

**Middlesbrough Council
Update on Response to
Value for Money
Recommendation**

November 2022

Private and Confidential

November 2022

Corporate Affairs and Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Corporate Affairs and Audit Committee Members

In our Draft Audit Results Report presented to the Corporate Affairs and Audit Committee in July 2022 we reported that we had observed evidence which led us to conclude that the culture and governance arrangements at the Council had not been operating as expected, and that this was undermining the effectiveness of the Council's governance framework.

At the same time, we made recommendations to the Council to address our observations and emphasised that the Council needed to address our primary recommendation as an immediate action. Within our value for money commentary, we highlighted that we would follow-up on the Council's response to this recommendation over the following six months. This report provides our assessment of the Council's initial response to our recommendation.

This report is intended solely for the use of the Corporate Affairs and Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during our work on this matter.

We welcome the opportunity to discuss the contents of this report with you at the next meeting of the Corporate Affairs and Audit Committee on 5 December 2022.



Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP



Value for Money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Our observations

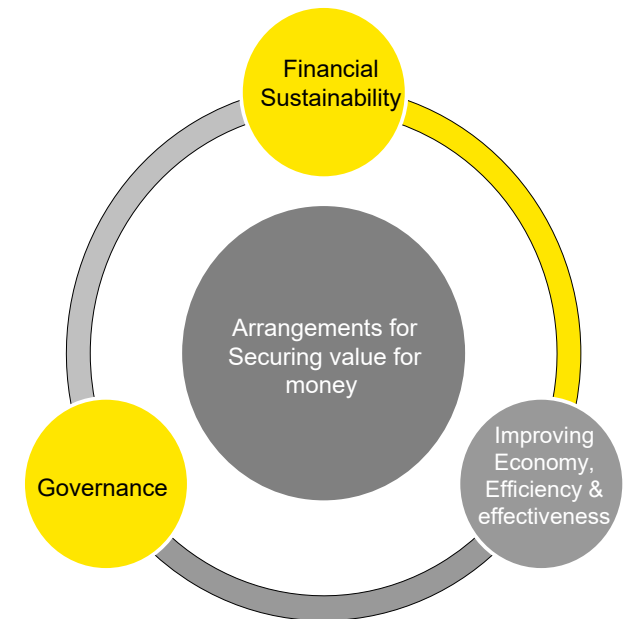
In our Draft Audit Results Report we reported that we had observed evidence which led us to conclude that the culture and governance arrangements at the Council had not been operating as expected, and that this was undermining the effectiveness of the Council's governance framework.

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

- Significant changes to the design of the Council's largest capital project, Boho X, occurring outside of the Council's Programme and Project Management Framework.
- Purchase of Covid-19 tests, which were not authorised for use in the United Kingdom, outside of the Council's normal procurement processes.
- 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.

In addition, we reported our observation that there is a pervasive lack of trust within the Council between officers and elected members, and between elected members, which is having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of officers and members not being adhered to.

Further details of our observations were set out in our auditor's commentary on the Council's value for money arrangements, a copy of which may be found at Appendix A.





Value for Money

Our recommendation and management’s response

What was the recommendation?

We 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.

What was management’s response?

The Council has proposed, within the draft Annual Governance Statement, that a Corporate Governance Improvement journey is commenced. It is intended that this will be informed by the views of external specialists, CIPFA, who have been commissioned to undertake an independent diagnostic piece of work, engaging with all stakeholders over the summer. This will inform the proposed content of a Corporate Governance Improvement Plan which will be submitted to Full Council for consideration.

In order for this to be successfully delivered, it will require full buy in from all stakeholders in this process. There is a significant risk that this action cannot be achieved if this is not gained. This is reflected within the Annual Governance Statement and has been highlighted to EY.

What was the timescale?

October 2022

Management’s actions

Alongside our Draft Audit Results Report, the July 2022 meeting of the Corporate Affairs and Audit Committee was presented with a joint paper from the Council’s Chief Executive, Section 151 Officer and Monitoring Officer entitled ‘Commencing a Corporate Governance Improvement Journey’ which sought endorsement from the committee to appoint the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake an initial diagnostic piece of work to better understand the cultural and governance issues which exist within the Council and propose further steps to address these. The committee provided the requested endorsement and the CIPFA review commenced in late July 2022.

