



Draft Auditor's Annual Report  
Middlesbrough Council – year-ended 31 March 2024

December 2024

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# 01

Introduction

# Introduction

## Purpose of the draft Auditor's Annual Report

Our draft Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Middlesbrough Council ('the Council') for the year-ended 31 March 2024. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We have not yet issued our audit report. We expect our opinion on the financial statements to be disclaimed in February 2025.



### Value for money arrangements

We are not satisfied arrangements were in place for the Council to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We identified significant weaknesses in arrangements and Section 3 provides our commentary and a summary of our recommendations.



### Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We plan to report to NAO when we have issued our audit opinion. As in previous years, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

We have not exercised any of our other additional powers and duties and have not issued a report in the public interest, written a recommendation, applied for a court declaration, issued an advisory notice, issued an application for judicial review or received any objections.

# 02

Audit of the financial statements

# Audit of the financial statements

## Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council’s financial position as at 31 March 2024 and of its financial performance for the year then ended. We expect to issue our audit report in February 2025 for the year-ended 31 March 2024.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

# 03

Our work on value for money  
arrangements

VFM arrangements

Overall Summary





# VFM arrangements – Overall summary

## Our approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services;



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks; and



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work, we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information;
- information from internal and external sources, including regulators;
- knowledge from previous audits and other audit work undertaken in the year; and
- interviews and discussions.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks in the following sections.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. Two distinct types of recommendation are relevant to our duties under the Code:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	Yes – see risk 1 on page 12	Yes – see recommendation 1 on page 24	No
 <b>Governance</b>	15	Yes – see risk 2 on page 16	Yes – see recommendation 2 on page 25	No
 <b>Improving economy, efficiency and effectiveness</b>	19	Yes – see risk 3 on page 20	Yes – see recommendation 3 on page 25	No

# VFM arrangements

## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# VFM arrangements – Financial Sustainability

## Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risk of significant weakness in arrangements that we identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Financial sustainability</b></p> <p>As part of the 2024/25 budget setting and Medium Term Financial Plan update the Council made a request for and received in principle exceptional financial support from the Government as the Council reported it would not be able to meet its spending commitments from its income.</p> <p>1 We note that the Council has taken recent reports to the Executive relating to the reserves policy and a plan for financial recovery over the period to 2026/27. The Council has also launched a transformation programme in April 2024 to deliver financial recovery. There is a risk that the actions taken will not be sufficient to address the issues raised.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"><li>• Budget setting reports, including the application for exceptional financial support.</li><li>• Budget monitoring reports.</li><li>• Outturn reports.</li><li>• Updated medium term financial plans (MTFPs).</li><li>• Transformation programme.</li><li>• Links between MTFPs and other plans, e.g., people strategy.</li></ul> <p><b>Conclusion</b></p> <p>The Council has made significant improvement in addressing issues that presented during 2023/24, for example introducing a new budget setting approach and transformation programme, but there is still work to be done to improve arrangements for financial sustainability. The precarious financial position and the transformation required to ensure affordable services are provided are causes of concern.</p>

## Overall commentary on Financial Sustainability

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

Our review of minutes and supporting papers has confirmed medium-term financial planning arrangements have been in place in 2023/24. In our assessment, we considered the Medium Term Financial Plans (MTFPs), covering 2023/24 to 2025/26, and the new approach for 2024/25 to 2026/27. We have also reviewed the proposed 2025/26 budget and MTFP approach and timetable.

