



# Auditor's Annual Report

## **Middlesbrough Council – year ended 31 March 2025**

November 2025

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Our reports are prepared in the context of the ‘PSAA Statement of Responsibilities of Auditors and of Audited Bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to Middlesbrough Council. It has been prepared for the sole use of the Audit Committee as the appropriate group charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

# 01

Introduction

# Introduction

## Purpose of the Auditor’s Annual Report

Our 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 2025. 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 expect to issue our audit report before the backstop date of 27 February 2026. We expect our opinion on the financial statements to be disclaimed.



**Reporting to the group auditor**  
In line with group audit instructions issued by the NAO, we have undertaken work on the Council’s Whole of Government Accounts (WGA) return in line with their instructions. We have been unable to conclude our work as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us.



**Value for money arrangements**  
In our audit report we expect to report that we are not satisfied arrangements were in place for the Council to secure economy, efficiency and effectiveness in its use of resources. We identified significant weaknesses in arrangements and include recommendations in this report. Section 3 provides our commentary on the Council’s arrangements, the weaknesses identified, and a summary of our recommendations.

## 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 (UK) (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 2025 and of its financial performance for the year then ended. Our audit report, which we expect to issue before the backstop date of 27 February 2026, will give a disclaimed opinion on the financial statements for the year ended 31 March 2025

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.

## Other reporting responsibilities

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.
- 

**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.

### 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. Our work could lead to two distinct types of recommendation:

- **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?
	Financial sustainability	11	Yes – see risk 1 on page 12	Yes – see recommendations 1 and 2 on page 23	No
	Governance	15	Yes – see risk 2 on page 16	No	No
	Improving economy, efficiency and effectiveness	19	Yes – see risk 3 on page 20	Yes – see recommendation 3 on page 23	No

# VFM arrangements

## Financial Sustainability

How the Council 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 risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

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 process, the Council made a request for, and received, exceptional financial support from the Government in order to balance the budget for 2024/25.</p> <p>The approach to budget setting has improved but needs to focus further on underlying assumptions to ensure funding gaps that could threaten the delivery of services and financial plans are identified and mitigated.</p> <p>1 The Council decision to seek such support in order to meet its spending commitments is evidence of a significant weakness in arrangements for planning to bridge funding gaps and identifying achievable savings.</p>	<p>Our work included reviews of:</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;</li><li>• transformation programme and</li><li>• links between MTFP and other plans, for example, people strategy.</li></ul> <p><b>Conclusion</b></p> <p>The Council has made significant improvement in addressing issues that presented during 2024/25, 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 financial position and the transformation required to ensure affordable services are provided require ongoing attention.</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 confirms that medium-term financial planning arrangements were in place in 2024/25. We considered the Medium Term Financial Plans (MTFPs) covering 2024/25 to 2026/27, and the new approach for 2024/25 to 2026/27. We have also reviewed the proposed 2026/27 budget and MTFP approach and timetable.

We have considered the Council’s performance in delivering it’s MTFP, including identified saving targets. In 2024/25, in common with other local authorities, the Council experienced significant cost pressures linked to delivering demand-led services and as a consequence of inflation. In 2025/26 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 arrangements, the Council made a request for and received in principle approval for exceptional financial support (EFS) from the Government as the Council could not meet its spending commitments from its income. The outturn for 2024/25 was better than originally expected and allowed the Council to use £2.443 million of the £13.4 million approved in principle EFS, with the value being funded through the flexible use of capital receipts to support transformation.

The quarter one revenue outturn for 2025/26 forecasts an overspend of £10.677 million for the year. Actions are planned to mitigate this but if this is not successful, the Council is proposing the use of central contingencies and other budgets totalling £6.195 million to reduce the potential overspend to £4.482 million.

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

As with many other local authorities, there is also an ongoing risk around the Dedicated Schools Grant deficit which is currently £22m. The significant and growing deficit is a result of the costs of providing support for special educational needs and disabilities (SEND) exceeding the formula-driven, ring-fenced grant from Government. The position is unsustainable and without significant additional external funding support, improved prevention and changes to delivery models are needed. The Council's 2021 SEND and Disability Strategy was adopted to address leadership, governance and systems issues and led to additional specialist resources and places. The Council recognises the deficit is a strategic risk and that further action is needed and a new SEND and inclusion strategy is being developed.