Following interviews with over 40 individuals from across the Council, including members of the Executive, political group leaders and senior officers, and a review of other documentation, CIPFA issued the results of their review in September 2022. The review further highlighted the significance of the cultural and governance issues at the Council, concluding:

“It is clear from what we have seen that the issues facing the Council are significant. They are having a negative impact on the culture of the Council and, as identified by the External Auditor, affecting the Council’s ability to deliver good governance. In the context of what will be a very difficult 2023/24 budget settlement, and a cost-of-living crisis that is affecting the lives of the citizens of Middlesbrough, the issues identified in this report have the potential to increase the risk that the Council will not be able to deliver its priorities.

The Council has an opportunity to make considerable improvements, but not without acceptance that the issues contained in this report are real, serious and need resolution.”

Alongside their observations, CIPFA recommended the development of an action plan to address the issues raised and the use of cross-party working groups to involve members in this process. The CIPFA report and recommendations, alongside management’s proposal for an Improvement Board to oversee the action plan was presented to, and approved by, a meeting of the full council in October 2022.



Value for Money

Management's actions (continued)

The Improvement Board will have an independent chair from the Local Government Association, and membership which includes the Council's Mayor, the Executive Member for Finance and Governance, the Chief Executive, the Monitoring Officer, political group leaders and a representative from CIPFA. It will be supported by four task and finish sub-groups focusing on roles and responsibilities within the Council, training and development, the Council's Constitution and the culture and communications within the Council.

The first meeting of the Improvement Board took place on 2 November 2022, at which the Board approved its terms of reference and an action plan based around 30-, 60- and 90- day milestones.

The Annual Governance Statement

Also alongside our Draft Audit Results Report and the 'Commencing a Corporate Governance Improvement Journey' management paper, the July 2022 meeting of the Corporate Affairs and Audit Committee received an update from the Council's Chief Executive and Section 151 Officer which articulated that, at that time, they did not feel able to sign the Council's Annual Governance Statement for the year ended 31 March 2021 on the grounds that the statement did not fully reflect the size and scale of the cultural change required at the Council.

An updated version of the Annual Governance Statement was produced in September 2022 which includes additional narrative highlighting further deterioration in relationships at the Council since 31 March 2021, concerns that there is insufficient acceptance of the significance of the cultural issues at the Council and their impact on the Council's governance processes and, consequently, that there are significant risks to the Council being able to deliver the necessary improvement.

Similar concerns regarding the acceptance of the scale of issues at the Council and the Council's ability to deliver improvement have also been raised to us by multiple members of the Council.

Our assessment

The Council has taken positive actions to respond to our recommendation, including the commissioning of external work by CIPFA to assist in identifying the root causes of relationship issues at the Council and an action plan to address them, implementation of an Improvement Board with an external chair and strong representation from elected members and senior officers, and reporting of these actions through full council.

These steps are in-line with those we expected to see from the Council in responding to our recommendation and the future actions identified to date appear to be appropriate steps towards addressing both the depth and breadth of cultural and governance issues at the Council.

It is however clear that there is significant concern amongst a number of stakeholders over the ability of the Council to deliver on these actions, characterised by expressions of a lack of confidence in the acceptance by individuals of the significance of the governance issues identified at the Council and the commitment of all necessary stakeholders towards meaningful change. It will take all of the Council's elected members and senior officers working together to address the issues faced by the Council, however it remains unclear whether this can be achieved.

In addition, the Improvement Plan prepared by the Council focuses on actions to be completed over the next 90 days. Whilst these are positive first steps, the Council will not be able to enact the necessary cultural changes within the Council which are required within this timescale, and concerted effort over a much longer period of time will be required.



Value for Money

Our conclusion

It is clear that significant barriers to implementation of the Improvement Plan exist, however the actions taken to date have been appropriate and given sufficient prominence amongst elected members and senior officers. On this basis, we do not consider that it is either necessary or would be beneficial to escalate our recommendation through the exercise of additional auditor reporting powers (inc. a statutory recommendations) at this time. The Council is currently taking appropriate steps and should be given time to demonstrate whether those steps can have the necessary impact on the Council's culture and governance.

We will however continue to monitor the progress of the Council against the Improvement Plan as part of our value for money assessment, where we have recognised the Council's governance as a risk of significant weakness, and report on the Council's progress through our value for money commentary. Should this assessment provide evidence that the Council is not making satisfactory progress against the Improvement Plan or the actions taken are not having the necessary effect on the Council's culture, we will reconsider whether a statutory recommendation or exercise of other auditor reporting powers may be appropriate.

