



Auditor's Annual Report

Redcar and Cleveland Borough Council– year ended 31 March 2024

26 February 2025

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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 Redcar and Cleveland Borough 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 issued our audit report on 26 February 2025. Our opinion on the financial statements was modified as we were unable to obtain sufficient appropriate audit evidence for the valuation of Local Government Pension Scheme assets ahead of the backstop date of 28 February 2025.



Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. We will issue our report in the next few days. As in previous years, we anticipate a significant delay before we will be able to issue our 2023/24 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.



Value for Money arrangements

We did not identify any significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council’s arrangements.

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. Our audit report, issued on 26 February 2025 was a qualified opinion on the financial statements for the year ended 31 March 2024. Further detail is provided below.

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.

Local Government Pension Scheme assets and liabilities

Teesside Pension Fund provides certain information to the scheme actuary which the actuary uses in preparing a report on pension accounting disclosures for the employer bodies (the actuary report) of the Local Government Pension Scheme (LGPS). Redcar and Cleveland Borough Council, as an employer body, relies on the actuary’s reports when preparing their financial statements. Our audit approach includes writing to the Pension Fund auditor and requesting the completion of a programme of work at Teesside Pension Fund for the purposes of reporting to us. We consider the findings of the Pension Fund auditor’s work in our testing of the LGPS asset and liability valuations.

In February 2025, the Pension Fund auditor communicated their intention to issue a disclaimed audit opinion on the Teesside Pension Fund financial statements for the year ended 31 March 2024. The Pension Fund auditor has provided details of the work they have performed on benefits paid and transfer values in and out. With this information, we have been able to conclude on the material accuracy of the pension liability.

Work on asset valuations will not be complete before the 28 February 2025 backstop date. We are unable to design and perform alternative audit procedures so we have not obtained sufficient appropriate audit evidence on the valuation of the defined benefit assets. This lack of assurance means we have modified our audit opinion for the Council to reflect this.

Other reporting responsibilities

Reporting responsibility	Outcome
Narrative Report	We did not identify 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.

Our work on Value for Money
arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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
- Interviews and discussions with officers

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 on page 10.

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. We refer to two distinct types of recommendation through the remainder of this report:

- **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 page 12	No	Yes – see page 12
 Governance	16	No	No	No
 Improving economy, efficiency and effectiveness	19	No	No	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 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>Financial sustainability</p> <p>The Council reported budget deficits of £3.299m in 2023/24 and £4.6m in 2022/23. This was largely due to significant overspends in ‘Children and Families’ (£10m in 2022/23 and £9m in 2023/24) and more specifically with ‘Children in Care’.</p> <p>The deficits have been funded with Council reserves which have reduced from £42m to £23m over the same two year period. Some of the reduction has been due to planned use of reserves. The remaining reserves are not all available to mitigate future budget overspends as a significant proportion of reserves are held for future commitments.</p> <p>1 The 5 year medium term financial plan (MTFP) reported in February 2024 shows a cumulative deficit position of £12.7m up to the end of March 2029. Without significant action, the Council risks depleting its reserves to a level which is not sustainable.</p> <p>Our work in 2022/23 did not identify any evidence to indicate a significant weakness in arrangements. However, we recognised that the Council needed to take action in future years to address cost pressures (particularly in Children and Families) and identify savings to prevent any further draw on reserves.</p>	<p>Work undertaken</p> <p>We have reviewed the medium term financial plans (MTFP) for 2023/24 and 2024/25 and considered how the Council is addressing the overall deficit position, including its response to the significant overspends in Children and Families. We have also updated our findings following a review of the draft 2025/26 MTFP.</p> <p>Results of our work</p> <p>The reserves position as at March 2024 is £23m. This includes £16.8m of earmarked reserves which are largely held for future commitments and not for supporting the annual revenue budget. The Council faces a challenging financial position in 2024/25 where there is forecast to be a £6.7m deficit, largely due to the £10.8m overspend in Children and Families and therefore overall reserves are expected to reduce to £16m by March 2025.</p> <p>The 2024/25 MTFP initially forecast deficits of £12.8m up to 2028/29 which would need to be funded by reserves (if no further action was taken). However, the Council revisited its MTFP as part of the Quarter 1 Finance Report for 2024/25 and there has been a significant improvement in the financial position as set out in the table below:</p> <table><tr><th></th><th>2024/25 £’m</th><th>2025/26 £’m</th><th>2026/27 £’m</th><th>2027/28 £’m</th><th>2028/29 £’m</th></tr><tr><td>Use of/(contribution to) reserves</td><td>7.173</td><td>0.474</td><td>-2.286</td><td>-15.436</td><td>-6.751</td></tr></table> <p>Based on these projections, the Council’s reserves are forecast to increase to circa £40m by March 2029 but this is dependent on a number of key assumptions, including:</p> <ul style="list-style-type: none">• Achieving a savings target of circa £9m for 2025/26. We recognise that the Council generally has a good record of delivery in previous years against its savings targets. In 2022/23, the Council achieved £2.35m (83%) of its target and in 2023/24 it achieved £5.836m (91%). As at quarter 1, the Council has achieved £4.877m (64%) of its £7.575m target for 2024/25 and is on course to deliver most of this by March 2025. However, this will still be a significant challenge for 2025/26 and represents an ongoing risk to the MTFP;• The regeneration of the Freeport tax sites is anticipated to generate additional business rates income of £29m from 2025/26 to 2027/28. The Council has modelled the potential business income due from Teesworks and has taken a prudent/cautious approach, reflecting the current known signed deals on sites with tenants along with some conditional agreements; and• The Council is undertaking a transformation project in Children and Families and has also included an additional £4m of funding across the MTFP. The Council is expecting that the actions being taken will reduce the level of overspends in the service across the MTFP. We recognise that the financial pressures in Children and Families are national issues affecting many Councils and this remains an ongoing risk.		2024/25 £’m	2025/26 £’m	2026/27 £’m	2027/28 £’m	2028/29 £’m	Use of/(contribution to) reserves	7.173	0.474	-2.286	-15.436	-6.751
	2024/25 £’m	2025/26 £’m	2026/27 £’m	2027/28 £’m	2028/29 £’m								
Use of/(contribution to) reserves	7.173	0.474	-2.286	-15.436	-6.751								

