



Auditor's Annual Report  
Hartlepool Borough Council – year ended 31 March 2025

25 February 2026

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Our reports are prepared in the context of the ‘PSAA Statement of Responsibilities of Auditors and of Audited Bodies’ and the ‘Appointing Person Terms of Appointment’ issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to Hartlepool Borough 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

# Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Hartlepool 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 25 February 2026. Our opinion on the financial statements was unqualified.



### Value for Money arrangements

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



### Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the Whole of Government Accounts (WGA) Assurance Statement in respect of its consolidation data. As in previous years, we anticipate a delay before we will be able to issue our 2024/25 audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

# 02

Audit of the financial statements

# Audit of the financial statements

## Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (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 will not be issued until February 2026.

A summary of the significant risks we identified when undertaking our audit of the financial is outlined in Appendix A. We will conclude on these in our final report in February 2026. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

## Significant difficulties during the audit

We have not encountered any significant difficulties, and we have had the full co-operation of management. We are grateful to management for their co-operation throughout the audit.

## Other reporting responsibilities

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

# 03

Our work on Value for Money  
arrangements

VFM arrangements

Overall Summary



# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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



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



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



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

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

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

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

- NAO guidance and supporting information
- Information from internal and external sources, including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with officers

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

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

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

We outline the risks that we have identified and the work we have done to address those risks on page 10.

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

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

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

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

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

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	Yes – see page 12	No	Yes – see page 14
 <b>Governance</b>	15	No	No	No
 <b>Improving economy, efficiency and effectiveness</b>	18	No	No	No

# VFM arrangements

## Financial Sustainability

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



# VFM arrangements – Financial Sustainability

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

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

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Financial sustainability</b> The Council has reported significant budget deficits in recent years and as at February 2025 was forecasting a £2.2m deficit in 2024/25. This has been largely due to a £7m overspend in children’s social care</p> <p>1 Our work in 2023/24 did not identify any evidence to indicate a significant weakness in arrangements. However, we raised an ‘other recommendation’ to recognise that the Council needed to take action in future years to address the cost pressures (particularly in children’s social care) and deliver savings set out in the Transformation and Efficiency Strategy necessary to prevent any further draw on reserves.</p>	<p><b>Work undertaken</b> We considered the final outturn position for 2024/25 including the achievement of savings targets and the Council’s reserves. We reviewed the 2025/26 medium term financial plan and monitoring of in-year financial performance. We have considered how the Council is addressing the significant overspends in children’s social care and the achievement of its savings targets and delivery of the Transformation and Efficiency Strategy.</p> <p><b>Results of our work</b> Based on our review we have not identified any evidence to indicate a significant weakness in arrangements. We have, however, identified two ‘other recommendations’ which reflect the ongoing pressures in the Councils budget. We will continue to monitor the Council position in our future value for money work.</p>

# VFM arrangements – Financial Sustainability

## Overall commentary on Financial Sustainability

### Overall responsibilities for financial governance

We have reviewed the Council's overall governance framework, including Council, Finance and Corporate Affairs Committee (previously known as Finance and Policy Committee) and Audit and Governance Committee reports, the Annual Governance Statement, and the Annual Report and Accounts for 2024/25.

The Council receives assurance on all aspects of financial management and operational performance through reports to the Finance and Corporate Affairs Committee. This includes:

- overseeing and assuring financial and operational performance;
- considering the risks associated with any material financial transactions;
- considering the financial and operational risks involved in the Council's business and how they are controlled and monitored by management; and
- taking action needed to address issues raised or to make improvements.

Our review of supporting papers confirmed these arrangements were in place for 2024/25.

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

The 2024/25 budget and Medium Term Financial Strategy (MTFS) was approved by the Council in February 2024 and the 2025/26 budget in February 2025. Management demonstrated that the MTFS development is an iterative process as the MTFS is updated during the year to reflect the latest forecasts, as detailed in Finance and Corporate Affairs Committee. An initial assessment is reported in June to Finance and Corporate Affairs Committee, refined in November and final form in January ahead of full Council approval in February. We confirmed the latest update was in June 2025 with the updated MTFS covering a 4 year period 2026/27 to 2029/30. The MTFS details continued budget pressures including; uncertainty with increasing children's social care demand, school high needs demands, and inflationary costs as well as continued uncertainty on central government funding which is not expected to be confirmed until late 2025. We confirmed the MTFS quantifies financial risks and links to the capital programme and reserves strategy, which are included as appendices.

We confirmed there was regular monitoring of the budget with quarterly reports presented to the Finance and Corporate Affairs Committee. These reports highlighted the significant and continued financial pressures being experienced by the Council. The main pressures being inflationary on goods and services, pressure in income generation and significant pressure in Children's Social Services. As detailed further below, the Council have also experienced pressure in the high needs Dedicated Schools Grant (DSG).

We confirmed the final position was presented in the year end outturn report in June 2025. The report detailed that reserves were required to balance the 2024/25 budget, with £3.2m earmarked for use from the Budget Support Fund.

