

Date:

Monday 24 November 2025 at 4.00 pm

Venue:

Council Chamber, Dunedin House, Columbia Drive, Thornaby TS17 6BJ

Cllr Barry Woodhouse (Chair)

Cllr Stefan Houghton (Vice-Chair)

Cllr Carol Clark, Cllr Eileen Johnson, Cllr Mohammed Mazi, Cllr Ross Patterson, Cllr Mick Stoker and Cllr Emily Tate

Agenda

1. **Evacuation Procedure** (Pages 07 - 08)
2. **Apologies for Absence**
3. **Declarations of Interest**
4. **Risk Register Update and Audit Activity** (Pages 09 - 18)
5. **Treasury Mid Term Report** (Pages 19 - 30)
6. **Annual Report of the Audit Committee** (Pages 31 - 36)
7. **External Audit - Audit Progress Report** (Pages 37 - 52)
8. **External Audit - Auditor's Draft Annual Report** (Pages 53 - 86)
9. **Any Other Business**
10. **Forward Plan 2024/2025** (Pages 87 - 88)

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting, including the opportunities available for any member of the public to speak at the meeting; or for details of access to the meeting for disabled people, please.

Contact: John Devine, Democratic Services Officer on email john.devine@stockton.gov.uk

Key – Declarable interests are :-

- Disclosable Pecuniary Interests (DPI's)
- Other Registerable Interests (ORI's)
- Non Registerable Interests (NRI's)

Members – Declaration of Interest Guidance



Table 1 - Disclosable Pecuniary Interests

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and property	Any beneficial interest in land which is within the area of the council. 'Land' excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer.
Corporate tenancies	Any tenancy where (to the councillor's knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body where— (a) that body (to the councillor's knowledge) has a place of business or land in the area of the council; and (b) either— (i) the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners have a beneficial interest exceeds one hundredth of the total issued share capital of that class.

* 'director' includes a member of the committee of management of an industrial and provident society.

* 'securities' means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2 – Other Registrable Interest

You must register as an Other Registrable Interest:

a) any unpaid directorships

b) any body of which you are a member or are in a position of general control or management and to which you are nominated or appointed by your authority

c) any body

(i) exercising functions of a public nature

(ii) directed to charitable purposes or

(iii) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management

This page is intentionally left blank

Council Chamber, Dunedin House **Evacuation Procedure & Housekeeping**

In the event of an emergency alarm activation, everyone should immediately start to leave their workspace by the nearest available signed Exit route.

The emergency exits are located via the doors on either side of the raised seating area at the front of the Council Chamber.

Fires, explosions, and bomb threats are among the occurrences that may require the emergency evacuation of Dunedin House. Continuous sounding and flashing of the Fire Alarm is the signal to evacuate the building or upon instruction from a Fire Warden or a Manager.

The Emergency Evacuation Assembly Point is in the overflow car park located across the road from Dunedin House.

The allocated assembly point for the Council Chamber is: D2

Map of the Emergency Evacuation Assembly Point - the overflow car park:



All occupants must respond to the alarm signal by immediately initiating the evacuation procedure.

When the Alarm sounds:

1. **stop all activities immediately.** Even if you believe it is a false alarm or practice drill, you MUST follow procedures to evacuate the building fully.
2. **follow directional EXIT signs** to evacuate via the nearest safe exit in a calm and orderly manner.
 - do not stop to collect your belongings
 - close all doors as you leave
3. **steer clear of hazards.** If evacuation becomes difficult via a chosen route because of smoke, flames or a blockage, re-enter the Chamber (if safe to do so). Continue the evacuation via the nearest safe exit route.
4. **proceed to the Evacuation Assembly Point.** Move away from the building. Once you have exited the building, proceed to the main Evacuation Assembly Point immediately - located in the **East Overflow Car Park**.
 - do not assemble directly outside the building or on any main roadway, to ensure access for Emergency Services.
5. **await further instructions.**
 - **do not re-enter the building under any circumstances without an “all clear”** which should only be given by the Incident Control Officer/Chief Fire Warden, Fire Warden or Manager.
 - do not leave the area without permission.
 - ensure all colleagues and visitors are accounted for. Notify a Fire Warden or Manager immediately if you have any concerns

Toilets

Toilets are located immediately outside the Council Chamber, accessed via the door at the back of the Chamber.

Water Cooler

A water cooler is available at the rear of the Council Chamber.

Microphones

During the meeting, members of the Committee, and officers in attendance, will have access to a microphone. Please use the microphones, when invited to speak by the Chair, to ensure you can be heard by the Committee and those in attendance at the meeting.

AGENDA ITEM

REPORT TO AUDIT & GOVERNANCE COMMITTEE 24 NOVEMBER 2025

REPORT OF DIRECTOR OF CORPORATE SERVICES

RISK MANAGEMENT UPDATE REPORT

SUMMARY

The purpose of this report is to inform members of the current status of the Council's strategic risks. The strategic risk register primarily focusses on the achievement of objectives over the longer-term and could take a number of years to materialise.

Assessment is based on the information currently available and is used to evaluate the potential future state of the risk and as such will be regularly reviewed as further information becomes available. The assessment of the risk should not be used as an indication of current performance as it is just one element considered as part of the wider assessment of risks, other examples include financial certainty or potential changes that may be outside of the council's control.

RECOMMENDATIONS

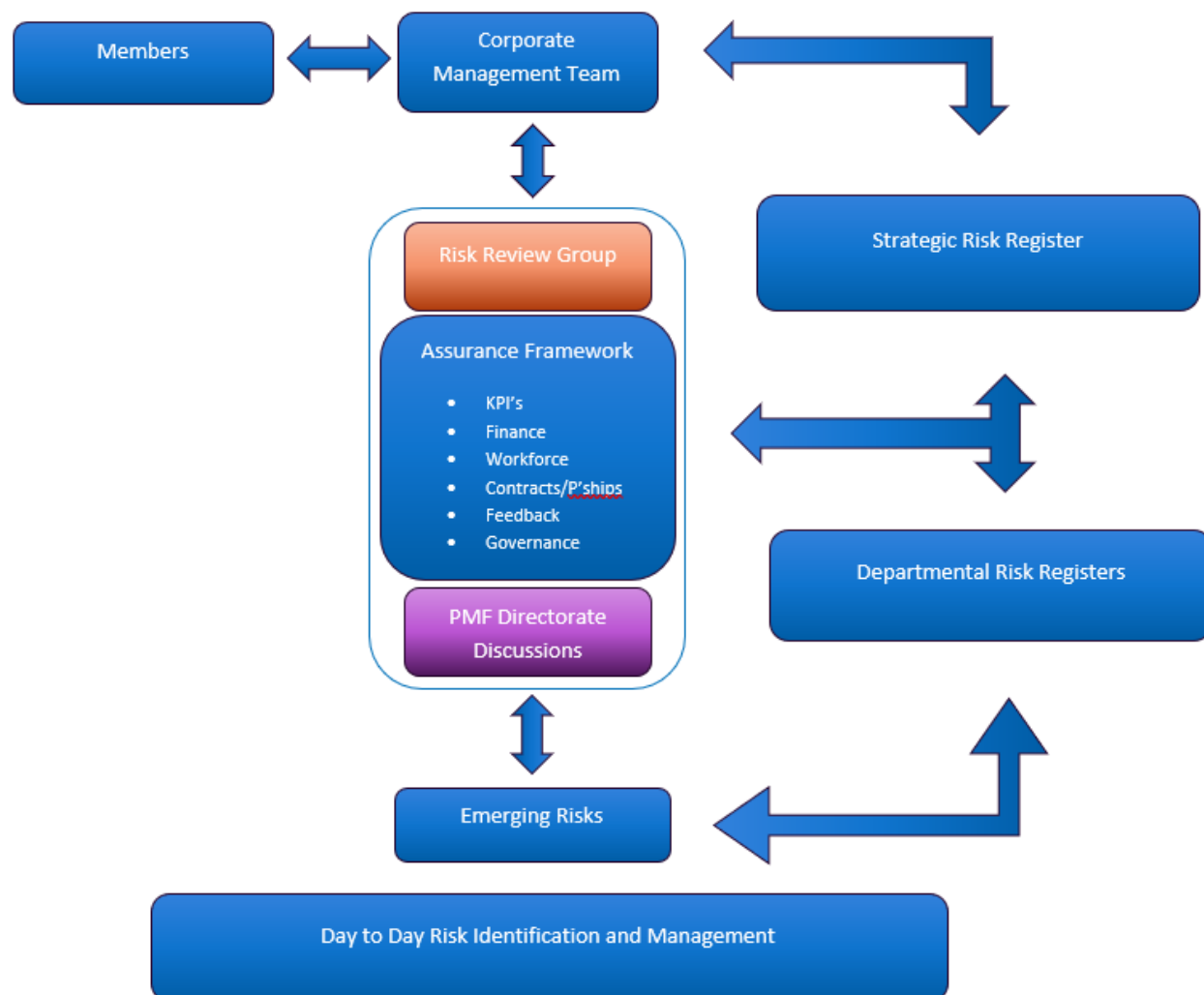
It is recommended that:-

1. Members note the current position with the strategic risk register and take assurance that risks are being effectively monitored and actions are being taken to manage these risks over the long-term.
2. Members note the changes in risk and the reasons for those changes.

DETAIL

1. Effective risk management is a core component of effective corporate governance. It is a planning tool that can be used to evaluate future events and make effective decisions to develop mitigating actions to reduce the impact and/or probability of those risks occurring.
2. The strategic risk register and the current status of those risks is shown below. Members are reminded that risk assessment is not a measure of actual performance. Risk management as a process is future focused and should be considered in the context of what may happen in the future. This enables actions to be taken now to mitigate those future risks.
3. As this is a strategic risk register it covers broad themes borough wide. The implication of this is that the council are not solely responsible for mitigating actions. There may be factors outside of the council's control that impact on the current risk level and as such the council alone may not be able to completely mitigate risks.

4. A key feature the revised approach is a simplification of the way in which the current risk status is assessed. Risks are rated using a RAG rating:
 - Red - Current concerns over the achievement of future objectives, actions must be developed to mitigate some of those concerns in the short-term, in order that we are able to meet future objectives.
 - Amber - Concerns identified that may impact on the future achievement of objectives, actions required but these can be planned over the medium term
 - Green - No current concerns
5. The focus of this report is to update members on changes in risk levels since September:
 - 563 Risk of not supporting children with disabilities and special educational needs to maximise their potential and understand future demands. The primary cause of the change is a number of processes and procedural issues identified during the Ombudsman's investigation of a complaint and the high cost of placements. A full review of processes is being undertaken as part of actions agreed with the Ombudsman.
 - 714 Risk of failure to effectively deliver services within agreed budget and to maintain a balanced MTFP. Although some good progress has been made in reducing the MTFP gap as a result of positive outcomes from the Powering our Future programme, forecasts at Qtr 2 are suggesting an overspend in the current year. Steps are being taken to manage this in-year.
 - 710 Risk of failure to effectively manage and maintain Council owned land and assets. This has moved from Amber to Red. Significant work has been undertaken to understand our medium and long-term maintenance costs supported by a comprehensive condition survey which is forecast to exceed current provisions in the MTFP.
 - 559 – Risk of supporting children in our care to achieve appropriate outcomes in care. This risk has increased from Amber to Red, primarily due to the costs of placing children exceeding the budget provision in the MTFP.
6. Appendix A provides a full list of strategic risks and their current status.
7. As a reminder to members the framework for assessing the current risk score is outlined below:



8. A revised Risk Management Strategy will be presented to members at a future meeting.

FINANCIAL AND LEGAL IMPLICATIONS

None directly

RISK ASSESSMENT

This is a summary of the Council's risk environment.