VFM arrangements – Financial Sustainability

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

Work undertaken and the results of our work (continued)					
The Draft 2025/26 MTFP shows the latest financial position as follows:					
	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
Use of/(contribution to) reserves	-0.943	-4.439	-11.100	-2.427	-1.226
<p>The revised MTFP projects the reserves position to be circa £34.2m by 2029/30 which is a reduction in the forecast in the quarter 1 finance report but is still a much healthier position than the current balance. There have been no significant changes to the key assumptions set out in the quarter 1 finance report and summarised on the previous page. In the latest MTFP, the Council sets out that its overarching strategy for the next decade can be expressed into three distinct phases:</p> <ul style="list-style-type: none">• Survive: Given the immediate financial pressures and uncertain outlook, the primary focus of this phase is to ensure the council's ability to sustain itself and fulfil its statutory obligation of setting a balanced budget annually;• Strive: As the challenges of sustainability and budget balancing hopefully become more manageable, this phase strives to enhance the financial health and resilience of the council. Emphasis will be placed on re-establishing robust foundations, including more adequate reserve levels, flattening or reducing overall borrowing levels, and implementing a revenue budget with increased contingency to safeguard the council's financial position and mitigate risks; and• Thrive: Building upon the strengthened financial foundations established in the previous phases, this phase is geared towards realising the benefits thereof. It will enable the pursuit of longer-term strategies and planning horizons focused on delivering optimal outcomes for our stakeholders, including service users, residents, businesses, and visitors. <p>The Council recognises that it faces a very difficult financial position in the current year and in 2025/26 but this is expected to improve over the MTFP with contributions to general fund balances projected from 2026/27. The significant financial pressures within Children and Families are being experienced by many other Councils and are not indicative of significant weaknesses in arrangements. We are aware that the Council has undertaken significant work in this area and provided additional resources as part of the MTFP. The unplanned use of reserves to meet the deficits on the annual budget over the last few years has meant that the these are now at a low level for a Council of this size, complexity and risks it is facing. Whilst we have not recognised this as a significant weakness in arrangements, we have raised an 'other recommendation' below:</p>					
Other recommendation					
The Council needs to ensure that the 2024/25 deficit does not increase beyond the £6.7m reported in quarter 2 which would require further contributions from the Council's reserves.					
The Council needs to ensure that it manages the 2025/26 budget in line with the revised MTFP. It will be important to achieve the £8.8m savings target to avoid increasing the reliance on the already depleted revenue reserves.					

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

How the Council identifies significant financial pressures that are relevant to its short and medium-term plans

The Council approved its Medium Term Financial Plan (MTFP) in February 2023 covering a 5 year timeframe from 2023/24 to 2027/28. Financial sustainability and resilience remain a key ingredient of the plan.

