

**Middlesbrough Council Independent Improvement Advisory Board:
Second Update Report
March 2023**

PURPOSE

1. This is the second report of Middlesbrough's Independent Improvement Advisory Board (MIIAB); the first to Full Council.

BACKGROUND

2. At the invitation of the Council, and in association with the Local Government Association, the MIIAB was established in October 2023. It is a non-statutory Board which brings together independent expertise from across the sector.
3. The Board was established to provide oversight, support and challenge to the Council's improvement and transformation journey. This includes a focus on helping the Council ensure compliance with its Best Value Duty under the Local Government Act 1999; particularly around:
 - 3.1. Cultural and governance issues, including those identified through the previous CIPFA review, progress towards implementing the actions arising from the Section 24 Statutory Recommendations of the External Auditor and any future external auditor reports.
 - 3.2. Financial sustainability, including a balanced medium-term financial strategy aligned to the Council's Corporate Plan.
4. As set out in its Terms of Reference, the MIIAB will provide a written report on its activity, quarterly. At the first quarter this was to the Council's Executive. In line with the agreed timetable, this second quarterly report is provided to Full Council.
5. It should be noted that matters around Children's Services remain the responsibility of the Middlesbrough's Children's Improvement Advisory Board.
6. Underpinning the Council's improvement journey is a formal 'Best Value Notice' issued by the Department for Levelling Up Housing and Communities (DLUHC) on 24 January 2023. Within the Notice, it is clear that a failure by the Council to demonstrate continuous improvement may be judged to contribute to Best Value failure and the Secretary of State will consider using his statutory powers as appropriate.
7. That Best Value Notice was re-issued/renewed by DLUHC on 30 January 2024, for 6 months. The Notice says they expect: "the Council to:
 - Continue to work with the Independent Improvement Board.....
 - Continue efforts to deliver against your agreed action plan, accepted at full Council on 30 November 2022, at pace and to meet the set milestones and success measures established.
 - Continue efforts to implement cultural change, particularly in relation to the relationships between officers and members.....
 -deliver on your Best Value requirement to secure the financial recovery and

return to financial sustainability through setting a balanced 3-year MTFP over the period to 2026/27.”

8. The fact that DHLUC has extended the Best Value Notice for a further six months is significant. On the one hand this can be seen as a positive reflection of the improvement that the Council has made since the original notice was issued in January 2023 – DLUHC stated that ‘the Council has worked effectively with the Department setting out and implementing a range of improvement measures to effectively address the identified concerns’. On the other hand, a six-month timeframe is relatively short. It therefore puts pressure on the Council to continue to deliver improvement at pace, if the government is to remove the Best Value Notice in the summer, rather than consider more formal forms of statutory intervention.

ACTIVITY TO DATE: OCTOBER 2023 – MARCH 2024

9. The Board has met, formally, 6 times. Through these meetings the Board has engaged with key elected politicians and officers at Middlesbrough Council, including the: Mayor, Executive, Interim Chief Executive, Leadership Management Team (LMT), Head of Financial Planning and Support, Head of Governance, Policy and Information, Head of Strategy, Business and Customer, and Chair of Middlesbrough’s Children’s Executive Improvement Board (CEIB), Group Leaders, the Trades Unions, Heads of Service, middle and frontline staff.
10. In addition to the Formal Board meetings, activity has included:
 - 10.1. Meeting regularly (informally) to discuss and consider the progress the Council is making regarding its improvement journey.
 - 10.2. Holding a meeting for all Middlesbrough elected members.
 - 10.3. Observing public council committee meetings online.
 - 10.4. Regular contact between the MIIAB Political Peer and Middlesbrough Mayor.
 - 10.5. Regular meetings between the MIIAB Chair and Middlesbrough’s Interim Chief Executive.
 - 10.6. Regular meetings between the MIIAB Governance Lead and Middlesbrough’s Director of Legal and Governance Services.
 - 10.7. Regular meetings between the MIIAB Finance Lead and Middlesbrough’s Interim Director of Finance.
 - 10.8. Offering support, including mentoring, for members of the Executive and LMT, transformation expertise, Childrens Services, Adults Services, team development and organisational re-design.
 - 10.9. Providing an anonymised channel of communication for elected members.
11. The Board is grateful for the constructive and open way the Council, at all levels, has engaged with it.
12. Given the critical point in the financial cycle, the Board has, so far, had a particularly strong focus on the Financial Recovery and Resilience workstream including the emerging proposals for transformation.

