (expenditure by £53m and income by £16m) due to technical adjustments to comply with proper accounting practice, but which are not funded by the taxpayer. More details on this are set out in the notes to the accounts.

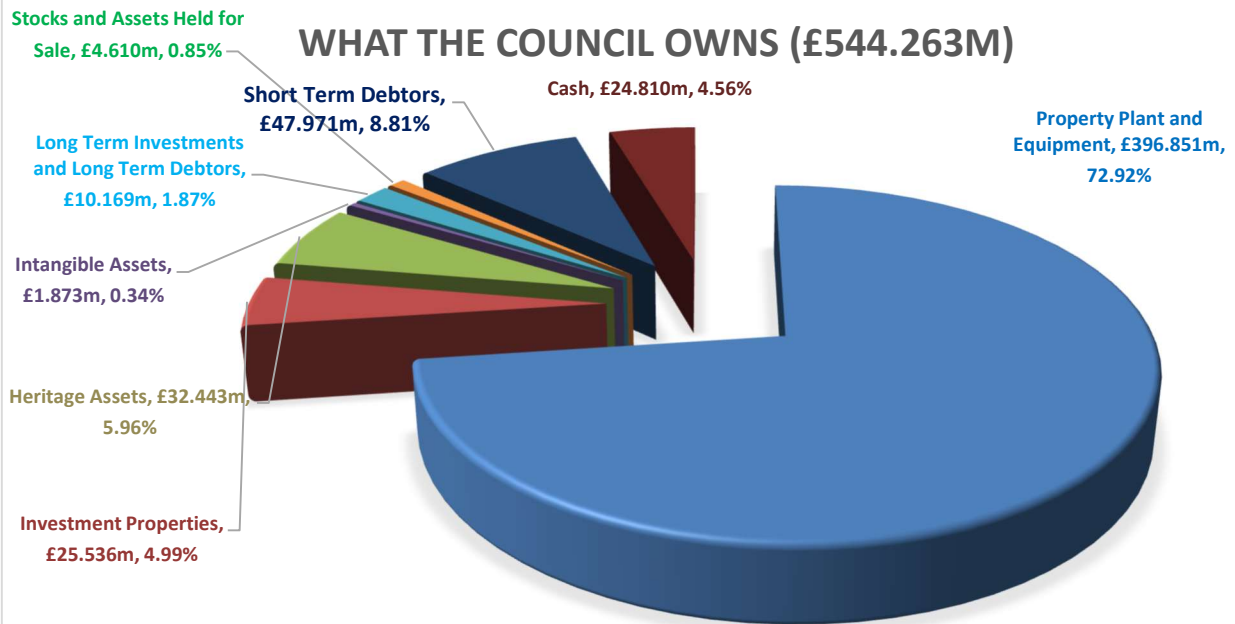


WHERE THE MONEY CAME FROM (£406.522M)

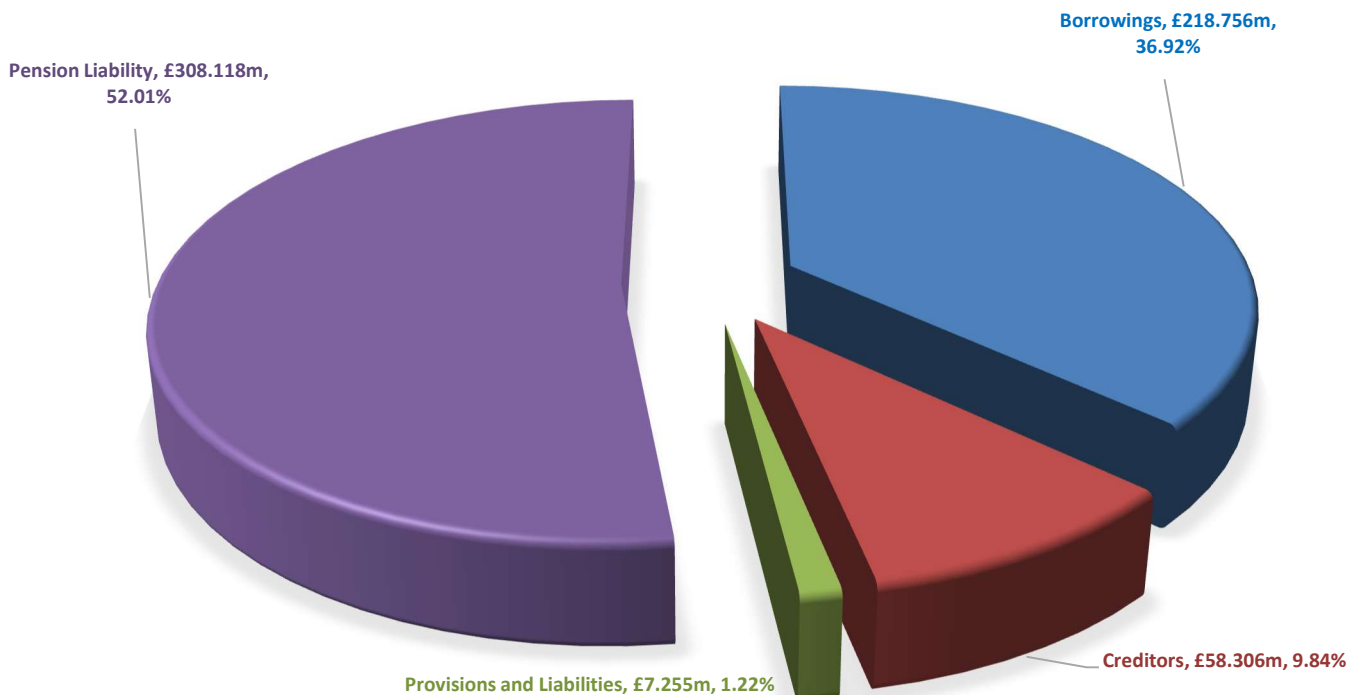


- The **Balance Sheet** – shows the value as at the Balance Sheet date of the assets owned and liabilities incurred by the Council. The total net assets (assets less liabilities) are equivalent to the revenue and capital reserves held by the Council.

The following charts gives summary information on what the Council owns and owes:



WHAT THE COUNCIL OWES (£592.435M)



- The **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council, split into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (arising mainly as a result of technical and accounting adjustments).
- The **Cash Flow Statement** - this summarises the changes in cash and cash equivalents of the Council during the reporting period. Cash flows are analysed between operating, investing and financing activities.

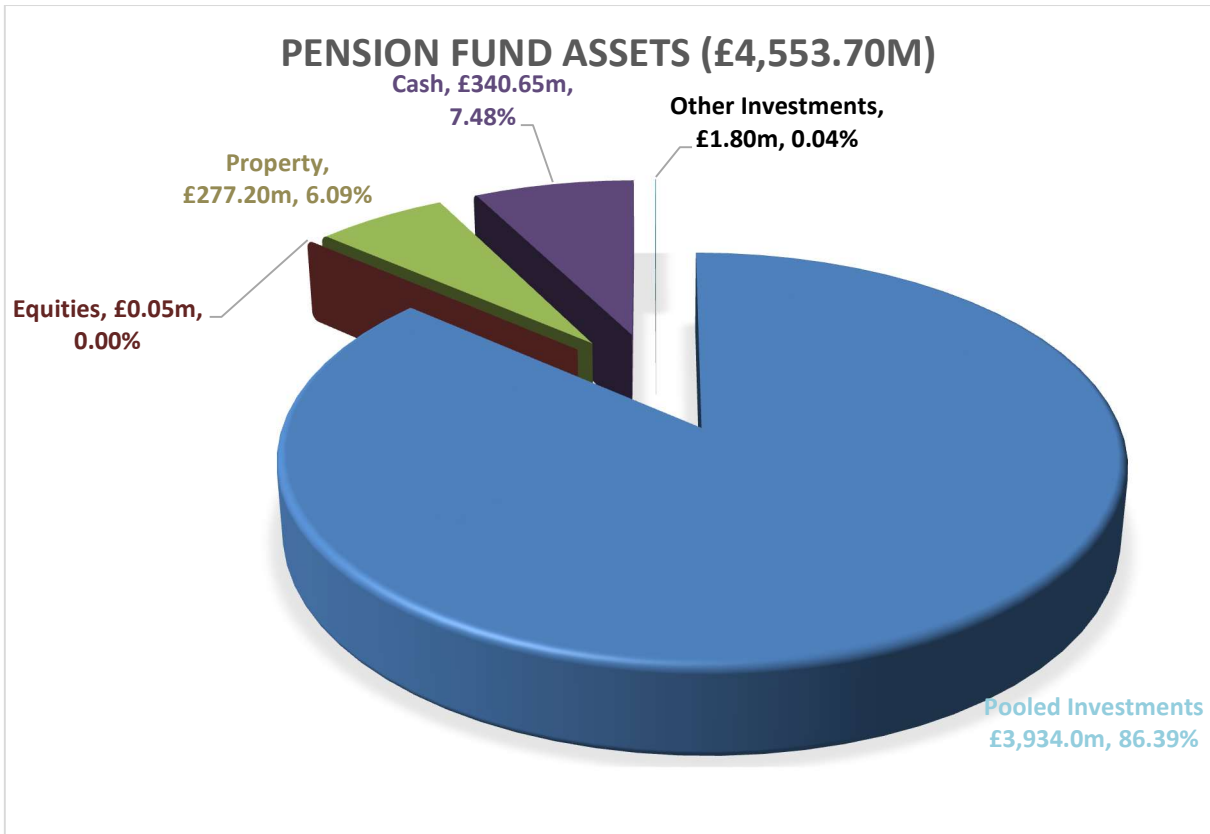
Accounting Policies Note - this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.

Notes to the Accounts - provides supporting and explanatory information as to how the accounts have been prepared and support the understanding of the accounting policies applied in the accounts to present a true and fair view of the financial position.

Pension Fund Accounts - the Teesside Pension Fund is administered by Middlesbrough Council, and is independently managed and completely separate from the Council's own finances. This statement forms an extract from the Teesside Pension Fund Annual Report and summarises the financial position of the Pension Fund, including all income and expenditure for 2020/21, assets, and liabilities as at 31 March 2021.

The fund's total value had reduced significantly by around £0.5bn to £3.7bn at the previous Balance Sheet date due to Covid-19 and the initial uncertainty in global financial markets at that time. At the end of Quarter 1 of 2020/21 and through the next three quarters, the fund had stabilised and grew consistently with the net assets totalling £4.6bn at the year-end. An increase of £0.8bn or 20% during the year.

The following chart summarises the assets of the Fund at 31 March 2021:



In a similar vein to the Council's balance sheet, investment values quoted above are less reliable than normal due to Covid-19 and contain a degree of inherent uncertainty. Professional valuations have been made and these have been discussed further regarding the impact of the virus when finalising the accounts.

A **Glossary** - to explain the technical jargon in the Statement of Accounts and help make the document more understandable to the reader.

Statement of Responsibilities – Middlesbrough Council

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to nominate that one of its Officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer (Director of Finance);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets and
- approve the statement of accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting (the Code).

In preparing the statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the local authority Code.

The Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I certify that the statement of accounts presents a true and fair view of the financial position of the Authority at 31 March 2021 and its income and expenditure for that year.

Andrew Humble
Head of Financial Planning & Support – Interim Section 151 Officer
Middlesbrough Council

26 April 2023

Statement of Responsibilities – Teesside Pension Fund

Statement of Responsibilities

Middlesbrough Council Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through a Pension Fund Committee;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Chief Finance Officer of the Council (Director of Finance); and
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonably prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2021 and of its income and expenditure for that year.

Andrew Humble

**Head of Financial Planning & Support – Interim Section 151 Officer
Middlesbrough Council**

26 April 2023

Auditor's Report – Middlesbrough Council

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Opinion

We have audited the financial statements of Middlesbrough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- related notes 1 to 46, and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give 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
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for the period to 31 March 2024.

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

Other information

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

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

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- 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.

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2021.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that the culture and governance arrangements at the Authority have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members.

These include, but are not limited to:

- Significant changes to the design of the Authority's largest capital project, Boho X, occurring outside of the Authority's Programme and Project Management Framework;
- Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Authority's normal procurement processes; and
- Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority.

In addition, where management commissioned work by the Authority's internal audit to investigate these matters the scope of this work was not always sufficient to provide assurance on the full extent of issues or the wider risks posed to the Authority as the work was narrowly defined and it was not always evident that there was follow-up of findings which indicated areas where additional risks may exist beyond the initial scope of work. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

The evidence on which our view is based

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

- Reviewed the work of internal audit, including in respect of changes to the design of Boho X, the purchase of Covid-19 tests and the delivery of mayoral assistance activities;
- Reviewed the evidence upon which the reports of internal audit were based;
- Reviewed correspondence received during the course of our audit, including from members of the Authority;
- Made enquiries of management as to their understanding of the culture at the Authority; and
- Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee.

The impact on Middlesbrough Council

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

In addition, there is a risk that the Authority has not identified all such instances where decisions may have been taken outside of the Authority's formal policies and procedures or the routes by which such decisions are being taken, and will therefore be unable to satisfy itself that such instances will not continue to occur.

The actions the Authority needs to take to address the weaknesses

We recommend that:

- the Authority develops a comprehensive Improvement Plan to address the cultural and governance issues which exist within the Authority. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This should include the involvement of external specialists;
- the Authority provides additional training to members and officers on the boundaries of respective responsibilities under the Authority's Constitution. The Authority should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan; and

- the Authority considers whether further assurance is required to establish whether the risks identified by the Authority to date are complete and the actions taken to respond to those risks sufficient.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution; and
- how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 26, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the 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 Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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 Authority and determined that the most significant are:
 - The Local Government Act 1992,
 - The Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
 - The Local Government Finance Act 2012,
 - The Local Government Act 2003,
 - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2021,
 - The Planning Act 2008 and the Community Infrastructure Levy Regulations 2010,
 - The Local Government Pension Scheme Regulations 2013,
 - The LGPS (Administration) Regulations 2008,
 - The Local Audit and Accountability Act 2014, and
 - The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

- We understood how Middlesbrough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, internal audit and those charged with governance, 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 Authority's committee minutes, through enquiry of employees to confirm Authority policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures 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 manipulation of reported financial performance (through improper recognition of revenue and expenditure) and management override of controls to be our fraud risks.
- To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue and expenditure, we reviewed the accounting treatment of Covid-related grant schemes to ensure they had been correctly accounted for as either principal or agent, tested a sample of capital grants to confirm that they have been recognised in accordance with agreed terms and conditions, tested a sample of capital additions to confirm they meet the criteria for capitalisation set out in accounting standards and tested a sample of invoice postings and cash disbursements made after 31 March 2021

to confirm whether the expenditure to which they relate had been recorded in the correct reporting period.

- To address our fraud risk of management override of control, we tested specific journal entries by applying risk criteria to the entire population of journals. For each journal selected, we tested back to source documentation to confirm that journals were authorised and accounted for appropriately.
- We engaged forensics specialists to support our assessment of whether the significant weaknesses in arrangements, including specific instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures, gave rise to additional fraud risks.

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

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

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

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

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

Certificate

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Middlesbrough Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2021. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

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

Auditor's Report – Teesside Pension Fund

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEESSIDE PENSION FUND

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 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 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 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 on pages 96 to 99 and pages 125 to 133, 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.

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 pages 97, 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 and the head of internal audit 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. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation

We assessed the susceptibility of the 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 Borough 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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

2. Financial Statements



Exchange Square

Core Statements - Movement in Reserves Statement

This Statement shows the movement in the different reserves held by the Council over the financial year. These reserves can be analysed into usable reserves, those that are available to fund expenditure or to reduce taxation, and other unusable reserves, held for accounting purposes.

2020/21	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Direct Revenue Funding Unapplied	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020	(9,400)	(19,311)	(145)	0	(13,078)	(41,934)	53,283	11,349
Reporting of Schools budget deficit to new Adjustment Account at 1 April 2020	0	(2,783)	0	0	0	(2,783)	2,783	0
Revised Opening Balance	(9,400)	(22,094)	(145)	0	(13,078)	(44,717)	56,066	11,349
Movement in reserves during 2020/21								
Total Comprehensive Income and Expenditure	37,313	0	0	0	0	37,313	(490)	36,823
Adjustments between accounting basis & funding basis under regulation (note 6)	(51,363)	0	150	(51)	5,148	(46,116)	46,116	0
Transfers to/(from) other reserves	12,950	(12,950)	0	0	0	0	0	0
Net Decrease / (increase) in year	(1,100)	(12,950)	150	(51)	5,148	(8,803)	45,626	36,823
Balance at 31 March 2021 carried forward	(10,500)	(35,044)	5	(51)	(7,930)	(53,520)	101,692	48,172

To aid understanding from the 2020/21 financial statements onwards, the revenue reserves of the Council have been further analysed between the general fund balance (available for general purposes) and other earmarked revenue reserves (unallocated income earmarked for a specific purpose). The other reserves above (including direct revenue funding unapplied) are available for capital investment purposes.

2019/20	General Fund Balance	Earmarked Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	(11,904)	(21,525)	(77)	(13,160)	(46,666)	(45,506)	(92,172)
<u>Movement in reserves during 2019/20</u>							
Total Comprehensive Income and Expenditure	44,178	0	0	0	44,178	59,343	103,521
Adjustments between accounting basis & funding basis under regulation (note 6)	(39,126)	0	(68)	(252)	(39,446)	39,446	0
Transfers to/(from) other reserves	(2,548)	2,214	0	334	0	0	0
Net Decrease / (increase) in year	2,504	2,214	(68)	82	4,732	98,789	103,521
Balance at 31 March 2020 carried forward	(9,400)	(19,311)	(145)	(13,078)	(41,934)	53,283	11,349

Core Statements - Comprehensive Income and Expenditure Statement

This Statement brings together both income and expenditure relating to all of the Council's day to day services for the year and shows how this is financed from a combination of local taxation, government grants and other income. This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded by taxation.

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2021							
2019/20 Restated					2020/21		
Gross Expenditure	Gross Income	Net Expenditure / (Income)	Cost of Services by Service Area	Note	Gross Expenditure	Gross Income	Net Expenditure / (Income)
£000	£000	£000			£000	£000	£000
39,237	(14,069)	25,168	Regeneration		17,803	(11,877)	5,926
15,450	(19,606)	(4,156)	Public Health and Public Protection		18,330	(26,097)	(7,767)
73,330	(68,522)	4,808	Education and Partnerships		83,764	(79,831)	3,933
45,007	(1,921)	43,086	Children's Care		50,792	(5,022)	45,770
85,217	(43,193)	42,024	Adult Social Care and Health Integration		96,461	(56,889)	39,572
48,750	(5,110)	43,640	Environment and Community Services		54,600	(8,564)	46,036
73,211	(62,423)	10,788	Finance		82,006	(69,630)	12,376
16,622	(2,825)	13,797	Legal & Governance Services		18,204	(4,474)	13,730
1,094	(10,070)	(8,976)	Central Costs		473	(5,989)	(5,516)
0	0	0	Covid-19 Overspend		0	416	416
397,918	(227,739)	170,179	Total Cost of Service		422,433	(267,957)	154,476
2,192	(1,232)	960	Other Operating Income and Expenditure	9	415	0	415
37,822	(30,098)	7,724	Financing & Investment Activities	10	37,191	(27,210)	9,981
0	(134,685)	(134,685)	Taxation and Non Specific Grant Income	11	0	(127,559)	(127,559)
437,932	(393,754)	44,178	(Surplus) or Deficit on Provision of Services		460,039	(422,726)	37,313
			<i>Items not re-classified to the Surplus or Deficit on the Provision of Service</i>				
		(2,740)	(Surplus) on revaluation of Property Plant and Equipment				(641)
		66,655	Actuarial (Gains)/Losses on Pension Fund	39			4,317
		(4,572)	Depreciation written out to the Revaluation reserve				(4,166)
		59,343	Other Comprehensive Income and Expenditure				(490)
		103,521	Total Comprehensive Income and Expenditure				36,823

Note: In June 2020 there was a management restructure within the Council. The reporting levels above reflect the new directorate format but given this is different to last year's accounts the 2019/20 comparator figures have been restated.

Core Statements - Balance Sheet

The Balance Sheet shows the value of assets and liabilities held by the Council. The net assets are matched by the Council's revenue and capital reserves.

31-Mar-20		Note	31-Mar-21
£000			£000
400,052	Property, Plant & Equipment	23/24	396,851
27,563	Heritage Assets	25	32,443
15,904	Investment Properties	26	25,536
2,982	Intangible Assets	27	1,873
309	Long Term Investments	29	309
10,003	Long Term Debtors	32	9,860
456,813	Total Long Term Assets		466,872
22,000	Short Term Investments	29	0
5,476	Short Term Assets Held for Sale	28	2,297
2,425	Inventories	33	2,313
45,411	Short Term Debtors	32	47,971
22,245	Cash and Cash Equivalents	34	24,810
97,557	Total Current Assets		77,391
(55,247)	Short Term Borrowing	29	(32,089)
(43,392)	Short Term Creditors	35	(58,306)
(1,526)	Short Term Provisions	36	(2,528)
(100,165)	Total Current Liabilities		(92,923)
(2,608)	Net Current Assets / (Liabilities)		(15,532)
(981)	Long Term Provisions	36	(3,277)
(179,423)	Long Term Borrowing	29	(186,667)
(1,589)	Other Long Term Liabilities	29	(1,450)
(283,561)	Pension Liability	39	(308,118)
(465,554)	Total Long Term Liabilities		(499,512)
(11,349)	Net Assets/(Liabilities)		(48,172)
(41,934)	Usable Reserves	37	(53,520)
53,283	Unusable Reserves	38	101,692
11,349	Total Reserves		48,172

Core Statements - Cash Flow Statement

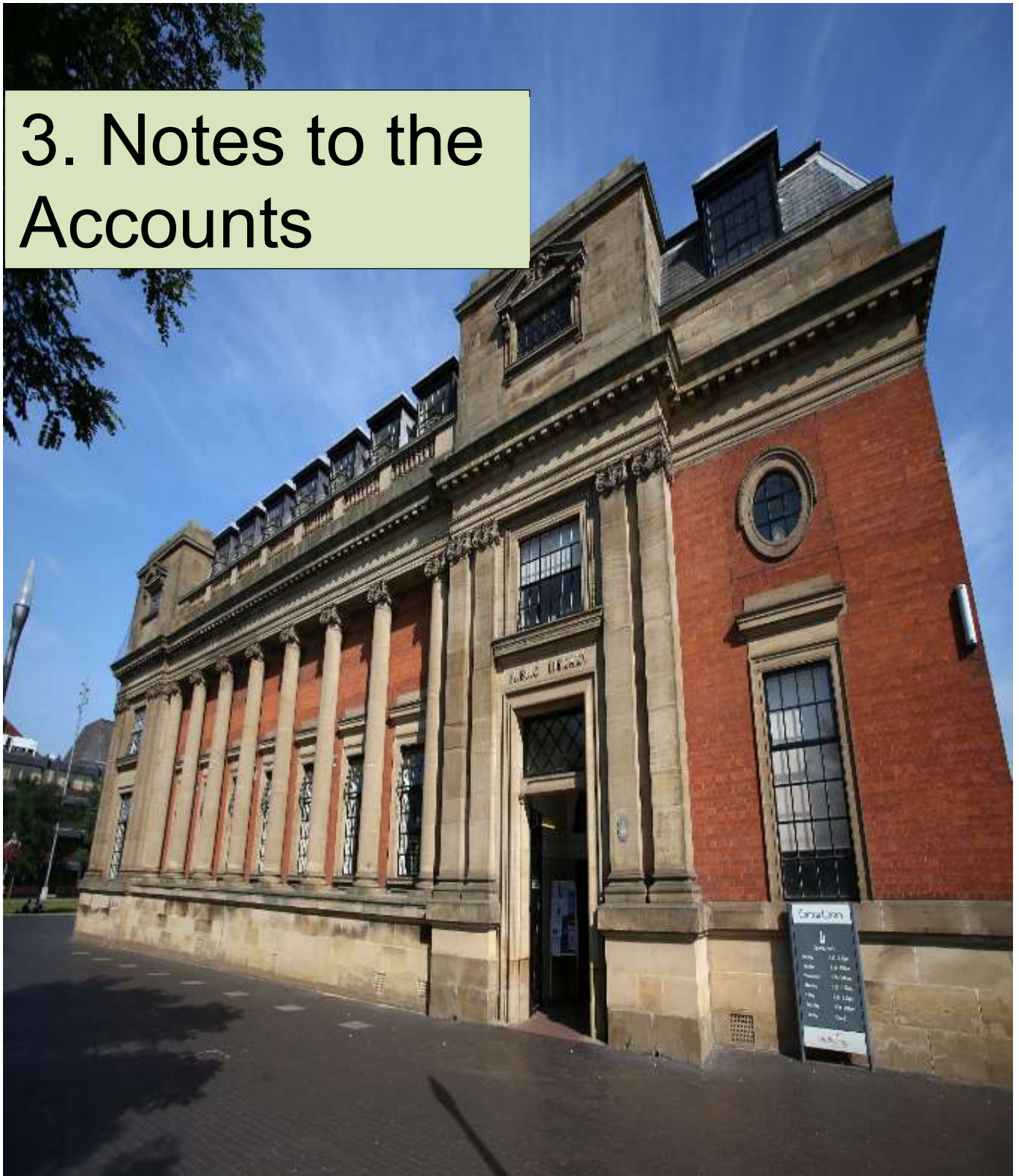
This Statement shows the changes in cash and cash equivalents held by the Council during the financial year. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities. It is an integral part of the Comprehensive Income and Expenditure Statement and the Balance Sheet for the Council.

Year to 31 March 2020 £000		Note	Year to 31 March 2021 £000
(44,178)	(Deficit) on provision of services transferred to the General Fund		(37,313)
	Adjustment for items not affecting cash flow		
15,163	Depreciation of Property Plant and Equipment (PPE)	23	15,487
2,150	Amortisation of Intangible Assets	27	2,159
17,308	Impairments to PPE/Assets Held for Sale	23,28	8,526
(418)	Fair Value gain on Investment Properties	26	(41)
(244)	Donated PPE and Heritage Assets	23,25	(1,076)
2,051	Net Book Value on Disposal of Non-current Assets	23, 28	6,525
12,437	Difference between Current Service Cost and Contributions made to the Pension Scheme	39	13,942
5,094	Net of Interest changes applied to the Pension Scheme Deficit	39	6,298
(81)	Movement in Provisions	36	3,298
9,282	Surplus on provision of services after non cash adjustments		17,805
(1,232)	Adjustments for items that are Financing or Investing Activities		(6,224)
	Other operating cash flows		
7,939	Cash absorbed by the reduction in Creditors		13,711
(5,661)	Cash absorbed by the increase in Debtors	32	(2,418)
(109)	Cash absorbed by the increase in Inventories	33	112
10,219	Net cash flow from Operating Activities		22,986
(62,781)	Investing Activities	46	(4,368)
71,979	Financing Activities	46	(16,053)
19,417	Net increase/(decrease) in Cash and Cash Equivalents		2,565
2,828	Cash and Cash Equivalents at the start of the period	34	22,245
22,245	Cash and Cash Equivalents at the end of the period	34	24,810

The cash flow for Operating Activities includes the following:-

(632)	Interest received	(273)
6,127	Interest paid	6,473

3. Notes to the Accounts



Central Library

Notes to the Accounts

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Notes to the Accounts

Note 1 Accounting Policies

Basis of Accounting

The Statement of Accounts summarises the Council's financial transactions for the 2020/21 financial year and its position at the 31 March 2021.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 – updated for the Coronavirus Amendment Regulations 2021 - in accordance with proper accounting practices.

These practices under Section 21 of the Local Government Act 2003 Act primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting conventions adopted are principally as follows:

- The Accounts have been prepared using the going concern concept, on the assumption that the Council, its functions and services will continue in operational existence for the foreseeable future.
- Values applied relate primarily to historical cost modified by the revaluation of land and buildings and investment properties.
- The Accounts have been prepared using the accruals basis of accounting such that transactions are recorded based on when they fall due and not necessarily when settled in cash.
- VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income amounts.

Basis of Preparation

The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which the Council operates. If the Council were in financial difficulty, the prospects are that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. These provisions confirm that, as Councils cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The end of the financial year 2020/21 saw a continuing pandemic, which is likely to be with us in some form for years to come. However, the UK vaccinations programme has been a major success and has moved the Country and public life towards a new normal. Most Council services are now operating at relatively normal levels. However, services such as leisure (provided by SLM, the Council's external provider of leisure facilities) and culture are still affected, and it is unknown what demand led services within social care may look like in the longer term. Car parking income and the impact on the retail sector of the town is still a cause for concern. There is also concern regarding income to the Council in the form of Business Rates and Council Tax income.

