

<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	The Mayor and Executive Member for Adult Social Care and Public Health Chief Executive
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<b>Submitted to:</b>	Executive
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<b>Date:</b>	19 July 2023
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<b>Title:</b>	Governance Improvement: Next steps – Resourcing the Financial Recovery and Resilience and Cultural Transformation programmes
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<b>Report for:</b>	Decision
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<b>Status:</b>	Public
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<b>Strategic priority:</b>	Quality of service
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<b>Key decision:</b>	Yes
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<b>Why:</b>	Decision(s) will incur expenditure or savings above £150,000
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<b>Urgent:</b>	Yes
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<b>Why:</b>	Due to the significant financial pressures it is impracticable to defer the decision until it has been included in the forward work programme
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<b>Executive summary</b>
<p>The purpose of this report is to set out the funding ask to support delivery of the financial recovery and resilience and cultural transformation programmes of work that will underpin the Council's corporate governance improvement plan. Other reports will be brought forward as necessary to set out resourcing requirements of the overall programme structure and delivery of other workstreams.</p> <p>For the Executive to consider and approve proposals to draw down from the Corporate Budget, in order to resource the activities identified as part of the next phase of the Corporate Governance Improvement journey, detailed within the Corporate Governance Improvement Next Steps report approved at full Council on 5 July 2023 and as follows:</p>

Executive are asked:

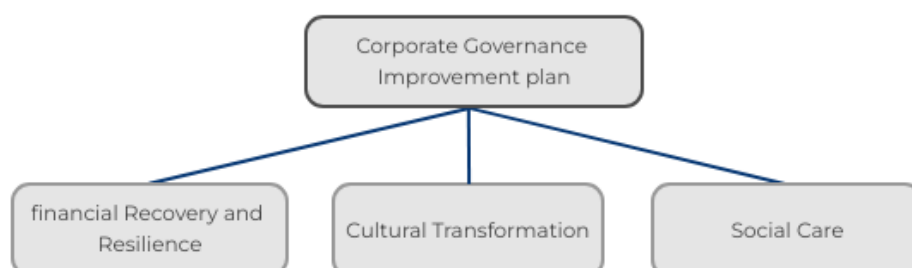
- to note the requirement of additional resources across corporate support services to support delivery of the financial recovery and resilience programme of work within the Corporate Governance Improvement Plan
- to note the requirement for initial funding to commence elements of work within the Cultural Transformation programme of work within the Corporate Governance Improvement Plan
- to approve the funding of up to £491,800 of additional expenditure to secure these additional staff resources, along with the necessary procurement activity to be funded from the available Corporate Contingency Budget.

## Purpose

1. The purpose of this report is for the Executive to consider and approve proposals to draw down from the Corporate Contingency Budget in order to fund additional resources to deliver elements of activities identified as part of the next phase of the Corporate Governance Improvement journey, as identified in the Corporate Governance Improvement: Next Steps report approved at full Council on 5 July 2023.

## Background and relevant information

2. The Council faces significant financial challenges during 2023/24 and over the medium-term, as reflected by the conclusion in the recent CIPFA review reported in February 2023 and in the External Auditor's Annual Report for 2020/21, considered by the Corporate Affairs and Audit Committee, on 29 June 2023.
3. Phase 3 of the Council's Corporate Governance Improvement Plan was reported to Council for information on 5 July 2023. The diagram below sets out its structure. This report seeks funding to support action in relation to two of the programmes of work that will be delivered by the overall improvement plan. As the Plan continues to be scoped and developed collaboratively with the Advisory Panel that was outlined in the 5 July 2023 Council meeting, there may be further reports brought forward on resourcing to this body. Reports on progress against the plan, scoping etc will be taken to Corporate Affairs and Audit Committee and full Council.

