

<b>Report of:</b>	Chief Executive, Director of Legal and Governance Services and the Director of Finance
<b>Submitted to:</b>	Corporate Affairs and Audit Committee
<b>Date:</b>	22 July 2022
<b>Title:</b>	Commencing a Corporate Governance Improvement Journey
<b>Report for:</b>	Discussion
<b>Status:</b>	Public
<b>Strategic priority:</b>	All
<b>Key decision:</b>	Not applicable
<b>Why:</b>	Not applicable
<b>Urgent:</b>	Not applicable
<b>Why:</b>	Report is not for an Executive Committee of the Council.

**Executive summary**

This report sets out how the Council intends to respond to the various corporate governance concerns that have been presented to this committee. The Council will commission the Chartered Institute of Public Finance and Accountancy (CIPFA) to complete an independent assessment of the issues identified to date, as well as undertaking a detailed engagement exercise with all stakeholders to consider whether there are other issues still to be identified and make recommendations on the proposed way forward.

## **Purpose**

1. The purpose of this report is to summarise the ongoing work that has been undertaken to identify weaknesses within the Council's Corporate Governance framework, outline the consequences of these ongoing weaknesses and planned next steps.

## **Background and relevant information**

2. During the course of 2020 and 2021 this Committee has received a range of reports that have highlighted areas of non-compliance with elements of the Council's Local Code of Corporate Governance.

### *Past lessons learned reports*

3. In line with its commitment to ensure lessons are learned from corporate governance issues experienced in the Council and from issues in other councils, in 2020 and 2021, this Committee received the following reports:
  - Boho X – draft findings from internal audit and proposed management response; and
  - Liverpool City Council (LCC) Best Value Inspection.
4. The Boho X report set out corporate governance concerns in relation some elements to the project management of the Boho X project, which although successfully delivered its planned outcomes, was not always managed in line with the Programme and Project Management Framework. That report outlined planned next steps, which are currently being delivered.
5. The report that outlined the background to the Liverpool City Council Best Value Inspection, set out the corporate governance issues. With the intent of learning from this other authority, a self-assessment of Middlesbrough Council was completed at that time. This assessed the relevance of these findings to this Council and identified a range of actions to strengthen local arrangements.

### *Corporate Governance reports on this agenda*

6. In addition to the above, the following items are also on today's agenda which outline in detail, corporate governance weaknesses within the Council's current arrangements:
  - EY's Audit Results Report 2020/21
  - Draft Annual Governance Statement 2020/21; and
  - Lessons learned – Best Value and external assurance within other councils.
7. Alongside the reports set out above, work has also been commissioned by the Monitoring Officer and the Section 151 officer and undertaken by Internal Audit during 2021/22. This work included investigations into the governance arrangements around a range of specific relevant projects, decisions and processes.
8. As a result of work to date, there is now a clear view that while governance processes continue to be in place for the most part, there are control weaknesses that exist in more than one element of the Council's Local Code of Corporate Governance and that these weaknesses are not confined to one area of the Council's organisational

structure. Supporting evidence for this statement is set out within the Annual Governance Statement 2020/21 and will be supplemented with the 2021/22 statement which is due to be published shortly.

9. The Value for Money judgement from Ernst and Young (EY), the Council's External Auditors for 2020/21 is clear, it has found that significant weaknesses existed in the Council's arrangements in relation to Member and senior officer relationships and that this adversely impacted the Council's governance processes. This is set out in detail within the Auditor's judgement. The auditors have also highlighted strained Member to Member relationships.

10. EY have stated within their Value for Money judgement that they:

"...have observed evidence which leads us to conclude that the culture and governance arrangements at the Authority have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework.

During the year ended 31 March 2021, we identified multiple instances where significant decisions were taken by the Authority without following the Authority's established policies and procedures and contrary to the boundaries of the respective roles and responsibilities of officers and members. These include, but are not limited to:

- Significant changes to the design of the Authority's largest capital project, Boho X, occurring outside of the Authority's Programme and Project Management Framework;
- Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Authority's normal procurement processes; and
- Engagement of an external individual to provide mayoral assistance activities which are required by The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 to be performed by an employee of the Authority".

11. EY has made the following recommendation:

"We therefore recommend that the Council develop a comprehensive Improvement Plan to address the cultural and relationship issues which exist within the Council as a matter of urgency. In our view it is the responsibility of all elected members and officers to work together to address these serious matters. This will require the involvement of external specialists as, in our view, the relationships within the Council have deteriorated to a point which the Council will not be able to remedy on its own."

12. The External Auditors have been clear within their statement that if the Council does not take immediate action and if insufficient progress is made within six months, then it will consider exercising further powers and making formal statutory recommendations that would require a formal response from the Council and the Secretary of State would be notified. This could result in government intervention. The lessons learned report on this agenda sets out the possible range of government interventions which could stretch from monitoring of an improvement plan to removal of powers from Members and/or officers, with functions exercised by Government appointed commissioners for a number of years.

