

AUDIT COMMITTEE

Date: Thursday, 13 March 2025
Time: 1.30 p.m.
Venue: Mandela Room, Town Hall

AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
4. Minutes - Audit Committee - 6 February 2025 3 - 10
5. Programme and Project Management Framework Assurance 11 - 20
6. Audit Committee Review of Effectiveness 21 - 24
7. Progress Report - Forvis Mazars - Verbal Update
8. Prudential Indicators and Annual Treasury Management Strategy - 2025/26 25 - 54
9. Internal Audit and Counter Fraud Progress Report 55 - 78
10. 2025/26 Counter Fraud Plan 79 - 102
11. Internal Audit Work programme 2025/26 103 - 118
12. Audit Committee Future Forward Work Programme for 2025/26 119 - 120
13. Any other urgent items which in the opinion of the Chair, may be considered.

Charlotte Benjamin
Director of Legal and Governance Services

MEMBERSHIP

Councillors J Ewan (Chair), B Hubbard (Vice-Chair), I Blades, D Branson, D Coupe, G Wilson and L Young

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Chris Lunn, 01642 729742, chris_lunn@middlesbrough.gov.uk

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday, 6 February 2025.

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

ALSO IN ATTENDANCE: Councillor J McTigue (present as observer)
T Backhouse (Forvis Mazars)
M Kirkham (Forvis Mazars).

OFFICERS: C Benjamin, A Humble, A Johnstone, C Lunn, K Rowe, N Spencer and C Walker.

APOLOGIES FOR ABSENCE: None.

24/58 **WELCOME AND EVACUATION PROCEDURE**

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

24/60 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor D Coupe	Non-Pecuniary	Member on Board of Directors of Border to Coast
Councillor J Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor B Hubbard	Non-Pecuniary	Member of Teesside Pension Fund

24/61 **MINUTES - AUDIT COMMITTEE - 5 DECEMBER 2024**

The minutes of the Audit Committee meeting held on 5 December 2024 were submitted and approved as a correct record.

24/62 **MINUTES - AUDIT COMMITTEE - 12 DECEMBER 2024**

The minutes of the Audit Committee meeting held on 12 December 2024 were submitted and approved as a correct record.

24/63 **ANNUAL ASSURANCE REPORT - DECISION MAKING**

The Director of Legal and Governance Services presented a report, the purpose of which was to provide the Committee with an annual update in relation to the Council’s decision-making process.

The Director noted several points, which included the following:

- The appendices attached to the report set-out a list of Executive decisions/ officer delegated decisions that had been taken.
- Sections 3.3 and 3.4 of the report referred to the Council’s Constitution. A review of the Constitution was currently underway, with work being overseen by the Constitution Committee and an associated working group. Recommendations would be made to full Council in due course, though the intention was to have the review completed by the AGM in May 2025.
- Section 3.20 referred to officer delegated decisions. It was explained that work was currently taking place with regards to an Officer Scheme of Delegation, which would provide the necessary support to officers.

A Member referred to the review of the Constitution and queried whether consultants were being paid for this work. In response, Members were informed that due to a reduction in resources in the department, an interim Solicitor had been appointed to undertake the work. The intention, going forward, was to have a Governance Solicitor position incorporated into the departmental structure. The Member queried the cost associated with the review of the Constitution; the Director advised that further information would need to be sought.

A Member referred to page 33 of the agenda pack and an Executive decision taken in relation to the 2024/2025 Transport and Infrastructure Capital Programme - decision no. 24; it was queried what infrastructure was being improved. In response, the Director advised that this would be looked into and a response provided to the Member.

A Member referred to the Constitution Committee working group and advised that papers had not been received. The Democratic Services Officer would look into this and respond to the Member accordingly.

A Member referred to section 3.20 and queried the reasons for the work to the Officer Scheme of Delegation. In response, the Committee was advised that the existing scheme was being updated to streamline and facilitate understanding of the process.

The Chair thanked the officer for the report.

AGREED that:

1. **The costs associated with the review of the Council Constitution would be sought.**
2. **Regarding the query raised in respect of the Executive decision and the 2024/2025 Transport and Infrastructure Capital Programme, a response would be sought and provided to the Member directly.**
3. **Regarding the query raised in respect of the Constitution Committee working group and meeting papers, a response would be sought and provided to the Member directly.**
4. **The information, as presented, was noted.**

24/64

BUSINESS CONTINUITY ANNUAL ASSURANCE REPORT 2024

The Director of Legal and Governance Services submitted a report, the purpose of which was to outline the Council's approach to business continuity management and summarise activity in the past year and planned activity for 2025. This was to provide the Committee with assurance that the Council had robust arrangements in place, as required by the Civil Contingencies Act 2004.

The Head of Policy, Governance and Information outlined the content of the report. A Business Continuity Policy was now in place for Executive, in addition to the Audit Committee.

A discussion ensued in relation to plans concerning natural disasters, with specific reference made to flooding. A Member commented on changing floodplains and the potential impact that this could have on the town. Members heard that where staff were presently located, there were no potential issues. There were emergency plans for the town in place, but no specific plans for Council buildings as it was a different discipline. The Member indicated that this would be raised at a future meeting of the Corporate Health and Safety Committee; a separate discussion with the Risk and Health and Safety Manager was also suggested. Details of the points raised at this meeting would be provided to the Risk and Health and Safety Manager, for information. In response to a query from a different Member, it was confirmed that no Council records were stored in basement areas below sea level.

A Member queried if there was a Lead Officer dealing with the arrangements that were in place. The Head of Policy, Governance and Information advised that this sat within their remit.

A Member referred to the term 'massive financial losses' and queried what would constitute this. In response, it was explained that the Risk Register definition would be applied, which referred to losses of over £3m.

A Member referred to the fuel plan and queried the type of fuel being referenced. In response, it was explained that in the event of petrol and/or diesel ever being restricted, a plan was in place to help deliver critical functions. It did not refer to gas and electricity.

In response to a query from a Member regarding agreement of the 2024 Business Continuity Plan, it was explained that this had been agreed by the Mayor in December 2024 at an Individual Executive Member Decision-making meeting. The decision sat within the Mayor's portfolio; the report was available in the public domain.

A Member referred to the Local Government Association (LGA) incident response exercise and queried the outcome. In response, it was explained that the result had been positive. Feedback had been shared with the Leadership Management Team (LMT) but would not be released publicly for operational reasons.

A Member referred to ICT Services and queried the position of the Windows 10/11 update that was currently taking place. A Member provided an account of his experience; an update of the current position would be sought from ICT Services.

A Member referred to service attacks and the recent attempts of outsiders to interrogate the Council's ICT system. In response, it was explained that lessons had been learnt and work continued to progress in relation to this disruption.

In response to a query regarding the use of an off-site location, it was explained that a secure network had been established off-site to ensure business continuity in unforeseen circumstances. For example: access to paper-based documents in the event of ICT failure.

Members were of the view that they had been provided with sufficient information to be assured that the arrangements in place to manage business continuity within the Council were sufficient to ensure compliance with legal requirements, and the Local Code of Corporate Governance.

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

AGREED that:

- 1. The Committee had been provided with sufficient information to be assured that the arrangements in place to manage business continuity within the Council were sufficient to ensure compliance with legal requirements, and the Local Code of Corporate Governance.**
- 2. In relation to the discussion held around flooding, the Democratic Services Officer would relay the comments raised to the Risk and Health and Safety Manager, for information.**
- 3. Further information regarding the Council's current Windows 10/11 update would be sought and provided to Members.**
- 4. The information, as presented, was noted.**

24/65

LOCAL CODE OF CORPORATE GOVERNANCE

The Head of Governance, Policy and Information presented a report, the purpose of which was to report the outcome of the annual review of the Council's Local Code of Corporate Governance (LCCG).

It was explained that, because no changes had been made in the past year to the CIPFA / SOLACE guidance document 'Delivering Good Governance', no changes were being proposed to the Council's current LCCG.

A copy of the current LCCG was shown at Appendix 1 of the report.

NOTED

24/66

HR ASSURANCE ANNUAL PRESENTATION

The Council's HR Manager and Organisational Development Manager delivered a HR Annual Assurance presentation to the Committee.

The presentation covered the following topics:

- 2024 in review;
- Recruitment workshops;
- Staff networks;
- Absence management;
- Top absence reasons;
- Turnover by year;
- Reasons for leaving;
- Organisational development;
- Coaching;
- Mentoring programme;
- Induction programme;
- Work experience programme 2025;
- Insights programme; and
- Next steps.

A Member referred to an Occupational Flu Vaccine Scheme that had been delivered in partnership with Public Health, and to other matters such as workplace stress. It was queried whether workplace schemes to address such issues could be extended to include Elected Members. In response, the Committee heard that, in terms of the Flu Vaccine Scheme, Public Health was currently looking at funding options to assess whether this could be further rolled out. Any resulting communications could go to Elected Members. It was explained that Elected Members had been supported with other matters, such as mental health; the Council's help service, which was delivered via telephone and face-to-face appointments, was delivered by Alliance. It was acknowledged that increased promotion could be undertaken to reach Elected Members.

A Member referred to stress and noted this as being one of the top reasons for absence between 2021-2024. It was queried what work was being undertaken to address this. In response, the Committee heard that several initiatives had taken place, including the relaunch of Mental Health First Aiders – 72 were currently trained; working with business partners and managers to identify potential support activities and programmes to help build resilience; offering counselling services; and formally building health and wellbeing into the annual appraisal framework.

A Member referred to the staff network and the terminology/ description associated with race, religion and belief. It was suggested that the website description be amended to 'non-religious beliefs' to reflect that individuals may still hold moral and other beliefs, if not religious ones. In response, the HR Manager advised that this would be fed back to the relevant working group(s) and any required changes arising from that would be implemented.

A discussion ensued in relation to stress, anxiety and depression. Consideration was given to different trigger points; recording this on HR systems; the stigma associated with these; and the activities that had been undertaken to help raise awareness in traditional work areas, such as depots and warehouses. In response to a query, it was explained that engagement work with different outside bodies, such as Alliance and Andy Mans Club, had been undertaken to help reach as many diverse groups as possible. A Member congratulated the officers for the work that had been undertaken in supporting staff. Further consideration was given to the management of stress, specifically in instances where the cause was senior personnel and the impact that this could potentially have if a Member of staff had a grievance. The HR Manager outlined the procedures for assisting in these circumstances.

A Member referred to staff networks and commented how positive these were in terms of supporting and investing in staff. A discussion ensued in relation to the transformation programme and the impact that change had had on some staff over the last couple of years. It was indicated that redundancies had been minimised, but change was difficult for some. Staff surveys had been carried out to ascertain how employees felt; the questions set did need to be general, but also needed to include free text to encourage engagement. In terms of the outcome of those surveys, although the results were positive in that those responding had felt valued at work, the response rate itself was low - 21%. Work was taking place to improve this and there was optimism that the response rate would increase next year.

In response to a query from a Member regarding sickness statistics; the number of calendar days staff were absent from work; and how Middlesbrough compared to other Local Authorities in the North East, it was explained that a conversion rate was used. An agreement was in place with NEREO for benchmarking to be undertaken on behalf of the 12 North East Local Authorities. The last set of statistics indicated that Middlesbrough's average was 13 days, whereas NEREO's benchmarked average was 11 days. The HR Manager would obtain further details of the conversion rate and other Local Authorities' performance for the Audit Committee.

AGREED that:

- 1. In relation to the comments raised regarding the staff network and terminology/ description associated with race, religion and belief, the HR Manager would feed these back to the relevant working group(s) and action any subsequent changes, as required.**
- 2. Further information regarding staff sickness statistics, and in comparison to other North East Local Authorities, would be obtained for the Audit Committee.**
- 3. The information, as presented, was noted.**

24/67

AUDIT PROGRESS REVIEW - FORVIS MAZARS

Auditors from Forvis Mazars were present at the meeting to provide a progress update in respect of the 2023/24 Audit.

With regards to the Council accounts 2023/24, the auditors raised the following points:

- As a result of the legislative backstop arrangements introduced by the amendments to the Accounts and Audit Regulations 2015, the auditors indicated that completion of the audit, as originally planned, in advance of the backstop date of 28 February 2025, would not be achievable. Consequently, it was anticipated that a disclaimed opinion would be issued for the 2023/24 accounts.
- When an opinion was disclaimed the auditor did not express an opinion on the financial statements and, consequently, no assurance was provided on the financial statements.
- Amendments were currently being made to the accounts for 2023/24. Once the accounts had been completed and the signed forms received, subsequent work to close the accounts would be undertaken.
- The auditors would continue to work closely with officers to take the necessary steps to rebuild assurance over future accounting periods.

With regards to the Teesside Pension Fund accounts 2023/24, the auditors explained that, because of the change to the backstop arrangements and the amount of work required within a condensed period, despite their best efforts to obtain evidence for a safe and modified opinion, this could not be achieved. In their view, the effects of the resulting lack of assurance was both pervasive and material to the financial statements as a whole. As a result, the auditors intended to issue a disclaimer of opinion on the Pension Fund's financial statements. The auditors were keen to notify the Audit Committee of the position to ensure that Members were made fully aware of the situation.

A Member expressed disappointment with this update, but acknowledged that the auditors were on a particularly difficult timescale with this task. In response to a query regarding the assistance received from Council officers, it was explained that officers had been tested in highly unusual circumstances, with effectively three separate audits being completed together. The support provided by officers had been well received.

A Member commented on the potential impact of this situation on other organisations and employers in the pension scheme, such as Cleveland Fire Brigade. In response, this point was acknowledged; it was indicated that work was taking place to design procedures to help mitigate the impact.

A Member referred to resources and queried whether the Council had enough staff to undertake the required work for the auditors. In response, it was explained that in an ordinary year, yes – there was sufficient staff. However, the work required this year had presented

significant challenge, with several audits taking place with two different audit providers. The timescales had conflicted and this had presented issues. Going forward, proposals for additional staff had been made as part of the Council's budget setting process, which full Council would be considering on 19 February 2025. However, it was explained that should the proposals be approved, further challenges of recruiting appropriately qualified personnel may be experienced.

A Member referred to dangerous cladding and the national audit report and queried the Council's current position in relation to this. Although not a matter for the Audit Committee, reference was made to a report that would be taken to full Council. Further information would be obtained and forwarded to the Member.

A Member expressed disappointment with this update and queried whether there were any other Local Authorities with pension funds in a similar situation. In response, it was anticipated that others would also receive disclaimed opinions.

A Member queried the backstop date for the 2024/25 accounts. In response, the Committee was advised that this would be 27 February 2026.

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

AGREED that:

- 1. A response to the cladding query would be obtained and forwarded to the respective Member.**
- 2. The information, as presented, was noted.**

24/68

PROCUREMENT ASSURANCE REPORT 2023/24

The Director of Finance and Transformation submitted a report, the purpose of which was to provide a summary of the Council's procurement activity over the last financial year, including compliance with Contract Procedure Rules, practice changes and contracts awards.

The Specialist Commissioning and Procurement Manager highlighted the following:

- The financial thresholds worked to were set by the government. These had increased following a bi-annual uplift in January 2024; the light touch regime threshold had and would not increase. In relation to Brexit arrangements, contract values were required to be inclusive of VAT.
- From 1 April 2023 to 31 March 2024, the Procurement and Commissioning Team had been involved and supported service areas with 325 procurement activities, which had equated to approximately £29,028,719 worth of contracts being awarded in the year. It was noted that the £29m was not the annual contract spend in the financial year, it was the total contract value of all contracts awarded in that period. This activity was broken down into the procurement routes as follows:
 - 76 – Quotations;
 - 10 – Tenders;
 - 79 – Exemptions;
 - 60 – Dynamic Purchasing System (DPS) further competitions;
 - 98 – Direct Awards/Further Competitions via Framework Agreements; and
 - 2 – Provider Selection Regime (PSR).
- The new Procurement Act 2023 was due to go live at the end of October 2024, but was then delayed until 24 February 2025. The new act would bring significant change which officers were now preparing for and had been involved in a range of training and workshops that the Government had been holding.
- With regards to the North East Purchasing Organisation (NEPO), Middlesbrough Council paid a small member fee of £46,000 annually. However, in return, the Council received a rebate of approximately £140,000 per annum due to the flexible procurement solutions available through membership of the organisation.
- In 2023/24, about 25% of the Council's procurements utilised a NEPO framework. Without this investment, the Council would require additional resource in the procurement team to meet the demands of the procurement activity of the Local

Authority. Middlesbrough Council had annual conversations with NEPO to review the available frameworks and discuss opportunities for future commissioning plans.

