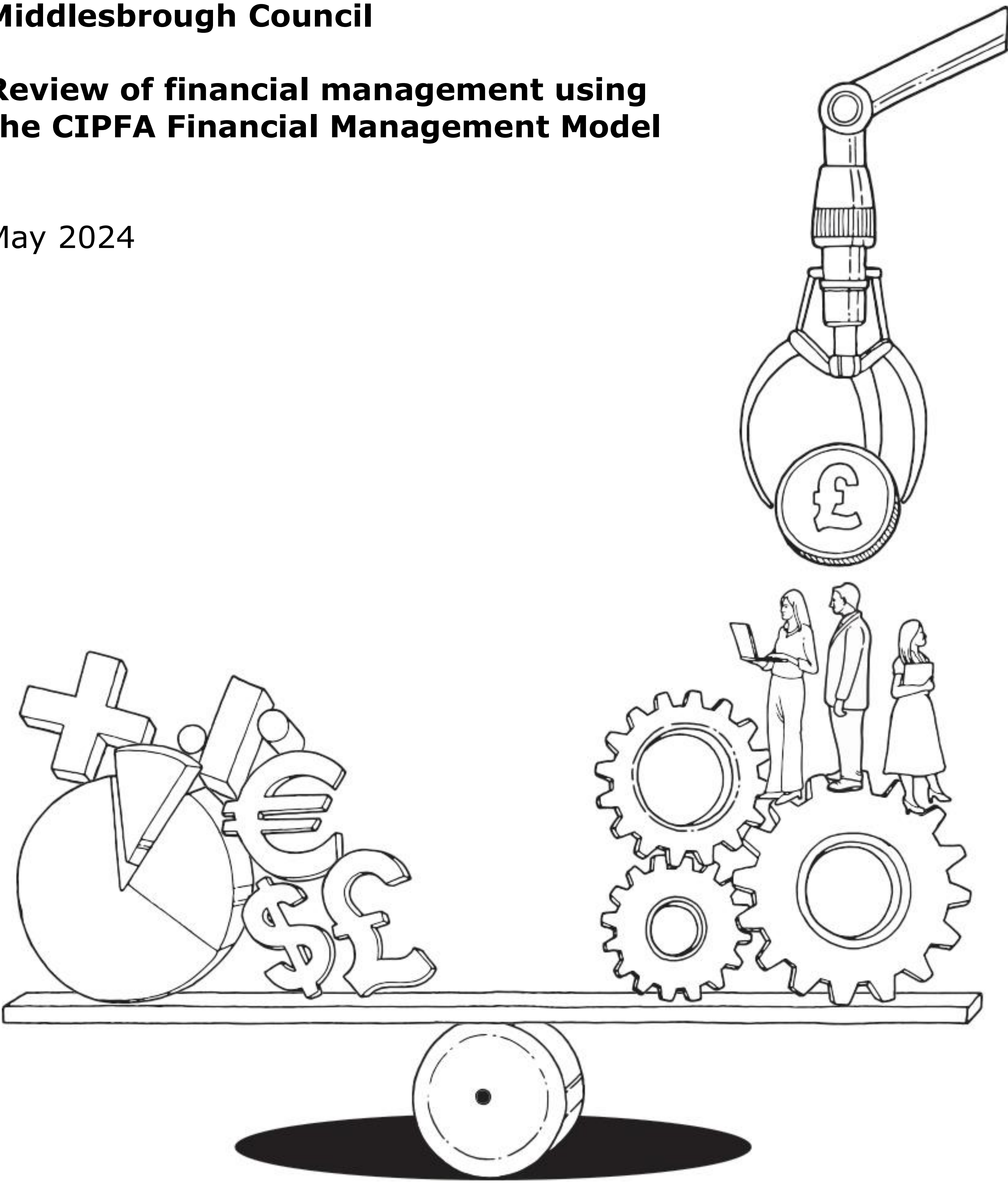
Middlesbrough Council

Review of financial management using the CIPFA Financial Management Model

May 2024



Contents

Appendices

1. Executive summary

Middlesbrough Council commissioned CIPFA to undertake a review of its financial management practices using the CIPFA Financial Management Model (herein referred to as the FM Model) as a framework for the review. This report sets out the findings of our work.

1.1 The CIPFA Financial Management (FM) Model

The CIPFA FM Model is recognised by HM Treasury (UK) as setting out the fundamentals of best practice financial management within a public sector organisation. It has been chosen by HM Government (HMG UK) Finance Leadership Group (FLG) as the framework to be used for financial management self-assessments. The FM Model uses a scoring system to provide an objective measure of financial management performance including the identification of strengths and areas for improvement. Importantly, the review measures the whole organisation's attitude to financial management not just the performance of the finance team. The assessment is based on a mix of evidence obtained through survey, interview and document review.

The CIPFA FM Model is based on a set of statements of best practice. Each of these statements is supported by a series of questions which both explain the scope of the statement and help evaluate the extent to which the statement applies to the organisation. Survey groups are asked to respond to different statements, depending on their role, with the survey being tailored to each survey group.

While we have commented in this report on some aspects of the Council's financial resilience (as relevant to the issues identified) we have not undertaken a resilience review in addition to the FM Model. This review is not a substitute for an appropriately detailed audit of high-risk areas.

1.2 Best practice matrix

The matrix overleaf aggregates assessments for individual statements of best practice in the FM Model and summarises CIPFA's assessment of the Council's financial management arrangements. Using the matrix, the key findings of the review can be summarised across the three financial management styles and four management dimensions. Details on relevant financial management styles and dimensions can be found in Section 3.3 below.

The scores given in the matrix have been moderated using the responses given by survey participants, our findings from the interviews, our document review, and our knowledge of the Council. As such, they are based on the totality of the moderated evidence available to us.

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	**			

No matter how well an organisation performs, there is always room for improvement. The rest of this report, particularly the areas highlighted for development, needs to be read in this context.

1.3 Strengths and areas for further development

As indicated in the matrix above, financial management in Middlesbrough Council is 'reasonable' with an overall two star rating. The Council has basic financial management capability and it has a predominantly 'stewardship' approach to financial management. It is important to acknowledge that the previous concerns raised by external audit and the DLUHC Best Value notice have inevitably meant that we have had to reduce the scores. Changes are being implemented to address these issues, but it is too early to demonstrate fully the improvements being made. Much will depend on the successful implementation of the transformation programme. Not only will this help to secure financial stability, but it will demonstrate that the culture has changed and that governance arrangements are more robust. More detail on the star rating key criteria and characteristics is set out in Appendix 3 of this report.

In respect of the changes already underway, we think it is reasonable for Middlesbrough to achieve a four star rating within 18 months. To illustrate this, it is helpful to consider the criteria for such a score:

To score 4 in the FM Model, an organisation must have in place a strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term and is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most of the organisation's investment programmes will be delivered to time and cost. The organisation will also have strong insight into cost drivers with highly evident commercial capabilities with strategic and operational planning.

We have set out a proposed Action Plan in section 1.7 of this report, which will help the Council to achieve a 4* rating and put the Council in a stronger position to face future challenges and implement transformational change. This is quite a step up from where the Council currently resides, but many of the changes are already underway. CIPFA would be happy to re-run the FM Model in 18 months to provide assurance as to whether the criteria have been met.

1.3.1 Strengths

In our view, the Council demonstrates many of the key characteristics of a successful Finance function, and we have seen examples of best practice in Middlesbrough's approach.

We identified the following key strengths in our review:

1. Despite the past concerns around the culture and governance arrangements at the Council raised by external audit and the need to request a capitalisation directive under the exceptional finance support framework, there has been a positive change in the leadership of Middlesbrough over the last 12 months. The Corporate Plan prioritises the need for improvements in governance and financial stability and there are a range of initiatives being actively pursued. Members expressed their confidence in what they termed the 'war time' qualities of the interim Chief Executive and Director of Finance to deliver such change.

2. There is growing financial awareness across the Council and an acceptance that there is a need to change and transform to be financially sustainable. Members and Officers expressed a willingness to engage in the transformation being developed, and the recently introduced governance arrangements will help to ensure this engagement is co-ordinated and focused. The introduction of Mayor's focus groups to encourage staff innovation and initiative is a positive step, although it is important that this is managed carefully to avoid undermining the authority of, or any blurring of, the impartiality of senior Officers.

3. In the meantime, the interim Director of Finance is building a stronger platform for budget setting and financial management. She has an influential voice at the Leadership Management Team (LMT) and Executive level, and has been very clear to Members and colleagues on the challenges facing the authority and the necessity of change. The revenue and capital budgets are more closely based upon service plans and projections, and the change to monthly monitoring of outturn should enable variances to be identified and resolved more expediently.

4. There are signs that this drive is leading to cultural change within the Council. Members recognise the need for financial stability and a large number of budget holders have commented that they recognise the need to take ownership of their budgets. Managers were very supportive of the commitment and dedication shown by the finance business partners; and the finance business partners we interviewed demonstrated a good understanding of their directorates.

1.3.2 Development areas

Whilst we have already acknowledged that previous concerns raised by external audit and the DLUHC Best Value notice have inevitably meant that we have had to reduce the scores, there are still a number of areas where financial management could be strengthened:

Leadership

1. The capacity within the Council to build a more robust approach to financial management is not yet proven. The two deputy S151 officers tend to get drawn into day-to-day operational issues and this restricts their opportunity to influence and support the Council at a strategic level. The finance team and service need to find more capacity to focus on working closely together on financial modelling further into the future based on informed demand and financial assumptions and service improvement plans. Whilst financial stability is dependent on the transformational change being implemented, several participants commented that they thought they had limited opportunity to be involved due to existing workloads, and questioned its likely impact based on their perception of past practices in the Council. The survey scores were also lower in this area.

