The Chartered Institute of
Public Finance & Accountancy

Middlesbrough Council

External Assurance Review

August 2024

A Report by:

The Chartered Institute of Public Finance and Accountancy in partnership with Grant Thornton UK LLP

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1 Executive summary

1.1 Summary of Findings, Issues, Evidence and Analysis

The review assessed Middlesbrough Council's ('the council') financial management arrangements, its approach to the capital programme and debt management and the transformation programme. The review aimed to provide assurance in the council's position and determine whether it is appropriate for further capitalisation directions to be sought following the 2024/25 financial year.

Overall, while Middlesbrough Council has made tangible progress in addressing financial and governance challenges, significant risks and challenges remain.

The council's low level of reserves, weaknesses in the control of demand-led budgets and capacity and capability challenges in the finance function are key drivers of financial fragility. The council's ability to balance its annual budget in 2024/25 is contingent on receiving Exceptional Financial Support (EFS) from the Ministry of Housing, Communities and Local Government (MHCLG). There is insufficient evidence to conclude that additional EFS will not be necessary beyond the current financial year and into the medium term.

Critical to securing the future financial sustainability of the council and mitigating the need for additional EFS is the rapid and successful delivery of the council's Transformation Programme and related savings in full. The programme is currently in its infancy and therefore slippage in delivery is a significant risk. It is essential for the council to maintain a relentless and committed focus on maintaining robust financial governance and control arrangements and delivering savings to secure long-term financial sustainability. The current savings plan is ambitious and therefore requires strong oversight and consistency in preventing overspends, particularly in demand-led services.

The council has implemented a governance structure around the capital programme, though there are weaknesses in monitoring delivery. The council are putting arrangements in place to address these weaknesses but they are yet to be fully embedded.

The overall debt position of the council does not benchmark as high risk based on the scale and profile of external borrowing. We highlight that the council should remain conscious of the revenue implications of this borrowing and should monitor the cost against its overall net revenue budget as the current trajectory shows the annual revenue costs to be approaching CIPFA's threshold of 10% of net revenue budget within the Medium-Term Financial Strategy (MTFP) period. Weaknesses were identified in the council's approach to investment decisions via internal and external audit. The council has actioned the recommendations and sought to address the relevant cultural issues that were prevalent at the council historically. There remain areas of concern to be addressed with regard to documented policies and procedures in respect of asset disposals and acquisitions.

The council is pursuing an asset disposal programme as part of its Transformation Programme. The target for 2024/25 is ambitious but there is confidence that the asset disposals will return capital receipts in excess of the original target, and this confidence is supported with professional third-party valuations of the sites and the scale of market interest received for these sites. Delivery is dependent on two specific assets being disposed of and the council has assessed the value for money implications regarding the disposals and the implications on the revenue budget in the approved reports setting out the rationale for disposal. We consider the council's approach to asset management to be reasonable in the context of the council's overall financial sustainability position and future financial strategy.

The council's transformation strategy and governance arrangements provide a structured approach to delivering financial savings and enhancing service delivery in the future.

However, at the time of our review, the council has not yet identified a portfolio of transformation interventions of sufficient scope to realise the full savings requirement to meet its financial strategy. While it has outlined a range of cross-cutting themes, the Transformation Programme in its current form lacks sufficient depth of development or sophistication to give assurance on future financial sustainability over the period of the MTFP. By adopting a more integrated and ambitious approach, the council can better address its financial challenges, achieve long-term sustainability, and improve outcomes for residents. We understand the council has now appointed a strategic transformation partner and this work is in development.

It is on that basis that we conclude that the council is likely to require EFS beyond the current financial year to deliver a balanced budget in future financial years to give the council the necessary space and time for the Transformation Programme to be fully substantiated, delivered and the related savings realised.

1.2 Key Risks and Recommendations

This table provides the improvement plan and roadmap that we recommend the council follows with priority actions indicated by the RAG rating and the recommended timeline included with the recommendations.

Key risk	Risk rating (see details in Annex 1)	Recommendation (including timeline)
1. The council's MTFP has a cumulative budget gap of £7.966m by 2026/27. Closing this budget gap is dependent upon the council delivering its Transformation Programme. This programme is currently in its infancy and there is a significant risk that the council will be unable to develop the detail required at the pace and scale to deliver the required savings in future financial years.	9	We raise **Recommendation 1** encouraging the council to undertake a robust scenario analysis of the 2025/26 budget position based on different scales of delivery of the Transformation Programme. This should include an analysis of the potential exposure and related contingency EFS required for a range of scenarios. **Immediate**
2. The council does not have the capacity and arrangements in place to manage and deliver significant change at political level.	6	Whilst there is evidence that the current administration has shown a willingness to make politically unattractive decisions to protect the council's financial sustainability, we raise **Recommendation 2** urging the council to ensure it has the capacity and arrangements in place to manage and deliver significant change, as the financial imperative will demand some fundamental changes to the mode and scope of council services. This will require focused political engagement, extensive consultation and delivery at pace in order to manage barriers to change and make difficult decisions surrounding service provision. **Immediate**
3. The required level of savings to be delivered in 2024/25 is significant and unprecedented for the council. There is the risk that the council is unable to deliver the required savings, placing additional burden on the revenue budget this year. Related to this risk the council was able to only deliver approximately	9	The council are mitigating this risk for 2024/25 through contingencies and EFS. There are also reserves though these are at a critically low level. From 2025/26 onwards, the council aims to deliver transformational savings but we consider there to be significant risk in this plan. We raise **Recommendation 15** for the council to

half of that level of savings in 2023/24.		develop comprehensive mitigation plans for savings that have been designated as 'Amber' and 'Red' within the Transformation Programme, focusing on identifying barriers and implementing solutions to reduce risks. Ensuring these plans are regularly updated and integrated into the project's lifecycle is crucial to enable delivery. **Immediate**
4. The lack of permanence at the leadership level could risk the continuity of council's improvement and transformation journey and the key roles of Chief Executive and Section 151 (S151) officer posts are currently interims.	**N/A**	N/A - No recommendation raised. The council are in the process of implementing the appropriate arrangements to recruit permanent officers for these posts.
5. There is the risk that the finance team does not have the capability and skills required to support the council's transformation journey as there are a high number of members of the finance team who do not have qualifications or have lower-level qualifications.	**N/A**	N/A - No recommendation raised. The council are already working to upskill members of the finance team and bring in additional resources to support transformation.
6. There is a risk around succession planning within the finance team due to the gap in professional expertise between the senior members of the finance team and the junior members of the finance team.	**2**	We raise **Recommendation 5** encouraging the council to pursue mitigation measures to address the risk surrounding succession planning within the finance team. **Over the medium term period**
7. The council is unable to control its demand-led budgets, delivering an overspend on the budget and putting additional pressure on the financial sustainability of the council.	**9**	We raise **Recommendation 6**, which relates to improvements to children's services in an attempt to improve the control of cost pressures. The council are aware of this and pursuing plans within each directorate that is driving overspends to aim to mitigate the pressures identified. Ultimately, the Transformation Programme and target operating model is the main means of rectification as it will change the way the council delivers services to manage within its financial envelope. **Immediate**

8. There is the risk that the Audit Committee is not able to provide the required oversight and scrutiny required due to its lack of independent membership, its prominence within the organisation and its oversight of the council's risk profile.	**4**	We raise **Recommendation 3** encouraging the council to: a) consider the merits of appointing at least one independently, ideally two, co-opted independent members to its Audit Committee; b) ensure that the Audit Committee reports directly to Full Council and that this is documented within the Constitution; and c) include quarterly presentation of the Strategic Risk Register to the Audit Committee **Over the medium term period**
9. The council continues to demonstrate significant weaknesses in its arrangements for securing value for money.	**N/A**	N/A - No recommendation raised. The council have fully accepted EY's recommendations and are pursuing an action plan to address the weaknesses identified.
10. There is the risk that the council's internal control arrangements continue to not operate effectively following a 'limited assurance' opinion from Internal Audit in 2023/24.	**N/A**	N/A - No recommendation raised. The council have accepted Internal Audit's findings and are in the process of resolving the recommendations raised.
11. The council is not meeting its statutory requirements with regards to publication of draft accounts and the reporting deadline for audited accounts has missed the statutory reporting.	**N/A**	N/A - No recommendation raised. The council are aware of the weaknesses in its financial reporting arrangements and are in communication with the external auditor to seek improvement and to seek an outcome with regards to the historic unaudited accounts.
12. Throughout our interviews, it was identified that there is a lack of skillset in report writing in the directorates and this is an area of development for the council. At present, the reports that go through the decision-making process require a significant amount of work before they can go forward to the Leadership Management Team and onto Members. A significant amount of officer time is spent working on reports to ensure they are clear, logical and understandable for Members.	**3**	We raise **Recommendation 4** encouraging the council to explore options for growing report writing skills at the lower levels of the organisation. **Over the medium term period**
13. The council is exposed to financial resilience risks due to the critically low level of reserves to provide resilience for the medium term period.	**N/A**	N/A - No recommendation raised. The council has a policy that shows the level of reserves the council wishes to retain and how the reserves may be used in the future. This policy sets out

		the plans to rebuild and maintain the level of reserves from 2024/25 to 2026/27, but we note the risk that this is dependent upon delivery of the savings required in the MTFP.
14. Our review has identified the specific risk that the present relationship between the children's service and procurement is not operating effectively. Currently, the commissioning team lacks clear direction from the service in exactly how the service plans to manage the residential placement provision in the future. The growth plan for internal placements is not currently defined enough for the procurement team to be able to work effectively with the service to develop the forward position and the go-to-market offer.	**6**	We raise **Recommendation 6** for the children's services directorate to work to define its strategy regarding the future residential placement provision. This strategy must be devised in collaboration with procurement/commissioning and finance. **Immediate**
15. There is slippage in the capital programme and it is not delivered as planned, impacting upon both service delivery and the revenue budget of the council	**6**	The council has established a Strategic Capital Board to monitor delivery of the capital programme and the S151 officer has outlined plans to review the capital programme to ensure it remains appropriate and deliverable. We have raised **Recommendation 7** that encourages the council to rapidly establish an appropriate timetable for the Strategic Capital Board to meet and report on a regular basis. **Immediate**
16. The council repeats the mistakes made during the acquisition of the Crown Public House in future investment decisions, not delivering best value in its approach to investments and/or acquisitions	**N/A**	N/A – no recommendation raised. The council has fully accepted the recommendations from Internal Audit and has made significant progress in addressing cultural issues identified by Internal Audit. Embedding these recommendations is currently being driven by the S151 officer and Monitoring Officer.
17. The council makes decisions on asset acquisitions and asset disposals based on policies that have expired and are not up to date	**3**	We have raised **Recommendation 8** that the council should, as a matter of urgency, review and update Asset Acquisition Policy and the Asset Disposal Policy to ensure that the policies reflect the desired governance and scrutiny of the approach to acquisition and disposal of assets.

		By the end of the 2024/25 financial year
18. The council is exposed to financial risks associated with the liquidation of Middlesbrough Development Company, particularly in relation to the novated construction contracts.	**N/A**	N/A – no recommendation raised. The council is closely monitoring the potential risks associated with this and will report on a quarterly basis on these contracts.
19. The council does not appropriately mitigate treasury management risks through documentation of its approach in the Treasury Management Strategy	**2**	We have raised **Recommendation 9** that the council should more clearly articulate its approach to mitigating treasury management risks in the Treasury Management Strategy. From our review we have not identified any significant risk that the council is exposed to but recommend a clearer articulation of the steps taken to mitigate these risks. **To be completed within 2025/26 Treasury Management Strategy**
20. The council breaches the 10% threshold for annual capital financing costs as a percentage of net revenue budget as set out in the CIPFA Capital Finance Code of Practice, placing a significant burden on the revenue budget and creating risk around affordability of council's borrowing	**4**	We have raised **Recommendation 10** that the council should closely monitor the cost of the external debt it holds to ensure that it remains affordable, especially within the context of the council's challenging financial position. **Over the medium term period**
21. The council does not effectively maximise the income being generated from its commercial investments as it does not have the internal capacity and/or capability	**3**	We have raised **Recommendation 11** that the council should progress external management arrangements for its remaining commercial properties in a timely manner. **By the end of the 2024/25 financial year**
22. The council is exposed to longer term financial risk in its revenue budget through its chosen approach to charging Minimum Revenue Provision	**3**	We have raised **Recommendation 12** that the council should continue to review and consider the most prudent approach to calculating MRP whilst considering both short-term and long-term impacts on the revenue budget. **Over the medium term period**
23. There is a lack of internal capacity within the council to maximise the value gained from its asset disposal programme	**N/A**	N/A - No recommendation raised. The council have utilised external expertise to assist in the valuation and marketing of the significant assets that have been earmarked for disposal.