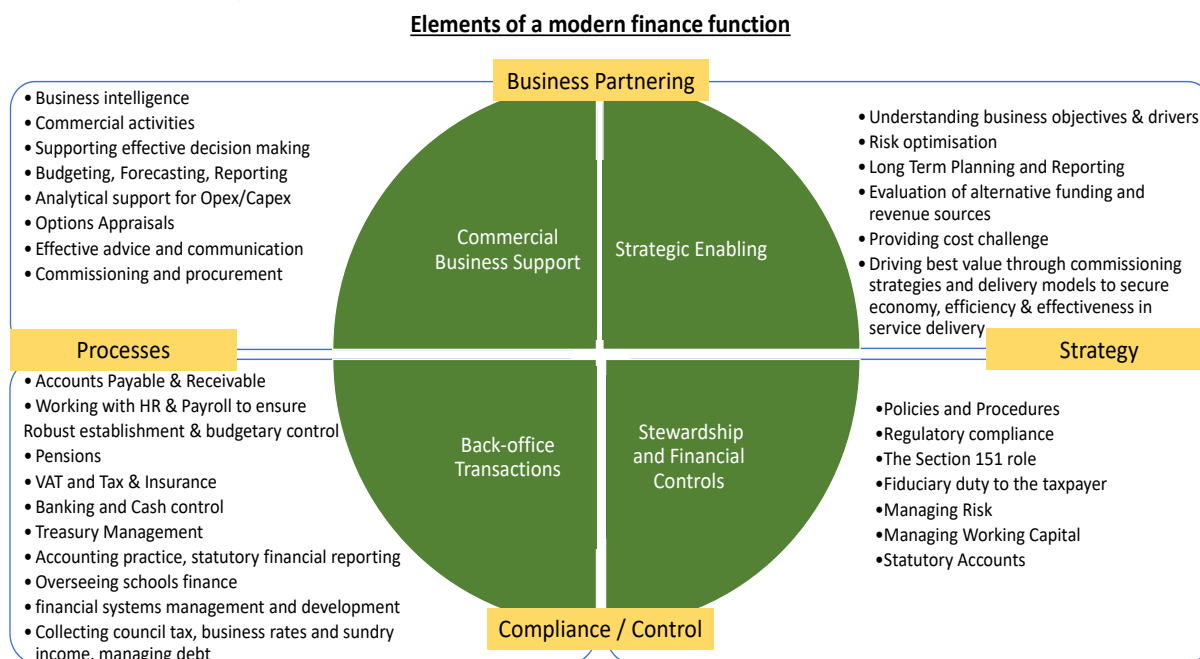


## Financial Recovery and Resilience Programme

4. Within the financial recovery and resilience theme there are four specific areas of focus for the next 12 months, critical to the future success of the Council:
- Strengthen grip on budgetary control, savings delivery and assurance processes to maintain financial balance.
  - Improve the quality and timeliness of internal and external financial reporting.
  - Strengthen financial governance and secure compliance.
  - Rebuild financial sustainability through the development of a robust 3-year Medium-Term Financial Plan (MTFP) and associated strategies.

### Medium-term vision for Finance

5. The Finance Directorate delivers a range of critical services which underpin the delivery of financial management arrangements across the Council. The diagram below sets out the range of services that a modern finance function should offer:



6. The current service focusses resource on compliance, control and operational process management. Whilst essential activities delivering the foundations of robust financial stewardship, there is potential to realise efficiencies in these operations through more effective use of financial systems, driving cross-organisational compliance with financial processes to deliver timely, accurate and complete financial information which supports strategic decision-making.
7. Over the medium-term, it will be necessary to review the Finance service to develop an operating model capable of delivering a more balanced approach to all aspects of financial management. This will require a shift in ownership and accountability for financial management to budget holders, providing Finance staff with additional capacity to deliver more efficient transactional and control activities thereby focusing their activities in areas which add greater value through, i.e. driving more effective financial strategy, value for money in decision-making and an integrated approach to financial, performance and risk management.

### Short-term priorities for Finance

8. In the short-term, it is essential that the Finance Directorate is adequately resourced to enable the organisation to achieve financial recovery and resilience under Phase 3 of the Corporate Governance Improvement Plan. Currently, the accountancy function within the Finance Directorate lacks sufficient capacity and capability to support at the pace required over the course of the 2023/24 financial year, as a result of reductions in staff resources over several years due to budget reductions which has seen some essential accountancy practices being reduced or stopped. Further details are set out below.
9. The current Section 151 officer has been appointed on a 6 month contract, a separate report has been submitted to the Chief Officers Appointment Committee for their consideration which proposes that this term is extended until the end of June 2024 in order to provide leadership stability in that area. The costs for the extension, where they exceed the budget for the post, are included within this report for in principle approval, though the decision to extend the appointment remains with Chief Officers Appointment Committee.

### Budgetary controls

10. The recent work required to re-establish monthly budget monitoring and introduction of budget challenge clinics has produced a critical assessment of the Council's financial position and early development of a plan to establish the management actions required to maintain financial balance. However, this has placed a significant strain upon the Finance Business Partnering Team given that services are currently dependent upon finance staff to provide financial information reports and interpret the budget position.
11. To establish a firmer grip upon the financial position, Directors and their management teams will be enabled to access and own their budgetary information more directly and independently of the finance team. Currently, the finance system is not managed and operated in a form that is directly accessible to Budget holders and is instead a tool for accountants, requiring manual intervention to produce financial management reports meaning, budgetary control is heavily dependent on Finance Business Partners. There is therefore an immediate need to supplement Business Partner capacity, to support critically important budgetary control and forecasting work, alongside addressing barriers for budget holders to access financial management information.
12. While work progresses to develop business cases for transformational service models during the 2024/25 budget process, a skilled and experienced business partnering approach will be essential to the development of the supporting financial and economic business cases required. Supplementing experienced capacity in this area will be key to progressing transformation plans.