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

The 2024/25 MTFS detailed a financial gap of £13.1m which was to be covered through savings, increase in council tax (including adult social care precept), increased business rates, increased non recurrent government funding and planned use of reserves. As detailed in the MTFS the budget support reserve will be used to support the budget over the period of the MTFS. The MTFS sets out the risks of continued reliance on reserves to balance the budget, however by using reserves it is intended to afford the Council time to identify and implement sustainable plans, including implementation of the Council's Transformation Programme. The Council's Transformation Plan, which was approved by the Finance and Corporate Affairs Committee in June 2024, outlines the approach and principles to achieve the Target Operating Model for the Council. This was further expanded in February 2025 and includes 12 programmes of work. The areas of focus include demand management in adult and children's social care and waste services; targeted service reviews in leisure, culture, schools catering, and cleaning; and strategic reviews of land, property, fees, and charges. Additionally, digitalisation efforts are underway to enhance customer contact, income management, revenue collection, and ICT systems through the Digital Blueprint initiative. We confirmed progress is reported during the year with updates detailed as an appendix of the MTFS presented in June 2025 to the Finance and Corporate Affairs Committee.

We confirmed the 2025/26 MTFS was approved by the Finance and Performance meeting January 2025 and Full Council meeting February 2025. This again recognised a challenging position for the Council in delivery. This highlighted new pressures from the 2024/25 MTFS including the increased pay and price inflation, increased employer National Insurance Contributions and the continued increasing demand in the Children's Social Services. We have critically assessed the underlying assumptions used in the MTFS and identified no evidence of a significant weakness in arrangements. The MTFS is underpinned by workforce planning and capital programmes and considers risks arising during the year and planning assumptions within the Council Plan. We have not identified any inconsistency between the various plans in prior years or from our review of the Council Plan. We note the continued pressure in Children's Social Care which is resulting in a significant cumulative pressure. As detailed in the latest outturn report this is mainly owing to increased demand (i.e. higher than forecast) as well as higher third party costs of providing required care. Having reviewed the outturn position and the MTFS we are satisfied there is no evidence of a significant weakness in the Council's arrangements.

# VFM arrangements – Financial Sustainability

## Overall commentary on Financial Sustainability - continued

However this is an area of pressure that the Council needs to address over the MTFS. Consequently, we have raised an 'other recommendation' associated with this matter. We will continue to monitor in our future value for money work.

The Council's year end useable reserves is reported as £38.339m at 31 March 2025 compared to £39.753m at 31 March 2024. The use of the Budget Support Reserve in year was £3.422m which is broadly in line with the MTFS. The Budget Support Reserve balance at 31 March 2025 is reported as £7.62m (£7.947m at 31 March 2024). The 2025/26 MTFS includes £1m use of the Budget Support Fund. A further £17.983m capital reserves, £1.384m schools balances and £2.9m Housing Revenue Account Reserves (HRA) were held at 31 March 2025. As noted in the MTFS these reserves are committed to specific schemes and their use will reduce available reserves over the life of the MTFS meaning the use of reserves to balance future budget gaps is not sustainable.

### Other recommendation

#### Other recommendation: Financial Sustainability

The Council's MTFS continues to report challenging financial pressures over the life of the MTFS, most recently in June 2025. The latest Government Finance Settlement (2025/26) has seen an increase in funding which has improved the position but pressures still remain and there is continued uncertainty over future funding settlements. In particular, the Council continues to report overspends in the Children's Social Care service. This is owing to increased costs and higher than forecast demand. This continued cost is putting considerable pressure on the MTFS. In their reporting to the Finance and Corporate Affairs Committee, the Section 151 officer has highlighted the pressures faced by the Council and the risks over the life of the MTFS. In particular, they have highlighted the importance to deliver the Council's Transformation and Efficiency Strategy. While reserves are available to mitigate the pressures in the short term their continued use is not sustainable in the medium term. It is therefore critical that the Council continue to manage costs and demand, particularly in Children's Services, ensure delivery of the Transformation Programme and identify, where possible, additional income sources.

Pressure continued in the High Needs Block element of the Dedicated School Grant (DSG). Until 2022/23, Hartlepool Borough Council successfully managed High Needs Block (HNB) spending within annual grant allocations and reserves, despite rising demand and pandemic-related pressures. However, in 2023/24, the Council recorded an overspend of £2.348 million. After applying all Dedicated Schools Grant (DSG) reserves, the final overspend stood at £1.589 million, which was transferred to the DSG Adjustment Account in line with accounting regulations. This deficit triggered the requirement for a DSG Management Plan, submitted to the Education Skills and Funding Agency (ESFA), detailing historical, current, and projected data. The Plan has since been approved and we confirmed through discussion with officers is regularly updated. In 2024/25, the HNB exceeded its funding allocation by £3.343 million.