COUNCIL PLAN IMPLICATIONS

None

CONSULTATION

N/A

Name of Contact Officer: Andrew Barber, Assurance Manager

Telephone No: 01642 526176

Email Address: andrew.barber@stockton.gov.uk

Full Strategic Risk Register

Risk ID	Risk	Overall Status
714	Risk of failure to effectively deliver services within the agreed budget and to maintain a balanced MTFP	Red
710	Risk of failure to effectively manage and maintain Council owned land and property assets	Red
563	Risk of not supporting children with disabilities and special educational needs to maximise their potential and understand future demands	Red
559	Risk of supporting children in our care to achieve appropriate outcomes in care	Red
742	Failure to plan and deliver large scale capital projects - Regeneration Strand	Amber
560	Risk of delivering effective strategies that support care leavers to achieve appropriate outcomes	Amber
725	Risk of failure to deliver a waste service which reduces the amount of waste to Energy From Waste whilst increasing levels of recycling.	Amber
703	Risk of failure to deliver transformation projects	Amber
705	Risk of failure to effectively support our workforce to enable them to meet the challenges faced by the council and our residents	Amber
623	Risk of failure to enable effective highways and transport infrastructure	Amber
567	Risk of failure to improve outcomes that support people to live happy and healthy lives and reduce health inequalities	Amber
723	Risk of failure to maximise the use of Council owned vehicles and transport assets	Amber
715	Risk of failure to operate good corporate governance	Amber
731	Risk of failure to plan and deliver large scale capital projects	Amber
740	Risk of failure to plan and deliver large scale capital projects - CSEC Strand	Amber
724	Risk of failure to reduce carbon emissions and contribute to reducing the impact of global warming	Amber
732	Risk of failure to support those who are experiencing poverty and work with communities to reduce the impact of poverty	Amber
599	Risk of failure to support vulnerable households to find suitable accommodation (including homelessness, care leavers, LD)	Amber
562	Risk of not supporting children maximise their potential in education	Amber
488	Risk of not supporting children who need help and protection	Amber
743	Failure to deliver services to support business growth through developing appropriate skills within the borough	Green
737	Risk of failure to communicate effectively with residents, communities and partners	Green
621	Risk of failure to enable a growing economy to maximise business growth	Green
564	Risk of failure to establish and maintain safe systems of care for adults	Green
565	Risk of failure to manage and deliver good quality, sustainable care and support to vulnerable adults	Green
741	Risk of failure to plan and deliver large scale capital projects - Adult's & Children's Strand	Green
704	Risk of failure to provide robust and resilient ICT infrastructure and systems, making effective use of new/emerging technologies	Green
745	Risk of failure to retain control of local decisions regarding the built environment due to external intervention	Green
600	Risk of people not feeling safe in their communities	Green

AGENDA ITEM

REPORT TO AUDIT & GOVERNANCE COMMITTEE 24 NOVEMBER 2025

REPORT OF HEAD OF INTERNAL AUDIT

INTERNAL AUDIT ACTIVITY REPORT

SUMMARY

To inform members of the progress of audit testing to date and present a forward plan of testing and the resources available to meet the plan to support the assessment of risk.

RECOMMENDATIONS

It is recommended that:-

1. The results of audit activity is noted and agree that the work for the next quarter be prioritised using the audit risk assessment methodology as outlined in the Audit Charter.

DETAIL

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. To support this, audit work the results of audit work are an integral part of the assurance framework in place to assess the current risk status.
2. The overall summary shows a summary of audit results against each theme.

Theme	Red	Amber	Green	Total	Assurance
Application for a Service/Support		9	29	38	86.20
Application for an Approval/Permission	1	2	27	30	92.99
Assets	2	3	21	26	83.33
Business Continuity	1	3	25	29	90.52
Corporate Governance	2	12	51	65	89.71
Finance	2	3	108	113	95.74
ICT		1	22	23	96.96
Information Governance	1	2	24	27	90.00
People	5	11	30	46	74.19
Performance Management	2	2	6	10	73.81
Procurement/Contracts	1	2	24	27	94.59
Regulatory Services			15	15	100.00
Total	17	50	382	449	89.32

3. Audit testing results breaks down work undertaken in the previous period to provide members with an update on where audit resources have been employed and the results of that work. This will highlight any concerns raised in the period. There have been 5 Red controls identified in the period. Members are reminded that testing frequencies are adjusted based on their status, controls rated as red are reviewed every 3 months. This may give the impression that the same issues are being raised each quarter whilst recommendations are actively being implemented, we monitor progress of implementation. The controls rated as Red in the period relate to NFI progress in Council Tax, DBS rechecks within one team in the council, Retention of Fit Notes and Children's Social Care referral rates.

Theme	Red	Amber	Green	Total
Application for a Service/Support		1	5	6
Assets		1		1
Business Continuity			1	1
Corporate Governance			5	5
Finance	1	1	13	15
ICT			3	3
Information Governance	1		1	2
People	2	1		3
Performance Management	2			2
Procurement/Contracts			3	3
Total	6	4	31	41

4. Planned work identifies the areas to be examined in the next period as required by the Public Sector Internal Audit Standards. Members are reminded that each control is risk assessed to determine the frequency of testing, audit work is planned and undertaken a rolling programme which prioritises controls with the highest risk rating in accordance with this methodology. I am required to report any concerns I may have that would impact on the independence of the audit service or the adequacy of resources, I can confirm that I have no concerns in either regard.

5. Quality Assurance and Improvement shows a balanced scorecard for the delivery of the audit service. The majority of indicators will be reported annually but the ones shown provide an update on progress against agreed work to date. The level of adequate resources is calculated after staff time is adjusted to allow for Annual Leave, Bank Holidays and a reasonable amount of Admin Time. We achieved our target completion rate for the period.
6. I would like to make members aware of a recent decision made to procure a new ICT system that will support the work of the service. The system is a combined Project Management, Performance and Risk Management/Assurance solution. We have operated on our current platform since 2007 so this will be a big change for the team. Our current contract expires in February 2026 when we will go live with the new system. The new system will have a number of benefits for the team including but not restricted to wider access to information and improved reporting of results. As a result there is likely to be a change to the format of the information presented to this committee.

Quality, Assurance & Improvement Process

Period Covered	November 2024	to	January 2025
----------------	---------------	----	--------------

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 3 Months)	15	10
Portfolio Coverage (Period)	40	41
Presentation of Annual Report (Annual)	June	*
Presentation of Activity Report	Qtrly	*

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	*
Fraud Strategy Review	31/03/2025	*
Client Satisfaction	TBC	*
Recommendation Implementation	TBC	*

Process		
Measure	Target	Performance
Self assessment against standards (Annual)	March	*
External Assessment (Every 5 Years)	March 2023	*
Staff Meetings Held (Period)	8	8
Up to Date Audit Manual	March 2023	*

People		
Measure	Target	Performance
Productivity (Period)	70%	72%
Training (Per Financial Year)	20	*
Code of Conduct (Annual)	100%	*
Appraisals (Annual)	100%	*

* - To be reported as part of annual report

- NFI Progress – An update on this work will be reported alongside the revised Anti-Fraud and Corruption Strategy which is due to be presented in November. This will now be presented at the next meeting. A change in legislation introduces a new offence of “Failure to Prevent Fraud” which places some additional requirements specifically on the Anti-Fraud and Corruption Strategy and work is continuing to understand the changes required.

FINANCIAL AND LEGAL IMPLICATIONS

None directly

RISK ASSESSMENT

This is a summary of the Council's risk environment.

COUNCIL PLAN IMPLICATIONS

None

CONSULTATION

N/A

Name of Contact Officer: Andrew Barber, Audit & Risk Manager
Telephone No: 01642 526176
Email Address: a.barber@stockton.gov.uk

This page is intentionally left blank

AGENDA ITEM xx

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

24 NOVEMBER 2025

REPORT OF CHIEF FINANCE OFFICER

TREASURY MANAGEMENT STRATEGY MID YEAR REPORT 2025/26

SUMMARY

This report informs Members of the performance against the treasury management and prudential indicators set in the 2025-26 Treasury Management & Capital Strategy reports approved by Council in February 2025.

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's Treasury Management Strategy for 2024/25 was approved by Council on 19th February 2025. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

External Context

Arlingclose, Stockton's Treasury Management advisors, have provided us with the following commentary on the external environment.

Economic background: The first quarter was dominated by the fallout from the US trade tariffs and their impact on equity and bond markets. The second quarter, still rife with uncertainty, saw equity markets making gains and a divergence in US and UK government bond yields, which had been moving relatively closely together.

From late June, amid a UK backdrop of economic uncertainty, concerns around the government's fiscal position and speculation around the autumn Budget, yields on medium and longer term gilts pushed higher, including the 30-year which hit its highest level for almost 30 years.

UK headline annual consumer price inflation (CPI) increased over the period, rising from 2.6% in March to 3.8% in August, still well above the Bank of England's 2% target. Core inflation also rose, from 3.4% to 3.6% over the same period, albeit the August reading was down from 3.8% the previous month. Services inflation also fell from July to August, to 4.7% from 5.0%.

The UK economy expanded by 0.7% in the first quarter of the calendar year and by 0.3% in the second quarter. In the final version of the Q2 2025 GDP report, annual growth was

revised upwards to 1.4%. However, monthly figures showed zero growth in July, in line with expectations, indicating a sluggish start to Q3.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing, but probably not to an extent that would make the more hawkish MPC members comfortable with further rate cuts. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

The BoE's Monetary Policy Committee (MPC) cut Bank Rate from 4.5% to 4.25% in May and to 4.0% in August after an unprecedented second round of voting. The final 5-4 vote was for a 25bps cut, with the minority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 25bps cut. The Committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth.

The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium-term outlook will be influenced by domestic and global developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the BoE focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025/26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

Financial markets: After the sharp declines seen early in the period, sentiment in financial markets improved, but risky assets have generally remained volatile. Early in the period bond yields fell, but ongoing uncertainty, particularly in the UK, has seen medium and longer yields rise with bond investors requiring an increasingly higher return against the perceived elevated risk of UK plc. Since the sell-off in April, equity markets have gained back the previous declines, with investors continuing to remain bullish in the face of ongoing uncertainty.