Commentary on value for money arrangements

We include below a copy of our commentary on the Council's arrangements for securing value for money from its use of resources which was presented to the July 2022 meeting of the Corporate Affairs and Audit Committee within our Draft Audit Results Report.

Commentary of value for money arrangements

Scope and risks

We have complied with the NAO's 2020 Code (2020 Code) and the NAO's Auditor Guidance Notes in respect of VFM. We presented our VFM risk assessment to the 5 August 2021 Corporate Affairs and Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of minutes from the Council's committees and Section 151 Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team. We reported that we had identified one risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

Provision of Children's Services

We qualified our VFM opinion for the year ended 31 March 2020 in respect of the Council's provision of children's social care services following an assessment by Ofsted in December 2019 that services were inadequate. Following the Ofsted inspection, the Council put in place an Improvement Plan and subsequent reports by the appointed Commissioner for Children's Services in Middlesbrough and Ofsted supported that the Council has put in place appropriate governance structures to respond to the Ofsted findings.

Nevertheless, there remained a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during the year ended 31 March 2021.

We responded to this risk by making enquiries of management to understand the progress being made against the Improvement Plan and reviewing the findings of subsequent external assessments of the Council's Children's Services as third party evidence of the progress being made by the Council. Based on the insight gained from these procedures, we formed an assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that no significant weakness existed. Further details of our assessment are provided within the 'How the body evaluates the services

it provides to assess performance and identify areas for improvement' section below.

During the course of our audit, additional matters came to our attention which indicated a further risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021. We therefore recognised a further significant risk of significant weaknesses in the Council's VFM arrangements for the year ended 31 March 2021.

Member and Senior Officer Relationships

During the course of our audit a number of matters were brought to our attention by management, internal audit, elected members and external parties which indicated potential weaknesses in the Council's governance arrangements and its ability to ensure Council policies and procedures were adhered to. We noted that a common theme to the matters brought to our attention were observations and concerns about strained relationships between the Council's senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council's governance processes. Based on identification of these matters and in accordance with the proper arrangements criteria set out in the 2020 Code, we recognised a risk that the Council did not "have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

We responded to this risk by following up on each of the individual matters brought to our attention through enquiries of management and the Council's internal auditor, review of reports and other documentation, including reports commissioned by management to investigate the more serious concerns raised and consideration of the consistency of the information obtained in the course of these enquiries with other information obtained during the course of our audit. Based on the insight gained from these procedures, we formed our assessment of whether a significant weakness in the Council's arrangements existed during the year to 31 March 2021. We concluded that significant weaknesses did exist, and provide further details of these in the sections below.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Reporting

We completed our VFM arrangements work in [TBC] and identified a significant weakness in the Council's VFM arrangements in relation to member and senior officer relationships and the impact of these on the Council's governance processes. We reported this matter by exception in the audit report on the financial statements and provided further details in the Audit Results Report. We include within the VFM commentary below the associated recommendation(s) we have agreed with the Council.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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

Introduction and Context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a

governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Governance

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a number of Executive and other committees, operating at both Council-wide and service level, which are responsible for approving key decisions. Committee discussions are informed by a standard reporting template which sets out the background to the decision, available alternatives to the proposed decision, the advantages and disadvantages of available options and any financial or legal implications for the Council of the proposed action.

The Council also has an Overview and Scrutiny Board whose role is to scrutinise the performance of Council functions and the decisions taken by Executive committees. The Overview and Scrutiny Board is supported by 7 Scrutiny Panels and a joint committee with Redcar and Cleveland Council, with each able to refer decisions back to the Executive for further consideration.

The Corporate Affairs and Audit Committee receives reports on the Council's internal control environment from internal and external audit and monitors the implementation of recommendations to address identified weaknesses.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

The Council's largest project during the year was the development of a specialist digital office space known as Boho X. The Council's Executive originally approved a 60,000 square foot design for this project in March 2019, before approving a revised 20-floor 100,000 square foot design in March 2020. Between March 2020 and August 2020, the design of Boho X changed again from the 100,000 square foot design to a revised 6-floor 60,000 square foot design. We have not sought to assess the merits of each Boho X design nor the strength of the evidence base informing them.