A one-year recovery plan was implemented, including measures to cap inflation on Top-Up and Special School funding, reduce out-of-area placements, and reallocate the Growth Fund from the Schools Block. The overall cumulative DSG deficit of £4.932 million is reported in the 2024/25 statement of accounts. This poses a significant financial risk when the current accounting override expires, though additional funding for 2025/26 has been allocated and the position remains under close review. Note the government has announced its intention to extend the override to 2027/28 so the immediate risk has been mitigated, however the Council is still required to plan to address the deficit in the period leading up to the end of the override. When the statutory override ends the cumulative deficit, as things stand, will need to be funded from the General Fund. While uncertainty over demand remains the Council is forecasting there will be a cumulative deficit in 2027/28 and as such it is important that the Council establish plans to mitigate the impact on the General Fund when the override ends. We have raised an other recommendation.

### Other recommendation

#### Other recommendation: Financial Sustainability (Dedicated Schools Grant)

In 2024/25 the Council reported a deficit on its High Needs Block of the Dedicated Schools Grant (DSG). It is reporting further pressures in 2025/26 and over the life of the MTFS a cumulative deficit is forecast. As required the Council has worked with the Education and Skills Funding Agency (ESFA) to develop and agree a DSG Management Plan which will look to control the deficit position however an overall continued deficit is forecast. The temporary statutory override introduced by central government is currently planned to cease in 2027/28. At this stage any deficit will need to be funded by the Council's General Fund. It is essential that Council delivers the Management Plan to address the deficit position in the DSG position. The Council will need to ensure there is a plan in place to address the cumulative deficit when the statutory override ceases in 2027/28 and mitigate the risk on its General Fund. This will include implementing arrangements to;

- ensure the MTFS continues to highlight the risk posed when the statutory override ceases;
- identify and deliver programmes to reduce demand and costs; and
- liaise with Government to discuss further options to reduce the deficit.

At the time of completing this report, we are aware that the Council has not yet formally approved its MTFS and budget for FY2026/27. Based on our review, we have not identified any matters arising from this position that impact our assessment of the Council's arrangements for the year ended 31 March 2025. The development and approval of the 2026/27 budget and associated MTFS will be considered as part of our value for money work for the year ending 31 March 2026.

#### Conclusion

Based on our review we have not identified any evidence to indicate a significant weakness in arrangements. We have, however, identified two 'other recommendations' which reflect the ongoing pressures in the Councils budget. We will continue to monitor the Council position in our future value for money work.

# VFM arrangements

## Governance

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



# VFM arrangements – Governance

## Overall commentary on Governance reporting criteria

### Council Governance Structure

The Council governance structure has not changed significantly in year. The governance structure is detailed in the Annual Governance Statement (AGS). This is supported by the Council's Constitution and scheme of delegation. Executive Directors have clear responsibilities linked to their roles and the structure in place at the Council is designed to allow for effective oversight of the Council's operations and activity. We reviewed these documents and confirmed they were consistent with our understanding of the Council's arrangements.

The Councils Code of Corporate Governance sets out overall arrangements for implementing risk and performance management and ensuring they work effectively. The Risk Management Framework ensures that the risk management system formally identifies and manages risks; involves elected members in the risk management process; maps risk to financial and other key internal controls; incorporates service continuity planning and reviews. The Finance and Corporate Affairs Committee have overarching responsibility for risk management and considers the content of the Strategic Risk Register when monitoring implementation of the Council Plan. Our review of minutes confirmed this occurred in 2024/25. The Strategic Risk Register is reviewed quarterly at Executive Leadership Team (ELT) and takes account of any changes in the entity's internal and external environments.

The Council expects the highest standards of conduct from both its Members and Officers. The Council has approved and adopted a Code of Corporate Governance applicable to Members, which is consistent with good practice set out by the Chartered Institute of Public Finance (CIPFA) and Society of Local Authority Chief Executives (SOLACE). Management are committed to integrity and ethical behaviour, and this is evident from our attendance at Committees and meetings with management. In 2023 the Council approved a new Anti-Fraud and Corruption Strategy, which includes a Whistleblowing Policy. We confirmed that registers of interest are maintained and available on the Council website. As noted, Codes of Conduct for Members and Officers are in place detailing expectations. Our review of related party disclosures included consideration of members declarations of interest. While our work is ongoing in this area we have identified no matters, to date, indicating a significant weakness in arrangements.

### The Council's risk management and monitoring arrangements

We confirmed a Strategic Risk Register is in place which articulates each individual risk, quantifies its likelihood and potential impact, and names the senior officer who owns the risk. Risks and control measures relating to the Council Plan are analysed within performance reports to help ensure that risk and performance reporting are linked.

The Finance and Corporate Affairs Committee have overarching responsibility for risk management and considers the content of the Strategic Risk Register regularly when monitoring implementation of the Council Plan.