- OPEN was the Council's new tendering portal and had gone live in October 2024. It was developed and fully maintained directly by the NEPO team. The new portal had been in development for a considerable period and the benefits of the system would develop as the system matured, and officers worked to understand how it could best meet the Council's needs. The first quotation had been published via the system and, in next year's report, the Committee would receive more detail on how the system was working and had developed over time.
- NEPO continued to work on the North East Environmental, Social and Governance (ESG) model which was being developed and would deliver the North East's priorities. Over the course of the next year, Middlesbrough's social value would be developed.
- With regards to purchasing cards, it was explained that since the last report, a number of actions had taken place that had seen a significant move away from their usage. These had included a full Directorate review of all purchasing card holders, which had identified which staff should continue to hold a card; those where cards should be cancelled; and identified new cardholders. The Purchasing Card Policy had been updated and data dashboards rolled out to all Directors and Heads of Service.
- Regarding a Supplier Incentive Programme (SIP), this was the Council's early payment programme that gave suppliers the opportunity to be paid earlier than standard practice.
- The SIP gave suppliers the option to be paid as soon as the invoice was authorised. The aim was to complete this within 10 days - the normal payment term was 30 days. Suppliers paid a small pre-agreed rebate which was applied as the invoice was paid. The rebate was proportionate to the number of days the authority accelerated the payment by and was only applied if the invoice was paid earlier than 30 days.
- The SIP programme had been operational since May 2022, with savings of over £40,000 up to 31 March 2023 being achieved. As part of SIP, the Council had Free Pay, which allowed the Council to identify and pay early, without rebate, local suppliers who were classified as being a Small and Medium sized Enterprise (SME). Appendix 2 showed a summary of Free Pay performance in the current year and showed how the Council had paid £6m within three working days, which was a proactive approach by the Council in supporting its local suppliers.

A Member referred to section 3.5 of the report, which focused on local spend data. It was felt that because the 40% target had consistently been achieved, this could be raised to 50% to offer an increased challenge. In response, the Specialist Commissioning and Procurement Manager indicated that the achieved 49%, 48%, 50% and 51% rates were excellent progress as, previously, performance had sat between circa. 35-43%. The Member wished to encourage an increased target to achieve greater expenditure within the Tees Valley.

A Member referred to unclaimed VAT and queried work taking place in this regard. In response, it was explained that work was currently underway with the VAT officer and service areas to set required categories and spends. A Member queried whether documentation/receipts with VAT details would assist officers. In response, it was explained that suppliers registered with banks as level 1, level 2 or level 3. Suppliers at levels 2 and 3 did not always require receipts, but for good practice this was encouraged. In terms of level 1 suppliers, it was the Council's responsibility to claim valid VAT receipts.

A Member referred to section 3.3.2 of the report, which indicated that the number of active purchase cards had reduced. There were currently 194 active cards: of those, 179 were for Council staff and 15 were for maintained School staff. It was queried whether these numbers were still accurate. In response, the Committee was advised that, at one stage, there were between 400-500 active cards, which demonstrated the reduction in their usage. The Specialist Commissioning and Procurement Manager advised that these figures, i.e. the current number of active purchase cards and how much this figure had reduced over time, would be checked.

A Member referred to section 3.5.3 of the report and queried whether there were any up to date figures available, as those detailed in the report ended at March 2024. In response, the Specialist Commissioning and Procurement Manager indicated that the current position for the last three quarters would be available. Following a short discussion, Members felt it prudent to wait until figures for the full year were available and able to be presented at a future meeting.

A Member referred to fraudulent activity and queried the processes involved in instances where this was suspected. In response, Members were advised that where fraudulent spend was suspected, an investigation would be undertaken and reported to internal audit and the Director of Legal and Governance Services. If anything was found to have occurred, disciplinary action would be taken. Suspected fraud could be identified in several ways, including: transactions that card holder(s) did not recognise; whistleblowing; or if a transaction was felt to be illegitimate.

A Member referred to the scrutiny of receipts and queried how this was undertaken. In response, the Committee was informed that the dashboard could be searched and receipts analysed. Officers constantly reviewed card usage. It was noted that the Council's Purchasing Card Policy was currently being updated to provide clearer guidance to those with cards and ensure that they were being used correctly.

The Chair thanked the officer for her attendance and contribution to the meeting.

AGREED that:

- 1. The current number of active purchase cards, and how much this figure had reduced over time, would be checked.**
- 2. The information, as presented, was noted.**

24/69 **WORK PROGRAMME (STANDARD ITEM)**

A copy of the current work programme for the Audit Committee had been circulated for information. This was a live document that was updated after each meeting.

NOTED

24/70 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

None.

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Legal and Governance Services
Submitted to:	Audit Committee
Date:	13 March 2025
Title:	Programme and Project Management Framework Assurance
Report for:	Information
Status:	Public
Council Plan priority:	Delivering Best Value

Executive summary	
<p>This report provides an overview of the Council's programme and project management arrangements, to demonstrate assurance that they are robust and fit for purpose and that they support the delivery of the Council's priorities and aims, and approach to delivery of transformation</p> <ul style="list-style-type: none"> • Overview of the Council's corporate portfolio of projects delivery performance for 2024/25 • Overview of delivery performance of the Transformation Programme during 2024/25 • Improvements delivered during 2024/25 • Further planned improvements for 2025/26 	

1. Purpose

- 1.1 The purpose of this report is to outline the Council's approach to Programme and Project Management (PPM), to summarise 2024/25 activity and planned developments for 2025 and beyond to provide the Committee with assurance that the Council has robust PPM arrangements in place which support delivery of the Council's priorities and ambitions.

2. Recommendations

2.1 That the Audit Committee

- Notes internal audit opinion that robust arrangements are in place to govern programme and project management within the Council.
- Notes project delivery performance against Corporate and Transformation projects during 2024/25.

- Notes the effective establishment of the Transformation Portfolio and associated governance arrangements in 2024/25.
- Notes the improvements delivered during 2024/25.
- Notes plans to further improve and strengthen programme and project management, including the implementation of a Centre of Excellence model.

3. Background and relevant information

- 3.1 The Portfolio Management Office (PMO) has responsibility for the strategic oversight of the Council's portfolio of programmes and projects that are managed within the corporate Programme and Project Management Framework (PPMF), which is in place to provide a consistent approach to PPM governance and documentation.
- 3.2 The PPMF is supported by an existing range of tools and templates and provides support and assurance for existing priority programmes and projects.
- 3.3 The PMO currently has oversight of 17 projects within the corporate portfolio and an additional 76 projects and saving initiatives, which comprise the transformation portfolio. Combined, these programmes and projects contribute to and support the achievement of Council Plan priorities and continue to further embed the PPM framework and methodology across the Council.
- 3.4 Compliance is assured through monthly project health checks and performance is reported monthly to LMT and quarterly to the Executive.

Corporate Portfolio Performance 2024/25

- 3.5 Projects managed within the corporate portfolio are categorised as either Level 1 (the most complex projects) or Level 2 (lighter-touch projects), and their performance is assessed and reported using Red, Amber, and Green (RAG) indicators that measure how well the project is delivering against expectations.
- 3.6 The table below shows a positive increase in the overall performance trend of programmes and projects within the corporate portfolio to date in the last 12 months:

Level	RAG	Target	End 2022/23	Feb 2023/24	Feb 2024/25	On target	Direction of travel
1	Red	N/A	0%	0%	0%	Yes	Optimum
	Amber	90%	8%	13%	0%	Yes	Optimum
	Green		92%	87%	100%		
2	Red	N/A	0%	0%	0%	Yes	Optimum
	Amber	90%	14%	0%	0%	Yes	Optimum
	Green		86%	100%	100%		
Totals	Red	N/A	0%	0%	0%	Yes	Optimum
	Amber	90%	10%	9%	0%	Yes	Optimum
	Green		90%	91%	100%		

Transformation Portfolio Performance 2024/25

- 3.7 The Council established its approach to Transformation of Recover, Reset, Deliver, in 2024, designed to align with the vision and ambitions of the Council Plan, with the aim to deliver tangible outcomes which benefit the people of Middlesbrough whilst delivering value for money and a financially sustainable organisation.
- 3.8 The ‘*Approach to Transformation of Middlesbrough Council*’ report to full Council on 27 March 2024 outlined the structure of the Transformation Portfolio, which currently comprises six thematic programmes consisting of transformation, business as usual projects and saving initiatives.
- 3.9 The Executive-approved governance structure for the transformation portfolio, was implemented by the Portfolio Management Office in April 2024 and ensures that projects and programmes are scrutinised in a uniform way, with exceptions escalated to senior responsible officers to ensure action is taken to bring programmes and projects back on-track, where required and / or necessary.

Adults	Children’s	Property	Customer	Place-based Services	Target Operating Model and Core Services
Improved efficiency of current systems and transformation of delivery model through enhanced early intervention, use of digital technologies, increased reablement and review of accommodation offer.	Improved efficiency of current systems, transformation of delivery model through enhanced early help and prevention, development of new models of placement provision and increased in-house fostering capacity.	A review of Council’s asset holdings to identify short-term opportunities to maximise generation of revenue and capital receipts to support organisational transformation.	Transformation of the organisation’s approach to engaging with our customers and implementation of a customer-centric end-to-end journey, enabled through a behavioural change.	A review of service accessibility to allow more focused delivery and better meet the needs of residents, alongside transformation of the Council’s approach to community engagement with the public.	Design and implementation of a Target Operation Model, alongside a review of the management structure to ensure stability and delivery of core enabling service-related savings.
Programme Sponsor: Director of Adult Social Care and Health Integration	Programme Sponsor: Director of Children’s Services	Programme Sponsor: Director of Regeneration and Culture	Programme Sponsor: Director Finance (S151 Officer)	Programme Sponsor: Director of Environment and Communities	Programme Sponsor: Director of Legal and Governance

- 3.10 The Portfolio Management Office (PMO) has played a vital role in the delivery of the Council’s transformation programme ensuring a structured, consistent approach is applied to programme and project management, contributing to the successful delivery of projects and saving initiatives which has achieved a balanced budget up to 2026/27.
- 3.11 The Middlesbrough Independent Improvement Advisory Board (MIIAB) was established in September 2023 to provide expertise, challenge, and advice against delivery of the revised governance improvement plan as part of the Best Value Notice issued in January 2023.
- 3.12 Members of the MIIAB have attended 10 Thematic Programme Boards since July 2024, in an observer capacity with positive feedback provided on the governance and decision-making process in relation to programmes and projects.
- 3.13 The Best Value notice was removed in July 2024.
- 3.14 The table below presents the transformation themes by RAG-rating, as of February 2025:

RAG	Adults		Children's		Property		Customer		Place-Based		Target Operating Model and Core Services		Total (No.)	Total (%)
Benefits and / or saving(s) realised. Evidence provided.	7	44%	3	20%	0	0%	0	0%	2	10%	0	0%	12	16%
Benefits and / or saving on-track. Assured plans in place.	6	38%	6	40%	3	60%	0	0%	12	60%	13	65%	40	53%
Medium-risk to benefits and / or saving(s). Mitigation in-play, or in development.	1	6%	2	13%	1	20%	0	0%	5	25%	4	20%	13	17%
High-risk to benefits and / or saving(s). Limited scope for mitigation.	2	13%	4	27%	1	20%	0	0%	1	5%	2	10%	10	13%
Benefits and / or saving(s) are undeliverable.	0	0%	0	0%	0	0%	0	0%	0	0%	1	5%	1	1%
TOTAL	16	21%	15	20%	5	7%	0	0%	20	26%	20	26%	76	100%

3.15 The information above demonstrates that 69% (Blue and Green RAG totals combined) of the transformation portfolio has been delivered or is on target to deliver, by the end of the financial year 2024/25.

Internal Audit Opinion

3.16 The most recent internal audit of project management arrangements was in 2023, which determined that a sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

3.17 An overall opinion of the controls within the system was of 'Substantial Assurance' in relation to project governance arrangements to support the Council's priorities, with a strong commitment to the PPM framework within the Council.

3.18 Throughout 2024/25, internal audit was provided with monthly transformation progress reports to provide further assurance.

3.19 For context, Appendix One provides detail on a selection of corporate and transformation projects that were successfully delivered during 2024/25.

Improvements delivered during 2024/25

3.20 To support delivery of the transformation programme, the following improvements have been made:

Design and implementation of benefit realisation plans and accompanying portfolio dashboard: these products allow for non-financial benefits and outcomes to be measured and tracked to demonstrate progress, ensuring benefits are aligned with the 2024-27 Council Plan priorities.

Design and implementation of a portfolio level dependency tracker: managed by the PMO, this enables portfolio level dependencies to be better managed and prompt mitigation for programme level risks and interdependencies and improve cross-directorate collaboration.

Review of the portfolio content: to ensure the transformation portfolio is focused on delivering true transformational change, through new approaches to service delivery

design, driving improved efficiencies and the implementation of effective demand management, the portfolio has been reviewed to separate out those saving initiatives from actual change projects, with a proposal to refine the governance arrangements in a pragmatic and proportionate manner.

- 3.21 To ensure the PPM Framework and associated documentation remain current and fit for purpose, a review has been undertaken with improvements implemented, as follows:

Design and implementation of a programme level highlight report: Programme Sponsors and the PMO can now combine monthly progress updates and performance RAG status of programmes and their constituent projects, to feed into monthly programme boards and wider performance reporting arrangements.

Revisions to the Project Workbook: Project highlight reports now have levels of automation, strengthening the oversight and management of key project controls and provides key evidence to inform project health checks.

Further improvement activity planned for 2025/26

- 3.22 Review the current portfolio to ensure there is a clear split between saving initiatives and projects to allow for the appropriate governance arrangements to be implemented.

- 3.23 Further planned improvements for 2025/26 will focus on improving the standards of programme and project management delivery practice through the implementation of enhanced collaboration and training opportunities for PPM staff and a Centre of Excellence model for programme and project management, which will include:

- Establishment of cross-directorate project management champions to review the PPM Framework, documentation to share best practice and propose improvements.
- Refresh of programme and project management training materials, with a roll-out of scheduled training opportunities for Programme and Project Managers and Sponsors.
- Development of a project health check schedule for 2025/26, incorporating transformation projects.
- Proposal of alignment of the corporate and transformation portfolios to ensure all projects receive the same level of scrutiny and governance and that overall PPM performance reporting is consistent.

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

- 4.1 Not applicable.

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

Topic	Impact
Financial (including procurement and Social Value)	The Council's approach to transformation is one of the key drivers of the Council Plan 2024-27, to ensure full alignment between the Council's ambitions and spending plans. In outlining an achievable programme of work that delivers performance improvement within reduced resources, the approach to transformation governance will support the Council in delivering value for money in the medium-term.
Legal	The Portfolio Management Office is a vital enabling role in the successful delivery of the Council's priorities and ambitions, directly linked to the achievement of a balanced budget over the next three years, and continue to meet its various statutory duties, including the overarching Duty of Best Value.
Risk	The PPM framework provides for the effective management of programme and project risk, aligning this with the Council's strategic approach.
Human Rights, Public Sector Equality Duty and Community Cohesion	The PPM framework has no direct impact on Human Rights, Public Sector Equality Duty and Community Cohesion.
Climate Change / Environmental	The PPM framework has no direct impact on Climate Change / Environmental.
Children and Young People Cared for by the Authority and Care Leavers	The PPM framework has no direct impact on Children and Young People Cared for by the Authority and Care Leavers.
Data Protection	There are no concerns that amendments made to programme and project management documentation could impact adversely on data protection or GDPR.