We have considered the Council's performance in delivering its MTFP, including any identified saving targets. In 2023/24, in common with other local authorities, the Council experienced significant cost pressures linked in

delivering demand-led services and as a consequence of inflation. In 2024/25 the Council continues to report significant financial pressures, including significant demand pressures and service cost increases. As part of the 2024/25 budget setting and overhaul of the MTFP arrangement, the Council made a request for and received in principle approval for exceptional financial support from the Government as the Council could not meet its spending commitments from its income. Despite this, the quarter one forecast revenue outturn for 2024/25 was a further overspend of £3.7 million unless further management intervention is taken in order to control costs. Planned savings in adult and children's social care services are at risk of not being delivered in full by the year-end (£2.1 million). In addition, higher numbers and the increasing complexity of external residential placements for children has added pressure of £2.4 million.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

The exceptional financial support arrangement means borrowing of up to £3.5 million could be used to meet any overspend arising from unachieved savings in-year, but the remainder (the element of the forecast overspend not linked to savings delivery of £1.2 million) would need to be funded from reserves which would reduce General Fund reserves below the level recommended by the CFO.

The most recent internal monitoring of the in-year 2024/25 forecast position indicates an improved, lower overall overspend but with continued pressures in children's services.

**The failure to identify all significant financial pressures is evidence of a significant weakness in arrangements.**

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

Our review of the MTFPs issued during 2023/24 and to date provides assurance that forecasts are based on prudent assumptions including the Council's latest understanding of Government funding arrangements, local revenue assumptions, service demand and other cost pressures. Arrangements for identifying and delivering savings include a timetable for consultation with stakeholders ahead of approval before each financial year. The new MTFP arrangements include a more disciplined approach to budget setting and require in-year spending to be funded from in-year resources to protect reserves which are at a critical level. Budget monitoring reports explain that failure to control expenditure will lead to draw down of the exceptional financial support or a call on reserves. Such an approach is not sustainable, which the Council recognises, and the transformation programme is designed to address this. The Council's access to exceptional financial support allows some flexibility in the short-term but there is an ongoing need to deal with a structural deficit. The new senior management team aims to address this in the development of the 2025/26 budget and MTFP and via the transformation programme.

**The lack of a sustainable MTFP is evidence of a significant weakness in arrangements.**

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

In 2024/25 the Council's MTFP strategy was aligned with the Council plan which sets out the Council's strategic direction and ambitions for the area. Our review confirmed that the MTFP arrangement is now based on reasonable assumptions available at the time of approving the plan. The scale of the financial recovery required is significant and involves savings of £13.9 million in 2024/25 rising to £21 million over the period to

2026/27. In-year monitoring reports, however, suggest the planned savings are not currently being delivered; the quarter one position reported in September 2024 highlights a further overspend against budget and increasing pressures. More recent internal monitoring of the in-year 2024/25 forecast position indicates an improved, lower overall overspend (£3.6 million).

Financial control measures were agreed and implemented in July 2023. These measures include: modernising and transforming service delivery; risk rating of savings and detailed monitoring of savings achievement; development of a pipeline of new transformation projects; more robust budgetary control; more director engagement; and more stringent financial control of budgets and restraint on non-essential spending. These measures reduced a reported quarter one £11 million overspend to a £3.6 million outturn in 2023/24.

The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions impact on the forecast financial position. There is regular budget monitoring including forecast of outturn reports which support the identification of in-year pressures, whether savings are being achieved and if resources need to be redirected to areas in need. We reviewed the 2023/24 outturn and noted the in-year pressures, such as those in the Children's services, were clearly reported and have been reflected in the MTFP. Financial planning arrangements, however, involve an unsustainable reliance on exceptional financial support from the Government.

**The lack of a sustainable MTFP is evidence of significant weaknesses in arrangements in 2023/24.**

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

At the highest level, the Council has a Council Plan and vision, there is a transformation programme in place and a new people strategy has been developed. This is part of the Council's strategic planning framework and the MTFP is part of this Framework. We confirmed that arrangements were in place for the development of the MTFP including linking the financial plan to the Council's corporate objectives to ensure the priorities of the Council are delivered, scrutinising the MTFP, and documenting key assumptions with each savings plan being risk assessed to advise Members of the impacts. We have confirmed a similar timetable exists for setting the 2025/26 budget which is evidenced in the reports to the May and September 2024 Executive meetings and includes the high-level forecast position for 2025/26 to 2028/29.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

In line with the Prudential Code and the Council's capital strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting process. This is designed to ensure investments are fully funded. The capital plan is included in the MTFP including the capital strategy. A detailed capital plan is included in the MTFP.