24. The council fails to deliver its capital receipts target as set out in the MTFP, meaning that it does not have the resources under Flexible Use of Capital Receipts to finance transformation activity.	**N/A`**	N/A - No recommendation raised. There is significant confidence, and evidence, that the asset disposals in 2024/25 are well progressed and will deliver in excess of the target for the year.
25. There is insufficient depth and substance in the Transformation Programme to meet the medium term budget gap and enable the council to operate within its financial envelope for the future.	**9**	We raise **Recommendation 13** for the council to broaden the scope of the transformation strategy to include long-term planning and strategic vision beyond immediate savings, whilst expanding the programme to identify new cost reduction and efficiency improvement areas. We encourage the council to develop future-oriented initiatives that align with digital transformation and modern service delivery trends. High-impact initiatives should be prioritised, focusing on digital transformation and service innovation. We also raise **Recommendation 14** for the council to conduct comprehensive functional maturity assessments across all service areas to identify inefficiencies and areas for improvement. These assessments should be used to inform strategic planning and set benchmarks against best practices. **Immediate**
26. The council is unable to successfully embed the Transformation Programme to deliver continuous improvement required to be financially sustainable in the long-term.	**6**	We raise **Recommendation 16** that the council should develop a comprehensive change management framework that includes clear objectives, key performance indicators, and a culture of continuous improvement. There should be integrated accountability structures that clearly define roles and responsibilities for transformation initiatives. We also raise **Recommendation 17** for the council to engage with stakeholders, including employees, residents, and partners, to build support for transformative initiatives and ensure alignment with broader community goals. The council should ensure all stakeholders are aligned with the transformation agenda

		through effective communication and engagement strategies. **Immediate**
27. The council establishment lacks the internal skills and capacity to enable successful delivery of the Transformation Programme and becomes overly reliant on transformation partner.	**6**	The council has engaged Inner Circle Consulting as its transformation partner to support the delivery of the programme with a clear scope and remit. We raise **Recommendation 18** for the council to undertake targeted upskilling programmes and recruits specialists to fill gaps in transformation and financial management to embed skills and continuous improvement within the organisation. **Immediate**
28. The council does not focus on ensuring quality services whilst also delivering the financial savings required from the Transformation Programme	**4**	We raise **recommendation 19** for the council to adopt a more customer-centric approach: redesign services around customer needs, use technology to deliver more efficient and user-friendly services, and reduce costs while improving service quality. Implementing integrated service delivery models focusing on common processes like applications, assessments, and triage will enhance efficiency. **Over the period of the Transformation Programme and beyond**

2 Introduction

2.1 Background

Middlesbrough is a town located in the Tees Valley region of north-east England with rich cultural diversity and a dynamic demographic profile. As of the 2021 Census, the town had a population of approximately 143,900, contributing to the Tees Valley area's total population of around 677,000. Despite covering a relatively small area of 5,387 hectares, Middlesbrough Council covers the most densely populated region in the Tees Valley.

The town has a relatively young population, with 20.8% of residents aged 0 to 15 years and 62.4% falling within the working-age bracket of 16 to 64 years. Middlesbrough is also the most ethnically diverse area in the Tees Valley, with 17.6% of its residents belonging to British Minority Ethnic groups. According to the 2021 Census, 82.36% of the population identified as White, while 10.49% were Asian/Asian British, 2.09% were of Mixed/Multiple ethnic groups, 2.65% were Black/African/Caribbean/Black British, and 2.41% were from other ethnic groups. Additionally, 12.29% of the town’s residents were born outside the UK, the highest percentage in the Tees Valley.

Middlesbrough faces significant socio-economic challenges. It ranks as the fifth most deprived local council area in England, with 40% of its wards among the top 3% most deprived nationally, according to the 2019 Index of Multiple Deprivation. Health inequalities are also a concern, as residents in the most deprived areas have life expectancies four years shorter for men and three years shorter for women compared to regional and national averages.

Despite these challenges, Middlesbrough is a town with a strong sense of community and resilience, striving for improvement and development. Middlesbrough also serves as a key location for asylum seekers, hosting 9.85% of those residing in the north-east, making it the fourth highest in the region and second in the Tees Valley.

Middlesbrough Council, a unitary council formed in 1996 following the dissolution of Cleveland County council, is one of the area's largest employers with a workforce of approximately 3,000 people. The council faces significant financial challenges due to its critically low reserves, leaving the council without the financial capacity to sustain necessary programmes and achieve savings in a timely manner. The council faces significant financial challenges which has resulted in critically low reserves, leaving the council without the financial capacity to sustain necessary programs and achieve savings in a timely manner. The situation is further compounded by recurring cost pressures in social care, especially in children's social care, which have led to consistent annual overspending.

In this context, MHCLG (previously known as the Department for Levelling Up, Housing and Communities (DLUHC)), commissioned this independent review of the council’s financial arrangements. This review expands on CIPFA’s previous assessment in May 2024, evaluating the council's financial assumptions, strategic goals, and the viability of its transformation plans. The objective was to provide MHCLG with a comprehensive analysis of the council’s projected trajectory and offer recommendations for improvement. This review was conducted between July and August 2024.

2.2 Requirement

The key areas of this review are as follows:

1. Review Area 1 – Financial Management and Sustainability
2. Review Area 2 – Capital Programme, Debt Management and Assets
3. Review Area 3 – Transformation

Review Area 1 – Financial Management and Sustainability

Under this review area, we assessed the council's financial management arrangements with a view to the overall financial sustainability of the organisation. We considered the financial governance processes in place, including the effectiveness of audit and scrutiny committee(s) and compliance with statutory reporting requirements, the capability and capacity of the finance team and its ability to support the transformation programme, the approach to financial risk management, the underlying drivers of financial fragility and the ability of the council to manage its future within the financial envelope.

Review Area 2 – Capital Programme, Debt Management and Assets

Under this review area, we assessed the council's capital programme and considered its debt position, including short- and long-term borrowing. We also assessed the approach to investment and asset management and reached a view on its suitability and whether it is achieving value for money. We considered how the council's approach may impact the organisation's financial resilience and sustainability, the management and governance of the capital programme, the level of scrutiny behind investment decisions, the council's use of external expertise where required, the council's exposure to refinancing risk and any other risks as a result of its chosen borrowing strategy, the council's approach to wholly-owned companies and any associated risks these companies expose the council to, the alignment of the capital programme with the overall strategic direction, how the council plans to fund the capital programme, the impact of the overall debt position on long-term sustainability, the approach to asset management and valuation, the commercial investment portfolio and the council's dependence on commercial income, to what extent the council is compliant with statutory guidance and best practice with regards to its capital programme and the approach to the asset disposal programme.

Review Area 3 – Transformation

Under this review area, we assessed the council's short- and medium term transformation plans. We considered the viability of the transformation plans and its underlying assumptions, whether the council is being ambitious enough in its approach to designing transformation and its future service delivery, whether the council has identified the changes required to secure long-term financial sustainability, what further actions are required for the council to mitigate the risk of a future capitalisation direction, how the local council plans to manage the transformation programme (how it will be monitored, progressed and delivered) and the council's current governance arrangements for delivering savings and transformation and whether the arrangements allow for a robust level of challenge for transformation planning and delivery.

Considering the findings of these review areas, we have developed targeted, timely and tangible recommendations to assist the council in its improvement plan to address the identified risks and issues.

2.3 Methodology

Our approach comprised the following elements:

Desktop analysis

MHCLG provided appropriate background. We reviewed the material and made supplementary document requests to the council. The team has analysed over 100 documents and other items that have been shared by the council as being relevant for the review. We also examined relevant comparator material. We would like to record our thanks to officers for their ready compliance with our request for reports and data.

Specialised inputs

Comparative data analyses were conducted to assess the council's position across top level statistics, financial resilience and service expenditure. This included analysis against CIPFA's Financial Resilience Index.

Interviews

The bulk of the fieldwork comprised of interviews. These provided the invaluable 'triangulation' of our analysis. council officers, members, auditors, and other experts were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame for the review. The report does not represent a comprehensive audit of the council's finances. Consequently, the conclusions do not constitute an opinion on the status of the council's financial accounts. Our review of the council's Minimum Revenue Provision (MRP) considers the reasonableness of the council's MRP policy and does not constitute an audit of the full application of the policy. Similarly, our review of the council's productivity does not constitute an audit of the council's productivity plan but represents an overview of the arrangements in place to consider productivity and take account of any publicly available information on historic or relevant performance.

CIPFA's review team consisted of three experienced consultants from Grant Thornton UK LLP with relevant backgrounds in all areas of the review's scope. CIPFA and Grant Thornton would like to take this opportunity to thank the council for being so amenable and open to meeting with the review team and for the considerable effort that has been expended in collating and sharing key documents with CIPFA. We also thank everyone involved for the openness, tact, and honesty in what is a sensitive issue for the council.

Report Structure

The key findings and analysis, together with supporting evidence, are set out under each of the review areas requested (as detailed in the commission). Risks and recommendations are detailed under each of the review areas.

3 Areas Reviewed

3.1 Review Area 1 – FINANCIAL MANAGEMENT AND SUSTAINABILITY

An assessment of the Council's financial management and management of risk to reach a view on the Council's overall financial resilience and sustainability.

The Council's financial management, governance processes including the effectiveness of the audit and scrutiny committee(s), as well as compliance with Local Government accounting codes and international finance reporting standards.

The annual budget process

The Council has an annual budget setting process that meets legislative requirements along with a clear internal framework, which has been followed. We note that the 2023/24 was set during an unstable political environment and was subject to numerous last-minute changes and late amendments. Our review identified that there was also a lack of engagement between finance and service managers during the 2023/24 budget setting. The 2024/25 budget-setting process followed a more conventional process but due to a lack of reliable performance data to inform trends in demand there remains a mixed picture on service manager involvement in budget setting. Forecasting and greater involvement of budget holders in budget setting are areas of improvement identified by the council.

The council's external auditor, EY recognised the weakness in the council's budget-setting process and raised a statutory recommendation in its 2022/23 value for money report. It recommends that the council review its financial forecasting processes to understand why significant budget overspends emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned.

In May 2024 the council was subject to a review of its financial management against the CIPFA Financial Management Tool. An action plan for the Council was developed based on the outcome of this review.

Budget monitoring

The council delegates budgets to individual cost centre managers who are responsible for ensuring delivery to budget. Financial training is provided to all budget holders, who meet regularly with finance business partners to monitor financial performance. Financial performance against budget and updated forecasts for the remainder of the year are presented to the council's LMT and Executive on a quarterly basis, along with proposals for corrective actions where required.

Financial performance is monitored via management accounts and presented to the Executive and Audit Committee on a quarterly basis. Reporting includes comparing both performance to date and full-year forecasts against budgets, with explanations for significant variances. Beneath the council's high-level reporting, budgets and performance are monitored at the service line and budget holder levels, with individual budget holders responsible for ensuring delivery against delegated budgets and the accurate forecasting of future performance.

Early in 2023/24, the budget monitoring processes identified that demand for services in adult's, children's and homelessness were likely to exceed the assumptions forecast. This, combined with issues on delivering some projects within the savings programme, meant for a forecast significant overspend for 2023/24. The council forecast a £11.563m at quarter one for 2023/24. While the significant overspend at quarter one casts doubt on the robustness of the budget-setting process in terms of the reasonableness of assumptions, the council responded quickly and proactively to the adverse variance by implementing control arrangements. These were demonstrably effective, as the overspend reduced from May to October.

The council has improved its budget monitoring processes since April 2023. Prior to the arrival of the current interim S151 officer, the council only performed quarterly formal budget monitoring, which was then presented to Members and LMT. The interim S151 officer joined the organisation and formalised monthly monitoring and the imposition of restrictions on non-essential expenditure from July 2023. The council previously had monthly budget monitoring but it was not necessarily documented appropriately and LMT did not previously have sight of the monthly reports. The processes are now well established and typically operate well.

There is a mixed picture in terms of the level of skill and experience in the finance business partners and the consequent level of support they are able to offer in budget monitoring. The council are currently implementing measures to upskill (including supporting studying for qualifications and rolling out training).

Medium term financial planning

The council's MTFP details the following budget gap and savings over its term:

		24/25 £'m	25/26 £'m	26/27 £'m	Total £'m
Savings		13.9	5.151	1.967	21.028
Residual budget gap		4.7	7.4	0.491	12.591

Table 1: Medium-Term Budget Gap and Savings (Source: 2024/25 and medium term budget – 8 March 2024)

The budget gap of £4.7m is after all available measures. The council received the 'in-principle' offer of £13.4m of EFS from the then DLUHC for 2024/25. The council is dependent on EFS to set a balanced budget and plans to use it as follows:

Area	£'m	Comment
Budget gap 2024/25	4.7	Required to balance the budget
Contingency	0.6	Will only be used if necessary
Savings delivery slippage risk	3.5	Will only be used if necessary
Funding of transformation and redundancy expenditure pending realisation of capital receipts	4.6	Will only be used if necessary
Total request for EFS	**13.4**	

Table 2: Use of Exceptional Financial Support (EFS) for 2024/25 (Source: 2024/25 and medium term budget – 8 March 2024)

The council plan to bridge the gap from 2025/26 through the Transformation Programme. The council's Reserves Policy proposes that the minimum General Fund reserve balance of 7.5% net revenue expenditure will be maintained. This would be £11.1m for the 2024/25 budget. The Financial Resilience Reserve is an earmarked reserve that has been designated by the council to meet unforeseen financial pressures. It is assumed in the MTFP that the council will also build the Financial Resilience Reserve balance of between £8m to £10m over the medium term period to 2026/27 to strengthen its financial sustainability. The council's estimated usable reserves as of 1 April 2024 are:

	£'m
General Fund	11.1
Earmarked unrestricted	6.3
Earmarked restricted	4.7
Total	**22.1**

Table 3: Estimated usable reserves at 1 April 2024 (Source: 2024/25 and medium term budget – 8 March 2024)

The council's forecast reserves projections for the medium term period are as follows:

	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m
General Fund	11.1	11.1	11.1	11.1
Earmarked unrestricted	6.3	5.9	7.2	9.3
Earmarked restricted	4.7	5.2	5.7	6.2
Total	**22.1**	**22.2**	**24**	**26.6**

Table 4: Estimated usable reserves for the medium term (Source: 2024/25 and medium term budget – 8 March 2024)

There is a significant risk associated with the MTFP. The 2024/25 budget has only been able to be balanced with support from central government. The residual budget gap over the MTFP will be met by delivering savings from the Transformation Programme. At the time of writing, the Transformation Programme is still in its infancy with the established governance framework, but the details behind this framework are a work in progress.