As detailed in the Constitution the Audit and Governance Committee responsibilities include considering the overall effectiveness of the Authority's corporate governance arrangements, risk management and anti-fraud and anti-corruption arrangements. We confirmed the Committee received updates on risk management during the year.

### The Council's arrangements for internal control

The Council has an Internal Audit function in place. We confirmed through review of minutes and attendance at Audit and Governance Committee that Internal Audit reported its findings on a regular basis during the year. This included reporting on progress management had taken in addressing recommendations for improvement.

As detailed in the Annual Governance Statement Internal Audit were subject to an external review by CIPFA in late 2024. Our review of CIPFA's findings does not indicate any evidence of a weakness in arrangements with CIPFA reporting that the Internal Audit 'generally conform' to the requirements of the Public Sector Internal Audit Standards. Internal audit also had responsibility for the prevention and detection of fraud as outlined in the Councils Anti-Fraud and Corruption Policy.

The Head of Internal Audit Report was presented in June 2025 to the Audit and Governance Committee. This provided a positive opinion stating 'Based on the audit work undertaken for the 2024/25 internal audit plan, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice'. Our review of Internal Audit reporting in 2024/25 has not identified any evidence of a weakness in arrangements. Our attendance at Audit and Governance Committees throughout the year confirmed the importance placed on internal audit findings by members of the Committee. Where they deem necessary, Members of the Committee actively request management attendance at meetings to discuss findings from Internal Audit reports. The 2025/26 Internal Audit Plan was approved by Audit and Governance Committee in June 2025.

### The Council's arrangements for budget setting and budgetary control

The Council's Constitution outlines the framework for budget setting, assigning responsibilities across governance structures. The Finance and Corporate Affairs Committee is tasked with leading the development of the Medium-Term Financial Strategy (MTFS), while individual policy committees are responsible for scrutinising savings proposals and service-level financial plans. Final approval of the MTFS and associated budget proposals rests with Full Council, ensuring democratic oversight and accountability. Our review of minutes has confirmed this was the case in 2024/25.

# VFM arrangements – Governance

## Overall commentary on Governance reporting criteria - continued

The formal budget-setting process commences in September. At this stage, Heads of Finance undertake detailed financial planning for their respective service areas, producing departmental forecasts and identifying pressures and opportunities. These inputs are consolidated and reviewed by the Executive Leadership Team (ELT), alongside an updated MTFS that reflects the broader financial outlook and strategic priorities. The initial MTFS is presented to the Finance and Corporate Affairs Committee before full Council. Formal approval is granted in February, in accordance with the Constitution. The final budget is incorporated into the MTFS, which includes the Section 151 Officer's statutory declaration on the robustness of the estimates and the adequacy of reserves.

We confirmed through observation there was regular budget outturn reporting throughout the year which highlighted budget pressures and mitigation. This included reporting by the S151 officer to Executive Leadership Team and Finance and Corporate Affairs Committee. Monthly budgetary control reports continue to be sent to budget managers at month-end. Budget reports are designed to show the actual expenditure and income compared to what was budgeted and highlight any variances which budget holders are required to explain. The Council's finance team support the budget holders in updating their year-end forecasts and identifying any remedial action required. A RAG (Red / Amber / Green) basis is used to ensure remedial action can be initiated swiftly and emerging risks fed back to the Director of Finance, IT and Digital. Budget clinics continue to be held with each individual Director, the Director of Finance, IT and Digital, his deputy and the Council's Chief Executive on a monthly basis to review and challenge the budget position. High level monthly budget monitoring reports are discussed at Leadership Team, and the results are summarised in regular updates on the Financial Position to the Finance and Corporate Affairs Committee.

### The Council's arrangements for performance management

In April 2025, the Council formally adopted a new Council Plan covering the period up to 2030. The Council Plan sets out the Council's vision for the future of Hartlepool in 2030. The Council Plan, like the one before it, is intended to articulate the Council's objectives and how progress will be monitored. A suite of Performance Indicators (PIs) have been identified that demonstrate the delivery of the Council Plan. These are reported to the Finance and Corporate Affairs Committee at regular intervals. Performance indicators are compared against Hartlepool performance, England and North-East. Direction of travel and RAG ratings allow for Council performance to be assessed.

### Other recommendation: Follow up

In our 2023/24 Auditors Annual Report we identified an 'other recommendation':

*We reported in our Audit Completion Report a non material error associated with residential care payments. This was a historic matter with a small amount each year being potentially unrecognised. It is estimated that cumulative net impact of this at the 31 March 2024 was c.£3.6m of unrecognised liabilities. Whilst the Council has paid suppliers for care costs the historic accounting treatment means the Council's useable reserves as reported in the statement of accounts is c.£3.6m higher than actual amount available. Management have provided assurances that this matter is isolated to residential care payments. Management have explained they are aware of this matter and they have confirmed rectification has been factored into the current MTFS. In particular the issue has been recognised as a pressure that management intend to address in the MTFS. The improved settlement from Government means management have been able to balance the MTFS. It is essential management take appropriate action to rectify this historical accounting error and ensure useable reserves are reported on an accurate basis. A full review should be completed to ensure further errors are prevented in future years.*

We have met with officers who have confirmed that the historic accounting discrepancy has been addressed in the 2024/25 accounting period. This included use of reserves being allocated to fund the correction. Officers have also confirmed that the current budgetary provision is sufficient to meet ongoing financial commitments, and no further impact from the historic issue is anticipated in this area. The correction has been appropriately accounted for in 2024/25 and therefore will not span multiple financial years. While our work on the statement of accounts is ongoing based on the assurance provided this recommendation has been addressed and is not, in our view, therefore indicative of a significant weakness in arrangements.