Appendices

Appendix	Title
Appendix One	Snapshot of projects delivered and closed in 2024/25

Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	PMO Six monthly report	06/06/2019
Corporate Affairs and Audit Committee	Annual Assurance Report: Portfolio Management Office (PMO)	25/07/2019
Corporate Affairs and Audit Committee	Performance and Risk Management: Annual Assurance Report 2020	04/02/2021
Executive	Transformation: Governance Arrangements	13/03/2024

Contact: Gemma Cooper, Head of Strategy, Business and Customer
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Appendix One: Snapshot of projects delivered and closed in 2024/25

Portfolio Type	Project Title	Project Description	Intended Benefits / Outcomes	Actual Benefits / Outcomes
Corporate	Inspecting Local Authority Children's Services (ILAC) Improvement Project	<p>This project was implemented following the ILAC inspection in March 2023 to address 6 key areas identified by Ofsted as needing to improve.</p> <ul style="list-style-type: none"> • Planning for children • Private Fostering Arrangements • Management Footprint • Voice of the Child • Care Leaver Support • Workforce Stability 	<ul style="list-style-type: none"> • Planning for children is consistent across the service with evidence of IRO footprint on case records driving plans for children • Children in private fostering arrangements are appropriately identified and supported • Management footprint and casework supervision is evident on case records driving SMART plans and positive outcomes for children • Sustained improvements in support and outcomes for Care Leavers including KIT; Health; access to suitable accommodation and employment • Permanent recruitment of all roles across all service areas to provide stability of the workforce and reduce the number of changes of social workers for children. 	<ul style="list-style-type: none"> • Audit outcomes: 18% good, 60% Requires Improvement (RI) and 22% inadequate • IRO footprint on cases average over a 6mth period was 453, with a total of 147 IRPs raised. • Monthly private fostering review panel in place • Wider understanding of private fostering across the partnership • Evidence of management footprint including Service Managers when concerns escalate • Children and Young People's voices are heard and responded to; they influence and contribute to their own plans and strategic planning • Senior leadership team and 3 / 5 heads of service now permanent
Corporate	Town Fund Initiatives	The aim of the project was to implement a range of initiatives across the Town to improve the physical environment and provision of outdoor recreational facilities using £1m funded by The Towns Fund	<ul style="list-style-type: none"> • Delivery of 17 improvement / refurbishment schemes 	<ul style="list-style-type: none"> • 16 schemes fully delivered. One scheme was assessed as not viable and removed from the programme.
Corporate	Website Review	The aim of the project was to improve and enhance the Council's Web presence, improve the intranet and online interaction with our customers and citizens.	<ul style="list-style-type: none"> • Channel shift of residents, businesses and visitors to interacting with us online rather than using more expensive methods of communication like phone and face to face. 	<ul style="list-style-type: none"> • Website page views increased from 2,382,980 in the year prior to the new website being launched to 3,351,584 • Time reduction of 1.4 FTE per week

			<ul style="list-style-type: none"> • Time reduction of 1.5 FTE per week for the Digital team to administer the website • Increase in positive Resident feedback to 85% • Average page load speed reduced to less than 2 seconds. • Improvement score for website accessibility to 95% 	<ul style="list-style-type: none"> • Resident feedback positivity rating rose to 92% • Average page load speed reduced to 1.4 seconds • Improvement score for website accessibility to 97%
Transformation	Introduction of Residential Care Panel	The aim of this project was to increase scrutiny of placement applications with a particular focus on housing and accommodation.	<ul style="list-style-type: none"> • A saving of £0.2m was based on a cohort of residents currently in residential care that require re-housing. • Increased scrutiny of placement applications linked to number of service users placed in permanent residential settings 	<ul style="list-style-type: none"> • In 2023/24 440 service users were in permanent residential setting compared to 293 in 2024/25, demonstrating success.
Transformation	Fortnightly Collection Residual Waste	This initiative was to change the frequency of refuse collection service from weekly to fortnightly for the collection of household waste and offer a provision of larger refuse bins to residents.	<ul style="list-style-type: none"> • A reduction of staffing and fuel / equipment costs by moving to fortnightly refuse service equating to a saving of £374k. • Recycling rates to increase to 33% in 2024/25 and 38% in 2025/26. • Net Reduction in residual disposal costs of waste of 3% in 24/25 • Net Reduction in residual disposal costs of waste of 5% 25/26 	Achieved as per plans
Transformation	Redesign of short break provision	The aim of this project was to reshape the children's care short breaks review process for children and young people with disabilities.	<ul style="list-style-type: none"> • Review and reassess the children and young people who have been in receipt of Short Breaks support. • Review and improve financial processes, recording of spend, whilst increasing assurance and intelligence of resources. • Improve the short breaks offer for children and young people 	<ul style="list-style-type: none"> • £0.057m has been achieved from the required £0.030m from the recovery activity of unused direct payment awards from unallocated short breaks through reviews. • During 2024 all children were reviewed and reassessed who were receiving Short Breaks.

			<p>by reviewing the support services that Children's Services operate and assess whether they can replace the short breaks activity delivered externally.</p> <ul style="list-style-type: none">• Reduce the amount of unused funds for Short Breaks activities by implementing an automated recovery process.	<ul style="list-style-type: none">• Effective tracking system identifying budget for each child was implemented resulting in improved tracking, monitoring and review of spend.
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MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance and Transformation (s151 Officer)
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Submitted to:	Audit Committee
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Date:	13 March 2025
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Title:	Audit Committee Review of Effectiveness
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Report for:	Decision
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Status:	Public
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Council Plan priority:	Delivering Best Value
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Executive summary

This report provides the committee with:

- Information relating to the benefits of conducting a review of the Committee's effectiveness, and the options for undertaking such a review

1. Purpose

- 1.1 To provide Members with information relating to the benefits of conducting a review of the Committee's effectiveness, and the options for undertaking such a review.

2. Recommendations

- 2.1 That the Audit Committee

- Approves a review of its own effectiveness and,
- provides direction on the proposed method and timing of the review.

3. Background and relevant information

- 3.1 The latest guidance on audit committees in local government, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2022, recommends that committees should complete a periodic self-assessment of their effectiveness. Alternatively, an independent review can be undertaken. The guidance includes a checklist to support the self-assessment, enabling the Committee to highlight the areas where it has made an impact on the Council's governance, risk management, control and audit arrangements. This Committee has not undertaken any assessment against this guidance.
- 3.2 It is recommended that the Committee completes an assessment against the guidance, either through a facilitated self-assessment that would be led by Veritau, or this an independent commissioned review.
- 3.3 The outcomes of this exercise will help to support the preparation of the Audit Committee's future work programme, training plans and the annual report. The exercise may also identify areas requiring changes or improvements in the Committee's method of working or in how it communicates its activities to the Council's leadership and wider public.
- 3.4 Members' support is sought for completion of a review of the Committee's effectiveness, and direction on the form and timing of the review. Options for the method for undertaking the review are summarised as follows:

Self-Assessment (whole committee)

Benefits

All Members will have the opportunity to contribute to the review

Members have a good understanding of the Council, its

Disadvantages

May lack external perspective / relevant knowledge of audit committee best practice in local government

priorities and existing governance arrangements

Self-assessment (Member working group)

Benefits

More focused and potentially less time consuming

Members have a good understanding of the Council, its priorities and existing governance arrangements

Disadvantages

May lack external perspective / relevant knowledge of audit committee best practice in local government

External review

Benefits

Will be seen as independent and objective

Offers an opportunity to learn from best practice in other local authorities and/or the wider public sector

Disadvantages

There will be a cost, which could be significant (and therefore budget implications)

Only limited options may be available to access relevant expertise

May not fully understand or reflect 'local' priorities or ways of working

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

4.1 There are no other options available.

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

Topic	Impact
Financial (including procurement and Social Value)	An internally facilitated self-assessment can be delivered within the current contract budget management arrangements for the Internal Audit service provided by Veritau. Should the Committee decide to seek an

Topic	Impact
	independent review, the market would need to be tested to provide costs for this option. Should the Committee choose this option, a further report would be brought to the Committee following market testing for the Committee to confirm its preferred option.
Legal	Completion of an assessment against the CIPFA guidance will provide the Committee with assurance that they are meeting their legal obligations and / or identify where action is needed to improve compliance.
Risk	Completion of an assessment against the CIPFA guidance will provide the committee with improved assurance that it understands the risks and issues facing audit committees and support to manage those risks effectively.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no specific impacts or implications directly arising from this report, however an effective Audit Committee function will support the Council to ensure its practice, policies and decision making are legally compliant, thus ensuring positive impacts on these areas.
Climate Change / Environmental	
Children and Young People Cared for by the Authority and Care Leavers	
Data Protection	

Background papers

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

Contact: Phil Jeffrey
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MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance and Transformation (S151 Officer)
Submitted to:	Audit Committee
Date:	13 March 2025
Title:	Prudential Indicators & Annual Treasury Management Strategy – 2025/26
Report for:	Discussion
Status:	Public
Council Plan priority:	Delivering Best Value

Executive summary

In accordance with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management, the Council is required to approve a Treasury Management Strategy and a set of Prudential Indicators on an annual basis. This self-regulates the level of capital financing activities of the Council and the long-term affordability and the value for money achieved in delivering capital investment and managing the short, medium, and long-term borrowing and investment decisions of the Council.

The Treasury Management Strategy is therefore a critical foundation of the Council's financial management and governance framework and is a key aspect of securing the Council's financial recovery and long-term financial resilience.

Whilst the Executive is responsible for the setting and monitoring of the annual strategy, the CIPFA Code requires a separate body within the organisation to be responsible for the scrutiny of treasury management activities and any decision-making undertaking. Given its governance role, Audit Committee is seen as best placed to undertake this role and ensure officers and the Executive are held to account so that the Council complies with best practice.

This report sets out the 2025/26 Annual Treasury Management Strategy and Prudential Indicators approved by Council on 19 February 2025 and gives an analysis of the key matters in the report. The key points for Members to note on this are as follows:

Borrowing

- The capital programme for 2025/26 contains total expenditure of £74.798m.
- The amount of borrowing required during the year is expected to be £17.085m

- The Council's underlying need to borrow which reflects the total of all historical capital expenditure financed from borrowing is called the Capital Financing Requirement (CFR) and is expected to be £310.197m on 31 March 2026. The Council does not borrow externally for the total amount of the CFR as it holds internal cash balances against which it borrows internally as part of its Treasury Management Strategy. Total external debt is expected to be £270.303m on 31/3/2025, rising to £292.388m at 31/3/2026.
- The Council is expected to be 'under borrowed' by £17.809m or 5.7% at the 2025/26 financial year end. This means that it is using its internal cash balances rather than borrowing externally to fully fund the CFR. This is good practice to avoid unnecessary revenue costs and effective cashflow management.

Investments

- All cash investments have been made in line with the Council's credit worthiness criteria, generally with either central government or other local authorities.

Affordability

- The net annual revenue cost of financing the Council's current and historic debt, less income from its historic commercial investments and on cash balances, is expected to be £12.060m or 8.4% of the net revenue budget at 31/3/2026. This reflects the cost of loan principal repayment (Minimum Revenue Provision - MRP) and interest on external borrowing.
- The affordability limit advised by the s151 Officer is for revenue costs of capital financing to be contained within 10% of the net revenue budget.
- The cost of capital financing in future years rises markedly over the medium-term financial plan and is expected to breach this level this in 2028/29. See Table 5.
- The long-term forecast shows capital financing costs breaching the 10% nominal threshold by 2029. This will limit the availability of external borrowing as a source of funding future capital investment and more reliance needs to be placed on external funding and capital receipts and/ or projects for which investment will reduce operating costs or increase operating income of the Council. The S151 officer will advise what is affordable going forwards, in terms of the Council's overall financial position, and affordability, in terms of the medium-term financial plan.

The work of the Corporate and Strategic Capital Boards will bring focus to improving the effectiveness of capital programme management in the future.

The main body of the report gives more details for Audit Committee on the framework used to manage treasury management and the capital financing position of the Council. The CIPFA Treasury Management Code of Practice. Effective scrutiny in this context involves publicly examining and challenging the leadership of the Council to help shape future strategies and policies to ensure that good governance is in place and that resources are used effectively and value for money is achieved.

1. Purpose

- 1.1 This report provides an important update to the Audit Committee on the strategic approach in relation to the Council's borrowing, investments, and cash-flow for the 2025/26 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It should be read in conjunction with the Treasury Management mid-year review 2024/25, reported to Members on 12 December 2024.
- 1.2 The report also provides the Prudential Indicators approved by Council for the 2025/26 financial year in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which is best practice in terms of governance in this area.
- 1.3 The report gives Audit Committee information on the treasury management strategy, position on capital financing and prudential indicators, and whether these are contributing to the effective management of the capital programme and the resources allocated to pay for these, as part of the revenue budget process.

2. Recommendations

2.1 That the Audit Committee

- Note the Prudential Indicator amounts for 2025/26 as the Council's forecast position in relation to capital finance activities and overall indebtedness. (Tables 1- 5)
- Note the overall approach expected for this financial year in relation to external borrowing, investment of cash balances, and management of the debt portfolio.
- Review the Treasury Management Strategy and ask for any further details or explanation as they require either from the Executive or Officers.

3. Background and relevant information

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

Capital Expenditure and Financing 2025/26

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

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

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

3.5 Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total forecast capital expenditure for the next three financial years and how this is expected to be financed.

Table 1: Capital expenditure and financing: 2024-25 FY to 2028-29 FY

	2024/25	2025/26	2026/27	2027/28
FUNDED BY:	£m	£m	£m	£m
Prudential Borrowing	12.003	17.085	28.180	-
Capital Receipts	6.000	6.000	6.000	11.613
Flexible Receipts	9.850	7.500	6.750	6.250
Grants	35.713	43.230	15.558	-
Contributions	1.592	0.983	6.520	-
Total Capital Expenditure	65.158	74.798	63.008	17.863

The Council's overall borrowing requirement

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

3.7 The CFR will normally be a combination of external borrowing (from third parties in the form of loan arrangements) or from internal borrowing (from the council's own unapplied revenue and capital resources). External borrowing incurs both principal and interest costs as part of the Council's capital financing budget. Internal borrowing is from the

Council's own cash resources and has an opportunity cost in that the cash is spent on capital activities, rather than invested.

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

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

3.10 The Council's capital financing requirement for the next three financial years is shown in Table 2 and represents a key prudential indicator for the Council. The CFR position at the 31/3/2026 is expected to be £310.197m which is £12.381m higher than at the start of the financial year. This is due to capital expenditure funded by borrowing offset by debt repayment via minimum revenue provision as follows:

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

	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)
Opening CFR at 1 April	297.816	310.197	333.295
Add: Capital expenditure financed by borrowing	17.085	28.180	-
Less: Minimum Revenue Provision	(4.704)	(5.082)	(5.366)
Forecast closing CFR at 31 March	310.197	333.295	327.929

Treasury Position at the start of 2025/26

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

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

3.12 Most local authorities have a degree of under borrowing within their CFR at present. This tends to be in the range of 10% - 20% of the total CFR. This means that external debt is lower than the need to borrow and other resources available have been used to bridge the gap. This strategy has been common as part of a Treasury Management

approach to generating revenue savings in relation to annual capital financing costs, by deferring external borrowing, to a later point in time driven by cash flow/liquidity needs of the organisation. It also mitigates the Council's risk exposure on investments with external counterparties.

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

3.14 A summary of outstanding balances is shown below.

Table 3 – summary of borrowing and investments as at 31 December 2024

<i>Treasury Position</i>	2024/25 mid-year Principal (£m)	Avg Rate %
Public Works Loan Board	201.418	3.63
LOBO loans	18.000	6.26
Bank loans	18.582	7.00
Short term borrowing	11.300	3.63
Total Debt	249.300	
Cash Investments	(22.213)	4.56
Net Debt	227.087	

3.15 Around 85% of the Council's total debt is with central government via the PWLB on 31 December 2024. These loans vary in length from between 5 – 45 years and in essence, these match the lives of the capital assets they are financing. Most of the Lender Option Borrower Option (LOBO) and Bank debt was taken out by the Council in the early 2000's when interest rates were higher, but these options were more attractive than borrowing from central government at the time. Due to the terms and conditions on these loans, there is no option to refinance them in the short term.

3.16 The other type of financial instrument used is short-term borrowing from other local authorities. At times the Council will need cash liquidity to finance its revenue and capital commitments but interest rates for longer term borrowing may not in line with the overall treasury strategy and ambitions. In these cases, it is better value to finance this cash need over short periods of time, normally 1-3 months, even if interest rates are higher at that point. This allows the Council time to monitor market rates on long term debt for any

temporary reductions in rates caused by fluctuations in economic data (both UK and worldwide) and in government policy.

3.17 Cash investments are temporary surpluses in liquidity that are either invested with central government (via the debt management office) or with other local authorities with a cash need to borrow. Around £1.000m in interest is forecast to be earned during 2024/25 on these balances at an average rate of around 4.7%.

3.18 The Council's total debt outstanding on 31st March 2026 is expected to be £292.388m. The Council's CFR position at the same date is estimated to be £310.197m. This means that the Council is expected to be "under borrowed by £17.809m or 5.7%.

3.19 This "under borrowed" amount is currently financed by internal borrowing from cash balances which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position has the dual effect of reducing revenue costs incurred by the General Fund budget because borrowing costs are generally greater than investment returns. It also reduces counterparty risk by reducing our exposure to the inherent risks that exist in financial institutions.