The financial impact of the pandemic on the Council arising from additional costs and lost income was significant during 2020/21 and 2021/22. This included detrimental issues in the following areas:

- Loss of income, mainly on car parking, cultural activities, catering income from schools, adult social care, and leisure centres.
- Additional expenditure, mainly support to the social care market, the creation of the local support hub, additional legal backlogs, additional waste collection and disposal costs, and additional personal protective equipment.
- Changes to government policy, e.g., changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities that accrued due to the ongoing impact of the pandemic on local areas.

- The impact on the Council's investment strategy, e.g., delays caused by ongoing restrictions, supplier availability, whether there is a need to reschedule work for other reasons and the re-prioritisation of the earmarked reserve for future capital plans to support the Council's Covid-19 recovery.
- The impact of the above on the Council's cash flow and treasury management processes, including the availability of liquid cash and timing of borrowing plans.
- The estimated overall impact on the Council's General Fund and Medium-Term Financial Plans and savings proposals.

There was a range of interventions made during 2020/21 by central government to support individual local authorities' financial positions due to the pandemic:

- In March 2020, the Council received £5.2m being its share of Covid-19 general support grant specifically to support local authorities with the additional costs and lost income and unachieved savings due to the pandemic. All this funding was used in the early part of the 2020/21 financial year.
- A second tranche of the Covid-19 general support grant of £3.9m was received in May 2020, a third tranche of £1.7m awarded in July 2020 and a fourth tranche of £4.8m bringing the total received to £15.6m.

The Sales Fees and Charges (SFC) Scheme which part funded income shortfalls above a 5% deductible and 75p in the £ thereafter was a significant buffer in terms of limiting real losses to the Council. A total of £4.4m was claimed under this scheme and this is additional to the main Covid-19 general support grant funding. A number of earmarked grants were received during 2020/21, mainly Test, Track and Trace, Contain Outbreak Management Fund and Clinically Extremely Vulnerable for specific costs.

The total impact of Covid-19 on the General Fund (after all government funding and other offsets) was a cost pressure of £0.4m in 2020/21, which has been funded from an earmarked Covid-19 recovery reserve created during 2020/21. By way of context the Council's General Fund Reserve balance at 31 March 2021 was £10.5m, this is above the minimum level for 2020/21 advised by the Chief Finance Officer of £9.4m.

Central government continued to fund local authorities during the whole of 2021/22. The main Covid-19 general support grant allocated was at £5.3m with £0.8m received from the SFC scheme. The additional cost to the Council of Covid-19 in 2021/22 was £4.5m, with income losses of a further £2.0m. This is £6.5m in total or £0.4m above the funding received. This excess was met from the Covid-19 recovery reserve without affecting general reserves.

The Government also provided a further £1.4m of Contain Outbreak Management Funding for 2021/22, which was fully utilised by the Council.

For the 2022/23 financial year, no additional funding has been provided by central government on the expectation that the impact from Covid-19 was negligible. This has been corroborated by budget monitoring during the financial year with no additional direct costs being incurred.

The latest position on the revenue budget for 2022/23 (as of 31st December 2022) is an overspend of £3.4m. The position on Children's Services though continues to be problematic with high demand levels and an overspend expected of £10.5m (mainly external residential agency placements and safeguarding costs) forecast. The Council has responded to this by introducing an in-year financial recovery plan for additional savings across all services, plus the use of a flexible capital receipts policy to capitalise transformational revenue expenditure.

Both measures have helped to reduce the level of overspending to the point where these can be funded from the social care transformation reserve, without being detrimental to the level of general reserves.

The Budget 2023/24 for the Council has been approved as a balanced budget and the minimum level of reserves has been set as £12m as the fund of last resort. There are risks attached to the delivery of the Budget and to some extent these have been mitigated through contingency allocations and some earmarked reserve for social care volatility. The Budget 2023/24 also includes planned contributions to set aside reserves for insurance, capacity for delivery of savings through the change fund and an investment reserve to mitigate interest rate risk. However, earmarked reserves may not be sufficient to contain unexpected cost pressures if they emerge in year, in which case, in year spending controls will be required to recover the position in order to protect general balance of £12m. The Council will always maintain a minimum liquidity position of £15m to ensure that the cash position of the Council is not compromised. If borrowing rates do not represent value for money, cash levels may need to go below this for a short period, but the aim will be to maintain them in line with the strategy as soon as possible.

The key risks that the Council needs to deal with as part of its budget process are as follows:

- The budget gap 2023/24 of £14.9m requires delivery of £9.4m savings in year. The budget carries significant risk especially around the volatility of the budget for children’s services and the delivery of approved saving plans in a timely way. The scale of the challenge is illustrated particularly by the level of overspending being reported by children’s during the 2022/23 financial year, and the fragility of the budget position to a sudden and sharp increase in the number of looked after children (especially those with complex needs) putting additional strain on the budget. As a result of the issues, there has been additional investment towards Children’s social care of £9.8m for 2023/24, to ensure that this area is sufficiently resourced going forwards. This is a significant element of the total budget gap being proposed. The Council is to have an unrelenting focus on the delivery of saving plans and demand mitigation during the year to mitigate this.
- The delivery of children’s financial improvement plan will be overseen by the Children’s Finance Focus Group. Some level of contingency (£1.3m) and limited reserves (social care transformation – currently estimated to be £1.7m at the end of 2022/23) are held to mitigate these risks. In the event of significant unexpected cost pressures emerging during the year, further savings will be required from across the Council, and early consideration is advisable to forward plan future savings so they can be brought forward as necessary.
- The Council’s current financial standing reflects several weaknesses: relatively low levels of reserves; significant demands on services and governance weaknesses limiting the delivery of value for money for the people of Middlesbrough, resulting in a best value improvement notice issued in January 2023. The Council has in place a Governance Improvement Board under the purview of the LGA and CIPFA. It is imperative there is organisational grip to deliver planned improvements to ensure council money is spent wisely and this will require a significant programme of work during 2023/24 to be delivered at pace that focusses on embedding budget management and improved accountability arrangements within the organisational culture.

The Chief Finance Officer does not consider Middlesbrough Council to be at risk of a section 114 Notice (Local Government Act 1988) in setting the budget for 2023/24. This view is based on the latest available information and in the event of a change in the risk profile or financial circumstances, the position cannot be assured over the medium term and will be kept under review in the coming months.

The Council needs early consideration of budget proposals for 2024/25 and for these to be available for acceleration if required. It must also pursue a policy of strengthening its financial resilience by maximising its local revenues; seeking to replenish reserves and delivery of savings in a timely way. In this way the Council will be better able to withstand any future financial shocks.

The recent CIPFA review of financial sustainability, whilst the final report is awaited, concluded the Council can set a balanced budget for 2023/24 but it has very little scope for centrally containing overspends. A key recommendation coming out of their review and contained in the Section 25 report, is a need for pace in developing long term strategic plans sustainably. This is something to be addressed in readiness for the new political administration which will come in for a four-year term in May 2023.

As a result, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern until at least 30 April 2024. It is not forecasting a reduction in reserves, or for these to go below the minimum level of general reserves of £12m, advised in the 2023/24 budget. It has significant headroom, in terms of external borrowing, against its authorised limit and can use this for ensuring spending plans remain liquid and robust. There has also been a good track record of delivering previous savings plans, other than in Children’s Services, and this should assist in maintaining a stable financial position over this period.

Accounting Developments and Changes in the Year

Changes to the Core Statements

In 2020/21 the following standard has been adopted into the Local Authority Code of Accounting Practice:

- IAS 19 Employee Benefits re the remeasurement of the net pensions asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after changes to the plan.

Due to an internal management restructure during June 2020, the Directorate structure of the Council, which influences the operating segments in the Comprehensive Income and Expenditure Statement, is different to the previous financial year. The cost of service comparator figures have been restated for 2019/20 to reflect the new

structure.

Any negative dedicated school grants amounts have been reclassified from usable reserves to unusable reserves to reflect changes in legislation in relation to what amounts can be charged to the general fund.

All of the other core financial statements and notes to the accounts remain the same as in the previous year

Accounting Policies Applied to Significant Activities or Where Significant Judgement or Estimates have been applied

The Council is required to adopt accounting policies that are appropriate to the activities it engages in. The policies applied remain unchanged from year to year subject only to the introduction of new requirements in accounting practices, significant changes to activities undertaken, or where the Covid-19 pandemic has meant a re-assessment of these policies. These are as follows:

Recognition of Income and Expenditure

Whether paid on-account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the grant will be received and all conditions associated with the grant will be satisfied.

Amounts recognised as grants and contributions for which conditions have not been satisfied are carried forward in the Balance Sheet as creditors.

When all conditions are satisfied, the grant or contribution is credited to the relevant service line or taxation and non-specific grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

All other income and expenditure amounts are recognised on an accruals basis reflecting the date the service is provided.

Expenditure in relation to goods or services received (including services provided by employees) is recorded as expenditure when the goods or services are consumed.

Where income or expenditure has been recognised but cash has yet to be transferred, this is held on the balance sheet as a debtor or creditor respectively. The approved deminimus level for these transactions is over £10,000.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument.

Comprehensive Income and Expenditure Account and the General Fund

The surplus or deficit on provision of services reported in the Comprehensive Income and Expenditure Statement is transferred to the General Fund. Amounts are then transferred to and from the General Fund under statutory provisions or to set aside specific amounts for future policy purposes or to cover contingencies. These amounts are shown in the Movement in Reserves Statement.

Amounts appropriated under Statutory Provisions

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution (Minimum Revenue Provision) in the General Fund, by way of an adjusting transaction to the Capital Adjustment Account through the Movement in Reserves Statement.

The written-off value of asset disposals is appropriated to the Capital Adjustment Account.

Amounts received for an asset sale in excess of £10,000 (or £5,000 for Investment Properties and Intangible Assets) are categorised as capital receipts and credited to the Capital Receipts Reserve. Amounts in the Capital Receipts Reserve can only be used to fund new capital investment or be set aside to reduce the Council's underlying need to borrow.

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year (REFCUS). Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer from the General Fund to the Capital Adjustment Account is made to reverse the amounts charged so there is no impact on Council Tax.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has been incurred are transferred to the Capital Adjustment Account.

Capital grant values included in the Comprehensive Income and Expenditure Statement for which capital expenditure has not yet been incurred are transferred to the Capital Grants Unapplied Reserve until such time that capital expenditure is incurred at which time the expenditure is transferred to the Capital Adjustment Account.

Statutory provisions require the General Fund balance is only charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. Accordingly, amounts charged and credited in determining the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement are replaced with amounts actually paid to the pension fund via an appropriation to the Pensions Reserve for the difference.

Amounts set aside

The Council sets aside specific amounts as reserves for future liabilities or to cover contingencies by transferring amounts out of the General Fund to Earmarked Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service and transferred back into the General Fund. Amounts set aside and transferred back are shown in the Movement in Reserves Statement.

Property, Plant and Equipment

Property, plant and equipment are non-current assets (assets with physical substance) that are held for use in the supply of goods and services, for rental to others or for administrative purposes and are expected to be used during more than one accounting period. The Council maintains a detailed asset register of all non-current assets, above de minimis levels, which it owns, or recognises under finance leases.

Recognition

Expenditure on land, property, plant and equipment is capitalised and recognised on the balance sheet when it is probable that future economic benefits or service potential associated with the asset will flow to the Council over more than one year.

Subsequent costs arising from day-to-day servicing of a non-current asset such as repairs and maintenance, are not recognised as additions to property, plant and equipment because the expenditure does not add to the future economic benefits or service potential of the asset. Rather, the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired. This type of expenditure is charged to the relevant service revenue account when it is incurred.

Where a component of a non-current asset is replaced or restored (i.e. enhancements), the carrying amount of the old component should be derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles as set out above being met. The Council is adopting the option permitted under The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 to assume that the net book value of replaced assets or components is nil for Infrastructure Assets.

The Council applies a de minimis level of £5,000 for the recognition of expenditure on the acquisition, creation or enhancement of property, plant and equipment.

Componentisation

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

To be separately identified as a component, an element of an asset must meet the following criteria:

- the asset must have a value in excess of 0.25% of total NBV of operational buildings and land and

surplus assets; and

- when by doing so would produce a depreciation change of over £100,000; and
- more than double the difference compared with the depreciation charge if the asset isn't componentised.

Where individual assets are beneath the de minimis threshold but collectively are above, they should be considered for componentisation where they are generally treated together elsewhere.

Where components are identified, they will be set up separately in the asset register and have individual values, useful lives and depreciation methods recorded.

Measurement

An item of property, plant and equipment is initially measured at cost, comprising the purchase price and all expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequently, an item of property, plant and equipment is carried in the Balance Sheet using the following measurement bases:

- Land and buildings: Fair value (the amount that would be paid for land and buildings in their existing use) or depreciated replacement cost if fair value cannot be determined.
- Items of a specialised nature, where no market-based evidence is available: Depreciated replacement cost (current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation).
- Community assets: Depreciated historical cost (cost of acquisition adjusted for subsequent depreciation or impairment).
- Infrastructure Assets: measured at depreciated historical cost. However, this is a modified form of historical cost. Opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.
- Non-property assets with short useful lives and/or low values: Depreciated historical cost (cost of acquisition adjusted for subsequent depreciation or impairment).
- All other classes of property, plant and equipment: Fair value (the amount for which an asset could be exchanged in an arms-length transaction).

Revaluation

Assets that are held in the balance sheet at fair value are revalued by professionally qualified valuers on a rolling basis at intervals of no more than five years as appropriate.

Where the carrying amount of an item of property, plant and equipment is increased as a result of a revaluation, the increase is recognised in the revaluation reserve. This is the case unless the increase is reversing a previous impairment loss charged to the cost of services on the same asset or reversing a previous revaluation decrease charged to the cost of services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, (i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset) as opposed to an impairment, the decrease shall be recognised in the revaluation reserve up to the credit balance existing in respect of the asset (i.e. up to its depreciated historical cost) and thereafter in surplus or deficit on the provision of services.

Revaluation gains are depreciated with an amount equal to the difference between current value depreciation charged on assets, and the depreciation that would have been charged based on their historical cost. The amount is transferred each year from the revaluation reserve to the capital adjustment account.

Impairment

At the end of each reporting period, an assessment is made of whether there is any indication that an item of property, plant and equipment may be impaired. If there is indication of impairment, the recoverable amount of the asset is estimated to determine any impairment loss.

If there has been an impairment loss, the asset is written down to its recoverable amount. The impairment loss is charged to the revaluation reserve, to the extent that it does not exceed the amount in the revaluation reserve for the same asset and, thereafter, to the surplus or deficit on the provision of services.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the carrying amount that would have been determined had there been no initial impairment loss. Any excess of the impairment loss reversed above this carrying amount is credited to the revaluation reserve.

Depreciation

All Directorates that use tangible assets in the provision of their services are charged with an annual provision for depreciation. Depreciation applies to all items of property, plant and equipment whether held at historical cost or re-valued amount with an exception of Land.

The depreciation charge is based on the depreciable amount allocated over an asset's useful life. The methods of depreciation that reflect the pattern in which the future economic benefits or service potential of different assets are expected to be consumed, are determined as follows:

- Land: No depreciation.
- Buildings: Straight-line allocation over the life of the property as estimated by the valuer. The lifespan of property ranges from between 30-60 years.
- Vehicles, plant and equipment: Straight line allocation generally between 5 and 10 years.
- Computer equipment: Straight line allocation generally 4 years.
- Surplus Buildings: Straight line allocation generally 30-60 years
- Infrastructure: Straight-line allocation between 15 – 65 years. These are identified in the following categories:
 - Carriageways 15-45 years
 - Footways and Cycle Tracks 20-40 years
 - Structures 65 years
 - Street Lighting 30 years
 - Becks 30 years
 - Flood Prevention 40 years
 - Pedestrian Crossings 40 years
 - Public Transport 40-45 years
 - Street Furniture 15 years
- Community assets: No depreciation as generally in the form of land. The valuer assesses the useful life of any building included in this category.
- Items of property, plant and equipment are not depreciated until they become available for use (i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.
- The residual value of an item of property, plant and equipment, their useful life and depreciation methods are to be reviewed at least annually. If expectations differ from previous reviews or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the change is accounted for as a change in accounting estimate.

All new assets are reviewed upon set up for their useful life.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The carrying amount of the asset in the balance sheet is written off to the 'Other operating expenditure' line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal)

The written-off amounts of disposals are not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the capital adjustment account from the general fund balance in the Movement in Reserves Statement.

Infrastructure Assets are only derecognised where we know this has occurred, i.e. sale.

A full asset register is circulated to management annually for comment and to identify whether any potential derecognition is required.

Post-Employment Benefits (Pensions)

Employees of the Council are members of one of two separate pension schemes:

- The Local Government Pension Scheme, administered by Middlesbrough Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department of Education (DfE).

Both Schemes provide defined benefits to members (retirement lump sums and pensions), based on total years of service and salaries earned as employees working for the Council.

The arrangements for the Teachers' Pension Scheme are such that the liabilities for the benefits cannot be identified specifically to the Council so the scheme is accounted for as a defined contribution scheme. The assets and liabilities of the scheme are excluded from the Council's Balance Sheet and only the value of actual contributions made are charged to the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme is accounted for as a defined benefit scheme. Accordingly, the net liabilities of the Scheme attributable to the Council (as determined annually by the Scheme's actuary) are included in the Council's Balance Sheet.

Liabilities are determined using the projected unit method. This is an assessment of the likely future payments that will be made in relation to retirement benefits earned to date by employees. Estimates are based on assumptions including retirement profiles, mortality rates and projected earnings for current employees. Estimated liabilities are then discounted to their value at current prices, using a discount rate based on the rate of return on high quality corporate bonds, which have been chosen to meet the requirements of IAS19.

The assets of the Scheme attributable to the Council are included in the Balance Sheet at their fair value as follows:

- Quoted securities - at current bid price and
- Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.
- Property - at market value.

The change in the Scheme's net liability from the previous year is analysed as follows:

Charged in the Comprehensive Income and Expenditure Statement

- *Charged to Services*

current service cost - the increase in liabilities as a result of additional service earned in the year.

- **Charged as Central Costs**

past service cost - the increase in liabilities arising from current year decisions whose effect relates to the years of service earned in earlier years.

gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees.

- **Charged as Financing and Investment Income and Expenditure**

interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid.

expected return on assets - the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return.

- **Charged as Other Comprehensive Income and Expenditure**

actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.

- **Charged to the Pension Reserve**

contributions paid - cash paid as employer's contributions to the pension fund in the year.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable because of a decision by the Council to terminate a staff member's employment before the normal retirement date or a decision by a staff member to accept voluntary redundancy. Termination benefits are chargeable as non-distributed costs in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or makes an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amount payable but unpaid at year end.

Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation's accounts and a financial liability in another's. These transactions can cover investments, cash, debtors, creditors, loans, derivatives and guarantees. For the Council these generally take the form of loans or similar borrowings and lendings. Gains and losses are separately identified in the Comprehensive Income and Expenditure Statement in accordance with IFRS9 on Financial Instruments

Financial Liabilities (Borrowing)

Financial liabilities are recognised when the Council becomes party to the contractual provisions of a financial instrument. These are usually as loans at amortised cost rather than fair value.

Interest payable on these financial instruments is determined as the difference between the initial fair value and the total of the cash amounts repayable over the life of the instrument. These are allocated to the Comprehensive Income and Expenditure Statement in equal instalments over the life of the financial instrument concerned

Financial Assets

The Council holds financial assets that are classified as loans and receivables in that they have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised when the Council becomes party to the contractual provisions of a financial instrument. They are initially measured at fair value and are subsequently carried at their amortised cost.

Interest receivable is determined as the difference between the initial fair value and cash amounts to be recovered over the life of the instrument and is allocated to the Comprehensive Income and Expenditure Statement in equal instalments over the life of the assets. For short-term assets, this is charged each month and for longer term by year.

Leases

IAS 17 – the current accounting standard in place for leasing identifies two classes of lease. Finance leases are contracts with the rights to use an asset, where substantially all of the risks and rewards of ownership pass to the lessee. All other leases under the standard are classified as operating leases.

The Council as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments being made (e.g. there may be a rent-free period at the commencement of the lease).

Finance Leases

Where the Council has the balance of risks and rewards in its possession, it will recognise a lease of this nature (for any property or equipment) as an asset in the Council's balance sheet at fair value, with a corresponding long-term liability covering the associated rental payments. The liability will be written down over time as the rental arrangement is repaid, with any interest being charged to financing and investment expenditure in the Comprehensive Income and Expenditure Statement.

The Council as Lessor

Operating Leases

The Council has numerous operating (rental) leases over certain properties and equipment in its ownership where the balance of risks and rewards of the contract remain under its discretion. These assets are retained in the Balance Sheet following normal principles relating to property, plant and equipment. Rental income is credited to the Comprehensive Income and Expenditure Statement against the relevant service line heading on a straight-line basis.

Finance Leases

Where the Council has granted a finance lease on any properties which are retained in the Balance Sheet, the asset will be derecognised from its accounts. A finance lease receivable will then be established representing the proceeds to be received over the lease term. Any amounts in respect of the principal value will reduce the lease debtor outstanding, with any amounts representing interest being credited to the Comprehensive Income and Expenditure Statement

Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours with insignificant risk of change in value. These deposits should not have a term of more than three months in total. Overdrawn bank accounts are presented in the balance sheet net only where there is a right of offset.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of March each year and the date when the Statement of Accounts is authorised for issue. Two types of events are possible:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date the accounts are authorised for issue by the Director of Finance are not reflected in the Statement of Accounts.

Note 2 Accounting Standards Issued but not yet adopted

Accounting Standards that have been issued but not yet adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published, but not yet adopted, by the Code of Practice of Local Authority Accounting in the United Kingdom:

The implementation of IFRS 16 in relation to Leases has been deferred until the 2022/23 financial year. CIPFA has taken this decision in response to pressures on council finance teams as a result of the Covid-19 pandemic.

Standards that have been issued but not yet adopted by the CIPFA Code of Practice include:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform: (Phase 2): Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The potential impact on the Statement of Accounts will be assessed when the accounting standards are implemented, however these are not expected to have a material impact on the Council's financial statements.

Note 3 Assumptions made about the future and other major sources of estimation uncertainty

Heritage Assets

Heritage Assets are not used for the delivery of services but instead are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage Assets are included in the balance sheet at a valuation considered appropriate and relevant to the specific asset. They are recognised, measured and subject to impairment in accordance with the Council's accounting policies on property, plant and equipment. Revaluations, in accordance with the local authority accounting code of practice commenced during the 2019/20 financial year and are on a 5-year rolling cycle.

Investment Properties

Investment properties are those assets held by the Council solely to earn rental income and/or for capital appreciation. These are not depreciated within the accounts. Instead, they are recorded in the balance sheet initially at cost and then subsequently revalued each year at fair value. This is based on the amount at which the asset could be exchanged between knowledgeable parties in an arm's length transaction.

Changes in valuation are charged or credited to financing and investment activities in the Comprehensive Income and Expenditure Statement.

Charges to Revenue for Non-Current Assets

Services, Support Services and Trading Accounts are charged with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;

- Revaluation and impairment losses on assets used by services where there are no previously accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- Amortisation of intangible fixed assets attributable to the service.

Provisions and Contingent Liabilities

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the financial obligation and these are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

When payments are made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities are not recognised in the Balance Sheet or Comprehensive Income & Expenditure Statement due to their uncertainty. They arise where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council or where a provision would otherwise be made but the amount of the obligation cannot be measured reliably. Only a narrative description of the liability and any estimation of the potential cost will be disclosed in the note to the accounts

Self-Insured Risks

The Council has created an internal insurance fund to cover its liability in respect of the risks from fire damage, employers and public liability, motor vehicles, cash in transit and personal accident claims enquiries. The balances on the fund are reviewed biannually with surpluses transferring to general reserves and deficits being funded from increased premiums in the following financial year. In addition, a separate internal insurance fund exists to cover remaining liabilities of the former Cleveland County Council. The risks to the two funds are reviewed on an annual basis.

Interests in Companies and Other Entities

The Council has one major interest in terms of companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. This relates to Middlesbrough Development Company, a wholly owned subsidiary by the Council, which is involved in housing growth. Further details on the objectives of MDC and its relationship with the Council are set out in the narrative report. However, these interests are immaterial in financial terms for 2020/21 and the Council has decided not to prepare group accounts as a result.

In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

Note 4 Critical Judgements in applying Accounting Policies

Sensitivities, Accounting Estimates and Critical Judgements

Accounting for Schools - Balance Sheet Recognition of Schools

The Council recognises the land and buildings used by the schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools' land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets, or rights to use the assets have been transferred from another entity.

The table below shows the different type of schools within the Borough:

Type of School	No of Primary Schools	No of Secondary Schools	No of Special Schools	Total
Community	4	0	3	7
Voluntary Aided (VA)	0	0	0	0
Foundation	5	0	0	5
Maintained	9	0	3	12
Academies (not under the control of LA)	32	8	2	42
Total	41	8	5	54

Of these, only the Community Schools are owned and included on the Council's Balance Sheet.

Valuation of Operational Property

Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's external valuers, Align Property Partners, have provided valuations as at 31 March 2021 for approximately 20% of its operational portfolio in line with the CIPFA Code of Practice requirements. The remaining balance of operational properties not revalued has also been reviewed at a high level to these figures continue to be reliable. Further details as to the total revaluations undertaken following this 5-year rolling revaluation cycle are given in Note 24.

The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers.

The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.

Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy.

The Council however remains comfortable, following discussions with its external valuers, that the asset valuations provided as at 31 March 2021 and in previous years, are the most reliable source of information available to base asset values on for the current set of financial statements.

Investment Properties

Investment Properties are held in the Balance Sheet at fair value, which is based on an assessment of market values currently available. Clearly, the fair value can only be an estimate until a property is marketed for sale.

However, Investment Properties are generally held for the long term so any testing of market values can only be done by comparison with similar properties that have recently been sold.

Similarly, to operational property any valuations for investment properties are reported based on 'material valuation uncertainty' with less certainty and a higher degree of caution being attached to these valuations.

Depreciation

Depreciation and amortisation cost is dependent on an assessment of the useful lives of the individual elements that make up the asset portfolio. This ranges from properties used in the delivery of services to vehicles and IT equipment. However, given that the significant majority of the depreciated cost is invested in land and buildings with long estimated lives, the potential impact on the Balance Sheet of an inaccurate estimate in any one year is significantly reduced.

Local Government Pension Scheme

The accounting disclosure requirements for Local Authorities pension obligations are set out in International Accounting Standard (IAS) 19. The Council uses a firm of actuaries to calculate these figures as they involve making a number of complex judgements with regard to future events including the rate of increase in salaries, mortality rates, changes in the discount rate and the expected return on equity investments. Results under IAS 19 can change dramatically depending upon the prevailing market conditions leading to volatility on the net pension liability on the Council's balance sheet and the pension expense in the Comprehensive Income and Expenditure Statement. There is increased valuation uncertainty on pension fund assets at 31 March 2021 due to the Covid-19 pandemic.

Teachers' Pension Scheme

The Teachers' Pension Scheme is a defined benefit scheme but is accounted for as a defined contribution scheme with the assets and liabilities of the scheme excluded from the Council's Balance Sheet and only the value of actual contributions made being charged to the Comprehensive Income and Expenditure Statement. It is not possible to estimate the net asset value of the scheme that would be included in the accounts if the scheme was accounted for as a defined benefit scheme.

Business Rates Retention Scheme

The Business Rates Retention Scheme was introduced with effect from 1st April 2013. The main aim of the scheme is to provide an incentive to Councils to encourage business growth, as Local Authorities can now retain a share of any Business Rates account surplus. However if Business Rates income declines, Local Authorities are liable to fund a share of any deficit. Middlesbrough's share of any deficit or surplus is 49%, Central Government has a 50% share and the Cleveland Fire Authority has a 1% share. The volatility of the NDR tax base and collection rates means that the introduction of the scheme has significantly increased the financial risk to the Council. Because of this the Council hold a business rates risks reserve as part of its earmarked reserves which gives some assurance against the volatility of the scheme. This is reviewed each year to ensure it is sufficient for the purpose intended.