### The Council's arrangements for performance management

We confirmed that progress against the Council Plan is reviewed by the Executive Leadership Team during the year, and this is followed by reports to Finance and Corporate Affairs Committee.

### Conclusion

We have not identified any evidence of a significant weakness in the Council's arrangements in relation to the governance reporting criteria.

# VFM arrangements

## Improving Economy, Efficiency and Effectiveness

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



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

### The Council's arrangements for assessing performance and evaluating service delivery

In April 2025, Finance and Corporate Affairs Committee formally adopted a new Council Plan covering the period up to 2030. The Council Plan sets out the Council's vision for the future of Hartlepool in 2030. The Council Plan is designed to be a brief, easy-read document published on the Council website describing objectives and how progress will be monitored but it is supported by action plans that incorporate remedial action against recommendations made by inspectors, auditors and scrutiny reviews. We confirmed through review the Council Plan is monitored bi-annually by the Finance and Corporate Affairs Committee.

We confirmed the Audit and Governance Committee met regularly in the year and has a detailed scrutiny role. Review of minutes confirms this has been implemented in the year.

### Regulatory Report

The latest Ofsted inspection of the Council's Children's Services rated the Council as 'Outstanding' as reported in March 2024. This was a positive inspection result particularly when compared to local and national comparatives. Council run children's homes are judged as 'good' in most recent inspections. A large majority of Councils primary and secondary schools are rated as 'good' or better by Ofsted. Our review of Ofsted reporting identified no evidence to indicate a significant weakness in arrangements.

As reported in the Council's Annual Governance Statement over 95% of services commissioned by the Council for adults with care and support needs are rated as 'good' by the Care Quality Commission (CQC) with no services rated as 'inadequate'. Adult Social Care services delivered by the Council were rated 'Good' by the CQC following an inspection in November 2024. Our review of CQC reporting has identified no evidence of a significant weakness in Council arrangements.

### Partnership working

We confirmed the Council has arrangements for monitoring and reviewing the operation of its key partnerships. A framework of reporting by exception to Executive Leadership Team and Internal Audit provides audit coverage of partnership arrangements. Working with partners is a recurring theme across all priorities in the Council Plan. The Council works closely with Tessa Valley Combined Authority, which has ambitious plans to transform the Marina / Jackson's Landing area, expand the Museum and regenerate the shopping centre.

The Council has a broad range of partnerships, including:

- Hartlepool Community Safety Partnership – formal arrangement between Council Community Safety team, police, fire and Thirteen Housing to address anti-social behaviour and improve community safety.

- Partnership working with Integrated Care Board (ICB), including Better Care Fund to support the introduction of a fully integrated health and social care system.
- Energy Recovery Facility project - joint project across five Tees Valley councils, Durham and Newcastle to procure new facility to process households waste.

Our review of performance monitoring reports suggest partnerships are working as expected. Scrutiny reviews as well as the feedback from partners to the Corporate Peer Challenge review team also indicate no matters.

In 2022/23 the council secured £17m Levelling Up Funding to improve skills and learning as a long-term solution to deprivation and child poverty. This follows previous successful bidding for the Towns Deal and the funds to build a new leisure centre, which is nearing completion. These initiatives involve significant partnerships with central government, the Tees Valley Development Corporation and the private sector. A New Towns Board was established with terms of reference stating the responsibility of the Board and the delivery of the Town Investment Plan.

### The Council's arrangements for commissioning services

The Council has an in-house procurement team that are responsible for implementing the Procurement Procedures in the Constitution.

Within the leadership team the Director of Children's Services is responsible for commissioning and procurement across Children's Social Care, Adult Social Care and Public Health. The good inspection ratings for commissioned social care referred to earlier in this report illustrate effective commissioning arrangements in Hartlepool.

We have identified no evidence to indicate a significant weakness in procurement arrangements that would expose the Council to significant financial loss or failure to deliver efficiency and performance improvements.

### Conclusion

We have not identified any evidence of a significant weakness in the Council's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.

# VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# VFM arrangements - Identified significant weaknesses and our recommendations

## **Identified significant weaknesses in arrangements and recommendations for improvement**

As a result of our work we have not identified any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness of its use of resources.

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

As part of our audit work in previous years, we did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness of its use of resources.