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

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

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

	2024/25 Outturn	2025/26 Budget	2026/27 Forecast	2027/28 Forecast
Gross External Borrowing	270.133	292.388	320.568	320.568
Capital Financing Requirement	297.816	310.197	333.295	327.929
(Under)/Over borrowing	(27.683)	(17.809)	(12.727)	(7.361)
% of CFR	9.3	5.7	3.8	2.2

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

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

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

Table 5 – Key Prudential indicators in millions

	2024/25 Outturn	2025/26 Budget	2026/27 forecast	2027/28 forecast
Authorised Limit (£m)	318.000	331.000	354.000	348.000
Operational Boundary (£m)	308.000	321.000	344.000	338.000
Capital Financing Requirement (£m)	297.816	310.197	333.295	327.929
Financing costs (£m)	11.154	12.060	13.732	14.685
Net Revenue Budget (£m)	143.190	143.304	144.382	148.621
Proportion of net revenue budget (%)	7.8%	8.4%	9.5%	9.9%

3.25 The table above also shows the profile of debt required to fund the capital programme over the whole of the medium-term financial planning period, and that this will rise to a maximum of £333.295m on 31st March 2027. This increase in indebtedness is a direct result of the amount required to fund the capital programme in each financial year, and any additional cash flow demands in each financial year due to the use of reserves and debt refinancing.

3.26 Although the Council does not have relatively highly debt levels against its comparator authorities, the strain on the revenue budget is increasing, particularly against the 2026/27 and 2027/28 budgets. When CIPFA introduced the Capital Finance Code of Practice in 2007, a nominal amount of 10% of the net revenue budget was suggested as being a maximum threshold for sustainability and prudence. Although some councils have exceeded this over the years the S151 Officer’s advice is to contain capital expenditure financed by borrowing at a level which remains below this benchmark. This is particularly important given the Council’s fragile financial position and the low level of unrestricted revenue reserves.

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

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

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

3.29 The borrowing approach outlined in the treasury strategy is to achieve the optimum value for money from revenue budget resources, by a combination of long-term borrowing from the Public Works Loan Board when interest rates reached a trigger rate of below 4.75% and the maturity term of the new borrowing fitted in with the Council's current debt portfolio. If these conditions do not exist when cash balances fall below £10.000m, then short term borrowing will be considered for the minimum period possible, given that interest rates are expected to remain stable over the period. Additionally short-term borrowing is capped at a maximum of 20% of the total of the Council's gross external debt balance to limit volatility.

3.30 The approach to investing cash balances is to follow the relevant government and CIPFA guidance in prioritising and protecting the principal sums involved by only investing with institutions on the Council's approved lending list. This factor is paramount and more important than the fact that higher interest rates that could be achieved on riskier and illiquid investments with longer duration terms. Only 10% of total investments could be deposited for periods over one financial year given the higher levels of risk associated with these products. Cash investments should not fall below a minimum limit of £10.000m, in line with the strategic approach outlined above for external borrowing.

3.31 The Council's Treasury Management function will comply with all the relevant statutory and regulatory requirements to date during the 2025/26 financial year, which limits the level of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, financially affordable, and sustainable, and its treasury practices demonstrate a low-risk approach.

3.32 Officers of the Council are aware of the risks of passive management in relation to the treasury portfolio and, with the support of Arlingclose, the Council's advisers, will proactively manage the debt and investments over the financial year.

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

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

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

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

Appendices

1	Prudential Indicators & Annual Treasury Management Strategy – 2025/26
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Background papers

Body	Report title	Date
Council	Revenue Budget, Capital Programme, MTFS and Prudential Indicators – Budget Setting Report	19 February 2025
Audit Committee	Treasury Management Strategy – Mid Year Review – 2024/25	12 December 2024

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APPENDIX 1

PRUDENTIAL INDICATORS &
TREASURY MANAGEMENT STRATEGY - 2025/26

Introduction

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

The following information is a requirement of the 2021 Code of Practice on Treasury Management, issued by the Chartered Institute of Public Finance & Accountancy, and has been produced in an accessible way to enhance members' understanding of these often-technical areas

Capital Expenditure and Financing

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

In the 2025/26 financial year, the Council is planning a total capital expenditure of £74.798m as summarised below.

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

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Total Capital Expenditure	65.158	74.798	63.008	17.863	14.621

All capital expenditure has to be financed, from either external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital

receipts) or debt (borrowing, leasing and private finance initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2024/25	2025/26	2026/27	2027/28	2028/29
FUNDED BY:	£m	£m	£m	£m	£m
Prudential Borrowing	12.003	17.085	28.180	-	-
Capital Receipts	6.000	6.000	6.000	11.613	13.571
Flexible Receipts	9.850	7.500	6.750	6.250	1.050
Grants	35.713	43.230	15.558	-	-
Contributions	1.592	0.983	6.520	-	-
Total FUNDING	65.158	74.798	63.008	17.863	14.621

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

Table 3: Minimum Revenue Provision in £ millions

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
Cost to Revenue Budget	4.316	4.704	5.082	5.366	5.935

- The Council's minimum revenue provision statement for 2025/26 is available towards the end of this report.

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

The CFR is expected to increase by £12.381m or 4.2% during the 2025/26 financial year. This increase is due to the new capital expenditure funded by external debt of £17.085m less the MRP set aside of £4.704m.

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

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

	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
TOTAL CFR	297.816	310.197	333.295	327.929	321.994

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets, or be used to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

The Council plans to receive £29.4m of capital receipts in the coming financial year as follows. These amounts have increased significantly for the next few years due to the asset review being undertaken by the Council. Some of these receipts may not be required in the financial year they are generated and can be carried forward for future use.

Table 5: Capital receipts in £ millions

	2024/25 forecast	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
TOTAL	28.687	29.387	9.204	1.800	9.650

- The level of capital receipts for each financial year is monitored between Regeneration, Finance and Valuation & Estates teams, and any significant changes are reported to Executive as part of the Quarterly budget updates.
- The Council has adopted and used in the past two financial years, the Flexible Use of Capital Receipts Policy where these proceeds may be used for funding service transformation costs that would otherwise be classed as revenue expenditure. This is mainly to fund the current year's revenue budget overspend and would be a device to protect reserves.
- The large value of receipts generated in the 2024/25 and 2025/26 financial years as part of the assets sales theme to support the Council's transformation programme. Some of these may need to be rolled forward depending on the actual transformation expenditure achieved in each financial year.

Treasury Management

Treasury Management is concerned with keeping sufficient but not excessive cash resources, available to meet the Council's spending needs, while managing the risks involved in these investments. Surplus cash is invested until required, whilst a shortage of cash will be financed by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. Cash balances can be a combination of both revenue and capital cash given that there are timing differences between funds being received from various sources and those being spent on the operational plans of the Council.

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

The Council on 31 December 2024 had £245.860m of borrowing at an average interest rate of 3.5% and £35.201m of treasury investments at an average rate of around 4.75%.

Both investment and borrowing rates available to the Council are at high levels currently due to the uncertainty in the US/global economy at present.

Borrowing strategy: The Council’s main objectives when borrowing is to achieve a low but certain cost of finance for long-term capital projects whilst retaining flexibility should plans change in future. This is more difficult than in previous years due to long-term borrowing rates being higher currently than within the Council’s strategy. However, both longer term and short-term borrowing rates are expected to reduce during the 2025/26 financial year which will help.

Projected levels of the Council’s total outstanding debt are shown below, compared with the capital financing requirement (overall council need to borrow).

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

	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
External Debt	270.303	292.388	320.568	320.568	315.568
Capital Financing Requirement	297.816	310.197	333.295	327.929	321.994

Statutory guidance is that debt should remain below the capital-financing requirement, except in the short-term where the benefits of short-term borrowing may be taken. As can be seen from Table 6, the Council expects to comply with this in the medium term with debt being lower than the capital-financing requirement in all relevant financial years. Discussions are ongoing with our treasury advisers on this position and what the long-term approach the Council should take.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt levels start to approach the legal limit and is a more realistic rather than worst-case view of what will happen during the financial year. Any need to change these during the 2025/26

financial year from the original budget assumptions will be reported by the Director of Finance to the Executive at the earliest opportunity.

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

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit	2028/29 limit
Authorised Limit (OB + £10m)	318.000	331.000	354.000	348.000	342.000
Operational Boundary (CFR + £10m)	308.000	321.000	344.000	338.000	332.000

Investment strategy: Treasury investments arise from the Council receiving cash before it is paid out again for service commitments. These cash balances can be a useful source of working capital, particularly around the need to externally borrow for capital needs.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, which focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities, or selected high-quality banks, to minimise the risk of loss. Most investments are for less than 6 months so do not qualify as long-term investments. Interest earned on cash balances tends to follow base rate returns over the financial year.

The aim of the Council is to hold a strategic level of cash of around £15 million. This amount meets two criteria for the Council: it cash backs all of the general fund reserve, plus a small amount of earmarked reserves. It also classifies the organisation as a professional (rather than retail) investor under MIFID II legislation – European law on financial instruments management. There may be an occasional need to hold less than the £15m when interest rates are higher than the medium-term approach to cash.

Table 8: Treasury management investments in £millions

	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
Short-term investments	10.000	15.000	15.000	15.000	15.000
Longer-term investments	0.000	0.000	0.000	0.000	0.000
TOTAL	15.000	15.000	15.000	15.000	15.000

Governance: Decisions on treasury management in relation to investment and borrowing are made daily. These are delegated by the Director of Finance and Transformation to the Head of Corporate Finance and staff within the corporate finance team. They act in line with the treasury management strategy approved by Council and the treasury management practices (operational guidance set out by the CIPFA Code of practice). Significant decisions on treasury are discussed by the Head of Service with the Section 151 Officer as necessary.

Quarterly updates on treasury management activity are reported to Executive as part of the regular budget monitoring process, including a more detailed mid-year report. The central finance team meet weekly to discuss cash flow forecasts, borrowing decisions and operational matters on a weekly basis. All this information feeds into the both the prudential indicators and the treasury management strategy.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on external borrowing and minimum revenue provision on capital expenditure are. These costs can be offset by any interest earned on cash balances or by income earned via commercial investments where borrowing has been used.

The net annual charge to the revenue budget is reported as capital financing costs; this is compared to the net revenue stream i.e., the amount funded from council tax, business rates and general government grants. This is an important indicator around the affordability of the Council's capital programme going forwards.

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

	2024/25 actual	2025/26 forecast	2026/27 forecast	2027/28 forecast	2028/29 forecast
Financing costs (£m)	11.154	12.060	13.732	14.685	15.404
Net Revenue Budget (£m)	143.190	143.304	144.382	148.621	152.973
Proportion of net revenue stream	7.8%	8.4%	9.5%	9.9%	10.1%

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

The figures in table have remained at lower levels when debt for the Council has been increasing. Members should be aware that this is because of various capital investments in commercial property made by the Council over the last few years for regeneration purposes. This results in around £2.6m of income per year being credited to the capital financing budget by the end of the 2025/26 financial year. It is imperative and a key budget risk that these rental levels are maintained, and the income assumed in the estimates above are generated.

However, the level of revenue budget strain is increasing over the capital programme being proposed as part of the 2025/26 budget process and this may not be sustainable given the revenue budget position and low level of reserves. The Council will need to reduce its reliance on external borrowing to fund the capital programme going forwards and target capital grants and contributions or capital receipts from the asset review.

Taking the figures above in Tables 1 to 9 and the key message of caution to be exercised in the future on capital financing decisions. The Director of Finance and Transformation is satisfied that the proposed capital programme is prudent, affordable, and sustainable because appropriate resources have been allocated from the Council's medium term financial plan, and any borrowing plans have been fully costed and reviewed.

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

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
	Estimate	Estimate	Estimate	Estimate	Estimate
Capital Programme	12.003	17.085	28.180	-	-
Debt Refinancing	20.000	20.000	15.000	10.000	10.000
Working Capital	10.000	10.000	-	5.000	-
Total	42.003	47.085	43.180	15.000	10.000

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

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

The Director of Finance and Transformation confirms that these are based on estimates of the most likely and prudent scenarios, with in addition sufficient headroom over and above this to allow for operational management and some scope for flexibility. For example, unusual cash movements or any unbudgeted capital expenditure required. Risk analysis

and management strategies have been considered; as have plans for capital expenditure, estimates of the capital financing requirement, and estimates of cash flow requirements for all purposes.

Prudence – Treasury Management Indicators

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2025/26, 2026/27, 2027/28 and 2028/29 of 100% of its estimated total borrowing undertaken.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2025/26, 2026/27, 2027/28 and 2008/29 of 25% of its estimated total borrowing undertaken.

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

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

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

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

Currently investments are limited to a maximum of 2 years, with any deals being arranged so that the maturity will be no more than 2 years after the date the deal is arranged.

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

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Corporate Finance has 30 years experience in local government treasury management. There is similar experience within the finance teams in relation to treasury management, budgeting, & accounting for capital expenditure and financing. The

Council also pays junior staff to study towards relevant professional qualifications including CIPFA, CIMA, ACCA, AAT, and other relevant vocational studies.

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

Treasury Management Practices

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

Minor operational and terminology changes to this can be made by the Director of Finance and Transformation, on an ongoing basis to keep the TMP's updated. If any significant changes are required to the document, either because of organisational or regulatory changes, this will be brought to full Council for approval.

ANNUAL INVESTMENT STRATEGY & TREASURY
MANAGEMENT - POLICY STATEMENT 2025/26

1. In accordance with revised guidance from the Ministry of Housing, Communities and Local Government (MHCLG) a local authority must prepare and publish an Annual Investment Strategy which must be approved by full Council before the start of the financial year to which it relates.
2. The MHCLG guidance offers councils greater freedom in the way in which they invest monies, providing that prior approval is received from Members by approving the Annual Investment Strategy. The guidance also considers the wider implications of investments made for non-financial returns and how these can be evaluated.
3. The Local Government Act 2003, which also introduced the Prudential Code for Capital Finance, requires that a local authority must have regard to such guidance as the Secretary of State issues relating to prudent investment practice.
4. In addition, the Chartered Institute of Public Finance & Accountancy (CIPFA) has published a revised Code of Practice for Treasury Management in the Public Services in December 2021. This replaces the 2017 Code which had been adopted in full by Middlesbrough Council. The updated Code requires the Council to clearly state, in the Annual Investment Strategy document, its policy on effective control, and monitoring of its treasury management function. These controls are set out in Treasury Management Practices (TMP's) which have been approved as part of acceptance of the previous Code.
5. The revised Strategy, showing where the Guidance has determined Council policy, can be set out as:

ANNUAL INVESTMENT STRATEGY 2025/26

6. Middlesbrough Council will create and maintain as the cornerstones for effective treasury management:
 - a treasury management policy statement, stating the policies, objectives, and approach to risk management of its treasury management activities.
 - suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
7. The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

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

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

LIMITS & DEFINITION OF SPECIFIED INVESTMENTS

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

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| <ul style="list-style-type: none">• The minimum % of the total of all investments which must be Specified Investments, at the time the investment is made, is 90%• The maximum investment with any one counterparty is £15 million, except for the Debt Management Office which is has no limit.• The maximum investment in any one group (i.e., a bank and its wholly owned subsidiaries) is £15m. |
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LIMITS & DEFINITION OF NON-SPECIFIED INVESTMENTS

18. These categories of investment currently meet the criteria for non-specified investments:

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

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| <ul style="list-style-type: none">• The maximum % of the total of all investments which can be non-specified investments, at the time the investment is made, is 10%.• The maximum investment with any one counterparty is £3 million.• The maximum investment in any one group (i.e., a bank and its wholly owned subsidiaries) is £3m.• The maximum % of the total of all investments that have an outstanding period of one year or longer, at the time the investment is made, is 10%. |
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20. The maximum period for which an investment can be made is 3 years, with the maturity date no more than 3 years and 1 month from the time the deal is agreed.
21. As referred to earlier in the report, borrowing should be kept at, or below, the expected capital financing requirement over the medium term to reduce the risk of exposure to interest rate fluctuations. The balance of 'net borrowing' (loans less investments) should also be monitored to, where prudent, minimise interest rate differences.
22. The Council considers that it is empowered by Section 12 of the Local Government Act 2003 for the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future. While not "borrowing to invest" it is prudent to invest monies raised in advance of expenditure. As required by the Guidance such investment is permitted providing the anticipated expenditure is within this or the next financial year or within a period of eighteen months, whichever is the greater.

TREASURY MANAGEMENT POLICY STATEMENT

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

Borrowing

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

Investments

- The CIPFA/MHCLG guidance require the Council to invest its funds prudently and to have regard to security, liquidity and yield, when making decisions.
- Security being the arrangements in place to protect principal sums invested by a local authority.
- Liquidity being to ensure that enough cash resources are available on a day-to-day basis for transactional needs.
- Yield being the interest rate and total financial return applicable to the investment being made.
- With these strategic issues in mind, the management of credit risk (or security) is key to the Council's investment strategy and any subsequent activity. The Council uses the external advisers' credit worthiness matrix to determine limits with individual counterparties.