Group Financial Statements

The 2020/21 Local Authority Code of Practice requires all Councils to consider their relationships with associated companies, strategic partnerships, joint ventures, and any other service delivery vehicles and to produce Group Accounts & Financial Statements where a significant exposure to economic benefits or financial risks can be established. This may lead to assets, liabilities, income and expenditure that impact on the Council's operations sitting outside of the Council's core financial statements.

Work has been undertaken to document all relevant entities connected with the Council and their financial relationship. Following the Chartered Institute of Public Finance and Accountancy guidance on Group Accounts, it has been established that the Council has a group relationship with one body, Middlesbrough Development Company (MDC). Although there are some other entities, with which the Council has an interest, apart from MDC,

including a small investment in Tees Valley, Veritau – the Council’s internal audit provider. These are all considered minor interests from a financial perspective.

MDC is a subsidiary company (limited by share capital) which was created by the Council in February 2019 to influence housing supply and regeneration within the Town. All projects undertaken by MDC will be financed by either government funding or through loan funding obtained from the Council. Since 2019 the Council has contributed to the company £1.565m as part of the funding for its first two projects. As this value is immaterial, group accounts have not been prepared for the 2020/21 financial year.

Due to decisions already made by the Council during 2020 & 2021 to date, it is expected that MDC’s operations will have a significant impact on its finances (around £29m) and that group financial statements will need to be prepared for future years.

Highways Infrastructure

As set out in Note 22 – Property Plant and Equipment (PPE), infrastructure assets have a gross book value of £227 million, with a net book value of £133 million, as at 31 March 2021 (£217 million and £135 million, respectively, at 31 March 2020). The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 requires authorities to derecognise the gross cost and accumulated depreciation on infrastructure assets when a major part or component of that asset has been replaced or decommissioned.

The council does not hold sufficient evidence to support the carrying value of assets that have been replaced or decommissioned. The Council has not been componentising its infrastructure assets and therefore processing de-recognition when replaced.

Consequently, between 1 April 2010 when International Financial Reporting Standards (IFRS) was adopted by the Code of Practice to 31 March 2021, the Council did not maintain sufficiently detailed records in order to support the application of the applicable financial reporting framework. The Council is unable to practicably calculate a prior period adjustment for this period due to the lack of detailed records held. Consequently, the external auditor’s report for the year ended 31 March 2021 has been modified to reflect this.

Note 5 Events after the Balance Sheet Date

There are no events at the authorised for issue date (26 April 2023) that affect any of the values in either the Financial Statements for the Council for 2020/21 or in the Notes to the Accounts.

One decision that is worthy of note is that the Council has decide to cease activities and wind-up Middlesbrough Development Company. This was made at an Executive decision on 24/1/2023. This is expected to happen from the end of August 2023 and the implications of this will be included within future statement of accounts.

Notes Supporting the Movement in Reserves Statement

Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are required to Income and Expenditure recognised by the Council within the year so they match to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure, in accordance with proper accounting practice.

2020/21	General Fund Balance	Capital Receipts Reserve	Revenue Unapplied	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:					
Within the Comprehensive Income and Expenditure Statement					
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(19,369)	0	0	0	(19,369)
Revaluation Losses on Property, Plant and Equipment (Note 24,23)	(4,644)	0	0	0	(4,644)
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	41	0	0	0	41
Amortisation of Intangible Assets (Note 27)	(2,159)	0	0	0	(2,159)
Transfer between Capital grants Unapplied and General Fund	0	0	0	0	0
Total Capital Grants (Note 11)	7,392	0	0	0	7,392
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	0	0	0	5,148	5,148
Donated Assets	1,075	0	0	0	1,075
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	(7,888)	0	0	0	(7,888)
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	4,931	0	0	0	4,931
Non-current assets written off on disposal or sale (Note 23,27)	(6,525)	0	0	0	(6,525)
Cost of Lease Surrender	(1,055)	0	0	0	(1,055)
Total within the Comprehensive Income and Expenditure Statement	(28,201)	0	0	5,148	(23,053)
Amounts arising elsewhere					
Statutory provision for the financing of capital investment (Note 21)	4,743	0	0	0	4,743
Capital Receipts Reserve used to finance new capital spend (Note 21)	0	6,374	0	0	6,374
Capital expenditure charged against the General Fund (Note 21)	58	0	(51)	0	7
Total Amounts arising elsewhere	4,801	6,374	(51)	0	11,124

Total Amounts involving the Capital Adjustment Account	(23,400)	6,374	(51)	5,148	(11,929)
Amounts involving Deferred Capital Receipt Reserve					
Transfer on receipt of cash	0	0	0	0	0
Amounts involving the Pension Reserve					
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 39)	(30,908)	0	0	0	(30,908)
Employer's pension contribution payable in year (Note 39)	10,669	0	0	0	10,669
Amounts involving the Collection Fund Adjustments Account					
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	(13,640)	0	0	0	(13,640)
Amounts within the Compensated Absences Adjustment Account					
Reversal of Accrual made at previous year end (Note 38)	896	0	0	0	896
Creation of accrual for current year end (Note 38)	(695)	0	0	0	(695)
Amounts within the DSG Adjustment Account					
Transfer schools deficit to the DSG adjustment account	(509)				(509)
Amounts between Usable Reserves					
Cash proceeds on disposal of Non-Current Assets	6,224	(6,224)	0	0	0
Total Adjustments for the year ended 31 March 2021	(51,363)	150	(51)	5,148	(46,116)

2019/20	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Usable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
With the Comprehensive Income and Expenditure Statement				
Impairment and depreciation to Property, Plant and Equipment (Note 23)	(15,163)	0	0	(15,163)
Revaluation Losses on Property, Plant and Equipment (Note 24,23)	(17,308)	0	0	(17,308)
Revaluation of Investment Properties and Assets for Sale (Note 26,28)	418	0	0	418
Amortisation of Intangible Assets (Note 27)	(2,150)	0	0	(2,150)
Total Capital Grants (Note 11)	0	0	0	0
Capital Grants and Contributions Unapplied credited to the Comprehensive Income and Expenditure	16,685	0	(567)	16,118
Donated Assets (Note 23,25)	0	0	0	0
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Expenditure	244	0	0	244
Revenue Expenditure Funded from Capital Under Statute (REFCUS) – Grant Receivable	(8,183)	0	0	(8,183)
Non-current assets written off on disposal or sale (Note 23,27)	1,427	0	315	1,742
Total with the Comprehensive Income and Expenditure Statement	(2,052)	0	0	(2,052)
Amounts arising elsewhere	(26,082)	0	(252)	(26,334)
Statutory provision for the financing of capital investment (Note 21)				
Capital Receipts Reserve used to finance new capital spend (Note 21)	3,440	0	0	3,440
Capital expenditure charged against the General Fund (Note 21)	0	1,165	0	1,165
Application of grants to capital financing transferred to the Capital Adjustment Account	7	0	0	7
Total Amounts arising elsewhere	3,447	1,165	0	4,612
Total Amounts involving the Capital Adjustment Account	(22,635)	1,165	(252)	(21,722)
Amounts involving Deferred Capital Receipt Reserve				
Transfer on receipt of cash	0	0	0	0
Amounts involving the Pension Reserve				
Reversal of Pension items in the Comprehensive Income and Expenditure Statement Note 38)	(30,168)	0	0	(30,168)
Employer's pension contribution payable in year (Note 38)	12,637	0	0	12,637
Amounts involved in the Collection Fund Adjustments Account				
Difference in Collection Fund income credited to the Comprehensive Income and Expenditure Statement and that under statutory requirements (Note 38)	(377)	0	0	(377)
Amounts with the Compensated Absences Adjustment Account				
Reversal of Accrual made at previous year end (Note 38)	1081	0	0	1081
Creation of accrual for current year end (Note 38)	(896)	0	0	(896)
Amounts between Usable Reserves				
Cash proceeds on disposal of Non-Current Assets	1,232	(1,232)	0	0
Total Adjustments for the year ended 31 March 2020	(39,126)	(67)	(252)	(39,445)

Note 7 Earmarked Reserves

	Amounts Transferred					Balance at 31st March 2021
	Balance at 1st April 2020	* To Unusable Reserves	Revised Balance at 1st April	From General Fund	To General Fund	
	£000	£000	£000	£000	£000	
Schools Balances	(3,240)		(3,240)	(4,864)	3,240	(4,864)
Significant Revenue Reserves						
Invest to Save / Change Programme	(415)		(415)	(1,321)	1,291	(445)
Revenue Grants Unapplied	(9,936)		(9,936)	(11,151)	9,989	(11,098)
Insurance Fund	(360)		(360)	(276)	330	(306)
Schools Reserves	2,066	(2,783)	(717)	(774)	1,491	0
Capital Re-Financing Reserve	(175)		(175)	0	0	(175)
Public Health Reserve	0		0	(438)	0	(438)
Business Rates Reserve	(1,671)		(1,671)	(10,555)	1,671	(10,555)
Investment Fund Reserve	(4,928)		(4,928)	0	4,928	0
Covid-19 Recovery Reserve	0		0	(4,928)	416	(4,512)
Children's Care Demand Reserve	0		0	(732)	0	(732)
Total Specific Reserves	(15,419)	(2,783)	(18,202)	(30,175)	20,116	(28,261)
Other Revenue Reserves	(652)		(652)	(2,935)	1,668	(1,919)
Total Earmarked Reserves	(19,311)	(2,783)	(22,094)	(37,974)	25,024	(35,044)

* A change in accounting Practice for 2020-21 was to introduce the DSG Adjustment Account for Schools deficits within Unusable reserves.

Details of some of the more significant earmarked reserves are set out below:-

Schools Balances

This reserve holds the accumulated balances and the differences between the school budget and actual expenditure incurred for Middlesbrough Council schools. In accordance with Government regulations and the Council's scheme of delegation for schools, these funds are earmarked for use by schools in future years.

Invest to Save / Change Programme - the reserve has been set up to pay for the one off costs associated with implementing change within services including the funding of investment to save projects, early retirements / voluntary redundancies and altering the way services are commissioned.

Revenue Grants Unapplied – In situations where there are no grant conditions or that conditions have already been met, any unspent grants/contributions are transferred to the Revenue Grants Unapplied at year-end. These have been recognised as income in prior years in the Comprehensive Income & Expenditure Statement.

Insurance Fund - the internal Insurance Fund was set up to cover all the Council's insurable risks. Only a limited amount of external insurance cover is provided for catastrophe or special risk incidents. The nature of the risks covered by the insurance reserve include fidelity guarantee, personal accident, employers liability, fire, motor, marine, engineers, public liability and money losses.

Capital Re-Financing - Funding has been set aside to cover increases in the cost of long-term borrowing.

Public Health – savings achieved in 2020/21 due to the pandemic. Mainly due to less demand on core services. The transfer to reserves will give greater capacity in managing unexpected costs in future years.

Business Rates - the reserve has been set up to cover the financial risks associated with the Business Rates

Retention Scheme, due to volatility of the Business Rates tax base and collection rates. It also includes Section 31 grant, which is payable in advance and offsets losses incurred in 2020/21 due to the pandemic on NNDR. This will be spread over the next three years to offset losses on the collection fund account.

Investment Fund Reserve - To be used to finance future capital investment opportunities. A policy decision was made by full Council to move this to the Covid-19 Recovery reserve during 2020/21.

Covid-19 Recovery Reserve – To assist with the future costs and income losses as a result of the Covid-19 pandemic once government funding stops.

Note 8 Expenditure and Funding Analysis

Expenditure and Funding Statement

The Expenditure and Funding Statement shows how revenue expenditure is used and funded from resources raised (government grants, rents, council tax and business rates) by local authorities, in comparison with those resources consumed by authorities in accordance with generally accepted accounting practice. It also shows how this expenditure is allocated for decision-making purposes between the Council's directorates.

Expenditure and Funding Analysis

2019/20 Restated				2020/21		
Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Service Area	Net Expenditure Chargeable to the General Fund Balance	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
4,505	20,663	25,168	Regeneration	2,547	3,379	5,926
(1,373)	(2,782)	(4,155)	Public Health and Public Protection	(3,050)	(4,717)	(7,767)
2,150	2,658	4,808	Education & Partnerships	1,831	2,102	3,933
40,466	2,620	43,086	Children's Care	42,591	3,179	45,770
37,833	4,192	42,025	Adult Social Care & Health Integration	37,647	1,925	39,572
21,033	22,607	43,640	Environment & Community Services	20,912	25,124	46,036
5,404	5,384	10,788	Finance	1,193	11,183	12,376
9,896	3,900	13,796	Legal & Governance Services	8,687	5,043	13,730
(1,393)	(7,584)	(8,977)	Central Costs	3,687	(9,203)	(5,516)
0	0	0	Covid-19 Overspend	416	0	416
118,521	51,658	170,179	Net Cost of Service	116,461	38,015	154,476
(111,927)	(14,074)	(126,001)	Other Income and Expenditure	(116,398)	(765)	(117,163)
6,594	37,584	44,178	Surplus or Deficit on Provision of Services	63	37,250	37,313
		11,904	Opening Uncommitted General Fund Balance	9,400		
		(6,594)	Surplus or (Deficit) on General Fund Balance in year	(63)		
		4,090	Contribution/(use) in year	1,163		
		9,400	Closing Uncommitted General Fund Balance	10,500		

Adjustments between Funding and Accounting Basis				
2020/21				
Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration	5,498	842	(2,961)	3,379
Public Health and Public Protection	36	763	(5,516)	(4,717)
Education & Partnerships	704	2,668	(1,270)	2,102
Children's Care	190	2,594	395	3,179
Adult Social Care and Health Integration	(467)	2,245	147	1,925
Environment & Community Services	18,882	3,108	3,134	25,124
Finance	904	1,688	8,591	11,183
Legal & Governance Services	3,414	1,328	301	5,043
Central Costs	0	(1,293)	(7,910)	(9,203)
Covid-19 Overspend	0	0	0	0
Net Cost of Services	29,161	13,943	(5,089)	38,015
Other Income and Expenditure from the Expenditure and Funding Analysis	(7,185)	6,298	122	(765)
Difference between General Fund Surplus/ Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services	21,976	20,241	(4,967)	37,250

Adjustments between Funding and Accounting Basis				
Restated 2019/20				
Adjustments from General Fund to Comprehensive Income and Expenditure Statement amounts:	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Regeneration	18,720	2,133	(190)	20,663
Public Health and Public Protection	292	700	(3,774)	(2,782)
Education & Partnerships	1,894	1,607	(843)	2,658
Children's Care	108	1,920	592	2,620
Adult Social Care and Health Integration	1,322	2,211	659	4,192
Environment & Community Services	15,781	3,003	3,823	22,607
Finance	376	2,020	2,988	5,384
Legal & Governance Services	2,885	636	379	3,900
Central Costs	0	(1,331)	-6,253	(7,584)
Net Cost of Services	41,378	12,899	(2,619)	51,658
Other Income and Expenditure from the Expenditure and Funding Analysis	(16,528)	4,635	(2,181)	(14,074)
Difference between General Fund Surplus/Deficit and Comprehensive Income and Expenditure Statement Surplus/Deficit on the Provision of Services	24,850	17,534	(4,800)	37,584

Expenditure & Funding - Analysis by Nature

The Council's income and expenditure is analysed as follows in terms of type of expenditure:

	2019/20 £000	2020/21 £000
Expenditure		
Employees	149,189	148,517
Other Service Expenditure	238,053	269,639
Depreciation and other Capital Charges	44,423	35,264
Interest Payments	6,127	6,473
Precepts and Levies	140	146
Total Expenditure	437,932	460,039
Income		
Government Grants and Contributions	(249,735)	(289,644)
Income from Council Tax and Non Domestic Rates	(72,729)	(63,170)
Interest and Investment Income	(633)	(274)
Fees, Charges and Other Service Income	(70,657)	(69,638)
Total Income	(393,754)	(422,726)
Deficit on the Provision of Services	44,178	37,313

Note 9 Other Operating Income and Expenditure

2019/20		2020/21
£000		£000
140	Levies & Parish Council Precepts	146
820	Losses on the disposal of non-current assets	269
960	Total	415

Note 10 Financing and Investment Activities

2019/20		2020/21
£000		£000
6,128	Interest payable and similar charges	6,473
9,275	Trading Services Activities (Note 16)	8,369
(418)	Charges in relation to Investment Property and changes in their fair value	1,013
22,836	Pension Interest Cost (Note 39)	21,336
37,821	Total Expenditure	37,191
(18,203)	Expected return on Pensions Assets (Note 39)	(15,038)
(632)	Interest receivable and similar income	(274)
(11,262)	Trading Services Activity (Note 16)	(11,898)
(30,097)	Total Income	(27,210)
7,724	Total	9,981

Note 11 Taxation and Non-Specific Grant Income

2019/20		2020/21
£000		£000
(55,483)	Council Tax Income	(56,419)
(17,246)	Business Rates Income	(6,751)
(45,027)	Non ring-fenced government grant (Note 12)	(55,919)
(244)	Value of Donated Property, Plant and Equipment Assets (Note 23)	(1,074)
(16,685)	Capital Grants/Contributions (Note 12)	(7,396)
(134,685)	Total	(127,559)

Note 12 Grant Income

The following grants, contributions and donations were credited to the Comprehensive Income and Expenditure Statement in 2020/21.

Revenue Grants Credited to Taxation and Non Specific Grant Income

2019/20		2020/21
£000		£000
(11,959)	Revenue Support	(12,153)
(26,861)	Business Rates Top-up	(27,299)
(1,972)	New Homes Bonus	(1,332)
(4,055)	Business Rates Section 31	(14,847)
(180)	Enterprise Zone Funding	(157)
0	Renewable Energy	(131)
(45,027)	Total (note 11)	(55,919)
	Department for Education (DfE)	
(48,483)	Dedicated Schools Grant	(50,646)
(3,722)	Pupil Premium	(3,712)
(114)	Education Services	0
(1,332)	Education and Skills Funding Agency	(661)
(0)	Staying Put Agency	(748)
(0)	Universal Infant Free School Meals	(384)
(260)	High Needs Sixth Form Funding	0
(575)	Supporting & Strengthening Families	(739)
(243)	PE & Sport	(89)
(1,341)	Other DfE grants	(1,189)
	Ministry of Housing, Communities and Local Government (MHCLG)	
(1,828)	Independent Living	(1,828)
(1,295)	Adult Social Care Grant	(4,817)
(7,634)	Improved Better Care Fund	(8,392)
(1,005)	Troubled Families	(802)
(568)	Winter Pressures	0
(0)	Migration Fund	(60)
(5,200)	Covid19	(21,010)
(2,495)	Other MHCLG grants	(2,046)
	Home Office	
(803)	Youth Justice Good Practice Grant	(823)
(166)	Other Home Office	(276)
	Department for Business, Energy and Industrial Strategy (BEIS)	
(0)	BEIS grants	(1,364)
	Department for Digital, Culture, Media and Sport (DCMS)	
(553)	DCMS grants	(645)
	Department for Work and Pensions (DWP)	
(56,970)	Housing Benefit Subsidy	(53,153)
(723)	Housing Benefit Admin	(633)
(1,081)	Other DWP Grants	(2,049)
	Department of Health and Social Care (DHSC)	
(16,387)	Public Health	(17,629)
0	Covid 19	(10,592)
(166)	Other DHSC grants	(313)
	Department for Environment, Food and Rural Affairs (DEFRA)	
(108)	DEFRA grants	(8)
	Department for Transport (DfT)	

(121)	DfT grants	(44)
	Lottery Grants	
(40)	Other Lottery Grants	0
	Cabinet Office	
(727)	Elections	17
(104)	Other Grants	(416)
	Other Contributions	
(20,954)	South Tees Clinical Commissioning Group	0
(227)	Tees, Esk and Wear Valleys NHS Foundation Trust	(106)
(814)	South Tees Hospitals NHS Foundation Trust	(273)
0	Tees Valley Clinical Commissioning Group	(27,571)
(2,071)	Redcar and Cleveland Borough Council	(1,744)
(1,772)	Stockton-on-Tees Borough Council	(1,320)
(938)	Hartlepool Borough Council	(986)
0	Darlington Borough Council	(59)
(2,254)	Tees Valley Combined Authority	(3,480)
(122)	Police and Crime Commissioner	(202)
(3,400)	Other Contributions	(610)
(186,596)	Total Revenue Grants Credited to Services	(221,402)
(231,623)	TOTAL REVENUE GRANTS	(277,321)
	Capital Grants	
	Department for Education (DfE)	
(147)	School Condition Allocation	(712)
(1,280)	Basic Need	0
(732)	Other DfE grants	(1,193)
	Ministry of Housing, Communities and Local Government (MHCLG)	
(1,999)	Disabled Facility	(2,268)
	Department of Health and Social Care (DHSC)	
(198)	Other DHSC grants	0
	Department for Transport (DfT)	
(2,840)	Local transport Plan	(4,241)
(2,746)	Other DfT Grants	0
	Tees Valley Combined Authority	
(4,671)	Other TVCA Grants	(3,042)
(1,747)	Other Grants	(78)
	Other Contributions	
(709)	Housing Development	(60)
(1,043)	Other Contributions	(729)
(18,112)	Total Capital Grants	(12,323)
(249,735)	TOTAL GRANTS 2020/21	(289,644)

Memo:

Capital grants recognised through CIES

(1,427)	Amount Applied Directly to Services	(4,931)
(16,685)	Amount recognised as Taxation and Non Specific Income – Note 11	(7,392)
(18,112)	Total Capital Grants	(12,323)

Note 13 Dedicated Schools Grant

Council Schools' expenditure is funded primarily from the Dedicated Schools Grant (DSG) distributed by the Department for Education (DfE), an element of which is recouped by the DfE to fund academy schools in the Council's area. DSG is ring fenced and can only be used to fund approved expenditure, as defined in The School and Early Years Finance (England) Regulations 2018. DSG is split between an element to fund a range of educational services provided on a council-wide basis and the Individual Schools Budget (ISB) element that is allocated directly to each School.

Details of DSG funded expenditure for 2020/21 is set out below:

	Central Expenditure	Individual Schools Budget	Total
	£000	£000	£000
Final DSG for 2020/21 before Academy recoupment			(147,393)
Academy figure recouped for 2020/21			96,873
Total DSG after Academy recoupment for 2020/21			(50,520)
Plus : Brought forward from 2019/20			2,783
Less : Carry Forward to 2021/22 agreed in advance			
Agreed initial budgeted distribution for 2020/21	(16,264)	(31,473)	(47,737)
In year adjustments	0	0	0
Final budgeted distribution for 2020/21	(16,264)	(31,473)	(47,737)
Less : Actual central expenditure	16,084	0	16,084
Less : Actual ISB deployed to schools	0	34,944	34,944
Balance Carried Forward	(180)	3,471	3,291

It should be noted that any negative DSG balances are classified as unusable reserves from 2020/21 for a 3-year period.

Note 14 Officers' Remuneration

Senior Employees' Remuneration

The Accounts and Audit Regulations (England) 2015 requires the separate disclosure and analysis of remuneration for **senior employees** (defined by the regulations as those employees, who report into the Head of Paid Service – the Chief Executive, or are deemed under regulations as statutory officers of the Council).

2020/21	Salary (including fees and allowances)	Pension contributions paid for by the Council	Payment for loss of Office	Strain to the Pension Fund	Total including pensions contribution
	£	£	£	£	£
Chief Executive – Tony Parkinson	152,670	17,557		0	170,227
Strategic Director of Finance, Governance and Support/Section 151 Officer (left June 2020)	22,632	2,603		0	25,235
Director of Finance and Section 151 Officer (started June 2020)	65,788	7,543		0	73,331
Director of Adult Social Care and Health Integration	105,958	12,168		0	118,126
Executive Director Growth and Places (Left Oct 2020)*	72,190	8,302	66,454	226,101	373,047
Director of Environment and Community Services	88,984	10,233		0	99,217
Executive Director of Children's Services (from September 2020)*	82,503	9,488		0	91,990
Head of Legal and Governance Services – Monitoring Officer	90,182	10,348		0	100,530
Director of Education and Partnerships	90,093	10,361		0	100,454
Director of Regeneration and Culture	91,765	10,553		0	102,318
Director of Public Health	96,076	11,132		0	107,208
Head of Marketing and Communications	49,975	5,748		0	55,723

- ”
- Executive Director of Children's Services paid via agency prior to taking the post permanently in September 2020 – Paramount Consulting total cost of £69,925.
 - The redundancy of the Executive Director of Growth & Place which resulted in significant strain on the Pension Fund costs was agreed as part of decisions made via the Chief Officer Appointments Committee during May 2020 following advice from the Leadership Management Team on the senior management restructure.

2019/20	Salary (including fees and allowances)	Pension contributions paid for by the Council	Compensation for loss of office	Payment in lieu of Notice	Total including pensions contribution
	£	£	£	£	£
Chief Executive – Tony Parkinson	148,837	22,733	0	0	171,570
Director of Public Health (left October 2019)	60,071	9,191	0	0	69,262
Director of Public Health (started November 2019)	22,531	0	0	0	22,531
Strategic Director of Finance, Governance and Support -Section 151 Officer	103,161	15,756	0	0	118,917
Director of Adult Social Care and Health Integration	95,005	14,536	0	0	109,541
Executive Director Growth and Places	120,556	18,428	0	0	138,984
Executive Director of Children's Services (left February 2020)	112,253	16,892	72,000	27,718	228,863
Head of Legal Services – Monitoring Officer (left February 2020)	49,297	7,509	15,000	14,769	86,575
Director of Legal & Governance Services – Monitoring Officer (appointed Jan 2020)	18,857	2,885	0	0	21,742
Director of Education & Partnerships – Chief Education Officer	80,906	12,378	0	0	93,284

Other Employees' Remuneration

The number of employees (including teaching staff) whose gross remuneration, including benefits, expense allowances, redundancy and other severance payments, exceeding £50,000 is shown below in bands of £5,000.

2019/20				2020/21		
MBC	School	Total	Remuneration Band (£)	MBC	School	Total
32	9	41	50,000 to 54,999	28	10	38
15	4	19	55,000 to 59,999	16	6	22
7	3	10	60,000 to 64,999	12	2	14
7	2	9	65,000 to 69,999	2	1	3
2	5	7	70,000 to 74,999	3	3	6
1	0	1	75,000 to 79,999	5	3	8
1	0	1	80,000 to 84,999	0	1	1
3	0	3	85,000 to 89,999	1	0	1
0	0	0	90,000 to 94,999	0	0	0
0	0	0	95,000 to 99,999	0	0	0
0	0	0	100,000 to 104,999	0	0	0
0	0	0	105,000 to 109,999	0	0	0
0	0	0	110,000 to 114,999	0	0	0
0	0	0	115,000 to 119,999	0	0	0
1	0	1	120,000 to 124,999	0	0	0
0	0	0	125,000 to 129,999	0	0	0
1	0	1	130,000 to 134,999	0	0	0
0	0	0	135,000 to 139,999	1	0	1
70	23	93	Total	68	26	94

Remuneration is all amounts receivable by an employee, including expenses and allowances chargeable to tax and the estimated money value of any other benefits received excluding pension contributions.

Exit Packages

Details of exit packages are set out in the tables below in bands of £20,000 for amounts up to £100,000 and bands of £50,000 thereafter:

Exit Package Cost Band (Including Special Payments) £	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
							£000	£000
0 to 20,000	14	2	37	34	51	36	295	242
20,001 to 40,000	2	2	5	4	7	6	188	154
40,001 to 60,000	0	0	6	0	6	0	299	0
60,001 to 80,000	0	0	3	1	3	1	213	72
80,001 to 100,000	1	0	2	1	3	1	280	92
100,001 to 150,000	1	0	0	0	1	0	119	0
Over 150,001	1	1	0	0	1	1	162	293
Total	19	5	53	40	72	45	1,556	853

Note 15 Members' Allowances and Expenses

2019/20 £000		2020/21 £000
318	Basic Allowance Paid	344
198	Special Responsibility Allowances Paid	183
7	Expenses	5
523	Total	532

Note 16 Trading Operations

The Council has established a number of trading services, which are required to operate in a commercial environment and balance their budgets by generating income from other Council departments or from external organisations. Details of these operations are given below:

2019/2020				2020/21		
Income	Expenditure	(Surplus) / Deficit		Income	Expenditure	(Surplus) / Deficit
£0	£0	£0		£0	£0	£0
(2,570)	1,357	(1,213)	Commercial and Industrial Properties	(3,457)	987	(2,470)
(2,609)	2,378	(231)	Building Maintenance, Cleaning and Security	(2,518)	2,227	(291)
(1,344)	984	(360)	Parking	(1,354)	1,043	(311)
(4,739)	4,555	(184)	Schools Catering	(4,569)	4,112	(457)
(11,262)	9,274	(1,988)	Total	(11,898)	8,369	(3,529)

Note 17 Audit Fees

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, statutory inspections and non-audit services provided by the Council's external auditors:

2019/20		2020/21
£000		£000
89	Fees payable for external audit service	115
15	Fees payable for the certification of grant claims and returns	18
104	Total	133

The increase in the level of fees from Ernst & Young relates to the developing complexity of local authority audits and the requirements of the Audit Code of Practice. Additional work has also needed to be undertaken in relation to Covid-19 and its impact on the financial statements, plus an assessment of the Council as a going concern. The above total of £115k is the Council's estimate of the costs involved in the audit.