2. The engagement between finance and service managers needs to be strengthened to ensure there is a consistent mode of supporting and challenging business as usual activities, such as forecast outturn and planned mitigations. The relationship between finance and the service varies between directorates. Some directorates, such as parts of the Environment and Commercial Services Directorate and the Regeneration Directorate demonstrated reasonable ownership of their budgets, and interviewees from Adult Social Care confirmed that they were also looking to adopt such an approach. By comparison, ownership and accountability needs to be embedded much further in the Children's Services directorate, although it is important to recognise the operational challenges in this area.

3. Transformation is critical to the longer-term financial stability of the Council. The transformation governance arrangements appear robust, but it is very dependent on the engagement and direction of Members and the authority's leadership team. There has been staff turnover recently in some key Officer posts, such as Children's services, and the Chief Executive, Director of Finance and the Finance Transformation Lead are all interims. Stability and continuity will be critical to maintain the focus and impact of the change programme. Whilst the Executive has confirmed an awareness that this needs to be managed carefully and that the recruitment and retention of key staff is identified as a strategic risk, we consider that there should be a greater focus on mitigating the risk that the transformation programme might be disrupted when the interim contracts expire. It should be incumbent on the authority to engage the Members more closely on the monitoring and management of such risks.

People

4. The existing Finance team within Middlesbrough Council represents the minimum needed to maintain adequate financial control and its longer-term sustainability is at risk. There are 17.3 full time equivalent staff in the financial planning and support section, and 22.1 in the finance and investment section but these include only 7 CCAB qualified accountants to support the Director of Finance. Key posts, such as finance business partners, do not necessarily need a professional qualification, but it is a crucial requirement for anyone seeking to become a Head of Service or s151 Officer in future. In the longer-term, therefore, there should be sufficient accountants

to deal with technical demands within the Council and to maintain stability and resilience if senior staff were to leave.

5. Budget holders are too reliant on finance business partners to collate and analyse financial data on spreadsheets to flag any issues arising. Consequently, the work focus of the finance business partners appears to be too much on operational rather than strategic issues. The emphasis of the meetings tends to be on monitoring outturn against budget and explaining any deviations. This is important, but it is largely focused on what has already happened rather than identifying and tackling issues before they arise. Changing this working environment will be a challenge – the responses to the survey confirm that both parties appear comfortable with the existing arrangements.

6. There is little opportunity for career development within the existing structure of the finance team. The limited capacity within the team has restricted opportunities for job rotation. Consequently, it is difficult for staff to build a broader experience across finance, and it cultivates a more parochial culture that risks creating a divide between these two sections within the team.

Processes

7. It is a mixed picture in terms of whether managers are fully involved in setting their budgets or whether the process is completed by finance on their behalf. This is largely because of a lack of reliable underlying performance data that can be used to establish trends in demand. Forecasting has been universally identified as an area that requires improvement or an area that budget managers state they are not involved in.

8. There has been significant feedback regarding the lack of integration between finance, payroll and social care systems. This leads to information having to be double-keyed into multiple systems and the usage of spreadsheets for the manipulation of data from multiple systems to create reports.

9. Budget holders do not find the Agresso Business World finance system intuitively straightforward to monitor their outturn against budget. We understand that the Council is looking to introduce Power BI dashboards to facilitate this process, starting with a training session for the leadership management team before the end of May and wider roll-out across managers in June 2024.

10. Whilst there is an understandable focus on the revenue budget to drive financial stability, asset management is also a critical area. It is worth noting that several of the other supporting strategy documents are currently under review e.g. the asset management strategy, plus the capital programme has been identified on several occasions as not being given the attention it requires to be more proactive and forward looking.

Stakeholders

11. CIPFA has commented previously on the relationship between Members and Officers and the need to strengthen corporate governance arrangements. Much is being done in this area, although it is still too early to provide sufficient evidence to enable us to confirm that these issues are now resolved. Several interviewees commented on the tendency for the discussion in Committee meetings to become fractious. Whilst much

of this can be attributed to differences of political opinion, it does hinder collaborative working and effective scrutiny. For example, in our experience audit committees and scrutiny committees benefit from being chaired by Members from opposition parties to provide added assurance. Middlesbrough has not been able to adopt such an approach in the past, although the recent appointment of opposition Members as vice-chairs is a very positive step on this journey.

1.4 Direction of travel

Middlesbrough is in the midst of major change. External audit and the subsequent DLUHC Best Value notice flagged some serious concerns over the culture, corporate governance and financial stability of the Council. Inevitably our assessment of financial management must consider these factors and it has reduced the scores we have attributed accordingly.

We are optimistic of where the Council might be in 18 months, however, and consider that it could achieve a 4-star rating by then. Members and Senior Officers in the Council are driving positive change. Much of the focus to date has been on creating the financial headroom for the transformational change programme and addressing the governance issues. These are still being implemented, but the direction is encouraging.

There are signs that financial management is starting to improve. Service managers have commented that working with finance on budget setting improved for 2024-25, and they are now more involved in the budget setting processes. The monthly and quarterly budget challenge sessions involve the Director of Finance, the appropriate Members and budget holders. These sessions have provided much needed grip and transparency to financial decision making. There is acceptance that there is a need to change and transform to be financially sustainable. In May 2024, the Executive are considering plans to establish a Financial Sustainability Working Group with cross party representation.

There is further improvement required in terms of the resilience of the finance department, longer term financial planning, budget ownership, finance systems, resolving the outstanding audit issues and the management of the capital programme. Commissioning this review is an important and proactive step forward, however, and demonstrates that Middlesbrough is keen to identify and remedy these issues.

1.5 Overall conclusions

Several Members ascribe the Council as having a 'war time' approach to leadership by senior Officers at present and welcome this as a necessary step to implementing the changes required to build financial stability and to address the concerns over corporate governance. It certainly reflects the determination of senior Officers and the drive to address the issues raised by external audit and DLUHC.

The transition to what Members describe as 'peace time' leadership is not straightforward. The positive direction of travel that we have observed will take time to become embedded so that there is a long-term change in the culture and behaviours within the Council. The Council has not historically had a good track record of cross organisational transformation and it is crucial that there is sufficient staff engagement so that changes will be accepted and embraced.

Central to the behavioural changes required will be a reset in the relationship between service managers and the finance team. Managers need to own their budgets more and the finance team need to be more strategic in identifying potential risks to financial stability and identifying opportunities to drive improvements. The finance team is currently too focused on day-to-day operational issues and lacks the capacity to build the expertise it will need in future. Similarly, budget holders need to be more involved in budget setting and monitoring but currently lack some of the tools needed to do so. We have outlined in our action plan below the changes needed to facilitate such a change.

1.6 Concluding comments

We would like to take this opportunity to thank all the interviewees and survey participants who contributed to the review. This includes our particular thanks to Claire Jones and Rebecca Duce, as well as the finance leadership team, for their support with organising the interviews, survey participation and document provision.

1.7 Action plan

Actions arising from the review of financial management using the CIPFA FM Model.

Theme	Issue	Required action(s)	Priority
Resilience of the finance department	• The existing Finance team within Middlesbrough Council are stretched thin and have to prioritise those tasks needed to maintain adequate short-term financial control. • There is insufficient capacity for staff to build experience through job rotation which risks entrenched attitudes and inhibits staff development. • The function is becoming too dependent on a small number of senior staff.	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: • 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 If market conditions preclude recruitment, Middlesbrough should explore greater collaboration with other authorities to share staff with in-depth expertise of specific finance areas.	**M**
Coaching and Training for service staff and finance staff	• Service leads who are new into post would benefit from proactive support from finance to help them get up to speed. • Support the finance staff to develop their capability to provide constructive and robust challenge to the service.	Instigate a budget training programme for new service managers Encourage finance staff to undertake finance business partner training	**H** **H**
Medium and long-term financial planning	• Strengthen medium and long-term financial management informed by a 'transformation' (not cost cutting) lens with improved trend analysis and forecasting. • Finance team to develop their trend analysis and forecasting skills.	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. Explore the utilisation of a rolling programme of zero-based budgeting	**H** **M**

Theme	Issue	Required action(s)	Priority
ASC and CSC budget management and ownership	• Budget holders are very reliant on the finance business partners. • It has been suggested that Adult Social Care and Children's Social Care budget setting and management (for non-salaries spend) is predominantly completed by Finance.	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	• Lack of integration between finance, payroll and social care systems. • System users have raised concerns regarding the usability of Business World.	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	• There is a strong reliance on contractors and interims within Middlesbrough to drive the changes required. • There is a perception amongst operational staff that they are not necessarily involved in the change programme and that it may not apply to them.	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. Review and develop a communications strategy for the transformation programme.	**H** **H**
Strengthening scrutiny	• Several Members commented on the tendency for the discussion in meetings to become fractious. Debate is important, but in our view a more collaborative and constructive approach would strengthen scrutiny. • The Executive Committee is taking forward a proposal to establish a cross party working group on financial sustainability • The establishment of such a working group is an opportunity to strengthen the Member oversight of the strategic risk register	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. The authority should regularly share the strategic risk register with Members on the cross party working groups for review and challenge	**L** **M**

Assets and Liabilities	• There is limited Member involvement in monitoring changes in the Council's balance sheet. Changes in the utilisation of assets, or movements in creditors and debtors, for example, should be routinely monitored	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**

2. Introduction

In May 2024, Middlesbrough Council completed the CIPFA FM Model to provide the basis for a review of financial management arrangements within the organisation.