The MTFP considered income and funding, service investment and the 'Driving Change' efficiency improvements and recognised the risks and uncertainties facing the Council. The MTFP was supported by consultation with the public, staff, partners and other stakeholders. The Council utilises some scenario planning in the development of its budget and MTFP. Our review of the MTFP and associated assumptions identified no evidence of significant weaknesses in arrangements.

Budgets are assigned to operational managers who monitor budgets on a monthly basis and this is reported to Members on a quarterly basis. At the end of the 2023/24 financial year, the Council reported an overspend of £3.299 million. This was largely due to a £10m overspend on Children and Families, and particularly Children in Care where there was an £9.1m overspend. This was offset by a number of underspends, most notably £6.5m in Corporate Allocations.

The level of general fund balances and earmarked reserves (excluding collection fund reserves and school balances) available to the Council as at 31 March 2024 was £23.491m which is a reduction of £12.827m on the balance for 31 March 2023 of £36.318m. The level of general fund balances has been set at £6.626m which is the agreed minimum level of 5% of the Council's net budget provision with £16.865m being earmarked reserves. The financial position reflects the significant pressure that the Council is facing at the current time including inflationary pressures on both pay and non-pay budgets.

The financial position is very challenging as set out in our response to the significant risk on page 12, but our work did not identify any evidence to indicate a significant weakness in arrangements for 2023/24.

How the Council plans to bridge funding gaps and identifies achievable savings

The 2023/24 MTFP recognised the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular.

The Council's 'Driving Change' efficiency improvements programme seeks to improve productivity & efficiency, streamline operations, and promote financial resilience and sustainability. In 2023/24, it achieved £5.836m (91%) of its savings target of £6.415m. As at quarter 2, the Council has achieved £6.141m (81%) of its £7.575m target for 2024/25. The latest draft MTFP for 2025/26 set a target of £9m for the year but has less than £1m required over the rest of the MTFP up to and including 2029/30 as the Council moves into its strive and thrive phase of its overall strategy.

As at quarter 2 in 2024/25, the Council is reporting an anticipated year-end overspend of £6.7m million largely

due to significant overspends in Children and Families (£10.8m). Work is ongoing to reduce the overspend at year end. Reserves are forecast to be circa £16m by March 2025 which is a reduction of £12.8m from 2023/24. There is some financial resilience to withstand the additional pressures but a number of reserves are held for future contractual commitments and not for supporting overspends on the budget.

As noted in the significant risk section, the financial position is forecast to improve significantly from 2026/27. However, there is still significant financial pressure in 2024/25 and we have raised an 'other recommendation' for the Council on page 13.

The Capital Investment Plan is financed in such a way that the costs to the Council's budgets of any borrowing linked to the financing of the capital programme can be spread over the life of the asset being invested in. The CIPFA Report highlighted that the Council holds considerable amounts of debt and the financing costs of this present a considerable revenue cost. The Council has a significant capital investment programme to support its strategy and will need to carefully manage this.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

A corporate plan 'Our Flourishing Future' has been developed for 2021 to 2024. The current set of Corporate Priorities fall under the following four areas:

- Tackling Climate Change and Enhancing the Natural Environment;
- Meeting Residents' Needs;
- Improving the Physical Appearance of the Borough and Enhancing Prosperity; and
- Investing for the future.

The annual business planning process provides the link between finances and the Council's strategic and statutory priorities. The plan drives the resourcing and financial plans for the organisation, resulting in the annual budget and the MTFP. The financial plans recognise the ongoing pressure the Council faces and the impact on its reserves strategy. We confirmed that in-year monitoring reports detail the pressures faced by the Council and highlight where mitigating action is required. The Council agreed a new Corporate Plan in December 2023 supported by an updated organisational plan which sets out the key strategies which will take forward the delivery of the Corporate Plan priorities.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How the Council ensures that its financial plan is consistent with other plans

The MTFP report considers the implication on the workforce, health and safety, social value, legal, financial and equality and diversity.

We observed that a Treasury and Capital Strategy is updated on a regular basis and sets out how the Council manages risks and benefits associated with cash-flow, treasury management and borrowing. The strategy sets out how the Council can fund a multi-year capital programme in a financially sustainable way using a series of prudential indicators to monitor the position. This is supported by 'Business Case' documentation to ensure capital projects go through a robust business case documentation process and the revenue implications of capital investment decisions are fully considered and form part of the MTFP planning and budget setting process. We confirmed these plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year

Risk management is also considered in terms of financial plans and we observed that risk-registers are regularly updated and reported to the Cabinet throughout the year.