OVERVIEW

13. From what the Board has heard and seen, it is evident that there are many dedicated, and hard-working elected members and officers focused on moving the Council forward on its improvement journey. With Phase Three of the Council's Corporate Governance Improvement Plan and Section 24 Action Plan agreed in September 2023, the Board recognises that significant and broad activity has been undertaken, over several months, by the Council on its Cultural Transformation, Financial Recovery and Resilience workstreams. It has done all this alongside day-to-day delivery.
14. The progress has been against a backdrop of significant organisational changes, with a new Mayor and a change of political control in May 2023. Since the Best Value Notice was issued there have also been new people in the roles of Chief Executive, Finance Director, and Director of Childrens Services. This inevitably has meant a period of orientation and reset, but the Board have heard that it has also heralded better relationships, a clearer acknowledgement of the issues needing to be addressed, and fresh impetus and ideas with which so to do.
15. The positive steps taken, and progress made around governance, culture, and financial management are to be commended. Progress, however, is inevitably at an early stage, and therefore not yet embedded.
16. Indeed, there remains much still to do, including to tackle the scale of the financial challenge. Middlesbrough Council's financial position is critical. The Council has been successful in an application to Government for Exceptional Financial Support. This will not in itself solve the Council's budget, as it doesn't give the Council any additional money, but it does give the Council a bit more time to make structural reductions to its budget. The Council is planning to do this largely through what it has termed its Transformation Programme.
17. In our first update report we identified a number of areas of focus for the Council as it looked ahead. These were:
 - Continue to have a relentless focus and pace in identifying financial savings.
 - Ensure the robustness of business cases coming into the transformation programme to ensure they are deliverable.
 - Establish at pace a clear vision for Middlesbrough as a place and organisation.
 - Build on good progress made in establishing positive relationships between members and officers.
 - Ensure that all elected members can engage with the Council's improvement programme.
 - Focus on aligning and implementing the key cultural change strategies and processes.
18. It is the view of the Board that the Council has listened to the above suggestions and has worked positively to ensure that they are embedded in its improvement plans.

THE COUNCIL'S IMPROVEMENT JOURNEY FROM HERE

19. As the Council moves from "recovery" through to "reset" and on to "delivery", the Board considers that there are 4 main areas on which the Council needs to focus to move from

where it is now, to a situation where it is financially stable, sound in terms of governance and culture and safely away from the risk of government intervention. In other words, to a sustainable, fit for purpose Council. These 4 areas are: culture change, financial strength, transformation, transition to “normal.”

CULTURAL CHANGE

20. The development, in recent months, of key cultural change strategies, policies and training programmes should be commended. This has included agreement of a Member Development Strategy, corporate governance training programme, a new appraisal process for staff, as well as the development of a People Strategy. These will be important vehicles through which to drive the cultural and behavioural change the Council wants and needs to see.
21. The existence of these statements of intent, however, do not, in themselves, directly lead to meaningful change. Alignment, implementation and embedding of these strategies will be critical to ensure they translate into tangible change in practice. The Council is moving in the right direction, but there is still a way to go. As with any organisation, cultural change takes time to embed and needs to be constantly reinforced and supported.
22. It will be important to ensure that all elected members can engage with the Council's improvement programme and understand their role within it. Indeed, generally, there is a need to do a lot more work on the elected member side. There are still a small number of members who are unwilling to put the past behind them and are demonstrating negative behaviours. Everyone elected to the Council has a personal responsibility to ensure their own actions are consistent with taking Middlesbrough forward.
23. To help them in this, the Council should ensure that the existing Member Development Strategy, which was put in place during the improvement journey, addresses these points to ensure politicians are even clearer on roles, positive behaviours and are building respect and relationships. Members need to show personal commitment to attending the training provided.
24. The Council has more to do, too, in supporting members in their roles. Officers conducted a workshop to understand needs from a revised Members' Enquiry process. The Board has, however, heard clear frustrations as to how elected members' queries continue to be responded to. Resolving this, by officers, as a priority will be important in ensuring members are able to carry out their roles, and in establishing expected behavioural norms within the wider workforce. A revised and effective approach to members' enquiries should be implemented as soon as possible.
25. The Board has heard that relationships between elected members and officers have improved significantly since the issuing of the Best Value Notice in January 2023. We are aware that the Mayor, Executive and LMT have worked hard to establish positive relationships, behaviours and norms based on the Nolan Principles. However, the Board has also heard that legacy issues around trust, behaviours and understanding roles and responsibilities are still impacting across the Council.
26. Whilst recognising the significant good work that has happened to date, further steps to

establish positive relationships and norms in roles and responsibilities between elected members and officers will be important. Undertaking a programme of top team development for the LMT with the Executive (embedded within the People Strategy) should further progress understanding of respective roles and responsibilities. It could also help develop the resilience of relationships necessary to support the Council through future challenges and difficult decisions. How the organisational values are 'lived and breathed' is something the Board will be keen to explore – and see evidence of - as the Council continues its improvement journey.