The CIPFA FM Model sets out the fundamentals of best practice financial management within a public sector organisation and uses a scoring system to provide an objective measure of financial management performance including the identification of strengths and areas for improvement. A more detailed explanation of the CIPFA FM Model is provided in **Appendix 1**.

2.1 Understanding the organisation

Middlesbrough is a town in the Tees Valley with a population of around 150,000. The area has relatively high levels of deprivation. The extent of deprivation, as measured in the Index of Multiple Deprivation (2019)[1] ranks Middlesbrough as 6th in comparison to other authorities in England. This is also reflected in other statistics. According to ONS[2], it had a higher rate of economic inactivity (29.2% of those aged 16-64) than the median (21%) for other local authorities in Great Britain and a lower median weekly pay. Literacy levels are also below average, whilst the proportion of the population overweight or smokers is higher.

Middlesbrough Council has been a County Borough since 1889. Consequently, its responsibilities as a unitary authority include waste collection, housing and council tax collection, as well as education, social care and transport. The Council is one of five authorities that comprise the Tees Valley Combined Authority, chaired by the Mayor of the Tees Valley.

The high levels of deprivation create a pressure on the services required from the Council. Social care costs represent a high proportion of the Council's annual revenue budget and changes in case load materially impact on its Council Tax requirement. Added to this challenge, the Council has a relatively low proportion Band D or above properties and a high rate of Council tax exemption (4.4% compared to a national average of 2.9% in 2023)[3].

The Council's underlying financial position prior to 2023-24 was weak; usable reserves had been regularly depleted to bridge the gap between expenditure and income each year. As a consequence, Middlesbrough's reserves were already significantly lower than the median for neighbouring North East authorities and other unitaries. This pattern continued in the first quarter of 2023-24; Middlesbrough forecast an overspend of £11.563m on its net budget of £126.354m with usable reserves of £14.829m.

Following the appointment of the interim s151 officer, a range of intervention measures, including a move to monthly monitoring and the imposition of restrictions on non-essential expenditure, were issued in July 2023. By the end of quarter 2 in 2023-24, there was a projected overspend of £8.556m (a reduction of £3.007m from quarter 1). Whilst progress was being made, Middlesbrough concluded that the growing pressure on services was likely to continue in 2024-25 (a projected gap of £6.279m) and subsequent years, requiring the

[1] https:www.gov.uk/government/statistics/english-indices-of-deprivation-2019
[2] https://explore-local-statistics.beta.ons.gov.uk/areas/E06000002-middlesbrough
[3] https://www.gov.uk/government/statistics/council-taxbase-2023-in-england

Council to stop some services, improvement efficiency and identify ways of delivering differently in future. There were insufficient capital receipts available to fund such change.

In December 2023, Middlesbrough applied for a Capitalisation Directive under the Exceptional Financial Support framework. In February 2024, DLUHC approved, in principle, the authority for Middlesbrough to utilise £13.4m of its capital resources as follows:

- **£5.3** to cover the projected budget gap in 2024-25, including contingencies for any fluctuation.
- **£4.6m** to cover the timing difference between the requirement to spend on transformation and redundancies versus the expected realisation of capital receipts.
- **£3.5m** for the possible non-delivery of some of the £14m planned savings.

In practice, latest estimates of outturn for 2023-24 indicate that the measures put in place to control spending have helped to reduce the overspend on net expenditure. We understand that the net spend for 2023-24 was £129.948m, compared to the budget of £126.354m. This represents an overspend of £3.594m, compared to a forecast overspend of £8.556m at the end of quarter 2, and a forecast overspend of £5.544m at the end of quarter 3.

This reduction in the overspend in 2023-24 is encouraging – adult social care, for example, managed to deliver a small underspend of £0.026m against its revised budget of £51.6m, whereas it was forecasting an overspend of £1.358m at quarter 3. However, it is important to note that some of the underlying pressures remain. Children's social care and SEND transport overspent by £2.766m and £1.081 respectively (compared to forecast overspends of £2.884m and £1.443m at quarter 3).

The progress made in 2023-24 would suggest that there is a tighter control on expenditure than previously. This may be due, in part, to the spending restrictions implemented by Finance, but it also suggests that directorates are more focused on keeping within budget. In May 2024, the Executive are also considering plans to establish a Financial Sustainability Working Group with cross party representation.

The Council was issued with a Best Value Notice by DLUHC in January 2023 in response to serious concerns over governance arrangements. The 2019 election had brought significant change in the composition and leadership of the Council and a consequent drive to change the organisational culture from one focussed on process and performance management to a much more entrepreneurial style of administration. Member and Officer relations became strained, and in July 2022 external audit qualified its opinion on value for money and concluded that:

> *"… the culture and governance arrangements at the Authority have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework."*

Middlesbrough delayed the finalisation of the 2020-21 annual governance statement until it could be amended to reflect the improvements required and, in October 2022, the Council agreed to establish an Improvement Board, with an independent chair to oversee actions and to update the Council regularly on progress. The Improvement Plan was approved by the Board when it met in November 2022.

Since then, there have been significant changes in the leadership of the Council. The interim Chief Executive and the leadership team are overseeing a transformation programme and other changes to improve financial resilience. Council elections have led to changes in the Executive, with a new Mayor and portfolio holders.

It is against this background that we have undertaken this review. Our assessment acknowledges the progress being made in response to the challenges faced. But as the planned improvements are still largely work in progress at this stage, this inevitably means that the scores will remain relatively low until stronger evidence of change becomes available.

3. Key findings

This section outlines findings from the assessment and supports the action plan included in the Executive Summary. It is anticipated that the Council may address and prioritise some of the issues raised within existing plans for the continuing development of financial management within the organisation.

3.1 Applying the CIPFA Financial Management (FM) Model

In applying the CIPFA FM Model evidence was gathered from three main sources:

- document review
- 1:1 interview
- online survey

Information from these different sources has been brought together to give an assessment for each of the best practice statements relevant to the Council. Further details of the methodology used are shown in **Appendix 2**. Within this section of the report, direct quotes from interviews and the survey are included but are not attributed to the individuals concerned.

3.2 Summary of CIPFA Financial Model Scores

The matrix below summarises CIPFA's evaluation of the Council's financial management arrangements against the best practice in CIPFA's FM Model, with each area being awarded 1-5 stars (where 1 star indicates that the authority is 'weak' or 'inadequate' in its performance against the underlying statements of best practice and 5 stars represents a 'very strong' or 'world-class' performance. The matrix is based upon CIPFA's scores for each statement, summarised across the three financial management styles and four management dimensions as shown below. It is based on CIPFA's assessment of the evidence generated through the document review, 1:1 interviews and online survey.

3.3 Best practice matrix

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	**			

The high-level matrix measures Financial Management Styles with Management Dimensions. The styles of financial management are intended to be progressive, with a general expectation that organisations are likely to firstly establish the building blocks of control and adherence to regulations through the 'Delivering Accountability'. This leads on to financial management contributing towards 'Supporting Performance' by assisting decision-making and supporting the delivery of organisational objectives. 'Enabling Transformation' would then be likely to represent the next stage, with financial management supporting the change agenda, innovation and re-engineering of systems and processes, where appropriate.

The Model is also organised by four management dimensions of Leadership, People, Processes and Stakeholders. These cover both "hard edged" attributes that can be costed/measured, as well as "softer" features such as communications, motivation, behaviour and cultural change.

3.4 Overview – Styles of financial management

The Council scored reasonably well on some aspects of the Delivering Accountability style of financial management. The senior finance team have demonstrated a strong grasp of what is needed to build financial stability and have thereby raised levels of financial awareness across the Council. Budget holders may find the Agresso Business World system difficult to use, but the system and associated processes are able to produce reasonably reliable data – both for management data and for the financial statements. The lower scores reflect the heavy reliance within finance on a relatively small number of senior staff, with consequent risks to long-term sustainability, external audit's qualified opinion on value for money for 2020-21, and the ongoing hiatus in completing the audits of subsequent financial statements. The hiatus in audit work reflects the nation-wide backlog in audit and whilst Middlesbrough has raised the issue with LGA and DHLUC, it is outside the authority's direct control to resolve.

The scores on the 'supporting performance' row are marginally lower than those for 'delivering accountability' as budget ownership remains patchy. It is important to acknowledge, however, that we interviewed several directors and operational managers who demonstrated strong ownership of their budgets and responsibilities, and the finance business partners demonstrated a good understanding of the directorates that they support. Budget holders in parts of the Environment and Commercial Services Directorate and the Regeneration Directorate demonstrated reasonable ownership of their budgets, and interviewees from Adult Social Care confirmed that they were also looking to strengthen their approach. By comparison, ownership and accountability needs to be embedded much further in the Children's Services directorate, although it is important to recognise the operational challenges in this area.

One key issue that we picked up was that the ownership of budgets tended to weaken further down the hierarchy of delegated authority. This is not a reflection of those we interviewed but the apparent challenges they raised that their responsibilities often overlapped with colleagues and so others might make decisions that could impact on their budget.

Respondents noted that the financial system was not regularly used by budget holders and that there was an onus on finance business partners to undertake much of the analysis themselves using spreadsheets. Consequently, much of their time is taken up with operational rather than strategic issues – a tendency to focus on accountability for past variances rather than potential risks that might arise.