Under the Council's Constitution, elected members have no role in the delivery of projects, however changes in design were recorded by the external contractor as being approved by the Council's Mayor and followed meetings between the contractor and the Mayor which were held without Council officers being present. The changes in design were not submitted through the formal project change control process, as required by the Council's Programme and Project Management Framework (PPMF), and no meetings of the Internal Project Board were held during the period when changes occurred. The impact of the Covid-19 pandemic was cited by the Council as the reason for the change in design during public consultation and approval by the Executive of the revised design, however there is no documentation of the reasons for the change to support this assertion and the decision-making process remains unclear. Whilst the Council's Mayor understood that he had been authorised to discuss changes to the design with the external contractor by a senior officer, in our view the communication on which this was based did not explicitly provide such authority and such approval would in any event have been contrary to the Council's Constitution and the PPMF. It is therefore our assessment that there have been significant weaknesses in the Council's management of the Boho X project which undermine the Council's ability to demonstrate that the project represents value for money for taxpayers.

In addition to the changes in design for the Boho X project, we have identified several other transactions entered into by the Council during the year where Council policies and procedures were not followed and where a lack of adherence to the respective roles of officers and members was a key factor. These included the purchase of Covid-19 antibody tests which were not approved for use by the Medicines and Healthcare Products Regulatory Authority and therefore could not be used as the Council had intended, and the provision of political and

administrative support to the Mayor by an outside party. In both cases, concerns about the proposed transactions were raised by senior officers prior to the transactions being entered into however both subsequently proceeded without following the Council's proper procurement processes. Whilst the monetary value of these transactions was not significant in the context of the financial statements, they demonstrate that the weaknesses identified in the Boho X project were not a one-off and that there are wider weaknesses in the Council's arrangements in particular where reliant on appropriate working between officers and elected members.

We have also noted multiple further examples of difficult relationships between officers and members, and between members, across a number of areas in the course of performing our audit work. As part of our reporting on the Council's audit for the year ended 31 March 2018, we reported that:

"We have observed that the relationship between some Councillors and senior officers is strained. This appears to be due to a mutual level of mistrust. Officers consider that the level of challenge provided by some Councillors is excessive. Officers have also noted that they are required to spend disproportionate amounts of time on issues that, in their opinion, have been previously addressed. We note that concerns about the style of communication between members and officers have also been expressed that have resulted in Standards Committee action.

In contrast, some members consider that the information provided by officers, in relation to their challenge, is in some cases not adequate or is deliberately withheld, and as a result they are unable to make informed decisions. This has also led to members sharing concerns directly with internal and external audit regarding ongoing matters as a way to address their concerns, rather than being confident to address matters with the responsible statutory officers and ultimately the head of paid service."

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Since 2018 there have been a number of changes to both the senior officers of the Council and to elected members. Despite these changes, our observations during the year ended 31 March 2021 are that a lack of trust is still pervasive within the organisation and is undermining the effectiveness of the Council's governance arrangements. In our view these are serious matters indicative of deep rooted cultural and relationship issues which require urgent action. This lack of trust extends beyond the relationships between officers and members to the relationships between members, in particular between the Council's Executive and other members. This in turn hinders efforts to improve the relationships between officers and all members, as officers feel they are regarded by members as 'taking sides' in areas of disagreement between members.

1. 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.

We consider that the Council needs to take this step as an immediate action and we will be following up on the Council's response to our recommendation over the next 6 months. Where we remain unsatisfied with the Council's progress, we will consider exercising our further powers by making formal statutory recommendations. This would require a formal public response from the Council and be notified to the Secretary of State.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council's Overview and Scrutiny Board monitors the performance of the Council's services and has the power to invite expert witnesses, such as professionals or service users, to advise the Board. The Council's Constitution includes Codes of Conduct for both elected members and employed officers which set out the expected behaviour of individuals, including the management of conflicts of interest. Failure to adhere to the Codes of Conduct may result in disciplinary proceedings under the Council's HR policies.

Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council. A gifts and hospitality register is also maintained and available for public inspection.

Like many organisations, the Council is reliant on self-reporting by elected members and officers of any conflicts of interest, however we have identified a small number of instances where declarations made by elected members were either incomplete or inconsistent with previous declarations. We have also observed that there is a lack of trust between elected members that relevant interests are declared at decision making meetings, which contributes to a lack of confidence from some elected members in decisions being taken.

