

**Middlesbrough Council Independent Improvement Advisory Board:
Third Update Report
June 2024**

PURPOSE

1. This is the third report of Middlesbrough's Independent Improvement Advisory Board (MIIAB).
2. As set out in its Terms of Reference, the MIIAB will provide a written report on its activity, quarterly and alternating between reporting to the Council's Executive and Full Council. In line with this timetable, this third quarterly report is provided to the Executive.

BACKGROUND

3. 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. It is part funded by the UK Government as part of the LGA's sector improvement programme.
4. 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:
 - 4.1. Cultural and governance issues, including those identified through the previous Chartered Institute of Public Finance and Accountancy (CIPFA) review, progress towards implementing the actions arising from the Section 24 Statutory Recommendations of the External Auditor and any future external auditor reports.
 - 4.2. Financial sustainability, including a balanced medium-term financial strategy aligned to the Council's Corporate Plan.
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 their statutory powers as appropriate.
7. That Best Value Notice was extended by DLUHC on 30 January 2024, for six months. The Notice sets out the Department expectations that the Council to continue:
 - To work with the Independent Improvement Board.
 - Efforts to deliver against its agreed action plan, accepted at Full Council on 30 November 2022, at pace and to meet the set milestones and success measures established.

- Efforts to implement cultural change, particularly in relation to the relationships between officers and members.
 - To deliver on 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 DHLUC 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. 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 be minded to remove the Best Value Notice in the summer, rather than extend or consider more formal forms of statutory intervention. At the time of writing, the timeframe for DLUHC confirming a decision on its review of the Best Value Notice is not known, and the impact of the 4 July General Election on this timeframe unclear.

ACTIVITY TO DATE: OCTOBER APRIL – JUNE 2024

9. Since the MIIAB's last update report in March 2024, there have been some changes to the MIIAB's operations, notably:
- 9.1. Introduction of an additional Board member with expertise in Childrens and Adults Services to provide additional 'People services' focus.
 - 9.2. Move to a 6 weekly meeting cycle to release council capacity away from supporting the MIIAB's and towards supporting its improvement work.
 - 9.3. Extension of the MIIAB's Term of Office until 31 March 2025 to align with the planned recruitment and transition to a permanent Chief Executive and Section 151 Officer.
10. Since the MIIAB's last update report, the Board has met formally twice, as well as numerous other informal interactions. Through these formal meetings the MIIAB 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, Head of Human Resources, and the Chair of Middlesbrough's Children's Executive Improvement Board (CEIB).
11. In addition to the Formal Board meetings, activity and support has included:
- 11.1. Meeting regularly (informally) to discuss and consider the progress the Council is making regarding its improvement journey.
 - 11.2. Holding a meeting with all Political Group Leaders.
 - 11.3. Holding a meeting with the Chair of Audit Committee, Chairs of Scrutiny Committees, and members of the Constitution and Members' Development Committee
 - 11.4. Providing an anonymised channel of communication for elected members.
 - 11.5. Observing public council committee meetings online, and council Transformation Board meetings.

- 11.6. Holding meetings with a cross section of the Council's key strategic external partners.
 - 11.7. Regular contact between the MIIAB Political Peer and Middlesbrough Mayor.
 - 11.8. Regular meetings between the MIIAB Chair and Middlesbrough's Interim Chief Executive.
 - 11.9. Regular meetings between the MIIAB Governance Lead and Middlesbrough's Director of Legal and Governance Services.
 - 11.10. Regular meetings between the MIIAB Finance Lead and Middlesbrough's Interim Director of Finance.
 - 11.11. Regular meetings between the MIIAB People Lead and Middlesbrough Director of Children's Services and Director of Adult Services.
 - 11.12. LGA provided Organisational Redesign support through the Decision-Making Accountability (DMA) approach.
 - 11.13. LGA Peer Challenge of Cultural Services.
 - 11.14. Offering support, including mentoring, for members of the Executive and LMT, and around councillor development.
12. The MIIAB is grateful for the constructive and open way the Council, at all levels, has engaged with it.