Cabinet consider the updated financial position at various stages throughout the year and this allows for Member scrutiny and challenge. The MTFP for 2023/24 and 2024/25 were considered in February 2023 and February 2024 respectively.

The annual budget process includes reviewing the Council's reserves. We confirmed a review was completed in 2023/24 and 2024/25 to ensure funding set aside remains in line with strategic and statutory priorities. This is evidenced in the outturn reports presented to the Cabinet during the financial year.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council identifies and manages risks to financial resilience

The financial plan recognises the risks and uncertainties facing the Council in terms of cost pressures, future funding arrangements and potential variations in the costs of the delivery. Our review of the financial plan shows that there is no evidence that assumptions are unrealistic. However, as noted in our commentary on the significant risk, the Council is under significant financial pressure which is not forecast to improve until 2026/27.

The Council has an established risk management framework and the Governance Committee receives regular risk management updates.

Financial reports contain evidence of a summary of the Council's performance, detailing significant variances and providing adequate explanation of the causes.

We are satisfied that there are saving plans in place and that the Council has a good record of delivering on its plans in previous years. However, as noted previously, the scale of the savings required in 2025/26 will be challenging and this is included in our 'other recommendation' which we have raised as part of our response to the significant risk on page 12.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

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

Redcar and Cleveland Borough Council has approved and adopted a Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government.

The Council has a Risk Management Framework that is used and monitored by a Risk Management Group and is periodically reviewed, amended and approved by the Governance Committee. The Corporate Risk Register is reviewed, updated and challenged regularly and presented to Directorate Management Teams and the Executive Management Team and reported to the Governance Committee and Cabinet. This creates a framework within which risks are identified and evaluated prior to mitigation plans being put in place.

The Council has outsourced its internal audit and counter-fraud services to Veritau which is a partnership that specialises in local government provision. We confirmed the Internal Audit Plan and Head of Internal Audit Report is reviewed by the Council's Governance Committee. As detailed in the plan, the Council uses a risk-based approach to determine the priorities of the internal audit activity, consistent with the Council's objectives. The Head of Internal Audit Opinion was presented to the Governance Committee meeting in July 2024 and the overall opinion on the framework of governance, risk management and control operating at the Council is that it provides 'Reasonable Assurance'. This means that there is a generally sound system of governance, risk management and control in place but some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

A Counter Fraud Plan is in place which is reported to the Governance Committee. We confirmed there is also regular reporting to the Governance Committee on counter fraud activities, including fraud investigations where applicable.

The Council has a framework of written procedures and controls. Central to these are detailed rules for decision making, and rules of procedure, including: a Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy. The Council has a dedicated counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud including Anti-Fraud, Anti-Bribery & Anti-Corruption Policies.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

The MTFP recognises the risks and uncertainties facing the Council in terms of future cost pressures, funding arrangements, volatile income levels and potential variations in the costs of the delivery of demand led services in particular. The MTFP is supported by consultation with regional local authority partners and other stakeholders.

We have reviewed the budget setting arrangements through review of minutes, observation and discussions with officers. No matters have been identified indicating a significant weakness in arrangements. Overall it is apparent from reporting the Council is aware of the financial pressures it faces.

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

The Council produces monthly budget monitoring reports to all budget holders and regular meetings are held with finance to discuss variances. Quarterly forecasts of outturn reports are presented to the Cabinet. The Chief Finance Officer is a member of the Executive Management Team and attends Cabinet Member meetings.

There is a delegated framework of financial accountability, including named cost centre managers assigned to cost centres, identified senior managers to be responsible for financial performance in each service area and a financial reporting timetable for monitoring. The 'Driving Change Programme' helps to ensure the Council identifies and implements efficiency and savings opportunities, which is reviewed on a quarterly basis.

Each Directorate Management Team is provided with dedicated Finance Managers resource to provide advice and support on business decisions. Finance Managers also take regular consolidated budget monitoring information into the Directorate Management Teams for review.

The financial statements were submitted for audit in 2023/24 in July 2023. Whilst we did identify some errors in respect of valuations of property, plant and equipment and pensions, these did not indicate a significant weakness in the integrity of the financial information reported or the process for preparing the accounts. As noted previously, we have modified our audit opinion for 2023/24 but this is due to the disclaimed opinion of the Teesside Pension Fund and not due to weaknesses in the Council's arrangements. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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

Redcar and Cleveland Borough Council's governance arrangements are set out in its Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people. This includes the financial procedures and the scheme of delegation. The Council's procedures help to ensure that appropriate legal, financial, and other professional advice is considered as part of the decision-making process and observes specific requirements of legislation.