The council has appointed a Transformation Partner to help steer the programme, and they are currently mobilising. There are risks surrounding whether the organisation is in a place and whether it has the capacity and capability to deliver the transformation work at the pace and scale required to support the MTFP. We have significant concerns surrounding the council's medium term financial sustainability due to the level of risk exposure in the MTFP. We have explored this risk in greater detail in Review Area 3.

Audit Committee effectiveness

The CIPFA guidance 'Audit Committees Practical Guidance for Local Authorities and Police (2022 Edition) provides local authorities with guidance on audit committee effectiveness. We have reviewed the arrangements in Middlesbrough against this guidance and identified that the council should consider the merits of appointing at least one appropriately qualified independent member to the Audit Committee. We also recommend that the Audit Committee reports directly to full council and that this is documented within the Constitution.

Internal Audit, which is compliant with Public Sector Internal Audit Standards (PSIAS), have concluded a limited assurance opinion for 2023/24 surrounding the council's control arrangements. have led Internal Audit to conclude that they have not seen sufficient evidence in the council's governance, risk management, and control framework to show that it has improved to the extent required to alter the Internal Audit opinion. The council has accepted Internal Audit's findings and is in the process of resolving the recommendations via an action plan.

Scrutiny committee effectiveness

The council identified that there were occasions when the existing work programming approach to scrutiny was not necessarily efficiently aligning time and resources input with the outputs, the scrutiny reviews were generally seen as lacking impact, and there was a need to increase capacity and resilience to enable officers to effectively support the scrutiny function. In May 2024, a new scrutiny structure and model for implementation was approved which aims to ensure the productivity of scrutiny is increased by hosting 'single issue' committee meetings, and it is the role of the Overview and Scrutiny Board to provide continuous oversight.

Compliance with Local Government accounting codes and international finance reporting standards

The council has missed the statutory reporting deadline for audited accounts since 2019/20. The 2019/20 audit was completed on 2 March 2021; the statutory date for this was 30 November 2020. The 2020/21 accounts were completed on 29 April 2023; the statutory date for this was 30 September 2021. The council does not have audited accounts for 2021/22, 2022/23 or 2023/24.

In a letter to the council from December 2023, EY stated that, in light of the Ministerial statement from July 2023 about government proposals to re-establish the local council audit framework, they would be taking a different approach to delivering their audit work. EY stated that they would be prioritising the completion of audits where audit work had been substantially complete with a high likelihood of issuing an opinion in a short period of time. Middlesbrough was not in this camp of audit clients, and consequently, EY has not done any work on the 2021/22 external audit since the end of March 2023. The audit for 2022/23 financial statements has not started.

There is certainly a significant gap in assurance by the council failing to have audited accounts for the last three years. However, it is clear that this is not for reasons entirely within the council's control and not necessarily a definitive reflection on their financial management and control arrangements.

Outside the audit of the financial statements, the external auditors have completed their value for money assessment element of the external audit. In September 2023, EY issued 11 statutory recommendations to the council. These are the most severe recommendations that an external auditor can issue. The next step above this would be a Public Interest Report (PIR). The recommendations issued by EY are as follows:

1. Development of Corporate Governance Improvement Plan is progressed without further delay
2. Develop contingency and succession governance protocols to ensure delivery of Corporate Governance Improvement Plan
3. Prioritise and conclude review and update of Constitution
4. Identify specific deliverable savings over short term to protect limited remaining reserves

5. Review service delivery models to ensure efficient, represent value for money and achieve outcomes
6. Review financial forecasting approach
7. Conclude review of Financial and Contract Procedure Rules
8. Provide training once Financial and Contract Procedure Rules are finalised
9. Complete review into ongoing contracts
10. Review oversight arrangements for Middlesbrough Development Company
11. Develop an action plan for the demise of Middlesbrough Development Company

The issuance of statutory recommendations demonstrates the severe governance and financial strain the council is under. The council has responded proactively to the auditor's recommendations. Nonetheless, the issuance of statutory recommendations alone represents a significant failure to ensure appropriate arrangements are in place to deliver value for money.

Risks

1. The council's MTFP has a cumulative budget gap of £7.966m by 2026/27. Closing this budget gap is dependent upon the council delivering its Transformation Programme. This programme is currently in its infancy and there is a significant risk that the council will be unable to develop the detail required at the pace and scale to deliver the required savings in future financial years.
2. There is the risk that the Audit Committee is not able to provide the required oversight and scrutiny required due to its lack of independent membership, its prominence within the organisation and its oversight of the council's risk profile.
3. The council continues to demonstrate significant weaknesses in its arrangements for securing value for money.
4. There is the risk that the council's internal control arrangements continue to not operate effectively following a 'limited assurance' opinion from Internal Audit in 2023/24.
5. The council is not meeting its statutory requirements with regards to publication of draft accounts and the reporting deadline for audited accounts has missed the statutory reporting.

Recommendations

1. The council should undertake a robust scenario analysis of the 2025/26 budget position dependent upon differing scales of delivery of the Transformation Programme. This should be used to inform the council's decision on whether it requires further EFS beyond the current to provide support while the council works to develop and substantiate its Transformation Programme.
2. The council should look to strengthen its Audit Committee through; a) Considering the merits of appointing at least one independently, ideally two, co-opted independent members to its Audit Committee; b) Ensuring that the Audit Committee reports to full council and that this is documented within the council's Constitution; and c) Including a quarterly presentation of the Strategic Risk Register to the Audit Committee.

The capacity and capability of the Council to deliver an effective finance function to the Council commensurate with the complexity of its particular circumstances, this should include the ability to undertake any transformation activity as required and consider whether officers / members are provided with the right information and training to take necessary financial decisions.

Capacity and capability of the finance function

The interim S151 officer at Middlesbrough is a senior officer and plays a key role in helping to develop and implement strategy, including the promoting and delivering good financial management to ensure public money is safeguarded. The CFO is suitably qualified and experienced as a member of CIPFA and with over 30 years of experience in local government

Within the finance team there isa high number of members of the finance team who do not have qualifications or have lower-level qualifications. There are also concerns around succession planning within the finance function based on the current age profile of the senior finance officers and the gap in professional experience and expertise between this level and the more junior levels of the finance team. If appropriate succession planning of the finance team is not considered there is a risk of losing skilled and experienced officers within a similar timeframe without appropriate arrangements being put in place to deliver continuity.

CIPFA's May 2024 review into the council's financial management identified areas where the finance team's capacity may impact its ability to deliver effectively. The two deputy S151 officers tend to get drawn into operational issues, restricting their ability to influence and support the council at a strategic level. While they can still contribute at the strategic level, this has been difficult as it has competed with the attention they have needed to pay to competing operational issues. There also appears to be an over-reliance on these specific individuals due to their years of experience at the organisation and their technical expertise. These individuals have also been relied on from an upward direction due to the newness of the interim S151 officer to the organisation. The interim S151 has relied on both deputies for their experience at Middlesbrough. The finance team are working to build this knowledge and experience in the mid to lower tiers of finance, but this will take time.

The existing finance function is just about able to support the organisation in business-as-usual activity. However, as noted by CIFPA in the May 2024 review, engagement between finance and service managers needs to be strengthened, and the relationship between finance and the service is inconsistent across the council. Children's services is an example of an area where this relationship could be strengthened. It is CIPFA's view that the existing finance team represents the minimum required to maintain adequate financial control and longer-term sustainability. CIPFA recommend that the organisation recruit or upskill existing finance employees to increase the number of qualified accountants to support the deputy S151s. There is a heavy reliance on finance business partners to collate and analyse finance data to the detriment of the finance business partners as they cannot then act strategically.

The council recognise that there is a need to fundamentally change and strengthen the financial management arrangements within the service directorates to adopt a corporate standard approach to demand and cost modelling, forecasting, reporting, improving financial management skills amongst budget holders, upskilling the finance team and ensure IT systems can support in establishing 'one version of the financial truth' for Middlesbrough's financial planning and decision-making. The council aims to include these improvements in its action plan in response to EY's statutory recommendations.

Ability of finance to support transformation

Due to the capacity constraints highlighted above, there are doubts about whether the existing finance team has the capacity and skills to support the council's transformation agenda. The Transformation Programme is key to the council's medium term sustainability. The scale and pace of transformation required for the council to begin realising benefits in 2025/26 is such that the finance team must be proactive and at the centre of the transformation journey.

The finance team is experienced in identifying and realising tactical savings that do not fundamentally change the way in which services are delivered. The Transformation Programme will require the organisation to manage genuine transformation savings, i.e., savings that can be realised due to a change in the way a service is provided or a change to the business model. This will require different skills, and the finance team must be appropriately trained and prepared to ensure this change to usual operations can be managed. There is a strong reliance on contractors and interims with the necessary skills to drive transformation, who are currently being drawn down into business as usual operational activity. The council recognise this and has devised a structure with new posts which are being brought into support transformation. We believe that given the pace and scale of transformation required to realise savings in 2025/26, this should have been done earlier. The council acknowledge and accepts this.

In order for the finance function to effectively support the change agenda, staff need to be provided with the necessary capacity to have the space to own the change programme. As per CIPFA's May 2024 review, the finance function scored poorly on the 'Enabling Transformation' row of the Financial Management Model Matrix due to the transformation programme being (and continues to be) at an early stage. The next phase of the programme with the transformation partner is yet to be rolled out.

Information to support decision-making

The question of whether officers and members are adequately equipped with the requisite We consider that the council has appropriate governance arrangements to support decision-making, though there is room for improvement in the substance behind decision-making. The previously mentioned changes to the scrutiny structure are part of the council's efforts to improve decision-making processes. The council has a dedicated team of Democratic Services Officers who support the scrutiny function and aid decision-making arrangements.

The council also ensure that they subscribe to good public law decision-making principles. Papers taken to decision-makers give the options, the rationale behind why a particular option is chosen, and the implications of particular decisions. There is also evidence that the council fulfils the requirements of good public sector decision-making in the quality of its reports. However, there is room for improvement in report writing at the council. At present, the reports that go through the decision-making process require a significant amount of work before they can go forward to the LMT and onto Members.

The Council uses variety of technologies to inform decision making through the use of dashboards to summarise key performance metrics and data visualisations across all directorates. The dashboards are published on a self-serve basis so employees in the organisation can access and interrogate data at any time. The council have also developed a Data Hub which aims to produce data driven insights into various aspects of the town and services. The hub combines links to public data sources and reports produced by the council. The data and dashboards feeds into Corporate/Directorate Performance Reporting which is completed on a monthly basis.

There is a Data and Analytics Team that works within the council to extract and interpret data to support the council in decision-making. Data plays a critical role in the successful delivery of transformation and the council aims to be an insights-led organisation but currently lacks the resources to deliver that goal. There is a wealth of data available and evidence of the council's ability to use that data well, but this is inconsistent across the organisation. .This was also identified in the CIPFA Financial Management Review from May 2024 in relation to the information used to support financial decision-making. The council acknowledge that this is an area that requires further development.

Risks

1. The lack of permanence at the leadership level could risk the continuity of council's improvement and transformation journey and the key roles of Chief Executive and S151 officer posts are currently interims.
2. There is the risk that the finance team does not have the capability and skills required to support the council's transformation journey as there are a high number of members of the finance team who do not have qualifications or have lower-level qualifications.
3. There is a risk around succession planning within the finance team due to the gap in professional expertise between the senior members of the finance team and the junior members of the finance team.
4. Throughout our interviews, it was identified that there is a lack of skillset in report writing in the directorates and this is an area of development for the council. At present, the reports that go through the decision-making process require a significant amount of work before they can go forward to the LMT and onto Members. A significant amount of officer time is spent working on reports to ensure they are clear, logical and understandable for Members.

Recommendations

1. The council should explore options for growing report writing skills at the lower levels of the organisation.
2. The council should pursue mitigation measures to address the risk surrounding succession planning concerns within the finance function.

The Local Authority's approach to financial risk management including identification, management and treatment of risk.

Financial risk management

The council has insufficient reserves to manage the financial risks in the MTFP. For this reason, the S151 officer has stated that she could not recommend a robust budget for 2024/25 without appropriate contingencies. The council have contingencies in place funded by the EFS awarded in principle for 2024/25 to manage the financial implications of the savings programme not delivering, to temporarily support the funding of investment in transformation and redundancies pending the realisation of capital receipts from the asset disposal programme and a general contingency.

The S151 urges the council not to view the utilisation of EFS as a replacement for robust and deliverable savings based on political priorities. Failure to deliver savings will increase the need for EFS.