Over the period, the 10-year UK benchmark gilt yield started at 4.65% and ended at 4.70%. However, these six months saw significant volatility with the 10-year yield hitting a low of 4.45% and a high of 4.82%. It was a broadly similar picture for the 20-year gilt which started at 5.18% and ended at 5.39% with a low and high of 5.10% and 5.55% respectively. The Sterling Overnight Rate (SONIA) averaged 4.19% over the six months to 30th September.

Credit review: Arlingclose maintained its recommended maximum unsecured duration limit on most of the banks on its counterparty list at 6 months. The other banks remain on 100 days.

Early in the period, Fitch upgraded NatWest Group and related entities to AA- from A+ and placed Clydesdale Bank's long-term A- rating on Rating Watch Positive. While Moody's downgraded the long-term rating on the United States sovereign to Aa1 in May and affirmed OP Corporate's rating at Aa3.

Then in the second quarter, Fitch upgraded Clydesdale Bank and HSBC, downgraded Lancashire CC and Close Brothers while Moody's upgraded Transport for London, Allied Irish Banks, Bank of Ireland and Toronto-Dominion Bank.

Overall, at the end of the period prices for all banks on Arlingclose's counterparty list remained within limits deemed satisfactory for maintaining credit advice at current durations.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

On 31st March 2025, the Authority had net borrowing of £111.43m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m
General Fund CFR	195.86
Less: Other debt liabilities	-9.15
Borrowing CFR	186.71
Less: Usable reserves	-86.15
Add: Working capital	10.87
Net Borrowing / (Investments)	111.43

The treasury management position at 30th September 2025 and the change over the six-month period is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.9.25 Balance £m
Long-term borrowing	86.07	-23.63	62.44
Short-term borrowing	64.71	0.33	65.04
Total borrowing	150.78	-23.30	127.48
Long-term investments	-13.28	-0.03	-13.31
Short-term investments	0.00	0.00	0.00
Cash and cash equivalents	-26.07	5.42	-20.65
Total investments	-39.35	5.39	-33.96
Net Borrowing	111.43	-17.91	93.52

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans

should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

After substantial rises in interest rates since 2021 central banks have now begun to reduce their policy rates, albeit slowly. Gilt yields however have increased over the H1 period amid concerns about inflation, the UK government's fiscal position and general economic uncertainty.

The PWLB certainty rate for 10-year maturity loans was 5.38% at the beginning of the period and 5.53% at the end. The lowest available 10-year maturity certainty rate was 5.17% and the highest was 5.62%. Rates for 20-year maturity loans ranged from 5.71% to 6.30% during the period, and 50-year maturity loans from 5.46% to 6.14%. The cost of short-term borrowing from other local authorities has been similar to Base Rate during the period at 4.0% to 4.5%.

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes. The Authority has no new plans to borrow to invest primarily for financial return.

At 30th September 2025 the Authority held £127.48m of loans, a decrease of £23.30m since 31st March 2025. This is due to the repayment of a short-term loan that has not been replaced and the repayment of principal on long term loans. Outstanding loans on 30th September 2025 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.25	Q2	30.9.25	30.9.25	30.9.25
	Balance	Net	Balance	Weighted	Weighted
	£m	Movement	£m	Average	Average
		£m		Rate	Maturity
				%	(years)
Public Works Loan Board	73.39	-3.29	70.10	3.45	10.63
Banks (LOBO)	16.00	0.00	16.00	4.87	12.69
Local Authorities	61.39	-20.01	41.38	4.68	0.19
Others (fixed term)	0.00	0.00	0.00	2.50	0.84
Total borrowing	150.78	-23.30	127.48	4.00	8.02

LOBO loans: At the 30th September the Authority held £16m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first six months of the year.

Over the medium term it is estimated the authority, based on the current capital programme and the fact the authority has internally borrowed over the previous years will be required to undertake significant borrowing. In the higher rate environment that we are currently operating in this will mean higher costs of borrowing. Future borrowing requirements and financial requirements are currently being analysed, and information will be provided as part of future MTFP and Treasury reports.

Treasury Investment Activity

CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances fluctuated due to timing differences between income and expenditure. The investment position at the end of September is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25 Balance £m	Net Movement £m	30.9.25 Balance £m
Banks & building societies (unsecured)	-0.57	0.52	-0.05
Government (incl. local authorities)	-3.20	3.20	0.00
Property Fund	-13.28	-0.03	-13.31
Shares / Cash	0.00	0.00	0.00
Money Market Funds	-22.30	1.70	-20.60
Total investments	-39.35	5.39	-33.96

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025. Short term interest rates have largely followed these levels. The rates on DMADF deposits ranged between 3.95% and 4.45% and money market rates between

3.95% and 4.5%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return %
31.03.2025	4.58	A+	87%	2	4.28%
30.06.2025	4.58	A+	87%	2	4.48%
30.09.2025	4.69	A+	100%	1	4.36%
Similar LAs	4.55	A+	62%	95	4.32%
All LAs	4.54	A+	62%	11	4.20%

*Weighted average maturity

Externally Managed Pooled Funds: £13.31m of the Authority's investments are held in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. The fund generated a return of £0.664m (4.43%) during 2024/25 and has generated £0.302m (4.15%) in dividend payments for the first six months of the year. This income is being used to support the medium-term financial plan.

Because the Authority's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

Statutory override: Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

The Authority has set up a reserve of £1.962m to mitigate the impact of the statutory override not being extended and unrealised losses on pooled investment funds are required to be recognised.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds

primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Council also held £18.551m of such investments in;

- directly owned property £18.322m
- loans to local businesses £0.025m
- other £0.204m

These investments generated £0.931m of investment income for the Council after taking account of direct costs in 2024/25 representing a rate of return of 5.02%.

Compliance

The Chief Finance Officer reports that most of the treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	Maximum in Year £m	30.9.25 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied? Yes/No
Borrowing	157.14	127.48	212.30	227.30	
PFI and Finance Leases	5.06	5.06	5.06	5.06	
Total debt	162.20	132.54	217.36	232.36	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Compliance with specific investment limits is demonstrated in table 7 below;

Table 7: Investment Limits

Sector	Counterparty limit	Sector limit	Maximum	30.9.25 Actual	Complied? Yes/No
The UK Government	Unlimited	n/a	£8,200,000	£0	Yes
Local authorities & other government entities	£5,000,000	Unlimited	£0	£0	Yes
Secured investments	£5,000,000	Unlimited	£0	£0	Yes
Banks (unsecured)	£2,500,000	Unlimited	£460,000	£46,000	Yes
Building societies (unsecured)	£2,500,000	£5,000,000	£0	£0	Yes
Registered providers (unsecured)	£2,500,000	£12,500,000	£0	£0	Yes
Money market funds	£5,000,000	Unlimited	£25,000,000	£20,600,000	Yes
Strategic pooled funds	£15,000,000	£25,000,000	£13,309,000	£13,309,000	Yes
Real estate investment trusts	£5,000,000	£12,500,000	£0	£0	Yes
Other investments	£2,500,000	£5,000,000	£0	£0	Yes

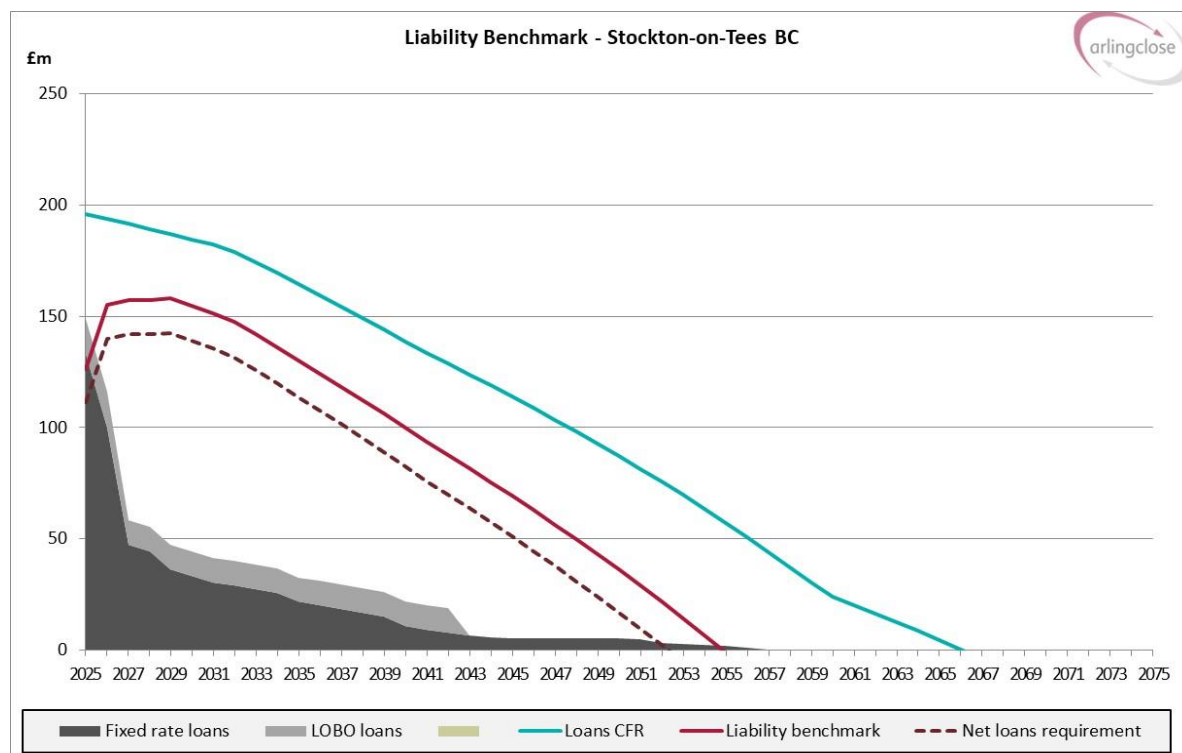
Treasury Management Indicators

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management indicators.

Liability Benchmark: This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at a level required to manage day-to-day cash flow.

	31.3.25 Actual £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Loans CFR	195.9	193.7	191.5	189.3
External Borrowing	-150.8	-118.0	-60.1	-57.2
Internal (over) Borrowing	45.1	75.7	131.4	132.0
Less: Balance sheet resources	-84.4	-53.9	-49.6	-47.4
Investments (New Borrowing)	-39.3	21.9	81.8	84.7
Treasury Investments	39.3	15.2	15.3	15.5
New Borrowing	0.0	37.0	97.1	100.1
Net Loans Requirement	111.4	139.9	141.9	141.9
Liquidity Allowance	15.0	15.2	15.3	15.5
Liability Benchmark	126.4	155.0	157.2	157.4

Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing based on the current capital programme, minimum revenue provision on new capital expenditure and income, expenditure and reserves all increasing by inflation. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.9.25 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	51.02%	25%	0%	No
12 months and within 24 months	0.00%	40%	0%	Yes
24 months and within 5 years	10.25%	60%	0%	Yes
5 years and within 10 years	1.99%	80%	0%	Yes
10 years and above	36.74%	100%	0%	Yes

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Due to the strategy of only taking out short term loans the upper limit indicator for the percentage of total loans under 12 months was breached. Once longer-term interest rates reduce the authority will replace short term loans with longer term loans.