MINIMUM REVENUE PROVISION POLICY - 2025/26

INTRODUCTION

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

MEANING OF “PRUDENT PROVISION”

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

OPTIONS FOR PRUDENT PROVISION

Option 1: Regulatory Method

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

Option 2: CFR Method

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

Option 3: Asset Life Method

33. For new borrowing under the Prudential system (from 2008) for which no government support is given, there are two main options. Option 3 is to make provision for debt

repayment in **equal annual instalments** over the estimated life of the asset for which the borrowing is undertaken. This is a possibly simpler alternative to the use of depreciation accounting (Option 4), though it has some similarities to that approach.

34. The formula allows an authority to make **voluntary extra provision** in any financial year that this is affordable.
35. In the case of the construction of a new building or infrastructure, MRP would not need to be charged until the new asset comes into service. This “**MRP holiday**” would be perhaps 2 or 3 years in the case of major projects and could make them more affordable. There would be a similar effect in the case of Option 4 under normal depreciation rules.

Option 4: Depreciation Method

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

Option 5: 2% Annuity Method

38. This method recognises the time value of money and the useful life of the assets funded from borrowing and is seen as a fairer way of charging MRP. It is supported by the Council's treasury management advisers (Arlingclose) and is being adopted by many local authorities nationally as an equitable basis for calculating the revenue costs of repaying debt.

**MINIMUM REVENUE PROVISION -
2025/26 POLICY FOR MIDDLESBROUGH COUNCIL**

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

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MIDDLESBROUGH COUNCIL	
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Report of:	Head of Internal Audit, Veritau
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Submitted to:	Audit Committee
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Date:	13 March 2025
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Title:	Internal Audit and Counter Fraud Progress Report
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Report for:	Information
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Status:	Public
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Council Plan priority:	Delivering Best Value
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Executive summary

This report provides the committee with:

- an update on internal audit and counter fraud work undertaken.

1. Purpose

- 1.1 To provide Members with an update on the delivery of internal audit and counter fraud work and on reports issued and other work completed since the last update to the committee.
- 1.2 To provide Members with an update on the new Global Internal Audit Standards and our approach to adopting them.

2. Recommendations

2.1 That the Audit Committee

- Notes the latest update on internal audit and counter fraud work.
- Notes the latest update on the Global Internal Audit Standards

3. Background and relevant information

- 3.1 Internal audit provides independent and objective assurance and advice on the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 3.2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3.3 Fraud is a significant risk to the public sector. Annual losses are estimated as being as high as £59 billion in the United Kingdom. Veritau are engaged to deliver a counter fraud service for Middlesbrough Council. The service helps the Council to mitigate fraud risks and to take appropriate action where fraud is suspected.
- 3.4 The Audit Committee has oversight of the work of both internal audit and the counter fraud team. Regular progress reports keep members of the committee informed of the work of both teams over the course of the financial year. They also can be assessed against the planned activity set out in respective work programmes approved by the Committee at the beginning of the year (July 2024).

Internal Audit Progress report

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

Global Internal Audit Standards

- 3.6 From 1 April 2025, internal audit teams in the public sector will be working to new internal audit standards. These will be a combination of the new Global Internal Audit Standards

(GIAS) and the “Application Note, Global Internal Audit Standards in the UK Public Sector” published by the Chartered Institute of Public Finance and Accountancy (Cipfa). Cipfa is the body responsible for setting standards for internal audit in local government in the UK. The new standards will be referred to as the Global Internal Audit Standards (UK public sector).

3.7 Whilst 1 April 2025 is the effective date for the new standards, internal audit teams will not be expected to demonstrate full conformance on this date. They must start to work in accordance with the new standards from this date and by doing so they will build up their conformance.

3.8 In order to conform with the new standards, we are updating our audit charter, audit manual and will provide training to staff. We will also review our working practices to ensure that they comply with the standards. We expect to bring an updated audit charter to the July meeting of this committee, along with an update on actions to achieve conformance.

Counter Fraud Progress report

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

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

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

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

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

Appendices

1	Internal audit progress report March 2025
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2	Counter fraud progress report March 2025
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Background papers

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

Contact: Phil Jeffrey
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Contact: Jonathan Dodsworth
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Internal Audit Progress Report 2024/25

Date: 13 March 2025

APPENDIX 1

CONTENTS

3	Background
3	Internal Audit progress
4	Follow Up
5	Annex A: Internal Audit work in 2024/25
7	Annex B: Current audit priorities
11	Annex C: Summary of key issues from audits finalised
13	Annex D: Audit opinions and priorities for actions
14	Annex E: Follow up of agreed audit actions



BACKGROUND

- 1 Internal audit provides independent and objective assurance and advice about the council's operations. It helps the organisation to achieve its overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3 In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan (the work programme) agreed by the Audit Committee and to identify any emerging issues which need to be brought to the attention of the committee.
- 4 The internal audit work programme was agreed by this committee in July 2024.
- 5 Veritau has adopted a flexible approach to work programme development and delivery. Work to be undertaken during the year is kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the council.
- 6 The purpose of this report is to update the committee on internal audit activity up to 21 February 2025.



INTERNAL AUDIT PROGRESS

- 7 A summary of audits underway and those finalised in the year to date, is included in annex A. Annex A also details other work completed by internal audit during the year.
- 8 The work programme, showing current priorities for internal audit work, is included at annex B. Alongside the work in the 'do now' and 'do next' categories are indicative timescales for when work commenced or is expected to commence, and projected dates for final reports to be produced. These timescales may be subject to change, for example if work priorities change as a result of ongoing risk assessment and work planning.
- 9 The programme does not include any audits in the 'do later' category. The new internal audit work programme has been brought to this committee as a separate report and we are currently assessing which of these audits will be a priority for audit as the year commences.

- 10 Annex C provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee.
- 11 We have introduced a new specification and report format for 2024/25 and reviewed our definitions for action priorities and overall assurance levels. Annex D lists our new definitions.

FOLLOW UP

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

ANNEX A: INTERNAL AUDIT WORK IN 2024/25

Audits in progress

Audit	Status
Treasury management	Draft report issued
Commercial property income	Draft report issued
VAT accounting	Ongoing
Procurement cards (follow-up)	Ongoing
Teesside Pension Fund – investments	Ongoing
Domestic abuse	Ongoing
Homelessness	Ongoing
Server Admin (IT)	Ongoing
Schools themed audit (budget management and supply teachers)	Ongoing
Anti-social behaviour management	Ongoing
Council Tax and NNDR	Ongoing
Teesside Pension Fund – Investments	Ongoing
Members' allowances and declarations of interest	Ongoing

Final reports issued

Audit	Reported to Committee	Opinion
Public health governance	August 2024	Reasonable Assurance
Main accounting	August 2024	Substantial Assurance
Benefits and Council Tax Support	August 2024	Substantial Assurance
Health and safety	August 2024	Substantial Assurance
Creditors	August 2024	Substantial Assurance
Schools themed audit (business continuity)	October 2024	Reasonable Assurance
Teesside Pension Fund – administration	October 2024	Substantial Assurance
Use of residential care	October 2024	Reasonable Assurance
Continuing healthcare	October 2024	Reasonable Assurance
Early years funding	October 2024	Reasonable Assurance

Direct payments	December 2024	Limited Assurance
Social care transitions	December 2024	Reasonable Assurance
IT asset management	December 2024	Substantial Assurance
Agency staff (Children's Services)	December 2024	No opinion given
Procurement	March 2025	Reasonable Assurance
Payroll	March 2025	Substantial Assurance
Risk management	March 2025	Substantial Assurance
Information governance	March 2025	Substantial Assurance

Other work in 2024/25

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

- ▲ A review of returns completed by the Council for the Supporting Families scheme.
- ▲ A review of grant claims including those relating to:
 - ▲ Trading standards
 - ▲ Tees Valley Combined Authority / Local Transport Plan
 - ▲ Middlesbrough Mela
 - ▲ High Street Heritage Action Zone
 - ▲ Children's Services Practice Improvement
 - ▲ Homes England
 - ▲ Traffic Signals Obsolescence
 - ▲ Bus Service Operators
 - ▲ Museum Estates Development Fund
- ▲ An annual review of a number of trust funds administered by the Council
- ▲ A review of effectiveness of arrangements in place to manage subcontractor systems and controls in relation to Middlesbrough Council's Community Learning Service (MCLS).

ANNEX B: Current priorities for internal audit work

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Corporate & cross cutting			
Category 1 (do now)			
Procurement cards	Fieldwork complete. This has been delayed in order for us to complete other work but is expected to be finalised shortly.	September 2024	July 2025
Transformation programme	The Council's transformation programme is being considered as part of all ongoing/planned work.	Ongoing	Ongoing
Members allowances and declarations of interest	Ongoing.	January 2025	July 2025
Category 2 (do next)			
Savings plans and delivery	The Council has significant budget pressures and has agreed a further set of savings plans including as part of the Transformation programme. The audit will review progress against these plans and the reasonableness of assumptions made in calculating savings and is likely to focus on Children's and Adult's Services.	March 2025	July 2025

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

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Business continuity	Business continuity is a key tool to mitigate risks arising from unexpected changes in the external environment, for example increasing cybersecurity threats, supply chain issues resulting from global political activity and potential climate and energy related events. This area has not been audited for some time and will commence following the risk management audit.	March 2025	July 2025
Partnerships	Planning underway / this has been re-allocated to prioritise other work so is now due to start early in Q1 2025/26.	April 2025	September 2025
Performance management	A key assurance area reflecting its significant contribution to the achievement of the Council's objectives.	April 2025	September 2025
Financial / Corporate systems			
Category 1 (do now)			
Treasury management	Draft report issued on 19 December 2024. We are awaiting a response from management and expect this audit to be finalised shortly.	November 2023	July 2025
VAT accounting	This has now restarted following a HMRC review of the Council.	February 2025	July 2025
Teesside Pension Fund – Investments	Ongoing.	January 2025	July 2025
Council Tax and NNDR	Ongoing.	December 2024	July 2025

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Category 2 (do next)			
Debtors	This is a key financial system and audited regularly.	Q1 2025/26	September 2025
ICT			
Category 1 (do now)			
IT server administration and security	Fieldwork is complete. The draft report should be issued shortly and will be finalised soon after.	October 2024	July 2025
Category 2 (do next)			
IT – email security	Email security is key to preventing and protecting council data and ensuring it is transferred securely. It is also vital for cyber security and protecting against phishing attacks and the threats from malware and ransomware. This has been identified as a priority for audit in discussion with IT managers.	Q4 2024/25	September 2025
Operational audits			
Category 1 (do now)			
Commercial property income	Draft report issued on 18 December 2024. The report has raised some issues that have required further work and we are hoping to conclude this shortly.	March 2024	July 2025

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected reporting ¹
Domestic abuse	Fieldwork complete. The audit is complex, has identified a number of issues and has involved two directorates. We expect to issue a draft report shortly.	June 2024	July 2025
Anti-social behaviour management	Ongoing.	December 2024	July 2025
Homelessness	Ongoing.	January 2025	July 2025
Schools themed audit	Planning underway.	February 2025	July 2025
Category 2 (do next)			
Financial assessments (Adult's)	In the context of increasing financial pressure on care services, robust assessments can help the Council to accurately determine charges for care and to work within budget. This area has not been reviewed for some time.	April 2025	September 2025
Home to school transport	This is an increasing area of spend and risk area for the Council.	April 2025	September 2025
Housing development	A review of the arrangements to regenerate housing provision in Middlesbrough.	April 2025	September 2025

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

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
Procurement	Reasonable Assurance	Review and authorisation of contracts > £100k, review and authorisation of contracts < £5k, breaches of the CPRs.	2 nd January 2025	<p>There are suppliers in place with no contract where the value of spend is regular and above non-contract thresholds.</p> <p>There is no review of expenditure >£100k by the Procurement Team to confirm that the CPRs have been complied with.</p> <p>Contracts are not always published and a signed contract was not always in place.</p> <p>A high number of contracts appeared to be retrospectively ordered due to an incorrect recording of</p>	<p>Requisitioners will now obtain and quote a procurement reference number.</p> <p>A review has now been completed and the CPRs have been complied with in all cases.</p> <p>A flow chart for the Procurement Team will be introduced to ensure contracts are always published.</p> <p>The contract register will be reviewed to ensure all contracts are in place.</p> <p>Training will be provided to inputters and all entries on the</p>

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
				the start date on the contract register. There is no formal reporting of breaches of the CPRs.	contract register will be reviewed. A new breach procedure will be introduced.
Payroll	Substantial Assurance	Mileage and advance payments, payroll journals, reconciliation to the establishment.	8 th January 2025	Line managers do not always confirm on iTrent that driver documentation checks have been undertaken.	Guidance notes will be produced; alerts and triggers for managers will be confirmed to be in place and appropriately worded.
Risk management	Substantial Assurance	Role of risk management within the Council, the risk management cycle, communication of risk management to employees.	10 th February 2025	Procedures and controls are working well.	No significant actions agreed.
Information governance	Substantial Assurance	Policies and procedures, staff responsibilities and training, processing of Freedom of Information Act requests.	18 th February 2025	Procedures and controls are working well.	No significant actions agreed.

ANNEX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit opinions

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

Opinion	Assessment of internal control
Substantial assurance	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.

Priorities for findings

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

ANNEX E: FOLLOW UP OF AGREED AUDIT ACTIONS

Actions completed

A total of 34 actions have been completed since the last report to this committee in December 2024.

Actions agreed		Actions agreed by directorate					
Priority of actions	Number of actions agreed	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
Critical	4	0	0	0	4	0	0
Significant	23	4	8	0	11	0	0
Moderate	6	0	0	0	4	2	0
Opportunity	1	0	0	0	0	1	0
Total	34	4	8	0	19	3	0

Actions outstanding

A total of 26 actions with original due dates that have passed are still outstanding. A summary of the priority of these actions is included below.

Actions agreed	
Priority of actions	Number of actions agreed
Critical	5
Significant	14
Moderate	6
Opportunity	1
Total	26

Actions agreed by directorate						
Priority of actions	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
Critical	0	0	3	2	0	0
Significant	0	10	2	2	0	0
Moderate	1	0	1	2	2	0
Opportunity	0	0	0	0	1	0
Total	1	10	6	6	3	0

Of the 26 actions outstanding 11 have had a revised date agreed. The remaining 15 are currently being followed up.

Actions outstanding for more than 3 months (Critical or Significant)

Six Critical or Significant actions have currently been outstanding for more than 3 months. Four of these relate to the audit of the Transporter Bridge, details of which have been reported previously to this committee. The actions are operational in nature and will not be dealt with until the bridge is brought back into operation, for which there is no agreed date. We have therefore removed the actions from our normal follow up process. The remaining two actions are detailed below.

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Burials	Significant	31/12/2022	31/03/2025	A Bereavement Services framework will be produced to include a strategy setting the direction for change and an action plan setting out how that change will be delivered	A draft strategy has now been produced and the service intends to finalise it shortly.
Direct payments	Critical	31/12/2024	28/02/2025	Additional agency social work staff will be recruited to assist established teams to complete overdue reviews which must take place every 12 months.	The service requires approval to recruit the additional agency staff and this is expected to be in place by the end of February.

Counter Fraud Progress Report 2024/25

Date: 13 March 2025

APPENDIX 2

CONTENTS

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



BACKGROUND

- 1 Fraud is a significant risk to the public sector. The Public Sector Fraud Authority estimated that between £39.8 and £58.5 billion of public spending was lost to fraud in 2021/22¹. Financial loss due to fraud can reduce a council's ability to support public services and can cause reputational damage.
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. The counter fraud team investigate allegations of fraud, plan and take part in counter fraud campaigns (eg the National Fraud Initiative), undertake fraud awareness activities with staff and the public, and maintain and update the Council's counter fraud framework and associated policies.
- 3 This report updates the Audit Committee on counter fraud activity in 2024/25.



COUNTER FRAUD MANAGEMENT

- 4 In December, the counter fraud team worked with council officers to undertake a proactive day of action to tackle misuse of disabled parking badges in the city. It is an offence to misuse a blue badge and abuse of the scheme reduces access to disabled parking spaces for legitimate badge holders. Officers checked 38 badges that day and one case of suspected misuse was identified for further investigation. The work was supported by the charity Disabled Motoring UK.



MULTI-AGENCY WORK

- 5 The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and other public sector bodies in the UK. The work of the NFI is overseen by the Public Sector Fraud Authority (PSFA) and the exercise runs every two years. The counter fraud team helps to ensure that the Council meets government data matching requirements and best practice. Data from a variety of council departments was submitted in October. To date 52k matches have been released from the exercise. A further 4,600 matches have been produced as part of a separate annual NFI datamatching exercise that aims to identify potential single person discount fraud. The counter fraud team will assess the matches produced from both exercises and investigate where appropriate.
- 6 The counter fraud team have been working with the Department for Work and Pensions (DWP) since September 2024. Since then, the team have responded to 32 requests for information relating to housing benefit fraud offences.