The council recognises that there is a risk that its financial position will be adversely affected by any non-achievement of the proposed budget savings, delivery of capital receipts, delivery of transformational plans to redesign services from a lower cost base, and other proposals for 2024/25. Without service transformation, the council states that it is at risk of failing to safely meet its statutory duties and/or preserve the existing service standards for non-statutory services. There is, therefore, significant reliance on the Transformation Programme for the council's medium term financial sustainability.

The council has a Risk and Opportunity Management Policy in place, which was approved by the Executive in July 2023. The policy forms part of the council's corporate governance policy framework, which underpins the council's strategic plan. It sets out how the council ensures risks are effectively managed and opportunities exploited to deliver the town's strategic priorities. There are three levels of risk management within this policy and movement within the Strategic Risk Register is reported to members of the Executive on a quarterly basis:

The council has established a clear risk appetite statement that is reviewed annually by the Leadership Team and the Audit Committee receive a Performance and Risk Annual Assurance Report on an annual basis.

We recommend that the council include a quarterly presentation of the Strategic Risk Register to the Audit Committee. The Audit Committee has responsibilities regarding risk management. The committee should keep up to date with significant strategic risks and major operational or major project risks and seek assurance that these risks are being managed effectively and owned appropriately.

Risks

1. There is the risk that the Audit Committee is not able to provide the required oversight and scrutiny required due to its lack of independent membership, its prominence within the organisation and its oversight of the council's risk profile.

Recommendations

1. We encourage the council to; a) consider the merits of appointing at least one independently, ideally two, co-opted independent members to its Audit Committee; b) ensure that the Audit Committee reports directly to full council and that this is documented within the Constitution; and c) include quarterly presentation of the Strategic Risk Register to the Audit Committee

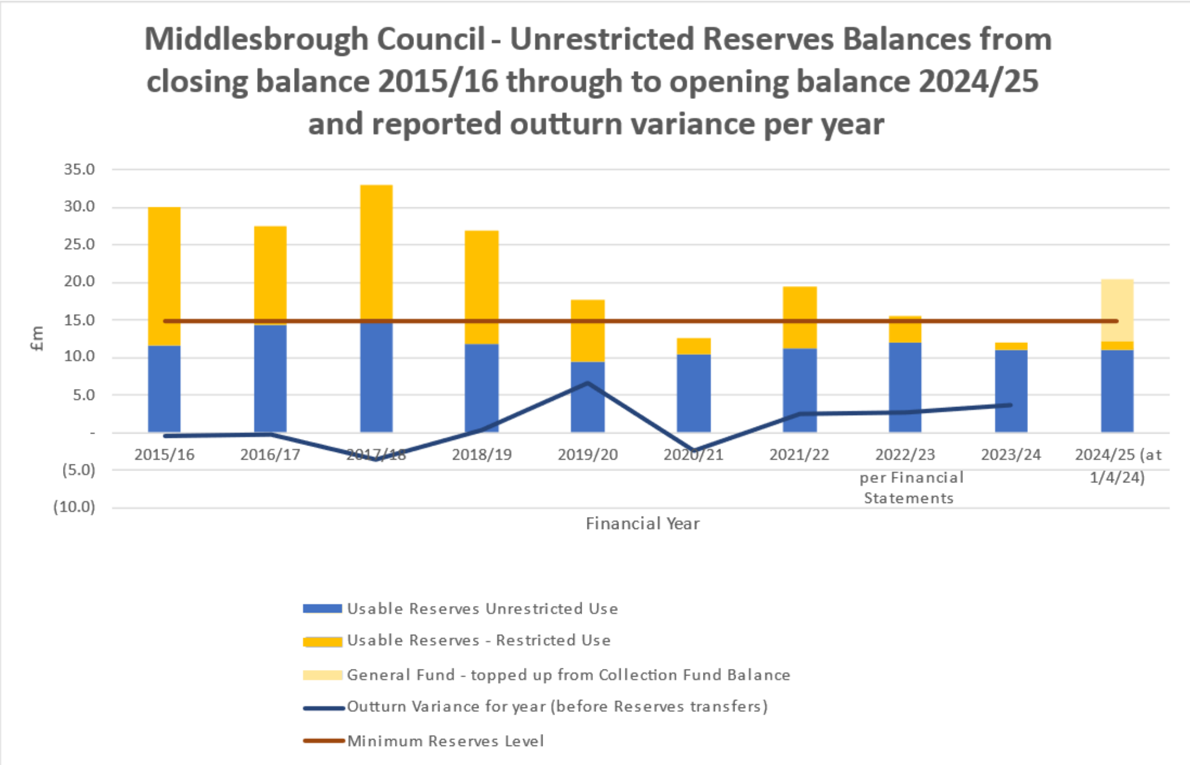
The underlying drivers of any financial fragility and risk and the Council's ability to successfully manage those drivers so that issues do not materialise.

In the CIPFA Financial Management Code (2021), CIPFA identify six indicators of financial stress, namely:

- **Running down reserves** – using the council's financial reserves to finance a deficit or to avoid difficult decisions around spending cuts
- **Failure to address financial pressures** – refusing to make difficult decisions about how to reconcile funding and service pressures or not recognising that such decisions need to be made is not a solution to challenges but increases the financial gap and extent of change required in future years
- **Shortened planning horizons** – Long-term planning is difficult in times of uncertainty, but it is still important, perhaps even more so than in stable circumstances. A failure to plan is indicative of a lack of strategic thinking and an unwillingness to make difficult decisions.
- **Lack of investment in infrastructure resources** – When resources are scarce, it is tempting to defer the maintenance and enhancement of assets (such as buildings) to future periods, which can result in the failure of key physical resources.
- **Gaps in savings plans** – Knowing that savings are required is helpful, but knowing how these savings are going to be achieved is critical. Simply indicating that 'unidentified savings' will be made is not an acceptable strategy for financial resilience.
- **Unplanned overspends** – No budget is going to be absolutely spot-on. However, overspending against the budget is simply rolling over this year's problems into next year. It is a clear sign that the council is failing to turn its financial policy decisions into action on the ground.

Running down reserves

CIPFA consider the rapid decline of reserves to indicate an organisation in severe financial stress. Using up reserves to avoid cuts can only provide temporary relief and is a short-term solution to a long-term problem. The council has been running down its reserves for a number of years. Graph 1 below shows the movement in usable unrestricted reserves and the General Fund balance from 2015/16 to 2023/24.

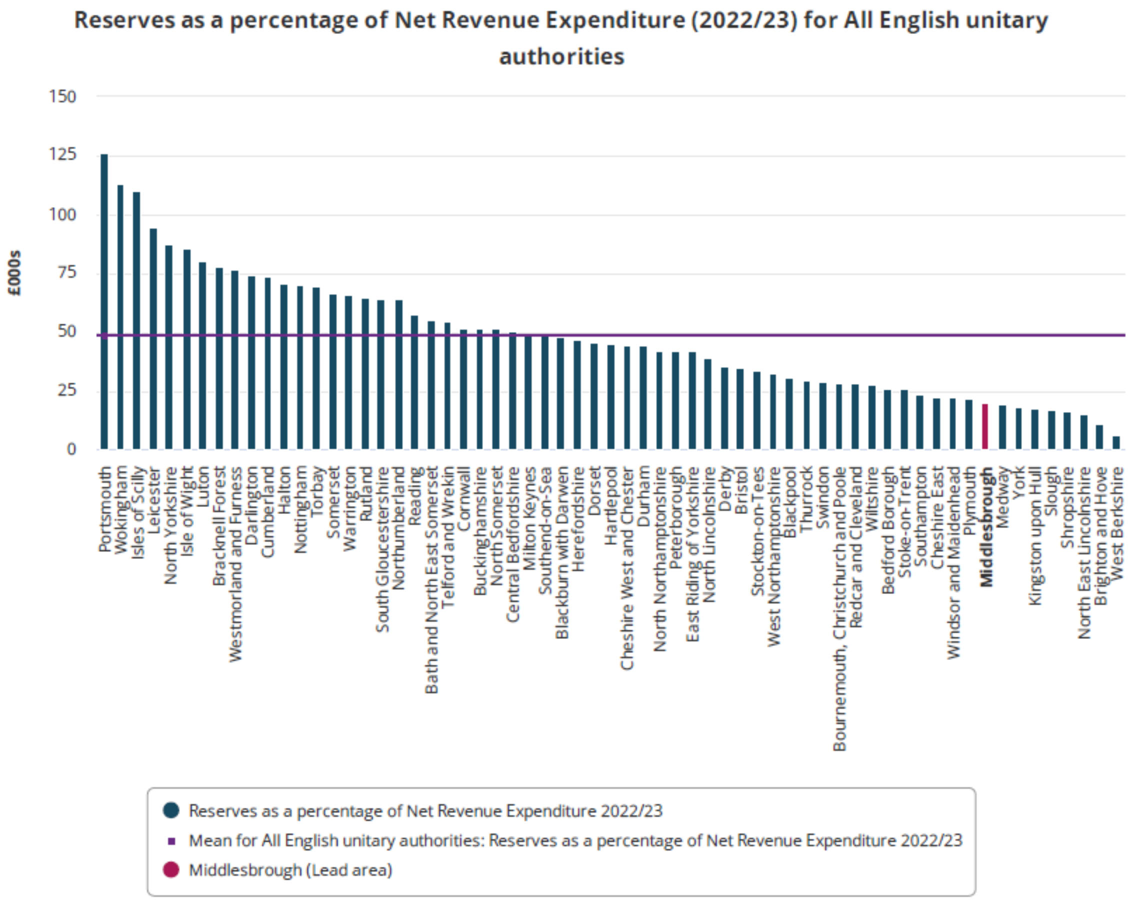


Graph 1: Middlesbrough Council Unrestricted Reserves Balances from closing balance 2015/16 to opening balance 2024/25 and reported outturn variance per year (Source: Provided by the council)

The council has a very low level of financial resilience as a result of the weaknesses in its financial management practices over a number of years. In 2023, the CIPFA Financial Resilience Index highlighted the council's low level of reserves and significant demand-led pressures as indicative of weakness and a risk to the council's financial viability. The council has a critically low level of reserves and would not be able to deliver a balanced budget for 2024/25 without EFS.

Through a review of the balance sheet the council has been able to reclassify of reserves 4 and review the bad debt provision, which has resulted in a cumulative surplus on the Collection Fund. This has increased the reserves balance available to the Council but is a one-off solution.

The council has one of the lowest levels of total reserves as a proportion of net revenue expenditure when compared to all unitary councils in England (see Graph 2 below).



Graph 2: Reserves as a percentage of Net Revenue Expenditure (2022/23) for all English unitary councils (Source: LG Inform)

Going forward, the council is taking positive steps to manage its reserves effectively. The council has a policy that shows the level of reserves the council wishes to retain and how the reserves may be used in the future. The Financial Reserves Policy sets out the plans to rebuild and maintain the level of reserves from 2024/25 to 2026/27. This demonstrates that the council has a financial grip and a plan in place which surrounds how it plans to manage its reserves well, though this is dependent on other variables also performing (namely, the realisation of savings from transformation).

Although the 2024/25 budget relies on EFS, it does not place any requirement or reliance upon using revenue reserves to balance the position. The council plans to uphold this principle over the term of the MTFP. The council has a plan to build back reserves over the medium term, though this relies on risky assumptions.

The Council plan to maintain the General Fund reserves balance and to build back and replenish earmarked reserves modestly. This is undoubtedly positive to note, but it is important to recognise that this plan hinges on:

- The council is able to deliver an unprecedented level of savings – the council has never previously delivered the level of savings it needs to achieve in 2024/25
- The council being able to sell the assets necessary as part of its Flexible Use of Capital Receipts Strategy (FUCR) to finance the Transformation Programme
- The council will be able to start realising benefits from the Transformation Programme by 2025/26 (as it will no longer be covered by EFS from 31 March 2025)

These assumptions are not without significant risk. Any failure to deliver savings, any failure to sell enough assets and any failure to realise benefits/savings from the Transformation

Programme to plug the budget gap will likely result in further depletion of reserves. Any overspending on the revenue budget will also likely result in further depletion of reserves.

The council's reserves balance is a key driver of financial fragility and must be carefully managed to avoid the risk of a Section 114 notice. As of 2024/25 budget setting, the council appear to have a plan in place, though this plan is dependent on assumptions that are risky. The council must be willing to make difficult financial decisions and maintain a ruthless grip on finances to deliver against this reserves strategy.

Failure to address financial pressures

There is some evidence of the council not making difficult decisions about funding and service pressures. In the 2022/23 budget setting, the council decided not to increase general council tax, only taking the ASC precept, and no savings were included in the February 2022 budget. From our experience of working with local councils, it is extremely uncommon for a local council in 2023 not to have any savings targets in its budget.

In terms of the decision not to raise council tax, there is some reasonable rationale behind the decision due to the high deprivation and low council tax base in Middlesbrough. The council therefore considered the balance between forecast revenue to be potentially recognised from an increase in council tax versus the impact on residents. For 2023/24 the Council raised Council Tax by 3.99% (1.99% general council tax and 2% ASC precept), thereby not taking the full increase possible.

It is important to note that, while there are practical and political factors to changes to council tax rates, by deciding not to increase council tax by the maximum allowable amount, the council has lost out on the compounding effect of council tax increases. Some councils in severe financial distress are now seeing dramatic council tax rises to rapidly increase revenues to plug financial gaps.

