

CORPORATE AFFAIRS AND AUDIT COMMITTEE

A meeting of the Corporate Affairs and Audit Committee was held on Friday 23 September 2022.

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

ALSO IN ATTENDANCE: Councillors D Coupe (Executive Member for Adult Health and Public Protection and Digital inclusion) and J Thompson
M Rutter, EY

OFFICERS: C Benjamin, G Cooper, S Lightwing, S Gilmore, R Horniman, A Hoy, A Johnstone, S Lightwing and J Weston

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors J Platt, C Hobson, D Rooney and C Wright

22/19 **WELCOME AND EVACUATION PROCEDURE**

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

22/20 **DECLARATIONS OF INTEREST**

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

22/21 **MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 22 JULY 2022**

The minutes of the Corporate Affairs meeting held on 22 July 2022 were submitted and approved as a correct record.

22/22 **ANNUAL GOVERNANCE STATEMENT 2020/2021**

A joint report of the Chief Executive, Director of Legal and Governance Services and the Director of Finance was presented. The purpose of the report was to present the finalised Annual Governance Statement (AGS) 2020/21 which had been agreed by the Mayor, Chief Executive and Section 151 Officer. A copy of the AGS was included in the submitted report.

As set out to the Committee in July 2022, the Council's Auditor, EY, identified serious and pervasive governance and culture concerns with the operation of the Council, in their Value for Money judgement. As a result of work required to ensure the scale and seriousness of that challenge were accurately reflected within the AGS, it was not able to be finalised in July when the audited Statement of Accounts 2020/21 were submitted for decision at Committee.

The Mayor, Chief Executive and the Section 151 Officer had worked together, alongside other senior members and the Monitoring Officer to agree the AGS. It was explained that the Chief Executive's previous concern was that the AGS did not fully articulate the risks that were associated with the current position. Extensive discussions had taken place to ensure that the wording accurately reflected the scale of the situation and the challenge that existed.

A Member highlighted that the AGS had been signed on 6 September 2022 and raised concerns regarding a motion passed at a Council meeting held on 7 September 2022 in relation to a Standards Committee recommendation. It was confirmed that when the Audit Opinion was signed by the External Auditor, and the Audit was closed, the AGS would need to be resigned. Therefore there would be an opportunity for additional information to be added or reflected in the AGS, if appropriate.

In relation to the implementation of actions from the 2019/2020 AGS, the action to implement a case management tool for those Councillors who wished to use it was marked as

completed. It was noted that following completion of training on the new tool, no Councillor was willing to progress and therefore a new system was not introduced and the action was marked as completed. It was suggested that this action should be revisited and an Officer confirmed that it could be brought forward in the 2021/2022 AGS. It was also anticipated that CIPFA might do this also.

A query was also raised in relation to an action to establish an approach to reviewing delivery models to identify changes required to delivery models. The Officer stated that this was in relation to operational models and agreed to forward further clarification via email following the meeting.

It was highlighted that as a result of the issues identified within the AGS and the range and varied nature of them, the Council would launch a Corporate Governance Improvement Plan (CGIP). The CGIP would be overseen by a multi-disciplinary Officer Board using the Council's Project Management Framework, with robust scrutiny of action delivery and reporting to Corporate Affairs and Audit Committee, Overview and Scrutiny Board and Executive on a regular basis to demonstrate delivery of actions and also to assess the impact of those actions. This would provide assurance to Members on action being taken and ensure that if control weaknesses continued to exist even after action, further actions could be identified to address those. It would also include engagement with Internal and External Audit to provide assurance around delivery. It was suggested that the milestones, timescales, actions and outcomes needed to be included in detail. An Officer commented that this would be developed with Members.

AGREED that the Corporate Affairs and Audit Committee noted that the Annual Governance Statement 2020/2021 had been finalised and agreed by the Mayor, Chief Executive and the Section 151 Officer.

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SUSPENSION OF COUNCIL PROCEDURE RULE NO. 5 - ORDER OF BUSINESS

In accordance with Council Procedure Rule No. 5, the Committee agreed to vary the order of business to deal with the items in the following order: Agenda Item 8, Agenda Item 6, Agenda Item 7, and Agenda Item 9.

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MAYORAL DEVELOPMENT CORPORATION (MDC)

A report of the Director of Regeneration was presented to provide the Committee with an overview of the governance process for the proposed Mayoral Development Corporation and the next steps in the process.

The Tees Valley Mayor and Middlesbrough Mayor had announced an ambition for a Mayoral Development Corporation (MDC). The aim of a MDC was to accelerate major regeneration initiatives, in a defined area/scope, by dedicating specialist capacity, securing additional investment and streamlining processes.

The establishment of a Mayoral Development Corporation was a power available to devolved, city-region authorities under the Localism Act 2011, albeit a case must be made to the relevant Secretary of State and formal approval must be granted.