OVERVIEW: THE COUNCIL'S IMPROVEMENT JOURNEY

13. It is evident from what the MIIAB has heard and seen that there are many dedicated, and hard-working elected members and officers focused on moving the Council forward on its improvement journey.
14. As the Council moves from "recovery" through to "reset" and on to "delivery", the MIIAB considers that there are four 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. This report is therefore structured around these four areas:
- 14.1. Culture change
 - 14.2. Financial strength
 - 14.3. Transformation
 - 14.4. Transition to business and usual
15. The MIIAB's second report in March 2024, identified several areas of focus for the Council to support it on its improvement journey. These were:

Cultural change

- 15.1. Continue to focus on alignment, implementation and embedding of strategies so they translate into tangible change in practice.
- 15.2. Further learning and development support for elected members to progress

understanding of respective roles, responsibilities, and behaviours, including a programme of top team development for the LMT with the Executive.

- 15.3. Progress a revised and effective approach to members' enquiries.

Financial strength

- 15.4. Review approach to generation of Capital Receipts identified to support Transformation Programme to mitigate risks against non-delivery.
- 15.5. Further review the Council-funded element of the Capital Programme to reduce the impact of capital financing on revenue costs.
- 15.6. Further develop and maintain far stronger financial discipline.

Transformation

- 15.7. Strong focus on robustness of Transformation Programme business cases to ensure realistic and deliverable savings identification.
- 15.8. Develop internal capability and capacity so there can be a seamless transition when the transformation consultancy support pares away.

Transition to normal

- 15.9. Ensure reorganisation resulting from transformation aligns with management structure change, future operating model, and with appropriate capacity and capabilities in the right places.
- 15.10. Maintain pace and focus to deliver quickly and sustainably.

16. In the past three months, a significant amount of activity has taken place by Middlesbrough Council around governance, culture, and financial management. It is the view of the MIIAB that the Council has listened to the above suggestions and worked positively to ensure they are taken forward within their improvement plans. Examples of how the Council has listened to the Board include, though are not limited to:

- 16.1. The development and alignment of key cultural change strategies. Paragraph 19 provides more detail of the progress made, whilst also recognising that implementation of the strategies are work in progress and as such the Council is not yet able to evidence outcomes and the impact that these strategies have made.
- 16.2. Significant progress towards embedding strong project and programme management arrangements to support the delivery of the Council's Transformation Programme. Paragraph 29 provides further details on this.

17. The MIIAB recognises these positive steps to embrace the Board's feedback, and encouraging progress made against the actions set out in the Council's [Corporate Governance Improvement Plan and Section 24 Notice Action Plan](#) around governance, culture, and financial management. Progress is inevitably at an early stage and not yet embedded. It is therefore too early to be able to evidence delivery of lasting outcomes. Lasting and sustained improvement inevitably takes time and requires embedding. There is much still to do and significant financial risks remaining. The Council's financial position continues to be critical, with delivery of 2024/25 budget a key risk. The Exceptional Financial Support (EFS) provides a crucial one-off opportunity from which to drive financial sustainability in the long term. The Council must successfully deliver on

this. To do so, it can build on the positive green shoots to date. A strong focus on future leadership transition, strengthening of financial controls, and on outcomes (rather than processes) as measures of success will be important.

18. 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. Going forward it intends to increase its oversight of cultural change, as this is what will take the Council towards a sustainable and successful future.

CULTURAL CHANGE

19. **Strategy implementation:** The development, implementation and delivery of key cultural change strategies, policies and training programmes has continued in the past three months. Since the last MIIAB report, the People Strategy has been launched which sets out to establish Middlesbrough Council as “an employer of choice for the best people to deliver improved outcomes for the community we serve”. Development has also commenced on a new communications plan for the Council aligned to the Mayor’s vision, Council Plan priorities, cultural and governance improvement and Transformation Programme. As mentioned in previous reports, the MIIAB commends Middlesbrough’s progress in putting in place core strategies that are key tenants of its improvement journey, whilst also cautioning that these are still relatively nascent. As with any organisation, cultural change takes time to become established so alignment, implementation and embedding of these strategies will be critical to ensure they translate into tangible change in practice. At this stage, as to be expected, it is too early to establish a picture of how these interdependences are embedding and delivering outcomes. The Board will have a focus on this going forward as changes continue to mature.

20. **Delivery and impact:** The Council has made solid progress to date in progressing the actions set out in its [Corporate Governance Improvement Plan and Section 24 Notice Action Plan](#) which is commendable. At the time of writing, the Council was reporting:

- 77 per cent of actions in its Corporate Governance Improvement Plan delivered, and 96 per cent on target to be delivered.
- 87 per cent of actions in response to the Section 24 Notice delivered, and 93 per cent on target to be delivered.