Not including any savings in the 2022/23 budget is demonstrative of a council that was not willing to make difficult or politically unattractive decisions to the detriment of the financial viability of the organisation. The first quarterly report showed a forecast £9m overspend on the 2022/23 budget, requiring the council to implement 'the Financial Recovery Plan' to identify discretionary expenditure and where it could be curtailed across directorates. Additional controls were implemented around the recruitment to vacant posts and the procurement of agency staff, Member led focus meetings on the challenges facing children's services were held to mitigate demand and workforce challenges. This strict and abrupt action was required as a result of not including savings in the 2022/23 budget.

The 2023/24 budget also shows that numerous savings originally included in the budget were reversed when the budget was agreed upon in February. The original savings were replaced with a higher savings target which will be challenging to achieve and will require close scrutiny and a commitment to deliver.

However, there is recent evidence of a change in the appetite to make difficult decisions. The May 2023 elections resulted in a change of administration, which meant that the council now has different Members and a different Mayor in post. Importantly, it is now a majority administration rather than a 'no overall control' arrangement, which had been in place from 2019 to 2023. It is undoubtedly much simpler to govern in a majority administration than in one where there is no clear majority party. It is also simpler when the Mayor and the Members are from the same party.

The 2024/25 budget shows that the council is showing a willingness to take difficult decisions in order to address financial pressures. For example, the budget included a proposal in relation to Special Guardianship Orders where it proposed reviewing the policy and practice to bring it into line with the regulations. The council has since performed the review and this has resulted in a saving. The saving meant that people in receipt of payments for Special Guardianship either had their payment reduced or removed in order to bring the payments in line with the policies and regulations at the council. It is clear to see why this would have been electorally unpopular for the administration. It is demonstrative of an administration that is willing to take difficult decisions that this was included in the budget. Similarly, the council has now introduced green waste charging and fortnightly bin collections. These were proposed by officers as early as at 2022/23 budget setting but were not included in the budgets of 2022/23 or 2023/24. The fact that they were included in 2024/25 is promising and demonstrates a positive direction of travel for the organisation.

Shortened planning horizons

Examples of short termism to the council's financial management arrangements include:

- The council did not put any savings into the budget for 2022/23 despite identifying that there was a medium term budget gap.
- The council did not raise council tax to the maximum allowable amount without a referendum in 2022/23 or 2023/24, therefore foregoing the compounding benefits later on.
- The council implemented revenue budget spending controls in 2021/22 asking officers to minimize the use of agency staff, implementing a vacancy control process which is overseen by LMT, implementing checks against proposed expenditure above £5,000 by procurement, implementing strong controls over staff travel, stationary purchasing and the use of first class post. These spending controls continue to be in place at the organisation in 2024/25. During 2022/23, Member led focus meetings were held on the challenges facing children's services with the aim of mitigating demand and workforce challenges. The council also put a freeze on all non-essential vacancies. These spending controls represent short-term fixes and do not deal with the underlying problem which is that the council is currently operating a business model whereby the spend it is incurring is vastly outstripping the income it can and is receiving.
- The council has managed to replenish its reserves balance in 2024/25 via a one-off Collection Fund surplus which was as a result of a balance sheet review.
- The running down of reserves to manage revenue budget pressures represents a short-term solution to a long term problem.
- The council does not currently have a plan in place for if the council is not able to realise the savings from the Transformation Programme in time.
- The council is currently reliant on the statutory override, as are all councils, on the Dedicated Schools Grant (DSG) deficit which is temporarily allowing councils to keep the balance outside of the revenue budget. The council reported an overspend of £7.729m on the DSG budget. This increased the cumulative deficit to £14.293m as at 31 March 2024. The overspend is primarily driven by the deficit on the High Needs Block. The council is dependent on the statutory override to remain financially sustainable. The council does not have enough reserves to cover the DSG deficit when the statutory override elapses, and it is assumed that the council will need to fund the gap from the General

Fund. However, the council is part of the Delivering Better Value in SEND Programme with the Department of Education (DFE) and CIPFA. The programme aims to reduce the expenditure on the DSG over time. The important point to note is that the council is relying on the short term measure in the form of the statutory override to remain financially sustainable.

The council's short-termism was highlighted in its response to the Corporate Governance Improvement Plan. The council's auditors noted that the Improvement Plan, in response to the significant governance weaknesses identified as part of the 2020/21 audit, initially focused on actions that would be completed in 90 days. The auditor expressed doubt that the council would be able to enact the necessary cultural changes within this timescale and that the focus needed to be over a much longer time period.

Conversely, it should be noted that the council has a medium term financial plan that shows reserves will be replenished. The council's long-term plan is to use the Transformation Programme to fundamentally change the way the council is organised and get the council onto a stable footing. The success of the Transformation Programme is the long-term key to sustainability.

Gaps in savings plans

As part of the budget-setting process, the council identifies the savings necessary to bridge the budget gap. Individual directorates are expected to identify potential savings within their service area and work with finance to develop them. The council holds public consultations prior to incorporating savings into the financial plans .

One of EY's statutory recommendations from August 2023 asks the council to build upon steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. This should include an assessment of statutory versus discretionary expenditure .

The council's budget gap for 2023/24 of £14.9m required delivery of £9.4m savings in-year, with another £3m savings proposed for 2024/25 at 2023/24 budget setting. The budget carried risk surrounding the timely delivery of approved savings. The S151 officer advised the council to focus unrelentingly on delivering savings plans and demand mitigation during the year.

At the Executive meeting on 17 January 2024, the Board noted the importance of relentlessly focusing and moving toward identifying and delivering savings and eliminating overspends within 2023/24. To become financially sustainable, it will be imperative that all departments contain costs within budget and deliver on savings .

At 2023/24 outturn, the council reported achieving £7.814m of the proposed £9.4m savings at budget setting (83%). This means that 17% of savings were not achieved. The council have a savings tracker in the outturn report, which summarises the council's savings performance at the end of the year and the impact on delivery for 2024/25. It is important to note that any non-delivery of savings in one financial year rolls forward the gap into the next financial year, and the council will either need to achieve the originally identified savings or identify new savings to plug the gap. Savings delivery was monitored by the Savings Programme Board, chaired by the Head of Business, Strategy and Customer Services for 2023/24. The unachieved savings in 2023/24 mainly relate to the internal residential provision schemes in children's services, which were removed and reprofiled as part of the MTFP.

The council are forecasting the need to deliver the following savings over the medium term period:

	24/25 £'m	25/26 £'m	26/27 £'m	Total £'m
Savings	13.9	5.151	1.967	21.028

Table 5: Savings over the medium term period (Source: 2024/25 Revenue Budget, Medium Term Financial Plan, and council Tax setting)

The level of savings required for 2024/25 is significant and unprecedented for the council. The council was able to only deliver approximately half of that level of savings in 2023/24. Therefore, the level of savings required is considered to be ambitious. The savings target from 2025/26 appears more manageable, but this does not take into account any non-delivery from 2023/24 or 2024/25.

The council split savings into two categories: 'just do it' savings, which are traditional savings (cost reductions, cuts to services, income generation, etc.) and transformational savings, which are savings which result from a change to the way a service is delivered/provided. All savings require a proposal document for the 'just do it' savings; this is called an R2 form. A business case is required for transformational savings. These documents form the basis of the saving in the MTFP and are provided at budget setting.

All savings are monitored through the Transformation Programme's governance framework which is split into six programmes. Each programme consists of a number of savings projects – either developed by R2 budget proposals or new ideas developed as high-level programmes on a page. The council has a strong governance structure and architecture to support the savings and Transformation Programme with all savings are allocated to thematic boards which programme manage, coordinate, monitor the project direction, challenge progress and escalate if necessary. The thematic boards feed into the Corporate Transformation Board which then feeds into the Transformation Assurance Board.

The council must deliver £13.9m of savings in 2024/25. The majority of the savings are not transformational in nature (75%). Transformation savings represent around 25% of the total 2024/25 proposals. We have seen evidence of the council categorising the savings and demonstrating a level of assurance in the savings for 2024/25. The fact that there are some transformation savings also demonstrates that the council will have a level of experience in delivering transformational savings for 2025/26 onwards, but further work is needed at pace to identify and deliver on transformational change as part of the Transformation Programme

There is a gap in the savings plans post 2024/25. At the time of writing, the Transformation Programme is in its infancy. While a strong governance structure is in place, the council are lacking in the substance behind the post 2024/25 savings. In light of this, the council will likely need EFS beyond 2024/25. Transformational savings take time. It is highly unlikely that, at this point in time, the council will be able to identify, develop and realise the required transformational savings to close the medium term budget gap.

Unplanned overspends

Children's services expenditure is the single biggest financial risk to the council, given the demand and price pressures facing the service. Volatility in children's social care demand and cost is a key risk on the Strategic Risk Register.

For at least the last three years the Children's Care budget has been overspent. The demographics of Middlesbrough mean that there is increasing demand for services and this is a key driver behind the overspends, even with budgets increasing in response to forecast demand. There is also an increase in the complex, high-cost placements required in Middlesbrough. To address these challenges the council has a Children's Services Financial Improvement Plan. The plan seeks to reduce agency spend through improved recruitment processes, tackle Edge of Care expenditure through the development of more cost-effective in-house resources and mitigate high-cost residential placements by developing the in-house provision.

Positively, the council appears to have strong relationships within the children's market, which should help reduce the cost of external providers through the negotiation of favourable contract terms.

In terms of the in-house provision, there are undoubtedly risks to this as it requires a significant capital outlay to get started. The council already has 24 internal placements that should be utilised before going to market for external placements. There are a number of issues that affect the council's ability to utilise in-house provision, primarily staffing issues and labour market factors that incentivise agency staffing. This can sometimes result in the council being unable to properly utilise its in-house provision and force the council to be seeking higher-cost external placements.

An area for the development of council is improving the relationship between procurement (the children's commissioning team) and the directorate. At present, the commissioning team lacks clear direction from the service in exactly how the service plans to manage the residential placement provision in the future. The growth plan for internal placements is not currently defined enough for the procurement team to be able to work effectively with the service to develop the forward position and the go-to-market offer. Contrastingly, in adults, the procurement/commissioning team appears to have a stronger relationship with the service, and this has resulted in more effective outcomes in terms of managing the service within the financial envelope. Although, it is important to note that the market factors affecting adult's and children's impact the council differently. This lack of direction was highlighted in an Internal Audit report from September 2023. Internal Audit concluded 'limited' assurance in the arrangements governing effective commissioning in a report from September 2023.

The systems facilitating the relationship between children's and procurement/commissioning also appear to be holding the council back in terms of its ability to control prices/fees and oversee spending. Children's Services operates a front-end case management system only. All payments are made via invoicing with no direct link from contracted arrangements to the case management system. The commissioning team organise external placements for residential and independent fostering – the process is still manual and the data is held on an Excel spreadsheet, increasing the potential for incorrect unit pricing across children's services and incorrect recording and invoicing errors. Conversely, the adult's system works much more effectively. In adults, they operate a front-end case management system (LAS) which links to a back. CIPFA is currently working with the council to explore improving the children's system, make recommendations to ensure regular payments for services are progressed through automated payment runs, and align the system to ensure provisioning/activity and finance are connected.

Risks

1. The council does not have the capacity and arrangements in place to manage and deliver significant change at political level.
2. The council is unable to control its demand-led budgets, delivering an overspend on the budget and putting additional pressure on the financial sustainability of the council.

3. The council is exposed to financial resilience risks due to the critically low level of reserves to provide resilience for the medium term period.
4. Our review has identified the specific risk that the present relationship between the children's service and procurement is not operating effectively. Currently, the commissioning team lacks clear direction from the service in exactly how the service plans to manage the residential placement provision in the future. The growth plan for internal placements is not currently defined enough for the procurement team to be able to work effectively with the service to develop the forward position and the go-to-market offer.

Recommendations

1. The council should ensure that it has the capacity and arrangements in place to manage and deliver significant change as the financial imperative will demand some fundamental changes to the mode and scope of council services. This will require focused political engagement, extensive consultation and delivery at pace to manage barriers to change and make difficult decisions surrounding service provision
2. The children's services directorate should work to define and develop its strategy regarding the future residential placement provision. This strategy should be devised in collaboration with procurement/commissioning and finance.

An assessment of steps the Council is undertaking to ensure it remains within its spending envelope, including deliverability and appropriateness of current savings / transformation plans, income generating activity, and ensuring activities that are no longer required are being scaled back (e.g. teams that were previously expanded during Covid) etc.

The council aims to manage its spend via the following:

- Savings plans – this is where the council is making efficiencies in the current service provision in order to reduce costs
- The Transformation Programme – this is where the council is changing the way a service is delivered/currently configured in order to generate savings
- EFS for 2024/25 – the council's request for EFS has allowed the organisation to manage its 2024/25 spend as it has addressed the forecast budget gap that was preventing the council from submitting a balanced budget.
- FUCR Strategy – this is the means by which the council is planning to fund its Transformation Programme which has the aim of changing the way services are delivered in order to reduce costs
- Spending controls - the council implemented revenue budget spending controls since 2021/22 asking officers to minimize the use of agency staff, implementing a vacancy control process which is overseen by LMT, implementing checks against proposed expenditure above £5,000 by procurement, implementing strong controls over staff travel, stationary purchasing and the use of first class post. These spending controls continue to be in place at the organisation in 2024/25. During 2022/23, Member led focus meetings were held on the challenges facing children's with the aim of mitigating demand and workforce challenges. The council also put a freeze on all non-essential vacancies. These controls will enable the council to manage within its financial envelope.