To commence the process for a Mayoral Development Corporation was a unilateral decision available to the Tees Valley Mayor - Members of Middlesbrough Council were not able to determine whether a MDC could be established or not. However, as the Host Authority, Middlesbrough Council was a principal statutory stakeholder and would have great influence on how the MDC's Constitution was shaped and to what extent any assets could be pooled/transferred.

The initial stages of the process to create a Mayoral Development Corporation had commenced but this amounted to an initial expression of interest/formal letter to the Secretary of State, to commence the process. This was informed by a provisional consultation held over June/July 2022. This only established the ambition to establish an MDC and the proposed area (red line boundary) within which the MDC's powers/influence would apply.

Upon receipt of the request, the Secretary of State would commence a detailed statutory consultation exercise to involve major stakeholders. Middlesbrough Council, as host authority,

would be the principal statutory consultee in this exercise. This would provide the opportunity to express any governance, democratic, accountability and financial concerns to inform the establishment of an agreed Constitution for any MDC structure.

The process would involve detailed discussion and engagement with Elected Members. It was important to stress that the process was in the very early stages and many of the logistical factors and required financial appraisals could only be detailed once the scope of the Secretary of State's consultation was known. This was not to obfuscate the process, or material concerns of Elected Members, rather it was recognition that this was the start of a collaborative process and any potential impacts could only be assessed as details of any framework, came forward.

Middlesbrough Council's initial thinking was based on the fundamental requirements that:

a) should any financial assets be proposed to be pooled within an MDC, this could not prejudice Middlesbrough Council's financial position and would need to be protected/compensated accordingly.

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

Details of specific proposals, development sites, investments were not known in any detail at this stage. When specifics were known, each factor would be assessed for implications and offered for Member consideration. This was likely to inform the conditions, protections, and covenants which the Council would highlight as a response to the next stage (Secretary of State – Statutory Consultation). However, some frequently asked questions and responses were included at paragraphs 11 to 20 of the submitted report.

A Member raised concern in relation to the removal of planning powers from the Council. Reference was also made to information obtained through Freedom of Information requests (FOIs) in relation to planning and the benefits of having an MDC. The Officer explained that whilst the MDC could take control of planning powers, it could also delegate back to the Local Authority, as many of those powers as it wanted to. However, it was emphasised that as there was no proposal as yet, the implications were not clear. Officers had been informed however, that the MDC would be bound by the same planning legislation as the Council. Whilst the Officer could not comment on the FOIs, it was clarified that the Council had not agreed to transfer any assets at this point in time. An MDC would enable the Council to conclude deals and investments that it did not have the financial capacity to deliver.

It was highlighted that Middlesbrough Council had a good working relationship with the Tees Valley Combined Authority (TVCA) which had enabled several economic development priorities, such as Tees Advanced Manufacturing Park (TAMP), the dock bridge, Boho and Centre Square to be completed, without the need for an MDC. The Officer explained that the Council was probably close to exhausting opportunities to be able to develop such projects as finances were now much tighter.

With regard to any possible financial detriment to the Council, the issue of business rates income was raised. Currently, the Government received 50% and Middlesbrough Council received 50% of business rates income. However, under the MDC, the Government's 50% could potentially be reinvested locally so the Council would ultimately benefit. Negotiations around asset transfer would be complex and as yet there was no clarity.

Concern was also raised regarding accountability and ensuring that local people were represented on the MDC Board. The Officers agreed that this issue had been articulated by Elected Members in several different forums and had been noted. This point would be raised as part of the consultation feedback.

The Chair thanked the Officers for attending and for sharing the information available at the current time.

AGREED that the information provided was received and noted.

HIGHWAYS INFRASTRUCTURE ASSETS - UPDATE

A report of the Director of Finance was presented, the purpose of which was to update Members on the Highways Infrastructure Assets position for 2020/21 following the Chartered Institute of Public Finance and Accountancy's review on this subject earlier in the year.

A way forward on this issue, which was acceptable to both the Council and to the external auditors, would allow EY to issue their opinion on the financial statements and to close the audit process for that financial year. This would be useful given the length of the current audit and the need to move on with the audit of the 2021/22 accounts for the Council which had been prepared.

At a meeting on 22 July, the Committee approved the audited statement of accounts subject to; the annual governance statement being finalised and agreed by the Mayor, the Chief Executive and the Director of Finance, and the Highways Infrastructure Assets issue, which had been raised during the audit being resolved. A signed annual governance statement for 2020/21 was included within the agenda papers for this meeting. In order for EY to issue their audit opinion for the financial year, a resolution on the position on highways assets was required.