The grant claims work relates to Housing Benefits and Teacher Pensions, which are not part of the core audit.

[Between the accounts being prepared and the audit being completed on this set of accounts, Public Sector Audit Appointments has resolved a dispute over fees for the 2019/20 audit. The additional fees payable by the Council of £75k for this will be included in the 2021/22 disclosure on audit fees.]

Note 18 Agency Services

The Council had no significant agency arrangements in place apart from Covid-19 Grants that Government were pass porting direct (via the Council) to third party businesses or individuals in need. The total cash spend allocated by the Council was £29.8m and this has not been recognised in the Income & Expenditure Statement.

Note 19 Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers of the accounts to assess the extent to which the Council might be constrained in its ability to operate independently or to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.

Grants received from Government Departments are set out in note 12. Debtor and Creditor balances for Central Government bodies are shown in notes 32 and 35.

Senior Officers and Members

The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and a separate survey of both Members and Senior Officers, the following disclosures meet the criteria for related party transactions on behalf of the Council. The Director of Finance is a Director of Veritau Tees Valley Ltd. The Head of Finance & Investments is a Director of Middlesbrough Development Company.

Teesside Pension Fund

Details of all transactions with the Pension Fund are shown in the Teesside Pension Fund section of the Statement of Accounts. Specifically, the Council made contribution payments as an employer of £11.9 million (2019/20 - £11.0 million) and made charges to the Fund for Support Services of £1,120,000 (2019/20 - £1,022,000).

Middlesbrough Development Company

As set out in the narrative report, the Council set up a wholly owned subsidiary company in February 2019 to develop the housing supply and underused sites in the local area. Middlesbrough Development Company has been given £1,170k of Section 106 funding previously received by the Council and has made a commercial loan for the remaining £395k. It has spent £1,311k of the allocated funding and is on site for the Boho Village Bright Ideas project; whilst starting to construct a new housing and retail project at Tollesby following the demolition of the old shopping precinct in early 2020.

A number of elected members and senior officers sit on the management committees or boards of local organisations. The significant transactions that the Council had with these organisations are listed below:

Related Parties Year ended 31 March 2021				
Organisation	Expenditure transactions in year	Income Transactions in year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Tees Valley Combined Authority	4,063	16	0	15
Middlesbrough Citizens Advice Bureau	415	18	0	0
Middlesbrough College	415	42	0	1
South Tees Hospitals NHS Foundation Trust Council of Governors	965	276	0	66
Middlesbrough Voluntary Development Agency	51	0	0	0
Cleveland Fire Authority	3,183	273	0	0
Middlesbrough Environment City	0	19	0	18
Veritau Tees Valley	185	0	0	0
Groundwork North East	45	1	0	0
Teesside Ability Support Centre (TASC)	515	1	0	0

Related Parties Year ended 31 March 2020				
Organisation	Expenditure transactions in year	Income Transactions in year	Year End Creditor Balances	Year End Debtor Balances
	£000	£000	£000	£000
Tees Valley Combined Authority	4,245	19	0	0
Linx Youth project	0	2	0	0
Middlesbrough College	357	58	13	0
Tees Esk and wear Valley NHS	61	0	0	0
Middlesbrough Voluntary Development Agency	4,045	0	0	0
Horizons Specialist Academy Trust	853	63	0	1
Cleveland Fire Authority	3,020	266	0	0
Middlesbrough Environment City	0	11	0	1
Veritau Tees Valley	65	0	45	0

Note 20 Pooled Budgets

A pooled budget (or fund) is an arrangement where two or more partners make financial contributions to a single fund to achieve specified and mutually agreed aims. It is a single budget, managed by a single host with a formal partnership or joint funding agreement that sets out aims, accountabilities and responsibilities. Middlesbrough Council has two Pooled Budgets, the Better Care Fund and Tees Community Equipment Service.

As host to the Better Care Fund and the Tees Community Equipment Service, the Council is required to include a memorandum account for both pooled budgets in its accounts. Only Middlesbrough's share of the pooled budget's expenditure and income is included in the Comprehensive Income and Expenditure Statement.

Better Care Fund

The Better Care Fund (BCF) has been established by the Government to provide funds to local areas to support the introduction of a fully integrated health and social care system. It is a requirement of the BCF that the Clinical Commissioning Group (CCG) and the Council establish a pooled fund for this purpose.

Section 75 of the National Health Service Act 2006 gives powers to local authorities and CCGs to establish and maintain pooled funds to support the outcomes of the BCF.

The Council has entered into a pooled budget arrangement with NHS Tees Valley Clinical Commissioning Group for the provision of health and social care services to meet the needs of the population of Middlesbrough. The services being commissioned or provided by the Council or Tees Valley Clinical Commissioning Group (TVCCG) depend upon the needs of the service recipient. The Council and TVCCG have an ongoing section 75 agreement in place for funding these services and this is reviewed annually. The Council is the host for this pooled budget and each partner's contribution is set out in the Better Care Fund section 75 agreement.

The aims and benefits for the partners entering in to this agreement are to:

- Improve the quality and efficiency of the services and in particular reduce the number of non-elective admissions to acute hospitals;
- Meet the national conditions and local objectives of the Government's Better Care Fund; and
- Make more effective use of available resources through the establishment and maintenance of a pooled fund for revenue and capital expenditure on the services.

2019/20		2020/21
£000		£000
0	Balance Brought Forward	(182)
	Funding Provided to the Pooled Budget	
(10,691)	By the Council	(10,960)
(11,548)	By Tees Valley Clinical Commissioning Group	(12,109)
(22,239)	Total Funding	(23,069)
	Expenditure met from the Pooled Budget	
18,742	By the Council	19,117
3,022	By Tees Valley Clinical Commissioning Group	2,514
21,764	Total Expenditure	21,631
293	Capital Amounts allocated to 2021/22	999
(182)	Net surplus arising on the Pooled Budget to be carried forward	(621)

Tees Community Equipment Service

The Tees Community Equipment Service is a partnership established by an agreement under Section 31 of the Health Act 1999. The partnership agreement covers the costs of administering the Tees Community Equipment Service including:

- The procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled service users living in the community;
- To provide and maintain stock of equipment at additional designated locations, where provided by the Partner of this Agreement, for demonstration and use by the Occupational Therapy Service of that locality;
- To incorporate mechanisms which enable Health and Social Service professionals and members of the public to attend the service's premises to collect equipment;
- A facility for the procurement of non-stock items; and
- The production and distribution of a catalogue describing the service and equipment available.

The agreement was made between eight partners as set out in the memorandum of account. The original eight partners in the Tees Community Equipment Service were Middlesbrough Council, Stockton-on-Tees Borough Council, Redcar & Cleveland Borough Council, Hartlepool Borough Council, Middlesbrough PCT, North Tees PCT, Redcar & Cleveland PCT and Hartlepool PCT. Following NHS reorganisation in 2013/2014, the Primary Care Trusts (PCTs) were abolished and replaced by Clinical Commissioning Groups (CCGs). Middlesbrough Council is the lead authority for the service. The outturn position for the year is set out below:

2019/20		2020/21
£000		£000
(452)	Balance brought forward	(236)
1,980	Gross Expenditure	1,817
(1,764)	Gross Income	(1,961)
(236)	Balance carried forward	(380)
	Contribution from Partners	
(183)	Middlesbrough Council	(183)
(183)	Stockton Borough Council	(195)
(165)	Redcar & Cleveland Borough Council	(171)
(96)	Hartlepool Borough Council	(104)
(493)	South Tees Clinical Commissioning Group	0
(508)	North Tees and Hartlepool NHS Foundation Trust	0
0	NHS Tees Valley Clinical Commissioning Group	(1,199)
(136)	Other Income	(109)
(1,764)	Total	(1,961)

Notes Supporting the Balance Sheet

Note 21 Capital Expenditure and Capital Financing

The total amount of capital expenditure in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2019/20		2020/21
£000		£000
195,235	Opening Capital Financing Requirement	232,480
	Capital Investment	
37,935	Property, Plant and Equipment	33,072
12,664	Investment Property	456
32	Assets Held for Sale	0
1,146	Intangible Assets	1,050
0	Heritage Assets	292
8,183	Revenue Expenditure Funded from Capital under Statute	7,888
0	Long Term Debtors	395
59,960	Total Capital Investment	43,153
	Sources of Finance	
(1,165)	Capital Receipts	(6,374)
(1,742)	Revenue Expenditure Funded from Capital under Statute – Grant Received	(4,931)
(16,361)	Government Grants and other contributions applied in year	(13,614)
	Sums Set Aside from Revenue	
(7)	Direct revenue contributions	(6)
(3,440)	MRP/Loans Fund Principal	(4,743)
232,480	Closing Capital Financing Requirement	245,965
	Explanation of Movement in Year	
40,685	Increase in underlying need to borrow (unsupported by government assistance)	18,228
(3,440)	MRP/loans fund Principal	(4,743)
37,245	Increase in Capital Financing Requirement	13,485

Note 22 Capital Commitments

The Council has an approved 2021/22 budget for Capital works of £93.7m, and a further £66.6m planned until 2023/24.

Contracts for material capital spend are already in place for the following schemes:

Project	2021/22
	Approved Budget
	£000
Middlesbrough Development Company	13,077
Purchase of New Vehicles	3,130
Structures and Bridges	2,986
Urban Traffic Management and Control System (UTMC)	291
East Middlesbrough Community Hub	851
Hostile Vehicle Mitigation	374
Captain Cook Public House	538
Total	21,247

Note 23 Property, Plant and Equipment (PPE)

The definition of property, plant and equipment covers all assets with physical substance that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. Service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services.

Property, Plant and Equipment (PPE) movement in value excluding Infrastructure Assets.

2020/21	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2020	187,342	53,775	38,900	8,282	11,592	299,891
Additions	15,266	803	596	1	5,769	22,435
Donations	0	0	0	0	0	823
Revaluation decreases to Revaluation Reserve	(642)	(3,132)	0	0	0	(3,774)
Revaluation decreases to Deficit on Provision of Services	(5,041)	(1,316)	0	0	0	(6,357)
Derecognition - Disposals	(621)	(2,468)	(647)	0	0	(3,736)
Assets reclassified (to) Held for Sale	(462)	(288)	0	0	0	(750)
Assets reclassified (to)/from Assets – other categories	(38)	0	0	0	(9,095)	(9,133)
At 31 March 2021	195,804	47,374	38,849	8,283	8,266	298,576

2020/21	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Accumulated Depreciation and Impairment						
At 1 April 2020	(2,971)	(395)	(31,112)	0	0	(34,478)
Depreciation charge for the year	(5,178)	(70)	(2,197)	0	0	(7,445)
Depreciation written out to the Revaluation Reserve	4,032	48	0	0	0	4,080
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0
Depreciation written out to the Deficit on Provision of Services	1,840	10	0	0	0	1,850
Derecognition – Disposals	0	0	637	0	0	637
Assets reclassified (to)/from Assets Held for Sale	0	288	0	0	0	288
Assets reclassified (to)/from other categories	0	0	0	0	0	0
At 31 March 2021	(2,277)	(119)	(32,672)	0	0	(35,068)
Net Book Value At 31 March 2021	193,527	47,255	6,177	8,283	8,266	263,508

Highways Infrastructure Assets

In accordance with the temporary relief offered by the update to the Code on Infrastructure Assets, this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The Council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2019/20	2020/21
	£000	£000
Net Book Value at 1 st April	132,585	134,639
Additions	9,633	9,814
Donated assets	0	823
Derecognition	0	(11)
Depreciation in year	(7,579)	(8,042)
Impairments	0	(3,880)
Other Movements in cost	0	0
Net Book Value at 31 st March	134,639	133,343

A reconciliation to the amount on the Balance Sheet for Property, Plant and Equipment is as follows

	2019/20	2020/21
	£000	£000
Other PPE Assets	265,413	263,508
Infrastructure Assets	134,639	133,343
Net Book Value at 31 st March	400,052	396,851

2019/20	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	TOTAL
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2019	189,403	48,968	37,523	8,257	6,775	290,926
Additions	5,873	445	2,736	20	18,962	28,036
Donations	138	0	0	0	0	138
Revaluation increases to Revaluation Reserve	(1,988)	4,676	0	0	0	2,688
Revaluation decreases to Deficit on Provision of Services	(5,316)	327	0	0	(13,615)	(18,604)
Derecognition - Disposals	(1,270)	(1,030)	(1,359)	0	0	(3,659)
Assets reclassified (to) Held for Sale	0	289	0	0	0	289
Assets reclassified (to)/from Assets – other categories	502	100	0	5	(530)	77
At 31 March 2020	187,342	53,775	38,900	8,282	11,592	299,891

2019/20	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture and Equipment	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000
Accumulated Depreciation and Impairment						
At 1 April 2019	(5,193)	(63)	(29,791)	0	0	(35,047)
Depreciation charge for the year	(4,879)	(141)	(2,563)	0	0	(7,583)
Depreciation written out to the Revaluation Reserve	4,555	17	0	0	0	4,572
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services.	0	0	0	0	0	0
Impairment (losses)/reversals written out to the Revaluation Reserve	0	0	0	0	0	0
Depreciation written out to the Deficit on Provision of Services	1,284	10	0	0	0	1,294
Derecognition - Disposals	1,264	69	1,242	0	0	2,575
Assets reclassified (to)/from Assets Held for Sale	0	(289)	0	0	0	(289)
Assets reclassified (to)/from other categories	(2)	2	0	0	0	0
At 31 March 2020	(2,971)	(395)	(31,112)	0	0	(34,478)

Net Book Value At 31 March 2020	184,371	53,380	7,788	8,282	11,592	265,413
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Fair Value Hierarchy

All the Council's Surplus Assets have been assessed as level 3 for valuation purposes.

Valuation Techniques Used to Determine Level 3 Fair Values for Surplus Assets

The Council's Surplus Assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions.

Highest and Best Use of Surplus Assets

In estimating the fair value of the Council's surplus assets the highest and best use of the assets are considered.

Included in the land and buildings totals are a number of leisure properties, which from 1st April 2016 were these transferred to Sport & Leisure Management (SLM) under a Service Concession Arrangement. Under this arrangement, vehicles, plant and furniture and equipment transferred to SLM and were removed from the Council's balance sheet. Land and buildings remain on the balance sheet at their current value. Details of the value of these land and building assets as at 31 March 2021 are included in the table below. All properties were revalued at the date of transfer on 1st April 2016.

	Net Book Value at 31 March 2021
	£000
The Manor Youth and Community Centre	908
Neptune Centre	8,940
Rainbow Centre	8,912
Middlesbrough Sports Village	19,101
Golf Course	529
Total	38,390

Note 24 Revaluations and Impairments of Property, Plant and Equipment (PPE)

The Council maintains a revaluation rolling programme which ensures that all Property, Plant and Equipment required to be measured at fair value are revalued at least every five years. All valuations were carried out by Align Property Partners, the Council's strategic partner. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

The effective date of revaluation for most of the assets revalued during 2020/21 is 1 April 2020. The Council confirms, via discussion with its external valuers, that this valuation basis remains reasonable given the uncertainty around asset values as a result of Covid-19 and that these values are appropriate for use as at 31 March 2021. The significant assumptions applied in estimating fair values at this date are:

- The estimated amount for which a property should exchange on the date of valuation and
- The transaction is at arm's length via willing parties acting knowledgeably and prudently.

Revaluation Analysis

The table below shows the value of assets that have been revalued during 2020/21 and the value of assets that have been revalued over the last four years. The table also identifies the value of assets held at historical cost and at fair value.

	Land and Buildings	Surplus Assets	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets under Construction	Total PPE
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost at 31 March 2021	16,438	180	6,177	133,342	8,282	8,266	172,685
Valued at current value as at:							
31 March 2021	27,136	40,708	0	0	0	0	67,844
31 March 2020	28,976	67	0	0	0	0	29,043
31 March 2019	38,233	4,067	0	0	0	0	42,300
31 March 2018	21,733	2,233	0	0	0	0	23,966
31 March 2017*	61,013		0	0	0	0	61,013
Total Cost or Valuation	193,529	47,255	6,177	133,342	8,282	8,266	396,851

*The historical cost for Other Land and Buildings represents acquisitions in year that have yet to be revalued and other assets that were revalued earlier than 31 March 2017 and will be revalued after the 31 March 2021.

Impairment and Revaluation Losses

The Code requires disclosure by class of assets of the amounts for impairment and Revaluation losses and reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

These disclosures are consolidated in Notes 23 reconciling the movement over the year in Property, Plant and Equipment balances.

During 2020/21 the Council has recognised a net downward revaluation of £10.1 million. This includes an impairment to the Transporter Bridge due to its physical condition of £3.9m. The higher value remaining downward revaluations are:

- Downward revaluation of Inner Middlesbrough Gresham Phase 1 due to the land being provided on a long term lease £1m
- Downward revaluation of Hemlington Grange Land due to the current economic situation and an indication from developers that they see development costs increasing substantially in the future £2.1m
- Downward revaluation of Nunthorpe Grange Farm due to a change in rates applied to residential land/agricultural land and a change in use for buildings £0.9m
- Downward revaluation of Middlesbrough Bus Station due to non-inclusion of elevated areas and allowance for voids and rent reductions £1.2m
- Downward revaluation of Middlesbrough House due an increase in yield to allow for additional risk with empty office space £1m

Due to material uncertainty during the Covid-19 pandemic, a number of higher value assets were added to the revaluation programme in 2020/21 to give some certainty that asset values were carried at the correct amount and not overstated in the Balance Sheet.

The Transporter Bridge was classed as non-operational at the start of 2020/21. Work is ongoing regarding the future purpose of the asset, as to whether it will remain non-operational or repairs will be carried out over a period of time to bring it back into operation. Due to this and the future programme of works, the asset was recategorised to Infrastructure assets and any assets relating to the Bridge were impaired down to nil.

Note 25 Heritage Assets

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

There were an increase in the valuation of heritage assets during 2020/21 of £4.8m relating to a revaluation of fine art and ceramics held by the Council at Middlesbrough Institute of Modern Art (MIMA). A rolling programme of revaluations has being developed and has been started this year with plans to cover the whole portfolio within the next five years.

An analysis of the current Heritage Asset valuation held by the Council is set out below:

	Collections				
	Ceramic	Art	Natural World	Other Cultural Interests	Total
	£000	£000	£000	£000	£000
At 31 March 2021	3,363	12,302	9,012	7,766	32,443
At 31 March 2020	2,239	8,560	9,012	7,752	27,563

Valuation Methods

The Council's Fine Art collection has been valued by Christies. Ceramics have been valued by MAAK and Jewellery by Galerie Ra (a Dutch gallery). The William Kelly book collection was valued by Sotherbys. The remainder of the Heritage Asset collection has been valued using Insurance valuations on the advice of the Council's curators. Further information on Heritage Assets is included below.

Further Information on the Museums' Collections

Ceramics, Porcelains and Figurines

The Council's British Ceramic Art collection is a growing collection and currently contains around 250 items.

Fine Art Collection

The Fine Art collection includes over 1,000 works drawn together from the Middlesbrough Art Gallery and Cleveland Gallery.

The Natural World Collection

The extensive natural science collections number approximately 250,000 specimens covering geology, vertebrate zoology, invertebrate zoology and botany.

Preservation and Management

The collections are managed by Museum curators in accordance with policies as detailed in the Museum's Collection Management Plan.

Other Cultural Interests

Items classified under this heading include the Bottle of Notes, statues and memorials including the Brian Clough statue, the William Kelly book collection and various medals and memorabilia located at the Captain Cook Museum.

Note 26 Investment Properties

Investment Properties are properties (land, buildings or part thereof) held solely to earn rentals or for capital appreciation or both. If earning rental income was an outcome of a regeneration policy or to fund facilities to attract public and businesses in to the town, the properties concerned should be accounted for as Property, Plant and Equipment.

2019/20		2020/21
£000		£000
2,610	Balance at start of the year	15,904
	Additions	
12,664	Purchases	456
0	Donated	1
0	Disposals	0
418	Net gains/(losses) from fair value adjustments	41
	Transfers	
212	(To)/From Property, Plant and Equipment	9,134
15,904	Balance at end of the year	25,536

There are currently 18 assets in total under this classification, which have all been revalued during the 2020/21 financial year due to them being held at fair/market value. Tees Advanced Manufacturing Park was transferred from Assets under Construction in 20-21 and an additional asset added, the Qube.

Fair Value Hierarchy

All the Council's investment portfolio has been assessed as level 3 for valuation purposes.

Valuation Techniques Used to Determine Level 3 Fair Values for Investment Properties

The Council's Investment assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements and there is no reasonably available information that indicates that market participants would use different assumptions

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is considered.

Rental income from Investment Properties and any associated operating expenses are included in the Financing and Investment Activities line in the Comprehensive Income and Expenditure Statement. Details are set out below.

2019/20		2020/21
£000		£000
(1,360)	Rental Income from Investment Property	(1,284)

There are no restrictions on the Council's ability to realise the value inherent in its investment properties or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

Note 27 Intangible Assets

The Council's Intangible Assets consist wholly of purchased IT licenses and software. A breakdown of The movement on Intangible Asset balances during the year is as follows:

31 March 2020		31 March 2021
£000		£000
	Balance at Start of Year	
11,826	Gross Carrying Amount	12,971
(7,839)	Accumulated amortisation	(9,989)
3,987	Net Carrying amount at start of the year	2,982
1,145	Additions : purchases	1,050
(2,150)	Amortisation for the period	(2,159)
0	Disposals	0
2,982	Net Carrying amount at the end of the year	1,873
	Comprising:	
12,971	Gross Carrying amount	14,022
(9,989)	Accumulated amortisation	(12,149)
2,982	Net Carrying amount at the end of the year	1,873

Note 28 Assets Held for Sale

If an asset is 'held for sale', the economic benefits of that asset are obtained through its sale rather than through its continuous use by the Council. Such assets cease to be depreciated in financial value, as they are no longer consumed through service provision.

The Council currently has one Asset Held for Sale. Sales which took place in 20-21 are Letitia Industrial Estate £0.5m, Kirkham Row, Beechwood £0.4m, development land at Cannon Park £0.1m. Land at the former Brackenhoe site has been sold with payment due over two financial years 20/21 and 21/22 with 50% of the value still being held on the Asset Register.

31 March 2020		31 March 2021
£000		£000
	Short Term Assets Held for Sale	
6,700	Balance outstanding at start of year	5,476
0	Transferred between Long-Term and Current Assets Held for Sale	0
	Assets newly classified as held for sale	
(289)	Transferred from Property, Plant and Equipment	462
32	Additions	0
0	Revaluation losses	(226)
	Assets declassified as held for sale:	
(967)	Assets sold	(3,415)
0	Transferred to Property, Plant and Equipment	0
5,476	Balance outstanding at year end	2,297

Note 29 Financial Instruments

Financial Instruments are any contract that gives rise to a financial asset in one organisation and a financial liability of another. This covers – investments, cash, debtors, creditors, loans, finance leases, derivatives and guarantees. These are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument. They are classified based on the business model for holding the instrument and its expected cash flow characteristics.

Financial instruments classified at amortised cost are carried in the Balance Sheet at their amortised cost. Their fair values disclosed below have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of financial guarantees have been estimated based on the likelihood of the guarantees being called and the likely payments to be made.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low interest rate environment.

The fair value of a financial instrument is the price that would be received when selling an asset, or the price that would be paid when transferring a liability, to another market participant in an arms'-length transaction. Where liabilities are held as an asset by another party, such as the council's borrowing, the fair value is estimated from the holder's perspective.

Financial Liabilities: These are initially measured at fair value and are then subsequently valued at amortised cost. For the Council's borrowing (Public Works Loan Board, Lender Option Borrower Option and market loans), this means the amounts held in the accounts are based on the outstanding principal plus any accrued interest. The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

Financial Assets: These again are initially measured at fair value and represent loans and loan type amounts where payments of principal and interest take place on set dates and to particular amounts. The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Two categories of financial asset recently introduced under IFRS9 are fair value through other comprehensive income and expenditure (FVOCI) and fair value through profit and loss (FVPL). These assets are carried at fair value in the balance sheet. FVOCI has a specific restriction meaning that any gains or losses can be reversed through statute, whereas FVPL gains and losses are true charges to the Council's general fund.

All the Council's financial assets, except the long-term investments in Teesside Airport and Suez recycling and recovery, are held at amortised cost. The Council has elected to hold the two long-term investments at FVOCI given the risk of losses on these holdings having a negative effect on the Council's financial position.

Financial Instruments: Balances

The investments and borrowings disclosed in the Balance Sheet consist of the following categories:

Long Term			Short Term	
As at 31 March 2020	As at 31 March 2021		As at 31 March 2020	As at 31 March 2021
£000	£000		£000	£000
		Financial Assets – Loans and Receivables		
		Held at amortised cost (unless indicated)		
309	309	Long Term Investments (FVOCI)	0	0
0	0	Short Term Investments	22,000	0
0	0	Cash and Cash Equivalents	22,246	24,810
309	309	Total Investments	44,246	24,810
		Held as Debtors – amortised cost		
10,003	9,860	Long Term Debtors	0	0
0	0	Short Term Debtors	9,859	7,254
10,003	9,860	Total Debtors	9,859	7,254
10,312	10,169	Total Financial Assets	54,105	32,064
		Financial Liabilities – at Amortised Cost		
		Held as Borrowings		
(179,424)	(186,667)	Long Term Borrowing	0	0
0	0	Short Term Borrowing	(55,247)	(32,089)
(179,424)	(186,667)	Total Borrowings	(55,247)	(32,089)
		Held as Other Payables		
0	0	Short Term Creditors	(6,959)	(10,549)
(1,590)	(1,450)	Long Term Creditors	0	0
(1,590)	(1,450)	Total Held as Other Payables	(6,959)	(10,549)
(181,014)	(188,117)	Total Financial Liabilities – at Amortised Cost	(62,206)	(42,638)

Note 30 Financial Instruments: Fair Value and Risks

Fair Value of Assets and Liabilities

Financial Instruments are carried in the Balance Sheet at amortised cost except for Long Term Investments. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments contractual life using the following assumptions:

- Where the instrument will mature in the next 12 months, the carrying amounts are assumed to be a good reflection of fair value;
- The fair value of PWLB and market loans have been calculated by reference to the 'premature repayment' set of rates as at 31 March 2021;
- The fair value of trade payables and other receivables is taken to be the invoiced or billed amount; and
- The carrying amounts of all other instruments are taken to be a reasonable approximation of fair value.

Fair values can be analysed by their level in the fair value hierarchy or how reliable their basis of calculation is:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs that are observable for the asset or liability, other than quoted prices, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

All Middlesbrough financial instruments; assets and liabilities are rated as level two in the fair value hierarchy. The fair value of borrowings is calculated by ascertaining a fair value from the market price. The calculation applies a discounted cash flow using the rate of the asset and applies it over its life. For investments, debtors and creditors their transaction price is the best proxy for their fair value.

The fair values of the Council's financial instruments are as follows. These are higher than their carrying amounts due to the low value of the bank base rate currently:

2019/20			2020/21	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Assets – Loans and Receivables		
44,555	44,555	Held as Investments	25,119	25,119
19,862	19,862	Held as Debtors	17,114	17,114
64,417	64,417	Financial Assets – Loans and Receivables	42,233	42,233

		Financial Liabilities – at Amortised Cost		
(234,671)	(278,731)	Held as Borrowings	(218,756)	(266,812)
(7,940)	(7,940)	Held as Creditors	(11,999)	(11,999)
(242,611)	(286,671)	Financial Liabilities – at Amortised Cost	(229,305)	(277,361)

Financial Instruments: Risks

The fair value of the financial liabilities held at amortised cost above is higher than their balance sheet carrying amount because the Council's portfolio of loans include a number of loans where the interest rate payable is higher than the current rates available for similar loans at the balance sheet date.

Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks by holding these instruments:

- (a) Credit risk - the possibility that the counterparty to a financial instrument will fail to meet its contractual obligations, causing a monetary loss to the Council.
- (b) Liquidity risk - the possibility that the Council might not have the cash available to make contracted payments to lenders, suppliers and staff on time.
- (c) Market risk - the possibility that an unplanned financial loss will materialise due to changes in market variables such as interest rates on equity prices.
- (d) Re-Financing Risk – The possibility that maturing amounts cannot be refinanced in interest terms that reflect the provisions made by the organisation.

Overall Procedures for Managing Risk

The Council's overall risk management process focuses on the unpredictability of financial markets, and is structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code on Capital Finance, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice.
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Council's overall borrowing levels and a legal limit.

- Its maximum and minimum exposures to fixed and variable rates.
- Its maximum and minimum exposures to the maturity structure of its debt.
- Its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at the Council's annual budget setting report or before the start of the year to which they relate. The items above reported with the Capital Strategy Report, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The Capital Strategy Report, which incorporates the prudential indicator amounts was approved by the Council on 26 February 2020 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2020/21 was set at £300m. This is the maximum legal limit of external borrowings or other long-term liabilities.
- The Operational Boundary was expected to be £280m. This is the expected maximum level of debt and other long-term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 25%, respectively, based on the Council's net debt.

These policies were implemented by the Council's accountancy team and at no point during the 2020/21 financial year were any of these key indicators breached. The Council also maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Treasury Management Code of Practice and were updated on 4 March 2019. No changes have been made since.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Capital Strategy Report, which requires that deposits are not made with banks and financial institutions unless they meet minimum credit criteria, as laid down by Fitch and Moody's Ratings Services. The Capital Strategy Report also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Treasury Management Strategy can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its deposits with banks and building societies of £17.50m cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Council's deposits.

No credit limits were exceeded during the period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

	2019/20		2020/21	
	Long-Term	Short-Term	Long-Term	Short-Term
Credit Rating	£000	£000	£000	£000
AA	0	5,000	0	5,000
-	0	22,000	0	
A+	0	17,000	0	17,000
TOTAL	0	44,000	0	22,000
Credit Risk not applicable	309	0	0	0
Total Investments	309	44,000	0	22,000

Loss allowances on treasury investments are normally calculated by reference to historic default data published by credit rating agencies and adjusted for current economic conditions. A two-year delay in cash flows is assumed to arise in the event of a default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating grades or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit impaired when awarded a "D" credit rating or below. At 31 March 2021, none of the Council's investments are captured by this and therefore it is felt that the most likely loss allowances applicable is nil.

In addition, the Council does not generally allow credit for customers. However, £13.236m of the £14.086m invoiced debtors balance is past its due date for payment relating principally to the Council's Public Health responsibilities. The Council maintains a bad debt provision to offset any collection losses. The past due amount can be analysed by age as follows:

2019/20		2020/21
£000		£000
7,732	Less than 3 months	9,040
580	Between 3 to 6 months	1,486
546	Between 6 months to 1 year	884
1,728	More than 1 year	1,826
10,586	TOTAL	13,236

Collateral - The Council initiates a legal charge on property where, for instance, Adult Social Care service users require residential care but cannot afford to pay immediately. The total collateral as at 31 March 2021 was £0.5m. (31 March 2020 - £0.965m).

Liquidity Risk

The Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of financial liabilities is as follows:

2019/20		2020/21
£000		£000
(55,608)	Less than 1 Year	(32,245)
(25,451)	Between 1 – 2 Years	(17,222)
(23,181)	Between 2 – 5 Years	(27,548)
(32,051)	Between 5 – 10 Years	(43,296)
(15,862)	Between 10 – 15 Years	(16,398)
(7,692)	Between 15 – 20 Years	(16,122)
(8,181)	Between 20 – 25 Years	(3,684)
(4,295)	Between 25 – 30 Years	(3,707)
(18,435)	Between 30 – 35 Years	(18,578)
(18,825)	Between 35 – 40 Years	(19,956)
(25,090)	More than 40 Years	(20,000)
(234,671)	TOTAL	(218,756)

All trade and other payables are due to be paid in less than one year.

Re-financing Risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments made for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the Central Finance team address the operational risks within the approved parameters.

Market Risk

Market Risk - Interest Rate Risk

In the current financial climate, there is a low interest rate risk to the Council. All longer term borrowing is held at fixed rate and any risk of further reductions in rates receivable is insignificant given the current low base. Borrowings and Investments are not carried at fair value in the financial statements, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure Statement.

The Council aims to keep a maximum of 25% of its borrowings in variable rate loans. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. Although there is continued uncertainty in relation to how the Brexit deal will develop for the Country, and this may influence interest rates in both a positive and negative way, the low exposure to variable rate financial instruments means that the financial impact of any future decisions in this area are likely to have minimal impact on both the debt and investment portfolios.

Market Risk - Price Risk

The Council does not invest in equity shares and therefore has no exposure to losses arising from movements in share prices.

Market Risk - Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore no exposure to loss arising from movements in exchange rates.

Note 31 Financial Instruments: Income and Expenditure

Amounts recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2019/20			2020/21	
Financial Assets	Financial Liabilities		Financial Assets	Financial Liabilities
£000	£000		£000	£000
		Income		
(419)	0	Interest Income	(273)	0
		Expenditure		
	5,682	Interest Expense		6,473
	34	Fee Expense		18
	5,716	Total Expenditure		6,491
	5,297	Net Expenditure for the year		6,218

Note 32 Debtors

31 March 2020		31 March 2021
£000		£000
	Short Term Debtors	
7,210	Central Government Bodies	13,909
9,640	Other Local Authorities	7,301
2,668	NHS Bodies	1,198
51,949	Other entities and individuals	59,043
(26,057)	Bad Debt Provision	(33,480)
45,410	Total	47,971
	Long Term Debtors	
5,794	Cleveland Mall – Holiday Inn	5,608
228	Other Long Term Debtors	305
3,981	The Welding Institute	3,552
0	Middlesbrough Development Company	395
10,003	Total	9,860

Note 33 Inventories

2020/21 Financial Year	1 April 2020	Purchases	Expense in the year	Written off	31 March 2021
	£000	£000	£000	£000	£000
Stocks	2,425	3,947	(4,059)	0	2,313

2019/20 Financial Year	1 April 2019	Purchases	Expense in the year	Written off	31 March 2020
	£000	£000	£000	£000	£000
Stocks	2,316	6,274	(6,107)	(58)	2,425

Note 34 Cash and Cash Equivalents

31 March 2020		31 March 2021
£000		£000
68	Cash held by the Council	53
177	Bank current accounts	2,257
22,000	Short-term cash deposits	22,500
22,245	Total	24,810

Note 35 Short Term Creditors

31 March 2020		31 March 2021
£000		£000
(12,744)	Central Government Bodies	(22,284)
(2,686)	Other Local Authorities	(2,636)
(1,143)	NHS Bodies	(1,709)
(26,819)	Other Entities and individuals	(31,677)
(43,392)	Total	(58,306)

The increase in short-term creditors relates to amount paid from central government in relation to Grants to Businesses. With the Covid-19 restrictions being eased, these will need to be repaid if not used.

Note 36 Provisions

A provision is recognised in the accounts where the Council has a legal or constructive obligation arising from a past event and a reliable estimate can be made of the amount of the obligation if not the timing of when the Council will have to settle the obligation.

Current Provisions	Balance at 1 April 2020	Additional Amount in year	Amounts used in year	Balance at 31 March 2021
	£000	£000	£000	£000
Business Rates Appeals	(2,431)	(2,264)	2,476	(2,219)
Early Retirement / Voluntary Redundancy	(41)	(146)	0	(187)
Captain Cook Precinct Service Charge Provision	0	(149)	0	(149)
Insurance Fund Provision	0	(3,250)	0	(3,250)
Social Regeneration Provision	(35)	0	35	0
Total	(2,507)	(5,809)	2,511	(5,805)

Business Rates Appeals – The Council's share of the Business Rates - Appeals Provision of £2,219,355 is split between £1,191,622 short term (less than 12 months) and £1,027,733 long term as projected using the Council's Business Rate Appeals tool. These are based on the Council's 49% share of business rates retention scheme.

Insurance Fund - The Council's Insurance Fund Provision is split between £1,000,000 Short Term (less than 12 months) and £2,250,000 long term.

Note 37 Usable Reserves

Usable Reserves are those reserves that can be used to fund future expenditure or reduce local taxation. Further details on the use of the reserves below can be found in the Movement in Reserves Statement.

31 March 2020		31 March 2021
£000		£000
(9,690)	Capital Grants Unapplied Reserve	(4,805)
(3,389)	Capital Contributions Unapplied Reserve	(3,125)
(145)	Capital Receipts Reserve	5
(9,400)	Uncommitted General Fund	(10,500)
0	Direct Revenue Funding Unapplied	(51)
(19,311)	Earmarked Reserves	(35,044)
(41,934)	Total	(53,520)

The purpose of each Reserve is as follows:

Capital Grants and Contributions Unapplied Reserves

These reserves hold amounts from Capital Grants and Contributions that have been recognised in the Comprehensive Income and Expenditure Statement in line with the accounting code of practice, but for which the associated capital expenditure has not yet been incurred.

Capital Receipts Reserve

This reserve holds amounts received from the disposal of assets and is only available to fund future capital projects.

General Fund

The accumulated credit balance on the general fund is the excess of income over expenditure in the revenue account after adjusting for movements to and from reserves and other non-cash items. This balance is held as a cushion against future unforeseen and unbudgeted expenditure.

Earmarked Reserves

Funding received in previous financial years and classified as income in regard to the terms and conditions of the grant awarded. This income is rolled forward in reserves to meet the future commitments under the grant. Details of the balances on individual earmarked reserves is contained in note 7.

Note 38 Unusable Reserves

Unusable Reserves are those reserves held by the Council that cannot be utilised to provide services. This includes reserves that hold unrealised gains and losses and adjustment accounts, which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards as adopted by the Code.

	Balance at 1st April 2020	* From Earmarked Reserves	Revised Balance at 1st April	Movement in Year	Balance at 31st March 2021
	£000	£000	£000	£000	£000
Revaluation Reserve	(85,357)		(85,357)	419	(84,938)
Capital Adjustment Account	(145,334)		(145,334)	6,701	(138,633)
Pensions Reserve	283,560		283,560	24,557	308,117
Collection Fund Adjustment Account	(482)		(482)	13,641	13,159
Accumulating Compensated Absences Adjustment Account	896		896	(201)	695
Dedicated Schools Grants Adjustment Account	0	2,783	2,783	509	3,292
Total Unusable Reserves	53,283	2,783	56,066	45,626	101,692

* A change in accounting Practice for 2020-21 was to introduce the DSG Adjustment Account for Schools deficits within Unusable reserves.

A description of each type of reserve is set out below:

Revaluation Reserve

The Revaluation Reserve contains the accumulated net gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The reserve only contains revaluation gains accumulated since 1 April 2007, the date when the Revaluation Reserve was constituted. Accumulated gains and losses accumulated before that date are consolidated into the Capital Adjustment Account. Amounts contained within this reserve will only become available to provide services (or limit resources in the case of losses) once the gains/losses are realised as the assets are disposed of.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction and enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account also contains accumulated gains and losses on Investment Property and gains recognised on donated assets as well as revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Pensions Reserve

This reserve is used to reconcile the payments made for the year to various statutory pension schemes and the net change in the Council's recognised liability under IAS19 – Employee Benefits, for the same period.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account holds the differences arising from the recognition of council tax and

business rates income, in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Accumulated Compensated Absences Adjustment Account

The Accumulated Compensated Absences Adjustment Account reflects the value of compensated absences (employees time off with pay for holidays) earned but not taken in the year.

Dedicated Schools Grants Adjustment Account

From November 2020, the Local Authorities (Capital Finance and Accounting) Regulations (the 2003 Regulations) established new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. The local authority must record any such deficit in a separate account established solely for the purpose of recording deficits relating to its school's budget. The CIPFA local authority accounting code has determined this as the 'Dedicated Schools Grant Adjustment Account'. The new accounting practice has the effect of separating schools budget deficits for a period of three financial years.

Movement in Unusable Reserves Statement 2020/21

Movement in Reserves Statement	Revaluation Reserve	Capital Adj Account	Deferred Capital Receipts Reserve	Dedicated Schools Grants Adj Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020	(85,357)	(145,334)	0	0	283,561	(483)	896	53,283
Transfer to unusable reserves				2,783				2,783
Allocated from Other Comprehensive Income and Expenditure	(4,807)	0	0	0	4,317	0	0	(490)
Transfers to/(from) Usable Reserves (Note 6)	0	11,927	0	509	20,239	13,642	(201)	46,116
Difference between fair value and historical cost depreciation	1,314	(1,314)	0	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	3,912	(3,912)	0	0	0	0	0	0
Balance at 31 March 2021	(84,938)	(138,633)	0	3,292	308,117	13,159	695	101,692

Movement in Unusable Reserves Statement 2019/20

Movement in Reserves Statement	Revaluation Reserve	Capital Adj Account	Deferred Capital Receipts Reserve	Dedicated Schools Grants Adj Account	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Compensation Absences Adjustment Account	Total Unusable Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	(81,266)	(163,835)	(2)	0	199,376	(860)	1,081	(45,506)
Allocated from Other Comprehensive Income and Expenditure	(7,312)	0	1	0	66,655	0	0	59,344
Transfers to/(from) Usable Reserves (Note 6)	0	21,722	1	0	17,530	377	(185)	40,544
Difference between fair value and historical cost depreciation	1,295	(1,295)	0	0	0	0	0	0
Accumulated Revalued Amount on assets sold or scrapped	1,926	(1,926)	0	0	0	0	0	0
Balance at 31 March 2020	(85,357)	(145,334)	0	0	283,561	(483)	896	53,283

Note 39 Pension Schemes Accounted for as Defined Benefit Scheme

The Local Government Pension Scheme is accounted for as a defined benefit scheme. As part of the terms and conditions of employment of its staff, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Funded Benefits

The funded benefits are those payable by the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulation 2014.

Unfunded Benefits

The unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions that have not previously been 'converted' to funded benefits under Regulation 13A of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. Such benefits are usually charged to the Employer as they are paid. Other unfunded benefits include gratuities and enhanced teachers' pensions recharged to the Employer, and pensions in respect of some other public sector pension schemes. This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

Transactions relating to Post-Employment Benefits

The following transactions have been reflected in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year, in relation to the Local Government Pension Scheme. The income, expenditure, assets and liabilities set out below includes the actuaries' assessment of the court of appeal decision to include guaranteed minimum pension and the McCloud and Sargeant judgements within the local government scheme benefits going forwards. It also includes the impact of the triennial valuation of the Teesside Pension Fund from 1 April 2019.

Comprehensive Income and Expenditure Statement

Funded 2019/20	Unfunded 2019/20	Comprehensive Income and Expenditure Statement	Funded 2020/21	Unfunded 2020/21
£000	£000	Charged to the Surplus or Deficit on the Provision of Services	£000	£000
		As cost of Service:		
25,074	0	Current Service cost	24,035	0
460	0	Settlements and Curtailments	576	0
3,942	692	As Financing and Investment Income and Interest on net defined benefit	5,693	605
29,476	692	Total charged to the Deficit on the Provision of Services	30,304	605
		Charged to Other Comprehensive Income and Expenditure		
68,048	(1,393)	Actuarial (Gains) / Losses	5,603	(1,286)
97,524	(701)	Total to the Comprehensive Income and Expenditure Statement	35,907	(681)

Movement in Reserves Statement (General Fund)

Funded 2019/20	Unfunded 2019/20	Movement in Reserves Statement (General Fund)	Funded 2020/21	Unfunded 2020/21
£000	£000		£000	£000
(29,476)	(692)	Reversal of total charged to the Deficit on the Provision of Service	(30,304)	(605)
		Actual Amount charged for pensions in the year:		
10,967	1,670	Employers contributions payable to scheme	8,652	2,017
(18,509)	978	Total amount included in the General Fund for the year	(21,652)	1,412

Assets and Liabilities in Relation to Post-Employment Benefits

Funded 2019/20	Unfunded 2019/20	Reconciliation of Liabilities	Funded 2020/21	Unfunded 2020/21
£000	£000		£000	£000
(934,668)	(29,677)	Opening Balance at 1 April	(912,552)	(27,305)
(25,074)	0	Current service cost	(24,035)	0
(22,145)	(691)	Interest cost	(20,731)	(606)
(4,387)	0	Contributions by scheme participants	(4,485)	0
45,399	1,393	Actuarial Gains/(Losses)	(172,368)	1,286
28,783	1,670	Benefits paid	27,892	2,017
(460)	0	Past service curtailments	(576)	0
(912,552)	(27,305)	Closing Balance at 31 March	(1,106,855)	(24,608)

Reconciliation of Fair Value of Scheme Assets

Funded 2019/20	Unfunded 2019/20	Reconciliation of Fair Value of Scheme Assets	Funded 2020/21	Unfunded 2020/21
£000	£000		£000	£000
764,970	0	Opening Balance at 1 April	656,297	0
18,203	0	Expected return on plan assets	15,038	0
(113,447)	0	Actuarial Gains/(Losses)	166,765	0
10,967	1,670	Employer contributions	8,652	2,017
4,387	0	Contributions by scheme participants	4,485	0
(28,783)	(1,670)	Benefits paid	(27,892)	(2,017)
656,297	0	Closing Balance at 31 March	823,345	0

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £171.175 million gain (2019/20 £90.564 million gain). This reflects the impact of the Covid-19 pandemic on the performance of the Teesside Pension Fund at 31 March 2020.

Scheme History	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
	£000	£000	£000	£000	£000	£000
Present value of liabilities	(760,739)	(895,644)	(918,758)	(964,345)	(939,858)	(1,131,463)
Fair value of assets	575,103	704,295	718,360	764,970	656,297	823,345
Scheme Deficit	(185,636)	(191,349)	(200,398)	(199,375)	(283,561)	(308,118)

The scheme deficit shown above includes £24.608 million in respect of unfunded defined benefit obligations (2019/20 £27.305 million).

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The net liability has a sustained impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy because:

- the deficit on the scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Scheme actuary.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2022 is £8.375 million.

Independent Actuary and Latest Valuation

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits Liabilities have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the Teesside Pension Fund being based on latest full valuation of the scheme as at 31 March 2019 with these values rolled forward to 31 March 2021. The calculations have also been done over the duration of the Scheme - which has been forecast at 19.8 years.

The principal assumptions used by the actuary have been:

	2019/20	2020/21
Mortality Assumptions		
Longevity at 65 for current pensioners		
• Men	21.8	21.90
• Women	23.5	23.60
Longevity at 65 for future pensioners		
* Men	23.2	23.30
* Women	25.3	25.40
Other Assumptions		
Rate of Inflation (RPI)	N/A	N/A
Rate of Inflation (CPI)	2.00%	2.70%
Rate of increase in salaries	3.00%	3.70%
Rate of increase in pensions	2.00%	2.70%
Rate of discounting scheme liabilities	2.30%	2.10%
Take up of option to convert annual pension into retirement lump sum	80.00%	80.00%

The LGPS's assets consist of the following categories, by proportion of the total assets held:

	2019/20	2020/21
Equity Investments	72.70%	79.80%
Gilts	0.0%	0.0%
Other Bonds	0.0%	0.0%
Property	8.90%	7.50%
Cash / Liquidity	18.40%	12.70%
	100.0%	100.0%

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost is set out below, sensitivity on unfunded benefits have not been included on materiality grounds:

Disclosure rate assumption		
Adjustment to discount rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	1,084,718	1,128,992
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£000's)	33,205	35,648
Approximate % change in projected service cost	-3.6%	3.6%

Rate of general increase in salaries		
Adjustment to salary rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	1,109,069	1,104,641
% change in present value of total obligation	0.2%	-0.2%
Projected service cost (£000's)	34,409	34,409
Approximate % change in projected service cost	0.0%	0.0%

Rate of increase to pension in payment and deferred pensions assumption, and the rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	1,126,778	1,088,038
% change in present value of total obligation	1.8%	-1.7%
Projected service cost (£000's)	35,648	33,206
Approximate % change in projected service cost	3.6%	-3.5%

Post retirement mortality assumption		
Adjustment to mortality age rating assumption*	-1 year	+1 year
Present value of total obligation (£000's)	1,147,809	1,067,008
% change in present value of total obligation	3.7%	-3.6%
Projected service cost (£000's)	35,854	32,998
Approximate % change in projected service cost	4.2%	-4.1%

* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them.

Note 40 Pensions Schemes Accounted for as Defined Contribution Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the cost by making contributions based on a percentage of members' pensionable salaries.

In 2020/21 the Council paid £2.88 million (2019/20 – £2.56 million) to Teachers' Pensions in respect of teachers' retirement benefits, representing an average of 23.68% (2019/20 – 20.88%) of pensionable pay.

A number of Public Health staff transferred to the Council from the NHS and as part of the conditions of their transfer have remained in the NHS pension scheme. The Council's contributions to the scheme in 2020-21 was £63k (2019-20 £60K).

Note 41 Leases – Council as Lessor

Operating Leases

The Council leases out property and equipment under operating leases for the following purposes:

- * For the provision of community services, such as sports facilities, tourism services and community centres.
- * For economic development aims to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2020		31 March 2021
£000		£000
2,065	No Later than 1 year	1,408
5,108	Later than 1 year and not later than 5 years	3,798
30,119	Later than 5 years	20,343
37,292	Total	25,550

Finance Leases

The Council acted as a facilitator for the relocation of The Welding Institute (TWI) to the Tees Advanced Manufacturing Park in 2017. This was consistent with the Council's priority in economic growth. The lease between the Council and TWI allows the lessee to purchase the property for a nominal amount after 13 years. In addition, the lease rental payments cover the net council investment in the site & building over the lease period.

As the risks and rewards of the lease reside with TWI, the asset is not included within the Council's Property, Plant and Equipment valuation. A long-term debtor has instead been included in the balance sheet to reflect the investment by the Council and this will be repaid over the life of the remaining lease.

The future minimum lease payments receivable through the finance lease are detailed below:

31 March 2020		31 March 2021
£000		£000
464	No later the 1 year	464
1,856	Between 1 year and 5 years	1,856
2,340	Later than 5 years	1,660
4,660	Total	3,980

Note 42 Leases – Council as Lessee

Operating Leases

The Council has entered into operating leases for the use of land and buildings, with lives ranging from 10 to 35 years. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2020		31 March 2021
£000		£000
360	No Later than 1 year	407
1,238	Later than 1 year and not later than 5 years	1,325
719	Later than 5 years	454
2,317	Total	2,186

Finance Leases

Centre Square Buildings

The Council as part of its regeneration and town centre growth plans has entered into two finance lease contracts for the provision of high quality office accommodation. Buildings 1 & 2 Centre Square, adjacent to the Council's municipal buildings, were completed during September 2020. The properties were built with third-party finance and the leases entered into on the buildings are for a 35-year term with rentals paid on a quarterly basis to CBRE Property Management UK. The total repayment schedule for the two leases over the contract are included in the table below. Due to the interest rate implicit in the lease, most of the early year's rental payments are heavily weighted towards interest rather than principal with this position reversing in the latter years of the contract.

The total future minimum lease payments under these finance leases are given in the table below:

31 March 2020	Total future minimum lease payments	31 March 2021
£000		£000
711	Amounts due within one year	711
2,844	Amounts due between 1 to 5 years	2,844
20,950	Amounts due after 5 years	20,239
24,505	Total payments due	23,794
(12,131)	Less: Future finance charges	(11,902)
12,374	Present Value of Lease Obligations	11,892

Given that the risks and rewards of the contract sit predominantly with the Council (length of contract, option to purchase for a nominal sum at the end of the lease term etc.) the properties are held on the long-term assets side of the Balance Sheet.

As the aim of Council is to rent these premises out to tenants on shorter-term leases, the assets have been categorised as investment properties in the accounts. They have been valued at fair/market value with their valuation of £13.5m being determined from future rentals generated. The buildings were around two-thirds occupied at 31 March 2021 with negotiations with potential tenants still in progress for the remaining areas.

Note 43 Contingent Liabilities

At 31 March 2021, the Council had the following contingent liabilities:

Home House Guarantee

An agreement was entered into with Home House, which guaranteed an initial liability of £2.4 million. This was increased to £4.01 million in 1996/1997 as a result of further development at St Johns Gate. The assets of Home Housing are considered sufficient to meet their liabilities without calling upon the guarantee and no provision has been made in the accounts.

Sub Zero - Snow Centre

A court proceeding with Subzero (Middlehaven) Ltd who are trying to claim damages from the Council as a result of the Council not providing funding for the Snow Centre development is expected. The claim amount is £162,000, and there is an additional cost of £10,000 legal fees expected. These amounts given are planning estimates and are very much contingent on the court process for any liability to the Council to be determined. At May 2022, very little progress had been made on this potential claim with court proceedings expected to start in July 2022.

Deprivation of Liberty Safeguards - Confirmed

A Supreme Court case judgement has resulted in the Council potentially facing more applications to the Court of Protection regarding Deprivation of Liberty cases. Liabilities may exist which will not be confirmed until claims are made or cases settled. The Deprivation of Liberty Safeguards are due to be replaced by the Liberty Protection Safeguards during 2021; the financial ramifications remain unclear at this time.

Teachers' Pension Scheme

A teacher was erroneously not enrolled into the teachers pension scheme 15 years ago by omission by MBC HR (Kier). Whilst MBC are ultimately liable for the total £126,000, it is uncertain prior to legal exploration, if MBC will be liable for the full portion that includes £32,000 interest.

Insurance Claims

The Council has recognised a provision of £3.250m and based this on the insurance claims received as at 31 March 2021. Following the professional advice from an appointed qualified actuary, the Council estimates that additional claims relating to events occurring on or before 31 March 2021 may be received in future and, based on past claims, has quantified the most likely costs of settlement as £3.750m. The receipt and settlement of such claims is likely to occur over several decades.

Note 44 Contingent Assets

There were no contingent assets held by the Council at the Balance Sheet date.

Note 45 Trust Funds

The Council administers a number of Trust Funds, which are varied in nature and relate principally to legacies left by local inhabitants of the area over a number of years. Assets of the funds are invested in external marketable securities; with any cash either being invested internally at 7-day interest rates or externally in the money market. None of the funds are included in the Balance Sheet of the Council.

A summary of the Trust Funds administered by the Council is as follow:

	Registered Charity Number – if applicable	Fund Balance at 1 April 2020	Surplus / (Deficit) in 2020/21	Fund Balance at 31 March 2021
		£	£	£
Teesside Education Endowment	514301	7,463	5	7,468
Capt J.V.Nancarrow Trust – Educational support	506937	110,987	75	111,062
Middlesbrough Educational Trust	532293	67,813	44	67,857
Hustler Playing Fields Trust – Sport	523381	1,522,869	33	1,522,902
W.M.Anderton Trust – Kings Manor School and Acklam 6 th Form College	509198	1,384	1	1,385
Teesside Relief in Sickness	229137	3,952	3	3,955
Lady Crosswaite Bequest – support for the older people	234932	483,380	-721	482,659
Home Independent Trust *	226433	123,652	23,119	146,771
Wilson & Marwood Trust – support for disadvantaged people	221291	15,528	10	15,538
Stewart Park Trust – Recreation	507075	8,754	6	8,760
Levick Trust – accommodation for over 60's	255056	337,656	0	337,656
Captain Cook Birthplace Trust	507317	0	3	3
Dorman Museum and Art Gallery Appeal Trust	n/a	3,306	2	3,308
Total		2,686,744	22,580	2,709,324

* Formerly King Edward VII & Sister Purvis

Notes Supporting the Cash Flow Statement

Note 46 Cash Flow Statement – Investing and Financing Activities

The table below shows detail of Investing Activities

2019/20 £000		2020/21 £000
(52,013)	Purchase of property, plant and equipment, investment property and intangible assets	(32,592)
(12,000)	Purchase/proceeds from short-term and long-term investments	22,000
1,232	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6,224
(62,781)	Net cash flows from investing activities	(4,368)

The table below shows detail of Financing Activities

2019/20 £000		2020/21 £000
(145)	Amounts applied to Finance Lease Repayments (Capital Element)	(138)
72,124	Repayments of short- and long-term borrowing	(15,915)
71,979	Net cash flows from financing activities	(16,053)

4. Collection Fund Accounts



Temenos

Collection Fund Income and Expenditure Account

The Collection Fund summarises the transactions of the billing authority in relation to the collection from taxpayers and the redistribution to Local Authorities and the Government of Council Tax and Business Rates.