Long-term Treasury Management Investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2024/25	2025/26	2026/27
Actual principal invested beyond year end	£13.28m	£13.31m	£13.50m
Limit on principal invested beyond year end	£60m	£40m	£20m
Complied?	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Prudential Indicators

The Authority measures and manages its capital expenditure, borrowing with references to the following indicators.

Capital Expenditure: The Authority has undertaken and is planning capital expenditure as summarised below.

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget
General Fund Services	£56.568m	£93.591m	£54.343m	£38.903m

The main focus of future capital expenditure will be centred around various town centre redevelopment schemes, Splash Redevelopment and highways and bridge works.

Capital Financing Requirement: The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 budget	31.3.2028 budget
General Fund CFR	£195.86m	£207.81m	£218.63m	£253.48m

Gross Debt and the Capital Financing Requirement: Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 budget	31.3.2028 budget
Debt	£150.78m	£187.20m	£213.49m	£250.63m
Capital Financing Requirement	£195.86m	£207.81m	£218.63m	£253.48m

Net Income from Commercial and Service Investments to Net Revenue Stream: The Authority's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget
Total net income from service and commercial investments £m	£0.931m	£0.903m	£0.903m	£0.903m
Proportion of net revenue stream	0.49%	0.48%	0.46%	0.45%

The table identifies that the authority is not reliant on commercial and service investment income to maintain its core functions.

Proportion of Financing Costs to Net Revenue Stream: Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue.

The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget
Financing costs (£m)	£4.3m	£9.0m	£10.1m	£10.4m
Proportion of net revenue stream	2.3%	4.6%	5.0%	5.0%

Arlingclose - Economic and Interest Rate Forecast 10th November 2025

The economic data, monetary and fiscal commentary have heightened the downside risks to our Bank Rate forecast, making rate cuts beyond 3.75% increasingly likely. As noted in the September forecast, however, we expect the Budget on 26th November 2025 to be the deciding factor for the path for interest rates. We will therefore review our interest rate forecast after this event.

The MPC maintained Bank Rate at 4.0% in a dovish 5-4 vote, but a cut to 3.75% looks increasingly likely as the Governor teeters precariously on the divide between the hold and cut camps. While denying the Budget was an influence on his decision, it surely played into his desire to have more information before easing policy.

Inflation surprised by holding at 3.8% in September and is forecast to fall to 3.5% by year end. However, household inflation expectations have picked up, likely largely the result of the noticeable rise in food prices, feeding caution among some policymakers.

While services inflation remains somewhat elevated, spare capacity has opened up in the labour market and wage growth is moderating, which should place further downward pressure on inflation. Continuation of the rapid growth in administered prices is also unlikely to occur to the same extent.

Underlying GDP growth remains subdued. While 2025 has been relatively strong, Q3 GDP growth has slowed, with July/August's figures suggesting a lack of momentum. Business investment is lacklustre and private sector output constrained by weaker domestic demand and spending. Ongoing uncertainty over the global outlook is still discouraging capital investment, particularly in the manufacturing sector. Downside risks persist, most notably the high probability of a tighter fiscal environment after the Budget, which may place downward pressure on consumption and growth.

Name of Contact Officer: Clare Harper

Post Title: Chief Finance Officer

Telephone No. 01642 528377

Email Address: clare.harper@stockton.gov.uk

AGENDA ITEM:

REPORT TO AUDIT & GOVERNANCE COMMITTEE

REPORT OF THE CHAIRMAN OF THE AUDIT AND GOVERNANCE COMMITTEE

24th NOVEMBER 2025

AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT

SUMMARY

This report is to inform members of the work of the Audit and Governance Committee during the period 1st October 2024 to 30th September 2025.

Introduction

This Annual Report produced by the Chairman of the Audit and Governance Committee has been prepared in accordance with the “Audit Committees, Practical Guidance for Local Authorities” produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018.

The report demonstrates how the Audit and Governance Committee has fulfilled its key functions and how it is fully committed to helping to improve the Council's governance and control environments.

The Guidance defines the purpose of an Audit and Governance Committee as follows:

- Audit & Governance Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- The purpose of and Audit and Governance Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

Functions of the Audit and Governance Committee

The Committee's activities during the period were designed to make a positive contribution to the continual improvement of governance arrangements across the Council, as well as performing the key functions as identified in the Constitution. The Audit and Governance Committee as identified in the constitution is required to:

- a) monitor the integrity of the Council's financial statements and approve the Statement of Accounts.
- b) approve the Annual Governance Statement.

- c) oversee risk management and the Council's risk registers.
- d) review any proposed changes to accounting policies and procedure rules.
- e) review the performance of the Treasury Management Strategy.
- f) approve the role and responsibilities of the Internal Audit Service (the Services' functions, aims and objectives);
- g) receive and consider the Annual Audit Letter from the Council's External Auditor.
- h) agree the programme of value for money work.
- i) approve the internal and external audit plans.
- j) review Internal Audit work on a quarterly basis; internal and external annual reports together with any management response and receive details of specific significant issues highlighted via audit work and refer to the Executive Scrutiny Committee; the Select Committees; Cabinet or Council, as appropriate, any issues arising which are key in nature.
- k) maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour, and consider the Council's compliance with its own and other published standards and controls; and
- l) consider details of any key ethical and wider corporate governance issues which may be referred to it.

Audit and Governance Committee Membership

The membership of the Audit and Governance Committee is as follows;

Cllr Barry Woodhouse (Chairman),
Cllr Stefan Houghton (Vice-Chair),
Cllr Mick Stoker,
Cllr Emily Tate,
Cllr Ross Patterson,
Cllr Laura Tunney,
Cllr Carol Clark,
Cllr Eileen Johnson.
Cllr Mohammed Mazi.

The Audit Committee and the Audit and Governance Committee met 4 times during the reporting period, 25th November 2024, 24th February 2025, 30th June 2025, 29th September 2025.

Officers

The Audit and Governance Committee continues to be well supported by Officers, providing reports in accordance with the Committee's work programme. During the reporting period and on behalf of the Chief Finance Officer and the Director of Corporate Services, the Chief Accountant, Assistant Director Procurement and Governance and Assurance Manager routinely provided reports and attended the meetings.

External Audit

When required the External Auditors, Forvis Mazars, have also attended the Audit and Governance Committee meetings.

Core Activity

The Committee's work and outcomes in each of its areas of responsibility are summarised in the following subsections.

Internal Audit

The Audit and Governance Committee:

- Approved the Internal Audit Charter. The purpose of this report was to advise Members of the Internal Audit Charter and proposed approach to delivering the audit service for the coming audit year 2025-2026.
- Received the Audit Activity Report which informed them of the progress of audit testing to date and presented a forward plan of testing and the resources available to meet the plan to support the assessment of risk.
- Approved the Internal Audit Strategy which documented the proposed approach to improving the audit service for the period 2025-2028.
- Received and approved the Internal Audit Annual Report & Opinion Statement of the Head of Internal Audit as required by the Accounts and Audit Regulations 2015. The report included the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the internal control environment.

External Audit

The Audit and Governance Committee:

- Received regular reports from Forvis Mazars with updates on progress in delivering their responsibilities as our external auditor.
- Received the External Audit Strategy Memorandum for the year ending 31 March 2025. The purpose of this document was to summarise Forvis Mazars audit approach, highlight significant audit risks and areas of key judgements and to provide the Council with the details of their audit team and fees.
- Received the Auditors Annual Report for 2023/24 which summarised the work Forvis Mazars had undertaken for the year ended 31 March 2024.
- Received the Audit Completion Report for the 2023/24 financial year. This document summarised the external auditor's findings from the annual audit of the 2023/24 accounts.

Annual Statement of Accounts

The Audit and Governance Committee:

- Approved the Annual Financial Statements for 2023/24.
- Received and reviewed the draft Annual Statement of Accounts for the 2024/25 financial year.

Treasury Management

The Audit and Governance Committee:

- Received a 2024/25 mid-term report on the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by Council in February 2024.
- Received the Treasury Management Annual Report for 2024/25 that informed members of the performance against treasury management and prudential indicators set in the Treasury Management Strategy approved by Council in February 2024.

Risk Management

The Audit and Governance Committee:

- Received quarterly reports from the Assurance Manager on developments within the Corporate Risk Registers for the purpose of reviewing the key risks that had

been identified as having the potential to deflect services from achieving their objectives over the next 12 months and beyond. The report also set out the actions being taken to ensure that the risks, and possible adverse outcomes, were minimised.

- Officers presented the Anti-Fraud and Corruption Strategy to Members with the purpose of the report being to advise Members of the Anti-Fraud and Corruption arrangements for the period 2024-2025.

Governance

The Audit and Governance Committee:

- Received the Council's draft Annual Governance Statement for 2024/25 for consideration and comments.
- Received the final Annual Governance statement for 2023-24

Health and Safety

The Audit and Governance Committee:

- Received reports detailing the regular non-responsive services provided by the Council's Health and Safety Unit to monitor, improve and to ensure compliance of the health, safety and well-being control environment.

Chairman's Conclusion

The third year of this administration has been once again challenging both for the authority and personally and I must give my thanks to the Vice Chair and elected members of the Committee for their support and a strong commitment to the work for which they have been given responsibility. We saw changes to the Committee during the year with Cllrs Johnson and Mazi joining us and getting up to speed with some very complex issues. The members have studied agendas and asked searching questions of officers not only presenting reports but also requesting further investigation of issues and explanation by the Chair and supporting officers of the committee. From the information received and reviewed the committee has not identified any issues that are not already being managed effectively that required escalation.

On behalf of the Committee, I have attended online the Northeast Regional Audit Committee Chairs Forums along with officers to receive presentations and discussion on shared ideas and developments both regionally and nationally.

The most relevant information affecting this Committee and officers which we were made aware of once again from external Auditors Forvis Mazars and our own Officers during the previous year were the announcement of "Backstop arrangements" as follows:

Key elements of the proposals:

A statutory backstop date of 13 December 2024 to clear the backlog of unaudited accounts up to and including FY 2022/23 still sees some authorities struggling to reach the dates. Four further backstops for Financial Years up to and including 2027/28 to allow the system to recover are:

- 2024/25: 27 February 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

There is still a significant backlog of outstanding external audits as reported to previous years Audit and Governance Committees, councils and other local bodies did not publish audited accounts on time.

The Members were presented with the Anti-Fraud and Corruption Strategy (duly noted) While recognising the valuable contribution made by members we must also pay tribute to the officers of this Authority who despite reduced staffing, reorganisation and a harsh financial environment have worked diligently to ensure sound fiscal controls and compliance with relevant regulations often being subjected to extra pressures due to delays in the delivery of information from external institutions yet again however changes to their external auditors will hopefully ease the situation.

Reorganisation of the Council's management structure has proved successful with officers in many cases taking on different and added responsibilities this must of course be monitored, and a work / life balance must be maintained.