Children's services was regularly identified as a challenging area. We recognise that is partly a reflection of the sector-wide issues that affect most authorities and the previous turnover in senior staff creating uncertainties. More effective scrutiny is very dependent on building a more robust and timely data pack to enable trends in spend to be identified earlier and more accurately. We are aware that the Council is looking to strengthen this area – partly by building stronger data links between systems and the introduction of Power BI to provide more user-friendly data to directors and operational managers.

Turning to the 'enabling transformation' row, the scores may appear quite low given the work currently underway. There is a transformation programme being implemented in response to the financial pressures facing the Council, and there are clear governance arrangements in place to oversee progress. The relatively low scores reflect two factors:

- The transformation programme is still at an early stage. Plans are still being developed and the governance arrangements were only put in place in March 2024. What is being proposed appears reasonable, but there is insufficient evidence at this stage for us to be confident that it will deliver the changes expected.

- Furthermore, respondents have raised concerns about the capacity of staff in the Council to accept and implement the changes planned. Several participants observed that there is a growing tendency for the Council to rely on external parties to implement changes and that they do not yet feel they are part of what is being planned. Changing this culture will be critical to successful implementation.

There is strong leadership in place – both Members and Senior Officers - to drive through the changes required to build financial resilience and we are encouraged by the steps that have been taken to date. It is critical, however, that managers and other staff are encouraged to embrace the opportunity to be involved.

3.5 Overview – Management dimensions

Turning to the columns that show management dimensions, the relatively low scores on 'leadership' reflect the recent turnover in Members and Senior Officers in the Council and that time is needed before the impacts of these changes becomes apparent.

It is noticeable that both the Chief Executive and the Director of Finance are interims and that their contracts are due to expire in March 2025. Both individuals are dynamic in driving change – indeed a number of participants commented to us that this is a time for 'War-time' leaders and that once things have settled the Council might appoint 'Peace-time' leaders. We are aware that there are plans in place to identify and promote/recruit suitable candidates to take on these roles when the time comes. Nevertheless, in our view it is likely that the transformational changes will still be being implemented come March 2025, and thus continuity will be critical.

The low scores on the 'people' column largely reflects the limited opportunities within the finance function to enable staff development. The limited capacity means that there is little or no staff rotation to build experience, and perhaps as a consequence, several participants commented that there is a divide between those working on the management accounting and financial planning side and those on the accounts processing/technical side. There are few trainees and limited opportunities for individuals to build experience and gain promotion.

Much of this reflects the previous paring back of the finance function to deliver efficiency savings, and the difficulty in attracting recruits to work in Middlesbrough. Senior staff in finance are aware of the issue, and that it means the finance function is very dependent on their availability. Resolving the issue is not straightforward – we have explored whether it is feasible to develop a 'shared finance service' with neighbouring authorities to spread the risk and start to build a more experienced team, but we recognise that this is dependent on wider co-operation.

The 'people' column also applies to the management skills of non-finance staff. It was encouraging to see that budget management responsibilities are built into the job descriptions for staff and that senior officers understand the need for the Council to build financial resilience. Given the positive scores in the survey, it could be argued that this score should be higher. Our concern, however, is that this reflects a comfort with existing working practices when we have already identified that these need to change. Creating a more commercially aware and financially responsible culture will take time.

The 'processes' column reflect that existing practices are well established and typically operate well. There have been improvements in the budget setting and monitoring arrangements. Estimates for 2024-25 appear more robust than previously, and the move to monthly monitoring will help to ensure that any variances are identified and addressed more timeously. The overall scores are lowered by the following factors:

- The lack of integration between finance, payroll and social care systems. Requiring manual workarounds
- The need for a more data driven approach to forecasting income and expenditure
- A greater emphasis on comparing performance and unit costs with other similar bodies to identify areas for improvement
- The outstanding uncertainties over compliance with accounting standards due to the hiatus in external audit work.

Finally, the relatively low scores for 'stakeholders' is partly due to the hiatus in external audit work, but also that it will take time to address fully the governance issues previously flagged by external audit and the CIPFA review in 2022[4]. Progress is clearly being made – Members and Officers noted that relations are much more constructive than previously, and there is clear progress with the Corporate Governance Improvement Plan.

There is, however, still room for improvement. Several Members commented on the tendency for the discussion in meetings to become fractious. Debate is important, but in our view a more collaborative and constructive approach would strengthen scrutiny. In our experience audit committees and scrutiny panels benefit more from being chaired by representatives from opposition parties to provide added assurance. Middlesbrough has not been able to adopt such an approach to date. In November 2023, however, 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.

[4] Middlesbrough Council: Culture and Governance Report, September 2022

3.6 Statement scoring and assessments

In this section of the report, we show scores for individual statements and summarise the evidence upon which the assessment is based.

3.7 Leadership – Delivering Accountability

For the Delivering Accountability style there are three statements that consider the elements of an effective framework of financial management.

Delivering Accountability	**L1**	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.	**3**
	L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.	**2**
	L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.	**3**

There has been a positive change to the leadership of the finance capability over the last 12 months. The S151 officer has a voice and the necessary influence at the Leadership Management Team (LMT) and is respected by Members. The two deputy S151 officers are long serving well respected employees of the Council, however, historically they have been drawn in to delivering day-to-day transactional support and have not always had the capacity to influence and support the Council at a strategic level.

The relationship between finance and the service in terms of providing support and challenge varies between directorates. Some directorates demonstrated reasonable ownership of their budgets, and interviewees from Adult Social care confirmed that they were also looking to adopt such an approach. By comparison, ownership and accountability needs to be embedded much further in the children's services directorate.

Turning to statement L2, the Council has refreshed its financial regulations and procedures and there is a clear framework for financial accountability as detailed within the Constitution, Scheme of Delegation and Financial Limits Annex. Participants raised concerns that the financial system limits the level of approval on purchases to £500 for some senior budget holders. It is clear, however, that Officers and political leadership across the Council are setting the tone that finance is very important and that helping improve the financial position of the Council is everyone's responsibility. The levels of financial delegation should be regularly reviewed, but in our view the tight controls reflect the determination of Middlesbrough to change attitudes and behaviours to financial management.

Nevertheless, the lower score reflects that these cultural changes will take time. The box below illustrates the nature of the challenge as well as the strengths as reflected in the comments raised by survey participants:

	Comments from Finance	Comments from Budget Holders
Strengths	*"I am fortunate in that I have the Director support and backing if I need to challenge a Budget Manager. However, I do believe that this may not be the case across all Directorates."*	*"I get a team budget with all information in."*
Concerns	*"….. finance input has been too late to influence processes and decisions."* *"As far as I am aware, there is no official document that sets this out. …… I am now finding I am expected by my director to take some of the accountability from the Budget Manager so on the whole, I do not feel now there is clear definition for anyone."*	*"I have never been challenged by the finance team."* *"I am unsure how much finance knowledge project managers have and how integrated finance is from a finance function perspective."*

On statement L3, the Council has strengthened its approach to budget setting and monitoring. The process for determining the 2024-25 budget was rigorous, although there are underlying difficulties in collating rigorous data on volumes, growth and other performance indicators to underpin the forecasts The Council has moved from quarterly to monthly monitoring. The monthly and quarterly budget challenge sessions involve the S151, the appropriate Members and budget holders. These sessions will produce a much stronger grip and transparency to financial decision-making.

3.8 Leadership – Supporting Performance

For the Supporting Performance style there are two statements which consider financial planning, financial management strategy and the way financial management expertise is used in strategic decision-making.

Supporting Performance	**L4**	The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.	**3.5**
	L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	**2**

On statement L4, the Council Plan (2024-27) and MTFP were presented by the Chief Executive and S151 Officer respectively and subsequently approved at the Budget Council meeting on the 8th March 2024. The two documents are aligned – the Council Plan includes 'Delivering Best Value' as one of the Mayor's four key priorities and this outlines the importance of restoring financial sustainability and robust governance. We have reduced the scores to some extent, however, as the medium term strategy is very dependent on the development of a new target operating model to demonstrate that its business plans align with the financial forecasts; and we have mentioned previously that the forecasts themselves would be more robust if underpinned by better quality performance data.

On statement L5, the financial grip on the short term has improved, but the longer term financial health of the Council is dependent on the finance team and services working closely together on financial modelling further in to the future based on informed demand and financial assumptions and service improvement plans. There is some evidence of finance providing expertise to inform financial decision making, however, this is not across all directorates. The time and capacity committed to understanding the cost drivers, projecting growth and inflation and utilising this information to develop financial models to project unmitigated expenditure profiles is limited. In addition, there is little evidence of strategic financial conversations between the FBP and the service to explore options to mitigate the growing expenditure and quantify the financial implications.

The selection of quotes in the box below from the finance team and service managers illustrate the patchiness of the existing approach:

	Comments from Finance	**Comments from Budget Holders**
Strengths	*"We try our best to accommodate all requests for finance input and to develop finance skills for non-finance staff wherever we can."* *"I am given full support of the Director to provide input and influence decision making. He instils in his staff that I must be consulted in all major decision-making processes. I am given an agenda slot at his weekly DMT and am always given the opportunity to express my opinions. In addition, Finance is required to sign off any reports and business cases."*	*"… if I have a question about staffing budget then my FBP is able to answer and support."*
Concerns	*"Some FBPs have more challenges in the service involving them in everything than others."* *"I know sometimes FBPs have been excluded (not by their choice or actions) from such discussions."*	*"Mine is 'more of the same' based on previous financial years, which I wouldn't call robust analysis. It may be different in other areas."*

3.9 Leadership – Enabling Transformation

For the Enabling Transformation style there is one statement covering the integration of financial management approach and resources driving the change agenda.

