

MIDDLESBROUGH COUNCIL	
------------------------------	--

Report of:	Director of Finance
Relevant Executive Member:	Executive Member for Finance and Governance
Submitted to:	Executive
Date:	24 July 2024
Title:	CIPFA review of Financial Management Arrangements
Report for:	Noting and Information
Status:	Public
Council Plan priority:	Delivering Best Value
Key decision:	No
Why:	Decision does not reach the threshold to be a key decision
Subject to call in?:	No
Why:	report is for noting

Proposed decision(s)
<p>That Executive receive and note the findings and recommendations of the CIPFA Financial Management report as summarised in paragraph 4.15 to 4.18 below and as set out in section 1.7 of the CIPFA report which is attached at Appendix 1. Further that Executive note the intention to develop an action plan in response to both the CIPFA recommendations, together with any further recommendations from the detailed financial review by Grant Thornton will be brought back to Executive for consideration in due course.</p>

Executive summary
<p>Strong financial management is essential to the organisation's ability to deliver Best Value. It ensures that public money is used well and provides leaders and managers with the information that they need to make robust, evidence-based decisions, manage performance and resources effectively, whilst delivering the organisations objectives.</p> <p>The Council is currently subject to a Best Value Notice issued by the Secretary of State for Local Government that commenced in in January 2023 and was extended in January 2024 for a period of 6 months. The Ministry of Housing, Communities and Local</p>

Government (MHCLG)¹ is to undertake a review of the Council's further progress in securing the delivery of Best Value in its operations in July 2024 and will report subsequently.

The possible outcomes of this review range from allowing the Council to exit formal Government intervention, through to an escalation of intervention measures if it is considered that insufficient progress in delivering the required improvement has been made. MHCLG officials have confirmed that they will consider the CIPFA FM report as independent evidence to inform their Best Value assessment of the Council's progress in relation to delivering its financial recovery and achieving financial sustainability.

MHCLG has also recently commissioned and will pay directly for Grant Thornton LLP(GT) to undertake an independent assurance review of the Council's financial position and plans for financial recovery as part of their due diligence in progressing the Council's application for Exceptional Financial Support (EFS) in 2024/25. The review commenced on 2 July and will run for a period of approximately 8 weeks and will make recommendations to the Council and will inform the Secretary of State's decision with respect to EFS. The CIPFA FM report and recommendations will also inform this work such that no duplication of resource will occur between the reviews as a result.

The Council is actively addressing a range of culture and governance improvements as well as pursuing its financial recovery to achieve financial sustainability and resilience over the medium term through its Culture and Governance Improvement Plan (CGIP) and its s24 recommendation action plan produced in response to 11 statutory recommendations made by the External Auditor in August 2023.

The Council has engaged the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake an independent review of Financial Management arrangements in order to benchmark its current position, assess the progress of our improvement journey to date and to support the development of the next stage of work to secure and embed financial recovery and resilience in the long term.

This report sets out the findings and recommendations of the review of the Council's Financial Management arrangements. The review uses a diagnostic tool to assess the organisation's overall financial management arrangements against best practice and to make recommendations for further improvement to achieve independently recognised good practice and strengthen the Council's arrangements for responding to the complex challenges facing local authorities.

The assessment scores the Council as 2 stars (maximum score 5 stars) and concludes that financial management is 'reasonable'. The Council has basic financial management capability and has predominantly a stewardship approach i.e. delivering accountability and financial control. The review concludes that the successful implementation of the Recover, Reset, Delivery Transformation Portfolio is critical to evidencing the required culture change and to securing improvement and maturity in financial management arrangements, both in terms of delivering the 2024/25 MTFP planned savings and

¹ Department for Levelling Up Housing and Communities (DLUHC) was renamed on 8 July 2024

identifying a pipeline of new initiatives to address the budget gap of at least £8m in the MTFP to 2026/27.

The report acknowledges the change and improvements that are already in progress within the CGIP and concludes that it is reasonable to expect Middlesbrough Council to be capable of achieving a 4 star rating within 18 months, given its direction of travel, the successful delivery of plans that are already in place and by addressing the additional recommendations set out in its report.