Other reporting responsibilities

# Other reporting responsibilities

## Wider reporting responsibilities

### Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

## Reporting to the group auditor

### Whole of Government Accounts (WGA)

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

05

Audit fees and other services

# Audit fees and other services

## Fees for our work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Governance Committee in September 2025. Having completed our work for the 2024/25 financial year, our proposed fees are as follows:

Area of work	2024/25 Proposed Fee	2023/24 Actual Fee
Planned fee in respect of our work under the Code of Audit Practice (Scale fee set by PSAA)	£321,597	£295,332
ISA 315 - fee Variation for 2023/24 relating to ISA 315 revised (fee set by PSAA)	-	£15,690*
Additional fees in respect of procedures to confirm disclosure requirements had been met for prior period adjustment (fee to be agreed with PSAA)	-	£4,041*
Additional fees in respect of procedures performed due to updated valuations report (fee to be agreed with PSAA)	-	£4,481*
Additional fees in respect of procedures performed associated with the qualification of the audit opinion owing to the lack of Pension Fund assurance. (fee to be agreed with PSAA)	-	£4,000*
Implementation of IFRS 16	5,000*	-
<b>Total</b>	<b>£326,597</b>	<b>£323,544</b>

*\*Subject to PSAA approval and Council approval*

## Fees for non-PSAA work

There is no 2024/25 non-audit fee work planned at this stage.

Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence.

# 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><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• accounting estimates impacting amounts included in the financial statements;</li><li>• consideration of identified significant transactions outside the normal course of business; and</li><li>• journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul> <p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</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><b>Net defined benefit asset / liability valuation</b></p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <p>We also note that in the prior period the backstop date introduced by the Amendment Regulations impeded our ability to obtain sufficient appropriate evidence over the following material elements of the Pension balances disclosed within the financial statements:</p> <p>The value of scheme assets as at 31 March 2024 (£628.250m) as disclosed in notes 45;</p> <p>And the return on plan assets for the year ended 31 March 2024 (£32.275m) as disclosed in note 45.</p>	<p>We addressed this risk through performing the following work:</p> <ul style="list-style-type: none"> <li>• We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls the Council have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary’s output, referring to an expert’s report on all actuaries nationally which is commissioned annually by the National Audit Office.</li> <li>• We reviewed the appropriateness of the key assumptions included within the valuations, compared them to expected ranges and reviewed the methodology applied in the valuation. We considered the adequacy of disclosures in the financial statements.</li> <li>• We sought assurance from the auditor of Teesside Pension Fund in accordance with our normal practices.</li> </ul> <p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</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><b>Valuation of land, buildings, housing and investment property</b></p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council’s holding of land, buildings, council housing and investment properties.</p> <p>Although the Council uses a valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of land, buildings and investment properties due to the significant judgements and number of variables involved in providing revaluations.</p> <p>We have therefore identified the valuation of land, buildings, housing and investment properties to be an area of significant risk.</p>	<p>We addressed this risk through performing the following work:</p> <ul style="list-style-type: none"> <li>• We addressed this risk by considering the Council’s arrangements for ensuring that land, buildings and investment property values were reasonable.</li> <li>• We used data on valuation trends and relevant indices to assess the reasonableness of the valuations provided by the Council’s valuer. We assessed the competence, skills and experience of the Council’s valuer.</li> <li>• We discussed the methods used with the valuer and substantively tested a sample of the in year valuations. For items tested we agreed to supporting calculation sheets and confirmed that the calculations were materially correct. This includes confirming source data used was consistent with floor plans and indices.</li> </ul> <p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</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><b>Accounting for leases under IFRS 16</b></p> <p>IFRS 16 is applicable from 1 April 2024 and is designed to report information that shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.</p> <p>The Council is required to make accounting entries in respect of IFRS16 in its 2024/25 accounts. Application of a new accounting standard to these significant balances will require judgement and presents a significant risk to the material accuracy of the financial statements.</p> <p>In year 1, there is also a significant risk that these will be materially complete.</p>	<p>We addressed this risk through performing the following work:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the methodology adopted by the Council in valuing the right-of-use assets, including the systems, controls, and key judgments applied in determining lease terms and discount rates.</li> <li>• Critically reviewed the accuracy and completeness of the Council’s assessment.</li> <li>• Sample tested the valuation of both right-of-use assets and corresponding lease liabilities.</li> <li>• Considered disclosure adequacy, evaluating whether the presentation of lease balances and related notes in the draft financial statements provided transparent and compliant information to users.</li> </ul> <p>Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.</p>

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

## Summary of uncorrected misstatements (disclosure misstatements)

We report to you only those unadjusted misstatements that are material by nature or exceed our reporting threshold.