2. We therefore recommend that refresher training be provided to all of the Council's elected members on the requirements of the Council's Code of Conduct for Members, including the disclosure of pecuniary interests and the Seven Principles of Public Life (also known as the 'Nolan Principles'), as set in the Council's Constitution.

3. Whilst we recognise that the responsibility to declare actual or potential conflicts of interest sits with members under both statute and the Council's Code of Conduct, given our observations we also recommend that management implement additional assurance checks over elected member declarations of interest, for example by cross-referencing to Companies House records or declarations made by elected members to other public bodies, to provide additional comfort over their completeness.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

As a local authority with a mayoral model, the Council is entitled to utilise its resources to appoint a mayoral political assistant. A mayoral political assistant is a local government employee who undertakes research and provides administrative support to the Mayor. The mayoral political assistant post is a politically restricted post, and there are strict rules set out within The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002 which govern appointments to this post. These include that the role must be performed by an employee of the Council. The Council's mayoral assistant post has remained vacant since September 2019.

Between October 2019 and November 2020, the Council engaged an external advisor through a local publicity company, at a cost of £32,000, to work directly with the Council's Mayor. The Council has been unable to explain the exact nature of services provided by this external advisor, however it has accepted that they likely included activities which fall within the scope of the role of the mayoral political assistant. This arrangement was terminated in November 2020 after it was assessed by the Council to be unlawful under The Local Authorities (Elected Mayor and Mayor's Assistant) (England) Regulations 2002. The payments made to the publicity company under this arrangement were therefore also unlawful, however we note they were not material to our opinion on the Council's financial statements.

The arrangement was entered into by the Council without following either the Council's recruitment policies, which would have applied to a permanent employee of the Council, or the Council's procurement policies, which would have applied to an external supplier. Payments to the publicity company were directly approved by the Council's Chief Executive despite the Council not being able to explain the nature of services received. Notwithstanding the lawfulness of the arrangement, by making payments to a supplier without understanding the nature of services being received in exchange for those payments the Council is unable to demonstrate that the payments represented value for money for taxpayers.

4. We therefore recommend that management undertake a review to establish whether there are any other arrangements at the Council which may have been entered into without following proper Council processes and, if so, review those arrangements to ensure that they are appropriate and represent value for money for the Council.

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

The Council maintains a Strategic Risk Register which is used to record and monitor the most significant risks, both financial and non-financial, identified by the Council. Beneath the Strategic Risk Register, each directorate maintains its own risk register and can escalate risks up to the Strategic Risk Register when sufficiently significant.

The strategic and directorate risk registers are reviewed monthly by the Leadership Management Team and directorate management teams, respectively. The Strategic Risk Register is also reviewed quarterly by the Executive and the Overview and Scrutiny Board.

Internal audit undertake an annual programme of work to provide assurance over the operation of the Council's internal controls. Risks identified and recorded on the Council's risk registers are used to inform the annual internal audit plan. Internal audit also provide a programme of counter-fraud activity to the Council.

A number of the matters which have been brought to our attention during the course of our audit were also reported to senior officers and the Council commissioned several reviews by internal audit to respond to the matters raised. These included reports on the management of the Boho X project, the purchase of the Covid-19 tests and the completeness of member declarations of interest. In our view, the scope of this work was not always sufficient to provide assurance to management on the full extent of issues or the wider risks posed to the Council as the work was narrowly defined and it was not always evident that there was follow-up on findings which indicated areas where additional risks may exist beyond the initial scope of work. Budget limitations were cited as a reason for this, however the reports produced did not highlight these areas for consideration of follow-up work by officers or the Corporate Affairs and Audit Committee. Significant reliance was also placed by internal audit on verbal evidence from individuals relating to events which occurred sometime previous, and there appeared to be a lack of documented challenge by internal audit to assertions received from those subject to enquiry.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

5. We recommend that management consider whether further assurance is required to establish whether the risks identified by the Council to date are complete and the actions taken to respond to those risks sufficient.

6. We also recommend that management work with internal audit to ensure that where future pieces of work identify evidence of wider risks which are not immediately followed-up on, these are reported so that the Council's officers and the Corporate Affairs and Audit Committee can decide whether further investigation is appropriate.