The Council has identified key milestones and measures of success for each tenant of its improvement plans so that it can understand and track impact linked to its actions. There are some examples of progress, for example the review of the constitution has been completed, financial and contract procedure rules have been reviewed, and there has also been a review of the oversight arrangements for the Middlesbrough Company. However as mentioned above, for many areas it is too soon for demonstrable impact and meaningful change to be evidenced, and some success measures are focused on process, as opposed to indices that demonstrate meaningful outcomes. Both the MIIAB and the Council acknowledge that further work is required to understand how these targets relate to tangible lasting outcomes. The MIIAB would encourage the Council to

have a stronger focus on measuring impact.

21. **Culture, relationships, and behaviours:** As mentioned in previous report, there has been a significant improvement in fostering more positive relationships, behaviours, and organisational culture in the last 12 months. Examples of these efforts have included, though are not limited to: conducting survey with councillors and staff; establishment of thematic cross party working groups for councillors to increase cross party working and engagement; regular briefings for councillors; direct and regular engagement of the Mayor with council staff; and increased focus on staff recognition. These, along with other measures, are impacting positively on perceptions of councillor and officer relationships, which can be seen through anecdotal evidence, as well as in survey results.
22. There is greater visibility of leadership and improved relationships both internally and externally. There is evidence of a much stronger political will to change the Council. The recent decision to open a number of Deputy Chair positions on Committee appointments to opposition groups is a positive example of this, and there is appetite for further steps in this direction. There is however further to go with improvements in culture remaining a work in progress, including with councillors. For example, whilst the number of the code of conduct complaints against Councillors misuse of social media has reduced, complaints are still being received which are of a complex nature and at times can be challenging.
23. The 'guard rails' the Council is putting in place to develop and embed positive cultural change are positive and the MIIAB are keen to explore further in coming months the impact of the steps taken by the Council to address the cultural issues raised by the Chartered Institute for Public Finance and Accountancy's (CIPFA) [independent culture and governance report](#) on its organisational culture.
24. **Councillor Gateway:** A significant amount of activity has taken place in recent months to introduce a dedicated system for councillors to formally raise - and report - enquiries and service requests. This was in response to frustrations from councillors about the responsiveness and adequacy of responses to councillor queries. Activity has been user focused, codesigned with councillors, and supported by strong communications. The project – completed at impressive pace - went live on the target launch date of 1 July 2024. The MIIAB heard that feedback from councillors to date had been positive. The MIIAB were able to hear some of that feedback, first hand, from some opposition councillors. MIIAB are pleased that the Council will be reporting on user feedback on a quarterly basis and look forward to reviewing this in due course.

FINANCIAL STRENGTH

25. **2023/24 Budget and Outturn:** As mentioned in previous MIIAB reports, it is evident that the Council acknowledges the scale of the financial challenge. It has continued to work hard over the past three months to improve the 2023/24 budgetary position. The Board recognises the Council's significant efforts in reducing the overspend pressures within the 2023/24 budget. With a £11.5 million overspend at quarter one, this was

successfully reduced to £3.6 million by quarter four¹. This reflects the impact of expenditure control measures and fast-tracking delivery of savings proposals and would have been lower if predicted capital receipts had been realised which would have enabled the Council to fund approved transformation costs from this resource. It will be important to build on this practice as the Council seeks to strengthen financial controls further. The Council also had a significant under achievement in its capital expenditure for the year. The inability to adequately programme manage this expenditure has an impact on the Council's ability to accurately predict future costs. The Council should consider ways of improving the financial and programme management of this key area.