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

The MTFP process aims to reflect changes that affect the Council's financial plans. The budget is monitored on a regular basis at department level ahead of reporting to the Executive. We reviewed outturn reports presented during 2023/24 and 2024/25 to date and noted that they reflect in-year changes, for example, demand pressures in Children's Services which have been tracked and reported throughout the year. The 2023/24 outturn report has highlighted an overspend of £3.6 million, which is 2.8% of the approved budget totalling £126.4 million. The overspend led to the unplanned use of reserves. Improved financial monitoring and control arrangements applied during 2024/25 include internal challenge and recovery procedures..

Consistent with the prior year and other local authorities, Children's Services continue to report significant overspends in-year, reporting a £2.8 million overspend in 2023/24. As a result, unrestricted useable reserves have reduced from £3.5 million (31 March 2023) to £1.1 million (31 March 2024) prior to the allocation of the Collection Fund balance of £8.3 million (1 April 2024). The Council continues to closely monitor this service and develop mitigation plans to reduce overspends in the medium to long-term. In 2023/24 this included reviewing, controlling and rebasing the children's services budget and reviewing social care practice. This is alongside national efforts to address the exceptionally high cost of external residential care placements.

Our review of committee reports and attendance of Audit Committee, provides assurance that the Council monitors and identifies mitigations to manage any changes in demand and assumptions in the MTFP. The Council also has an established risk management framework, with regular reviews and reporting to Audit Committee. Attendance of Audit Committee meeting confirm it receives regular risk management updates.

As part of the 2024/25 budget setting and MTFP update the Council made a request for and received in principle approval for exceptional financial support from the Government as the Council could not meet its spending commitments from its income. The development and implementation the transformation programme during 2024/25 is required to stabilise the Council's finances.

**The lack of a sustainable MTFP during 2023/24 is evidence of a significant weakness in arrangements.**

### **Summary: overall commentary on the financial sustainability reporting criteria**

Our work identified significant weaknesses in financial sustainability arrangements, as set out in this section and summarised below:

- **how the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them**
- **how the body plans to bridge its funding gaps and identifies achievable savings**
- **how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities**
- **how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans:**

The level of reserves is low and the Council's MTFP and transformation programme rely on the identification of further savings, the success of the new financial monitoring and control arrangements and the availability of exceptional financial support from the Government.

# VFM arrangements

## Governance

How the body ensures that it makes informed decisions and properly manages its risks



# VFM arrangements – Governance

## Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risk of significant weakness in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Governance</b> The Council's previous external auditor's reported significant weaknesses in the Council's governance arrangements in the period 2021 to 2023. The concerns reported included strained relationships between the Council's previous senior officers and elected Members, and between elected Members.</p> <p>2 The Council is implementing a Corporate Governance Improvement Plan to improve arrangements and monitoring reports in November 2024 record 86 out of 95 planned actions have been delivered. The Council also reports that 46 out of 47 actions in response to external audit recommendations have been delivered and the remaining action is on track to be delivered by March 2025. The Council now needs to apply its governance arrangements, and focus on transformation and financial recovery.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"><li>• Internal audit plan and reports.</li><li>• Annual governance statement.</li><li>• Section 24 recommendations action plan.</li><li>• Corporate Governance Improvement Plan.</li><li>• Response to unplanned changes and informed decision making.</li><li>• Risk management arrangements.</li><li>• Standards monitoring.</li></ul> <p><b>Conclusion</b> The Council has made progress towards addressing previous value for money recommendations but there is still work to be done on governance arrangements.</p>

## Overall commentary on Governance

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

The Audit Committee provides assurance over the adequacy of the Council's risk management framework and associated control environment.