2019/20		2020/21		
£000		£000	£000	£000
Total		Council Tax	Business Rates	Total
	Income			
(69,475)	Council Tax receivable	(73,013)	0	(73,013)
(36,469)	Business Rates receivable	0	(15,314)	(15,314)
(105,944)	Total Income	(73,013)	(15,314)	(88,327)
	Expenditure			
	Precepts and Demands:			
55,285	Middlesbrough Council	58,707	0	58,707
8,420	Cleveland Police and Crime Commissioner	8,941	0	8,941
2,600	Cleveland Fire Authority	2,705	0	2,705
	Business Rates			
17,807	Payments to Central Government	0	17,886	17,886
356	Payments to Cleveland Fire Authority	0	358	358
17,451	Payments to Middlesbrough Council	0	17,528	17,528
172	Costs of Collection	0	170	170
	Bad & Doubtful Debts			
174	Write Offs	0	(1)	(1)
4,180	Provision for Bad Debts	5,401	1,796	7,197
(320)	Provision for Appeals	0	(431)	(431)
106,125	Total Expenditure	75,754	37,306	113,060
	Contributions towards previous year's estimate			
238	Collection Fund Deficit / (Surplus)	562	222	784
419	Deficit / (Surplus) for the Year	3,303	22,214	25,517
	COLLECTION FUND BALANCE			
(1,174)	Balance brought forward at 1 April	(325)	(430)	(755)
419	Deficit / (Surplus) for the year (as above)	3,303	22,214	25,517
(755)	Balance carried forward at 31 March	2,978	21,784	24,762
	Allocated to:			
(482)	Middlesbrough Council	2,484	10,674	13,158
(41)	Cleveland Police and Crime Commissioner	379	0	379
(17)	Cleveland Fire Authority	115	218	333
(215)	Central Government	0	10,892	10,892
(755)	Balance carried forward at 31 March	2,978	21,784	24,762

Notes to the Collection Fund

Note 1 Income from Council Tax

Calculation of the Council Tax base

The Council Tax replaced the Community Charge on the 1 April 1993 and is a tax based on property valuation bandings (A to H). There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts where applicable), converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax	Band D Equivalent Dwellings
			£000	
A*	37	+5/9	35	21
A	17,635	+6/9	20,111	11,756
B	7,859	+7/9	10,456	6,113
C	8,945	+8/9	13,601	7,951
D	4,647	+9/9	7,949	4,647
E	2,236	+11/9	4,675	2,733
F	800	+13/9	1,977	1,156
G	479	+15/9	1,366	798
H	30	+18/9	103	60
	42,668		60,273	35,235
Less: Adjustments for assumed non-collection based on budgets assumption of 97.4% collection rate			(1,566)	(916)
Total			58,707	34,319

A* - Band A properties receiving Disabled Relief

The average Council Tax for band D dwellings for Middlesbrough Council was £1,710.63

Note 2 Income from Business Rates

In 2013/2014, the administration of Non Domestic Rates (NDR) changed following the introduction of a business rates retention scheme, which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates. Instead of paying NDR to the central pool, local authorities retain a proportion of the total collectible rates due. In Middlesbrough's case, the local share is 49%. The remainder is distributed to the preceptors, which for Middlesbrough are Central Government (50%) and Cleveland Fire Authority (1%).

The total non-domestic rateable value at 31 March 2021 was £103,369,078 (£103,290,803 at 31 March 2020) and the national non-domestic multiplier for the year was 51.2p (50.4p in 2019/20).

Note 3 Previous Years Council Tax Deficit / Surplus

The Council has a statutory requirement to provide details each January of the projected Council Tax deficit or surplus at the end of the financial year. The estimated previous year's Council Tax deficit or surplus is payable to / from the Collection Fund by the Billing Authority and Precepting Authorities in proportion to amounts raised or owing:

2019/20		2020/21
£000		£000
(469)	Middlesbrough Council	1,064
(71)	Cleveland Police and Crime Commissioner	162
(22)	Cleveland Fire Authority	49
(562)	Total Deficit / (Surplus)	1,275

Note that for 2020/21 the £1.275m is after the deduction of 2/3rds of the Exceptional Balance of £2.078m, which is to be financed in 2022/23 and 2023/24

Note 4 Council Tax and Business Rates Provisions

In response to the effects of the Covid-19 crisis in 2020/21, a provision of 30% has been made for debt less than 12 months old on both Council Tax and Business Rates Bad Debts Provision (BDP). In previous years, this has been zero percentage. No change has been made in relation to prior year's debt where a provision of 50% is made for debt between 1 and 3 years old and 75% for debt between 4 and 5 years old. A provision of 100% is made for all debt over five years old, and a provision of 90% is made for Council Tax Support debt less than 3 years old.

The methodology for the provision for appeals is the same as previous years as this is based on live data from the Analyse Local system.

The total provisions held for the Collection Fund at 31 March are set out in the table below:

	Council Tax BDP £000	Business Rates BDP £000	Provision for Appeals £000	Total £000
Opening Balance as at 1 April 2020	18,277	6,989	4,960	30,226
Reductions in the provision in year	-	-	(431)	(431)
Increase in the provision in year	5,401	1,795	-	7,196
Closing balance as at 31 March 2021	23,678	8,784	4,529	36,991

5. Teesside Pension Fund Accounts and Notes



MIMA and the Bottle of Notes

Notes to the Pension Fund Accounts

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Teesside Pension Fund Statement of Accounts

Introduction

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by Middlesbrough Council and the Council is the reporting entity for the Fund.

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

The Council has delegated decision making in relation to the Fund to the Pension Fund Committee. The day to day administration of the Fund and the operation of the management arrangements and investment portfolio is the responsibility of the Director of Finance (Section 151 Officer) of the Council.

The Pension Fund Committee consists of representatives of the employers of the Fund (specifically Councillors of the Local Authority employers together with one representative chosen from the other scheme employers), and employee representatives (from relevant Trade Unions) and makes decisions without reference to the Council. The Pension Fund Committee sets investment strategy and recommends investment decisions. An independent Pensions Board exists and operates as a scrutiny panel to ensure the Pension Fund Committee acts within the statutory and regulatory framework.

Operation

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to employees and former employees of the Teesside local authorities and of those bodies admitted to the Fund, and in some circumstances payment of benefits to those individual's dependants; collectively referred to as members. The benefits paid to members include retirement pensions, dependant's pensions, death grants and lump sums.

The Fund is financed by contributions from members, employers and the income from the Fund's investment portfolio of some £56 billion. The funding policy aims to ensure that the assets held by the scheme are adequate to meet the future liabilities (members' pensions and lump sums) of the Fund allowing for future changes to pensions and pay.

Financial Statements

The Fund's accounts provide information on the financial position, membership, investment performance and risks associated with the Fund. They show the results of the Fund's stewardship in managing the resources entrusted to it and provide information on the income and expenditure of the Fund and the investments it controls.

While membership rose in 2021, the Fund continued to pay more in benefits than it received in contributions as more members are drawing pensions. Net withdrawal of funds were £61.4 million (2020 £55.4 million). During the year, the overall value of the Fund increased by £854 million to £4.56 billion.

Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff, are free to choose whether to join the scheme, remain in the scheme or make their own arrangements. Teaching staff have access to their own defined benefit scheme the details of which are provided in the Councils financial statements.

The tables overleaf summarises the membership of the scheme over recent years showing an overall increase in all categories of members: active members, members who have deferred rights and those who are drawing pensions.

Membership of the Fund	2017	2018	2019	2020	2021
Active	23,791	23,295	22,724	23,438	24,238
Deferred	22,861	23,243	23,361	23,488	23,322
Pensioner	22,177	22,757	23,983	24,651	25,366
Total	68,829	69,295	70,068	71,577	72,926

Summary of Changes in Membership	Active Members	Deferred Members	Pensioner Members	Dependents	Total
At 1 April 2020	23,438	23,488	21,538	3,113	71,577
Adjustments	187	73	104	8	372
New Members	2,743	730	1,304	308	5,085
Change in Status	(558)	(777)	(177)	0	(1,512)
Leavers	(1,572)	(192)	(613)	(219)	(2,596)
At 31 March 2021	24,238	23,322	22,156	3,210	72,926
% of Total Membership	33.2%	32.0%	30.4%	4.4%	100.0%

During the year, we had nine new employers and 21 left the fund, which means as at year-end there were 148 employers in the Fund. The new employers were as follows: three were scheduled employers and six were admission bodies. The majority of the leavers were schools merging into their trust as one and not exits from the fund. Details of the employers and their contribution rates are set out in the Actuary's Statement at the end of this Section.

Employers participating in the Teesside Pension Fund Accounts include:

- Scheduled bodies - local authorities or similar bodies whose staff are automatically entitled to be members of the Fund.
- Admission bodies - organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admission bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following out sourcing to the private sector.

Teesside Pension Fund Statement of Accounts

Fund Accounts for the year ended 31 March 2021

2019/20			2020/21
£000		Note	£000
	Dealings with members, employers and others directly involved in the Fund		
(99,421)	Contributions	6	(95,393)
(8,546)	Transfers in from other pension funds	8	(3,061)
(3,985)	Other income	9	(5,577)
(111,952)	Total Income from Members		(104,031)
146,259	Benefits payable	7	149,785
13,683	Payments to and on account of leavers	10	8,158
159,942	Total Expenditure to Members		157,943
47,990	Net / withdrawals from dealings with members		53,912
7,455	Management expenses	11, 19	7,484
55,445	Net withdrawals including fund management expenses		61,396
	Returns on investment		
(40,980)	Investment income	12	(13,741)
368,157	Profits and losses on disposal of investments and changes in the market value of investments	13	(901,667)
327,177	Net returns on investment		(915,408)
382,622	Net (increase)/decrease in the net assets available for benefits during the year		(854,012)
4,088,095	Net assets of the scheme as at 1 April		3,705,473
3,705,473	Net assets of the scheme as at 31 March		4,559,485
2019/20	Net Assets Statement as at 31 March		2020/21
3,713,228	Investments Assets	13	4,553,817
9,294	Current Assets	16	20,969
(17,049)	Current liabilities	17	(15,301)
3,705,473	Net assets of the Fund at 31 March		4,559,485

Notes to Teesside Pension Fund Accounts

Note 1 Basis of Preparation

The accounts are prepared on a going concern basis; that is, on the assumption that the Council will continue to operate as the administering authority for the Pension Fund and the Pension Fund will continue to meet its financial obligations for the foreseeable future from the date that the audited accounts are issued, this period being at least twelve months from the approval of these financial statements.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which states that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Council is established under the Local Government Regulations 2013 as an Administering Authority of the Local Government Pensions Scheme and is therefore a statutory body expected to be a going concern until notification is given that the body will be dissolved, and its functions transferred.

The Pension Fund has carried out an assessment on its financial position and performance during 2021/22 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of c. £4.56 billion as at 31 March 2021. £3.82 billion (84%) of this is held in assets which are considered to be liquid and which could be converted to cash if required (including £0.34 billion actually held as cash).
- The Fund has estimated that in 2021/22 it will pay out approximately £175 million in benefits and other outgoings in the coming twelve months and is forecasting contribution income in the region of £85 million. This shortfall in contribution income verses benefits and other expenditure of £90 million will be met partly from other regular investment income, which is estimated to be £20 million in 2021/22 with the remaining £70 million being taken from the Fund's cash balance, which was £341 million at the 31 March 2021.

On this basis, management believes it is appropriate to continue to prepare the financial statements on a going concern basis, and that there are no material uncertainties in relation to this basis of preparation.

The statement of accounts summarises the Fund's transactions for the 2020/21 financial year and its position as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits, which fall due after the end of the financial year.

Note 2 Accounting standards issued but not yet been adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is no recognition for low-value and short-term leases). CIPFA/LASAAC have however deferred implementation of IFRS16 for local government to 1 April 2022 due to the impact of Covid-19.

Note 3 Summary of Significant Accounting Policies

Accruals

The accounts have been prepared on an accruals basis, and the accruals threshold set by management is £100,000. The exception to this accruals basis is individual transfer values, which are recognised on a cash transfer basis.

Fund Account – Revenue Recognition

Contributions Income

Normal contributions, from both the members and the employers, are accounted for on an accruals basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year-end are accrued, according to the accruals threshold.

Transfer Values

Transfer values represent the sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfer values in and out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits, are accounted for on a receipts basis within transfers in.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

Interest Income

Interest income is recognised in the Fund account when it is received and is accrued at the year end, using the effective interest rate of the financial instrument as at the date of acquisition.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

Distributions from Pooled Funds

Distributions from Pooled Funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

Property Related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is accounted for on an accruals basis.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non-recoverable tax

Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's guidance, "Accounting for Local Government Pension Scheme Management Expenses (2016)".

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for actuarial, audit and legal fees are paid directly by the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis. Fees of external investment managers and the Fund's custodians are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The costs of the Council's in house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Property Expenses

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net rents from properties.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term, 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair Value Measurement

The standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The Fund currently complies with this standard.

Foreign Currency Transactions

Foreign income and sales and purchase of investments in foreign currencies received during the year have been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2021.

Net Assets Statement

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at 31 March 2021. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund account. The value of investments as shown in the net assets statement have been determined as follows;

Market Quoted Investments

Investments are valued at fair value as at 31 March 2021, as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income that is reinvested in the Fund, net of applicable withholding tax.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year-end. The interest earned is accrued within the investment income receivable.

Unquoted Investments

Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.

Freehold and Leasehold Properties

Properties are shown as valued at 31 March 2021. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition).

Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, Northern Trust. Exceptions to this are directly owned properties, money market cash deposits and specified unquoted investments, which would be registered in the name of the administering authority. Where the Custodian does not provide a custody service in their own right, they utilise third party Sub Custodians, who are appointed by the Custodian. The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result or action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

Outstanding Commitments

The Fund has made commitments to investments, which are not included in the accounts of the Fund until the monies have been drawn down by the relative manager. These are shown in Note 13.

Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Disposal of Investments

Profits/losses on the disposal of investments are realised when the transactions are legally complete.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS26 (Accounting and Reporting by Retirement Benefit Plans) and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 15.

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd as the current provider. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements in the year. AVCs are not included in the accounts in accordance with Regulation 4 (1) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016, but are disclosed as a note only (Note 18).

Value Added Tax

Expenses and property purchase costs are charged net to the Pension Fund. The VAT is reclaimed via Middlesbrough Council's VAT regime.

Note 4 Critical Judgements, Sensitivities and Accounting Estimates

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of unquoted private equities at 31 March 2021 was £149,793,736 (£33,836,477 at 31 March 2020).

Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans). Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

Freehold and Leasehold Property

Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).

Note 5 Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Statement of the Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured for example, a 0.1% per annum increase in the discount factor assumption could decrease liability by around £103.658 million.
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.	Unobservable market values amount to £730 million and are relating to infrastructure, real estate, and pooled equity vehicles
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	

Note 6 Contributions

Contributions from both members and employers are accounted for on an accrual basis in the payroll period. The employers' percentage rate is set by the actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

		2019/20	2020/21
		£000	£000
Employers	Normal	(68,491)	(63,910)
	Additional Contributions	(12)	(13)
	Deficit Recovery Contributions	(1,004)	(1,055)
Members	Normal	(29,914)	(30,415)
Total		(99,421)	(95,393)

Analysis of Total Contributions

		2019/20	2020/21
		£000	£000
Administering Authority – Middlesbrough Council		(14,925)	(13,451)
Scheduled Bodies		(71,009)	(68,071)
Admission Bodies		(13,487)	(13,871)
Total		(99,421)	(95,393)

Note 7 Benefits Payable

Pensions/lump sum benefits payable include all amounts known to be due at the end of the financial year.

		2019/20	2020/21
		£000	£000
Pensions		119,302	123,640
Commutations and lump sum retirement benefits		25,463	22,947
Lump sum death benefits		2,915	3,198
Total		146,259	149,785

Analysis of Total Benefits

		2019/20	2020/21
		£000	£000
Administering Authority – Middlesbrough Council		24,275	24,159
Scheduled Bodies		87,288	91,840
Admission Bodies		34,696	33,787
Total		146,259	149,785

Note 8 Transfers in from Other Pension Funds

Transfer values represent the sums receivable in respect of members who have joined the Fund during the financial year.

	2019/20	2020/21
	£000	£000
Individual transfers in from other schemes	(8,546)	(3,061)
Total	(8,546)	(3,061)

Note 9 Other Income

	2019/20	2020/21
	£000	£000
Capital Costs of Early Retirements	(3,982)	(4,311)
Other income	(3)	(1,266)
Total	(3,985)	(5,577)

Note 10 Payments to and on account of leavers

	2019/20	2020/21
	£000	£000
Refunds to members leaving scheme	309	205
Payments for members joining state scheme	95	159
Individual transfers to other schemes	13,279	7,794
Total	13,683	8,158

Note 11 Management Expenses

The Fund discloses its pension fund management expenses in accordance with CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. This includes administrative expenses, investment management expenses and oversight and governance costs.

	2019/20	2020/21
	£000	£000
Administrative costs	2,185	1,938
Investment management expenses	1,480	4,955
Oversight and governance costs	3,768	553
Total	7,433	7,446

All investment management expenses are accounted for on an accruals basis. Fees of external managers and custodian are agreed in respective mandates governing their appointments.

	2019/20	2020/21
	£000	£000
Management fees	840	3,662
Custody fees	14	23
Transaction costs	120	719
Loans & investment support service charges	506	551
Total	1,480	4,955

Note 12 Investment Income

Investment income has been recognised as due on the ex-dividend date and is credited to the fund on the date of dividend.

	2019/20	2020/21
	£000	£000
Income from equities	(1,511)	0
Income from pooled investment vehicles	(19,253)	511
Net rents from properties (see note below)	(15,682)	(12,584)
Interest on cash deposits	(4,534)	(1,668)
Total	(40,980)	(13,741)

Rental Income and Property Expenses

	2019/20	2020/21
	£000	£000
Gross Rental income	(15,870)	(13,563)
Property Expense / (Income)	188	979
Net Rents from Properties	(15,682)	(12,584)

Note 13 Investment Assets

The Pension Fund invest in several types of assets in order to maximise the return on the investment for the Fund.

2020/21	Value at 1 April 2020	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2021
	£000	£000	£000	£000	£000
Equities	89	0	0	1	90
Pooled Investment Vehicles	2,868,327	876,896	(765,047)	889,814	3,869,990
Pooled Property Investments	51,134	190	(386)	13,102	64,040
Properties	278,450	0	0	(1,250)	277,200
	3,198,000	877,086	(765,433)	901,667	4,211,320
Cash Deposits	501,295				340,650
Other Investment Balances	13,933				1,847
Net Investment assets	3,713,228				4,553,817

2019/20	Value at 1 April 2019	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2020
			£000	£000	£000
Equities	31,495	0	(32,613)	1,207	89
Pooled Investment Vehicles	3,158,652	166,206	(115,303)	(341,228)	2,868,327
Pooled Property Investments	50,121	13,344	(6,445)	(5,886)	51,134
Properties	300,700	0	0	(22,250)	278,450
	3,540,968	179,550	(154,361)	(368,157)	3,198,000
Cash Deposits	527,454				501,295
Other Investment Balances	14,807				13,933
Net Investment assets	4,083,229				3,713,228

Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Realised profit was £136,402,035 and unrealised gain was £765,265,080. Prior year-realised profit was £22,068,647 and unrealised loss was £390,225,586.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £719,226 (2019/2020 £119,666). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes, the transaction costs have been re-allocated to expenses.

Investments Analysed by Fund Manager

The fund is mainly in-house managed with the only exception being the direct property portfolio managed by CBRE Limited.

- For 2020/2021 the value at 31 March 2021 of the direct property portfolio was: £277,200,000
- For 2019/20 the value at 31 March 2020 of the direct property portfolio was : £278,450,000

The remainder of the Fund is all managed in-house.

The following investments represent more than 5% of the net assets of the scheme.

Security	Market Value 31 March 2020	% of net assets of the scheme	Market Value 31 March 2021	% of net assets of the scheme
	£'000			£'000
Border to Coast PE Overseas Dev Mkts	194,064	5.23%	953,478	22.64%
Border to Coast PE UK Listed Equity	1,023,645	27.60%	1,292,616	30.69%
SSGA MPF Pacific Basin Ex-Japan Index	302,041	8.14%	451,648	10.72%
SSGA MPF Japan Equity Index	228,691	6.17%	0	0.00%

SSGA MPF North America Equity Index Sub Fund	558,226	15.05%	467,716	11.11%
SSGA MPF Euro Ex UK Equity Index Sub Fund	344,340	9.29%	0	0.00%

In addition, the following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund Committee.

Asset Class / Security	Market Value 31 March 2020	% of asset class	Market Value 31 March 2021	% of asset class
	£'000		£'000	
UK Equities				
Border to Coast UK L E-AA GBP	1,023,645	99.99%	1,292,616	99.99%
Overseas Equities				
Border to Coast OS DEV M-AA GBP	194,064	11.92%	953,478	43.56%
SSGA MPF Pacific Basin ex-Japan Index	302,041	18.56%	451,648	20.63%
SSGA MPF Japan Equity Index	228,691	14.05%	0	0.00%
SSGA MPF North America Equity Index Sub Fund	558,226	34.30%	467,716	21.37%
SSGA MPF Euro Ex UK Equity Index Sub Fund	344,340	21.16%	207,819	9.49%
Alternatives – Private Equities				
Crown Co Investment Opp II PLC	17,081	33.55%	17,658	11.79%
Pantheon Global Co-Investment Opportunities IV	12,581	24.71%	12,276	8.20%
Border to Coast Private Equity Series 1A	9,192	18.05%	24,546	16.39%
Crown Growth Global Opportunities III	7,275	14.29%	11,278	7.53%
Alternatives – Infrastructure				
ACIF Infrastructure	13,665	14.62%	18,647	12.71%
Innisfree PFI Continuation Fund	9,949	10.64%	9,729	6.63%
Innisfree PFI Secondary Fund 2	8,473	9.06%	8,628	5.88%
Border to Coast Infrastructure Series 1A	12,450	13.32%	17,918	12.21%
Capital Dynamics Clean Energy & Infrastructure VIII	5,223	5.59%	8,365	5.70%
JP Morgan IIF UK I LP	20,162	21.57%	36,719	25.03%
Ancala Infrastructure Fund II	6,082	6.51%	9,946	6.78%
Gresham House BSI Infrastructure LP	13,036	13.94%	12,525	8.54%
Alternatives – Other Alternatives				
Amedeo Air Four Plus Ltd	3,900	5.35%	0	0.00%
Darwin Leisure Development Fund – Class D	16,787	23.03%	17,400	18.93%
Darwin Leisure Prop Units - Class C	22,108	30.33%	22,769	24.77%
Darwin Bereavement Services Fund - Class B	15,164	20.80%	16,070	17.48%
Hearthstone Residential Fund 1	7,704	10.57%	8,498	9.024%
Gresham House BSI Housing Fund LP	7,221	9.91%	5,806	6.32%
Direct Property				

Doncaster (Omega Boulevard)	24,350	8.74%	30,350	10.95%
Exeter (The Meridian Centre)	18,000	6.46%	13,900	5.01%
Birmingham (Bromford Central)	17,350	6.23%	18,150	6.55%
Gateshead (Team Valley Trading Estate)	16,950	6.09%	20,500	7.40%
Rugby (Valley Park)	15,500	5.57%	17,250	6.22%
Cheltenham (Fosse Way)	14,250	5.12%	15,175	5.47%
Lutterworth (Magna Park)	0	0.00%	15,700	5.66%
Property Unit Trusts				
Standard Life Investments European Property Growth Fund	22,459	43.92%	36,403	56.84%
Royal London Property Investment	10,684	20.89%	9,832	15.35%
LAMIT - Local Authorities Property Fund	4,151	8.12%	4,017	6.27%
Hermes Property	4,452	8.71%	4,330	6.76%
Threadneedle Property	3,602	7.04%	3,520	5.5%
Legal and General Managed Property Fund	5,787	11.32%	5,937	9.28%

Geographical Analysis of Investments

	As at 31/03/20		As at 31/03/21	
	£000	%	£000	%
United Kingdom	1,443,038	45%	1,755,016	42%
United States	721,216	22%	1,029,673	24%
Asia Pacific	360,260	11%	737,691	17%
Europe	425,381	14%	485,317	12%
Japan	248,097	8%	203,614	5%
Others	8	0%	9	0%
Total	3,198,000	100%	4,211,320	100%

Equities

	As at 31/03/20	As at 31/03/21
	£000	£000
UK quoted	81	81
Overseas quoted	8	9
Total	89	90

Pooled Investment Vehicles and Properties

	As at 31/03/20	As at 31/03/21
	£000	£000
UK Equity	1,023,638	1,292,616
Pooled Property investment Vehicle	51,134	64,040
Private Equity	50,918	149,794
Infrastructure	93,487	146,725
Other Alternative Investments	72,891	91,928
UK Unit and Investment Trusts Total	1,292,068	1,745,103
Overseas Equities	1,627,393	2,188,927
Overseas Unit and Investment Trusts Total	1,627,393	2,188,927
Total	2,919,461	3,934,030

UK Properties

	As at 31/03/20	As at 31/03/21
	£000	£000
Freehold	215,275	215,725
Leasehold	63,175	61,475
Total	278,450	277,200

The properties were valued on the basis of Material Valuation Uncertainty at 31 March 2021 by Cushman and Wakefield LLP acting as an External Valuer. The valuer's opinion of the Market Value of the Fund's interests in the properties has been reported (as per VPS 3 and VPGA 10 of the RICS Red Book Global). The current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Cash Deposits

	As at 31/03/20	As at 31/03/21
	£000	£000
Sterling Cash deposits	501,295	340,650

Other Investment Balances

	As at 31/03/20	As at 31/03/21
	£000	£000
Cash deposits with custodian	13,147	1,470
Outstanding dividend entitlements	41	0
Interest due on cash deposits	745	377
Total	13,933	1,847

Outstanding Commitments

As at 31 March 2021, the Fund had the following outstanding commitments.