- The auditor of the Teesside Pension Fund identified a £36 million understatement of pension fund assets. Hartlepool Borough Council’s share of this is £4.154 million. As the Council is subject to the asset ceiling restriction, this would not impact on the primary statements. The pension disclosure note 42 would change as follows:

£’000s

Dr: Fair value of plan assets 4,154

Cr: Asset ceiling restriction -4,154

- The auditor of the Teesside Pension Fund identified a £2.121 million net understatement of pension fund assets. Hartlepool Borough Council’s share of this is £0.244 million. As the Council is subject to the asset ceiling restriction, this would not impact on the primary statements. The pension disclosure notes would change as follows:

£’000s

Dr: Fair value of plan assets 244

Cr: Asset ceiling restriction -244

# Audit scope, approach, and timeline

## Follow up on previous year deficiencies in internal control

Set out below are the internal control deficiencies identified during our prior-period audit, along with an update on the actions taken by the Council to address those issues. This includes deficiencies raised in earlier audits that remained unresolved at the commencement of our current audit.

### Description of deficiency

Our detailed testing highlighted that some elements of the year end residential homes costs are not recorded in the correct period. Based on follow up discussions Management have confirmed that the Council accounts for 13 lots of 4 weekly payments each year, this means that in each period 1 or 2 days are not accounted for.

### Potential effects

The omission of 1 or 2 days' costs in each period could lead to inaccuracies in financial statements. This misalignment might distort the actual financial position of the Council. Continuance of this practice may potentially lead to material misstatements.

### Recommendation

The Council should account for a full years cost each year, rather than using 13 four-weekly payment runs, which only cover 364 days. Additionally, the Council should ensure that year-end costs are allocated to the correct period.

### Management response in 2023/24

The recommendation is accepted and will be rectified in the 2024/25 accounts.

### Audit Team Update 2024/25

In the prior year, we reported that elements of year-end residential homes costs were not recorded in the correct accounting period. Our FY24/25 work confirmed that Management has addressed this issue. Management has now implemented the necessary adjustments to ensure that year-end costs are recorded in the correct period. Based on the evidence obtained, we consider this internal control recommendation resolved.

# Audit scope, approach, and timeline

## Follow up on deficiencies in internal control *continued*

### Description of deficiency

Our work on property valuations highlighted that the Valuation Report reported a valuation date of 1 April 2023. Our review of valuations noted that the accounting treatment aligned with a 31 March 2024 valuation. The valuation indices used in detailed valuations were closer to the 31 March 2024 than 1 April 2023. But the accounting treatment adopted does not align to a 1 April 2023 valuation. For example, the Code requires accumulated depreciation to be written out at the date of valuation, i.e. the 1 April 2023. However, the Council have written out depreciation as at 31 March 2024 valuation. The difference in asset values if the valuation was accounted for at 1 April 2023 would be a reduction in asset value of £1.502 million. As noted we do not believe this treatment to result in a material misstatement given the carrying amount of the asset at the 31 March 2024 is based on valuation data nearer the 31 March 2024 than 1 April 2023.

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### Potential effects

The misalignment between the valuation date and the accounting treatment could lead to inaccuracies in financial reporting. Incorrectly writing out depreciation for the period ending 31 March 2024, may result in overstated asset values and misstated depreciation expenses, impacting the carrying value of assets.

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### Recommendation

We recommend management revisit valuation dates and ensure that any corresponding accounting treatments are consistently aligned.

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### Management response in 2023/24

Our Valuer has confirmed that it is good valuation practice to use the most up to date indices at the time of carrying out the valuation. As most valuations are carried out in February the valuation date will be amended to 31 March in line with the accounting treatment.

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### Audit Team Update 2024/25

In the prior year, we reported that the valuation report for property, plant and equipment stated a valuation date of 1 April 2023, while the accounting treatment applied by the Council aligned with a 31 March 2024 valuation. As part of our FY24/25 work, we confirmed that Management has addressed this issue. The Council has now aligned the valuation date and the associated accounting treatment in accordance with the Code's requirements. Based on the evidence obtained, we consider this internal control recommendation resolved.

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# Audit scope, approach, and timeline

## Follow up on deficiencies in internal control *continued*

### Description of deficiency

Valuations - Issues Identified with the valuer's report

As part of the valuations work we noted a number of issues in relation to the initial valuations report provided.

- The initial valuation report did not reference Housing Revenue Asset (HRA) properties. An updated report was subsequently provided.
  - Our audit procedures required a reconciliation between the Valuers report and the relevant asset register values, however the report only included the movement in value since the previous valuation therefore meaning a reconciliation was not initially possible. We further note that any assets that had not moved in value were not listed in the valuers report. The valuer subsequently provided an updated report which included this information and a reconciliation was possible.
  - The valuation report did not disaggregate valuations by asset type or valuation method.
- 

### Potential effects

- The initial omission of HRA properties from the valuation report can lead to incomplete financial reporting and misrepresentation of the Council's asset valuations.
  - Without displaying the specific values calculated a reconciliation between the valuer report and asset register is not possible. Without this valuation there is a risk that discrepancies are not identified leading to errors in the valuations uploaded to the asset register.
  - The failure to differentiate valuations by asset type or valuation method, such as Depreciated Replacement Cost (DRC) or Existing Use Value (EUV) makes consideration of the appropriateness of valuations more difficult.
- 