### Medium-term financial planning

13. The development of a robust Medium-term financial Plan (MTFP) for 2024/25 to 2026/27 is dependent upon complex and iterative financial modelling, forecasting and scenario planning based upon varying combinations of assumptions. There is significant work involved in consolidating the overall budget position from across all Directorates, incorporating the various iterations of budget proposals throughout the Council planning and budget-setting process, as the Executive and LMT work together

to develop budget proposals. There is currently only one FTE in the staffing establishment for Financial Planning to undertake such work, which is not sufficient to meet the anticipated workload over the period of the 2024/25 budget development period.

#### Financial reporting audit and control systems

14. The Council is currently not meeting statutory requirements for financial reporting which require draft accounts for the year ending 31 March each year, to be published by 31 May with the external audit completed by 30 September, each year. The 2020/21 financial statements were recently signed off by the external auditor in April 2023 and the 2021/22 audit is in progress and expected to conclude before 31 December 2023. The 2022/23 financial statements have not yet been published in draft and the External Auditor is not expecting to be able to commence the audit until February 2024 with completion anticipated between June and September 2024.
15. This situation is typical of the national position in many local authorities, with delays to statutory financial reporting and audit delays, as a result of shortfalls in resources in local authority finance teams to meet the increased and more onerous financial reporting and audit requirements in recent years. There is a crucial requirement for temporary additional resources to recover reporting and audit backlogs which cannot be achieved within the existing resources of the Finance team.
16. The Council and external stakeholders must be assured of the Authority's financial position and its financial resilience, therefore recovering this backlog, and achieving timely statutory financial reporting and an audit opinion on the accounts, is an urgent priority in terms of meeting statutory Section 151 Officer responsibilities.
17. The Finance and Investments Team lacks sufficient senior capacity to respond in a timely manner to audit enquiries, which are high in volume and complexity due to the increased work being undertaken by the External Auditor in-line with their risk assessment of the Council. This team also delivers Treasury Management, cash management, systems and financial control functions of the Council that must operate daily to ensure business continuity. It is not possible to cease such activities to focus solely on the accounts and audit, therefore supplementing the team with a suitably experienced accounts closure specialist is necessary for a period of a minimum of 6 months, to recover the backlog.
18. The External Auditor has also made specific recommendations in relation to the Council's arrangements for accounting for infrastructure assets and leasing which need to be addressed to ensure compliance with accounting standards ahead of the 2024/25 financial year. These are complex and detailed pieces of work that can currently only be undertaken by the Head of Service and given the other competing demands, it is necessary to commission specialist technical resources to complete these packages of work under senior management direction.
19. Responsibility for review and updating the Council's financial regulations and contract procedure rules which provide the financial control environment also sits with the Head of Finance and Investment. This work needs to be undertaken as part of the progressing updates to the Constitution and which requires specialist resource to deliver as soon as possible, to develop stronger financial controls, driving compliance across the Council.

20. In order to deliver on these objectives at pace during 2023/24, the priorities of the existing permanent team are being revised to focus on these areas.
21. Alongside this, real-time reporting of the organisation’s financial position is critical, which will be enabled through the development of a financial dashboard for budget holders, to encourage both budget accountability and financial performance improvement.
22. To address the shortfall in capacity in the areas outlined above, it is proposed that the following resources are required, to supplement the permanent accountancy teams to provide increased resilience.
23. Professional finance interims with relevant experience of turning around local authority finances are in high demand in the sector, bring with them a wealth of knowledge and experience, adding significant value in terms of ability to deliver at pace, drive improvement whilst engaging in skills and knowledge transfer of the permanent team to provide a sustainable approach as they exit at the end of their contracts. The packages of work for consultancy require specialist technical skills, which are also in high demand. This is reflected in the estimated total cost for these resources.

Resource requirements	Area of focus	Estimated total cost (£)
Interim staff	Financial improvement; accounts closure and audit, financial reporting, systems, and control	104,000
Interim staff	Financial improvement; financial strategy, business partnering and value for money	104,000
Interim staff	Section 151 Officer post including oncosts	130,000 <sup>1</sup>
Consultancy	Package of work; income policy, fees and charges review, accounting standards compliance	24,000
Consultancy	Package of work; infrastructure, assets and leasing	28,000
Consultancy	Package of work; review of financial and contract procedure rules	24,000
In-house	Outsource an element of wider dashboard development to crease inhouse capacity in the short term Development and implementation of a Corporate Finance Dashboard	n/a
Consultancy	Delivery of essential Qlikview migration from Alteryx to Power BI	21,600
IT licensing	Purchase of Power BI Licenses	4,200
		<b>439,800</b>

24. It is proposed that costs are met from the Corporate Contingency base budget that Council agreed following recommendations of the previous Section 151 officer, for meeting unforeseen service demand pressures. With no specific budget provision for delivering the Corporate Governance Improvement Plan and the requirement for pace in delivery causing extreme pressure upon corporate services such as finance,

<sup>1</sup> Additional cost required over and above current budget for the post.

corporate performance, Human Resources previously impacted by austerity measures, additional capacity in these areas, is critical.