The Council faces extreme pressures on budgets as do all Authorities from Children's and Adult Services however the external Audit report confirmed that the Council MTFP was developed on "reasonable assumptions" and recognises the assumptions made therein.

In conclusion I would add that our officers have worked both in the office and occasionally from home throughout the year in a challenging environment showing a commitment and dedication to the Borough's sound financial management under at times extreme pressure and for this effort we must record our gratitude as a committee and a Council.

The Audit and Governance Committee is established with comprehensive terms of reference. The Chair of the Audit and Governance Committee has prepared this annual report on the Committee's work for presentation to Cabinet and hopefully this shows that effective corporate and ethical governance is critical to an authority's performance and in demonstrating continuous improvement it's therefore, a fundamental element of the modernisation agenda. Probity, transparency and high standards are an inherent part of corporate/ethical governance.

Name of Contact Officer: Barry Woodhouse

Post Title: Chairman of the Audit and Governance Committee

Telephone No:

Email Address: barry.woodhouse@stockton.gov.uk

This page is intentionally left blank



Audit Progress Report

Stockton-on-Tees Borough Council

November 2025

Contents

Page 38

- 01 Audit progress
- 02 Publications and other updates

Audit progress

Audit progress

Stockton-on-Tees Borough Council 2024/25

Accounts

We have made good progress with our accounts work, and to date, there are no material matters to report to Members.

IFRS 16 leases was introduced as an accounting standard for the first time in 2024/25, which we raised as an area of significant risk to the audit in our Audit Strategy Memorandum in June 2025. Conversations between our audit team and management have since been ongoing, and the implementation of the standard required a large amount of work to be performed by the Council's finance team. We subsequently experienced delays in obtaining management's IFRS 16 Leases documentation to support their judgements in this area. We received the relevant working papers on 28th October 2025, and as such, our detailed substantive work only recently began. We had previously planned to complete all work, except for Pensions, by November 2025. As we had planned our team member resources up until this point, we are limited with the time available to make progress as promptly and will require additional time to be spent on the audit to work through the supporting documentation provided by the Council, underpinning the application of the standard.

The Council's audit was part of our first priority list of audits for completion, and as we move onto our next list of priority audits, our capacity has become more limited. Despite this, we plan for audit completion as originally anticipated by the 27 February 2026 backstop date.

The audit work is also subject to internal review, including our Engagement Quality Reviewer (EQR) process. Additional findings may arise from this.

Value for money (VFM) arrangements

In our September Audit Progress Report, we noted that we are awaiting the Council's Self- Assessment of its arrangements to support our work on the Value for Money work.

We have now drafted our VFM commentary in the Auditor's Annual Report, where we did not identify any evidence of significant weaknesses. However, we raised two 'other recommendations' relating to financial sustainability from the ongoing in-year deficits being reported mainly owing to continued pressure in the Children's and Adult Services, as well as the Council's current, and forecasted future DSG deficit. This draft is required to be shared with Members of the Audit and Governance Committee before the end of November 2025. Members should note:

- At this stage, it is only the VFM commentary pages that are complete; we will update the rest of the report when we have completed our accounts work in February 2026.
- We cannot formally conclude on the VFM work until the rest of the accounts work has been completed. We have provided a commentary based on our work up to the date of this report. We reserve the right to amend our findings to reflect additional information that is relevant up to the date of issuing our audit opinion on the financial statements.

Next steps

We will share our Draft Auditor's Annual Report 2025/26 with Members of the Audit and Governance Committee by the end of November 2025.

The exact timing of the receipt of the assurances required from the auditors of the Teesside Pension Fund is still uncertain, but is expected to be received in the new year. If any additional risks arise, members will be notified accordingly.

As our accounts work is still ongoing, we will present our Audit Completion Report and Final Auditor's Annual Report at the February 2026 Audit and Governance Committee.

02

Publications and other updates

Page 42

National publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountancy ('CIPFA')		
1	CIPFA Better Reporting Group consultation	CIPFA's Better Reporting Group (BRG) has been set up to identify and address challenges in local authority financial reporting. For information only.
2	CIPFA Advisory Note: Statement of Responsibilities	CIPFA has published an advisory note on the Chief Finance Officer's (CFO's) Statement of Responsibilities which provides guidance on informing the 'true and fair' assessment of the accounts at the reporting date. For information only.
Ministry of Housing, Communities and Local Government ('MHCLG') (formerly the Department for Levelling Up, Housing and Communities ('DLUHC'))		
3	Local audit reform: Government response to the consultation to overhaul local audit in England	Government response to consultation on reforms to the local audit system. For information only.
4	MHCLG Addressing the local audit backlog in England: Non-compliance lists	MHCLG has published a list of local bodies that did not publish one or more audited accounts for financial years up to and including 2022 to 2023 by the statutory backstop date of 13 December 2024. For information only.
National Audit Office ('NAO')		
5	NAO insight: Financial management in government: monitoring and forecasting	This guide is for senior finance leaders in government departments and other public bodies. It sets out insights and good practice on monitoring and forecasting for better financial management in government. For information only.
6	NAO insight: Government's approach to technology suppliers: addressing the challenges	This report examines government's overall approach to digital and technology suppliers. It sets out lessons for the centre of government and departments to learn from government's approach to digital procurement. For information only.
7	NAO Report: Good practice in annual reporting	The NAO has published its insight guide on Good practice in annual reporting. For information only.
8	NAO report: Local government financial sustainability	The NAO has published its report Local government financial sustainability. For information only.
9	NAO Insight: Managing the commercial lifecycle	The NAO has published good practice guidance Managing the commercial lifecycle that has been updated in response to the implementation of the Procurement Act 2023. For information only.
10	Local Audit Reset & Recovery Implementation Guidance (LARRIG) 06	Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions

	Publication/update	Key points
Other		
11	Major Local Audits Reports	The FRC have published their annual report on their inspection findings of Audit Quality Reviews of Major Local Audits. For information only.
12	Forvis Mazars - Annual Local Government Risk Report 2025/26	The report deep dives into the known and emerging risks for Local Authorities in 2025/26, as well as what they should include in their internal audit plans. For information only.
13	Forvis Mazars – Public Sector in Focus Report	Forvis Mazars report for the public and social sector outlining the top priorities and risks shaping the future of the sector. For information only.

1. CIPFA Better Reporting Group consultation

CIPFA's Better Reporting Group (BRG) has been set up to identify and address challenges in local authority financial reporting either through proposing amendments to the Code of Practice on Local Authority Accounting for the United Kingdom (the Code) or assisting to develop practical guidance to enhance its application.

[Better Reporting Group](#)

2. CIPFA Advisory Note: Statement of Responsibilities

CIPFA has published an advisory note on the Chief Finance Officer's (CFO's) Statement of Responsibilities which provides guidance on informing the 'true and fair' assessment of the accounts at the reporting date. The advisory note applies to all local government bodies in the UK.

The note draws from lessons learnt from recent examples and a roundtable with CFO's and reinforces good practice principles that local government bodies in the UK should adopt. The CIPFA Practice Oversight Panel expects all local government bodies to be aware of the lessons learnt and therefore auditors may wish to ensure the bodies they audit are aware of this latest guidance.

[Statement of Responsibilities](#)

3. Local audit reform: Government response to the consultation to overhaul local audit in England

The government consulted on proposals to reform the local audit system. This published response to the consultation sets out the feedback on the specific measures proposed and the government's response. This includes the setting up of a Local Audit Office to be the system leader and the remit of the LAO.

[Local audit reform: Government response to the consultation to overhaul local audit in England - GOV.UK](#)

4. MHCLG Addressing the local audit backlog in England: Non-compliance lists

The Ministry of Housing, Communities and Local Government (MHCLG) has published a list of local bodies that did not publish one or more audited accounts for financial years up to and including 2022 to 2023 by the statutory backstop date of 13 December 2024.

[Addressing the local audit backlog in England: Non-compliance lists - GOV.UK](#)

5. NAO insight: Financial management in government: monitoring and forecasting

Good financial management is critical in the public sector. For public services to be efficient and productive, the effective management of public finances is essential. This guide outlines how finance leaders across government can monitor budgets and their performance and ensure forecasting is effective. It focuses on three principles:

- Promote a culture of accountability – leadership emphasises the importance of budget holders being accountable for monitoring financial performance and ensuring forecasts are accurate and realistic.
- Develop the right skills and capabilities – finance professionals possess the skills and capabilities to monitor effectively and forecast with precision and leverage these to elevate the quality of the organisation's decision-making.
- Make the best use of data and information – high-quality data and information is used to enable better monitoring and more accurate forecasting, helping decision-makers respond to events quickly and effectively.

[Financial management in government: monitoring and forecasting - NAO insight](#)

6. NAO insight: Government's approach to technology suppliers: addressing the challenges

This report examines government's overall approach to digital and technology suppliers. It sets out lessons for the centre of government and departments to learn from government's approach to digital procurement. The NAO focus on major procurement of technology to support business change, including the digital transformation of government and planning for technology of the future. The report examines:

- the scale of the challenge of undertaking digital procurement in a way that supports the modernisation of the public sector to make it more efficient and effective, and government's response to that challenge;
- how the centre of government can adopt a more strategic approach to how it works with digital and technology suppliers; and
- how departments can better understand and manage the complexities of digital procurement, including making full use of their digital expertise.

[Government's approach to technology suppliers: addressing the challenges - NAO insight](#)

7. NAO Report: Good practice in annual reporting

The NAO has published its insight guide on Good practice in annual reporting which showcases real-world examples of good practice for annual reporting from organisations from the public sector who are leading the way. The examples are laid out in relevant sections of an annual report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

The list is not definitive but should provide ideas on content and format for all bodies in both the public and private sector as they plan their annual reporting for 2024-25. Note that Great Ormond Street Hospital annual report and accounts 2023-24 features for use of graphics to support narrative and demonstrate performance regarding net zero for estate-based emissions.

[Good practice in annual reporting - NAO insight](#)

8. NAO report: Local government financial sustainability

The NAO has published its report Local government financial sustainability. The Ministry of Housing, Communities & Local Government, (MHCLG) is responsible for the accountability framework for local government and distributes core funding to local authorities. It leads on oversight of financial risk in individual local authorities and the system overall while responsibility for the services local authorities deliver is spread across government departments.

This report focuses on MHCLG as the department responsible for the framework within which local authorities operate, and provides transparency over the current position of local government finances. By examining the current finance system and context for local government finances, the NAO aims to help inform MHCLG's consideration of future reforms.

The report considers:

- the context of local government finances in 2024;
- service and financial pressures; and
- the government's approach to local government financial sustainability.

The report concludes that funding for local government has increased in recent years, reversing the long-term downward trend of the previous decade. However, while real terms funding has grown by 4% between 2015-16 and 2023-24, it has not kept pace with population growth or the demand for services, the complexity of need, or the cost of delivering services to people most in need of support.

Proposed reforms of the local government finance system have been repeatedly delayed. Some services are showing the strain, and more local authorities are requesting financial support, some due to the increasing costs of delivering essential frontline services such as homelessness and social care. Despite short-term measures to address acute funding shortfalls, there has been insufficient action to address the systemic weaknesses in local government financial sustainability.