The Council has an externally provided internal audit service provided by Veritau. The Internal Audit Plan is reviewed by the Council's Audit Committee to determine the priorities of the internal audit activity, consistent with the Council's goals. The Plan is discussed with the Audit Committee and service leads ahead of being finalised.

The 2023/24 Plan was presented to the Corporate Affairs and Audit Committee in February 2023. We attend

meetings of the Committee and confirmed that progress against the plan was reported at each meeting. The annual Head of Internal Audit Opinion was presented to the August 2024 Audit Committee meeting and provided an overall 'reasonable' level of assurance which is better than the 2022/23 'limited assurance' position. Internal Audit reports have been presented to the Audit Committee at each of the meetings.

We confirmed through our attendance at Audit Committee that Members challenge management where recommendations are not implemented within the agreed timeframe. We observed Member scrutiny of matters raised in Internal Audit reviews.



# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

Internal Audit's compliance with the Public Sector Internal Audit Standards was subject to external review. As detailed in the annual Head of Internal Audit report 2023/24, the review concluded that Veritau's internal audit activity generally conforms to the Public Sector Internal Audit Standards and, overall, the findings were very positive.

A Risk Management Policy and Strategy is in place and the annual risk management assurance report for 2023/24 was considered by the Audit Committee recently in July 2024. The overall opinion of the Head of Internal Audit on the risk management framework is that it provides 'reasonable assurance'. We have confirmed, via our attendance at the Audit Committee, there has been regular reporting against the Risk Management Strategy in the year.

Veritau also provide the Council with counter fraud services. A Counter Fraud and Corruption Strategy is in place and has been subject to review. Counter Fraud activity has been reported throughout the year to the Audit Committee alongside other internal audit reporting.

We considered the Council's Annual Governance Statement (AGS), including considering the requirement for the AGS to be kept up to date and cover issues up to when the opinion on the financial statements is given for each year. We note the Council has appropriately included an update in the AGS to highlight significant governance issues that presented during the previous administration.

### How the Council approaches and carries out its annual budget setting process

The Council's financial planning arrangements include the identification and evaluation of risks to the Council's finances. We reviewed budget setting arrangements, and no matters were identified that would indicate a significant weakness in arrangements. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks.

The Chartered Institute of Public Finance and Accountancy (CIPFA) review of financial management arrangements in April 2024 scored the Council as two out of five stars, concluding that reasonable arrangements are in place. The review acknowledged the change and improvements that were already in progress within the Corporate Governance Improvement Plan and have now largely been implemented. CIPFA recommended the Council enhance its existing plan in selected areas. The report concluded that the successful implementation of the Recover, Reset, Delivery Transformation Portfolio is critical to evidencing the required culture change and to securing improvement and maturity in financial management arrangements.

### How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial

### information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

We reviewed Council minutes and confirmed there was regular reporting of the financial position during 2023/24. This included details of movements in the budget and forecast outturn between quarters. The reports detailed the in-year position as well as planned mitigations. We reviewed the 2023/24 outturn and confirmed in-year pressures, such as those in Children's services, were clearly reported and have been reflected in the MTFP. Financial controls introduced by new senior management in July 2023 helped to reduce the overspend in 2023/24. The controls are still in place and more progress has been made during 2024/5 to continue in-year budget challenge alongside the development of a financial recovery agenda. After developing significant savings plans for 2024/25 the Council exceptional financial support was requested as a £4.7 million budget gap remained for which realistic savings plans were not identified.

The financial statements timetable was not delivered in 2023/24. Draft accounts should have been published by the end of May 2024 but were published on 27 September 2024 which was earlier than the publication of the draft accounts for 2022/23. Delays in completing previous audits and the work needed to refine estimates have led us to conclude that the delay in producing the financial statements is not unequivocal evidence of a significant weakness in the Council's arrangements, but we make this recommendation:

- Annual financial reporting is a key accountability process and the Council should consider whether it has sufficient capacity and capability to deliver a reliable draft statement of accounts in line with the statutory timetable for 2024/25.