Recommendation		
1	The Council's current DSG deficit is £22m and is forecast to grow to £55m in the next 3 years.	The Council should continue to implement initiatives to: <ul style="list-style-type: none"><li>• improve prevention and early intervention;</li><li>• transform provision and reduce costs while maintaining standards; and</li><li>• identify income to offset high needs spend.</li></ul>

The 2025/26 budget includes planned funding of qualifying revenue expenditure on transformation of £7.5 million in accordance with the agreed flexible use of capital receipts policy. Council Directors have been asked to develop further recovery plans and mitigations to reduce forecast overspends and seek to deliver a balanced budget.

**The continued reliance on EFS and the growing DSG deficit are evidence of a significant weaknesses in arrangements.**

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

Our review of the MTFPs issued during 2024/25 and to date provides assurance that forecasts are based on 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

revised 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. Budget monitoring reports explain that failure to control expenditure will lead to draw down of the EFS 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 EFS 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 future budgets 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 was aligned with the Council plan which sets out the Council's strategic direction and ambitions for the area. Our review of the 2025/26 updated MTFP confirmed that the MTFP arrangement is now based on assumptions available at the time of approving the plan. The scale of financial recovery required is less significant than in previous years reflecting anticipated changes in central funding and involves savings of £7.0 million in 2025/26 and £1.65 million in 2026/27. In-year monitoring reports, however, suggest the planned savings are not currently being delivered; the quarter one position reported in September 2025 highlights an expected overspend against budget and increasing pressures.

Financial control measures were agreed and implemented in July 2023 and continue to be applied. 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 resulted in a better than forecasted outturn in 2024/25.

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 2024/25 outturn and noted the in-year pressures, such as those in Children's services, were clearly reported and have been reflected in the MTFP. Financial planning arrangements, however, involve an unsustainable reliance on EFS from the Government.

**The lack of a sustainable MTFP is evidence of significant weaknesses in arrangements in 2024/25.**



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

**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 confirmed a similar timetable exists for setting the 2026/27 budget which is evidenced in the reports to the May and September 2025 Executive meetings and includes the high-level forecast position for 2025/26 to 2028/29.

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 2024/25 and 2025/26 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 2024/25 outturn report records an underspend of £2.3 million, which is 1.6% of the approved budget totalling £143.2 million. The underspend has allowed the Council to improve the reserves position. 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 £3.8 million overspend in 2024/25, offset by underspends elsewhere. The Council continues to closely monitor this service and develop mitigation plans to reduce overspends in the medium to long-term. In recent years 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.

Overall, unrestricted useable reserves have increased from £1.1 million (31 March 2024) prior to the allocation of the Collection Fund balance of £8.3 million (1 April 2024) to £10.5 million (31 March 2024).

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 continued development and implementation the transformation programme during 2025/26 is required to stabilise the Council’s finances.

**The lack of a sustainable MTFP during 2024/25 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 Council 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></p> <p>During 2023/24 the Council continued the process of reviewing and revisiting its Constitution and ensuring that the requirements of the Constitution were embedded in its decision-making processes.</p> <p>In addition, the Member development strategy and programme, which forms part of the culture and governance improvement plan, had not been delivered.</p> <p>1 These arrangements are needed to mitigate the risks of decision-making that could be unlawful or lead to significant loss or exposure to significant financial risk, or to reputational risks such as conflicts of interest.</p> <p>The lack of an up-to-date Constitution and Member development programme are evidence of a significant weakness in arrangements for making properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"><li>• Internal audit plan and reports;</li><li>• Annual Governance Statement;</li><li>• Transformation Plan;</li><li>• response to unplanned changes and informed decision making;</li><li>• risk management arrangements; and</li><li>• standards monitoring.</li></ul> <p><b>Conclusion</b></p> <p>The Council has made progress has and addressed the previous value for money recommendation 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 seeks assurance about 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 2024/25 Plan was presented to the Audit Committee in February 2024. 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 July 2025 Audit Committee meeting and provided an overall ‘reasonable’ level of assurance in line with the 2023/24 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 has been subject to external review. As detailed in the annual Head of Internal Audit report 2024/25, 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 2024/25 will be considered by the Audit Committee in September 2025. 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 provides 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.

### 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 2024/25. 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 2024/25 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 in July 2023 helped to reduce the overspend in 2023/24 and resulted in an overall underspend in 2024/25, reducing the need to rely on EFS flexibilities.

The financial statements timetable were delivered in 2024/25 with draft accounts published on 30 June 2025.

### 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 2024/25 AGS, sets out progress against the following improvement areas identified in the previous year:

- summary of the Council’s culture and governance improvement actions taken - we note these are recorded as substantially delivered;
- CIFPA good practice for Audit Committees: we note progress is continuing to date;
- partnership arrangements: reestablished Towns Board; and
- procurement weaknesses: review of processes complete.