### Cultural transformation

25. As set out in the Council report of 5 July 2023, there are significant ongoing actions required to ensure the culture of organisation reflects the characteristics of the best councils so that there are:

- Positive member to member and member to officer relationships that are well developed, strong and this is the norm across the whole Council
- That staff and members have the skills to be able to fully deliver their roles
- Roles and responsibilities are fully understood and respected
- There is a stable senior management structure that can deliver the ambitions of the Council Plan.

26. While work is being undertaken to develop a proposal to deliver a new People Strategy in the medium term, an initial ask has been developed to commence delivery of existing commitments around corporate governance training.

27. This additional cost is set out below and it is proposed to be met from the Corporate Contingency Budget. It will complement existing training, extending coverage and enable the service to extend training beyond e-learning solutions to ensure key good corporate governance practices are embedded and improve compliance with policy requirements:

Resource requirements	Area of focus	Estimated total cost up to (£)
Consultancy / resourcing	Corporate Governance Improvement training for managers and members	52,000

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

That the Executive:

- to note the requirement of additional resources across corporate support services to support delivery of the financial recovery and resilience programme of work within the Corporate Governance Improvement Plan
- to note the requirement for initial funding to commence elements of work within the Cultural Transformation programme of work within the Corporate Governance Improvement Plan
- to approve the total additional expenditure of up to £491,800 associated with these additional resources, along with the necessary procurement activity to be funded from the available Corporate Contingency Budget.

### Rationale for the recommended decision(s)

28. The Corporate Governance Improvement Plan ensures an inclusive approach to addressing the issues identified in the CIPFA diagnostic work and EY's Value for Money judgement and that the Council's commitments are appropriately resourced to support successful delivery of the essential activity with the Corporate governance

improvement plan. Failure to effectively tackle the fundamental issues identified by the Council’s External Auditors, CIPFA and the Council could result in government intervention.

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

29. Other options relating to the use of existing finance staff and the recruitment of suitably experienced permanent staff to undertake the work required were considered however, the lack of existing capacity and the requirement to deliver improvements at pace, as outlined in this report, have meant that these options are not suitable at this current time.

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

***Legal***

30. There are no direct legal implications, as a result of this report.

***Strategic priorities and risks***

31. This report demonstrates a continued positive impact on the strategic priority of ‘Quality of Service’, also addressing the strategic risk of ‘failure to achieve good governance’.

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

32. Not applicable.

***Financial***

33. It is proposed that the total cost of up to £491,800 detailed in the report be met from the contingency fund of £1.3m per annum, within the base budget; that Council agreed following the recommendations of the previous Section 151 officer, for meeting unforeseen service demand pressures.

34. With no specific budget provision for delivering the Corporate Governance Improvement Plan and the requirement for pace in delivery causing extreme pressure upon corporate services such as finance, corporate performance, Human Resources previously impacted by austerity measures, additional capacity in these areas, is critical.

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

Action	Responsible Officer	Deadline
Undertake necessary recruitment to ensure additional resources are in place	Director of Legal Services and the Director of Finance	31 August 2023

**Appendices**

Not applicable.



## Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Lessons Learnt: Best Value Inspection of Liverpool City Council	5 Aug 2021
Corporate Affairs and Audit Committee	Boho X: Draft findings from internal audit and proposed management response	6 Apr 2022
Corporate Affairs and Audit Committee	Audit Results Report 2020/21	22 Jul 2022
Corporate Affairs and Audit Committee	Statement of Accounts 2020/21	22 Jul 2022
Corporate Affairs and Audit Committee	Lessons learned: Best Value and external assurance within other councils.	22 Jul 2022
Corporate Affairs and Audit Committee	Commencing a corporate governance improvement journey	22 Jul 2022
Council	Corporate Governance Improvement Journey: CIPFA findings and next steps	19 Oct 2022
Council	Corporate Governance Improvement Plan and progress update	30 Nov 2022
Corporate Affairs and Audit Committee	External Audit: Value for Money Governance Update	5 Dec 2022
Council	Corporate Governance Improvement Plan and progress update	18 Jan 2023
Corporate Affairs and Audit Committee	Statement of Accounts 2020/2021	28 Apr 2023
Corporate Affairs and Audit Committee	Auditor's Annual Report – Year Ended 31 March 2021	29 Jun 2023
Council	Corporate Governance Improvement Next Steps	5 Jul 2023

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