As the government turns its attention to local government reforms, it is essential that this is part of a whole-system, cross-government approach to ensure local authorities are financially sustainable and can continue to provide essential services. This approach needs to ensure effective local accountability for the service and financial performance of each local authority, including robust independent assurance.

[Local government financial sustainability - NAO report](#)

9. NAO Insight: Managing the commercial lifecycle

The NAO has published good practice guidance Managing the commercial lifecycle that has been updated in response to the implementation of the Procurement Act 2023. It reflects upon findings and recommendations drawn from 200 reports concerning over 300 commercial arrangements that have been published over the past 20 years.

The ‘commercial lifecycle’ means the entire process starting with the identification of a requirement that may be delivered by a supplier to government through to the selection and appointment process, contract management activity, and ending with contract termination or transition to alternative arrangements.

This is a revised and condensed edition of commercial good practice guidance that has been updated regularly since 2008. It remains essential reading for policy and commercial staff involved at all levels of public procurement and commercial activities – including senior leaders and non-executive board members of public authorities. The guidance is presented in ten sections, addressing both strategic and procedural considerations.

To support this guidance, the NAO also updated its guide on the Commercial Audit Framework, which highlights the key questions at each of the ten key stages of procurement. Whether it’s the commercial strategy for public procurement, the publication of good-quality, relevant information on a timely basis, or deciding whether to extend the contract or re-procure.

[Managing the commercial lifecycle - NAO insight](#)

10. Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06

The NAO has published the 6th Local Audit Reset and Recovery Implementation Guidance note to auditors. The LARRIG sets out guidance to auditors of English local authorities in circumstances where the auditor’s opinion on the prior year financial statements has been disclaimed because of backstop arrangements included in the Accounts and Audit (Amendment) Regulations 2024.

Its purpose is to assist auditors in the process of rebuilding assurance for specific classes of transactions, account balances and disclosures which warrant special consideration beyond the general principles set out in LARRIG 05. It provides principles as well as indicative procedures which, with the application of professional judgement, enable the auditor to make a timely return to being able to determine that, based on sufficient appropriate audit evidence, the financial statements are free from material misstatement.

[LARRIG 06](#)

11. Major Local Audits Reports

The FRC publish an annual report on the inspection findings of Audit Quality Reviews of major local audits in England, which includes large health and local government bodies. The audit of a relevant authority becomes a major local audit if it:

- has total income or expenditure of at least £500 million; or
- administers a local government pension scheme with at least 20,000 members or assets over £1,000 million.

In the 2023/24 inspection cycle, the FRC inspected six NHS and two local government audits. The results of these inspections are included in this report. The FRC acknowledge the unprecedented circumstances facing the local audit sector and have updated their regulatory approach to the monitoring of audit quality to support the reset measures and recovery period.

[Major Local Audits Reports](#)

12. Forvis Mazars - Annual Local Government Risk Report 2025/26

The report deep dives into the known and emerging risks for Local Authorities in 2025/26, as well as what they should include in their internal audit plans.

[Annual Local Government Risk Report for 2025/26 - Forvis Mazars - United Kingdom](#)

13. Forvis Mazars – Public Sector in Focus Report

Forvis Mazars have issued a report for the public and social sector, Public sector in focus: Charting the road ahead. With over 390 responses from across the UK public and social sector, the study reveals the top priorities and risks shaping the future of the sector.

[Public sector in focus: Charting the road ahead - Forvis Mazars - United Kingdom](#)

Forvis Mazars

James Collins

Director

james.collins@mazars.co.uk

Forvis Mazars
The Corner
Bank Chambers
26 Mosley Street
Newcastle Upon Tyne
NE1 1DF
Tel: 0191 383 6300
<http://www.forvismazars.com/uk/en>

The contents of this document are confidential and not for distribution to anyone other than the recipients.
Disclosure to third parties cannot be made without the prior written consent of Forvis Mazars LLP.

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 under reference number C001139861. VAT number: GB 839 8356 73

© Forvis Mazars 2024. All rights reserved.

This page is intentionally left blank



Auditor's Annual Report

Stockton-on-Tees Borough Council – year ended 31 March 2025

November 2025- **DRAFT FOR THE AUDIT AND GOVERNANCE COMMITTEE**

- 01 Introduction
- 02 Audit of the financial statements
- 03 Commentary on VFM arrangements
- 04 Other reporting responsibilities
- 05 Audit fees and other services
- A Appendix A: Further information on our audit of the Council’s financial statements

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 Council. It has been prepared for the sole use of the Audit and Governance Committee as the appropriate sub-committee 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

Purpose of the Auditor’s Annual Report

Our Auditor’s Annual Report (AAR) summarises the work we have undertaken as the auditor for Stockton-on-Tees Borough 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 issued our audit report on [date to be confirmed]. Our opinion on the financial statements was unqualified [to be confirmed upon audit completion].



Value for Money arrangements

To date, 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. We reserve the right to amend our findings to reflect additional information that is relevant up to the date of issuing our audit opinion on the financial statements (planned for late February 2026).



Reporting to the group auditor

We have not yet received group instructions from the National Audit Office in respect of our work on the Council’s WGA submission. We are unable to commence our work in this area until such instructions have been received.

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, issued on [date to be confirmed] gave an unqualified opinion on the financial statements for the year ended 31 March 2025 [to be confirmed]

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. [to be confirmed]

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.

03

Our work on Value for Money
arrangements

VFM arrangements

Page 60

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 [x].

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.

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 and 14	No	Yes – see page 13 and 14
	Governance	17	No	No	No
	Improving economy, efficiency and effectiveness	20	No	No	No

VFM arrangements

Page 63

Financial Sustainability

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



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 - Adult and Children's services</p> <p>In our 2023/24 Auditor's Annual Report, we raised an "other recommendation" highlighting the ongoing pressures and the need to manage the 2025/26 budget in line with the revised MTFP. The Council's Powering Our Future Programme has identified significant opportunities to deliver services in a more efficient manner. The Programme has an ambition to deliver up to £8.1m of savings. It is critical that the Council deliver these savings to avoid further reliance on Council reserves.</p> <p>From initial enquires of management, we expect to see similar pressures, and a further deficit to be reported in 2024/25. From the latest update in December 2024, the Council projected an overspend of £6.6m.</p>	<p>Work undertaken</p> <p>We considered the final outturn position for 2024/25 including the achievement of savings targets and the Council's reserves. We followed up on our recommendation made in 2023/24 and Council's progress against actions as part of the Powering our Futures Programme with a focus on actions taken in this area. This included obtaining evidence to support the actions taken by the Council to address the overspends and any future budget gaps.</p> <p>Results of our work</p> <p>The Council's largest overspend in 2024/25 was again seen in Children's Services of £6m against budget. It is currently forecasting an overspend in 2025/26 mainly owing to continued pressure in the Children's and Adult Services, with similar pressures experienced in the sector. We are satisfied from discussion with officers and review of reports that the Council have an understanding of the drivers of these pressures. The Powering Our Future Programme is a key arrangement for delivery of financial sustainability over the life of the MTFP. The Programme includes 14 transformation projects which continue to deliver expected savings. The Powering Our Futures programme, and in particular the transformation mission has identified savings of £5.8m by 2026/27 to date (from planned and approved schemes). Work is ongoing to identify the remaining savings (£2.3m) required through the Council's Powering Our Futures programme. This would leave the Council with a budget gap of £0.9m by 2027/28 as per the most recent MTFP update as at February 2025.</p> <p>The transformation work within Children's Services, focusing on keeping children within the Borough has continued to progress and to date it is anticipated will generate £1m per annum savings across the MTFP. Work continues to mitigate some of the external pressures in relation to the costs of children in care. This includes proposed business cases for fostering and in house children homes aimed at bringing down costs. The Council is also working with partner organisations, such as the Integrated Care Board and local acute hospitals, on early intervention services, possible future joint commissioning arrangements and reviewing existing arrangements to enhance early intervention and prevention.</p> <p>We noted that the Council has been reviewing its existing senior management arrangements in place where continuous reviews for further improvements in existing processes are in progress. This has allowed the Council to collate better quality data which has been used for more accurate forecasting of future costs and understanding growth in demand.</p> <p>The overspends reported in recent years have been largely covered by use of Council reserves. At 31 March 2025 reserves are reported as £28m useable and £8m general fund reserves. The Council recognises that continued use of reserves is not sustainable and is expecting this to be mitigated by the Powering Our Future projects. The most recent financial settlement, announced in December 2024, has seen the Council receive higher than forecast funding. This has improved the Councils financial position over the life of the MTFP. Whilst this funding is welcomed by the Council it recognises that it must continue to deliver on the Powering Our Future objectives and the planned savings.</p> <p>Following the completion of our work, we have found no evidence of a significant weakness in arrangements. While we have identified no evidence of a significant weakness in arrangements, we have raised an 'other recommendation' – see following page.</p>

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.

Other recommendation

Whilst the Council understands the reasons for its overspends, any arrangements which the Council already has in place will need to ensure that further overspends are avoided and further contributions from the Council's reserves are not required.

The Council must ensure it manages future budgets in line with the revised Medium Term Financial Plan (MTFP). The Council's Powering Our Future programme has identified significant opportunities to deliver services in a more efficient manner and is a critical element of the MTFP. The majority of the potential savings are planned to come in from 2025/26 with work ongoing to identify further potential savings. The creation of two new SBC homes for Children with Mental Health and Behavioural distress is not expected to deliver any savings beyond those needed to fund the running costs of the homes and associated borrowing. The proposal will provide a stable home for children and will lead to better outcomes for children. The new fostering model, approved by Cabinet in July 2025, is anticipated to be the most critical in addressing cost pressures and will require monitoring. Early intervention schemes to manage demand will be essential.

It is critical that the Council deliver planned transformation projects to avoid further reliance on Council reserves which have been decreasing over recent years.

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 – Dedicated Schools Grant (DSG) deficit management planning (New risk)</p> <p>As at the 31 March 2025 the Council reported a cumulative DSG deficit of £6.725m. There is currently a statutory override in place which requires the Council to 'ring-fence' the DSG deficit from its general fund, which means it does not have to consider it when setting a balanced budget. Although Government has signalled its intention to extend the period that the override covers to 31st March 2028, without action to address the cumulative deficit, at the end of this period there is a risk that the Council will be unable to set a balanced budget.</p>	<p>Work undertaken</p> <p>We considered the cumulative DSG deficit position of the Council and its forecasted figures until 2027/28 when the statutory override period comes to an end. This was in the context of the Council reporting ongoing deficits over the coming years. We reviewed the Council's Delivering Better Value (DBV) plan and noted the mitigating actions which the Council has/ is planning to implement in order to reduce the deficit. We noted the work the Council had been doing to manage demand and capacity in the borough.</p> <p>Results of our work</p> <p>As at 31 March 2025 the Council's DSG shows a cumulative deficit balance of £6m, which is forecasted to reach £35m by 2027/28 without mitigations. The Council has agreed a detailed DBV plan with a number of mitigations which, if successful, would reduce the cumulative deficit to nil.</p> <p>Following the completion of our work, we have found no evidence of a significant weakness in arrangements. While we have identified no evidence of a significant weakness in arrangements, we have raised an 'other recommendation'.</p>

Other recommendation
<p>It is critical that the Council deliver its Delivering Better Value plan to ensure the cumulative deficit is reduced at the point the statutory override ends in 2028. If successful the DBV plan will mitigate the risk of the Council being unable to set a balanced budget in 2028/29.</p>

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

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

The Council has an established process for developing its Medium-Term Financial Plan (MTFP). The Council's arrangements have delivered significant levels of savings in recent years. The timetable for developing the MTFP is designed to allow for stakeholder engagement ahead of final approval in February. Our review of minutes and discussions with officers confirmed that the MTFP is reviewed and updated on a regular basis. Review of minutes confirmed there was regular reporting of the financial position to Members during and post year end, including quarterly reporting to Cabinet.