27. There is, additionally, a need to develop the Leadership and Management Team, themselves, into a cohesive, proactive, effective team of, well, corporate leaders. Again, we will expect to see this reflected in the People Strategy.
28. An important action within the Corporate Governance Improvement Plan is to ensure that arrangements are put in place for stable and sustainable leadership of the organisation. Notwithstanding the interim nature of some key leadership positions, the Board recognises the stabilising influence that these senior appointments have brought to the organisation. This has brought benefits in terms of leadership and direction, and if carefully managed should enable the Council to have an orderly transition to more permanent arrangements in the future. The Board commends the Council for agreeing a clear programme of activity towards the permanent recruitment of key leadership positions commencing this Autumn, extending the current contracts for the CEO and S151 officer to March 2025
29. More generally, through the People Strategy, it will be important to develop the corporate health, focus, cohesion, and capacity of the wider organisation. Much of this could be done through a values-based development programme for all staff. The Board is supportive of the Council's plan to conduct a full staff survey through which to establish a baseline and from which you can assess the impact of your current initiatives.
30. In terms of cultural change, the Council have developed and agreed many strategies, but the Board have yet to see many of the actions that will deliver the intended and necessary results. Translating strategy into actions and in turn into results is a big issue for the Council. With these various strategies at an understandably early stage in terms of delivery, this will be something the Board will be keen to explore further in the coming months.

FINANCIAL STRENGTH

31. It is evident to the Board that the Council acknowledges the scale of the financial challenge and is undoubtedly working hard to improve the budgetary position. Meaningful progress has been made in reducing the 2023/24 overspend, which in October stood at £7.4m and is, at the time of writing, now down to £4.8m. This remaining overspend will still need to be met from reserves which will be replenished either in part or in full by the release of an over provision for bad debt in respect of Council tax collection. This is a one-off scenario. Whilst the Council will benefit from this, it is important the whole Council is explicitly clear that this cannot be repeated.

32. For Middlesbrough Council to become financially sustainable, it is essential that all Departments, identify and deliver on savings going forward. The agreed MTFP for 2024/5 to 2026/7 contains savings proposals of £13.91m for 24/25 rising to £21.03m by 2026/27. Even with the proposed level of savings there is a cumulative budget gap of £7.414m. With critically low levels of reserves the Board is clear that the Council needs to continue to have a relentless focus on identifying and delivering financial savings to ensure financial resilience in future years.
33. The Council has consulted on its 2024/25 budget and, following this, some proposed budget reductions have been removed or deferred. However, given the low level of reserves, the remaining gap in the budget has meant the Council has had to apply for Exceptional Financial Support from the Government. This has been provisionally awarded in the sum of £13.4 m. The 2024/25 budget has only been balanced as a result of this. This is a one off and effectively buys the Council time to get the Council onto a sustainable level in future years.
34. Your structural budget deficit needs to be closed. The Council will start the new financial year with a gap that will effectively be funded by the government Exceptional Financial Support. Middlesbrough needs to close the gap by bringing down its spending and is heavily reliant on its Transformation Programme to deliver those savings.
35. The Transformation Programme is itself reliant upon the generation of Capital receipts which will be used to fund the Programme. The Council will need to find some £13.7m in receipts in 2024/5 and a further £12.9m over the subsequent two years. In the absence of receipts being achieved then these transformation costs will need to be met from revenue which would further increase the requirement for budget savings.
36. The Board notes that the generation of the receipts is a work stream in the Transformation Programme. We would encourage the Council to review how they will generate the required level of receipts in a timely and effective manner.
37. The Council has agreed a capital programme for the period 2024/5 to 2026/27 which amounts to almost £175m. This includes the costs of the Transformation Programme and the Exceptional Financial Support. After these are removed, the Council has a programme of almost £135m of which almost £53m will require recourse to borrowing and £18m from Capital receipts (over and above those required for the Transformation Programme.) The revenue costs of this and the Exceptional Financial Support will add over £3m to the base revenue budget and will increase debt financing to 9.8% as a percentage of net revenue budget, up from 7.8% in 2024/25. The Board is of the view that the Council-funded element of the capital programme should be further reviewed to reduce the impact of capital financing on revenue costs.
38. Finally, the Council needs to further develop and maintain far stronger financial discipline throughout the year to ensure any tendency to overspend the agreed revenue budgets is dealt with quickly. It should continue to apply strict and effective financial controls on agreed expenditure as well as maximising income collection as a matter of course. The authority should ensure that, beyond the Transformation Programme, it controls and reduces demand for service spend.
39. You must have strong financial control right from the start of the financial year. The

Council needs to have a good start to the 24/25 budget and the Transformation Programme needs to remain focused and operate at pace to deliver effectively.