¹ [Cross Government Fraud Landscape Report 2021-22](#), Public Sector Fraud Authority

INVESTIGATIVE WORK

- 7 Between 1 April 2024 and 31 January 2025, the counter fraud team have received 109 referrals of suspected fraud. Twenty-nine investigations have been completed this year and there are currently 20 cases under investigation. One person has accepted a formal caution in lieu of prosecution for a council tax single person discount fraud. One internal investigation has concluded. Eight people have received formal warnings for fraud relating to the council tax reduction scheme, council tax discounts, business rates, and use of blue badges. One person has been referred to the Home Office for possible immigration offences. Financial loss to the Council was identified in a further four investigations and information was provided to the Legal Department in three debt evasion cases.
- 8 Investigative work in 2024/25 has helped identify £102k of loss due to fraud, error and debt evasion. The counter fraud team supports the Council to recover losses identified as part of investigations. Counter fraud savings² are tracked by monitoring repayments to the Council and calculating the value of stopping ongoing frauds. To date £147k of counter fraud savings have been identified.

² Counter fraud savings consist of money recovered during the course of the year (debts may have been calculated in previous years as well as the current financial year) and 12 months of savings where an ongoing fraud has been stopped through the work of the counter fraud team.

MIDDLESBROUGH COUNCIL	
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Report of:	Head of Internal Audit, Veritau
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Submitted to:	Audit Committee
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Date:	13 March 2025
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Title:	2025/26 Counter Fraud Plan
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Report for:	Information
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Status:	Public
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Council Plan priority:	Safe and resilient communities
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Executive summary	
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<p>This report sets out counter fraud work planned for 2025/26. It contains an updated fraud risk assessment, an assessment of counter fraud work at the Council against national counter fraud strategies, and an annual counter fraud development plan and work plan.</p>	
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1. Purpose

1.1 To provide Members with an update on planned counter fraud activity in 2025/26.

2. Recommendations

2.1 That the Audit Committee

- Notes the 2025/26 fraud risk assessment
- Notes the counter fraud development and work plans.

3. Background and relevant information

3.1 Fraud is a significant risk to the public sector. Annual losses are estimated as being as high as £59 billion in the United Kingdom. Veritau are engaged to deliver a counter fraud service for the Council. The service helps mitigate fraud risk, investigate suspected fraud, and to take appropriate action when it is detected.

3.2 The Council's fraud risk and compliance with national counter fraud strategy should be evaluated regularly. Resources allocated should be in line with the threat the Council faces. Council policies should help mitigate fraud risk and reflect current best practice. Veritau and the Council should regularly undertake developmental work to strengthen counter fraud work. All of these elements are considered annually in preparing the counter fraud plan.

3.3 The 2025/26 Counter Fraud Plan is included in Appendix 1 of this report.

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

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

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

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

Appendices

1	2025/26 Counter Fraud Plan
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Background papers

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

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2025/26 Counter Fraud Plan

Date: 13 March 2025

APPENDIX 1

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BACKGROUND

- 1 Fraud is a significant risk to the public sector. Fraud is the most common offence in the UK, accounting for 41% of all crime¹. The Public Sector Fraud Authority estimated that between £39.8 and £58.5 billion of public spending was lost to fraud in 2021/22². Financial loss due to fraud can reduce a council's ability to support public services and can cause reputational damage.
- 2 When fraud is committed against the public sector, money is diverted from vital public services into the hands of criminals. Local authorities must ensure that they have the right policies and procedures in place to prevent it from happening. They should also promote a strong anti-fraud culture at all levels of the organisation as well as amongst the general public.
- 3 The methods employed by criminals are constantly evolving as they explore new ways to defraud local authorities. To respond effectively, councils need to monitor the fraud landscape to ensure that their counter fraud measures offer protection from these evolving threats.
- 4 This report sets out the Council's approach to addressing fraud, reviews its counter fraud policy framework, updates the fraud risk assessment, details new and ongoing developmental activity, and sets out how counter fraud resources will be used in 2025/26.

NATIONAL COUNTER FRAUD STRATEGY

- 5 In 2014, CIPFA set out the responsibilities of Local Authority leaders to counter fraud and corruption within their organisations in their Code of practice on managing the risk of fraud and corruption³. The code says that organisations should:
 - acknowledge the responsibility of the governing body for countering fraud and corruption
 - identify the fraud and corruption risks
 - develop an appropriate counter fraud and corruption strategy
 - provide resources to implement the strategy
 - take action in response to fraud and corruption.
- 6 In 2020, Fighting Fraud and Corruption Locally (FFCL) published the most recent counter fraud and corruption strategy for local government.⁴ Over the past five years Middlesbrough Council has followed the principles set out by CIPFA and FFCL to guide and develop its response to fraud.

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

² [Cross Government Fraud Landscape Report 2021-22](#), Public Sector Fraud Authority

³ [Code of practice on managing the risk of fraud and corruption](#), CIPFA

⁴ [A strategy for the 2020s](#), Fighting Fraud and Corruption Locally

7 The strategy recommends that councils consider the effectiveness of their counter fraud framework by considering performance against the five key themes set out below.

- **Govern** – *Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.*

The Council has a strong anti-fraud policy framework that is reviewed annually and regular reminders are issued to employees. Counter fraud work is regularly reported to members and officers in the course of the year. The Council introduced a new whistleblowing policy in 2024/25 supported by Veritau. Training was subsequently provided to managers across the organisation. Employees and managers will be encouraged to complete new e-learning packages which will be available in 2025/26.

- **Acknowledge** – *Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.*

An annual risk assessment of fraud is published and presented to members. An assessment of the level of resource needed to address fraud in Middlesbrough is made each year. As a result of increased workload and positive results from counter fraud activity the Council is increasing the level of resource for counter fraud work in 2025/26 and 2026/27.

- **Prevent** – *Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.*

Prevention of fraud is considered as a matter of course in the work of both the counter fraud and internal audit teams. Where investigations identify changes to controls that could help prevent fraud these are discussed with senior council officers and checks are made that they are implemented. The counter fraud team invests in training for its officers to ensure they remain up to date in the use of technology. Work with the Communications Team helps to develop an anti-fraud culture within the Council and the residents it serves. In 2025 a new offence will come into law, Failure to Prevent Fraud, which makes large organisations corporately liable for fraud committed by its employees. The implications of the new law for the Council need to be examined.

- **Pursue** – *Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.*

Strong action is taken to punish criminals and recover funds lost to fraud. All cases of fraud are investigated to criminal standards and the Council considers prosecution of suspected offenders where appropriate, or can apply a range of other potential sanctions. Joint working arrangements with the Department for Work and Pensions have started this year. By

working together investigations into criminals defrauding both the Council and the DWP will be more effective and efficient. All avenues are considered to recover loss, including civil recovery. As a result of counter fraud work the Council has achieved £150k in counter fraud savings⁵ in 2024/25, to date.

- **Protect** – *Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.*

Fraud affects communities across the North East and residents are as likely to be targeted as the Council is. National data matching helps identify where residents may be the victims of identity theft. Regular liaison with other councils in the region can identify fraud that is occurring cross boundary. The counter fraud team intend to develop information sharing protocols with more stake holders in 2025/26.

FRAUD RISK ASSESSMENT

- 8 Fraud risks are assessed annually to identify priorities for counter fraud work. The 2025/26 fraud risk assessment, contained in annex A, is informed by national and regional reports of fraud affecting local authorities as well as fraud reported directly to the counter fraud team (CFT). Inherent risk ratings show the risk to the Council if no controls are in place to prevent fraud. The residual risk rating indicates the potential risk level after current controls are taken into account.

The results of the assessment are used to:

- develop or strengthen existing fraud prevention and detection measures
 - revise the Counter Fraud Policy Framework
 - focus future audit and counter fraud work.
- 9 By their nature, fraud risks are hard to quantify. For example, there are no established methodologies for determining estimated losses due to fraud in most areas. The terms high, medium, and low are therefore used in the risk assessment to provide a general indication of both the likelihood and impact of fraud in each area. However, we have intentionally avoided defining what high, medium, and low risk mean given the inherent uncertainty.
- 10 The risk assessment has been carried out by Veritau, based on our understanding of fraud risks in the sector and our knowledge of controls in place within the Council to prevent, identify and deter fraud. It is used to inform priorities for counter fraud and internal audit work by Veritau. However, it is separate from the wider Council risk management framework. We will be seeking to further develop the risk assessment in

⁵ Counter fraud savings consist of money recovered during the course of the year (debts may have been calculated in previous years as well as the current financial year) and 12 months of savings where an ongoing fraud has been stopped through the work of the counter fraud team.

the coming year by working with officers responsible for management of risks in key areas.

- 11 The updated risk assessment factors in upcoming work by internal audit and the counter fraud team, eg further audit testing of Direct Payments and training on detecting procurement fraud under the new Procurement Act 2023.
- 12 The fraud risk assessment will be kept under review so that any significant new or emerging risks are addressed.



COUNTER FRAUD DEVELOPMENT AND WORK PLANS

- 13 The 2025/26 counter fraud development plan is attached in annex B. It sets out development activity for the counter fraud team and Middlesbrough Council for the year. Actions are organised into the five key themes set out by the FFCL counter fraud strategy for local government and any findings from the Fraud Risk Assessment.
- 14 The counter fraud work plan is attached in annex C. The plan sets out the areas of counter fraud work to be undertaken in 2025/26. The time allocation for each area is not defined because it will depend on the levels of suspected fraud reported to the counter fraud team. Reactive investigations (determined by allegations of fraud received) will however account for the largest proportion of work. Priorities for work in the remaining areas will be determined in accordance with the counter fraud development plan and fraud risk assessment. A total of 250 days has been allocated to counter fraud work in 2025/26.



POLICY FRAMEWORK REVIEW

- 15 The Council's counter fraud policy framework is reviewed annually. The review considers a number of counter fraud related policies (including the anti-fraud, corruption, and bribery policy, the whistleblowing policy, and other associated policies).
- 16 The review found no requirement to change or update policies at the present time. However, a new policy may need to be created (or an existing policy expanded) to reflect the Economic Crime and Corporate Transparency Act 2023. This created a new Failure to Prevent Fraud offence which comes into effect in September 2025.

ANNEX A: 2025/26 FRAUD RISK ASSESSMENT

Risk area #1	Social care fraud	Inherent risk	High	Residual risk	High
Risk description	<p>For adult social care, losses can occur through deprivation or non-declaration of capital which can involve the transfer or disguise of property in order to avoid paying for residential or domestic care provision. Residential homes could also continue to claim for customers who are no longer in residence (eg after they pass away). In both adult and children’s social care, fraud can occur through the misuse of the Direct Payment scheme. For example, where monies allocated to meet a customer’s assessed needs are not used to procure support services. Losses in social care fraud cases can be substantial, especially if they are not detected at an early stage.</p>				
Risk controls	<p>Applications for care funding are carefully assessed to ensure that recipients meet the eligibility criteria and that any financial contribution for care by the customer is correctly calculated. A range of monitoring and verification controls are operated by the Council. This includes requiring customers in receipt of Direct Payments to have a separate bank account for managing these funds and complying with monitoring procedures to verify spending. In instances of misused Direct Payments, customers are moved to a commissioned service. The residual risk of adult and children’s social care fraud is still considered to be high. This is due to the level of spend in this area, the scale of losses, and the speed at which they can be accrued. It is also a reflection of the difficulty all councils have in detecting assets when people are determined to keep them hidden.</p>				
Priorities for internal audit / counter fraud	<p>Veritau has established relationships with senior management and officers responsible for the provision of social care; concerns of fraud are regularly reported to the counter fraud team (CFT) for investigation. Internal audit (IA) periodically conducts audits in higher risk areas. In 2025/26 a follow up audit on Direct Payments is planned. The CFT delivers a rolling programme of fraud awareness to employees with responsibilities for assessment and payments. Investigation of fraud in this area provides a deterrent to those considering committing it and can assist the Council to recover losses through the court system.</p>				

Risk area #2	Creditor fraud	Inherent risk	High	Residual risk	High
Risk description	<p>Over the course of a number of years attempts to commit fraud against the creditor payment systems of public and private sector organisations has increased in terms of volume and sophistication. The mandatory publication of payment data makes councils particularly vulnerable to attack. Attacks are often the work of organised criminal groups who operate from abroad. Individual losses due to fraud can be extremely large (in excess of £1 million). The likelihood of recovery is low once a fraud has been successfully committed. The most common issue is mandate fraud (payment diversion fraud) where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in bank details. Other types of fraud include whaling, where senior members of the Council are targeted and impersonated in order to obtain fraudulent payments. There have been increased instances nationally and regionally of hackers gaining direct access to email accounts of suppliers and using these to attempt to commit mandate fraud. These attempts can be much more difficult to detect and prevent.</p>				
Risk controls	<p>The Council has strong controls in place to identify fraudulent attempts to divert payments from genuine suppliers and to validate any requests to change supplier details. Segregation of duties exist between the ordering, invoicing and payments processes. The residual risk of creditor fraud is still considered to be high due to potentially high levels of loss and the frequency of attacks. The Council's reliance on its own employees, and those of its suppliers, to follow processes, and the inevitable element of human error, are factors in many successful mandate fraud attacks.</p>				
Priorities for internal audit / counter fraud	<p>Veritau regularly provide support and advice to finance officers responsible for the payment of suppliers. The IA work programme includes audits of key financial systems and processes. This includes ordering and creditor payment processes, eg segregation of duties and controls to prevent mandate fraud. IA also undertake duplicate payment checks on a regular basis. The CFT delivers fraud awareness training to relevant officers. Increased awareness provides a greater chance to stop fraudulent attempts before losses occur. All instances of attempted creditor related fraud are reported to the CFT who then report to relevant agencies, such as the National Cyber Security Centre, as well as directly to the email provider from which false emails originated. The CFT regularly shares intelligence alerts relating to attempted fraud occurring</p>				

nationally with relevant council officers to help prevent losses. As part of any investigation of attempted fraud in this area, the CFT will advise on improvements that will strengthen controls.

<p>Risk area #3</p>	<p>Cybercrime</p>	<p>Inherent risk</p>	<p>High</p>	<p>Residual risk</p>	<p>High</p>
<p>Risk description</p>	<p>Cybercrime is an evolving area where criminals are continually refining their techniques in order to overcome controls, obtain unauthorised access and information, and frustrate systems. As cybercrime can be perpetrated remotely, attacks can come from within the UK or overseas. Some cybercrime is motivated by profit, however some is designed purely to disrupt services. Types of cybercrime experienced by local authorities include ransomware, phishing, whaling, hacking, and denial of service attacks. Attacks can lead to loss of funds or systems access/data which could impact service delivery to residents. There have been a number of high-profile cyber-attacks on public and private sector organisations in recent years, including Middlesbrough Council. Attacks stemming from the hacking of software or ICT service providers have become more prevalent. These are known as supply chain attacks and are used by hackers to target the end users of the software created by the organisations targeted.</p>				
<p>Risk controls</p>	<p>The Council employs highly skilled ICT employees whose expertise is used to help mitigate the threat of cybercrime. The ICT department has processes to review threat levels and controls (eg password requirements for employees) on a routine basis. The ICT department uses filters to block communications from known fraudulent servers and will encourage employees to raise concerns about any communications they do receive that may be part of an attempt to circumvent cybersecurity controls. Despite strong controls being in place, cybercrime remains a high residual risk for the Council. The potential for cybercrime is heightened by the availability of online tools. The UK government reported that 50% of businesses and 32% of charities had experienced some form of cyber security breach or attack in 2023/24. Council systems could be exposed by as yet unknown weaknesses in software. Suppliers of software or IT services could also be compromised which may allow criminals access to council systems believed to be secure. The residual risk of cybercrime remains high due to the constantly evolving methods employed by fraudsters which requires regular review of controls.</p>				

Priorities for internal audit / counter fraud	IA routinely include ICT audits in the annual work programme. Cybersecurity is an ongoing priority for IA work. Raising awareness with employees can be crucial in helping to prevent successful cyberattacks. The CFT works with ICT to support activities on raising awareness amongst employees. A campaign to mark cybersecurity awareness month is undertaken annually. ICT can access free resources from the National Cyber Security Centre to help develop and maintain their cyber defence strategy.
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Risk area #4	Council tax and business rate frauds	Inherent risk	High	Residual risk	Medium
Risk description	Council tax discount fraud is a common occurrence. CIFAS conducted a survey in 2022 in which 10% of UK adults said they knew someone who had recently committed single person discount fraud. In addition, 8% of people thought falsely claiming a single person discount was a reasonable thing to do. Individual cases of fraud in this area are of relatively low value but cumulatively can represent a large loss to the Council. Business rates fraud can also involve falsely claiming discounts that a business is not entitled to, eg small business rate relief. Reports of business rate fraud are less prevalent than Council Tax fraud but can lead to higher losses in individual cases.				
Risk controls	The Council employs a number of methods to help ensure only valid applications are accepted. This includes requiring relevant information be provided on application forms, and visits to properties are undertaken where needed, to verify information. The Council routinely takes part in the National Fraud Initiative (NFI). The exercise allows councils to cross check for potential instances of fraud in multiple locations (eg multiple claims for single person discount by one individual). The Council has recently undertaken another data matching exercise designed to identify where multiple people are living in a property, but the single person discount is being claimed.				
Priorities for internal audit / counter fraud	The CFT delivers fraud awareness training to employees in the revenues team about frauds affecting Council Tax and Business Rates. IA routinely review the administration of Council Tax and Business Rates as one of the Council's key financial systems. The CFT provide a deterrent to fraud in this area through the investigation of potential offences which can, in serious cases, lead to prosecution.				