Enabling Transformation	**L6**	The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.	**2**

The Council has started to discuss opportunities for transformation as opposed to a previous financial language of "salami slicing" to balance the budget. The language of transformation and the processes for generating, capturing and implementing new ideas and ways of working still appear to be in development, however, the Council is moving in the right direction:

> *"As an organisation we have had some big successes in terms of changes and associated benefits, however there are some areas where change has been difficult."*
>
> *"Current Council culture is changing absolutely everything in every area re Council's priorities, financial pressures/demands, monitoring, … extremely difficult to keep up to date with all the changes in all areas but am aware of own accountabilities and potential negative consequences if changes not followed."*

The Council has commissioned external consultants to work alongside staff to support the development of transformation plans and the Council is currently reviewing their business case process to ensure it is fit for purpose for the transformation agenda. It is unclear to CIPFA, however, whether there is sufficient transformation capacity within the Council to engage with the consultants to implement the programmes of activity to deliver the transformation. Feedback from interviewees and survey participants included:

> *"We always seem to be changing but fact that we have experienced such financial difficulties suggests that not always successful."*
>
> *"We have changed in previous years but not clear in the outcomes and benefits or if it's been fully carried out."*

3.10 People – Delivering Accountability

Delivering Accountability	**P1**	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	**1.5**
	P2	The organisation has access to sufficient financial skills to meet its business needs.	**2**

For the Delivering Accountability style these two statements cover the financial competencies required by the organisation and the skills that match these needs.

The survey responses would suggest that there is sufficient financial expertise available within the authority to operate effectively. This does reflect the commitment of staff to deal with issues and to seek to address the financial challenges faced by the Council. We would question, however, whether this perception is an objective assessment of performance or whether it instead reflects a level of comfort with existing ways of working rather than what might be needed in future.

The existing Finance team within Middlesbrough Council represents the minimum needed to maintain adequate financial control. There are 17.3 full time equivalent staff in the financial planning and support section, and 22.1 in the finance and investment section. There are also 5.75 vacancies across the two teams. We understand that the number of posts has reduced over the years to reflect the need to reduce overhead costs.

The relatively small size of the Finance team has created a number of challenges:

- **There are only a small number of qualified accountants.** There are only 7 CCAB qualified accountants to support the Director of Finance. This is putting undue on the Heads of Service to deal with any technical issues. As a consequence, the onus is very much on the Director of Finance to deal with any strategic issues.
- **There is no capacity available to absorb peaks in workload.** Interviewees noted that the unfilled vacancies are putting pressure on some of the individuals in finance to work very long hours. Whilst this is reasonable in exceptional circumstances, if it occurs too frequently it increases the risk that officers might look for opportunities elsewhere – thereby creating further vacancies.
- **There is insufficient capacity to enable staff rotation or opportunities for career development.** Interviewees confirmed that there is little opportunity for individuals to move posts and there is no clear competency framework in place. This not only stifles career development, but it is creating a divide within finance between the two service functions. The staff survey would suggest that finance staff and budget holders are comfortable with the lack of rotation, but the risk is that existing practices – whether good or bad – become normalised and it builds a culture of resistance to change or challenge.

There is a lack of longer-term resilience in the Finance function. The reliance on a relatively small number of qualified staff means that if any were to leave, the Finance function would become very dependent on short term contractors to bridge the gap. When the contract for the interim Director of Finance comes to an end in March 2025, for example, it may be difficult to promote from within because of the limited capacity to backfill such posts.

We understand that it can be difficult to recruit qualified staff, but it is important that the Council starts to build more depth to ensure continuity. This might involve the introduction of a trainee scheme to build a cadre of new trainees, the recruitment of other specialists, or, if market conditions preclude recruitment, the exploration of greater collaboration with other authorities to share staff with in-depth expertise of specific finance areas.

3.11 People – Supporting Performance

Supporting Performance	**P3**	The organisation manages its finance function to ensure efficiency and effectiveness.	**2.5**
	P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	**2**

	P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	**2**

The three Supporting Performance related statements cover the assessment of the effectiveness of the finance function, finance support on key decisions, the enforcement of accountability and the degree of diffused financial management.

As outlined previously, the relatively small size of the finance team and the positive feedback from survey respondents would suggest that the function is efficient and effective. There are no key performance indicators or other performance measures, however, to substantiate these measures.

Nevertheless, as part of our work, we interviewed the finance business partners and were impressed with their understanding and knowledge of the directorates that they support. Operational managers and Directors confirmed that the business partners attend key meetings and that financial issues are routinely discussed. As one survey respondent confirmed:

> *"The business partners are very useful. They offer challenge and support in equal measure."*

Our assessment scores are lower than might otherwise be expected given the survey responses, however, as much of the focus appears to be on operational rather than strategic issues. Whilst budget holders have been trained in financial management, they do not routinely access the Business World accounting system and, as a consequence, are very reliant on the finance business partners to collate and analyse the data on spreadsheets to flag any issues arising. As a consequence, we understand that the emphasis of the meetings tends to be on monitoring outturn against budget and explaining any deviations. This is important, but it is largely focused on what has already happened rather than identifying and tackling issues before they arise.

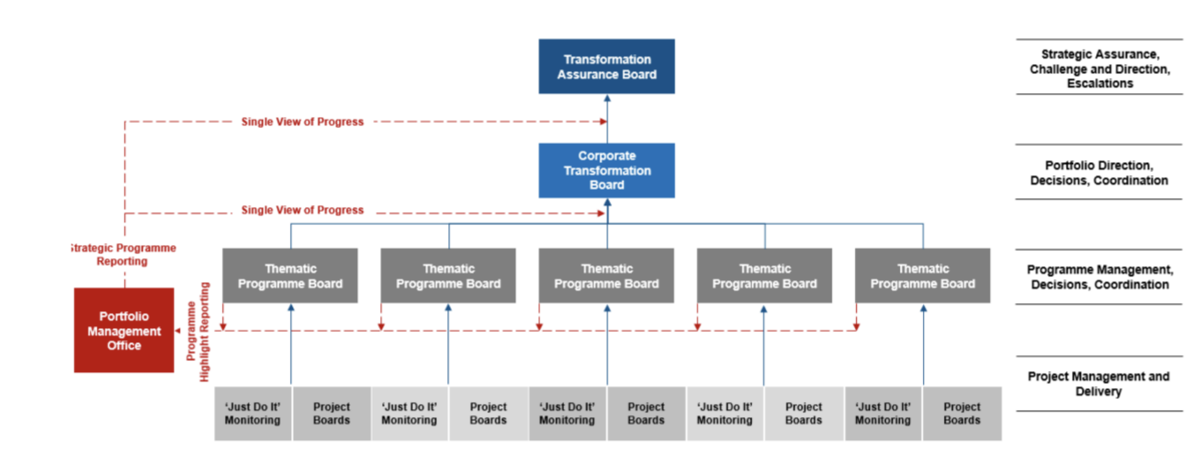
Furthermore, budget ownership and financial awareness remains patchy across the authority. There were a number of interviewees who demonstrated strong financial awareness and a commitment to taking their responsibilities seriously. Middlesbrough have also specified financial responsibilities in their job descriptions. This level of ownership has been less strong, however, in the children's directorate and in the lower tiers of management. Several participants highlighted the particular challenge in engaging managers within the children's service – the issue appears to be partly a cultural perception that finance is a secondary issue, the high levels of staff turnover in this directorate, and the challenges in getting reliable, granular performance data. Elsewhere, ownership tends to dissipate further down the hierarchy due to the difficulties in aligning budgets with service manager responsibilities. Several interviewees highlighted examples where their responsibilities overlapped with colleagues and thus decisions taken by them affected their budgets as well.

3.12 People – Enabling Transformation

Enabling Transformation	**P6**	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	**1.5**

The need to strengthen financial resilience is clearly driving change. Middlesbrough was awarded a capitalisation direction in February 2024 to bridge the budget gap, the possible shortfall in savings and the timelag in securing capital receipts. This was essentially driven by the financial challenges facing the authority and the need to address the ongoing and significant demand pressures in adult and children's services. The interim Director of Finance has been very clear to Members and colleagues on the challenges facing the authority and the necessity of change.

The interim Director of Finance is part of the Corporate Transformation Board, chaired by the Chief Executive, overseeing progress, and is supported by an interim Finance Transformation Lead. As the figure below shows, this is a Board of senior officers that reports to the Transformation Assurance Board chaired by the Mayor and oversees the different initiatives being pursued.



Source: Report to the Executive, 13 March 2024

The governance arrangements appear robust and will ensure that Finance is a key part of the transformation programme. It is early days, however, and the transformation programme is still in its infancy. Furthermore, as both the Director of Finance and the Finance Transformation Lead are interims, it will be critical to maintain focus and continuity throughout the change programme. As a consequence, we have been somewhat prudent in our score for this element – we would expect the score to increase as transformational plans are firmed up and continuity becomes more assured.

3.13 Processes – Delivering Accountability

For the Delivering Accountability style of financial management the score combines nine individual statements. This is typically one of the highest scoring areas of the FM Model across public sector bodies.

As there are so many statements here, they are most easily considered in a series of thematic groups dealing with different aspects of financial management. Each group is introduced by a series of scores.

The first four Delivering Accountability statements deal with foundational requirements across annual budget setting, transactional finance, treasury management arrangements, as well as integrity and performance of financial systems.