26. The £3.6 million overspend at 2023/24 financial year end, is largely reflective of financial pressures in Adults, Children's, Integrated Transport Unit (ITU) and Waste services. This shortfall was bridged from reserves. The combined balance on unrestricted usable reserves was therefore £12.1 million at 31 March 2024 (9.5% of 2023/24 net revenue budget of £126.4 million). This was below the opening combined balance of £15.6 million at 31 March 2023. This one-off use of reserves, together with a request for exceptional financial support from the Government, provides time for Middlesbrough to develop its Transformation Programme to deliver further savings and achieve financial sustainability in the long term. It is imperative the Council delivers on this. The MIIAB notes that although the outturn report showed 'one-off' variances totalling a £5.1 million net favourable variance, there were 'ongoing' adverse variances totalling a £8.7 million. This indicates that there are significant ongoing cost pressures that although included in the 2024/25 budget will need to be kept under review during 2024/25. The Board would encourage continued – and relentless - focus on this.
27. **2024/25 Budget and MTFs:** Since the last Board report there has been a significant amount of activity on measures designed to ensure the 2024/25 budget and savings within the MTFs are deliverable. The 2024/25 budget includes £13.9 million of savings/income generation, rising to £21 million by 2026/27. Generally, delivery is in the early stages, linked to the corporate transformation programme which became mobilised around the start of the financial year. With the fundamental link between transformation and savings, the Council needs to have clear controls in place to ensure delivery is on time. It is clear from the early transformation work that there will be challenges to ensure delivery during the 2024/25 financial year. It is particularly critical that the Council focuses on delivering transformation projects in Adults and Childrens Services in order to deliver savings. The Board would encourage the Council to develop alternative options to balance the budget in the event that some proposals are either delayed or do not materialise. (See Paragraph 30 for further details).
28. **External Audit:** Like many councils, Middlesbrough's external auditor providers will be changing effective from 2024/25 financial year and has again in common with other Councils unaudited accounts for years preceding 2023/24. The impact of this is that the action taken by the Council in response to the external auditor's 2023 Section 24 Notice will not be subject to formal review by either the outgoing auditors, or incoming ones. Although the incoming auditors will have regard to the Section 24 notice. This set of circumstances is not within the Council's control and is reflective of wider challenges with local government external audit environment. The Council are committed to external scrutiny and are engaging positively with both sets of auditors and national

partners to seek to secure external audit assurance across its activities. It is disappointing that there has been ongoing slippage in the issuing of the Value for Money report due from the auditors for 2021/22 and 2022/23.

29. Financial Management: The Council commissioned CIPFA to undertake a review of its financial management practices using the CIPFA Financial Management Model as a framework for the review. The review gave the Council an overall score of two out of five. The review, however, identified that there are areas of significant weakness that the Council will need to address. In addition, the report acknowledges that there are some recent areas of improvement and a positive direction of travel. The Board is pleased that the Council plans to adopt the action plan included in the review as part of its overall improvement programme. This will be important to ensure that good financial management practice is embedded throughout the Council, as well as that the staffing structure within the Finance function is enhanced to ensure that it is fully fit for purpose with suitably, experienced qualified permanent staff.

TRANSFORMATION

30. Operationalisation: The Transformation Programme has developed at pace. There are clear governance structures in place with political oversight, and some projects underway. The speed and robustness with which this has been stepped up is commendable. The MIIAB recently observed the Corporate Transformation Board and two thematic Transformation Board meetings. The MIIAB was impressed by the project and programme management arrangements in place, the strong financial focus taken, approach to risk mitigation, the interdependencies between the different projects and impact of broader council services such as customer and ICT. The Board noted that there was a good blend of representation between service and corporate representatives, and a clear focus by exception on projects that were highlighted as 'amber' or 'red'. Across the whole Transformation Programme the Council is in the early stages of change, and not yet at delivery. As a result, there is a risk (as noted at paragraph 27) that savings may not be delivered in year to support the budget, risking pushing further budget pressures downstream and beyond 2024/25. To mitigate this risk, it is imperative that the Council develops a pipeline of alternative savings or income generation opportunities that are ready to implement in the event that savings proposals within the transformation programme do not materialise.

31. People Services: Children's and Adult Services will be important planks within the Transformation Programme, being the largest elements of the Council's budget, and with evidence that elements of these services are spending more than those in comparable councils. The Board dedicated time in its April and May meetings to gain a deeper understanding and provide critical challenges to transformation plans in these two services. Whilst transformation is now mobilised and underway, this will need to be driven at pace to address the budget challenges that the MIIAB notes at paragraph 27 to this report.

32. The new leadership team in Children's Services is committed to delivering transformation to reduce demand and review the relatively high numbers of children in the Council's care. Progress is governed through the Children's Service's Improvement

Board, which is chaired by an independent DfE advisor. The Director of Children's Services and Assistant Directors welcome challenge and are receptive to working with partners to learn from best national practice to assist with the transformation of services. There is an increased focus on delivering services of the highest quality and to reducing the cost of placements so the service delivers good value for money. A recent SEND Ofsted inspection commended the Council and its partners for the very good services being delivered to children with special educational needs and disabilities.