Significant progress has been made, we note there were no significant deficiencies remaining during the 2024/25 financial year.

### 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 financial statements 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 2025 shows a significant reduction in the number of complaints with 21 complaints in 2024 and 24 in 2025, much reduced from 59 in 2023.

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

Our work identified progress which has addressed the significant weaknesses in governance arrangements which we reported last year.

# VFM arrangements

## 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



# 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 risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1 The Council's performance during the year was monitored by the Executive and measured against the Council Plan. While the 2023/24 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>Without this link there is a risk that poor service performance is not identified and addressed.</p> <p>The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements for evaluating service provision and identifying areas for improvement.</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</li><li>• Relevant internal audit reports</li></ul> <p><b>Results of our work</b></p> <p>The Council has made significant improvement in addressing issues that presented during 2024/25, for example introducing a new Council Plan based on the Mayor's priorities, but there is still work to be done to improve arrangements for improving economy, efficiency and effectiveness. The lack of a fully embedded Plan with links between the Mayor's priorities and the performance management framework is a cause of concern.</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 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**

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. 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 in 2024/25 which demonstrates a more robust approach to the delivery of key priority activities across Council services.

The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2024/25 the quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress. Our work, however, identified a lack of evidence of a clear link between the Council Plan priorities in 2024/25, the strategic workplan and the detailed outcomes and measures reported. Management has sought to 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 2024/25.**



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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.

[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 12 December 2024 which included a self-assessment for each of the 12 significant partnerships that existed during 2024/25. While partnerships were assessed as being generally in a sound state by the lead officers who self-assessed compliance with governance standards and those marked performance as "Amber" in the prior year have improved, Tees Valley Combined Authority is now assessed as red, the report includes details of planned actions to address this.

Examples of new partnerships include:

- 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 officers 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 was 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 best value for Middlesbrough's residents and supports achievement of the Council's strategic priorities.

**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 in 2024/25 is evidence of a significant weakness in arrangements.

# 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 it 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	Recommendation for improvement	Our views on the actions taken to date
1	<b>Financial sustainability</b> The Council is still reliant on EFS to set a balanced budget.	●			The Council should continue to strengthen the approach to budget setting to ensure assumptions remain data driven and realistic, and planned savings are subject to a detailed delivery plans and risk assessment.	The Council has made progress in improving arrangements but there is still work to do to ensure financial sustainability.
2	<b>Financial sustainability</b> The Council has a significant and growing DSG deficit.	●			The Council should continue to implement initiatives to: <ul style="list-style-type: none"> <li>• improve prevention and early intervention;</li> <li>• transform provision and reduce costs while maintaining standards; and</li> <li>• identify income to offset high needs spend.</li> </ul>	The Council has taken action and plans further measures to manage the high needs element of the DSG, but the forecast deficit remains a risk to the Council's financial sustainability.
3	<b>Performance management arrangements</b> 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. Our work, however, identified a lack of evidence of a clear link between the Council Plan priorities in 2024/25, the strategic workplan and the detailed outcomes and measures reported.			●	The Council should ensure the Mayor’s priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals.	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.

# VFM arrangements – Prior year significant weaknesses and recommendations

## Progress against significant weaknesses and recommendations made in a prior year

As part of our audit work in previous years, we identified the following significant weaknesses and made recommendations for improvement 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, along with our view on the Council’s progress against the recommendations made, including whether the significant weakness is still relevant in the 2024/25 year.

Previously identified significant weakness in arrangements		Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
1	<p><b>Financial sustainability</b></p> <p>As part of the 2024/25 budget setting process, the Council made a request for, and received, exceptional financial support from the Government in order to balance the budget for 2024/25.</p> <p>The approach to budget setting has improved but needs to focus further on underlying assumptions to ensure funding gaps that could threaten the delivery of services and financial plans are identified and mitigated.</p> <p>The Council decision to seek such support in order to meet its spending commitments is evidence of a significant weakness in arrangements for planning to bridge funding gaps and identifying achievable savings.</p>	Financial sustainability	<p>1 The Council should continue to strengthen the approach to budget setting to ensure assumptions remain 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 2025/26 and launched a transformation programme in April 2024 to deliver financial recovery.</p> <p>The Council delivered an underspend against budget and did not make use of the full EFS approved in principle.</p> <p>The 2025/26 budget is still reliant on EFS and an overspend is forecast for 2025/26.</p>	The Council has made progress in improving arrangements but there is still work to do to ensure financial sustainability.