### *Next Steps*

13. It is imperative that officers and members from across the Council work together, proactively, to address the issues identified in the various reports that have been considered by this Committee. Failure to do so will result in poorer outcomes for residents, and potentially loss of powers if commissioners are inserted by the Government to take control of powers currently held by Councillors, the Mayor and senior officers.
14. In order to ensure that there is a broad consensus around the steps that need to be taken, an independent body has been commissioned to complete a short piece of work to engage with Members from across the political spectrum, officers and other stakeholders. This work will be completed over 6 weeks and look to identify:
  - A consensus on the issues that exist
  - Where there continue to be differing views on issues
  - Make recommendations on how weaknesses in the Council's processes can be addressed
  - Consider steps that could be taken to begin to address some of the underlying cultural issues which have existed for some time.
15. This piece of work will be led by the CIPFA. One of CIPFA's key roles is as a standard-setting body. The CIPFA 'Delivering Good Governance in Local Government: Framework' is the document on which the Council's Local Code of Corporate Governance (LCCG) is based. The LCCG sets out, in detail, the standards that will be achieved across the corporate governance landscape to ensure good governance. In turn, the Annual Governance Statement that sits within the Council's Statement of Accounts, is a self-assessment of compliance with those standards.
16. As a result, CIPFA will be uniquely placed to provide rapid, expert views on the effectiveness of current systems, policies and processes. The organisation is also currently providing support in a number of councils that have been subject to government intervention and will therefore bring their significant expertise to the table on what effective improvement and cultural change looks like.
17. This proposed response has not been developed in isolation. The Chair and Vice-Chair of this Committee, the Mayor, Executive Member for Finance and Governance, Chief Executive, Monitoring Officer and the Section 151 Officer have all been engaged on this matter.
18. The three Statutory Chief Officers have jointly led the development of this proposed approach.

### *Timetable*

19. The following timetable has been put in place to ensure a rapid conclusion to this exercise so that the Full Council can collectively input into the process to identify the issues, while also enabling it to quickly move into delivery, in order to demonstrate a good pace of progress:

<b>Event</b>	<b>Timeline</b>
Report on CIPFA appointment considered by this Committee	22 July 2022
Range of interviews with officers and Members commences	25 July 2022 onwards
Interim feedback to key officers and members	Mid August 2022
CIPFA findings presented to Council extraordinary meeting	September 2022

20. Findings from the CIPFA work and a proposed action plan will be presented to Full Council for consideration. This will also set out the planned governance and reporting arrangements for the subsequent improvement plan to ensure all Members have the opportunity to comment and contribute.

### **What decision(s) are being recommended?**

21. That the Corporate Affairs and Audit Committee:

- Note the information set out in this report
- Endorses the commissioning of CIPFA to complete this diagnostic work
- Recognise and take up the opportunities to act as champions of the process to proactively ensure that the recommendations of the External Auditor are effectively addressed.

### **Rationale for the recommended decision(s)**

22. The planned actions will ensure the Council takes appropriate steps to address corporate governance weaknesses within its own arrangements.

### **Other potential decision(s) and why these have not been recommended**

23. The Council could choose not to proactively address the issues identified in the recent reports and by its internal and External Auditors. This is not recommended as it would almost certainly result in government intervention and loss of powers for both Members and officers.

### **Impact(s) of the recommended decision(s)**

#### ***Legal***

24. There are no direct legal implications as a result of this report. However, lack of endorsement and the Committee taking the recommendations forward within the process to be established will weaken the Council's ability to resolve the issues and improve its corporate governance leading to the legal implications highlighted throughout this report.

#### ***Strategic priorities and risks***

25. The risk articulated in the existing risk register and set out below is no longer a risk, it has become an issue which must be proactively and effectively addressed:

- O8- 054 'Failure to adhere to the Local Code of Corporate Governance and deliver governance improvements outlined in the Annual Governance Statement'.

## **Human Rights, Equality and Data Protection**

26. Not applicable.

## **Financial**

27. There is a financial cost associated with this report, although this Committee is not the decision maker for that decision.

## **Actions to be taken to implement the recommended decision(s)**

<b>Action</b>	<b>Responsible Officer</b>	<b>Deadline</b>
CIPFA diagnostic work delivered and reported to full Council	Chief Executive	September 2022

## **Background papers**

<b>Body</b>	<b>Report title</b>	<b>Date</b>
Corporate Affairs and Audit Committee	Lessons Learnt – Best Value Inspection of Liverpool City Council	5 August 2021
Corporate Affairs and Audit Committee	Boho X – draft findings from internal audit and proposed management response	6 April 2022
Corporate Affairs and Audit Committee	Statement of Accounts 2020/21;	22 July 2022
Corporate Affairs and Audit Committee	Lessons learned – Best Value and external assurance within other councils.	22 July 2022

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