TRANSFORMATION

40. The Council is developing an intensive transformation and service redesign activity with the assistance of Inner Circle Consulting. This is producing an overarching Transformation Programme linked to the MTFP. Ensuring the robustness of the business cases coming forward as part of the Programme – and mitigating against risks of optimism bias – will be critical in ensuring the savings identified are realistic and deliverable. The Transformation Programme needs proper governance, capacity and capability to deliver. The Council will need to develop its own internal capability and capacity to take over as Inner Circle pare away.
41. The Transformation Programme is essential to Middlesbrough's future. If it doesn't succeed there is a significant risk that the Council will fail financially, and this will precipitate external intervention.
42. Being the largest elements of the Council's budget, Childrens and Adult Services will be important planks within the Transformation Programme. They must contribute at least their fair share of reductions. There is evidence that elements of both services are spending more than those in comparable councils. Transformation within Childrens Services will be of relevance to the Department for Education (DfE) mandated Middlesbrough Children's Improvement Board.
43. The MIIAB have been encouraging the Council to establish a clear vision for Middlesbrough as a place and Middlesbrough Council as an organisation. The Council has made progress on this. Having a vision will set out how the Council's ambitions can link together – and drive – the transformation, cultural and financial change Middlesbrough is seeking to achieve. This vision will also help take councillors, staff, and communities on the journey with the Council. Whilst a vision for Middlesbrough is articulated in the recently published Council Plan, the Council will wish to revisit it in parallel with the development of the Transformation Programme aims and objectives.
44. The Transformation Assurance Board will be the way members can provide oversight and drive to the Transformation Programme. There will be a direct link from that Board to the Executive and Council. To enable the Mayor to take on the crucial role of Chairing the Transformation Assurance Board the Board would support any plans he might have to slim down his existing, extensive, portfolio.

TRANSITION TO NORMAL

45. The Council needs to look to change the way it works. We do not believe you can come out of intervention and move forward purposefully until things do change. You need to move towards a new way of working, one with permanency at the top. There is some important work to ensure that the wider reorganisation planned as a result of transformation aligns with any changes to the management structure and the future operating model for the organisation. The Council will also need to ensure it has the

appropriate capacity and capabilities in the right places, including HR, Organisational Development, finance, and transformation. The Board will want to support and challenge your steps to become a “normal” council.

46. At present, the Council is having to react to issues. It needs to get ahead of things and be making its own weather. The Board are encouraged by the green shoots across the Council. Alongside the comprehensive Improvement Plan, these provide a platform from which to drive forward. The Board would encourage Middlesbrough Council not to lose pace and focus. It is early days, but it needs to deliver quickly and sustainably. Its plans need to embed positive cultures and behaviour changes to ensure its improvement journey is realised, is sustainable and is resilient and it becomes that “fit for purpose” Council.
47. The Council has committed to undertaking an LGA Corporate Peer Challenge as part of its improvement journey as part of it evidencing its progress.

FUTURE BOARD WORKING

48. The Board has so far focussed more on the Council’s financial situation and the emerging Transformation Programme, than cultural change. This is partly a product of the Board having been in place during the budget setting period, but also because this has been the most pressing issue risking tipping the Council over. The Board now needs to up its oversight of cultural change, as this is what will take the Council towards a sustainable and successful future. But the Board will not lose sight of the authority’s financial challenges and what it is doing to meet them.
49. The Board also intends to look at the Council’s partnership working, including regional and sub-regional relationships.
50. The Board, in conjunction with key people at the Council, has undertaken its planned six-month review. As a result of this and given the importance of transformation of the Council’s people services, the Board intends to bring on some expertise in Childrens and Adults Services. The Board also intends to reduce the frequency of its meetings from a monthly cycle to a six-weekly cycle in order to release council capacity away from supporting the Board and towards supporting its improvement work.
51. The Council’s Best Value Improvement Notice will expire in July 2024. DLUHC will no doubt consider at that stage what action, if any, to take regarding further oversight or intervention. The Council’s plan to have a new Chief Executive Officer and Chief Finance Officer in post after March 2025 also mean the Council will remain in a degree of transition until that stage. The original intention was for the MIIAB to be in place for approximately 12 months from October 2023. With the timescales ahead the Council will want to consider whether it needs the support of the Board beyond the 12 months anniversary in October 2024.