Delivering Accountability	**PR1**	Budgets are accrual-based and robustly calculated	**2.5**
	PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	**2**
	PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g., creditor payments, income collection, payroll, and pensions' administration).	**3**
	PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	**4**

On statement PR1, budget setting is delivered in accordance with the Council's corporate objectives and MTFP. The revenue and capital budgets are mostly based upon service plans and projections and finance business partners confirmed that their monthly monitoring does take into account accruals, although these are part of the work arounds that have to be prepared. However, it is a mixed picture in terms of whether managers are fully involved in setting their budgets or whether the process is completed by finance on their behalf. Some service managers have commented that working with finance on budget setting improved for 2024-25, and they are now more involved in the budget setting processes.

It has been noted via interviews that the basis for financial projections is very simplistic in certain areas, often based on forecasting demand from a single point in time rather than looking at trend analysis and not incorporating any analysis of unit cost changes for different types of provision into the financial projections. As one service manager commented:

> *"Finance are included as part of the budget process, but there have been areas this year where more in depth discussion around the calculation/setting of cost reductions and income targets would have been beneficial."*

There was an acknowledgement that with more capacity and training this was an area where finance staff would like to invest more of their time.

On statement PR2, we understand that there is a lack of integration between finance, payroll and social care systems:

> *"It would be useful for both Finance and non-Finance staff if the Payroll system could be integrated, as currently we have to refer to a manual spreadsheet to ascertain the detail behind salary costs posted to the general ledger."*
>
> *"In some areas data is downloaded from the system into a spreadsheet to be manually developed."*

"Forecasting is currently provided at a high level (cost centre level), but this is a recent addition and needs to be developed further. Trends are not explicitly available via the finance system - manual intervention would be required to establish this."

This leads to information having to be double-keyed into multiple systems and the usage of spreadsheets for the manipulation of data from multiple systems to create reports. These issues suggest that it will be difficult for service and finance staff to easily access a single version of the truth in terms of an up-to-date financial position.

A system workflow issue raised repeatedly with CIPFA during this process was regarding the Business World system sending purchase requests to multiple people for authorisation i.e. service managers can see and potentially approve purchases which they know are not for them to approve. We understand that the Council has reviewed these budget delegations as part of the intended roll-out of the Power BI reporting planned for late May 2024. A second issue raised repeatedly was regarding the approver's apparent inability to access information in Business World regarding the purchasing request to be able to confidently approve the request. Finance consider that this is due to a lack of information being input by the relevant officer requesting the order and plan to address the issue through training.

Users have fed back that the Business World system is not very user friendly or intuitive unless you have had significant training and use the system regularly. Some budget managers are keen and willing to engage with financial systems, many are not and there is still a heavy reliance on Financial Planning & Support finance staff to provide management information. There are a variety of standard reports and enquiries available for use in Business World. There is a tool within Business World (Excelerator) which enables bespoke reports to be run, however, only a handful of staff are trained to use this, and it is very complex.

The development and roll out of a Finance dashboard using Power BI in late May 2024 is a positive step that should enable and encourage more managers to engage in the management of their own budgets.

Turning to statement PR3 on the effectiveness of transactional financial services, interviewees confirmed that existing processes and practices were reasonable. We understand that this aspect of the Agresso Business World system works effectively, and that: bank reconciliations are routinely completed; and that holding & control accounts, debtor analysis and creditor balances are regularly reviewed each month.

Internal Audit have also confirmed that transactional services are operating effectively. Their audit of payroll, for example, confirmed 'substantial assurance' and their review of creditors concluded that there was 'reasonable assurance'. They also provided substantial assurance on the collection of Council tax and non-domestic rates.

There are, however, areas for improvement. Internal Audit gave limited assurance on the use of procurement cards – largely because VAT was not routinely identified and re-claimed and because there were instances of a lack of adequate separation of duties. We understand that Middlesbrough has since introduced a management dashboard for each director to track the review and authorisation of card purchases and whether the VAT has been identified. External audit had also previously questioned whether bad debts were effectively scrutinised. Middlesbrough has addressed this issue by revising its methodology for bad debts, although without confirmation from the audit function that they are content with the change made it is not possible to score higher than three on this aspect.

Statement PR4 refers to Middlesbrough's Treasury Management arrangements. Treasury Management refers to the maintenance of sufficient – but not excess cash resources available to meet expenditure commitments, while managing the risks associated investments.

Middlesbrough's external debt is £259.5m, but as a proportion of core spending power it is relatively low compared to other unitary councils, and well within the operational boundary of £352 million.

Interviews confirmed that the Council's approach to investments is prudent. As it states in the Treasury Strategy (February 2024), the policy is to prioritise security and liquidity over yield. As a consequence, all investments are short term and are in government, local authorities or approved UK banks and cashflows are monitored daily. Middlesbrough is advised by Arlingclose on its investments with counterparties.

Quarterly updates are provided to the Executive on progress – the information is set out clearly at the end of the budget monitoring updates. Interviewees explained that it can be difficult to get Members engaged on the issue, but this is not unique to Middlesbrough. We understand that Member training has previously been run.

Statements PR5 and PR6 cover critical budget performance monitoring and associated responsive agility, as well as how the balance sheet contributes to the effective management of the organisation's assets and liabilities.

Delivering Accountability	**PR5**	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	**3**
	PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	**4**

On Statement PR5, the Council has strengthened its budget monitoring and moved from quarterly to monthly reviews. The monthly and quarterly budget challenge sessions involve the S151, the appropriate Members and budget holders. These sessions should provide a step up in the grip and transparency needed for effective financial decision making.

As part of budget monitoring, budget managers should be reviewing their budgets monthly and providing outturn forecasts. There is a heavy reliance still from some areas on Finance staff to do this work and rather than managers leading on outturn forecasts, it tends to be Finance leading and then seeking comment from budget managers. For example, participants commented that:

> *"Some managers have a very poor grasp of finance and budget management."*
>
> *"This has been kept at arm's length to the present time".*

"The introduction of the Monthly and Quarterly Budget Challenge sessions was designed to hold relevant directorates to account for their variances. However, in my opinion, this has not yet had a significant impact on the Directorates with the most significant and historically ongoing variances - namely Children's and Adults Social Care."

However, this is not the case across the board - some budget managers have taken an active role and interest in their budgets and are keen to be as self-sufficient as they can be. It also appears that certain Directorates are less likely to be actively engaged in monitoring budgets than others. For example:

"This process has changed in that monitoring was done monthly with quarterly reporting whereas now there is a more robust monthly monitoring and reporting process in place with enhanced functionality within the financial system."

"The monthly monitoring process driven by Finance ensures that managers are forced to do this."

On statement PR6, interviewees confirmed that Middlesbrough maintains an up-to-date asset register within the finance system. Additions and disposals are updated annually, and there is a rolling programme of valuations to ensure fair values are properly reflected in the records. External audit has previously stated that there were no misstatements, although they did flag some difficulties in getting reliable data on commercially let premises. The asset register shared with CIPFA confirmed that assets are suitably categorised by type – such as distinguishing heritage assets and surplus assets,

We understand that the Finance team does produce an 'excelerator report' from the Agresso Business World system each month that flags movements in current assets and liabilities, but this is not shared more widely. The annual nature of additions and disposals means that there is no periodic reports to show the mid-year position on the balance sheet.

Delivering Accountability	**PR7**	Management understands and addresses its risk management and internal control governance responsibilities.	**3.5**
	PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	**4**
	PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	**1**

The first two statements here address key aspects of critical internal risk management and internal control arrangements together with more independent organisational scrutiny processes. The final statement assesses the effectiveness of financial reporting, including compliance with relevant professional and regulatory standards.

Middlesbrough has a clearly articulated risk strategy that sets out its risk appetite, how risks should align with performance management, and the roles and responsibilities of the Mayor, Executive, Senior Officers, Internal Audit and all staff. The risk register includes the key strategic risks we would have expected to see, such as the challenge in setting a balanced budget, demand pressures on social care, and the importance of effective corporate governance and the challenges in recruiting sufficient, suitable staff, although the risk register should be more regularly reviewed and scrutinised by Members.

Internal controls have also been strengthened in response to the comments raised by Internal and External audit. CIPFA was previously commissioned as external advisors to support the Council's work to refresh and revise the constitution, finance procedure rules and the contract procedure rules. The revised arrangements were considered by the former Corporate Affairs and Audit Committee in August 2023 and approved by full Council in September 2023.

We have scored this aspect at 3.5, on the basis that many of these revisions are relatively recent and so there is limited evidence available yet to confirm widespread compliance.

Turning to statement PR8, assurance arrangements have been strengthened. The Council has removed the executive responsibilities previously assigned to the Corporate Affairs and Audit Committee; now renamed the Audit Committee. Whilst our preference is to have an independent chair of such a Committee, there was a widespread consensus amongst interviewees that the new Chair is capable and very well qualified for the role.

The Audit Committee has clear terms of reference that encompass the core functions we would expect. These include the audit function, risk management, internal controls and corporate governance. Internal Audit, contracted out to Veritau, meets the requisite quality standards and has the resources available to deliver its risk-based plan.

There is something of a hiatus, at present, with external audit as the newly appointed auditors are awaiting completion of the past audits from their predecessors in order to undertake the 2023-24 audit. The delay is largely a national issue around capacity in the audit sector, however, and thus outside the direct control of Middlesbrough. Whilst this issue meant that we marked down statement PR9 due to the outstanding queries on previous audits, and statement S2 because of the lack of audit evidence to demonstrate improvements in value for money, we have not reduced the scores for this statement as we are satisfied with the arrangements put in place by the Council.