Risk area #5	Council tax reduction fraud	Inherent risk	High	Residual risk	Medium
Risk description	<p>Council Tax Reduction (CTR) is a council funded reduction in liability for Council Tax. It is resourced through council funds. Fraud and error in this area is of relatively low value on a case-by-case basis but cumulatively fraud in this area could amount to a substantial loss. CTR fraud can involve applicants failing to declare their total assets or income. Those receiving support are also required to notify relevant authorities when they have a change in circumstances that may affect their entitlement to support. Most CTR claims are linked to state benefits (eg Universal Credit) which are administered by the Department for Work and Pensions (DWP).</p>				
Risk controls	<p>The Council undertakes eligibility checks on those who apply for support. Officers manage the assessment of new and ongoing claims for CTR to identify potential issues. The Council will routinely take part in the National Fraud Initiative (NFI) which highlights potentially fraudulent claims. The DWP use data from HMRC on claimants' incomes which is then passed through to council systems. This mitigates the risk of claimants not updating the Council with income details. There are established lines of communication with the DWP where claims for support are linked to externally funded benefits. The Council has recently begun jointly working with the DWP to investigate fraud that affects both organisations, this can help achieve better results for the Council where state benefits are involved.</p>				
Priorities for internal audit / counter fraud	<p>The CFT regularly raises awareness of fraud with teams involved in processing claims for CTR. The CFT provide a deterrent to fraud in this area through the investigation of potential fraud which can, in serious cases, lead to prosecution. Concerns of fraud can be reported to the CFT by employees. The CFT will also seek opportunities to raise awareness with the public about the mechanisms for reporting fraud. If fraud cannot be addressed by the Council directly it will be reported to the DWP. The CFT joint work with the DWP whenever it is in the best interests of the Council.</p>				

Risk area #6	Procurement fraud	Inherent risk	High	Residual risk	Medium
Risk description	<p>Procurement fraud, by its nature, is difficult to detect but can result in large scale loss of public funds over long periods of time. Businesses that collude to stifle competition and fix or inflate prices are referred to as a cartel. The Competition and Markets Authority (CMA) estimates that having a cartel within a supply chain can raise prices by 30% or more. Procurement fraud can also take the form of mischarging, undertaking substandard work, and diverting goods or services. In 2020 CIPFA reported losses of £1.5m for local authorities, due to procurement fraud. It found that 8% of fraud detected in this area involved 'insider fraud'.</p>				
Risk controls	<p>The Council has established Contract Procedure Rules. The rules are reviewed regularly and ensure the requirement for a competitive process (where required) through an e-tender system. A team of procurement professionals provide guidance and advice to ensure procurement processes are carried out correctly. The Middlesbrough Manager Framework includes contract management expectations for managers. The Contract Procedure Rules also set out the requirements for declarations of interest to be made. Contract monitoring helps to detect and deter potential fraud. The Procurement Act 2023 has recently come into force. The Act contains new processes which should help prevent and detect fraud in this area.</p>				
Priorities for internal audit / counter fraud	<p>Continued vigilance by relevant employees is key to identifying and tackling procurement fraud. IA and the CFT monitor and share guidance on fraud detection issued by the Competition and Markets Authority and other relevant bodies. IA regularly undertake procurement related work to help ensure processes are effective and being followed correctly. The CFT are planning on providing training in 2025/26 to employees working in this area on the types of fraud that can occur with reference to the new Procurement Act.</p>				

Risk area #7	Theft of assets	Inherent risk	High	Residual risk	Medium
Risk description	The theft of assets can cause financial loss and reputational damage. It can also negatively impact on employee morale and disrupt the delivery of services. The Council own a large amount of portable, desirable physical assets such as ICT equipment, vehicles, and tools that are at higher risk of theft.				
Risk controls	Specific registers of physical assets (eg capital items, property, and ICT equipment) are maintained. The Council operates CCTV systems covering key premises and locations where high value items are stored. Entrances to council buildings are regulated and controlled via different access methods. The Council's whistleblowing arrangements provide an outlet for reporting concerns of theft.				
Priorities for internal audit / counter fraud	Thefts are reported to the police and Veritau. Instances of theft are investigated by CFT where appropriate.				

Risk area #8	Internal fraud	Inherent risk	Medium	Residual risk	Medium
Risk description	Fraud committed by employees is a risk to all organisations. Internal fraud within councils occurs infrequently and usually results in low levels of loss. However, if fraud or corruption occurs at a senior level there is the potential for a greater level of financial loss and reputational damage to the Council. There are a range of potential employee frauds including theft, corruption, falsifying timesheets and expense claims, abusing flexitime or annual leave systems, undertaking alternative work while sick, or working for a third party on council time. Some employees have access to equipment and material that may be misused for private purposes. Payroll related fraud can involve the setting up of 'ghost' employees in order to obtain salary payments.				

Risk controls	The Council has up to date whistleblowing and anti-bribery policies. Campaigns are held annually to promote the policies and to remind employees how to report any concerns. The Council has checks and balances to prevent individual employees being able to circumvent financial controls, eg segregation of duties. Controls are in place surrounding flexitime, annual leave and sickness absence. The Council regularly participates in the National Fraud Initiative. Data matches include checks on payroll records for potential issues.
Priorities for internal audit / counter fraud	Veritau liaises with senior management on internal fraud issues. Where internal fraud arises, IA and the CFT will review the circumstances to determine if there are underlying control weaknesses that can be addressed. CFT provide training to HR officers on internal fraud and whistleblowing issues. CFT investigate any suspicions of fraud or corruption. Serious cases of fraud will be reported to the police. In some instances, it may be necessary to report individuals to their professional bodies. CFT support any disciplinary action taken by the Council relating to internal fraud issues.

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Risk area #9	Recruitment fraud	Inherent risk	Medium	Residual risk	Medium
Risk description	Recruitment fraud can affect all organisations. Applicants can provide false or misleading information in order to gain employment such as bogus employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK. There is danger for the Council if recruitment fraud leads to the wrong people occupying positions of trust and responsibility, or not having the appropriate professional accreditation for their post. In addition, there have been reports nationally of 'polygamous working' fraud, where an employee, usually in a temporary position, works for a number of different organisations at the same time.				
Risk controls	The Council has controls in place to mitigate the risk of fraud in this area. DBS checks are undertaken where necessary. Additional checks are made on applications for roles involving children and vulnerable adults. References are taken from previous employers and there are processes to ensure qualifications provided are genuine. The National Fraud Initiative undertakes payroll data matches to identify employees who are working for multiple organisations at the same time.				

Priorities for internal audit / counter fraud	Where there is a suspicion that someone has provided false information to gain employment, the CFT will be consulted on possible criminal action in tandem with any disciplinary action that may be taken. Applicants making false claims about their right to work in the UK or holding professional accreditations will be reported to the relevant agency or professional body, where appropriate. The CFT routinely share details of identities found to be used in polygamous working with HR to prevent and detect potential issues.
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Risk area #10	Treasury management	Inherent risk	Medium	Residual risk	Low
Risk description	Treasury Management involves the management and safeguarding of the Council’s cash flow, its banking, and money market and capital market transactions. The impact of fraud in this area could be significant.				
Risk controls	Treasury Management systems are subject to a range of internal controls, legislation, and codes of practice which protect Council funds. Only pre-approved employees can undertake transactions in this area and they work within pre-set limits.				
Priorities for internal audit / counter fraud	IA conduct periodic work in this area to ensure controls are strong and fit for purpose.				

Risk area #11	Grant schemes	Inherent risk	Medium	Residual risk	Low
Risk description	The Council takes on the responsibility for disbursing government funded grant schemes to local residents, businesses, and other organisations. Fraud in this area can include applicants supplying incorrect information to obtain grant payments or grant funded works (for example where grant funds are paid to a third-party supplier). Suppliers undertaking work may overcharge or not complete work to agreed standards. The				

	Council can become liable for recovery of any incorrectly paid government funding. This can create a loss to the Council and may affect access to future grant schemes.
Risk controls	The Council will complete any required fraud management plan which will consider fraud risks, and mechanisms for preventing and detecting fraud. When awarding payments or agreeing works, the Council (or their contractor) will complete checks to confirm applicants' eligibility.
Priorities for internal audit / counter fraud	The CFT and IA will support the development of fraud management plans, and associated controls, where required. CFT can undertake investigation in cases of suspected fraud.

Risk area #12	Blue badge fraud	Inherent risk	Low	Residual risk	Low
Risk description	Blue Badge fraud carries low financial risk to the authority but can affect the quality of life for disabled residents and visitors. There is a risk of reputational damage to the Council if abuse of this scheme is not addressed. Other low level parking fraud is relatively common, for example, misuse of residential permits to avoid commercial parking charges.				
Risk controls	Measures are in place to control the issuing of blue badges, to ensure that only eligible applicants receive badges. The Council participates in the National Fraud Initiative which flags badges issued to deceased users, and badge holders who have obtained a blue badge from more than one authority, enabling their recovery to prevent misuse.				
Priorities for internal audit / counter fraud	The CFT undertake periodic proactive days of action with the Council's enforcement team. This helps raise awareness and act as a deterrent to blue badge misuse. Warnings will be issued to people who misuse parking permits and blue badges. Serious cases will be considered for prosecution.				

ANNEX B: COUNTER FRAUD DEVELOPMENT PLAN

Veritau is responsible for maintaining, reviewing, and strengthening counter fraud arrangements at the Council. An annual review of priorities for the future development of counter fraud arrangements is therefore undertaken. Actions to be taken over the next year are set out below.

In addition to the specific areas set out in the table below, ongoing activity will continue in other areas that contribute to the Council's arrangements for countering the risk of fraud, including:

- a rolling programme of fraud awareness training for officers based on priorities identified through the fraud risk assessment and any other emerging issues
- regular reporting of internal audit and counter fraud activity to the Audit Committee.

Ref	Action Required	Theme	Target Date	Responsibility	Notes / Further Action Required
1	Raising awareness of the Council's updated Whistleblowing Policy.	Governing	Ongoing	Veritau / Human Resources	E-Learning packages are to be rolled out to employees and managers in support of the new policy.
2	Provide training to staff involved in procurement	Governing	December 2025	Veritau / Procurement Team	The new Procurement Act 2023 'goes live' in February 2025.
3	Increase levels of counter fraud work undertaken in 2025/26.	Acknowledging	Ongoing	Veritau	Manage the increase in resource for counter fraud work to obtain good outcomes for the Council.
4	Evaluate the impact of the new Economic Crime and Corporate Transparency Act.	Preventing	September 2025	Veritau / Legal Department	The Council may require policy change to reflect the new legislation as well as training for relevant employees.

Ref	Action Required	Theme	Target Date	Responsibility	Notes / Further Action Required
5	Review and investigate results of the 2024/25 National Fraud Initiative (NFI).	Pursuing	December 2025	Veritau	Data was submitted to the Public Sector Fraud Authority in October 2024 and results have been sporadically released since December. There are currently 52k matches to review.
6	Increase levels of contact with neighbouring bodies and local authorities.	Protect	April 2026	Veritau	Fraud can occur across council boundaries. Increased liaison, information sharing, and joint working could help detect and deter fraud.

ANNEX C: COUNTER FRAUD WORK PLAN

A total of 250 days has been allocated to counter fraud work in 2025/26. A large proportion of this work will comprise reactive investigations which are determined by referrals received from officers and the public about suspected fraud. Other work will be undertaken in accordance with priorities determined by the Fraud Risk Assessment and Counter Fraud Development Plan.

A high-level summary of the areas for counter fraud work in 2025/26 is shown in the table below.

Area	Scope
Counter Fraud General	Monitoring changes to regulations and guidance, reviewing counter fraud risks, and support to the Council with maintenance of the counter fraud framework. Updates on significant fraud trends and counter fraud activities will be provided to the Audit Committee during the year.
Proactive Work	This includes: <ul style="list-style-type: none"> • raising awareness of counter fraud issues and procedures for reporting suspected fraud - for example through training and provision of updates on fraud related issues • targeted proactive counter fraud work - for example through local and regional data matching exercises • support and advice on cases which may be appropriate for investigation and advice on measures to deter and prevent fraud.
Reactive Investigations	Investigation of suspected fraud affecting the Council. This includes feedback on any changes needed to procedures to prevent fraud reoccurring.
National Fraud Initiative	Coordinating the investigation of data matches produced by the National Fraud Initiative (NFI).

Area	Scope
Fraud Liaison	Joint Work with the Department for Work and Pensions where appropriate and provide data to support housing benefit investigations. Liaise with regional local authorities to address cross boundary fraud.

MIDDLESBROUGH COUNCIL	
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Report of:	Head of Internal Audit, Veritau
Submitted to:	Audit Committee
Date:	13 March 2025
Title:	Internal Audit Work Programme 2025/26
Report for:	Information
Status:	Public
Council Plan priority:	Delivering Best Value

Executive summary	
<p>This report provides the committee with:</p> <ul style="list-style-type: none"> • The internal audit work programme for 2025/26 	

1. Purpose

1.1 To seek Members' approval for the 2025/26 planned programme of internal audit.

2. Recommendations

2.1 That the Audit Committee

- Approves the internal audit work programme for 2025/26.

3. Background and relevant information

3.1 Internal audit provides independent and objective assurance and advice on the Council's operations. It helps the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.

3.2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.

3.3 The purpose of this report is to present the internal audit work programme for 2025/26.

Internal Audit work programme

3.4 Appendix 1 sets out proposed internal audit work for 2025/26. The planned work is based on an initial assessment of risk undertaken. The identification of risks included in the assessment has been informed in a number of ways. This includes review of the organisational risk management processes, sector-wide risk information, understanding the Council's strategies and objectives, other known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in Council services and systems.

3.5 The proposed areas of coverage have been subject to consultation with the Audit Committee in December 2024 and senior officers including Directorate Management Teams.

3.6 To meet professional aims and objectives, good practice for internal audit requires us to adopt flexible planning processes. This helps to ensure that internal audit work undertaken during the year is adapted on an ongoing basis to reflect changing and emerging risks within the Council.

3.7 We will regularly discuss the scope and timings of work with officers and management to help ensure that we provide assurance in the right areas and at the right time. Further meetings will be held throughout the year to plan and confirm the scope and timings of audit work. We will also provide regular updates to the Audit Committee on the coverage, scope and findings of our work.