Based on the current MTFP, the council is not expecting to deliver within the financial envelope without a significant Transformation Programme.

Risks

No new risks identified

Recommendations

No new recommendations identified

An assessment of the Council's efforts to maximise productivity and minimise waste. This should include consideration of the Council's approach to EDI activity.

Productivity plan

In April 2024, the then Minister for Local Government wrote to all local council Chief Executives, asking councils to produce productivity plans as part of the terms of the Local Government Finance Settlement. Productivity plans are also required under the conditions accepted by the council in relation to the in-principle agreement of £13.4m of EFS which was applied for to enable a legally balanced budget to be agreed at its meeting on 8 March 2024.

Middlesbrough produced its productivity plan and reported to the July 2024 Executive meeting in time for the submission to government by 19 July 2024. The plan set out the council's approach to improving its productivity and is already embedded within the current plans to transform and improve service delivery. Activities to improve productivity are already within the council Plan, the council's Transformation Programme, People Strategy, Section 24 Action Plan and Corporate Governance Improvement Plan. Progress against the plan will be embedded within the quarterly performance and budget outturn reports to Executive.

The council's approach to EDI activity

The council currently have one Full Time Equivalent (FTE) member of staff engaged as the HR Lead for Equality, Diversity and Inclusion. This individual has a Grade K salary and a small budget of £10,000 to support the Staff Networks and associated activity. There is no evidence of the council spending significant amounts on EDI activity at the expense of service performance.

Risks

No new risks identified

Recommendations

No new recommendations identified

An overall view on the ability of the Council to manage identified budget pressures through its own resources. This should include a view on whether the Council could and should take further action to minimise the need to use / seek a capitalisation direction. If it is apparent the Council requires capitalisation to manage its budget, an assessment of how the Council expects to 'fund' the capitalisation (i.e. through external / internal borrowing or through capital receipts), and the viability / risks of their proposed approach.

No evidence suggests the council did not need the capitalisation direction to balance 2024/25. The council does not intend to use the whole £13.4m direction and, therefore, seeks to minimise its use. The capitalisation direction is to be financed by external borrowing, and this impact on the revenue budget is covered in Review Area 2 of this report.

Risks

No new risks identified

Recommendations

No new recommendations identified

3.2 Review Area 2 – CAPITAL PROGRAMME/ DEBT/ INVESTMENTS /ASSETS

An assessment of the Local Authority's capital programme/overall debt position including short and long term borrowing, and approach to investment/asset management to reach a view on suitability, VfM and risk exposure of the Local Authority in this space, and how this may impact on the overall financial resilience/sustainability of the Authority.

The council's MTFP agreed by Full Council on 8 March 2024 sets out the council's proposed capital programme for the period 2024/25 to 2026/27. The total value of the proposed capital programme across this period is £174.980m with £88.549m to be delivered in 2024/25. Included within these values is the £13.4m of EFS that the council has applied for, along with £26.7m of costs associated with the Transformation Programme. The remaining £134.880m across the period of the MTFP relates to capital expenditure to support service delivery. The funding of the capital programme will be a mixture of external borrowing, capital receipts, flexible receipts, grants and contributions. Delivering the capital programme in full will take the council's Capital Financing Requirement (CFR) to a peak of £355.426m in 2025/26 and to £352.332m in 2026/27. This will be financed predominantly with external borrowing of £333.294m in 2025/26 and £329.910m in 2026/27. The remaining borrowing requirement will be funded by internal borrowing and the use of cash balances held by the council. By 2026/27 the net annual capital financing costs for the external borrowing held by the council is anticipated to reach £14.496m per annum, which equates to 9.8% of the net revenue budget.

CIPFA's May 2024 review of the council's financial management included a review of the council's financial management of treasury and its capital programme. The review identified treasury management as being risk based and one of the stronger scoring areas of the review. It was identified that the capital programme was an area where appropriate attention had not been given and therefore it could be more proactive and forward looking. There were no actions raised in the report relating specifically to treasury management and the capital programme.

The Council's management / governance of its capital programme, major projects (whether delivered in-house or via companies) and investments including the adequacy of internal processes, scrutiny of investment decisions, use of external expertise where required, risk management and capacity and capability to deliver. This should include an assessment of the Council's exposure to refinancing and any other risks identified as a result of its chosen borrowing strategy.

Management/Governance of the Capital Programme

The council's Capital Programme identifies agreed capital projects and their cost over time. The Capital Programme is linked to the Capital Strategy which is required by CIPFA's Prudential Code to demonstrate how the council's capital expenditure, capital financing and treasury management activity contributes to the provision of desired outcomes and takes account of stewardship, value for money, prudence, sustainability and affordability.

Each year, Chief Officers must prepare detailed capital budgets for their directorate, in consultation with the CFO, for consideration by the Executive. The Capital Programme covers the period in line with the MTFP. New capital projects recommended for Executive approval are subject to capital project appraisal, the format of which is agreed by the Executive. The process for developing the capital programme is outlined in the council's Constitution.

The Capital Programme is approved annually by Full council, and the most recent iteration was approved on 8 March 2024. The Annual Treasury Management Strategy of the council was also approved at the same meeting.

In January 2024, the council's LMT reviewed the capital programme to ensure alignment with the council Plan priorities, the robustness of the profiling and estimates, and the ability to deliver within the council's financial resources. The capital programme emerged from this review and was agreed upon between LMT and Portfolio Holders prior to approval by the Full council.

Our review has not identified any concerns regarding the council's governance structures for the capital programme, but in 2023/24, there was a revision to the capital programme and then slippage of 34% in the delivery against the revised quarter 3 budget. Following this the council identified the need to strengthen governance and reporting arrangements surrounding the capital programme.

In response to this, the council has begun the process of establishing a Strategic Capital Board. The purpose of this board is to increase the level of scrutiny and accountability in relation to the delivery of the capital programme. The S151 Officer is leading the establishment of the Strategic Capital Board, is currently developing the Terms of Reference and intends to take the role of Chair. Membership of the board is currently being confirmed, and the intention is that there will be both Member and Officer representation, with relevant Directors being called to the board to be held accountable for the delivery, both in terms of timescale and cost, of the capital programme.

Given the slippage and under delivery of the capital programme, the establishment of a Strategic Capital Board is a sensible approach. We encourage the council to rapidly establish an appropriate timetable for meeting and reporting on a regular basis. We note from our discussions with the S151 officer that there is a plan to revisit and review the capital programme to ensure that it remains appropriate and affordable given the council's financial position.

Investment Decisions – Treasury Management

As set out in the Local Government Act 2003, local councils must prepare and publish an Annual Investment Strategy for approval by Full Council. The council's 2024/25 Annual Investment Strategy was approved on 8 March 2024 and sets out the council's approach to investments. The key features of the governance around investment decisions are;

- The Director of Finance is delegated the implementation and monitoring of treasury management policies and practices, and the Head of Finance and Investments is further delegated the execution and administration of treasury management decisions.
- The Audit Committee is responsible for ensuring effective scrutiny of treasury management strategy and policies.
- The council has set limits and definitions of specified investments to limit risk when investing cash balances.

The Head of Finance and Investments is an appropriately qualified and experienced officer and we have no concerns with regards to capability for treasury management within the council. To supplement its internal resources the council obtains professional, expert external treasury management advice from Arlingclose, an experienced treasury advisor to local councils. Therefore, the council has robust arrangements to govern investment decisions and utilises appropriate external support to inform its treasury management activities.

Arlingclose support the council in assessing its borrowing portfolio to identify opportunities for refinancing and achieving a lower cost of borrowing. Due to the wider macro-economic factors and the predominantly long-term nature of the council’s borrowing portfolio there has been limited refinancing activity. Where opportunities emerge Arlingclose produce a business case for the council to consider. Based on this proactive approach and the overall debt portfolio of the council the exposure to refinancing risk is low.

Investment Decisions - Assets

On 27 February 2024, an Internal Audit report was issued in relation to the council’s acquisition of the former Crown Public House. On 10 February 2023, the purchase of the freehold interest of the property was completed for £750k following the approval from the council’s Executive on 24 January 2024. The report to the Executive stated that the immediate priority was to ‘ensure the control and protection of a locally important asset’ and a business case would be developed to restore the building to commercially viable use.

After the purchase, the scale of dilapidations and associated restoration and development costs became apparent, and no business case was ever produced. The Internal Audit report concluded that there were several issues in the way in which the acquisition was completed. Specifically, there was a lack of evidence on why this site was a priority site for the council, a lack of structure in discussions on regeneration priorities, a lack of documentation around meetings, a lack of transparency and challenge and a lack of evidence that the acquisition was best value to the council.

This report, and the subsequent significant weakness issued in the 2022/23 external audit report, indicates issues with regard to the governance and scrutiny of investment decisions made by the council. Internal Audit made several recommendations to the council based on the report findings. These are;

1. Effective processes should be developed to support the implementation of the council’s policy
2. Transparent arrangements should be put in place for discussion and decision-making around significant development priorities
3. Property acquisitions should be managed by the relevant professional service
4. The council should ensure that a full business case is drawn up in advance of progressing any property acquisition
5. Ensure that reports requesting decisions on significant issues are transparent, present the full facts, and include a clear assessment of the relevant risks.

It should be noted that the decision to purchase the Crown Public House was made under the previous administration, and the Chief Executive and the council have made significant progress in addressing cultural changes from this period. The council should ensure that it embeds the recommendations made by Internal Audit to ensure robust governance and processes are in place around acquiring assets in the future.

The council have an Asset Acquisition Policy and an Asset Disposal Policy, documenting the agreed processes and approach taken by the council. It should be noted that although both documents set out clear and sensible processes, they appear to have expired. The Asset

Acquisition policy is stated as being live until January 2023, and the Asset Disposal policy until April 2024. As a matter of urgency, the council should review and update these documents to ensure the policies reflect the desired governance and scrutiny of the council's approach to the acquisition and disposal of assets.

Major Projects

The council's approach to major projects is governed by its Programme and Project Management Framework (PPMF).

The framework is based on the interlinked process of Start-Plan-Deliver-Review/Close. All programmes and projects undertaken within the council must comply with the framework with accountability for compliance sitting with the sponsor and manager of the programme or project. Arrangements for projects delivered in conjunction with external partners are also set out in the framework with the adoption of a lead partner methodology to ensure minimum PPMF standards are met.

The most recent Internal Audit review of the council's controls relating to project management arrangements gave an overall opinion of 'Substantial Assurance' indicating a strong commitment to the framework within the council. This provides confidence that the council has robust governance arrangements in place to manage major programmes and projects. No additional concerns were identified during our work.

Our review has identified a mixed picture on the strength of the council's internal processes with regards to its capital programme, investment decisions and major projects. However, it is clear that changes have been made and more robust processes are being established in response to issues identified internally and following reviews by both internal and external audit. Where we have identified further areas of improvement we have raised relevant recommendations for the council to consider.

Risks

1. There is slippage in the capital programme and it is not delivered as planned, impacting upon both service delivery and the revenue budget of the council
2. The council repeats the mistakes made during the acquisition of the Crown Public House in future investment decisions, not delivering best value in its approach to investments and/or acquisitions
3. The council makes decisions on asset acquisitions and asset disposals based on policies that have expired and are not up to date

Recommendations

1. The council should rapidly establish an appropriate timetable for the Strategic Capital Board to meet and report on a regular basis.
2. The council should, as a matter of urgency, review and update the Asset Acquisition Policy and Asset Disposal Policy to ensure that the policies reflect the desired governance and scrutiny of the approach to acquisition and disposal of assets.

An assessment of the Council's approach to any part or wholly owned companies and any associated risks these companies expose the Council too.

The Council is currently winding up Middlesbrough Development Company (MDC). On 18 March 2024, the construction contracts held by MDC for Boho Village and Newbridge Court were novated to the council. This means that the council now holds responsibility for settling the final account of these contracts, which may expose the council to a financial risk. From our interviews with relevant officers, the anticipated risk level to the council is considered to be low, and the council will utilise appropriate expert advice during the arbitration process.

On this basis, the financial risk posed by the company's liquidation to the council is minimal, but the council should continue to assess the potential financial liability it faces in relation to the novated construction contracts. The council has stated that the outcome of these will be reported quarterly, which we deem to be a sensible approach.

Risks

1. The council is exposed to financial risks associated with the liquidation of Middlesbrough Development Company, particularly in relation to the novated construction contracts.

Recommendations

No new recommendations identified

A view on the alignment of the capital programme with the broader strategic direction of the Council including an assessment of the deliverability and affordability of its capital programme including consideration of how the Council plans to fund its programme (i.e., grants, borrowing etc.) set against the overall debt position and potential impact on longer term sustainability, including liability benchmarking.

The Council Plan for 2024-27 was agreed by Full Council on 8 March 2024, and is the document that sets out the strategic direction of the council over this period. It sets out four key priorities to deliver the vision for Middlesbrough to thrive across four priority areas. The Council Plan was presented to Full Council at the same meeting as the 2024/25 Capital Programme and Capital Strategy for 2024/25 with the purpose of ensuring full alignment between the plans.