### How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Council has a Constitution and Scheme of Delegation which set the framework for decisions. The Constitution has been reviewed and updated and training has been provided to Members and officers on the format and the decision-making processes to ensure good practice.

The Council uses a standard report format for its committees and has a supporting report author checklist.

We reviewed Council minutes in the year and have not identified evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

The 2023/24 AGS, sets out progress against the following improvement areas identified in the previous year:

- Best Value Notice: in place during 2023/24, refocused to include financial sustainability in January 2024. The Notice was lifted in September 2024, including on financial sustainability, noting that this remains a risk but recognising the progress made;
- statutory recommendations issued by external auditor: we note these are reported as substantially delivered in November 2024; and
- summary of the Council’s culture and governance improvement actions taken in response to the above: we note these are recorded as substantially delivered in November 2024.

While significant progress has been made up to November 2024, we note there were still deficiencies during the 2023/24 financial year, for example, the Constitution was updated and approved in September 2023 as part of a fundamental reset, and the Member development strategy and programme had not been fully delivered.

**The lack of an up-to-date Constitution and Member development arrangements are evidence of a significant weakness in arrangements in 2023/24.**

### How the Council monitors and ensures appropriate standards are maintained

The Council’s Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well as senior officer pay and Members’ allowances.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by members. It is responsible for advising and arranging relevant training relating to the requirements of the

Code of Conduct. The most recent quarterly report taken to Committee in July 2024 shows 59 complaints in 2023. Of those complaints 9 were withdrawn or discontinued, 30 were advised to be rejected based on the assessment criteria, 14 were resolved informally by way of advice and guidance and 6 are being investigated.

### Summary: overall commentary on the governance reporting criteria

**Our work identified significant weaknesses in governance arrangements, as set out in this section, and summarised below:**

- **how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency;**
- **how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.**

Weaknesses identified in respect of:

- how the Council delivered its Best Value responsibilities in 2023/24;
- actions in the Corporate Governance Improvement Plan that were in progress during 2023/24; and
- the Council’s 2023/24 arrangements for take corrective action to deliver a sustainable MTFP.

# VFM arrangements

## Improving Economy, Efficiency and Effectiveness

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



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

We have outlined below the risk of significant weakness in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Improving economy, efficiency and effectiveness</b> Significant weaknesses in the Council’s arrangements for evaluating the services it provides and for commissioning and procuring services were reported in previous years.</p> <p><b>1</b> In response, the Council’s action plans and development workstreams include a range of measures to address the deficiencies reported. We also note the oversight provided by the Independent Improvement Advisory Board. There is a risk that the actions taken will not be sufficient to address the issues raised.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• Updated Council plan and performance monitoring.</li> <li>• Transformation programme.</li> <li>• Partnership working.</li> <li>• Procurement arrangements and response to section 24 recommendations.</li> <li>• Relevant internal audit reports.</li> </ul> <p><b>Conclusion</b> The Council has made progress in addressing previous value for money recommendations but there is still work to be done to improve arrangements in relation to improving economy, efficiency and effectiveness.</p>

## Overall commentary on Improving Economy, Efficiency and Effectiveness

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

The Council has a performance management framework and assessment arrangements use a series of indicators. Corporate performance against key performance indicators is presented to Executive on a quarterly basis.

The transformation programme includes a theme focused upon the review and redesign of the Council’s Target Operating Model given the need to downsize and streamline management structures. This includes work supported by the Local Government Association (LGA) to review the Council’s management structures using a decision-making accountability (DMA) methodology.

The Council’s financial performance is reported on a regular basis to Executive with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR

implications and equality impact assessments.

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

The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2023/24 the quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress. Our work, however, identified no evidence of a clear link between the Council Plan priorities in 2023/24, the strategic workplan and the detailed outcomes and measures reported. Management has sought address this weakness in the development of the 2024 to 2027 Plan.