### Recommendation

- Valuation report should include HRA properties.
  - The valuation report should consistently include the value of all assets valued, where asset values have not moved the valuation report should also include these assets.
  - Future valuation reports should differentiate valuations by asset type (e.g. investments, surplus) and valuation method, such as Depreciated Replacement Cost (DRC) or Existing Use Value (EUV).
- 

### Management response in 2023/24

As noted above an updated report was produced during the audit to include HRA properties and the revaluation amount instead of the change in valuation. However, it is not felt that differentiating by asset type will be beneficial as individual valuation reports are analysed by component type, checked for valuation method before entering onto the Council's Asset Register. This is carried out before the Valuers Report is ready.

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### Audit Team Update 2024/25

In the prior year, we reported a number of issues with the initial valuation report provided by the Council's external valuer. As part of our FY24/25 work, we confirmed that Management has resolved these matters. The valuation report provides the information necessary to reconcile to the asset register. Based on the evidence obtained, we consider this recommendation resolved.

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# Audit scope, approach, and timeline

## Follow up on deficiencies in internal control *continued*

### Description of deficiency

Beacon properties are an important method of valuing HRA assets. The documentation available did not explain how each beacon value was determined and did not include three specific comparable properties (as required by guidance) with any adjustments or explanations for those adjustments.

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### Potential effects

The absence of detailed explanations and specific comparable properties can lead to a lack of transparency in the valuation process, making it difficult for management to assess the valuation provided.

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### Recommendation

Future valuation reports should include detailed explanations of how each beacon value is derived. This should include detail of three direct comparable properties for each beacon. The report should also clearly document any adjustments made to these comparable properties.

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### Management response in 2023/24

Our Valuer accepts the recommendation and will incorporate into the 2024/25 HRA valuations, albeit with the caveat it is not always possible to evidence 3 direct comparables and that sometimes a reduced number or the net has to be wider than so called 'direct' comparables.

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### Audit Team Update 2024/25

In the prior year, we reported that the documentation supporting the valuation of beacon properties within the Housing Revenue Account (HRA) was insufficient. As part of our 2024/25 audit work, we confirmed that Management has addressed these issues. The valuation documentation now clearly sets out the basis for each beacon valuation and includes the required comparable properties together with appropriate explanations of adjustments made. Based on the evidence obtained, we consider this recommendation resolved.

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# Audit scope, approach, and timeline

## Follow up on deficiencies in internal control *continued*

### Description of deficiency

During the Council Tax and NNDR walkthroughs, we observed that when parameters are updated in the system at the start of the financial year there was no formal review to ensure the new parameter had been correctly input.

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### Potential effects

Without verification, there is a risk that incorrect parameters are used, leading to inaccurate Council Tax and NNDR calculations.

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### Recommendation

Parameter updates are subject to review to verify their accuracy. This review should be documented.

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### Management response in 2023/24

It was explained during the audit that the parameters are reviewed when they are updated but are not formally signed off. At least 2 colleagues update and review with a further final check before the data is confirmed. We have agreed to introduce a formal sign off for FY 2025/26.

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### Audit Team Update 2024/25

Management has agreed to introduce a formal sign-off process for parameter updates from 2024/25 onwards. As this process will be implemented in the next financial year, we will revisit this internal control recommendation as part of our 2025/26 audit.

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# Audit scope, approach, and timeline

## Follow up on deficiencies in internal control *continued*

### Description of deficiency

The Council revalued their heritage assets as at 31 March 2024. This was the first time since 2018. During our review of the revalued assets we identified several assets which were present on the 2024 insurance valuation schedule which had been historically owned by the Council but had not been recognised within the heritage assets balance. These omissions were not material and have now been recognised.

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### Potential effects

The omission of heritage assets from the accounts disclosure could lead to a material misstatement. Failure to recognise and account for all heritage assets can impact the Council's asset management practices, including maintenance, preservation, and insurance coverage.

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### Recommendation

We recommend the Council complete a review at year end of all Heritage assets recognised against additions in year to ensure the balance at year end is materially complete.

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### Management response in 2023/24

A reconciliation of all assets per the 2004, 2011, 2018 and 2024 valuation schedules has been carried out. The Council has commissioned the external valuer to revalue all assets not revalued as part of the 2024 asset revaluation.

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### Audit Team Update 2024/25

As part of our 2024/25 audit, we confirmed that Management has addressed this issue. We confirmed that Management has undertaken a reconciliation of assets across the 2004, 2011, 2018 and 2024 valuation schedules. The underlying records have been updated accordingly. In addition, the Council commissioned the external valuer to revalue heritage assets that were not included in the 2024 valuation exercise. Based on the work completed in 2024/25, we consider this recommendation resolved.

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