3.8 Total days allocated to internal audit assurance in 2025/26 are 555.

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

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

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

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

Appendices

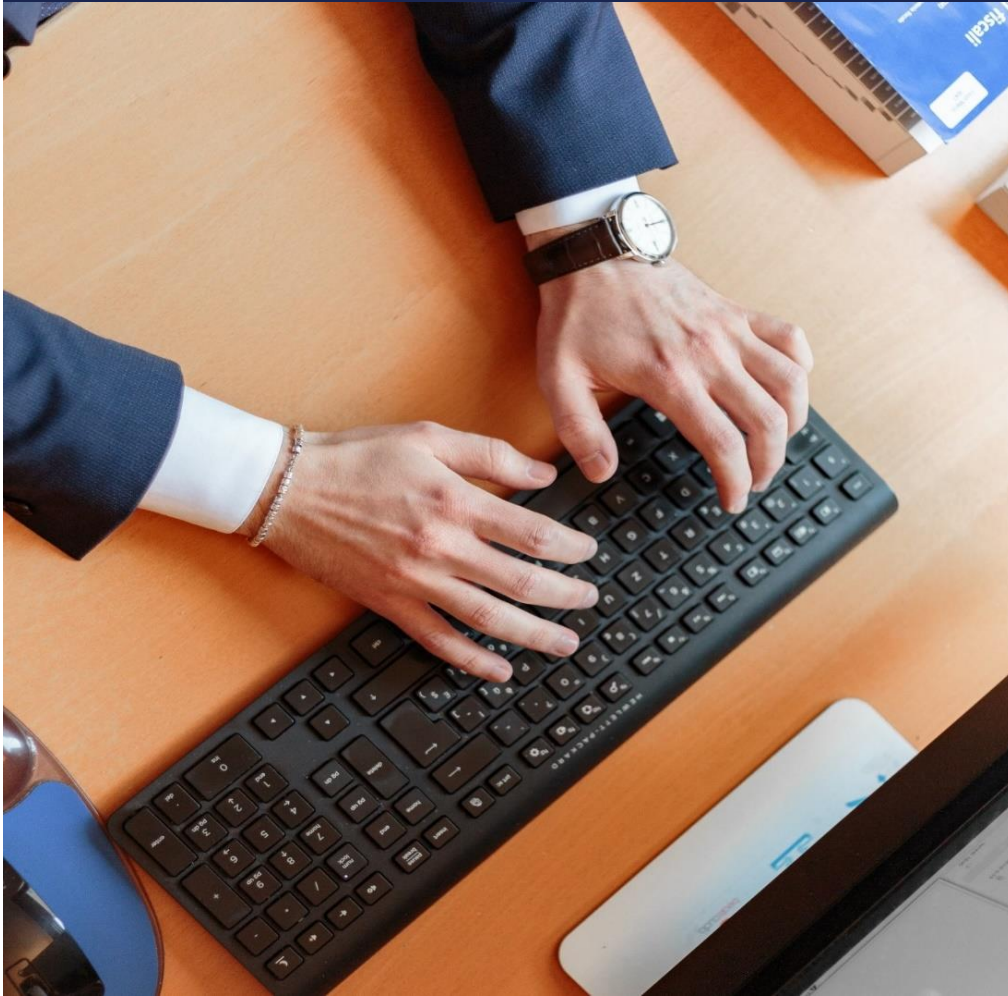
1	Internal audit work programme 2025/26
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Background papers

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

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Email: phil.jeffrey@veritau.co.uk

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Internal Audit Work Programme 2025/26

CONTENTS

- 3** Introduction
- 3** Strategic context
- 5** 2025/26 internal audit work programme
- 9** Annex A: indicative internal audit work programme

Introduction



- 1 This report sets out the proposed 2025/26 programme of work for internal audit, provided by Veritau for Middlesbrough Council.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS)¹ and the Council's audit charter. To comply with professional standards and the charter, internal audit work must be risk based and take into account the requirement to produce an evidence-based annual internal audit opinion. Accordingly, planned work should be reviewed and adjusted in response to changes in the business, risks, operations, programmes, systems and internal controls.
- 3 Specifically, the PSIAS require that the Head of Internal Audit "*must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The risk-based plan must take into account the requirement to produce an annual internal audit opinion.*"
- 4 The Head of Internal Audit's annual opinion is formed following an independent and objective assessment of the effectiveness of the framework of risk management, governance and internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the council, and to produce a body of work which allows us to provide our opinion.
- 5 Responsibility for effective risk management, governance and internal control arrangements remains with the council. The Head of Internal Audit cannot be expected to prevent or detect all weaknesses or failures in internal control nor can audit work cover all areas of risk across the organisation.

Strategic context



- 6 The Council is facing continued financial pressures because of the ongoing increase in demand for its services. Providing adult and children's social care will account for 79% of the Council's net revenue budget during 2024/25.
- 7 In addition, the Council's reserves have fallen to critically low levels. As at 1 April 2024 reserves were the fifth lowest of all English single tier councils, relative to the size of overall budget.
- 8 The Council relied on Exceptional Financial Support worth £4.7m to cover the costs of day-to-day spending during 2024/25. Although a balanced budget for 2025/26 has been produced and following public consultation will be considered by councillors in February 2025.
- 9 The Council has also embarked on an ambitious transformation programme entitled "Recover, Reset and Deliver" to transform the Council

¹ The Global Internal Audit Standards (UK Public Sector) will apply from 1 April 2025. Further information about the new standards is included in our progress report to this committee meeting.

operationally and culturally into an organisation that can modernise services and deliver them effectively.

- 10 The Council was issued a Best Value notice by the government in January 2023 due to concerns about the way the Council was operating. This followed governance issues identified in internal and external audit reports. The Best Value notice was subsequently re-issued in January 2024. It was removed in September 2024 as the government recognised the positive changes that have been made. The Council accepts that whilst this reflects the work that has already been carried out there will be more to do to ensure that the Council's governance arrangements are fit for purpose.

2025/26 Internal audit work programme

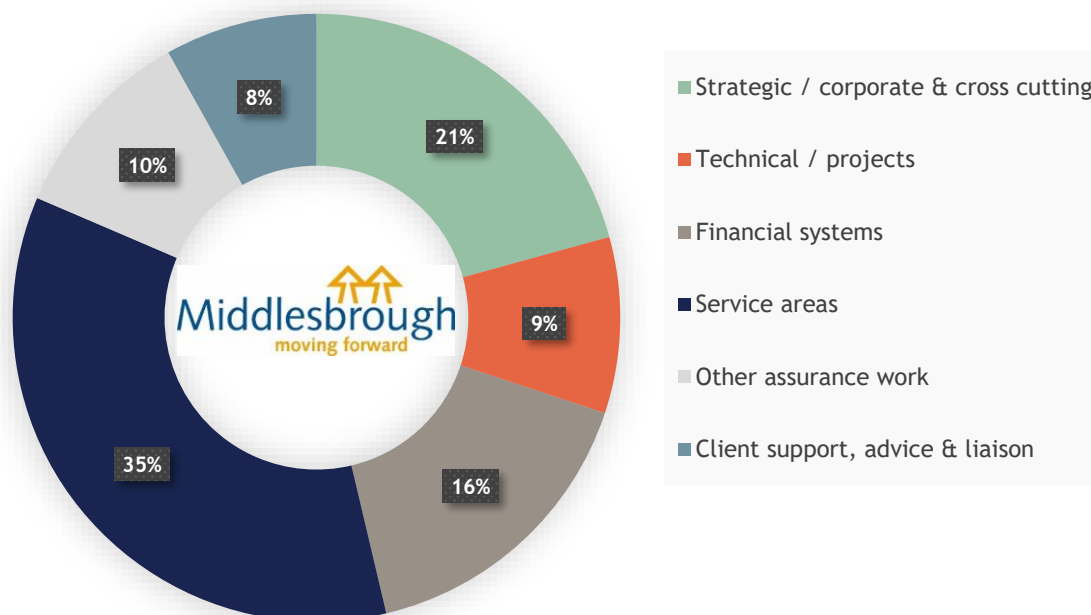
- 11 The work programme for 2025/26 is set out in annex A, beginning on page 9.
- 12 Functionally, the indicative programme is structured into a number of areas, as set out in table 1, below.

Table 1: Work programme functional areas.

Programme area	Purpose
▲ Strategic / corporate & cross cutting	To provide assurance on areas which, by virtue of their importance to good governance and stewardship, are fundamental to the ongoing success of the council.
▲ Technical / projects	To provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the council as the risks involved could detrimentally affect the delivery of services.
▲ Financial systems	To provide assurance on the key areas of financial risk. This helps provide assurance to the council that risks of loss or error are minimised.
▲ Service areas	To provide assurance on key systems and processes within individual service areas. These areas face risks which are individually significant but which could also have the potential to impact more widely on the operations or reputation of the council if they were to materialise.
▲ Other assurance work	An allocation of time to allow for continuous audit planning and information gathering, unexpected work, and the follow up of work we have already carried out, ensuring that agreed actions have been implemented by management.
▲ Client support, advice & liaison	Work we carry out to support the council in its functions. This includes the time spent providing support and advice, and liaising with staff.

- 13 The overall level of service is based on an indicative number of days, for planning purposes (555 for 2025/26). Figure 1 below shows the proportion of time we expect to deliver across each area during the year.

Figure 1: 2025/26 work programme: indicative functional area split.

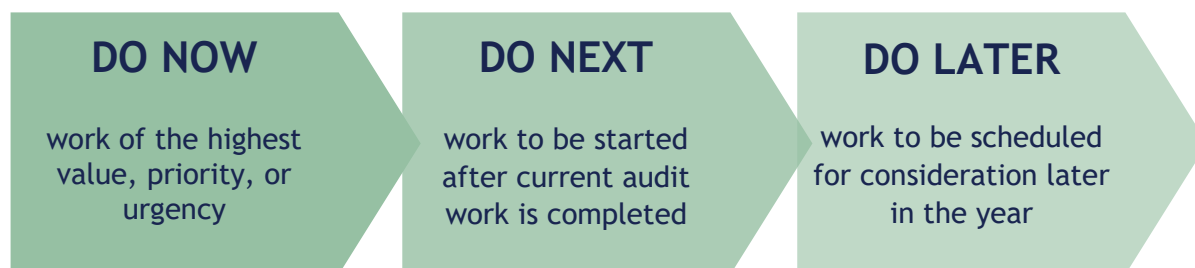


- 14 It is important to emphasise two important aspects of the programme. Firstly, the audit activities included in annex A are not fixed. As described above, work will be kept under review to ensure that audit resources are deployed to areas of greatest risk and importance to the council. This is to ensure the audit process continues to add value.
- 15 Secondly, it will not be possible to deliver all the audit activities listed in the programme. The programme has been intentionally over-planned, to build in flexibility from the outset while also providing an indication of the priorities for work at the time of assessment. Over-planning the programme enables us to respond quickly by commencing work in other areas of importance to the council when risks and priorities change during the year.

The 'do now', 'do next', 'do later' audit prioritisation system

- 16 Once initial internal audit priorities have been identified through application of the opinion framework, we then overlay a second system of prioritisation. This system allows us to determine the relative priority of audits included in the indicative work programme.
- 17 This second prioritisation system sees audits assigned to one of three categories, as shown in figure 2 below.

Figure 2: 'do now', 'do next', 'do later' prioritisation system.



- 18 Decisions on which category of the three categories internal audit work falls into will be based on judgement and will be made having given consideration to the prioritisation factors in table 2 below. These will result in internal audit work being considered a relatively higher or lower priority at the time of assessment.

Table 2: Internal audit prioritisation factors.

Prioritisation factors	
▲ where we have no recent audit assurance, or other sources of information	▲ where controls are changing and / or risks are increasing
▲ where we are following up previous control weaknesses	▲ where specific issues are known to have arisen
▲ that are of significant importance to the council, for example they reflect key objectives or high priority projects	▲ that provide broader assurance, for example corporate policies and frameworks
▲ that need to be covered to enable us to provide an annual opinion	▲ where there are time pressures or scheduling requirements, for example grant deadlines, or work scheduled to minimise the impact on council service areas at busy times

- 19 The above factors will be used on an ongoing basis to decide what internal audit work will be carried out, and when, during the course of the year. These decisions will be made in consultation with the council through our ongoing dialogue with senior officers. Individual pieces of work will move between the three categories, as required, based on their priority at the time of assessment.
- 20 For example, an audit scheduled for quarter two to minimise the impact on a service area may initially be classed as to 'do later' but will become 'do now' as we move into quarter two. Similarly, an audit of a Council project classed as 'do now' because it represents an area of high importance may move from 'do now' to 'do next' or 'do later' if the project slips or planned work cannot be undertaken until a specific point is

reached. Towards the end of the year, audits classed as 'do later' are likely to be deferred until the following year.

- 21 The committee will be provided with information on current internal audit priorities throughout the year as part of regular progress reporting.

Annex A: indicative internal audit work programme 2025/26

Programme area	Potential internal audit activity
Strategic / corporate & cross cutting	<ul style="list-style-type: none"> ▲ Savings plans and delivery ▲ Financial resilience ▲ Key partnerships ▲ Recruitment and retention ▲ Governance (including decision making) ▲ Information security ▲ Records management ▲ Succession planning ▲ Home working ▲ Corporate complaints ▲ Health and safety ▲ Equality and diversity ▲ Grant claims (including TVCA grants), trust funds and other related work ▲ Procurement (including breaches of the Corporate Procurement Rules) ▲ Asset management (including asset maintenance)
Technical / projects	<ul style="list-style-type: none"> ▲ Transformation programme (“Recover, Reset, Deliver”) ▲ Towns Fund (including Town Deal Board governance) ▲ Regeneration projects ▲ Cyber security – malware protection ▲ IT user access

Programme area	Potential internal audit activity
	<ul style="list-style-type: none"> ▲ IT applications
Financial systems	<ul style="list-style-type: none"> ▲ Main accounting ▲ Debtors ▲ Creditors ▲ Benefits and Council Tax Support (including overpayments) ▲ Teesside Pension Fund (Administration and Investments)
Service areas	<ul style="list-style-type: none"> ▲ Social care financial assessments ▲ Direct payments (ASC – follow-up) ▲ No Recourse to Public Funds (NRPF) ▲ Tees Community Equipment Service (TCES) ▲ Appointeeships (ASC) ▲ Budget management (ASC) ▲ Foster carers ▲ Schools themed audits ▲ Direct payments (CS) ▲ Demand management (CS) ▲ Section 17 payments ▲ Middlesbrough Community Learning Service (sub-contracting) ▲ Reablement ▲ Special Educational Needs ▲ Inclusion strategy ▲ Climate change (including energy management)

Programme area	Potential internal audit activity
	<ul style="list-style-type: none"> ▲ Waste management ▲ Licensing ▲ Planning applications ▲ S106 and Community Infrastructure Levy
Other assurance work	<ul style="list-style-type: none"> ▲ Follow-up of previously agreed management actions ▲ Continuous audit planning and additional assurance gathering to help support our opinion on the framework of risk management, governance and internal control (including attendance at Directorate Management Teams) ▲ Continuous assurance work, including data analytics and data matching projects ▲ Attendance at, and contribution to, governance- and assurance-related working groups (including Risk Management Group)
Client support, advice & liaison	<ul style="list-style-type: none"> ▲ Committee preparation and attendance ▲ Key stakeholder liaison ▲ Support and advice on control, governance and risk related issues

Audit Committee Work Programme 25/26 - DRAFT

Committee date	Report title / subject	Lead / author
JULY	This audit programme	A Johnstone
	Health and Safety Annual Assurance report	A Johnstone
	SIRO annual report	A Johnstone
	Audit Strategy Memorandum for the Council	Cath Andrew (Forvis Mazars)
	Audit Strategy Memorandum for Teesside Pension Fund	Thomas Backhouse (Forvis Mazars)
	Head of Internal Audit annual report and counter fraud annual report	P Jeffrey
	2024/5 Statement of accounts including AGS	J Weston / A Johnstone
SEPTEMBER	Complaints annual assurance report 2024/5	A Johnstone
	Risk annual assurance report	A Johnstone
	Progress report – Forvis Mazars	Cath Andrew (Forvis Mazars)
	Pension Fund Audit Progress Report – Forvis Mazars	Thomas Backhouse (Forvis Mazars)
	Internal Audit and Counter Fraud progress reports	P Jeffrey
DECEMBER	Letter of Representation on the Accounts from the Director of Finance	J Weston
	Forvis Mazars Auditors Annual Report 2023/24	Cath Andrew (Forvis Mazars)
	Annual Assurance Report on Partnership Governance	A Johnstone
	Treasury Management Mid-Year Review 2025/6	J Weston
	26/27 Internal Audit Consultation Report	P Jeffrey
	Internal Audit and Counter Fraud Progress Reports	P Jeffrey
FEBRUARY	Annual Assurance Report on Decision Making	C Benjamin / A Wilson
	Annual Assurance Report on Business Continuity	A Johnstone

	Local Code of Corporate Governance	A Johnstone
	Annual Assurance Report HR	N Finnegan
	Annual Procurement Report 24/25	C Walker
	Forvis Mazars – Audit Completion Report 2023/24	C Andrew
	24/25 Audit Completion report for the Pension Fund	Thomas Backhouse (Forvis Mazars)
	Mid-year Risk Update	A Johnstone
	Final Statement of Accounts 2024/5 (could be a special meeting depending on capacity and timescales to happen around 20 February 2025)	J Weston
	Treasury Management report	J Weston
MARCH	Performance Management	C Benjamin
	PPMF assurance report	G Cooper
	Internal Audit and Counter Fraud Progress Report	P Jeffrey
	Veritau internal audit work programme 2026/27	P Jeffrey
	Veritau counter fraud plan 2026/27	P Jeffrey
	Progress Report – Forvis Mazars	Cath Andrew (Forvis Mazars)
	Pension Fund Progress report	Thomas Backhouse (Forvis Mazars)
	Future FWP for 2026/27	A Johnstone

To note: this is a draft FWP and subject to change. In particular some items may move slightly if committee dates, once set, do not quite align with required reporting timescales.