The Council should be encouraged by the overall conclusion as it recognises the progress made to date and confirms that measures in the current CGIP will deliver further progress. However, we should be mindful that there is a significant amount of work to do to embed lasting improvements in financial management practices that underpin its financial recovery and ability to sustain its financial position. In particular, the development of capability and capacity amongst both officers and members to achieve strong, organisation wide financial management arrangements that are enable the delivery of the Council's ambitions is mission critical.

The development of further plans to address the recommended actions, may require a combination of short term and long-term investment in training, development, professional finance capacity, recruitment and underlying systems and processes that will enable the delivery of improvement in the Council's overall arrangements. The required investment will be assessed for incorporation into the Recover, Reset, Deliver Transformation Portfolio and/or the CGIP over the summer and brought back to the Executive for consideration and approval.

Purpose

- 1.1 The purpose of this report is for the Executive to consider the independent assessment and recommendations of the Council's financial management arrangements undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Recommendations

That the Executive:

- 2.1 **Receive and note** the findings of the CIPFA Financial Management report as summarised in paragraph 4.15 to 4.18 below and the CIPFA recommendations as set out in section 1.7 of the CIPFA report which is attached at Appendix 1.
- 2.2 Note the intention to develop an action plan in response to both the CIPFA recommendations, together with any further recommendations from the detailed financial review by Grant Thornton will be brought back to Executive for consideration in due course.

3. Rationale for the recommended decision(s)

- 3.1 To enable the Council to secure effective management of its finances in accordance with recognised professional standards of good practice.

4. Background and relevant information

- 4.1 Strong financial management is essential to the organisation's ability to deliver Best Value. It ensures that public money is used well and provides leaders and managers with the information that they need to make robust, evidence-based decisions, manage performance and resources effectively, whilst delivering the organisations objectives.
- 4.2 The Council is currently subject to a Best Value Notice issued by the Secretary of State for Local Government that commenced in in January 2023 in relation to its inability to secure best value in its operations and decision making. The Notice was extended for 6 months in January 2024 and is due to be reviewed by MHCLG following a review of the Council's progress in July 2024 which will report to the Secretary of State subsequently.
- 4.3 The possible outcomes of the Best Value review range from allowing the Council to exit formal Government intervention, through to an escalation of intervention measures if it is considered that insufficient progress in delivering the required improvement has been made. MHCLG officials have confirmed that they will consider the CIPFA FM report as evidence to inform their Best Value assessment of the Council's progress in relation to delivering its financial recovery and achieving financial sustainability.
- 4.4 The Council is also subject to a further independent review by Grant Thornton LLP (GT) who have recently been commissioned by MHCLG to assess the Council's financial position and arrangements for recovery as part of their due diligence in progressing the Council's application for Exceptional Financial Support (EFS) in

2024/25. The review commenced on 2 July for a period of approximately 8 weeks and will make recommendations for improvement and report back to the Secretary of State to enable a firm decision on EFS to be made and published in due course.

- 4.5 The Council is actively addressing a range of culture and governance improvements as well as pursuing its financial recovery to achieve financial sustainability and resilience over the medium term through its CGIP and its s24 recommendation action plan in response to 11 statutory recommendations made by the External Auditor in August 2023.
- 4.6 CIPFA is a UK based international accountancy membership and standard setting body for the public sector. It is the only body globally dedicated to public financial management across local government, central government, health and policy together with international presence. CIPFA has conducted Financial Management reviews in over 400 public sector organisations including more than 240 local authorities.
- 4.7 The Director of Finance has commissioned CIPFA to undertake an independent review of the Council's financial management arrangements using the CIPFA FM model of good practice in order to assess the Council's progress and make recommendations on next steps to take in recovering its financial position and establishing financial resilience for the medium to long term. The review will provide evidence to inform MHCLG's assessment in relation to the current Best Value review and the EFS application.
- 4.8 The CIPFA review uses a diagnostic tool to assess the organisation's overall financial management arrangements against best practice and to make recommendations for further improvement in order to achieve independently recognised good practice and strengthen the Council's arrangements for responding to the complex challenges facing local authorities.
- 4.9 The review has included:
- A review of key reports and other official Council documentation
 - Interviews with 44 interviewees including Leadership Management Team, Heads of Service, Budget Holders, Finance Staff, the Elected Mayor, Members of the Executive, Leaders of all political groups, Chair of Scrutiny, Chair of Audit Committee, External and Internal Audit.
 - An online survey of 100 respondents from across the organisation was conducted. 71 respondents completed the survey.
- 4.10 The CIPFA FM model has assessed the Council's current arrangements in terms of three financial management styles:
- Delivering accountability
 - Supporting performance
 - Enabling transformation.
- 4.11 In evaluating the financial management arrangements, the review has assessed the whole organisation against four management dimensions:

- Leadership
- People
- Process
- Stakeholders.

4.12 The assessment scores the Council as 2 stars (maximum score 5 stars) and concludes that financial management is ‘reasonable’. The Council has basic financial management capability and has predominantly a traditional stewardship approach to financial management i.e. delivering accountability. Table 1 below summarises the assessment via a scoring matrix.

Table 1

FM Model key findings chart for Middlesbrough Council on 15 May 2024

	Management dimensions			
Financial management styles	Leadership (A)	People (B)	Process (C)	Stakeholders (D)
Delivering Accountability (1)	**	*	***	**
Supporting performance (2)	**	**	**	*
Enabling transformation (3)	**	*	**	**
Overall	**			

4.13 The report acknowledges the change and improvements that are currently in progress and concludes that it is reasonable to expect Middlesbrough Council to achieve a 4 star rating within 18 months, given its direction of travel, plans that are already in place and by addressing the additional recommendations set out in the report. The further improvements required represent a significant challenge to the organisation in terms of developing and maintaining the financial management capability and capacity of Service Directorate officers, Finance officers and elected members.

4.14 The review concludes that the successful implementation of the Recover, Reset, Delivery Transformation Portfolio is critical to demonstrating the required culture change and securing improvement in financial management arrangements. This is in terms of delivering existing plans and the identification of a pipeline of new initiatives that will improve services and deliver further cost savings or income generation to balance the 2025/26 budget and MTFP.

4.15 The full report is attached for consideration by the Executive at Appendix 1. Section 1.7 within Appendix 1 sets out the issues, acknowledges actions currently being taken and further recommended actions together with a priority assessment by CIPFA. The key issues are summarised below by management dimension.

Leadership

• Transformation

- There is a strong reliance on contractors and interims to drive the changes required across the organisation and a sense remains amongst operational staff that they are not necessarily involved in the change programme and that it may not apply to them.
- There is a need to ensure that permanent staff are engaged in transformational work and this is enabled by creating them the time and resources to engage using interim cover to maintain business as usual activity.
- The communications strategy for the transformation programme requires further review and development to ensure that all staff are on board and engaged in delivering the required change.
- A more strategic approach to medium and long term financial management to be developed informed by a transformation lens rather than cost cutting lens by services and finance.

People

• Finance

- The Finance Team lacks resilience. Staff resources within Finance are stretched too thin driving a short-term focus on maintaining operational financial control and insufficient focus on strategic financial issues.
- As a result there is an over dependence on a small number of senior finance staff and limited capacity and opportunity to provide staff development opportunities.
- Finance Business Partnering staff need to develop their skills to enable more constructive and robust challenge of the service.
- In addition, they and the wider Finance team need to further develop their skills in trend analysis and financial forecasting.
- Finance needs to develop and deliver comprehensive training to support new service leads/ budget managers to engage with Middlesbrough's approach to financial management.
- A transition from incremental budgeting to adopting activity based costing and then zero based budgeting is required in partnership between finance and the service.

• Service

- Service leads/ budget holders are very reliant upon finance business partners to undertake budget management activities on their behalf, particularly in adult and children's social care. Service managers/budget holders need to take more ownership of their budgets.
- Service leads/ budget holders need to develop their financial management skills and ability to use financial systems and available financial management tools.