The 2024/25 outturn report presented in July 2025 detailed an overspend of £7m against budget which was largely due to pressure in Children's Services and was funded from reserves in-year. The latest 2025/26 outturn reporting is forecasting further overspends against budget for the year, with £1.6m projected pressures as at Q1 2025/26. Review of the 2025-2028 updated MTFP demonstrate that these pressures are expected to continue and work is underway on the 2026/27 budget and refreshed MTFP. External cost pressures and increasing demand are the main reasons for increasing costs. The Council's Powering Our Future programme has identified measures to address costs and demand. We have raised a 'other recommendation' as the Council needs to keep up the momentum in order to remain on target to deliver on its Powering Our Future projects.

There is evidence that there was regular reporting and overall transparency of the financial position throughout the year.

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

The MTFP arrangements include the identification of pressures and required savings. The 2024/25 MTFP position was approved in February 2024. The 2025-2028 MTFP was approved in February 2025. The report presented to Council in February 2025 showed an overall balanced budget for 2025/26. Unmitigated gaps were reported of £7.1m in 2025/26, £8.1m in 2026/27 and £9m in 2027/28. However, an overall balanced position for 2025/26 and 2026/27 was reported assuming savings on transformation with a residual gap of £0.9m in 2027/28. Action to address these pressures included the Council's Powering Our Future programme. The programme is a key project to the Council and aims to identify up to £8.1m in savings to help address budget gaps identified in the MTFP. The Council will need to continue to undertake significant transformation work, especially in Children's Services, and this is a key focus of the Powering Our Futures programme.

The Powering Our Future programme includes consultation with residents and the staff of the Council. A key objective of the programme is to make more data available to support informed decision making. We have seen evidence of this in the Council's reporting of Powering Our Future programme including a recent report to Cabinet in October 2025, which detailed plans for therapeutic residential care for children experiencing mental health challenges and behavioural distress. A further report in July 2025 detailed plans for fostering service

designed to increase capacity. It shows the Council's commitment to its Powering Our Future programme's 5 missions- colleagues, communities, partnerships, transformation and regeneration. The reports are presented to Cabinet on each of those missions.

Our initial review of the MTFP noted that it recognises the increasing difficulty of identifying savings and managing the impact on front line services especially given the uncertainty about future funding levels.

Our review of the MTFP and associated assumptions identified no evidence of a significant weakness in arrangements. However, we recognise that a risk to the future financial sustainability still exists, which has the potential to crystallise in future periods, we raised an 'other recommendation' on page 13. We will continue to monitor this as part of our future value for money work.

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

The Council has a new Council Plan agreed by Cabinet in October 2024. This sets out the Council's vision for the future of the Borough, which is a framework that the Council, as well as its partners and communities, will use to ensure they work together towards a shared vision. Through review of minutes we observed there were updates in year on delivery against priorities in the Council Plan, most recently in October 2025.

We confirmed that the MTFP was developed on reasonable assumptions at the time it was agreed including forecast funding streams, identification of budget pressures and savings targets required and ability to draw from the budget support reserves if required. The MTFP recognises the ongoing pressure the Council faces and the potential impact on service delivery. In-year monitoring reports detail the pressures faced by the Council, whether savings are being achieved, and if resources need to be redirected to areas in need. In particular, reporting in year highlighted the continued pressures in the Children's Services.

Our review of the MTFP did not identify a reliance on 'one-off' measures to balance the budget.

As noted above the Council's Powering Our Future is a programme of transformation. It aims at securing the financial stability of the Council as well as ensuring the Council provide efficient and appropriate services for residents. Key services within the Council have been identified to form part of the transformation programme. One of the biggest is Children's Services which is an area that is causing significant financial pressures. The transformation reviews include wholesale review of appropriate areas to see where the Council can improve outcomes whilst also ensuring efficient use of resources.

Overall commentary on the Financial Sustainability reporting criteria – continued

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

The MTFP and Capital Programme are considered and reviewed in the context of other plans such as the Capital, Investment and Treasury Management Strategies and the Annual Pay Statement. These plans and strategies are considered and approved by Council alongside the MTFP and budget decisions each year. We confirmed through review of minutes this took place in 2024/25.

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

We confirmed through review of minutes that the Cabinet and Council consider the updated financial position throughout the year. This allows for Member scrutiny and challenge. In year reporting has presented clearly the challenges faced by the Council and the reasons for any overspend against budget. We confirmed the updated MTFP was considered by the Cabinet and Council at their February 2025 budget setting meeting.

Savings plans are risk assessed to advise Members of the potential impact with initial proposals being assessed for impact on communities and service delivery. We confirmed governance arrangements have been put in place for the Powering Our Future programme which are designed to ensure there is scrutiny of planned savings or transformation.

The annual MTFP process includes reviewing the Council's earmarked reserves. We confirmed a review was completed in 2024/25 to ensure reserves set aside remains in line with strategic and statutory priorities of the Council. This is evidenced in the outturn reports presented to Cabinet during the financial year. While the overspend in 2024/25 was covered by use of reserves at 31 March 2025 the Council had £28m useable reserves plus £8m general fund reserves. The Powering Our Future programme is intended to transform the Council and mitigate any future reliance on reserves to balance the budget.

How the Council identifies and manages risks to financial resilience

The MTFP outlines uncertainties, challenges, and risks facing the Council over the life of the Plan. It details risks associated with future funding, the ongoing economic uncertainty and the continued pressures in Children and Adult services. We confirmed that areas of pressure faced in the 2024/25 financial year are reflected in the

approved MTFP. These include the demand pressures faced in some services provided by the Council, such as looked after children.

The Council has an established risk management framework, and we confirmed through review of minutes and attending meetings that the Audit and Governance Committee receives regular risk management updates.

We confirmed that management reported to Cabinet on the Council's commercial activities, including the hotel, as part of the updated MTFP in February 2025.

We confirmed there was regular reporting of the Council's 2024/25 financial position to Cabinet throughout the year. The outturn report presented to the July 2025 Cabinet meeting was consistent with the financial position reported during the year and did not indicate a weakness in the Council's budget monitoring and reporting arrangements. In particular, it highlighted the areas of pressure which had resulted in overspends against budget.

We also considered the cumulative Dedicated Schools Grant deficit position and its forecasted figures until the end of the latest MTFP. We reviewed the Council's Delivering Better Value (DBV) plan and noted the mitigating actions which the Council is planning to implement in order to reduce the deficit in the high needs block. As at 31 March 2025 the Council's DSG shows a cumulative deficit balance of £6m, which is forecasted to reach £35m by 27/28 with no mitigations. The Council currently has a DBV plan with a number of mitigations which, if successful, are planning to reduce the cumulative deficit to nil. The Council would need to deliver on its mitigating actions and monitor its performance carefully, in order to avoid any significant future risks to its financial resilience. We have reported an 'other recommendation' on page 14 of this report.

Conclusion

Based on our work our work did not identify any evidence to indicate a significant weakness in the Council's arrangements in relation to the financial sustainability reporting criteria. On page 13 and 14 we have raised 'other recommendations'.

VFM arrangements

Page 69

Governance

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



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

We confirmed that the Internal Audit Plan and Head of Internal Audit Report was presented to, and reviewed by, the Audit and 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 goals. The plan is discussed with service leads ahead of being finalised.

We confirmed that the Audit and Governance Committee received regular updates on the Audit Plan. Internal Audit reviews highlight weaknesses and recommend actions, when required, to strengthen processes or procedures. We confirmed these are regularly reported to Audit and Governance Committee. The Audit and Governance Committee monitors management actions in response to recommendations for improvement and this is reported on a regular basis. We observed that the Audit and Governance Committee challenges management if recommendations are not implemented within the agreed timeframe.

The Head of Internal Audit Opinion was presented to the Audit and Governance Committee meeting in June 2025. This stated 'From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council's control environment to support the preparation of the Annual Governance Statement'. We have reviewed the Internal Audit Plan and matters arising. We have identified no evidence to indicate a significant weakness in arrangements.

An anti-fraud and corruption strategy is in place. We confirmed there is also regular reporting to the Audit and Governance Committee on counter fraud activities, including fraud investigations.

As part of our audit procedures, we considered the Council's Annual Governance Statement. This included consideration of the Statement and our cumulative audit knowledge. We identified no matters indicating a significant weakness in arrangements based on this review.

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

The Council's MTFP arrangements include the identification and evaluation of risks to the Council's finances. This includes the continued pressure faced in Children's Services. We have reviewed the budget setting arrangements through observation and discussions with officers. No matters have been identified indicating 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 occurring.

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 have reviewed Council minutes and confirmed there was regular reporting of the financial position during 2024/25 financial year. This included detail of movements in the budget and forecast outturn between quarters. The reports detailed the in-year pressures as well as planned mitigations. The outturn position was not significantly different to that reported to Members during the year and did not indicate a significant weakness in arrangements. As well as being reported to Senior Management Team and Cabinet, reports are also presented to Executive Scrutiny Committee.

Historically, the Council has a good record of delivering against its budgets which is evidence of effective arrangements for budgetary control. The 2024/25 overspend again reflects rising pressures in Children's Services. This is due to increasing costs and demand which has been seen across the sector in recent years. The Council's Powering our Future programme is specifically looking into collecting more data which could potentially help with early intervention and implement initiatives to mitigate those rising pressures.

The financial statements timetable is approved by the Audit and Governance Committee and was delivered in 2024/25. Our audit, to date, of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts.

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

We have confirmed that the Council has a Constitution in place and this is published on the Council's website. The Constitution is subject to regular review (at least annually) and updated where required. Review of minutes confirms that any changes to the Constitution are reported to Members and supported by reports explaining the need for changes. Changes in recent years have not been significant. Our review of Constitution notes that it includes procedural rules and roles, responsibilities of Committees, officers and Members. We have reviewed Council minutes in the year and have not identified any evidence indicative of a significant weakness in arrangements.