Cabinet reports, other member reports and delegated decision-making powers are reviewed by Finance and financial implications are assessed and reviewed. Reports specifically consider risk, legal issues, finance matters and other key corporate decision-making factors. Equality impact assessments are produced to assess relevant key decisions and policies, which are published on the Council's website. All other key documents and decision-making reports are accessible via the Council's website, except where they address confidential issues and there is a reason for them to be exempt.

At Scrutiny and Improvement Committees, members review progress against objectives through discussion with Cabinet Members and through quarterly monitoring of financial and performance information. Joint Scrutiny Committee arrangements are also in place with neighbouring authorities to provide oversight and accountability reflecting more collaborative approaches to service design and delivery, particularly in relation to health matters, and the key functions of the Tees Valley Combined Authority. There are also monitoring and reporting arrangements in place to assess performance against priority objectives – undertaken on a quarterly basis.

A Forward Plan of Key decisions is maintained, refreshed and published on a regular basis. Key decisions taken are published on its website giving notice of key decisions to be taken by Cabinet and Council and those taken using delegated powers. The Public has the opportunity to ask questions at Cabinet and Council.

A Governance Committee is maintained which is independent of the Cabinet and Scrutiny Committees. The Governance Committee is tasked with ensuring, amongst other things, good stewardship of the Council's resources and promoting proper internal control by reviewing the Council's control systems and monitoring its compliance with legislation, relevant standards, codes of practice and policies.

The Council publishes the outcomes from external reviews and inspections from regulatory bodies and monitors the implementation of any recommended actions through the performance management framework.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

How the Council monitors and ensures appropriate standards are maintained

The Council has in place, a framework of written procedures and controls. Central to these are detailed rules for decision making and rules of procedure, including; the Constitution, Standing Orders, Contract Procedure Rules, Financial Regulations, Member, Officer Codes of Conduct, and a Whistleblowing Policy. The Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent, and accountable to local people.

There are established codes of conduct for members and officers and a register of gifts and hospitality which is available on the Council's website and supported by relevant training. Related parties are recorded on an annual basis and disclosed in the statement of accounts as well as senior officer remunerations. In addition, there is confidential reporting of unethical behaviour (whistle-blowing, anti-fraud, anti-money-laundering and anti-bribery policies) in place.

The Annual Governance Statement (AGS) is published and reviews the effectiveness of the Council's Governance Framework.

The Council appoint an independent person to support the complaints process in accordance with the requirements of the Localism Act 2011 and publish an Annual Complaints Report which considers the outcome of the complaints raised during the year.

There is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved ahead of the 2023/24 financial year and sets out the Council's measures against which treasury management can be assessed. The measures include those designed to mitigate risk to the Council's finances. Our work did not identify any evidence to indicate a significant weakness in arrangements.

The Council provides training to members and officers through a Member Induction Programme and Corporate Induction process.

There were no areas of significant non-compliance with the CIPFA Code in terms of the financial statements.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

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

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

Directorates have well established processes for reviewing financial and performance information and use this to inform areas for improvement. Key volume and price metrics are monitored by Directorates to inform service and improvement planning – such as adult social care, waste management and children in social care. Performance information is shared with Cabinet Members and Scrutiny. Performance information relating to cost drivers and demand pressures are used to inform budget setting & monitoring.

Areas of adverse performance feed into the Council's risk register where relevant. Our review of the risk register and attendance at Governance Committee confirms that it covers areas such as secondary school attainment and performance, balancing the MTFP, costs for waste treatment.

The Leadership Team receive financial information to inform the budget setting process. Key members of the Executive Management Team are involved in decision-making around service investment and the 'Driving Change' savings. Quarterly financial reports to Cabinet provide an assessment of the financial outturn position for the year in relation to approved budgets for Revenue, Capital and usable reserves, Collection Fund and Treasury Management issues and also progress against the 'Driving Change' plans.

The Council has undertaken reviews through the CIPFA Financial Resilience Index, to assess and compare various indices on levels of expenditure of key service areas as a proportion of the revenue budget. Other benchmarking data provided by Arlingclose and Pixel is also referenced and used. The Council also undertake internal benchmarking exercises to assess areas such as council tax and business rate collection.