- A transition from incremental budgeting to adopting activity based costing and then zero based budgeting is required in partnership between finance and the service.

Process

• Financial systems

- There is a lack of IT integration between the main financial system and payroll and social care systems, that creates manual work and intervention and undermines efficient and effective budget management, control and reporting. Whilst this is subject to a current review, improvements needs to be introduced as soon as possible.
- Operational staff reflected that they have difficulty using the Council's main financial system, Business World and so training and support on an ongoing basis will be required from the Finance Team, together with provision of more intuitive tools that are currently being rolled out eg use of Power BI.

Stakeholders

• Strengthening Scrutiny

- There remains a tendency for member discussion to become fractious and there is a need for a more collaborative and constructive approach to be developed in order to strengthen scrutiny. The agreement to establish a cross party working group on financial sustainability and appointment of opposition members as vice chairs to Audit Committee and some other committees are positive steps.
- There should be more engagement with elected members in relation to sharing, understanding and challenging the strategic risk register.

- 4.16 A number of actions are already in progress within the CGIP and CIPFA has acknowledged that these need to be delivered to plan in order to deliver the financial management improvement objectives.
- 4.17 Additional recommendations are made by CIPFA in a number of areas to support the Council in further strengthening its financial management arrangements that would be capable of achieving a 3 to 4 star rating over a further period of 18 months. These are detailed in full at section 1.7 of the CIPFA report at Appendix 1 and are summarised in Table 2.
- 4.18 It is proposed that an action plan is developed to respond to the CIPFA recommendations together with any further recommendations made by the GT review. This will include consideration of the resource and financial implications of implementation of the action plan, for example in addressing capacity, training and development requirements and it will be brought back to Executive for further consideration.

Table 2 Summary of required actions		
Theme	Required action(s)	Priority
Resilience of the finance department	<p>We recognise that some initial work is already underway within Middlesbrough to address these issues. This should include the exploration of the following options for building capacity and greater resilience:</p> <ul style="list-style-type: none"> • Developing a career path for all finance staff that will enable individuals to build experience • Building a recruitment programme for trainee accountants or other specialists <p>If market conditions preclude recruitment, Middlesbrough should explore greater collaboration with other authorities to share staff with in-depth expertise of specific finance areas.</p>	M
Coaching and Training for service staff and finance staff	Instigate a budget training programme for new service managers	H
	Encourage finance staff to undertake finance business partner training	H
Medium and long-term financial planning	We understand that the development of demand and cost modelling is part of Middlesbrough's Corporate Governance Improvement Plan. It is important that activity-based costing is rolled out as soon as possible and the impact evaluated so that ongoing refinements can be made.	H
	Explore the utilisation of a rolling programme of zero-based budgeting	M
ASC and CSC budget management and ownership	Explore the feasibility of activity based costing and then a zero-based budgeting exercise in each directorate to encourage service manager ownership of budgets	M
Finance system integration and usability	Middlesbrough is already commissioning a review of the integration of data between systems, and arrangements are in place for the roll-out of Power BI dashboards to encourage wider engagement in financial management. It is important that these changes are introduced as soon as possible, with accompanying training so that their impact can be evaluated.	M
Capacity and capability of Council to change and transform	Explore the feasibility of providing interim cover to enable key individuals the time and resources to engage in the transformational work without disrupting business as usual.	H
	Review and develop a communications strategy for the transformation programme.	H
Strengthening scrutiny	In November 2023, the Council approved a Member Development Strategy that includes the specification of values and training on a range of softer skills as well as what represents effective corporate governance. It is also starting to build cross-party working groups. The appointment of Opposition Members as vice chairs on the scrutiny panels is encouraging. The Council should evaluate the impact of these changes.	L
	The authority should regularly share the strategic risk register with Members on the cross party working groups for review and challenge	M
Assets and Liabilities	We understand that Middlesbrough is planning to develop a quarterly report on debt collection and on payment performance for 2024-25. This is an important step in enabling greater scrutiny.	L

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

5.1 The Executive could decide to reject the findings and recommendations of the CIPFA FM review. This is not recommended as it would be counterproductive to the achievement of the Council's financial recovery and would likely to be assessed unfavourably by MHCLG and the External Auditor.