It was explained that in an audit, a limitation of scope was a situation where auditors could not obtain sufficient appropriate evidence to make a conclusion on certain account balances, transactions or events. This was the position with highways assets where local authorities held some data but the accounting records did not generally record and adjust for derecognitions (or disposals) in sufficient detail. The normal approach to this was for the auditors to modify their opinion on the financial statements as a result.

The limitation of scope approach would allow the audit process for 2020/21 to be completed with a view from EY that the financial statements give a true and fair view in all regards and for all key balances, except for Highways Infrastructure Assets. This would allow the Council to publish their audited Statement of Accounts for 2020/21 and EY to move on with their audit of the 2021/22 accounts.

Although Middlesbrough's highways service maintained an information management system (Symology) and some of the information that was required for the accounting process was recorded within this system. Officers were not confident that this was sufficient to restate the balances needed back to 2011, when international financial reporting standards were first introduced. Although further work could be done to extract the information and to use local knowledge to fill in the gaps, this work could take several months. The current accountancy fixed asset register also did not provide the level of detail required in relation to new additions and derecognitions to be able to account for those assets in a reasonable way.

Officers were more confident that Symology could be used to capture the correct level of data going forwards and that this work could be linked with the Council's fixed asset register to produce the correct capital accounting entries going forwards.

As a result, the view of the Director of Finance (as responsible financial officer) was that the limitation of scope option to close the external audit for 2020/21 brought more benefits than disadvantages and that the Council should pursue this option with EY. It was also sensible given the circumstances, as it allowed the maximum certainty on the Council's financial position and to stakeholders.

The External Auditor confirmed that EY were supportive of the limitation of scope approach and commented that the Government and CIPFA were taking forward an action plan to amend the Code and the legislation to remove some of the disclosure requirements.

The Council finance team would continue to work with the Highways Service to see what information was needed/available to resolve this issue, both retrospectively and going forward. Officers would monitor the position on future CIPFA guidance and changes to the accounting code of practice and update the Committee on an interim basis.

AGREED as follows that:

1. the contents of the report and the position on the audit process for 2020/21 were noted.
2. the Committee concurred with the Director of Finance's advice to accept a limitation of

scope option in relation to Highways Infrastructure assets for the year in question.

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TEESSIDE PENSION FUND PROVISIONAL AUDIT RESULTS REPORT - YEAR ENDED 31 MARCH 2021

The External Auditor presented a report which summarised EY's preliminary audit conclusion in relation to the audit of Teesside Pension Fund for 2020/21.

EY's audit of Teesside Pension Fund ('the Fund') for the year ended 31 March 2021 was nearing completion. Subject to concluding the outstanding matters listed in the report, the External Auditor confirmed that EY expected to issue an unqualified audit opinion on the financial statements.

In the Audit Committee Planning Report, EY communicated that the audit procedures would be performed using a materiality of £34.2m and the threshold for reporting misstatements would be £2.3m. At year end EY updated this assessment and confirmed that these levels remained appropriate.

The Audit Plan identified a number of key areas of focus for the audit of the financial report of Teesside Pension Fund and the report set out EY's observations in relation to these areas, including views on areas which might be conservative and areas where there was potential risk and exposure. Consideration of these matters and others identified during the period were summarised within the Areas of Audit Focus section of the report.

The External Auditor drew attention to following:

- Misstatements due to fraud or error – no misstatements were identified.
- Valuation of unquoted pooled investment vehicles - included within the initial draft accounts presented to EY for audit was the quarter three valuations rolled forward to produce a year end valuation. Upon receipt of the year end confirmations it was apparent that the valuations were higher than the amounts included in the accounts, which resulted in a net understatement of investments by £26.4m. Management chose not to adjust for this valuation movement due to it being immaterial. No further misstatements were identified.
- Valuation of directly held property – EY's Real Estate Team reviewed a sample of properties and concluded that all valuations were within an acceptable range. No misstatements were identified.

A number of audit differences had been adjusted for by management. Details of these are included in Section 4 of the report.

There was one audit difference which was unadjusted. EY identified a total net understatement of investments by £26.4m. This was primarily due to timing differences - the valuation reports used by the Pension Fund when preparing the accounts contained reports as at December 2021, whereas the year end valuation provided by Fund Managers as part of the confirmations process were as at March 2021. Management chose not to adjust for this error due to it being immaterial.

The 2021/2022 audit work was almost completed and a matter around recording of income had been identified. This had the potential to reach back into 2020/2021 and management were looking into this issue as a priority.

The External Auditor was required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. EY had identified some consistency issues within the Annual Report which management were going to adjust for. Once the updates had been made EY would be in a position to issue their consistency opinion.

The External Auditor extended EY's thanks to the Officers for their assistance with the Audit.

It was highlighted that the latest valuation of the Fund was £5.1 billion.

23 September 2022

AGREED that the Teesside Pension Fund Provisional Audit Results Report - Year ended 31 March 2021 was received and noted.

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

None.