Services are involved in service improvement initiatives such as:

- Early intervention and prevention strategies of children social care and adult social care such as Intermediate Care Centres, and working in partnership for initiatives to support children leaving care;
- Working with health partners to make efficiencies across the whole health and care integrated system;
- Waste volume and cost data used to plan improved 'Energy from Waste Facility' in partnership with other regional local authorities; and
- Opening of the new 'No Wrong Door' hub to support children on the edge of care and in the Council's care.

Corporate performance against key performance indicators is reported to Cabinet. Whilst performance is mixed, this is not unusual for a Council of this size and complexity and there is no evidence to suggest a significant weakness in arrangements.

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

CQC inspections on 'Health Visiting and School Nurseries' received ratings of 'good' across all areas. OFSTED's review of Children's Services identified a number of areas which required improvement to reach a good rating but none were considered inadequate.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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

Scrutiny Committees receive performance updates and feedback from inspections. There is a range of benchmarking undertaken including Children and Families for example which take part in a North East Benchmarking comparison regarding elements of children in care performance. Other areas of benchmarking are undertaken in adult social care and waste services. The Council uses information from Pixel as well as the CIPFA resilience index for example. .

Performance monitoring takes places across Directorates and this is supplemented with surveys across the Council's stakeholders to help improve performance. The Cabinet monitor performance during the year against the Corporate Plan and monitor the non-financial key performance information.

Based on our review of a sample of reports and our understanding of the reporting framework, there is evidence to support the monitoring, reporting and overall scrutiny of both the performance and the financial position of the Council.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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 works with local communities, volunteers, voluntary and community organisations, the NHS, care providers, police, probation, schools, colleges and universities, businesses and many more. It has established solid links into the Tees Valley Combined Authority (TVCA), South Tees Development Corporation, Teesworks and the Redcar Town Deal Board. Some other examples include:

- The Council is part of the South Tees Ill Health Prevention Board that brings together partner organisations that have a role in the delivery of ill health prevention, ensuring they are acting jointly and effectively to improve the populations health. Addressing primary and secondary prevention and health inequalities;
- Family Hubs Transformation Programme 2023-2025 to build on and improve existing Family Hub provision, working with key partners including South Tees Foundation Trust;
- South Tees Safeguarding Children's Partnership - a multi-agency partnership between Middlesbrough Council, Redcar & Cleveland Council, Tees Valley Clinical Commissioning Group (now ICB), and Cleveland Police. It aims to support and enable local organisations and agencies to work together in a system which places the child at the heart of the process, with a key focus on both improving practice, and enhancing outcomes for children and their families;
- The Council opened the flagship 40 bed intermediate care centre at Meadowgate which provides help for medically stable adults who require additional support, outside of a hospital setting;
- Working in Partnership with other North East councils to procure an 'Energy from Waste' Facility which is expected to be located in the Borough and will go live from 2026;
- The Council has worked with the Redcar Town Deal Board to develop multi-million plans to transform Redcar, which include creating an outdoor adventure play area, coastal activity hub adventure golf and a major leisure attraction;
- No Wrong Door Partnership with North Yorkshire County Council to develop more robust arrangements for supporting children in care to optimise a child's development and outcomes; and
- Children and Young People's Partnership Board - a local multi agency meeting of statutory partners, including the police, education and health with responsibility for delivery of the council's early help strategy to support children and young people.

As noted on the previous page, there are performance management arrangements in place to monitor

performance against expectations and ensure action is taken where necessary to improve,

The Council's vision, priorities and outcomes are communicated directly to residents through a variety of media

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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 staff to ensure compliance with legislation, professional standards and internal policies. A legal and procurement team provides advice on all relevant procurement decisions. A brokerage team support the procurement of adult and children social care packages. There is a Procurement Strategy in place to meet the Council's wider objectives and Contract Procedures Rules. Contract procedures rules are set out within the Council's constitution.

The Council has outsourced key functions to provide resilience and cost efficiencies. For example, revenues and benefits and internal audit and counter-fraud services.

There is evidence that the Council has arrangements in place to ensure procurement is in accordance with relevant legislation, professional standards and internal policies.

Our work did not identify any evidence to indicate a significant weakness in arrangements.