On Statement PR9, external audit raised a large number of queries on the draft 2021-22 financial statements. Whilst we understand that many of these issues were subsequently resolved, the audit work came to a halt in March 2023 due to national considerations around the audit sector and have not since recommenced. As a consequence, there is an outstanding query with the auditors from the Council around changes in the application of IAS 37 on the provisions for bad debts in the Collection Fund. This does not appear to be related to any concern around the methodology, but instead reflects the hiatus in bringing the audit work to a definitive conclusion due to a reset in the national allocation of resources. We understand that the Finance team have already engaged with the new auditors in relation to the adoption of the revised methodology with no issues arising to date. Given the outstanding confirmation that the Council's financial statements comply with International Accounting Standards, however, we have had to mark down this score accordingly.

Turning to the next group of statements, the first Supporting Performance statement addresses the critical area of medium-term financial planning and how financial strategy is underpinned by key funding assumptions, strategic service planning and analysis. The second statement tests the effectiveness of forecasting and the influence of such processes upon decision making.

Supporting Performance	**PR10**	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	**3**
	PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	**1**

On statement PR10, the MTFP aligns with Council priorities and covers the requisite years (2024-25 to 2026-27). Council approval of the 2024-25 budget and proposed Council Tax was secured at the Council meeting on 8 March 2024. However, as stated at the meeting:

> *"The Council's financial position is critical, given that it is unable to set a robust and balanced revenue budget for 2024/25 and due to its critically low level of revenue reserves, without recourse to Exceptional Financial Support (EFS) approved by Government."*

It is worth noting that several of the other supporting strategy documents are currently under review e.g. the asset management strategy, plus the capital programme has been identified on several occasions as not being given the attention it requires to be more proactive and forward looking.

It is still early days in terms of delivering transformation within the Council, therefore, it is unlikely that the MTFP has become a 'dynamic' plan that can be readily revised without substantial changes. However, it has been identified by the Council that there is a need for transformation and the Council has taken the necessary prudent steps to secure EFS to provide enough time for the transformational improvements to become embedded.

On statement PR11, forecasting processes and reporting has not been identified by anyone in either finance or the service as a strength, in fact it has been universally identified as an area that requires improvement or an area that budget managers state they are not involved in. The introduction of Power BI dashboards should help facilitate conversations between finance and the service to look at historic trends and future demand projections to inform the financial modelling required to inform longer term budget setting.

The overriding view is that budgets are heavily based on the previous year's spending and not based on likely future demand levels – either unmitigated forecasts or mitigated to account for interventions planned within the service delivery and improvement plans. A rolling programme of zero-based budgeting exercises may be required as the transformational changes unfold.

3.14 Processes – supporting performance

The Supporting Performance statement covers the extent to which arrangements to secure value for money are embedded within the organisation.

Supporting Performance	**PR12**	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	**2**

The Council has not routinely analysed the relative cost and performance of services and tested them against internal and external benchmarks and performance indicators to identify efficiency gains and spending reductions. There has been ad hoc benchmarking and comparison work completed, however, most examples provided were conducted by the service and not in conjunction with Finance. As a selection of participants commented:

> *"Many issues are instigated for investigation, but momentum generally fizzles out and the status quo remains."*
>
> *"I believe some services do possibly benchmark themselves against others, but as a general rule we do not do this corporately."*
>
> *"Does happen but wouldn't say regularly for end to end reviews due to capacity."*

There are alternative delivery methods in place e.g. Public Health with Redcar & Cleveland Council, and the Tees Valley wide new Waste plant strategy. However, the organisation does not routinely undertake end to end business process reviews and implement findings.

3.15 Processes – enabling transformation

The Enabling Transformation statements test the extent to which financial processes contributes to improved outcomes through transformational change.

Enabling Transformation	**PR14**	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	**2**

Historically, we could not find much evidence that the Council regularly reviewed end-to-end processes to ensure value for money is achieved across the whole organisation rather than in departmental silos.

The interim S151 officer and interim Chief Executive are pushing the transformation agenda. The Chief Executive has commissioned Inner Circle Consulting Ltd to support the Council to kick-start the Transformation programme and the Council is currently in procurement for a longer-term partner. In addition, specific finance skills have been recruited to support cross-cutting efficiency review work and focused support for transformation within Children's Services. However, there is concern that because this work is reliant on external consultancy support and interim finance staff that it may not be sustained when this additional support finishes.

The current Council wide Transformation programme requires full business cases to support requests for funding, previously a business case has been required if support was required through the Council's Invest to Save Change Programme. CIPFA understand that the current business case process is under review to determine if it is fit for purpose for the Transformation agenda.

3.16 Stakeholders management dimension

The CIPFA FM Model combines several stakeholder elements here, including the views of external stakeholders, on value for money, financial integrity, compliance with statutory and regulatory obligations and the ability to influence decisions on resource allocation.

All	**S1**	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.	**2**
	S2	The organisation demonstrates that it achieves value for money in the use of its resources.	**1**
	S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.	**3**

The first statement (S1) examines the degree to which external stakeholders receive assurance on financial integrity from a number of sources including processes and publications. Financial impacts and factors that influence stakeholder confidence are key to this dimension. The second statement (S2) seeks to test the assurance provided to external stakeholders on the delivery of value for money. The final statement (S3) explores stakeholder engagement and the degree to which this relationship influences financial strategy and organisational priorities.

Middlesbrough is on a major journey since the report by external audit in July 2022 to the Corporate Affairs and Audit Committee concluded that:

> *"… the culture and governance arrangements at the Authority have not been operating as expected, and that this is undermining the effectiveness of the Council's governance framework."*

In response, the senior statutory officers in the Council set out a Corporate Governance Improvement Plan but the authority was issued with a Best Value Notice by DLUHC in January 2023 in response to the serious concerns over governance arrangements. Progress subsequently proved to be slow, however, and in August 2023 external audit concluded that whilst there were signs of improvement in the cultural and governance weaknesses, sufficient progress had not yet been made. The external auditors issued 11 statutory recommendations.

Since then, significant changes are being implemented and are scrutinised by an Independent Improvement Advisory Board that has been invited into the Council on a voluntary basis. In February 2024, a progress report to the Audit Committee noted that 40% of the actions in response to the earlier Corporate Governance Improvement Plan had been delivered, and 38% of the actions in response to the statutory recommendations.

Changes have included the implementation of a Member development strategy, training for officers on corporate values and budget management.

Whilst changes are being made, it is still very much work in progress. At the time of our review Middlesbrough is still subject to scrutiny by DLUHC against its Best Value Notice, and external audit have not yet provided any confirmation that they are satisfied with the progress made. We understand that DLUHC are due to undertake a review in June / July 2024, and that external audit is due to report at the end of May with a value for money commentary. External audit is not expected, however, to undertake an assurance review of the Council's progress or conclude on the progress made with its 11 statutory recommendations. In the circumstances, therefore, we have marked statement s1 as a 'two', but the direction of change is encouraging, and we would expect this to rise in the near future.

To achieve a much higher rating, we would expect a more collaborative working relationship between Members. Several interviewees commented on the tendency for the discussion in meetings to become fractious. Whilst much of this can be attributed to differences of political opinion, it does hinder effective scrutiny. For example, in our experience audit committees and scrutiny committees benefit from being chaired by opposition or independent Members to provide added assurance. Middlesbrough has not been able to adopt such an approach in the past.

Turning to statement S2, the issues raised previously by external audit on the 2020-21 financial statements and the subsequent hiatus in the audit work for the 2021-22, 2022-23 and 2023-24 financial statements means that Middlesbrough is not able to demonstrate to stakeholders that it delivers value for money. Without such assurance we have had to mark the authority down accordingly, but we recognise that resolving this delay in the external audit is outside the direct control of Middlesbrough Council.

Turning to statement S3; there is a stronger focus on supporting Members in responding to customer queries and more generally on customer engagement than previously. At the time of our review there were concerns around the communications around the changing of arrangements for the collection of green bins and some Members raised concerns that the consultation process could be improved. Nevertheless, in our view this should not override the progress made. There was consensus that the changes in senior officers had led to better relations with Members and that the organisation was seeking to be more customer focused:

- The Council has appointed the Head of Resident and Business Support to take on the responsibility for transformational change in customer relations whilst backfilling elements of her existing role. The officer has a cross-directorate remit to explore different delivery models that help to join up different functions within the Council.
- Several Members referred to the 'one stop shop' initiatives by the Council
- Whilst there were 37 complaints investigated by the Ombudsman in 2022-23, compared to an average of 32 for the previous three years, only 5 were upheld in 2023-24, representing just 14% of the 37.

Appendix 1 - CIPFA FM Model - Summary

The CIPFA FM Model was originally released in July 2004 and describes a model for best practice in financial management within the public sector. This is the fourth iteration of the FM Model. Version 4 has been specifically developed to incorporate the very latest best practice initiatives as well as the emerging financial management issues associated with the current financial environment. The Model recognises that using money well leads to more and better front-line services and that effective financial management in the public sector now requires financial responsibilities to be more widely diffused throughout the whole of the organisation.

Budget holders/managers therefore need to be financially literate and finance professionals need to contribute through challenge, interpretation and advice. Good financial management is no longer just about accounting for expenditure and demonstrating probity, but finance must be placed in the wider organisational context, in terms of how it supports the delivery of the organisation's strategic objectives.