By clearly articulating the financial challenges facing the council and the need to deliver within the available resources, the Council Plan is aligned with the requirements of a sustainable and affordable capital programme in Middlesbrough. The Capital Strategy, alongside the Treasury Management Strategy, provides details on the capital programme and the council's plan to ensure that it is deliverable and, above all, affordable within the context of its financial challenges.

To deliver the capital programme for 2023/24, the council took out an additional £18.469m of external borrowing, bringing its overall external debt held by the council at 31 March 2024 to £248.104m. This external debt was made up of a combination of borrowing from the Public Works Loan Board (PWLB), financial institutions and short-term borrowing from other local councils.

The overall split and stated purpose of this borrowing is as follows:

Source of external borrowing	External debt at 31 March 2024	Average Interest Rate (%)	Stated purpose of borrowing source
PWLB	£206.018m	3.61%	Loans of varying length to match the lives of capital assets they are financing.

Banks	£18.000m	6.26%	Predominantly taken out in early 2000's when financial institutions offered better rate than central government borrowing
Other loans	£24.086m	7.00%	Short-term borrowing from other local councils to support with cash liquidity as required
Total	£248.104m		

Table 6: External Borrowing (Source – Treasury Management Outturn 2023/24)

The long-term borrowing held by the council has maturity dates of between 5 and 45 years to mitigate the refinancing risk of debt maturing at a similar time and the council is unable to replace the debt. Based on the profile of the long-term borrowing held by the council, appropriate steps have been taken to mitigate this risk. The council's Treasury Management Strategy also makes reference to the need to mitigate credit risk, interest rate risk, and liquidity risk. The steps the council has taken with regard to these risks are appropriate but we have identified that they could be more clearly articulated in the Treasury Management Strategy and encourage the council to review this. We have not identified any undue risks that the council is exposed to based on its borrowing and investment strategies and appropriate mitigating steps are in place.

The Capital Programme for the period 2024/25 to 2026/27 was agreed upon by Full Council on 8 March 2024, with a proposed spend of £88.549m in 2024/25 and a total capital programme spend of £174.980m across the period. The council has taken steps to review and prioritise the capital programme to an affordable level. This has been done through engagement between the LMT and portfolio holders. Historically, the council has struggled to deliver against the agreed capital programme with significant slippage in prior years. The role of the newly established Strategic Capital Board will be crucial in mitigating this slippage, and the S151 Officer has advised that the intention is to review and reprofile the capital programme during Quarter Two of 2024/25.

The agreed capital programme for 2024/25 to 2026/27 will see the council need to increase its level of external borrowing by £52.959m, with the remainder of the capital programme financed through a combination of capital receipts and grant funding. The 2024/25 Treasury Management Strategy forecasts that the council's CFR will increase to £352.332m by 2026/27, with external borrowing reaching £329.910m. The remainder of the CFR will continue to be financed by internal cash balances.

It should be noted that the figures in the 2024/25 Treasury Management Strategy do not reflect that the closing CFR for 2023/24 was £7.083m lower than forecast. This is attributable to underspends and slippage in the capital programme. These forecasts are also based on the assumption that the council fully utilises the £13.4m of EFS that has been awarded in principle for 2024/25. Despite this, the council are increasing the level of external borrowing, which has implications on the revenue costs of financing this debt and must be considered.

In terms of the council's overall level of external debt, no significant issues are identified compared to other, similar local councils. Based on the CIPFA Financial Resilience Index, the council, as of 31 March 2023, had an external debt that was 121% of income. Within the context of the nearest neighbour group, the council is in the middle as it is at the median of the data set. It should be noted that this is based on historical data, and the council is planning to increase its level of external borrowing. The council should continue to consider its level of external debt as a percentage of its income, alongside other considerations, to ensure that it is appropriate and affordable in both the short and long term.

In 2023/24, the net annual capital financing cost (annual debt financing costs less income from commercial investments and cash balances) was £9.235m, which equates to 7.4% of the 2023/24 net revenue budget. The CIPFA Capital Finance Code of Practice advises that, for sustainability and financial prudence, the net annual capital financing cost should not exceed the threshold of 10% of the net revenue budget. Based on the Treasury Management Strategy, the council is forecasting that by 2026/27, based on expected external borrowing, the net annual capital financing cost will reach £14.496m against a net revenue budget of £148.127m. This equates to 9.8% and indicates that the council is at risk of breaching the CIPFA advisory threshold if additional capital borrowing is required across this period.

The council highlight in the Treasury Management Strategy that caution is required in the future, and there will need to be a reduction in reliance on external borrowing. We encourage the council to closely monitor the cost of financing the external debt it holds and ensure that it remains affordable, particularly within the context of the challenging financial position of the council and the low level of reserves it holds. Both these are issues that could require an increased level of external borrowing, and the council should consider the ongoing revenue impact of increased external borrowing levels.

Risks

1. The council does not appropriately mitigate treasury management risks through documentation of its approach in the Treasury Management Strategy.
2. The council breaches the 10% threshold for annual capital financing costs as a percentage of net revenue budget as set out in the CIPFA Capital Finance Code of Practice, placing a significant burden on the revenue budget and creating risk around affordability of council's borrowing.

Recommendations

1. The council should more clearly articulate its approach to mitigating treasury management risks in the Treasury Management Strategy. We have not identified any significant risk that the council is exposed to as a result of this but recommend a clearer articulation of the steps taken to mitigate these risks.
2. The council should closely monitor its external debt within the context of the 10% threshold for annual revenue costs as a percentage of net revenue expenditure as set out in the CIPFA Capital Finance Code of Practice. The council must ensure that the cost of the external debt it holds to ensure that it remains affordable, especially within the context of the council's challenging financial position.

The council's approach to asset management and valuation, the appropriateness of its asset portfolio, and a view on a proposed asset disposal plan against broader Value for Money considerations.

The council's Director of Regeneration holds responsibility for the council's approach to its asset portfolio. On 21 November 2023, the Director of Regeneration and Director of Finance presented the outcome of an Asset Review[i] to the Executive. The purpose of this review was to identify the land and property owned by the council and how it could be most appropriately used to help the council achieve financial sustainability.

On this basis, the focus of the review was to identify opportunities to dispose of assets, minimise running costs of assets and maximise income from council assets. The need to set out a revised policy and strategy framework was identified, along with the need to match the council's operational estate with the future strategic direction of the council and an assessment of the best approach for the council to take as a corporate landlord. The work on this remains ongoing, and the council should ensure that it is completed in a timely manner to accompany the rapidly progressing asset disposal agenda.

The Asset Review sets out clear recommendations on the assets proposed for disposal across the three types of assets; operational property, commercial property and land. We note that the council does not hold any commercial assets outside of the local council area and that the majority of commercial assets held also link to the council's regeneration agenda. With regards to land, the council holds much of this to support its housing agenda. It is noted that the council does own a significant amount of farmland and open spaces. The portfolio of assets held by the council appears to be appropriate and in line with expectations of assets held by a local council.

In the Asset Review, the council identifies that there are commercial properties that the council wishes to retain in the longer term, but to effectively deliver the landlord function and maximise the income generated, external management arrangements should be sought for these assets. The Asset Review states that this will be implemented by the Asset Management Team and brought to the Executive for decision. At the point of our review, this has not been brought forward to the Executive, and the council should ensure that this progresses in a timely manner.

The rationale for the assets identified for disposal in the Asset Review appears to be reasonable and well-articulated. Further commentary on the asset disposal plan of the council is made later in this report.

With regards to the value for money considerations of the asset disposal plan, the highest value asset that the council has identified for disposal is Tees Advanced Manufacturing Park (TeesAMP). During our interviews with Members and Officers, we explored the rationale for selling TeesAMP to realise the capital receipts rather than retaining ownership of the site in order to continue to receive the annual income. The report presented to Executive on 22 May 2024 sets out the rationale behind this decision, which is as follows:

The council's Asset Review identified the site as having significant commercial sale potential with the value maximised by securing a sale whilst fully occupied with strong lettings in place. The council has not historically invested sufficient funds in the ongoing renewal of commercial properties to retain the level of value for an extended period so disposal would mitigate the risk of loss of value through a lack of ongoing investment. The capital receipt is required to fund the council's Transformation Programme through the FUCR strategy and the estimated annual revenue cost of borrowing approximately £14m to offset the loss of capital receipts is c.£1m, equivalent to the loss of income. Many of the offers received during the competitive bidding process were in excess of the value, maximising the best value considerations for the council in relation to the potential sale. Disposal of the site will remove the council's requirements to finance £8.8m of capital expenditure on remediated land at TeesAMP through its capital programme, with the associated revenue costs associated with this borrowing

The council have clearly considered the value for money rationale of disposing of the TeesAMP site and the importance of this capital receipt to the delivery of MTFP, specifically to fund the Transformation Programme, is a clear justification of taking this course of action rather than retaining the asset for the annual income.

Risks

1. The council does not effectively maximise the income being generated from its commercial investments as it does not have the internal capacity and/or capability.

Recommendations

1. The council should progress external management arrangements for its remaining commercial properties in a timely manner.

The Council's commercial investment portfolio (property, bonds etc.) and forward strategy including dependence on commercial income, exposure to debt costs and whether, in CIPFA's view it is prudent to reduce the Council's exposure and over what timeframe.

The council's 2024/25 Treasury Management Strategy identifies that the council will take the approach to invest any excess cash with appropriate counterparties until the funds are required. These decisions are informed by the detailed cashflow forecast the council that identifies the cash requirements and where there is either the need to invest excess cash balances or access short-term borrowing to support cashflow. A minimum of £15m in cash holdings is the strategic level set by the council and as at 31 December 2023 the council held cash balances of £21.847m invested in fixed term deposit with central government or in liquidity accounts with financial institutions.

The investment strategy of the council is articulated in the 2024/25 Treasury Management Strategy and states that the council prioritise security of yield with the focus on minimising risk by investing securely in the short term with. At the 31 March 2024 the council held £8.8m in short term investment split between two financial institutions and the Debt Management Office. The 2023/24 Treasury Management Outturn report states that the council has invested cash balances in line with the relevant government and CIPFA guidance and we have not identified any concerns with the council's approach to short-term, liquid cash investments.

With regards to commercial property, the Asset Review presented to the Executive on 21 November 2023 detailed the commercial properties held by the council and the proposed strategy with regards to these commercial assets. The council defines commercial property as those held to generate income from occupiers that support the overall financial position of the council through revenue income, whilst also contributing to the economic development and regeneration of Middlesbrough. It should be noted that all commercial properties held by the council are located within Middlesbrough.

The council identifies in the Asset Review four commercial properties to be retained in the longer term but, there is a need to manage these externally to ensure that the council achieves best value from these assets. The council provided us with a tracking document that sets out different scenarios for the income generated from its commercial properties. This document sets out the level of income generated under two alternative scenarios around tenants at the Centre Square site. This demonstrates that the council has an adequate awareness and understanding of the risks around its commercial income and the potential impact on the MTFP.

In the Asset Review, the council has identified a number of properties held for commercial income that form part of the asset disposal strategy. The council has indicated that this will reduce the annual income received by £1.634m by 2026/27. This will have an impact on the council's revenue budget and increase the pressure that debt costs have on the council's financial position.

The council is planning to increase its level of external borrowing to fund its capital programme and also to fund the EFS required to balance the budget for 2024/25. We have identified the risk that this poses to the council with regards to increased revenue costs of borrowing and the pressures this places on the council's financial position, exacerbated by the lost income from the commercial assets that the council is disposing of to fund its transformation activity. It is our view that the council should seek to minimise its level of external borrowing where possible to reduce the revenue costs of borrowing but the overall debt position of the council does not raise any undue cause for concern for being too excessive or not being prudent.

Risks

No new risks identified

Recommendations

No new recommendations identified

Whether and to what extent the Council is complying with statutory guidance / following best practice with regards to its capital programme, wholly / part-owned companies and investments including but not limited to investment guidance, minimum revenue provision and accounting codes.

Through the approval of the 2024/25 Treasury Management Strategy the council has complied with the requirements as set out in the Local Government Act 2003 and the CIPFA Codes of Practice on Capital Finance and Treasury Management in relation to treasury management.

Prudential Indicators

The 2024/25 Treasury Management Strategy for the council details its Prudential Indictors for the period 2023/24 to 2026/27. These are as follows:

Prudential Indicator	2024/25	2025/26	2026/27	Comment
Estimates of Capital Expenditure	£88.549m	£73.218m	£13.213m	The 2024/25 includes £13.4m of Exception Financial Support.
Estimates of Capital Financing Requirement	£331.863m	£355.426m	£352.332m	The CFR is expected to increase with new debt-financed capital expenditure.
External Debt	£310.535m	£333.294m	£329.910m	Statutory guidance is that debt should remain below the CFR. The council has complied with this and expects to comply over the medium term.
Authorised Limit for External Debt	£372.000m	£396.000m	£393.000m	Based on both the Authorised Limit and

Operational Boundary for External Debt	£352.000m	£376.000m	£373.000m	Operational Boundary for External Debt the council has been well within the threshold and expects to remain within the threshold over the medium term.
Proportion of Financing Costs to Net Revenue Stream	7.8%	8.6%	9.8%	In the medium term the council is at risk of breaching the 10% threshold set out in the CIPFA guidance.