**The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements in 2023/24.**

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

We note that a new Council Plan 2024-27 has now been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Initiatives and workplans to support delivery of the ambitions and measures of success, and the proposed performance and governance arrangements, were approved during a meeting of the Executive on 10 April 2024. There has, therefore, been clear progress after 2023/24 which demonstrates a more robust approach to the delivery of key priority activities across Council services.

2024/25 has also seen the implementation of new waste collection arrangements which, despite being successful attracted some adverse responses from Members. Delivering the Best Value duty and applying the principles of continuous improvement are usefully seen as a process during which even the most capable and best practice authorities can experience errors or shortcomings. Unless these are regular and material, such authorities usually treat such occurrences as learning experience rather than opportunities for deflection or pinpointing blame. The Council's improvement initiatives may involve isolated examples where delivery and implementation is not perfect, but Member engagement will be key to generating momentum and maintaining a proper sense of direction.

The Best Value Notice, which had been in place since January 2023 was updated in January 2024 to include financial sustainability and was formally removed in September 2024. The Council monitors actions against the Corporate Governance Improvement Plan and external audit recommendations and has identified areas of performance that require improvement. Actions to date have not yet resulted in the expected transformation and there is evidence of performance below targets, for example, the senior management review and implementation and completion of leadership management team appointments are due for completion in 2025. Performance against executive actions and Council Plan outcomes reported in September 2024 are below the expected standards. As some of the improvements needed require culture change, it is understandable that the impact on service delivery and transformation is not immediately measurable.

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

The Council ensures it is represented at a senior level in its key partnerships, such as partnerships with health. The Council has, for example, a well-established partnership with Health via the Better Care Fund.

A partnership annual report was taken to Audit Committee 14 December 2023 which included a self-assessment for each of the 13 significant partnerships that existed during 2022/23. While partnerships were

assessed as being generally in a sound state by the lead officers who self-assessed compliance with governance standards, some marked performance as "amber" where outcomes were less able to be articulated or because performance was below target/below national average. The position in relation to each of the partnerships identified as "amber" for performance together with actions planned to address that status were set out in the submitted report.

Examples of new partnerships include:

- Executive 20 December 2023, Shift Partnership Proposal, the report sought approval of a new three-year partnership with SHiFT, a youth justice charity, that would create a new SHiFT Practice hosted by Children's Services within the Council. This is seen as a key transformation issue and delays in implementation affect the delivery of planned savings for 2024/25; and
- Executive 14 February 2024, levelling up partnership, the purpose of the report was to seek Executive approval for Middlesbrough Council to accept £20.816 million of Levelling Up Partnership (LUP) funding and agree, as the Accountable Body, to deliver and enable local partners to deliver the package of proposed projects.

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

Key commissioning and procurement decisions are taken by skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Access is readily available to professional legal and procurement advice.

There is evidence that the Council has arrangements in place for procurement and a new two-year corporate procurement strategy 2023-2025 taken to Executive 10 April 2024. As part of the updated strategy, an options appraisal has been developed concerning the most cost-effective delivery model for procurement across the Council. The strategy recognised the opportunity that procurement activity has in maximising added value and efficiencies with a focus on achieving value for money, alongside collaborating with internal and external partners. The aim is to offer an outstanding procurement experience for stakeholders and suppliers that is transparent, provides opportunities for local businesses, delivers the best value for Middlesbrough's residents, and supports achievement of the Council's strategic priorities.

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

**Summary: overall commentary on the improving economy, efficiency and effectiveness reporting criteria**

Our work identified a significant weakness in arrangements, as set out in this section and summarised below:

- **how financial and performance information has been used to assess performance to identify areas for improvement:**

The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements in 2023/24.

# VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendations for improvement	Our views on the actions taken to date
<p>1</p> <p><b>Financial sustainability</b> As part of the 2024/25 budget setting, the Council made a request for, and received, exceptional financial support from the Government as the Council could not meet its spending commitments from available resources.</p>	<p>●</p>			<p>1 The Council should continue to strengthen the approach to budget setting to ensure assumptions are data driven and realistic, and planned savings are subject to a detailed delivery plans and risk assessment.</p> <p>2 The Council needs to implement a financial recovery plan to ensure services can be provided within available resources and should:</p> <ul style="list-style-type: none"> <li>• complete a baseline assessment of the affordability of services in their current form;</li> <li>• develop a detailed plan to address the deficit including further savings for 2025/26;</li> <li>• ensure sufficient information is provided to Members so they can monitor the delivery of planned savings.</li> </ul> <p>3 The Council should continue to apply the additional spending controls agreed in July 2023 to address the forecast in-year deficit.</p>	<p>The Council updated the MFTP as part of the budget setting process for 2024/25 and launched a transformation programme in April 2024 to deliver financial recovery.</p> <p>A further overspend is forecast for 2024/25.</p> <p>The Council has made progress in improving arrangements but there is still work to do to ensure financial sustainability.</p>



# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement (continued)

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>2</b></p> <p><b>Governance</b> During 2023/24 the Constitution was being reviewed, revisited and embedded and the Member development strategy and programme had not been delivered. Arrangements were improved during 2023/24 but were not in effect during the year.</p>		●		<p>The Council should apply and embed arrangements in line with the culture and governance improvement plan.</p>	<p>The Council has an agreed culture and governance improvement plan and has monitored progress in implementing the required actions.</p> <p>The Council has made progress in improving arrangements but there is still work to do to ensure governance arrangements are in place and embedded.</p>
<p><b>3</b></p> <p><b>Improving Economy, Efficiency and Effectiveness</b> The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2023/24 the quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress. We did not see evidence of a clear link between the Council Plan priorities, the strategic workplan and the detailed outcomes and measures reported.</p>			●	<p>The Council should ensure</p> <ul style="list-style-type: none"> <li>the Mayor's priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals; and</li> <li>sufficient information is provided to Members so they can monitor service delivery.</li> </ul>	<p>A new Council Plan 2024-27 has been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Supporting initiatives and workplans to support delivery of the Council Plan 2024-27 ambitions and measures of success and the proposed performance and governance arrangements were approved at a meeting of the Executive on 10 April 2024 for implementation in 2024/25.</p> <p>The Council has made progress in improving arrangements but there is still work to do to ensure arrangements are fully embedded for improving economy, efficiency and effectiveness.</p>

Other reporting responsibilities

# Other reporting responsibilities

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We plan to report to NAO when we have issued our audit opinion. As in previous years, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

05

Audit fees and other services

# Audit fees and other services

## Fees for our external audit work

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2024. We have not yet completed our work for the 2023/24 financial year, so are not yet able to confirm our final fees.

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£321,074	£111,857

06

Audit of Teesside Pension Fund

# Audit of Teesside Pension Fund

## Summary of key information

As the auditor for Teesside Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year-ended 31 March 2024.



### Opinion on the Pension Fund financial statements

We have not yet issued our audit report. Our opinion on the financial statements is expected to be issued in February 2025.



### Consistency report

We have not yet concluded that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts Middlesbrough Borough Council. Our report is expected to be issued in February 2025.



### Wider responsibilities

We have not exercised any of these powers as part of our Teesside Pension Fund's 2023/24 audit to date.



### Significant difficulties during the audit

We have not experienced any significant difficulties during the audit to date.



### Risks, misstatements and internal control recommendations

A summary of the significant risks we identified when undertaking our audit of the financial statements is outlined in Appendix B. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

## Fees for our work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2024. We have not yet completed our work for the 2023/24 financial year, so are not yet able to confirm our final fees.

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£102,380	£37,054

## Fees for other work

We confirm that we have not undertaken any non-audit services for the Pension Fund in the year.