The CIPFA FM Model is structured around three styles of financial management:

- **Delivering Accountability**– an emphasis on control, probity, meeting regulatory requirements and accountability.
- **Supporting Performance** – responsive to customers, efficient and effective, and with a commitment to improving performance.
- **Enabling Transformation** – strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

The styles are intended to be progressive and it is expected that all three styles will be present in an organisation exhibiting best practice financial management characteristics. For example, accountability alone is not sufficient to enable an organisation to drive performance and to develop its transformational capacity and, conversely, performance or transformation programmes that are not founded in a robust approach to controlling and accounting for resources are unlikely to succeed.

The CIPFA FM Model is also organised by four management dimensions. These cover both hard edged attributes that can be costed or measured, as well as softer features such as communications, motivation, behaviour and cultural change. These are:

- **Leadership** – focuses upon strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation's Board members and senior managers.
- **People** – includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.
- **Processes** – examines the organisation's ability to design, manage, control and improve its financial processes to support its policy and strategy.
- **Stakeholders** – deals with the relationships between the organisation and those with an interest in its financial health, whether Treasury, inspectors, auditors, taxpayers, suppliers, customers or partners. It also deals with customer relationships within the organisation, between finance services and its internal users.

A matrix approach is therefore used in the Model, combining the three styles of financial management and four management dimensions. The organisation's current financial management position is assessed through comparing its arrangements against 30 statements of best practice, with a set of supporting questions sitting behind each statement. The table below shows how the 30 statements fit into the Best Practice Matrix.

Table 1 – Management styles/dimensions matrix

	Management Dimensions			
Financial Management Styles	Leadership	People	Processes	Stakeholders
Delivering Accountability	**L1 – L3**	**P1 - P2**	**PR1 – PR9**	**S1**
Supporting Performance	**L4 – L5**	**P3 – P5**	**PR10 - PR13**	**S2**
Enabling Transformation	**L6**	**P6**	**PR14 - PR15**	**S3**

Each statement is scored from 0-4 with half point increments, to establish an overall picture of strengths and weaknesses in terms of financial management, as shown in the following table.

Table 2 – How far does the best practice statement apply?

Score	How far does the best practice statement apply?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

The methodology used to undertake the review of financial management is described in **Appendix 2**.

Appendix 2 – Review methodology

Introduction

The aim of the review is to form a view on the extent to which the statements of best practice in financial management apply to the organisation and the approach aims to gather evidence for this in the most economical way.

The high-level stages involved in the review are set out in further detail below.

Application of best practice statements

Assessment methodology requires contributors to the electronic survey to approach the scoring for their relevant best practice statements and supporting questions by allocating scores from 0-4 to each of the statements.

The approach includes the categorisation of five survey groups as follows:

Table 1 – Survey groups

Group	Survey group	Description
SG1	Strategic finance	This group would comprise senior finance staff at the core of the corporate strategic finance function and include deputy/assistant CFOs, chief accountants, senior corporate financial performance specialists, long term finance and funding specialists, special project investment specialists, technical financial reporting specialists, etc.
SG2	Operational finance	This group is generally made up from the corporate core finance function but can include finance specialists from devolved arrangements with operational departments/functions. Members would typically include group accountants, budget monitoring teams, departmental business partners and corporate transactional finance staff.
SG3	Service directors	This group is aimed at service directors/heads of service – the objective is to capture evidence on strategic financial capability from an operational non-Finance perspective at the most senior operational level. Such contributors would typically be members of the organisational corporate management team/senior management team.
SG4	Operational managers	Typically, but not exclusively, budget Holders. This group would include any operational manager that is empowered to make decisions consuming organisational resources that have financial implications. Such decisions are typically taken supported by management information or decision support advice provided by finance colleagues.
SG5	Board, Stakeholders and external contributors	The senior stakeholders group comprises the chief finance officer, Chief Executive/Permanent Secretary, board non-executives, Audit Committee chairs and members, other external stakeholders or partner organisations, external audit representation and external supervisory representation – e.g., external auditor.

For the survey, participants were drawn from SG1&2, SG3 and SG4. A selection of the most relevant statements and questions for each of the survey groups were determined and tailored accordingly. This “culling” process produces the most relevant application of the best practice statements designed to extract the optimal information from each specialised survey group. Benefits include relevancy and the minimisation of time exposure for participants and allowed a categorisation of evidence capture between:

- Document review/evidence.
- Interviews.
- Electronic survey.

Document review/evidence

An integral aspect of the review was the assessment of a number of key documents for the Council (including material specifically made available as part of this assessment process, as well as publicly available material). This served two main purposes; to enable the assessor to familiarise him/herself with the structure, processes and culture of the Council, and to confirm factual information relating to the best practice statements and supporting questions e.g., whether or not a specific policy was in existence.

Interviews

Interviews with 44 contributors were used to supplement the document review as well as substantiating the evidence generated from the survey.

Interviewees were largely from within the Council (with a sample of staff with financial management responsibilities, including Corporate Directors and Budget Managers), both officers and members.

Table 2 – List of interviewees

Debbie Middleton	Director of Finance
Clive Heaphy	Chief Executive
Richard Horniman	Director of Regeneration
Charlotte Benjamin	Monitoring Officer
Joe Tynan	Director of Children's Services
Dawn Alaszewski	Director of Children's Care
Erik Scollay	Director of Adult Social Care
Mark Adams	Director of Public Health
Rob Brown	Director of Education
Gail Earl	Head of Prevention
Andrew Mace	Head of Environment Services
Suzanne Hodge	Head of Prevention, Provider and Support Services
Caroline Cannon	Head of SEN and Vulnerable Learners
Claire Kemp	Head of Community Learning
Andrew Humble	Head of Financial Planning
Justin Weston	Head of Finance and Investment
Gemma Cooper	Head of Strategy, Business & Customer
Ann-Marie Johnstone	Head of Governance, Policy and Information
Nicola Finnegan	Head of HR
Max Thomas/Phil Jeffrey	Internal Audit
David Jamison	Head of Property & Commercial Services
Stephen Reid/Mark Rutter	E&Y
Paul Shout	FBP - Regeneration / lead on capital programme
Alison Lythgoe	FBP - Adults Social Care
Janette Savage	Head of Resident & Business Support
Louise Grabham	Head of Strategic Commissioning
Jonathan Bowden	Head of Inclusion - Health
Ruth Musicka	Head of Access & Safeguarding
Tufan De	Head of Safeguarding - Children
Tracy Jelfs	Head of Corporate Parenting
Marion Walker	Head of Stronger Communities
Craig Povey	FBP - Children’s Services
Chris Cooke	Elected Mayor
Cllr Matthew Storey	Chair of OSB
Cllr Nicky Walker	Executive Member for Finance
Cllr David Coupe	Conservative Group Leader
Cllr Philippa Storey	Deputy Mayor & Group Leader - Labour

Cllr Michael Saunders	Group Leader MICA
Cllr Jill Ewan	Chair of Audit Committee
Cllr Dorothy Davison	Group Leader - Marton East Independent
Geoff Field	Director of Environment & Commercial Services
Cllr Theo Furness	Executive Member for Regeneration

Electronic Survey

A powerful component of the CIPFA FM Model is the electronic survey. Across a range of staff with differing financial management roles the electronic survey is used to test best practice statements against the actual prevailing conditions and practice within the organisation. Such scope would include e.g., the robustness of budget setting, the integration of business and financial planning, financial management competencies, the extent to which finance supports strategic decision making etc.

Contributors complete the electronic survey and submit their results online over a prescribed period of time. In addition to scoring the statements, contributors were given the facility to record observations and evidence which provide valuable insight as well as substantiating their scoring.

The overall response rate for the electronic survey was 71 out of 100 participants. The minimum level acceptable as evidence is normally 50% for each survey group. Response rates for each of the survey groups are set out in the chart below:

Table 3 – Survey groups

Group	Survey Groups	Invited	Completed
SG1 and 2	Finance	8	7
SG3	Senior service leads	15	13
SG4	Service leads	77	51
	Total	**100**	**71**

Appendix 3 – Star rating key criteria and characteristics

Rating	Assessment
*****	The organisation has in place leading edge financial management capability that allows it to anticipate both challenges and key opportunities, driving transformational change in order to optimise its performance and deliver optimal outcomes. Financial strategy is robust and covers medium to longer term and the organisation is fully agile in adapting to unforeseen events without impacting key outcomes. Investment programme management including commercial capabilities are fully integrated with operational requirements and highly effective with significant returns being achieved on improved service delivery. Financial management capability meets global best practice standards.
****	The organisation has in place strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term, is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most investment programmes are delivered to time and cost. The organisation has strong insight into cost drivers and commercial capabilities are highly evident with strategic and operational planning.
***	The organisation has sound financial management capability and has arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop but is not sufficient for challenging times or driving transformational change. There is a medium term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. Commercial capabilities exist but are only partially developed.
**	The organisation has basic financial management capability. Financial management arrangements are in place that allows the organisation to meet the minimum of practice standards and provides functional capability in the short term, a minimum level of support in the delivery organisational outcomes but does not support organisational transformational change. Financial management style is predominantly stewardship in nature rather than supporting effective decision support. Investment Programme management is rudimentary and there is a disconnect between operational and financial strategies.
*	The organisation has some financial management arrangement in place, but they are inadequate and provide only minimal financial management capability with reactive short term solutions. Basic accountability obligations are minimally covered, and financial management does not meaningfully support effective organisational outcomes of transformational change. Basic stewardship responsibilities are a challenge and financial management capability is not fully embedded within basic decision support.