The Council publishes on its website a notice of key decisions. This includes officer decisions under the Officer Scheme of Delegations. Service Select Committee meetings are designed to provide an opportunity to challenge decisions. An Executive Scrutiny Committee is in place to oversee and coordinate the scrutiny work and our review identified no matters that indicate a significant weakness in arrangements.

How the Council monitors and ensures appropriate standards are maintained

As noted above 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. We confirmed that registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. Codes of Conduct set out Member and officer responsibilities for ensuring interests are declared. The Statement of Accounts also records material related party transactions and details of senior officer pay and Member allowances. We considered these disclosures and compared them with the interests declared. Our work did not identify any evidence to indicate a significant weakness in arrangements.

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 Panel 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.

We confirmed that the Standards Panel has not met recently which indicates there has not been any member misconduct to investigate in year.

As detailed in the Constitution – 'The Council appoints an Executive Scrutiny Committee and a number of Select Committees which support the work of the Executive and the Council as a whole. The Terms of Reference of these Committees and their composition are included in Part 2 of this Constitution. The Executive Scrutiny Committee is also able to "call-in" decisions made by the Cabinet that may mean they cannot be acted upon until Scrutiny and possibly the Cabinet and Council have re-considered the matter.' Appointments to Committees are subject to annual approval by full Council.

We confirmed there is regular reporting of treasury management activity that details the Council's investments, cash and borrowing positions. The Treasury Management Strategy was approved by Council in February 2024. The Annual Treasury Management report was presented to the September 2025 Audit and Governance Committee. The report includes that 'The Chief Finance Officer reports that the majority of all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is detailed in the report. The measures include those designed to mitigate risk to the Council's finances and we identified no evidence to indicate a significant weakness in arrangements.

Conclusion

Based on our work we have identified no evidence to indicate a significant weakness in the Council's arrangements in relation to the governance reporting criteria.

VFM arrangements

Page 72

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 Improving Economy, Efficiency and Effectiveness

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

Directorates have well established and effective processes for reviewing financial and performance information and using this to inform areas for improvement.

Transformation and other reviews across initiatives are included in the Powering Our Future programme. This includes use of financial and performance data to benchmark the Council's performance and support identification of improvements. Benchmarking has also allowed the Council to identify potential good performance elsewhere and to understand how things are being done differently.

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

We confirmed the Cabinet has monitored performance during the year. Performance is measured against the Council Plan and the format of reports is aligned to the vision and hopes for the Borough. Following the approval of the Plan, the Cabinet receives annual performance updates. The latest update was provided in the October 2025 to Cabinet. Our review of this identified no evidence to indicate a significant weakness in arrangements.

The Council has arrangements for responding to the most recent Ofsted inspection of Children's Services. We have considered available inspectorate reports and confirmed findings are not indicative of a significant weakness in arrangements with relevant plans being in place to address any findings on improvements needed. Other examples of evaluating performance include:

- Local Government and Social Care Ombudsman Public Report following investigation— presented to Cabinet in October 2025 and Annual Complaints Report 2024/25 including the new Complaints Policy 2024/25 in September 2025
- Review of minutes of other bodies – presented to Cabinet throughout the year.

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 that it is represented at a senior level in its key partnerships, such as partnerships with health. For example, the Council continues to have a well-established and successful partnership with health commissioners via the Better Care Fund. The Council is represented from a service perspective by the relevant Director and from a financial perspective by the Chief Finance Officer. The Strategic Finance lead for Adults and Health provides regular support and input. Where necessary key required actions will be incorporated into Council planning, priorities and plans.

The Xentrall Shared Services, the Stockton and Darlington partnership, was established in May 2008 and is now in its seventeenth year. The Xentrall services provided to the Council are:

- ICT (strategy and operations)
- Transactional HR (payroll, pensions, recruitment, sickness absence)
- Transactional Finance (creditors, debtors, banking, schools finance)
- Design & Print (professional buyer, in-house design and print)

The 2024/25 Annual Report of the Xentrall Share Service was presented to July 2025 Cabinet. We have reviewed this report and identified no matters indicative of a significant weakness in arrangements.

The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

We have noted no significant changes in the Council's arrangements compared to previous years. Key commissioning and procurement decisions are taken by suitably skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Management has confirmed access is readily available to professional legal and procurement advice.

The Council operates a Strategic Procurement function across two teams, each supporting a specific range of Council services and functions.

There is evidence that the Council has arrangements in place to ensure procurement is done in accordance with relevant legislation, professional standards and internal policies, no issues identified that suggest a significant weakness.

Conclusion

Based on our work we have identified no evidence to indicate a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

Other reporting responsibilities

Other reporting responsibilities

Page 76

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. [to be confirmed].

Audit fees and other services

Audit fees and other services

Fees for our work as the Council's auditor

We reported our proposed fees, which are set by PSAA, for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in June 2025. Having completed our work for the 2024/25 financial year, we can confirm that our fees are as follows [as we have not completed the work at this stage, the fees below may be subject to change].

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£375,805	£347,758
Additional fee: ISA 315 – this was omitted from the original PSAA scale fees. The 24/25 scale fee has been rebased to include but this was omitted from the 23/24 fee.	-	£15,690
Additional fee: PPE work required on challenging assets not revalued in the year.	-	£9,500
Additional fee: Qualification– additional audit procedures required following lack of pension fund assurance over the asset valuations.	-	£4,000
Total fees	£375,805	£376,948

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 Proposed Fee	2023-24 Actual Fee
Housing Benefits Subsidy Assurance	£TBC*	£14,950
Teachers' Pensions	£8,500	£7,385

*Subject to us being engaged by the Council to complete this work

Appendices

Appendix A: Further information on our audit of the Council's 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>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</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.</p>	<p><u>Audit response</u></p> <p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p> <p><u>Findings</u></p> <p>Findings to be confirmed</p>
<p>Defined benefit pension valuation</p> <p>The 2024/25 financial statements are expected to contain material pension entries in respect of the retirement benefits. In 2023/24, the pension liability was limited due to the asset ceiling.</p> <p>The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>In addition to this, in 2023/24 the auditor of the Teesside Pension Fund issued a disclaimed audit opinion for the year ended 31 March 2024. Although we concluded on the material accuracy of the pension liability, we were unable to obtain sufficient appropriate audit evidence to conclude our work on the valuation of the defined benefit assets for the Council. As a result, we issued a qualified audit opinion for the Council to reflect this. We will need consider the impact of this on our 24/25 audit opinion.</p>	<p><u>Audit response</u></p> <p>In relation to the valuation of the Council's pension fund asset and liability, we will:</p> <ul style="list-style-type: none">•Critically assess the competency, objectivity and independence of the Council's Actuary, Hymans Robertson;•Liaise with the auditors of the Teesside Pension Fund to obtain confirmation that the controls are designed and implemented appropriately. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate;•Liaise with the auditors of the Teesside Pension Fund to obtain the required assurances over the Pension Fund investment assets;•Review the appropriateness of the Pension valuation methodologies applied by the Pension Fund Actuaries, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office;•Agree the data in the IAS 19 valuation reports provided by the Funds' Actuaries for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements;• Where applicable, ensure the asset ceiling treatment is correctly accounted for in line with the CIPFA code, IAS 19 and IFRC 14; and•Ensure all required disclosures are reflected in the accounts and relevant notes, in particular any changes in disclosures relating to the asset ceiling. <p><u>Findings</u></p> <p>Findings to be confirmed</p>

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>Valuation of Land and Buildings and Investment Property</p> <p>The 2024/25 financial statements are expected to contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of property, including investment property, and land.</p> <p>Property valuations involve a high degree of estimation uncertainty due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of property to be an area of significant risk.</p> <p>Similarly to property, the Council has also obtained a specialist valuation of its largest investment, the Hampton by Hilton Hotel (£11.9m in 2023/24). The scope of our valuations work will therefore also include Investment Property, in particular the hotel valuation which is the largest balance.</p>	<p><u>Audit response</u></p> <p>We will evaluate the design and implementation of any controls which mitigate the risk. This includes liaising with management to update our understanding on the approach taken by the Council in its valuation of land and buildings (including investment property) . We will:</p> <ul style="list-style-type: none">•Assess the scope and terms of engagement with the Valuers;•Assess the competence, skills and objectivity of the Valuers;•Assess how management use the Valuers’ report to value land and buildings included in the financial statements;•Test the accuracy of the data used in valuations;•Challenge the Council’s and Valuers’ assumptions and judgements applied in the valuations;•Review valuation methodology used, including the appropriateness of the valuation basis;•Consider the reasonableness of the valuation by comparing the valuation output with market intelligence;•Challenge management where assets have not been re-valued in year as part of the Council’s rolling programme, reviewing the results of the annual indexation exercise; and•Ensure all required disclosures are reflected in the accounts and relevant notes. <p><u>Findings</u></p> <p>Findings to be confirmed</p>

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>Implementation of IFRS 16 Leases</p> <p>IFRS 16 changes the definition of a lease compared to IAS 17 and IFRIC 4, and the Council will be adopting the new standard for the first year in 2024/25.</p> <p>We discussed management’s readiness for the implementation of IFRS 16 Leases in 2023/24, at which stage it only affected narrative disclosures. We understand that the Council is still undertaking work to quantify the impact on the Council’s financial statements to ensure accuracy and completeness of the overall balance. The potential impact is yet to be estimated to ensure any arrangements in scope are adequately accounted for in 2024/25.</p> <p>This is a complex area which will require management judgement, and for any property assets which fall within scope, the Council will need to determine which measurement method it will be applying that may involve the engagement of valuation experts.</p>	<p><u>Audit response</u></p> <p>We will:</p> <ul style="list-style-type: none">critically review the accuracy and completeness of the Council’s assessment;review the accounting policy and relevant disclosures; andwhere material test the valuation of lease liability and corresponding right of use assets to ensure the valuations are in line with the requirements of IFRS 16 and the Code. <p><u>Findings</u></p> <p>Findings to be confirmed</p>

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

Page 83

Summary of uncorrected misstatements for the Council

To be confirmed, we have not yet completed our audit work.

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

Page 84

Internal control observations for the Council

To be confirmed, we have not yet completed our audit work.

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

Page 85

Follow up on previous year recommendations for the Council

To be confirmed, we have not yet completed our audit work.

Forvis Mazars

James Collins

Director, Public Services

Tel: 07881 283 527

james.collins@mazars.co.uk

Nora Natova

Audit Manager

Tel: 07815 980 394

Nora.Natova@mazars.co.uk

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 under reference number C001139861. VAT number: GB 839 8356 73

Audit Committee Programme 2024/2025

Diary of Meetings & Work Programme

Date	Work Programme
24-Nov-25	Risk Register Update and Audit Activity Treasury Mid Term Report Annual Report of the Audit Committee External Audit - Audit Progress Report External Audit - Auditor's Draft Annual Report Work Programme 2024 - 2025
24-Feb-25	Annual Report of the Audit Committee (Final) Anti Fraud & Corruption Strategy Constitutional Update if required External Audit - Audit Progress Report Risk Register Update and Audit Activity Internal Audit Charter Work Programme 2024 - 2025

This page is intentionally left blank