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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. As in previous years, we anticipate a significant delay before we will be able to issue our 2023/24 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

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 Governance Committee in September 2024. Having completed our work for the 2023/24 financial year, we can confirm that our fees are as follows:

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£330,600	£145,011
Additional audit work under revised ISA (UK) 315 (risks of material misstatement) and the related impact of ISA (UK) 240 (fraud)*	15,960	N/A
Total fees	£346,560	£145,011

*This is because PSAA did not consolidate additional fees for these aspects into the 2023/24 scale fees, because at the time the 2023/24 scale fees were set PSAA had not reached a conclusion on what would be the appropriate fee for this. An explanation for this including that there would therefore be a need to treat this as an additional fee variation is set out on the PSAA website: <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/consultation-document-2023-24-audit-fee-scale/3/>

PSAA have subsequently determined the appropriate fees for these aspects as part of its 2024/25 scale fee process <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2024-25-auditor-appointments-and-audit-fee-scale/2024-25-audit-fee-scale/3/>

Fees for other work

We confirm that we have/will be undertaking the following audit-related assurance services for the Council in 2023/24:

Housing Benefit Assurance - £TBA (£14,250 in 2022/23); and

Teachers Pension Assurance - £6,300 plus VAT (£5,320 in 2022/23).

Appendices

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

Appendix A: Further information on our audit of the 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>Management override of controls</p> <p>In 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none">• accounting estimates impacting amounts included in the financial statements;• consideration of identified significant transactions outside the normal course of business; and• journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements <p>Audit conclusion</p> <p>There are no significant issues arising from our work we are required to report to you.</p>

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

Significant risks and audit findings continued.

Risk	Our audit response and findings
<p>Net defined benefit valuation: Net pension asset £2.296m (2022/23 £82.338m). Gross pension liability £633.147m and gross pension asset £635.443m</p> <p>The financial statements contain material pension entries in respect of 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>How we addressed this risk</p> <p>We completed the following procedures:</p> <ul style="list-style-type: none"> • We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary’s output, referring to an expert’s report on all actuaries nationally; • We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. • We considered the adequacy of disclosures in the financial statements; and • We also sought assurance from the auditor of the Teesside Pension Fund. <p>Audit conclusion</p> <p>The pension asset of £2.296m included £5.629m of an unfunded teachers pensions liability which should be shown separately in the balance sheet. This has been amended.</p> <p><i>Benefits paid amendments</i></p> <p>The total shown as benefits paid in the Pension Fund Assurance letter is £24.960m which is different to the amount shown in the financial statements of £29.517m. The financial statements are therefore overstated by £4.957m in the gross liabilities and gross assets tables and have been amended. The tables for ‘Scheme History’ and ‘Sensitivity Analysis’ have also been amended for consistency. This does not impact on any primary statements and does not change the overall net assets figure which is still £7,925k for the Local Government Pension Scheme.</p> <p><i>Modified audit opinion</i></p> <p>As detailed in the previous pages the auditor of the Teesside Pension Fund has communicated their intention to issue a disclaimed opinion for the year ended 31 March 2024. The Pension Fund auditor has provided details of work that they have performed on benefits paid and transfer values in and out. We have therefore been able to conclude on the material accuracy of the pension liability. However, work on asset valuations will not be complete before the 28 February 2025 backstop date. As a result we will not have sufficient appropriate audit evidence to conclude our work on the valuation of the defined benefit assets. We have modified our audit opinion for the Council to reflect this.</p>

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

Significant risks and audit findings continued.

Risk	Our audit response and findings
<p>Valuation of land and buildings and investment properties £298.594m (2022/23 £290.749m)</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of land, buildings and investment properties.</p> <p>Although the Council uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations.</p> <p>We have therefore identified the valuation of land, buildings and investment properties to be an area of significant risk.</p>	<p>How we addressed this risk</p> <p>We completed the following procedures:</p> <p>assessed the Council's arrangements for ensuring that valuations are reasonable;</p> <p>assessed the methodology and basis of the valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by Valuer including those assets not subject to valuation in 2023/24;</p> <p>considered the competence, skills and experience of the Valuer; and</p> <p>tested a sample of valuation movements to gain assurance that the accounting treatment is appropriate and there is sufficient evidence to support source data.</p> <p>Audit conclusion</p> <p>There are some unadjusted misstatements but these are not material either individually or in aggregate.</p>