	Initial Commitment	Capital Payments made	Outstanding commitments at 31 March 2021
Infrastructure			
	GBP	GBP	GBP
Border to Coast Infrastructure Series 1A	100,000,000	25,993,784	74,006,216
Border to Coast Infrastructure Series 1B	50,000,000	5,043,886	44,956,114
Capital Dynamics Clean Energy Infrastructure Fund VIII	20,000,000	9,100,754	10,899,246
Capital Dynamics Clean Energy Infrastructure Fund VIII - Co Investment	10,000,000	4,550,377	5,449,623
Gresham House	20,000,000	12,599,002	7,400,998
Innisfree PFI Continuation Fund	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	10,000,000	8,360,796	1,639,204
Total GBP	200,000,000	75,357,097	144,642,903
	EUR	EUR	EUR
Access Capital Infrastructure Fund	23,000,000	20,677,000	2,323,000
Access Capital Infrastructure Fund II	20,000,000	7,860,000	12,140,000
Access Capital Infrastructure Fund II (Fund 2)	22,000,000	2,100,000	19,900,000
Ancala Infrastructure Fund II	23,000,000	12,106,917	10,893,083
Foresight Energy Infrastructure	17,000,000	3,697,048	13,302,952
Total EUR	105,000,000	46,440,966	58,559,034

	USD	USD	USD
Blackrock Global Energy & Power Infrastructure Fund III	25,000,000	9,003,141	15,996,859
Blackrock Global Renewable Power III	25,000,000	3,144,238	21,855,762
Total USD	50,000,000	12,147,379	37,852,621
Other Alternatives			
	GBP	GBP	GBP
Bridges Evergreen TPF Housing Co-Investment LP	5,000,000	360,633	4,639,367
Gresham House Housing Fund	20,000,000	6,740,693	13,259,307
Hearthstone Residential Fund 1	10,000,000	9,645,955	354,045
Total GBP	35,000,000	16,747,281	18,252,719
Pantheon Senior Debt Secondaries II	25,000,000	8,774,390	16,225,610
Total USD	25,000,000	8,774,390	16,225,610
Private Equity			
	GBP	GBP	GBP
Border to Coast Private Equity Series 1A	100,000,000	27,175,743	72,824,257
Border to Coast Private Equity Series 1B	50,000,000	728,104	49,271,896
Capital Dynamics LGPS Collective for Pools	10,000,000	3,100,000	6,900,000

The Model T Finance Company	19,999,950	19,999,950	0
Hermes Innovation Fund	15,000,000	5,073,397	9,926,603
Total GBP	194,999,950	56,077,194	138,922,756
	EUR	EUR	EUR
Access Capital Fund VIII Growth Buy-Out Europe	30,000,000	5,130,000	24,870,000
Access Capital Co-Investment Fund Buy-Out Europe II	22,000,000	6,750,000	15,250,000
Capital Dynamics Mid-Market Direct V	20,000,000	7,600,000	12,400,000
Crown Growth Global Opportunities III	30,000,000	13,350,000	16,650,000
Unigestion Direct II	25,000,000	2,525,542	22,474,458
Unigestion Secondary V	50,000,000	11,000,000	39,000,000
Total EUR	177,000,000	46,355,542	130,644,458
	USD	USD	USD
Blackrock Private Opportunities Fund IV	25,000,000	12,181,751	12,818,249
Capital Dynamics Global Secondaries V	22,000,000	10,120,000	11,880,000
Crown Co-Investment Opportunities II	30,000,000	20,805,000	9,195,000
Crown Global Opportunities VII	40,000,000	12,280,000	27,720,000
Crown Secondaries Special Opportunities II	25,000,000	5,875,000	19,125,000
Pantheon Global Co Investment Opportunities IV	30,000,000	20,770,000	9,230,000
Total USD	172,000,000	82,031,751	89,968,249

Note 14 Financial Instruments

Net Gains and Losses on Financial Instruments

Financial Assets	2019/20	2020/21
	£000	£000
Fair Value through profit and loss account	368,157	(901,667)

Fair Value of Financial Instruments

	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	As at 31/03/20			As at 31/03/21		
Financial Assets	£000	£000	£000	£000	£000	£000
Equities	89			90		
Pooled Investments	2,868,327			3,869,990		
Pooled Property Investments	51,134			64,040		
Cash		501,295			349,550	
Other investment balances		13,933			1,847	
Sundry debtors and prepayments		9,294			20,969	
	2,919,550	524,522	0	3,934,120	372,366	0
Financial Liabilities						
Sundry creditors			(17,049)			(15,301)
	0	0	(17,049)	0	0	(15,301)
Net Financial Assets	2,919,550	524,522	(17,049)	3,934,120	363,429	(15,301)

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31 March annually. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Valuation of Financial Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2021	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	90	2,465,168	1,468,862	3,934,120
Non-financial assets through profit and loss account	0	0	277,200	277,200
Loans and receivables	372,366	0	0	372,366
Financial Liabilities at amortised cost	(15,301)	0	0	(15,301)
Total Financial Assets	357,155	2,465,168	1,746,062	4,568,385

Valuation of Financial Instruments carried at fair value

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2020	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	89	1,357,271	1,562,190	2,919,550
Non-financial assets through profit and loss account	0	0	278,450	278,450
Financial Assets at amortised cost	524,522	0	0	524,522
Financial Liabilities at amortised cost	(17,049)	0	0	(17,049)
Total Financial Assets	507,562	1,357,271	1,840,640	3,705,473

Sensitivity of Assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classification described above are likely to be accurate to within, the following ranges, and has set out below the consequent potential impact on the closing value

of investments held at 31 March 2021.

Valuation of Financial Instruments carried at fair value – 31 March 2021

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Overseas Equity	13.46%	1,235,449	1,401,741	1,069,158
Pooled Investments - Private Equity	17.27%	149,794	175,664	123,925
Pooled Investments - Infrastructure	17.27%	35,473	41,599	29,347
Pooled Investments - Other Alternatives	17.27%	5,806	6,809	4,803
Pooled Investments - Property	8.69%	42,340	46,019	38,661
Total		1,468,862	1,671,832	1,265,894

Valuation of Financial Instruments carried at fair value – 31 March 2020

	Assessed valuation range (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Overseas Equity	11.03%	1,433,322	1,591,418	1,275,227
Pooled Investments - Private Equity	6.92%	33,836	36,178	31,495
Pooled Investments - Infrastructure	6.92%	59,565	63,687	55,443
Pooled Investments - Other Alternatives	6.92%	7,221	7,721	6,721
Pooled Investments - Property	8.01%	28,246	30,509	25,984
Total		1,562,190	1,729,513	1,394,870

Reconciliation of Fair Value Measurements within level 3 during 2020/21

	Market Value 1 April 2020	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – Overseas Equity	1,433,862	0	0	(745,023)	405,904	141,246	1,235,989
Pooled Investments – Private Equity	33,836	0	108,082	(6,850)	14,726	0	149,794
Pooled Investments – Infrastructure	59,565	(59,322)	22,195	(3,554)	16,589	0	35,473
Pooled Investments – Other Alternatives	7,221	0	1,686	(2,166)	(935)	0	5,806
Pooled Investments	28,246	0	13,534	(386)	946	0	42,340
Total	1,562,730	(59,322)	145,497	(757,979)	437,230	141,246	1,469,402

Reconciliation of Fair Value Measurements within level 3 during 2019/20

	Market Value 1 April 2019	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – UK Equity	6,740	0	0	(6,870)	0	130	0
Pooled Investments – Overseas Equity	1,614,037	0	0	(75,000)	(105,175)	0	1,433,862
Pooled Investments – Private Equity	0	0	41,853	(5,871)	(2,146)	0	33,836
Pooled Investments – Infrastructure	42,753	0	63,654	(11,399)	(35,443)	0	59,565
Pooled Investments – Other Alternatives	7,221	0	0	0	0	0	7,221
Pooled Investments	26,927	0	0	(533)	1,852	0	28,246
Total	1,697,678	0	105,507	(99,673)	(140,912)	130	1,562,730

Nature and Extent of Exposure to Risk Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Responsibility for the Fund's risk management strategy rests with the Teesside Pension Fund Committee. The Funding Strategy Statement and the Statement of Investment Principles identify and analyse the risks faced by the pensions operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund identifies, manages and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in three ways:

1. The actuarial valuation of the Fund, which is carried out every three years and resets the employer contribution rates.
2. The asset liability study, which is carried out every three years or more frequently if required

considers alternative asset allocations for the Fund and the long-term impact on employer contribution rates.

- Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Pension Fund Committee.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Strategy Statement and the Investment Strategy Statement.

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period.

2020/21 Price Risk		Value as at 31/03/21	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	£000
Equities	UK	81	16.07%	94	68
	Non UK	9	13.46%	10	8
	Total	90		104	76
Managed and Unitised Funds	UK	1,477,735	16.07%	1,715,207	1,240,263
	Non UK	2,456,295	13.46%	2,786,912	2,125,678
	Total	3,934,030		4,502,119	3,365,941
Total		3,934,120		4,502,223	3,366,017

2019/20 Price Risk		Value as at 31/03/20	Change	Value on Increase	Value on Decrease
Asset Type	Region	£000	%	£000	Asset Type
Equities	UK	81	15.71%	94	68
	Non UK	8	11.03%	9	7
	Total	89		103	75
Managed and Unitised Funds	UK	1,164,506	15.71%	1,347,450	981,562
	Non UK	1,754,955	11.03%	1,948,527	1,561,383
	Total	2,919,461		3,295,977	2,542,945
Total		2,919,550		3,296,080	2,543,020

Interest Rate Risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in cash. The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below:

Asset Type at 31 March	2019/20	2020/21
	£000	£000
Cash and cash equivalents	501,295	340,650
Other Investment balances	13,933	1,847
Total	515,228	342,497

Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31 March 2021	£000	£000	£000
Cash and cash equivalents	340,650	851	(856)
Cash balances	1,847	5	(5)
Total	342,497	856	(856)

Asset Type		+ 25 BPS	- 25 BPS
Carrying value at 31 March 2020	£000	£000	£000
Cash and cash equivalents	501,295	1,253	(1,253)
Cash balances	13,933	35	(35)
Total	515,228	1,288	(1,288)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Pension Fund Committee is informed quarterly of the Fund's currency exposure. The following tables summarise the Fund's currency exposure as at 31 March 2020 and as at 31 March 2021, showing the sensitivity analysis of foreign exchange movements.

Currency Risk 31 March 2021	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	9	8.60%	10	8
Euro	485,317	5.80%	513,465	457,169
Japanese Yen	203,613	9.30%	222,549	184,677
US Dollar	1,029,673	8.60%	1,118,225	941,121
Asia Pacific ex Japan basket	737,691	8.60%	801,132	674,250
Total	2,456,303		2,655,381	2,257,225

Currency Risk 31 March 2020	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	8	10.90%	9	7
Euro	425,381	7.75%	458,348	392,414
Japanese Yen	248,097	12.25%	278,489	217,705
US Dollar	721,216	10.08%	793,915	648,517
Asia Pacific ex Japan basket	360,260	10.90%	399,528	320,992
Total	1,754,962		1,930,289	1,579,635

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the Fund considers the likely volatility associated with foreign exchange rate movements to be as shown above. A percentage strengthening/weakening of the pound against the various currencies in which the fund holds investments would decrease/increase the net assets available to pay benefits as highlighted above.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contributions receivable from the Fund's participating employers. The market values on investments usually reflect an assessment of credit risk in their pricing and as a result, the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Middlesbrough Council's Annual Report. Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31 March 2021. The LGPS Regulations require that a risk assessment of any new transferee admission body is carried out, and that a bond or guarantee is obtained where necessary. The Teesside Pension Fund Committee must approve the admission of any new body. Bonds or guarantees have been obtained for the Fund's admission body employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

Collateral and other Credit Enhancement

The pension fund does not use collateral and other credit enhancement.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund holds in-house cash resources to meet the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost. With the exception of investments in private equity, infrastructure partnerships and other alternatives there are no commitments to contribute further capital to any of the existing fund investments. When private equity, infrastructure partnership and other alternatives capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

Note 15 Actuarial Valuations

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. An Actuarial Valuation was carried out as at 31 March 2019 using the 'Projected Unit Method', which produced the following results:

	31 March 2016	31 March 2019
	£ million	£ million
Net Liabilities	3,122	3,561
Assets	3,133	4,088
Surplus	11	527
Funding Level	100%	115%

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2021 were:

Funding Assumptions

CPI increases	2.7%
Salary Increases	3.7%
Pension increases	2.7%
Discount rate	2.1%

The assumed life expectancy from age 65 (years) assumptions

Mortality Assumptions:	Years
Longevity at 65 for current pensioners:	
• Men	21.90
• Women	23.60
Longevity at 65 for future pensioners :	
• Men	23.30
• Women	25.40

Note 16 Current Assets

Current assets are cash and any other asset that will be turning into cash within one financial year.

Debtors	31 March 2020	31 March 2021
	£000	£000
Other Debtors	1,218	2,740
Sundry Debtors	615	1,183
Contributions due in respect of		
Employers	5,127	4,161
Members	2,050	3,180
Capital cost of early retirements	181	0
Cash balances	103	9,706
Total	9,294	20,969

Analysis of Debtors	31 March 2020	31 March 2021
	£000	£000
Other local authorities	4,501	3,918
Other entities and individuals	4,690	7,346
Add cash balances	103	9,706
Total	9,294	20,969

Scheduled Bodies have the option to pay the capital cost of Early Retirements over five years.

Note 17 Current Liabilities

Current Liabilities are the amounts owing within the next financial year.

Amounts due within one year	31 March 2020	31 March 2021
	£000	£000
Rents received in advance	(1,291)	(2,042)
Accrued expenses	(14,791)	(12,361)
Other payables	(967)	(898)
Total	(17,049)	(15,301)

Analysed by	31 March 2020	31 March 2021
	£000	£000
Other local authorities	(380)	(1,120)
Public Corp & Trading Funds	0	(1,058)
Other entities and individuals	(16,669)	(13,123)
Total	(17,049)	(15,301)

Note 18 Related Party Transactions

The Fund is administered by Middlesbrough Council. During the reporting period, the council incurred costs of £1,120,000 (2019/20: £1,016,000) in relation to the administration and management of the fund and was reimbursed by the fund for these expenses. Middlesbrough Council is one of the largest members of the pension fund and made employer contribution payments of £8.1 million over the period (2019/20 - £11.0 million).

Note 19 External Audit Costs

The external fees payable to the Fund's external auditors Ernst & Young LLP.

	2019/20	2020/21
	£000	£000
Payable in respect of external audit	22	38
Total	22	38

There is currently an outstanding amount of £23k to be paid still outstanding on the audit of the 2019/20 statements. This is with public sector audit appointments to arbitrate on. The fee for 2020/21 has only just been proposed.

Note 20 Senior Employees' Remuneration

	2019/20	2020/21
	£000	£000
Key Management Personnel		
Short Term Benefits	64	66
Post-Employment Benefits	10	10
Total	74	76

Note 21 Events after the Balance Sheet Date

There are no events to report on the Pension Fund accounts for 2020/21 at the authorised for issue date (26 April 2023).

One issue to note is that there has been a recent triennial revaluation of the Teesside Pension Fund. This was carried out at 31st March 2022 by the actuary, Hymans Robertson. This valuation has reported that Pension Fund continues to be in a healthy and solvent financial position. However, this review and information does not impact on the financial values stated in the accounts above.

The Compliance Statement

The Compliance Statement Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Full details of the Governance Policy and Compliance Statement can be seen at

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

[Full details of the changes to the scheme, along with updated scheme guides, are on our website at www.teespen.org.uk](http://www.teespen.org.uk)

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved by the Pension Fund Committee in March 2021 and contains statements on:

- Investment responsibilities, setting out the key responsibilities of the Teesside Pension Fund Committee, key officers of the Fund, the Fund's Custodian and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The existing investment management arrangements, including details of the Fund's commitment to investment pooling through its jointly owned pooling company Border to Coast.
- The Fund's position as a responsible investor and its promotion of ethical, social and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<http://www.teespen.org.uk/documents/index.php?name=ISS>

The Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013, require each Administering Authority, to produce a Funding Strategy Statement, setting out a long-term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
 - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
 - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - Take a prudent longer-term view of funding liabilities.
- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The latest Funding Strategy Statement was approved by the Pensions Fund Committee and was effective from March 2020, and can be seen at

<http://www.teespen.org.uk/documents/index.php?name=FSS>

Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy, which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the XPS group (previously Kier Business Services Ltd) as administrator and the Pension Fund Committee to act in a similar manner to a Board of Trustees

The Policy also sets out the:

- Terms of reference of the Pension Fund Committee;
- Structure of meetings;
- Membership; and
- Principles of governance.

The latest policy document can be viewed at:

<https://www.teespen.org.uk/about-us/pensions-panel/>

Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all of its stakeholders, including the members, the employers and other external organisations. For example, we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all of our active and pensioner members; this allows us to

inform participants of any scheme changes that may be made.

A Communications Policy Statement has been drawn up in order to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement can be seen at:

<https://www.teespen.org.uk/about-us/communications-policy/>

Teesside Pension Fund

Statement of the Actuary for the year ended 31 March 2021

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Teesside Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £4,088.1M) covering 115% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:
 - 17.2% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Plus

 - an allowance of 0.9% of pay for McCloud/Sargeant and cost management – see paragraph 9 below,

Less

 - 4.3% of pensionable pay to remove surplus in excess of a funding level of 105% over a recovery period of 22 years from 1 April 2020 (which together with the allowance above comprises the secondary rate).
3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	14.0%	0.66
2021	14.1%	0.70
2022	14.2%	0.75

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service Ongoing (scheduled body/subsumption) funding target *	4.45% p.a.
Ongoing (orphan body) funding target	4.45% p.a.
Discount rate for periods after leaving service Ongoing (scheduled body/subsumption) funding target *	4.45% p.a.
Ongoing (orphan body) funding target	3.00% p.a.
Rate of pay increases	3.10% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

* The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.8	23.4
Current active members aged 45 at the valuation date	23.1	25.2

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such, the results do not make allowance for changes, which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.
8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

▪ **Increases to GMPs:**

The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

▪ **Cost Management Process and McCloud/Sargeant judgement:**

Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was published on 16th July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud/Sargeant judgement / cost management process. This was a simplified approach, which did not take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.45% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to a decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation, which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report, which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, Middlesbrough Borough Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

<https://www.teespen.org.uk/documents/content/pdf/Valuation/TeessidePensionFund-2019ValuationReport.pdf>

Aon Hewitt Limited

Schedule of Contribution Rates

Net rate of contribution payable by each employing organisation for the period 1 April 2020 to 31 March 2021 under regulation 62 of the Local Government Pension Scheme Regulations 2013.

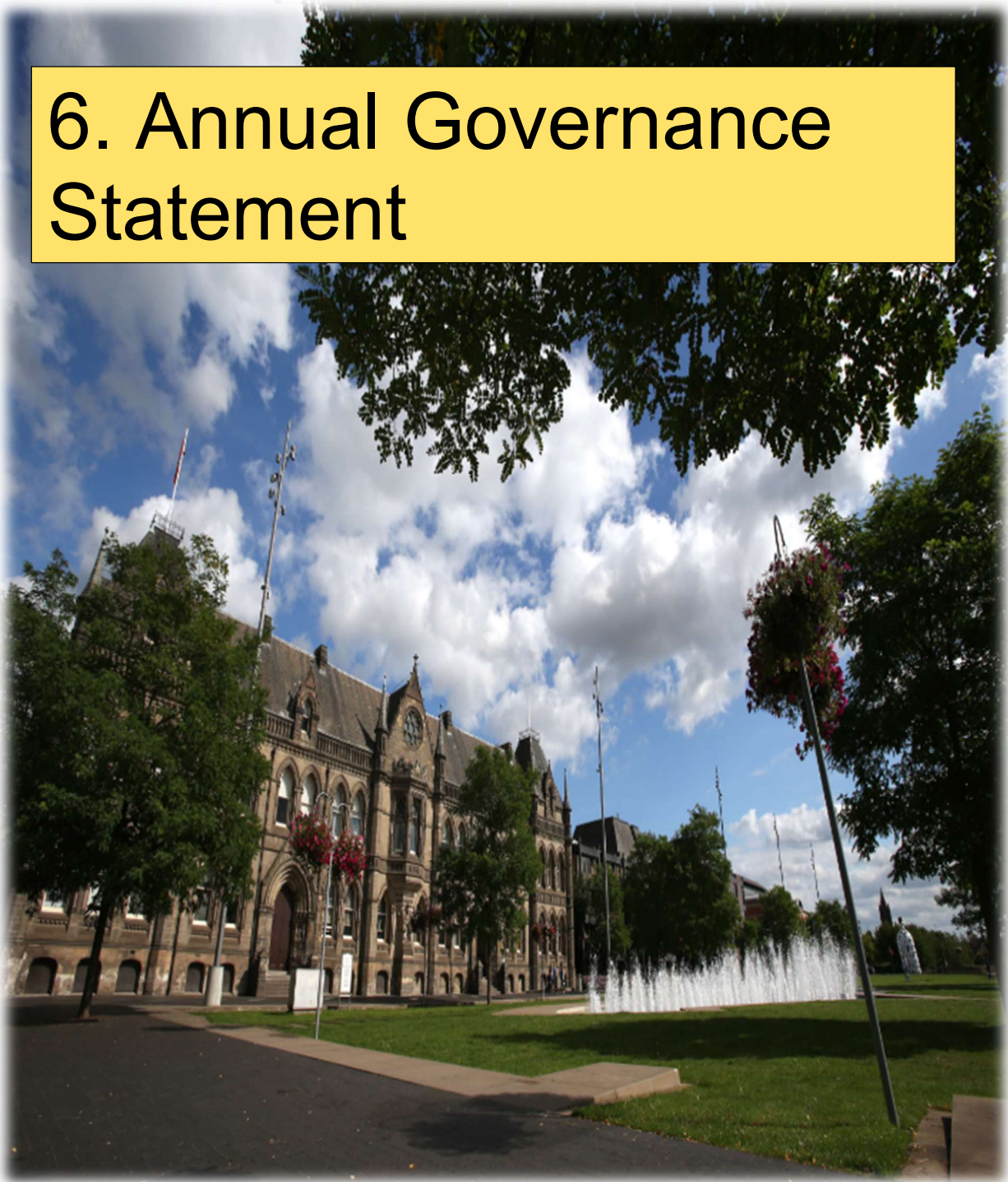
	Employers Rates %	Employees £000	Employers £000
Ad_Astra Academy Trust	17.50%	198	602
All Saints Academy	17.50%	31	88
Ash Trees Academy	17.50%	236	0
Badger Hill Academy	17.50%	9	27
Barnard Grove Primary School	17.50%	-12	5
Beamish Museum Ltd	23.30%	123	510
Beyond Housing	19.30%	470	1,381
Billingham Town Council	17.70%	6	18
Bulloughs Cleaning Services	17.90%	10	31
Caldicotes Primary Academy	17.50%	7	20
Care and Custody Health Ltd	15.90%	5	13
Care Quality Commission	17.90%	1,038	2,405
Carmel Education Trust	17.50%	262	798
Catcote Academy	17.50%	103	313
Caterlink - RCBC - 00353	21.50%	7	29
Caterlink - St_Oswalds	22.30%	3	13
Churchill's Collaborative Trust	17.90%	1	4
Churchill's Hardwick Green	17.00%	2	8
Churchill's Harewood	17.00%	0	1
Churchill's Outwood Grange	17.90%	3	7
Churchill's Yarm Primary	17.00%	1	3
Cleveland Fire Brigade	14.80%	220	496
Cleveland Fire Support Network	14.80%	2	0
Community Integrated Care	23.00%	0	3
Compass Contract Services Ltd	17.90%	10	32
Conyers School	17.50%	149	449
Creative Management Services Ltd	24.90%	2	7
Diocese of Middlesbrough Trustee	22.30%	9	20
Dyke House Academy	17.50%	77	225
Easterside Academy	17.50%	29	89
Ecocleen Services (Operations) Ltd	26.40%	0	1
Eden Academy Trust Limited	17.50%	72	215
Egglescliffe Primary School	17.50%	6	20
Emmanuel School Foundation	17.50%	77	231
Endeavour Academies Trust	17.50%	132	382
Enquire Learning Trust (Central)	17.50%	81	155
Eskdale Academy	17.50%	-3	-8
Extol Academy Trust (Eldon Grove)	17.50%	48	174
Fabrick Housing Group	17.40%	1,049	2,631

Falcon Education Academies Trust	17.50%	16	43
Fleet Factors RCBC	10.20%	1	2
Forward Swindon Ltd	0.00%	0	350
Frederick Nattrass Primary Academy	17.50%	20	59
Freebrough Academy	17.50%	46	136
Future Regeneration of Grangetown	30.90%	2	12
Galileo Multi Academy Trust	17.50%	227	679
Grangefield Academy	17.50%	46	136
Green Lane Primary Academy	17.50%	33	102
Guisborough Town Council	17.70%	6	18
Hardwick Green Primary Academy	17.50%	21	62
Harrow Gate Primary Academy	17.50%	29	87
Hartlepool Borough Council	12.40%	3,291	6,397
Hartlepool Care Services Ltd	24.70%	2	10
Hartlepool College of Further Education	15.20%	161	410
Hartlepool Sixth Form College	15.20%	20	52
Hemlington Hall Academy	17.50%	28	84
Holy Trinity Primary School	17.50%	14	43
Horizons Specialist Academy Trust	17.50%	208	613
Hutchinson's Catering	17.90%	3	11
Ian Ramsey Church of England Academy	17.50%	190	0
Ingleby Barwick Town Council	17.70%	3	6
Ingleby Manor Free School & Sixth Form	17.50%	38	111
James Cook Learning Trust	17.50%	58	172
Kader Academy	17.50%	19	57
KGB Cleaning Ltd - LJS	14.80%	1	3
KTS Academy	17.50%	79	247
Legacy Learning Trust	17.50%	151	446
Liberata UK Ltd	0.00%	44	0
Lockwood Parish Council	17.70%	1	2
Loftus Town Council	17.70%	2	5
Manor Community Academy	17.50%	58	169
Mellors Catering Ltd - Dormanstown	21.20%	1	4
Mellors Catering Services Ltd (Central)	17.90%	4	12
Mellors Catering Services Ltd (Normanby)	17.90%	2	7
Mellors Ironstone	17.90%	3	11
Mellors NPCAT	17.90%	14	45
Middlesbrough and Stockton Mind	17.50%	2	7
Middlesbrough College	15.20%	393	972
Middlesbrough Council	11.50%	5,318	8,133
Mitie Cleveland Fire	17.50%	1	2
Nicholas Postgate Catholic Academy Trust	17.50%	522	1,532
NMRN Operations	15.80%	4	11
Normanby Primary School	17.50%	32	99
North Ormesby Primary Academy	17.50%	18	54
North Shore Academy	17.50%	44	133

Northern Lights Learning Trust	17.50%	10	30
Norton Primary Academy	17.50%	25	75
Nunthorpe Academy	17.50%	89	255
Nunthorpe Primary Academy	17.50%	14	42
Oak Tree Academy	17.50%	27	82
One Awards Limited	22.20%	29	92
One IT Services and Solutions Ltd	15.60%	52	103
One IT Services Ltd - Porter	15.90%	2	5
ONsite Building Trust	19.30%	3	9
Ormesby Primary School	17.50%	15	48
Our Children 1st Academy Trust	17.50%	33	103
Outwood Academy Acklam	17.50%	75	229
Outwood Academy Bishopsgarth	17.50%	46	136
Outwood Academy Bydales	17.50%	32	96
Outwood Academy Normanby	17.50%	37	108
Outwood Academy Ormesby	17.50%	51	154
Outwood Academy Redcar	17.50%	32	96
Outwood Academy Riverside	17.50%	7	21
Overfields Primary School	17.50%	13	39
Pentland Academy	17.50%	27	84
Police & Crime Commissioner for Cleveland	14.50%	93	168
Prince Regent Street trust	17.50%	46	138
Redcar & Eston CIC	17.90%	4	10
Redcar and Cleveland Borough Council	10.20%	3,193	5,033
River Tees Multi Academy Trust	17.50%	54	153
Riverdale Primary School	17.50%	8	26
Rose Wood Academy	17.50%	22	63
Rye Hills Academy	17.50%	54	158
Saltburn Marske and New Mask Parish Council	17.70%	4	10
Skelton and Brotton Parish Council	17.70%	3	10
Skelton Primary School	17.50%	36	101
SLM Charitable Trust MBC	11.50%	51	94
SLM Community Leisure Charitable Trust	19.20%	36	112
SLM Fitness & Health Ltd (MBC)	11.50%	4	9
SLM Fitness and Health Ltd	19.20%	2	8
SLM Food & Beverage Ltd (MBC)	11.50%	3	6
SLM Food and Beverage Ltd	19.20%	1	4
Sopra Steria Ltd	14.50%	134	294
South Tees Development Corporation	20.20%	86	184
St_Aidans Primary School	17.50%	18	54
St_Bede's Catholic Academy	17.50%	2	7
St_Francis of Assisi	17.50%	20	60
St_Mark's Academy	17.50%	30	90
St_Mary's CE Primary School	17.50%	6	22
Stagecoach Transit	43.50%	2	582
Steel River Academy Trust	17.50%	72	219

Stockton Borough Council	13.10%	5,124	10,621
Stockton Riverside College	15.20%	370	907
Sunnyside Academy	17.50%	49	149
Tascor Services Ltd - PFI	18.00%	1	5
Tees Active Limited	18.20%	99	271
Tees Valley Collaborative Trust	17.50%	99	285
Tees Valley Combined Authority	15.30%	319	652
Tees Valley Community Asset Preservation Trust	17.00%	2	5
Tees Valley Education Trust	17.50%	102	296
Teesside Learning Trust	17.50%	20	49
Teesside University	15.80%	2,018	4,645
Teesville Primary School	10.20%	37	45
The Chief Constable for Cleveland	14.50%	1,377	3,033
The Northern School of Art	15.20%	120	288
Thornaby C of E Primary	17.50%	19	59
Thornaby Town Council	17.70%	1	2
UMi Commercial Ltd	24.50%	3	97
Unity City Academy	17.50%	56	164
Veritau Tees Valley	17.50%	8	12
Viewley Hill Academy Trust	17.50%	18	54
Vision Academy Learning Trust	17.50%	239	717
Whitecliffe Academy	17.50%	6	19
Wynyard Church of England Primary School	17.50%	18	55
XPS Administration Ltd	11.50%	31	66
Yarm Primary School	17.50%	20	60
Zetland Primary School	17.50%	18	56
Total Contributions 2020/21		30,415	64,978