# VFM arrangements – Prior year significant weaknesses and recommendations

## Progress against significant weaknesses and recommendations made in a prior year - continued

Previously identified significant weakness in arrangements		Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
2	<p><b>Governance</b></p> <p>During 2023/24 the Council continued the process of reviewing and revisiting its Constitution and ensuring that the requirements of the Constitution were embedded in its decision-making processes.</p> <p>In addition, the Member development strategy and programme, which forms part of the culture and governance improvement plan, had not been delivered. These arrangements are needed to mitigate the risks of decision-making that could be unlawful or lead to significant loss or exposure to significant financial risk, or to reputational risks such as conflicts of interest.</p> <p>The lack of an up-to-date Constitution and Member development programme are evidence of a significant weakness in arrangements for making properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.</p>	Governance	The Council should apply and embed arrangements in line with the culture and governance improvement plan.	The Council has delivered the governance actions in the culture and improvement plan which has now been replaced by a continuous improvement plan.	The Council has made progress in improving arrangements and has addressed the significant weakness in arrangements.

## VFM arrangements – Prior year significant weaknesses and recommendations

### Progress against significant weaknesses and recommendations made in a prior year - continued

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p><b>3</b></p> <p><b>Improving Economy, Efficiency and Effectiveness</b>  The Council's performance during the year was monitored by the Executive and measured against the Council Plan. While the 2023/24 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.  Without this link there is a risk that poor service performance is not identified and addressed.  The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements for evaluating service provision and identifying areas for improvement..</p>	<p>Improving the 3Es</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

## Wider 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 group auditor

### Whole of Government Accounts (WGA)

The National Audit Office (NAO), as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data,. We have been unable to conclude our work as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us.

Audit fees and other services

# Audit fees and other services

## Fees for our work as the Council'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 2025. We have not yet completed our work for the 2024/25 financial year, so are not yet able to confirm our final fees.

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£348,214	£190,646 *

\* 60% of scale fee

## Fees for other work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Council to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 'Confirmation of our independence'.

Area of work	2024/25 fees	2023/24 fees
Housing Benefits Subsidy Assurance	TBC	£15,000
Teachers' Pensions	TBC	£6,130

## 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 2025.



**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 before the backstop date of 27 February 2026



**Risks, misstatements and internal control recommendations**  
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 B. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.



**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 of Middlesbrough Council.



**Wider reporting responsibilities**  
We have not exercised any of these powers as part of our Teesside Pension Fund's 2024/25 audit.



**Significant difficulties during the audit**  
We have not yet completed our audit work for the Pension Fund.

### 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 2025. We have not yet completed our work for the 2024/25 financial year, so are not yet able to confirm our final fees.

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£117,860	£102,380
Fee variations	TBC	£7,840



# 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 audit response and findings
<p>Revenue recognition (there is a rebuttable presumption that there is a significant risk of fraud in revenue recognition for all entities).</p> <p>For Middlesbrough Council we see the risk of fraud in revenue recognition as being principally in relation to:</p> <ul style="list-style-type: none"><li>Fees and charges income.</li></ul>	<p>We will 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>
<p>Management override of controls (a mandatory significant risk for all entities).</p> <p>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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process.</p>	<p>In line with our methodology, we plan to address the management override of controls risk by carrying out audit work on:</p> <ul style="list-style-type: none"><li>accounting estimates;</li><li>journal entries; and</li><li>significant transactions outside the normal course of business or otherwise unusual.</li></ul>

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

## Significant risks and audit findings - continued

Risk	Our audit response and findings
<p><b>Valuation of property, plant and equipment</b></p> <p>The 2024/25 financial statements 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). 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 procedures on individual assets to ensure the basis of valuations is appropriate.</li></ul>
<p>Valuation of the net defined benefit pension liability</p> <p>The 2024/25 financial statements contain material pension entries in respect of the retirement benefits. 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>

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

### Follow up on previous year recommendations 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 audit response and findings
<p>Management override of controls (a mandatory significant risk for all entities). 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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process.</p>	<p>In line with our methodology, we plan to address the management override of controls risk by carrying out audit work on:</p> <ul style="list-style-type: none"><li>• accounting estimates;</li><li>• journal entries; and</li><li>• significant transactions outside the normal course of business or otherwise unusual.</li></ul>
<p><b>Valuation of investments within level 3 of the fair value hierarchy</b> As at 31 March 2023 the fair value of investments classified within level 3 of the fair value hierarchy was £1,413.9m. 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. 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.

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

### Follow up on previous year recommendations for the Pension Fund

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

# Contact

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Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London, EC4M 7AU. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: GB 839 8356 73

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