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

The Council maintains a Strategic Plan which sets out the key priorities for the Council, including those of the Mayor, over a multi-year period. The Strategic Plan forms the basis for the Council's budget setting exercise, along with forecasts from individual directorates for existing plans and services. These are collated with assumptions for cost pressures and future funding levels to produce a draft budget.

The draft budget is reviewed and stress tested for different scenarios by the Council's Leadership Management Team and Executive, before being issued to key stakeholders for consultation.

Management review the responses received from stakeholder consultations and make any necessary amendments to the draft budget, before submitting the finalised budget to meeting of the full Council for approval.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council delegates budgets to individual cost centre managers, who are responsible for ensuring delivery within the delegated budget. Financial training is provided to all budget holders, who meet regularly with finance business partners to monitor financial performance.

Financial performance against budget and updated forecasts for the remainder of the year are presented to the Council's Leadership Management Team and

Executive on a quarterly basis, along with proposals for corrective actions where required.

Improving economy, efficiency and effectiveness

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

Financial performance is monitored via management accounts and presented to the Executive and Corporate Affairs and Audit Committee on a quarterly basis. Reporting includes comparison of both performance to date and full-year forecasts against budgets, with explanations provided for significant variances. Comparison is also made to the position in previous reporting to monitor whether improvement actions have had the desired impact.

Beneath the Council's high-level reporting, budgets and performance are monitored at service line and budget holder levels, with individual budget holders responsible for ensuring delivery against delegated budgets and the accurate forecasting of future performance.

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

Business intelligence dashboards are used by both Council leadership and service line management to monitor key performance indicators across the Council's services and track the implementation of previously agreed actions.

In January 2020, the Council's provision of childrens social care services was rated inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted), who noted that 'leaders have not sufficiently focused on the significant areas of weakness to ensure that the needs of children and care leavers are properly met'. Our value for money opinion in 2019/20, issued in accordance with the 2015 Code of Audit Practice extant at the time, was qualified in respect of this matter.

In response to the Ofsted findings, the Council implemented a Children's Services Improvement Plan. Delivery against this plan is overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

The appointed Commissioner for Children's Services in Middlesbrough issued a 12-month review of the Council's progress against the Improvement Plan in July 2021, covering the period to May 2021. This review noted that "considerable progress has been made and there is evidence of real impact" and recommended that the Council be allowed to retain control of its Children's Services. The report did however note that the Council's Improvement Plan remains a multi-year exercise and, whilst good progress is being made, the Council has more to do before its Children's Services can be considered as adequate in all regards.

Whilst we note that the Council's Children's Services are not yet consistently delivering the expected levels of performance, this reflects the status of the service at the start of the 2020/21 financial year. The Council's actions during the year to 31 March 2021, as assessed by the Commissioner for Children's Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2020/21 to deliver against the Improvement Plan. We do not therefore report a significant weakness in the Council's arrangements during the year ended 31 March 2021 in respect of the provision of Children's Services, however we will continue to monitor the Council's progress against the Improvement Plan.

The provision of children's social care is a key financial pressure for the Council. Whilst the Council has invested additional resources in the delivery of the Children's Services Improvement Plan, it is management's expectation over the medium term that the improvements in service delivery will ultimately decrease costs by more effectively meeting the needs of service users during the earlier, lower cost, stages of care.

How the body 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 has a Partnership Governance Policy which governs how the Council develops and manages its partnerships. All new partnership arrangements are considered to be projects and subject to the approval processes of the Council's Programme and Project Management Policy.

Each partnership arrangement has a dedicated lead manager who is responsible for managing the partnership's performance and governance. A register is

maintained of all Council partnerships and the performance of significant partnerships is included in quarterly performance reporting to the Executive and Overview and Scrutiny Board.

A number of the Council's elected members also hold positions in local and regional partner organisations to promote effective cross-working between partnership members.

Through the Multi-Agency Strategic Board and Multi-Agency Operational Board, the Council has worked particularly closely during 2020-21 with the Department for Education (DfE) and the DfE appointed Commissioner for Children's Services in Middlesbrough on the delivery of the Council's Children's Services Improvement Plan.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council uses the North East Procurement Organisation (NEPO), a regional procurement hub for North East local government authorities, for all of its tendered procurements. NEPO also maintains a public contracts register which lists all of the Council's current contracts. The Council also has a central procurement unit, which provides support to individuals within the Council overseeing procurement activity through NEPO.

The Council has a Strategic Procurement Strategy and Contract Management Framework which are used to provide a framework for the commissioning of services and evaluation of the services received under awarded contracts.