33. There is experienced leadership in Adult Services where areas for transformation have been identified and a plan to deliver these developed. There is strong commitment to transforming adult social care services to both deliver savings but at the same time improve the lives of adults in Middlesbrough. Senior leaders have reached out to other councils to learn from best practice across the country, for example Derby, and are determined to explore the potential of artificial intelligence to deliver transformation. It will be necessary to implement national best practice to assist with the transformation of adult services in Middlesbrough. An external financial benchmarking review has been carried out to assist the service to identify areas where transformation will potentially have the greatest financial impact. It is recognised some work will take longer to embed and deliver cost reductions but the commitment remains nonetheless. It will be essential health partners are fully involved in delivering transformation plans relating to an asset based and reablement, delivery approach. The transformation plan will be governed by senior leaders within the Council, Hospital Trust and Integrated Care Board (ICB), with additional external challenge and support.

TRANSITION TO BUSINESS AS USUAL

34. **Organisational design and stable leadership:** The Council has been in the process of designing a future organisational operating model for some time. In recent months there has been some activity, with the first phase of its review of its organisational design structure has taken place. The MIIAB encourages the Council to accelerate the pace of the development of its target operating model. In parallel to this, a timetable for recruitment to a permanent Chief Executive and Section 151 Officer has also been established. It is anticipated that both these roles will have been recruited to and have appointees in post by March 2025. It will be important to ensure that appointees to key roles – particularly these statutory officer roles – share the Council's vision and focus on continuing the improvement journey rather than promoting a change of direction.
35. These changes will be a critical moment for the Council, with organisational restructure bringing both risks and opportunities. As the Council looks to establish a fit for purpose Senior Leadership structure for its future operating model, it will be important that there is also a focus on ensuring changes do not unintentionally destabilise Middlesbrough's change journey.
36. The Board would encourage the Council to:
- 36.1. Have a clear focus going forward on leadership transition to ensure a smooth transition and mitigate risk.
 - 36.2. Be mindful of the need to sequence structural change activity in a manner that does not risk destabilising the Council's improvement journey.
 - 36.3. Have a strong focus on leadership development so that both the Executive and Leadership Management Team (LMT) are supported to lead the organisation

through change. The Board are pleased that the Council has developed a draft leadership development training programme for this which is currently being consulted on.

- 36.4. Secure buy-on from elected members, staff, and partners for planned changes to bring them on this change journey.

37. Vision and partnership working: In its last report, the MIAB welcomed the establishment of a vision for the Council articulated through the Mayor's priorities for the Town, and vision for Middlesbrough as a place and as an organisation. This vision does not however appear to be well understood by partners. The Council has rightly spent the last 12 to 18 months internally focused on the Council and its improvement journey from an internal perspective. As it continues to make positive headway on its improvement journey, the Council should consider looking externally as well. Partnership working is a fundamental enabler for any council – not just Middlesbrough - to be able to deliver sustainable services, and tackle challenges they and their communities face. This is equally true for Middlesbrough in the context of delivering outcomes across its Corporate Improvement Plan. The Board in recent months encouraged the Council to take time to share and articulate its vision to partners to support delivery of shared ambitions. In time, it should also progress its plans to develop and implement a clear place-based plan with appropriate partnership governance structures.

38. It is welcome that the Council has responded to this by sharing its vision for Middlesbrough as set out in the Council plan with all key partners, as well as communicating feedback from the MIAB's session with partners. Action has now also commenced to develop a partnership strategy, with partners invited to a series of sessions over the summer to co-produce this.

LOOKING FORWARD

39. The Board would encourage Middlesbrough Council to continue its positive progress and not to take its foot off the gas in terms of pace and focus, and to consider the points raised by the Board, particularly in relation to:

- 39.1. **Outcomes and Impact:** Having a strong focus on embedding driving and measuring outcomes that demonstrate lasting impact, particularly around embedding cultural change.
- 39.2. **Financial Sustainability and Capability:** Firstly, ensuring that the Transformation Programme develops and delivers, on time, the savings required to support financial recovery. In the event that transformation savings cannot be delivered on time, the Council needs to have in place a robust plan to deliver alternative savings. Secondly, strengthening fit for purpose financial management capacity and capability in order to embed strong financial discipline.
- 39.3. **Transition:** Strong focus on leadership transition and ensuring changes do not unintentionally destabilise Middlesbrough's change journey.
- 39.4. **Communications and engagement:** Use the Council's Communications Plan as the mechanism for communicating and engaging with staff in order to embed

understanding of the vision and values for the Council, highlight the corporate importance of the Transformation Programme, and to deliver sustainable cultural change.