6. Annual Governance Statement



Middlesbrough Town Hall and Centre Square

Annual Governance Statement 2020/21

Introduction

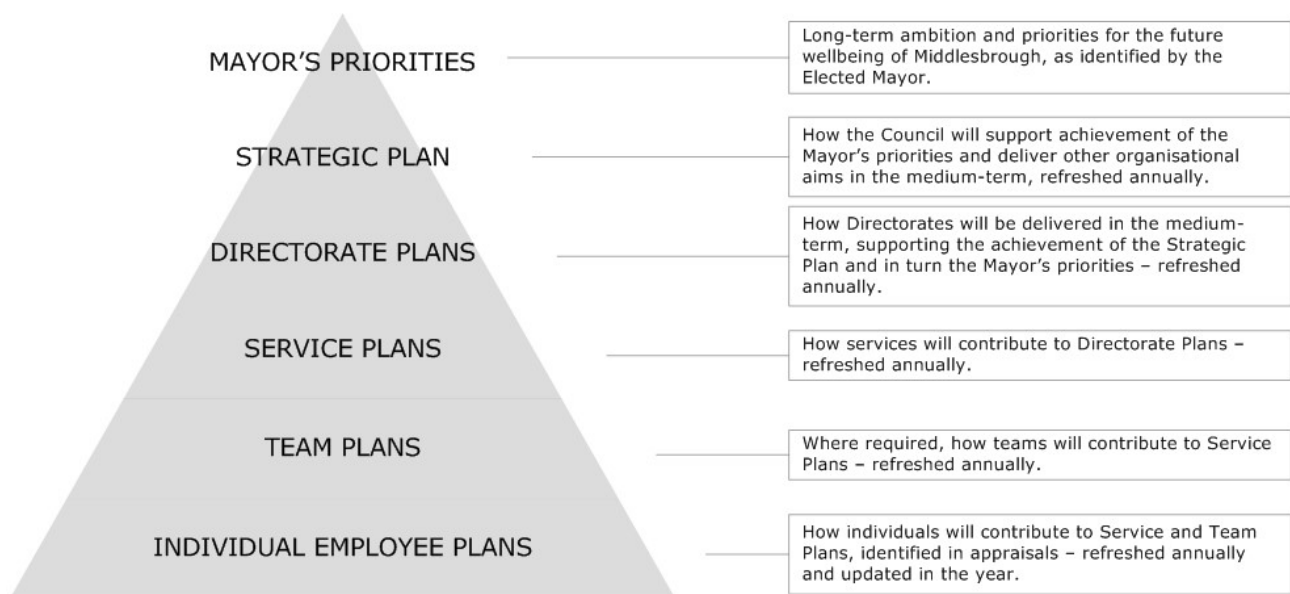
1. Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council has in place a [Code of Corporate Governance](#), which sets out its corporate governance framework and is reviewed annually. This framework comprises the culture, 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

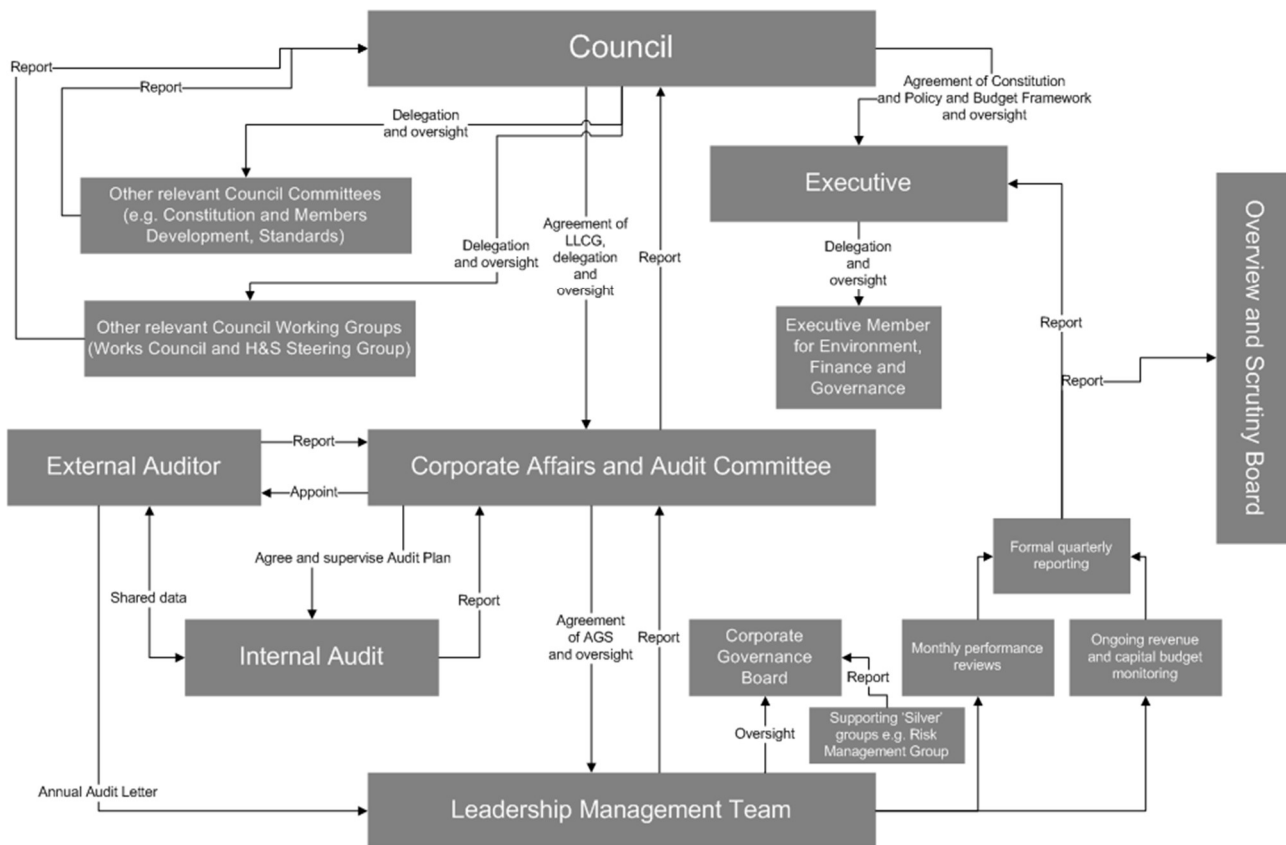
5. The AGS comprises the following sections:
 - an overview of the Council's governance arrangements;
 - progress made on governance during 2020/21;
 - issues that have arisen during 2020/21;
 - a position statement against the Code of Corporate Governance; and
 - conclusion and resulting governance 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.
Undertake population of the central partnerships register.	Head of Strategy, Information and Governance	Completed. Will be reported to members in 2022/23.

Action	Lead officer	Status
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 changes required to delivery models.	Head of Strategy, Information and Governance	Completed.
Progress joint strategic needs assessments for adults to ensure a	Director of Public Health	Delayed. Capacity to deliver this has been adversely impacted by the pandemic. There is however a

Action	Lead officer	Status
joined up strategic oversight of the needs of the town.		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
Inclusion Strategy	Reasonable Assurance	0	2	4
Anti-Social Behaviour Management	Reasonable Assurance	0	2	3

Audited System / Service	Assurance Opinion	Priority Actions		
		P1	P2	P3
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 some 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:

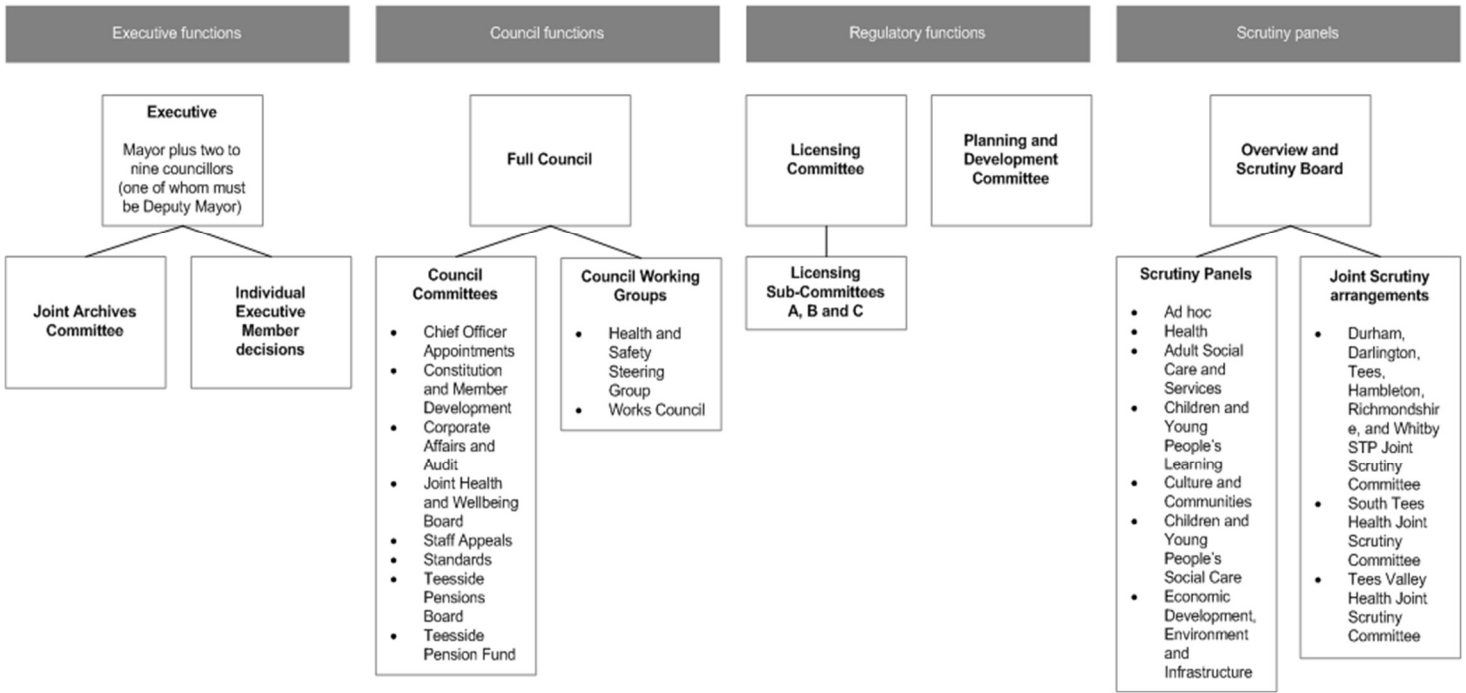
- Improving officer and elected member understanding of respective roles and responsibilities
- Improving working relationships among and between elected members and officers
- Better standards of behaviour amongst all members in line with the Nolan principles and organisational values
- Adopting a planning 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
20 April 2023

Clive Heaphy
Interim Chief Executive
20 April 2023

Andrew Humble
Acting Section 151 Officer
20 April 2023



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. 	<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

		<p>The Council 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. 	<p>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>
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Local Code of Corporate Governance	Self-assessment
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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. • Plans with the digital and marketing and 	<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

		communications strategies to advance in the current approach.	suite of corporate governance disciplines.
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Local Code of Corporate Governance	Self-assessment
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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 	<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.

	<p>decision-making is accurate and clear.</p> <ul style="list-style-type: none">• Ensure financial management arrangements support both long term outcome delivery and day-to-day operations.		
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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>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 Action to be rescheduled to follow completion of the review of the Constitution in April 2023
	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 Revised to December 2023

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 matters as well as escalation to line	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
	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 This is an externally led project. Timescales revised to March 2024. This reflects delays in the overarching project rather delay by the Council. Delay is mitigated by the extension of e-tendering platforms use.
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	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	Complete

	Issue	Action	Outcome(s)	Lead officer	Deadline
	framework. Refreshed training will ensure senior officers training encompasses the full suite of corporate governance disciplines.				
8	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.	Refresh training on the Equality Act and the impact assessment process, ensuring it is mandatory for key officers.		Head of Strategy, Information and Governance	Complete
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 Council decision making governance is understood and adhered to.	Improved compliance with the requirements of the PPM policy and supporting framework.	Strategic Delivery Manager	Complete
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		Head of Human Resources	Complete

	Issue	Action	Outcome(s)	Lead officer	Deadline
		compliance with the values			
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	Complete
16	Action is required to ensure greater understanding, acceptance and compliance with the officer and member protocol within	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	Complete
17	Middlesbrough 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	Deliver training to members on use of social media.	Members understand how social media should be used	Head of Democratic Services	Complete

	Issue	Action	Outcome(s)	Lead officer	Deadline
	that posts and engagement are in line with the Member code of conduct and other constitutional requirements.		appropriately and in line with expectations for conduct set out in the constitution.		

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	Complete
23	The council's report committee formats and supporting processes should be reviewed to ensure they continue to be	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
	robust, and the opportunity is taken to learn lessons from Best Value reports completed by government on the 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	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

	Issue	Action	Outcome(s)	Lead officer	Deadline
	were identified to strengthen the governance arrangements in relation to CCTV schemes.				
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 Delayed
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	September 2023
30	It has been some time since the Council has had an independent assessment of its corporate governance. Action is needed	Seek an LGA Corporate Peer Challenge review within the next two years to provide an external review of the Council's corporate	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

	Issue	Action	Outcome(s)	Lead officer	Deadline
	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.	governance arrangements.			

7. Glossary of Terms



Middlesbrough 5k Run

Glossary of Terms

Accounting Period

The period of time covered by the accounts; normally a period of 12 months commencing on 1st April and ending as at the balance sheet date of 31 March.

Accrual

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the balance sheet date.

Accrued Benefits

The benefits for service up to a given point in time, whether vested rights or not.

Actuarial Gains and Losses

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

Actuarial Valuation

A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Accumulated Absences Account

A requirement under IFRS is that the Council must make an accrual in its accounts at year end for any annual leave earned but not taken by employees at the end of the financial year.

Admitted Bodies

Organisations that participate in the Teesside Pension Fund under an admission agreement between the Fund, and the relevant organisation.

Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an outsourcing to the private sector.

Annual Governance Statement

The Annual Governance Statement is compiled following the review by the Council of the effectiveness of the systems of internal control and governance arrangements.

Assets Held for Sale

Assets held for sale are those where the value of the asset will be recovered by selling the asset rather than through usage. To be classed as held for sale the asset must meet the following criteria:

- be available for immediate sale in its present condition.
- It's sale must be highly probable.
- management expects the sale to take place within twelve months.

Assets Under Construction

At any time some projects will be incomplete and will need to be classified as 'fixed assets under construction. It is usual for assets under construction to be recognised but recorded as non-operational until they are available for use, at which point they are recognised as operational assets.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor.

Balance Sheet

A statement of the balances and reserves at the Local Authority's disposal, the net current assets employed in its operation and the value of fixed assets held.

Budget

A statement reflecting the Council's spending plans for a specific period. The annual revenue budget is normally finalised and approved in February prior to the commencement of the new financial year.

Capital Charges

A charge to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or which adds to the value of an existing fixed asset.

Capital Adjustment Account

The Capital Adjustment Account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

Capital Financing

The methods of financing capital expenditure. This includes borrowing, direct revenue financing, leasing, the use of capital receipts, capital grants and external contributions.

Capital Grant

Grant from Central Government used to finance specific schemes in the capital programme.

Capital Receipts

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e. to repay outstanding borrowing or to finance new capital expenditure. Any receipt which have not yet been utilised, are referred to as "Capital Receipts Unapplied".

Cash and Cash Equivalents

Cash equivalents are - "short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". They are shown in the Balance Sheet along with cash under the heading "Cash and Cash equivalents".

Collection Fund Account

This account records the income received by the Council in relation to local taxation and non-domestic rates. It also shows how the income has been distributed to the preceptors and to the general fund.

Community Asset Transfer

A change in management and/or ownership of land or buildings from public bodies (most commonly local authorities) to communities (community and voluntary sector groups, community enterprises, social enterprises, etc.)

Component Accounting

Where assets can be broken down into different components which have a material value and substantially different economic lives, then each component should be separately valued.

Contingency

The sum of money set aside to meet unforeseen expenditure or liability.

Contingent Asset

A contingent asset arises in a situation where a potential inflow or economic benefit to the authority will only be confirmed by the occurrence or otherwise of some future event but where the value of the benefit cannot be measured reliably.

Contingent Liability

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Creditors

Amounts owed by the Council for work done, goods received or services provided by the end of the financial year for which payment has not yet been made.

Current Assets

An asset which will be consumed or cease to have material value within the following financial year (e.g. stocks and debtors).

Current Liabilities

These are amounts owed by the Council due for payment within the following financial year (e.g. creditors or cash overdrawn).

Current Service Costs (Pensions)

The increase in the present value of a defined benefit pension scheme's liabilities arising from an employee's service in the current financial year.

Curtailment (Pensions)

An event that reduces the expected years of future service of present employees in a defined benefit pension scheme or reduces the defined benefits for some or all of their future service.

Debtors

Income due to the Council for services carried out or grants/contributions due in the financial year for which payment has not been received by the end of that year.

Deferred Pensions

Individuals who have ceased to be active members of a pension scheme but are entitled to benefits payable at a later date.

Defined Benefit Scheme

A pension scheme which calculates benefits due from the scheme independently to the contributions payable and the return on the investments made by the scheme.

De-minimis

For capital accounting, a de-minimis value is set below which any items of expenditure are excluded from the capital accounts and instead treated as revenue expenditure. The Council's de-minimis levels are outlined in the statement of accounting policies.

Depreciation

The allocation of the cost of consuming a tangible asset cost over its useful life. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Direct Revenue Financing

The financing of capital projects from revenue resources.

Discretionary Benefits

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers.

Earmarked Reserves

Funding set-aside to be used for a specific purpose at some point in the future.

Expected Rate of Return on Pension Assets

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

Transactions that fall outside of the ordinary activities of the council and are not expected to reoccur.

Non-Current Assets

Assets that have a useful life and yield benefits to the Council and the services it provides for a period of more than one year.

General Fund

The main revenue account used to fund the cost of providing Council services. The main sources of income

credited to the fund are the council tax and business rates precepts and the revenue support grant (RSG) from central government.

Heritage Assets

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Impairment

The diminishing in quality, strength, amount, or value of an asset.

IFRS - International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board and specify exactly how organisations must maintain and report their accounts.

Local Authorities have had to prepare their accounts in accordance with IFRS requirements since April 2010.

Intangible Assets

An asset that is not physical in nature. Examples of this type of asset include IT software and other licences and patents and trademarks.

Investment Property

An investment property is defined as a property, which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate.

Leases

A lease is a contract between a lessor and lessee for the hire of a specific asset with the ownership of the asset being retained by the lessor. There are two main types of lease, operating and finance leases.

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee and the minimum lease payments amount to substantially all (90% or more) of the fair value of the leased asset. An operating lease is a lease other than a finance lease.

Local Management of Schools

Under the Local Management of Schools Funding arrangements, the Council is required to pass on the calculated share of each funding stream budget directly to all its schools. Individual schools have direct responsibility for managing their budgets and any surplus or deficit incurred in the financial year is carried forward to the following financial year as part of the schools balances earmarked reserve.

Materiality

A figure is classified as material if its omission or misstatement could influence decisions users take on the basis of the financial statements.

Minimum Revenue Provision (MRP)

The minimum amount Local Authorities are required to set aside each year for the repayment of outstanding long-term debt.

Movement in Reserves Statement

This statement highlights the movement in the year for the earmarked reserves held by the Council. This is split between 'usable reserves' (those held to fund future expenditure) and unusable reserves (technical accounting adjustments).

Non-Domestic Rates (also known as Business Rates)

Charges paid by occupiers of non- domestic properties for council services. The charge is calculated by multiplying the rateable value of a property by a multiplier set by Central Government.

Net Book Value

The current value of a fixed asset after taking account of depreciation.

Non-Operational Assets

Fixed assets owned by the Council but not currently being used in the delivery of services. They include surplus properties awaiting disposal, investment properties and assets under construction.

Operational Assets

Fixed assets owned by the Council and used in the delivery of Council services.

Operating Segments

The breakdown of the Council's activities into distinct service divisions/ outcome areas.

Past Service Cost

The increase in the present value of a defined pension scheme liabilities relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events

There are two types of post balance sheet events. Adjusting events are those events that provide additional evidence of conditions that existed at the balance sheet date and require adjustments to be made to the accounts. Non adjusting events are those events after the balance sheet date which provide evidence of conditions not existing at the balance sheet date. These may require disclosure in the accounts stating the nature of the event and an estimate of the financial impact.

Precept

The levy made on the council by other bodies for income collected from Council taxpayers on their behalf e.g. Fire or Police Authority.

Provisions

Funds set aside to cover liabilities which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability is currently not known.

Prudence

The **accounting** principle that requires liabilities and expenses to be recorded as soon as they occur, but revenues only when they are assured or realised.

Related Parties

Two or more parties are considered to be related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same sources; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own separate interests.

Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, or for, a related party irrespective of whether a charge is made.

Revaluation Reserve

The balance sheet reserve that records increases in the valuation of fixed assets that have not yet been realised through the disposal of the asset. Decreases in asset valuations are also taken to the revaluation reserve if an asset has previously had an increase in valuation.

Revenue Expenditure

The day-to-day costs incurred in providing Council services. This includes staffing, supplies & services, transport and utility costs etc.

Revenue Support Grant

The main source of Central Government grant funding for Local Authorities.

Scheduled Bodies

Local authorities or similar organisations whose staff are automatically entitled to become members of the Teesside Pension Fund.

Specific Grants

Government grants awarded to Local Authorities and earmarked for specific services, e.g. Standards Fund

Grant for Children's Services.

Stocks (Inventories)

Goods or merchandise available for sale or distribution held at the balance sheet date. This can include the following:

- goods or other assets purchased for resale.
- consumable stores.
- raw materials and components purchased for incorporation into products for sale.
- products and services in intermediate stages of completion.
- long-term contract balances, and finished goods.

Unusable Reserves

Reserves that are held by the Council for accounting purposes. The gains or losses in these reserves are unrealised and as a result are not available for future use by the Council.

Usable Reserves

Unutilised resources set aside to allow planning for future Revenue & Capital expenditure.

Useful Life

The period over which the Council will derive benefits from the use of a fixed asset.

Work in Progress

The total value of the materials and labour costs incurred to date on unfinished projects

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MIDDLESBROUGH COUNCIL	
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Report of:	Head of Financial Planning & Support (Interim s151 Officer)
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Submitted to:	Corporate Affairs and Audit Committee
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Date:	28 April 2023
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Title:	Senior Management Reviews
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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:	
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Urgent:	Not applicable
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Why:	
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Executive summary

This report provides members of the Corporate Affairs and Audit Committee with an overview of the final report of an internal audit of Senior Management Reviews undertaken by Veritau, which had been commissioned, following discussions with the Chair and Vice-Chair of Corporate Affairs and Audit Committee, in May 2022 by the then Director of Finance (s151 Officer).

It was agreed that the audit would look at any restructures that primarily affected members of senior management, since 2015/16. The purpose of the audit was to establish whether savings proposed as part of those restructures had been achieved, where applicable.

The report highlights a number of key findings and recommendations arising from the audit. Appendix 1 summarises these and also shows the actions proposed by management to address these. These focus on ensuring that in the future there is increased transparency and reporting of future Senior Management Reviews, the savings arising from them and achievement of any non-financial objectives identified in reviews.

Purpose

1. Following discussions with the Chair and Vice chair of Corporate Affairs and Audit Committee, in May 2022 the then Director of Finance (s151 Officer) commissioned Veritau to carry out an audit of senior management reviews undertaken at the Council.
2. As the internal audit was requested by members of the Corporate Affairs and Audit Committee, it is appropriate for members to receive the final report and consider the summary findings and proposed management responses.

Background and relevant information

Internal Audit

3. Concerns about savings connected with senior management reviews were initially raised by the Chair and Vice-Chair of Corporate Affairs & Audit Committee. This area was subsequently included as a potential audit in the Council's internal audit work programme for 2022/23.
4. In May 2022, the then Director of Finance (s151 Officer) commissioned Veritau to carry out an audit of senior management reviews undertaken at the Council. It was agreed that the audit would look at any restructures that primarily affected members of senior management, since 2015/16. The purpose of audit was to establish whether savings proposed as part of those restructures had been achieved.

Key findings

5. Initial detailed scoping work commenced in May 2022. At the outset of the audit, discussions were held with the former Director of Finance (s151 Officer), the Head of Human Resources, the Head of Democratic Services, and other senior finance officers, to identify senior management reviews that had taken place since 2015/16. Five reviews that incorporated changes to the Council's senior management structure were found. A summary of each review is included in the audit report.
6. It quickly became apparent that little documentary evidence was available that would enable Veritau to assess savings and outcomes achieved by all of those reviews. Veritau found that there was no defined process to review the effectiveness of new leadership arrangements, post restructure, or report specifically on outcomes savings, that they could rely on for the work.
7. The audit has now been completed and a report prepared for comment by management. The report has also been provided to the Committee under confidential terms.
8. The key finding of the audit was that the Council has no process in place to review the effectiveness of senior management reviews or report on outcomes to councillors and the public. This is an issue because there is likely to be public interest in management arrangements and salaries paid to senior officers. The Council should therefore consider implementing review and reporting arrangements for future senior management reviews.

Conclusions

9. Veritau were not able to fully confirm that all proposed savings linked to senior management reviews carried out since 2015 had been achieved. Information was available for the latest two exercises in October 2019 and May 2020, from budget spreadsheets maintained by finance officers. However, no information was available for the earlier exercises.
10. The report also concluded that the Council does not have a defined process for reviewing the effectiveness of senior management restructures or formally reporting achievement of financial and other outcomes. This is an issue given the likely public interest in information about senior council officer salaries. High level budget monitoring reports will reflect financial outcomes, but it can be difficult to see the link between proposed restructuring exercises and actual savings achieved.

Recommendations

11. The Council should consider introducing arrangements to review the effectiveness of senior management restructures and report specifically on financial and other outcomes.
12. The Council should in the future include senior management restructures as specific savings targets as part of the budget setting process, where applicable. These should be subject to the same corporate governance arrangements for monitoring and reporting progress against budget savings.

Proposed Management Actions

13. Appendix 1 summarises the key findings and recommendations arising from the audit and the actions proposed by management to address these. These focus on ensuring that there is increased transparency and reporting of future Senior Management Reviews and the savings arising from them.
14. The Committee is asked to consider whether it wishes to make further comment on the issues raised by the audit and the proposed actions.

What decision(s) are being recommended?

15. That the Committee:
 - notes the findings of the internal audit report on previous Senior Management Reviews and the proposed management response for future reviews; and
 - considers whether it wishes to make further comment on the issues raised by the audit and the proposed actions.

Rationale for the recommended decision(s)

16. To improve transparency and reporting of future Senior Management Reviews and the savings achieved from them, in the light of the findings of this audit.

Other potential decisions and why these have not been recommended

17. Not applicable.

Impact(s) of recommended decision(s)

Legal

18. There are no legal implications from the internal audit or from the proposed management response.

Strategic priorities and risks

19. The issues set out within this report are relevant to a number of risks including:

- Lack of evaluation of the effectiveness and transparency of senior management restructures. This is an issue because there is likely to be public interest in management arrangements and salaries paid to senior officers
- Savings arising from senior management restructures are not monitored and reported in line with normal corporate governance arrangements

Human Rights, Equality and Data Protection

20. There are no direct implications from this report on human rights, equality and diversity or Data Protection.

Financial

21. There are no direct financial implications from the proposed management response.

Actions to be taken to implement the decision(s)

22. Following consideration of the report by Corporate Affairs and Audit Committee the proposed management actions outlined in Appendix 1 of this report will be implemented. Progress on implementation will be tracked by LMT monthly through scheduled corporate performance reviews.

Appendices

1 Internal audit findings and proposed management responses

Background papers

- None

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Appendix 1: internal audit findings and proposed management responses

Issue / control weakness	Risk	Proposed management response(s)	Proposed implementation date	Responsible Officer (s)
The Council had no process in place to review the effectiveness of senior management reviews or report on outcomes to councillors and the public.	Lack of evaluation of the effectiveness and transparency of senior management restructures. This is an issue because there is likely to be public interest in management arrangements and salaries paid to senior officers.	Implement a process, approved and maintained by the Chief Executive to set out the governance arrangements regarding future senior management reviews.	December 2023	Chief Executive
Senior management restructures were not included as specific savings targets as part of the budget setting process, and were not subject to corporate governance arrangements for monitoring and reporting progress against budget savings.	Savings arising from senior management restructures are not monitored and reported in line with normal corporate governance arrangements	The above proposed action will set out the process to ensure that this occurs where applicable going forward, following the good practice approach already undertaken in relation the 2023/4 budget setting process. Where applicable, savings will be monitored in line with corporate financial and performance monitoring.	December 2023	Head of Financial Planning and Support / Head of Strategy, Business, and Customer