The monitoring of the performance received from suppliers is integrated into the Council's overall processes for monitoring the delivery of its services to service users, as detailed above.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

Financial sustainability

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

The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following three years. Key inputs to this exercise include forecasts for pay and non-pay inflation, changes in the level of demand for the Council's services and changes in funding received from central government. The MTFP for 2021-24 also included consideration of additional costs and funding relating to the Covid-19 pandemic.

The Council's finance team work with the heads of individual directorates to identify cost pressures, including due to changes in demand for services, and model the impacts of different scenarios on the Council's finances. Significant changes are discussed by the Leadership Management Team and Council Executive prior to being implemented in the MTFP.

Performance against the current year's budget is monitored on a quarterly basis during the year and used to identify cost pressures which require reflecting in subsequent MTFPs.

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

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding. For the 2021-22 budget, a budget gap of £1.626 million was identified.

Individual directorates are required to identify potential savings within their service area, which may arise from reductions to expenditure or increases to income. Savings may also be identified through the Council's finance team, as they are not always directly related to service delivery. Where proposed savings may have a significant impact on service delivery, the Council holds a public consultation prior to incorporating the saving into financial plans.

The level of savings identified and incorporated into the Council's budget exceeds the required level of savings to provide additional buffer against the non-achievement of planned savings. For the 2021/22 budget, identified savings exceeded required savings by £0.695 million.

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

The impact of changes to the Council's financial plans are modelled through a minimum of 3 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle.

The Council aims to meet the costs of its day-to-day activities from available funding, but borrows for capital investment purposes. The impact of planned borrowing (i.e. interest charges) is incorporated into the Council's revenue budget and MTFP.

During 2020/21, management undertook a self-assessment against the CIPFA Financial Management Code, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Several actions were identified to strengthen the Council's processes, however no major weaknesses were noted.

Under the Council's constitution there is a clear delineation between the responsibility for setting the Council's strategic objectives, which sits with members and the Executive, and the responsibility for delivery of the operational activities which underpin the strategic objectives, which sits with officers. We have however identified multiple instances, as detailed above, where the involvement of members strayed into operational matters. We also note that where this occurred, it was often known to officers and insufficient challenge was provided to members on the boundaries of members' and officers' respective responsibilities. A lack of adherence to the delineation between strategic and operational responsibilities increases the risk that operational decisions are taken which are not optimal for the Council or the Council is unable to demonstrate represent value for money. Examples of this noted above include the Boho X project and the purchase of Covid tests.

Commentary on value for money arrangements (continued)

Commentary on value for money arrangements (continued)

7. We therefore recommend that the Council provides additional training to members and officers on the boundaries of respective responsibilities under the Council's Constitution. The Council should also seek to ensure that a culture of challenge, where these boundaries are not being adhered to, is understood by and expected from all parties as part of the wider Improvement Plan to address the cultural and relationship issues which exist within the Council.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council develops its Capital Strategy and Investment Strategy alongside the MTFP and incorporates the revenue impact of planned capital expenditure and borrowing into the MTFP.

The Council operates a finance business partner model to facilitate regular communication between finance staff and the Council's directorates to ensure that other plans being prepared by the Council are consistent with the Council's financial planning.

The Council also requires that all decisions which are deemed significant enough to warrant approval by the senior management team or elected members are approved by the Council's Director of Finance to ensure that the financial implications of significant decisions are considered and reflected in the Council's financial planning.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures. During 2020-21, management released a previously held Investment Fund Reserve to offset the impact of the Covid-19 pandemic on the Council's finances.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal

activities. During 2020/21, the Council increased this minimum level from £9.4 million to £11 million, effective from 2021/22, to reflect higher uncertainty in the Council's financial projections, including the ongoing impact of the Covid-19 pandemic. At 31 March 2021, the Council's General Fund balance was above the £9.4 million minimum level in effect for 2020/21 at £10.5 million and is forecast to increase to the revised minimum level of £11 million during 2021/22.

The Council's MTFP produced during 2020/21 included a balanced budget for 2021/22 and indicative budgets for 2022/23 and 2023/24. The MTFP forecast a budget deficit of £0.6 million in 2022/23, which the Council intends to finance from reserves, and a budget deficit of £3.1 million for 2023/24 which the Council will need to address in future MTFPs.