6. Impact(s) of the recommended decision(s)

6.1 Financial (including procurement and Social Value)

Implementation of the recommendations set out in this report are fundamental to strengthening the Council's financial management arrangements and securing its financial recovery and sustainability over the medium to long term as well as enabling the Council to demonstrate that is delivering of best value in the use of public money.

Whilst there are no direct financial implications arising from the recommendations within this report, the implementation of the action plan for a number of recommended actions may require additional one-off financial investment through the Transformation Portfolio or ongoing revenue investment and/or capital investment in the medium to long term which will be addressed in the 2025/26 budget and MTFP development process.

The total cost of the review is £35,200 which has been met within approved budgets. The contract was directly awarded under an exemption in accordance with Contract Procedure rules as detailed in the [delegated decision report](#) of 25 March 2024. CIPFA exclusively delivers Financial Management review using its FM Model which is not available to other commercial entities.

6.2 Legal

The proposed recommendations are consistent with and will promote the achievement of the Council's general legal duty to achieve Best Value.

6.3 Risk

The proposed response will ensure the Council is proactively managing the following risk within the Strategic Risk Register by ensuring the Council accepts the findings of the CIPFA review and takes further steps to develop an appropriate response:

- SRR09 - If the Council's **Corporate Governance arrangements are not fit for purpose and appropriate action is not taken to rectify this at pace**, this could result, censure from the Council's auditors within a public interest report that would damage the Council's reputation and/or in government formal intervention including removal of powers from officers and members and direction of council spend.

6.4 Human Rights, Public Sector Equality Duty and Community Cohesion

Not applicable.

6.5 Climate Change / Environmental

Not applicable.

6.6 Children and Young People Cared for by the Authority and Care Leavers

Not applicable.

6.7 Data Protection

Not applicable.

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

Action	Responsible Officer	Deadline
Develop and action plan to address CIPFA recommendations in relation to Leadership, People, Place and Stakeholders	Chief Executive/ Director of Finance/ Monitoring Officer	16 October 2024

Appendices

1	CIPFA - Review of financial management using the CIPFA Financial Management Model
---	---

Background papers

Reporting body	Report title	Date
CAAC	Lessons Learnt: Best Value Inspection of Liverpool City Council	5 Aug 2021
CAAC	Boho X: Draft findings from internal audit and proposed management response	6 Apr 2022
CAAC	Audit Results Report 2020/21	22 Jul 2022
CAAC	Statement of Accounts 2020/21	22 Jul 2022
CAAC	Lessons learned: Best Value and external assurance within other councils.	22 Jul 2022
CAAC	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
CAAC	External Audit: Value for Money Governance Update	5 Dec 2022
Council	Corporate Governance Improvement Plan and progress update	18 Jan 2023
CAAC	Statement of Accounts 2020/2021	28 Apr 2023
CAAC	Auditor's Annual Report – Year Ended 31 March 2021	29 Jun 2023
Council	Corporate Governance Improvement Next Steps	5 Jul 2023
Council	Section 24 Statutory EY recommendations	18 Sep 2023
Council	Corporate Governance Improvement Plan	18 Sep 2023
CAAC	Lessons Learnt: Best Value Inspection of Liverpool City Council	5 Aug 2021
Audit Committee	Section 24 Report – Delivery and oversight arrangements	5 Oct 2023
Council	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	25 Oct 2023
Council	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	29 Nov 2023
Audit committee	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	14 December 2023
Executive	2024-25 Budget and MTFP – Application for Exceptional Financial Support	17 January 2024
Audit Committee	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	1 February 2024

Audit Committee	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	14 March 2024
-----------------	--	---------------

*CAAC – Corporate Affairs & Audit Committee (Audit Committee from September 2023)

Contact: Debbie Middleton – Director of Finance

Email: Debbie_middleton@middlesbrough.gov.uk