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

Summary of uncorrected misstatements

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
<p>Dr: Creditors</p> <p>Cr: Expenditure</p> <p>Two year end accruals incorrectly accounted for. One was over-accrued by £19k and the other under-accrued by £7k. The net impact is an actual error of £12k which extrapolates to an error of £554k over the full population.</p>		-554	554	
<p>Dr: Revaluation reserve</p> <p>Cr: Income (reversal of PPE downward revaluation)</p> <p>When there is a gain on a land and buildings revaluation, the Council should first establish whether this reverses a previous downward revaluation to the comprehensive income and expenditure statement before deciding whether to account for the gain in the revaluation reserve. We identified a total of £3,443k historic downward revaluations previously charged to the comprehensive income and expenditure statement which should have been reversed rather than posting the gain to the revaluation reserve. Of this total, £1,745k of should have been accounted for in the current year and a further £1,698k should have been accounted for in previous years. This has no impact on the general fund balances of the Council.</p>		-3,443	3,443	
Aggregate effect of unadjusted misstatements	0	-3,997	3,997	0

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

Summary of uncorrected misstatements continued

Details of adjustment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: Income (Net cost of services)	1,989	-1,989		
Cr: Income (Financing and Investment)				
Adjustment to reclassify rental income received by the client from service income lines in the net cost of services to the financing and investment income line in the comprehensive income and expenditure statement as required by the Code. There is also an error in the prior year 2022/23 financial statements of £1.481m. As this is not material, no amendment to the financial statements is required.				
Aggregate effect of unadjusted misstatements (including previous page)	1,989	-5,986	3,997	0

We obtained written representations confirming that, after considering the unadjusted misstatements, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

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

Internal control observations

Overview of engagement

As part of our audit, we obtained an understanding of Council's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of Council's internal controls, we are required to communicate to the Governance Committee any significant deficiencies in internal controls that we identified in during our audit.

Deficiencies in internal control

A deficiency in internal control exists if:

- a control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/or correct potential misstatements in the financial statements; or
- a necessary control to prevent, detect, and/or correct misstatements in the financial statements on a timely basis is missing.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered Council's internal controls relevant to the preparation of the financial statements to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Council's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported.

Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The deficiencies in the Council's internal controls that we have identified as at the date of this report are in set out on the following pages.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of the Governance Committee.

We have not identified any significant deficiencies in the Council's internal controls as at the date of this report.

Other observations

We also record our observations on the Council's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

Our other internal control observations, as at the date of this report, are set out in this section. These have been reported to management directly and have been included in this report for your information.

Whether internal control observations merit attention by the Governance Committee and/or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

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

Other deficiencies in internal control

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

There are 2 members out of 59 who have not returned a related parties declaration of interest form for the 23/24 year.

There are 2 officers out of 69 who have not returned a related parties declaration of interest form for the 23/24 year.

This was also an issue in 2022/23 where there were 5 officer declarations missing. Some of these were because the officers had left the Council prior to the year end.

Potential effects

There is a risk that some related party transactions may go undisclosed in the financial statements.

Recommendation

Ensure that all Council members and officers return their related parties declaration within a suitable timeframe. All declarations should be received and reviewed prior to the submission of the draft financial statements for audit.

Management response

The Council took a range of proactive measures to chase up incomplete returns. The remaining outstanding officer returns relate to two officers who have since left the local authority or left immediately before or just after the end of the financial year in question. Officers have reissued the request to the two Members of the Council to submit their declaration. The Authority will endeavour to ensure all related parties declarations are returned for the 24/25 financial year.

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

Other deficiencies in internal control continued

Description of deficiency

The section 75 pooled budget contract agreement was signed on 20 October 2023 which was over 7 months later than the effective binding date of 1 April 2023.

Potential effects

Contracts should be signed by all parties prior to the start of the agreement to avoid any potential disputes.

Recommendation

Contracts should be signed by all parties before the start of the binding contract dates.

Management response

The Authority recognises that this contract was signed after the binding date and has reminded all relevant officers of the need to sign contracts before the start of the binding contract dates.

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

Other recommendations on internal control

In our view, internal control should be strengthened in these additional areas when practicable.

Description of deficiency

There are a small number of historic differences in the fixed asset register which means that there are differences of £1.424m between the gross book value and the Depreciation/Impairment section in the accounts and the FAR. However, there is no difference in the net position and these do not impact on the value for property, plant and equipment on the balance sheet.

Potential effects

These are historic differences and we recognise that there is no impact on the net position in the balance sheet. However it is good practice to ensure that the financial records agree with the financial statements.

Recommendation

Amend the fixed asset register so that this reconciles with the gross position in the financial statements.

Management response

The Authority recognises the issue raised and has started initial conversations with CIPFA around how best to correct this going forward, with the aim of ensuring it is corrected in time for the 2024/25 Statement of Accounts

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