# Appendices

Appendix A: Further information on our audit of the Council's financial statements

Appendix B: Further information on our audit of the Pension Fund financial statements



# Appendix A: Further information on our audit of the Council’s financial statements

## Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our planned audit response
<p><b>Management override of controls</b>                      This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk by carrying out audit work on: accounting estimates; journal entries; and significant transactions outside the normal course of business or otherwise unusual.</p>
<p><b>Risk of fraud in revenue recognition</b>                      There is a presumption under the International Auditing Standard that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements.</p>	<p>We plan to address this risk by carrying out a range of substantive procedures including:</p> <ul style="list-style-type: none"> <li>• testing significant grants and capital receipts recorded around year end to ensure they have been recognised in the appropriate year;</li> <li>• testing year end receivables; and</li> <li>• obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.</li> </ul>

# Appendix A: Further information on our audit of the Council's financial statements

## Significant risks and audit findings (continued)

Risk	Our planned audit response
<p><b>Valuation of net defined benefit liability</b></p> <p>The 2023/24 financial statements are expected to contain material pension entries in respect of the retirement benefits.</p> <p>The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>critically evaluate the Council's arrangements relevant controls for making estimates in relation to pension entries within the financial statements; and</li> <li>challenge the reasonableness of the Actuary's assumptions that underpin entries made in the financial statements, using an expert commissioned by the National Audit Office;</li> <li>critically assess the competency, objectivity and independence of the Actuary;</li> <li>liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively;</li> <li>compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.</li> </ul>
<p><b>Valuation of land, buildings and surplus assets</b></p> <p>The 2023/24 financial statements are expected to contain material entries on the balance sheet as well as material disclosure notes in relation to the Council's holding of property, plant and equipment (PPE).</p> <p>Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>critically assess the Council's arrangements for ensuring that land and buildings valuations are reasonable and not materially misstated;</li> <li>critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers;</li> <li>consider the competence, skills and experience of the valuers and the instructions issued to the valuers;</li> <li>substantively test revaluations, including critically reviewing the Council's own consideration of assets not revalued in the year and why they are not materially misstated; and</li> <li>where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul>

# Appendix A: Further information on our audit of the Council's financial statements

## Summary of uncorrected misstatements for the Council

We have not yet completed our audit work for the Council.

# Appendix A: Further information on our audit of the Council's financial statements

## Internal control observations for the Council

We have not yet completed our audit work for the Council.

# Appendix B: Further information on our audit of the Pension Fund’s financial statements

## Significant risks and audit findings

As part of our audit of the Pension Fund, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our planned audit response
<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement due to fraud on all audits.</p>	<p>We plan to address the management override of controls risk by carrying out audit work on: accounting estimates; journal entries; and significant transactions outside the normal course of business or otherwise unusual.</p>
<p><b>Valuation of investments within level 3 of the fair value hierarchy</b></p> <p>As at 31 March 2023 the fair value of investments classified within level 3 of the fair value hierarchy was £1,197m, which accounted for 23.7% of investment assets. The values included in the accounts are based on those provided by investment managers, updated by the Pension Fund for cash movements, where the most recently available information from fund managers is at a date prior to the year end.</p> <p>Level 3 assets are those assets where values are based on unobservable inputs, and consequently the estimation uncertainty for these assets is more significant than for assets valued at level 1 and 2.</p>	<p>We plan to address this risk by completing the following additional procedures on a sample basis:</p> <ul style="list-style-type: none"> <li>• agree holdings from fund manager reports to the global custodian’s report;</li> <li>• agree valuations included in the Pension Fund’s underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;</li> <li>• agree the investment manager valuations to audited accounts or other independent supporting documentation, where available;</li> <li>• where audited accounts are available, check that they are supported by an unmodified opinion;</li> <li>• review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and</li> <li>• where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund’s financial statements.</li> </ul>

# Appendix B: Further information on our audit of the Pension Fund's financial statements

## Summary of uncorrected misstatements for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

## Appendix B: Further information on our audit of the Pension Fund's financial statements

### Internal control observations for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

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