Table 7: Prudential Indicators (Source: 2024/25 Treasury Management Strategy)

In 2023/24 the council did not breach any of the Prudential Indicators as agreed in Treasury Management Strategy and does not anticipate that any will be breached over the lifetime of the 2024/25 to 2026/27 Treasury Management Strategy. The council should continue to closely monitor and report on the prudential indicators to ensure that external borrowing remains affordable.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is an annual revenue provision that is set aside for debt repayment. councils have the duty to set aside an amount of revenue that is considered "prudent" and they are legally obliged to "have regard" to MRP guidance. There are five common options for prudent provision of MRP and the council has adopted the 2% Annuity Method. Our review of MRP considers the reasonableness of the MRP policy and approach and does not constitute an audit of the full application of the policy.

The estimated MRP for 2024/25 is £4.503m on £310.535m of external debt. The approach that the council has taken to calculating MRP is in line with acknowledged methods but it must be noted that there is the risk that the council are creating a longer-term financial pressure due to taking the least prudent of accepted approaches to calculating MRP. By adopting this method the council is reducing the amount of principal repaid in the early years with a higher principal repayment in future years. This means a lower MRP can be charged currently which assists the overall financial position of the council but there is a risk of increased pressure on the council's budget in the future as MRP figures will need to be much higher than the current level. We note from our discussions with the former external auditors of the council, EY, that there have been no historic issues with the council's approach to calculating MRP. The council should continue to consider the most appropriate and prudent approach to calculating MRP whilst considering both the short-term and long-term implications on the revenue budget.

We have not identified any concerns that the council is not complying with statutory guidance but we note, that the council does not have audited financial statements for 2021/22, 2022/23 and 2023/24. Therefore, there is a risk associated with this with regards to the accuracy of the council's financial statements that must be considered, specifically relating to the compliance with statutory guidance and the robustness of the approach to calculating MRP.

Risks

1. The council is exposed to longer term financial risk in its revenue budget through its chosen approach to charging MRP.

Recommendations

1. The council should continue to review and consider the most prudent approach to calculating MRP whilst considering both short-term and long-term impacts on the revenue budget.

To review the Council's approach to its asset disposal programme and pipeline of capital receipts.

The current Asset Disposal policy requires that disposals over the financial threshold must be subject to an Asset Disposal Business Case that is taken to Executive. Based on the outcome of the Asset Review, the Executive approved the recommendation to delegate this to the Director of Regeneration, in consultation with the Director of Finance. This appears to be a sensible approach but the council must ensure that Members are kept informed of any significant, relevant changes to the proposed disposal as set out in the Asset Review.

With regards to managing the asset disposal process, the responsibility will sit with the Director of Regeneration and the council has an Asset Disposal Group in place to manage the progress of the programme. This reports into the Transformation Property Board which feeds into the council's wider governance framework for delivering transformation. The Asset Disposal Group meets fortnightly to review the property disposal tracker, the progress of disposals and to resolve any blockages. Membership of the Asset Disposal Group consists of officers from Regeneration, Finance, Legal, Planning and Estates.

The council's proposed approach is that higher value disposals will be managed through external agents. This is the case for TeesAMP where Cushman & Wakefield have been engaged as professional experts to support the disposal of the asset. Other disposals will be managed through the council's Valuation and Estates Team. To undertake independent valuations of the council's assets the professional expertise of Align Property Partners. Align provide the council with appropriately qualified and experience valuation expertise. The council should continue to utilise external expertise where appropriate to maximise the value generated from the sale of its assets and to mitigate against any capacity constraints on internal resources.

The 2024/25 budget as agreed by Full Council details how the future planned asset disposals in-year are critical to the funding of the Transformation Programme, as well as the realisation of in-year and future year savings. Capital receipts from these asset disposals are critical due to the council's lack of financial reserves and the lack of capital receipts at the start of the financial year.

The profile of the planned capital receipts for 2024/25 and across the MTFP period are as follows:

Planned capital receipts	2024/25	2025/26	2026/27	Total
Receipts from approved assets disposals	£8.0m	£4.2m	£9.7m	£21.9m
Additional receipts proposed in	£16.5m	£9.0m	-	£25.5m

Asset Review report				
Total Planned Receipts	**£24.5m**	**£13.2m**	**£9.7m**	**£47.4m**

Table 8: Capital Receipts profile 2024/25 to 2026/27 (Source: Provided by the council)

In 2024/25, the council is planning to deliver total asset disposals of £24.5m, a significant figure and delivery is crucial to support the delivery of the Transformation Programme. The council have designated £4.6m of their £13.4m EFS to Capital Receipts Delivery Risk. The purpose of including this in the application is that it would be used to fund transformation and redundancy expenditure pending realisation of capital receipts.

On 23 November 2023, a report was presented to Executive that summarised a completed asset review of land and property owned by the council. This review identified a number of assets whose disposal would be critical to the capital receipts requirement set out in the council's MTFP. The most premium of these assets is the Tees Advanced Manufacturing Park (TeesAMP), a council developed industrial park, that currently brings in net rental income of £1.05m to the council and was valued by Cushman & Wakefield at £14.45m.

There is significant confidence that the 2024/25 target will be exceeded with the major asset disposals of TeesAMP and Nunthorpe Grange underpinning the delivery of the require asset disposals. The confidence within the council is extremely high that the disposal of TeesAMP will be completed imminently and the council will achieve a capital receipt in excess of the initial estimates for the site. There is also strong confidence that the sale of Nunthorpe Grange will be completed by the end of September 2024 with an anticipated capital receipt in excess of initially forecast. Delivery of these capital receipts, along with some smaller asset disposals, should ensure that the council achieve the target of 2024/25 and the £4.6m of EFS relating to non-delivery of capital receipts will not be required. With regards to the asset disposal targets in future years, there is confidence within the council that there are sufficient assets with sufficient value to meet the target.

As at 29 July 2024 the council was anticipating capital receipts over the MTFP period as follows:

	2024/25	2025/26	2026/27	Total
Anticipated capital receipts	£30.737m	£26.197m	£8.866m	£65.800m
Total planned receipts (as per MTFP)	£24.500m	£13.200m	£9.700m	£47.400m
Difference	£6.237m	£12.997m	(£0.834m)	£18.400m

Table 9: Anticipated capital receipts at 29 July 2024 (Source: Provided by the council)

Based on current projections, the council is on track to significantly exceed its capital receipts targets. This presents the council with the opportunity to utilise capital receipts to reduce the level of its external borrowing and we encourage the council to keep this under constant review and ensure that the receipts from asset disposal are used effectively to secure the financial sustainability of the council. Until the sale of the asset is finalised and the capital receipt secured by the council there remains a risk to achieving the targets required to support the MTFP. In 2023/24 the council planned for capital receipts of £4.3m to be used to support the revenue budget through the FUCR. However, the council was only able to deliver capital receipts of £2.399m, only 56% of the intended target. This highlights the risk of not delivering the anticipated level of capital receipts in year but we note the high level of confidence that there will be over-delivery against the 2024/25 target.

Risks

1. There is a lack of internal capacity within the council to maximise the value gained from its asset disposal programme.
2. The council fails to deliver its capital receipts target as set out in the MTFP, meaning that it does not have the resources under Flexible Use of Capital Receipts to finance transformation activity

Recommendations

No new recommendations identified

3.3 Review Area 3 – TRANSFORMATION

A review of the Council's transformation plans over the short and medium term.

Middlesbrough Council articulated its transformation approach in the Approach to Transformation of Middlesbrough Council report presented to the Full Council on 27 March 2024. The transformation efforts aim to secure the delivery of approved savings while identifying additional savings and income generation opportunities to be realised between 2024/25 and 2026/27.

Despite these efforts, the council acknowledges the presence of a budget deficit, necessitating the development of innovative ideas and solutions to close the gap.

Key areas of focus include establishing a standardised customer services model, developing an integrated neighbourhood-based working model, designing a new operating model for the council, and improving the ICT service. The council highlights that these initiatives are at various stages of development, with some contributing to the immediate savings target and others forming part of a longer-term transformation pipeline.

The requirement for a transformative approach to service delivery is driven by a fundamental requirement to achieve financial recovery and sustainability over the MTFP for 2024/25 to 2026/27. The 2024/25 budget indicates a shortfall of £4.7 million, even after identifying £14 million in savings. This gap has been temporarily bridged with one-off EFS via borrowing, approved in principle by MHCLG. The council must deliver planned savings and develop additional strategies to close the budget gap, estimated at £7.5 million in 2025/26 and increasing to £7.965 million by 2026/27.

Due to insufficient revenue reserves, the council is reliant on capital receipts from asset sales to fund transformation-related revenue expenditures. This is executed through FUCR Strategy, which requires council approval and oversight by the MHCLG. The strategy permits using capital receipts for eligible expenditures, aligning with transformation goals and financial recovery plans. The current statutory direction allows this flexibility until 31 March 2025, with potential extensions under government consultation.

The FUCR Strategy is vital for developing and implementing transformation plans to enhance service efficiency and effectiveness, ultimately contributing to a balanced budget. The council's strategy outlines initial investment requirements and projected savings over the MTFP period. Ongoing work on service redesign business cases aims to generate additional savings from 2025/26 onward, with updates to be reported to the council throughout the 2024/25 financial year.

In 2023/24, foundational transformation work involved external consultancy and interim expert capacity, funded by the Change Fund Reserve. This approach provided the necessary skills and capacity to develop initiatives to reduce costs and improve outcomes. The revised 2023/24 FUCR Strategy, approved on 17 January 2024, enabled the funding of qualifying expenditures through capital receipts, preserving limited revenue resources.

The Middlesbrough Council's 2024/25 budget, MTFP, Capital Programme, and Treasury Management Policy, approved on 8 March 2024, outlined the financial requirements for transformation and redundancy costs over the three-year MTFP period. The estimated total cost is £26.7 million, with £13.7 million allocated for 2024/25. These expenditures will be funded through capital receipts under the FUCR Strategy.

For the transformation programme, an investment of £13.6 million is planned over three years, aiming for a financial return 2.5:1. This ratio represents a target of £34 million in total savings. The budget allocation is detailed as follows:

Transformation Capital Scheme	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)	Total (£m)
Programme Costs	5.5	4.8	3.3	13.6
Redundancies	6.5	0.0	0.0	6.5
Contingencies	1.7	2.9	2.0	6.6
Total Transformation Costs	13.7	7.7	5.3	26.7

Table 10: Flexible Use of Capital Receipts, Transformation Capital Scheme (Source: Appendix 1 of 'Approach to Transformation of Middlesbrough Council')

The council's ability to fund these initiatives is contingent on realising sufficient capital receipts by 31 March 2024, with progress reported as part of the financial outturn. This strategic approach ensures that the council can continue its transformation efforts, aiming for long-term financial stability and improved service delivery.

The council has also outlined the strategic investment it requires for resources such as programme management, financial expertise, and subject matter experts, which are critical to delivering these ambitious plans. In this context, the council has commissioned a transformation partner to help modernise and streamline its operations, aiming for increased efficiency and sustainable financial savings. The partner is tasked with providing strategic support across the six thematic programmes designed to enhance service delivery and operational efficiency. The transformation partner's scope includes:

- Vision and Strategy Development: Assisting in crafting the council's vision and designing programmes that transform operating models, focusing on continuous improvement and better outcomes for residents.
- Change Management and Communication: Develop a comprehensive change management strategy and communication plan to align stakeholders with the transformation agenda.
- Interdependencies and Risk Management: Identifying and managing interdependencies, risks, and financial impacts within the transformation portfolio.
- Efficiency and Innovation: Exploring opportunities for productivity savings through innovative solutions, drawing on best practices to implement effective changes.
- Support for the PMO: Enhancing the PMO's risk assurance framework and assisting with information presentation to leadership boards.

The council see the role of this transformation partner as critical in supporting delivery of the Transformation Programme. The council should ensure that it is not reliant on its partner by undertaking an upskilling and capacity building programme to equip internal staff with skills in transformation and financial management to embed continuous improvement within the organisation.

Risks

1. The council establishment lacks the internal skills and capacity to enable successful delivery of the Transformation Programme and becomes overly reliant on transformation partner.
2. The council does not focus on ensuring quality services whilst also delivering the financial savings required from the Transformation Programme

Recommendations

1. The council should also engage with stakeholders, including employees, residents, and partners, to build support for transformative initiatives and ensure alignment with broader community goals. The council should ensure all stakeholders are aligned with the transformation agenda through effective communication and engagement strategies.
2. The council should undertake targeted upskilling programs and recruits specialists to fill gaps in transformation and financial management to embed skills and continuous improvement within the organisation.
3. The council should adopt a more customer-centric approach: redesign services around customer needs, use technology to deliver more efficient and user-friendly services, and reduce costs while improving service quality. Implement integrated service delivery models focusing on common processes like applications, assessments, and triage to enhance efficiency.

Viability of the transformation plans and its underlying assumptions.

Recognising the scale of the savings programme for 2024/25, valued at approximately £14 million, the council commissioned external consultants, Inner Circle Consulting, to assess the deliverability of savings and establish resources and delivery plans within various directorates. Inner Circle Consulting's role was to assure the s151 Officer regarding the robustness and feasibility of savings as part of the budget-setting process. Inner Circle concluded that achieving savings of approximately £14m is feasible and that proposed ideas for additional savings are credible, albeit requiring further business case development. However, the assessment also highlights a significant risk to successful delivery due to the council's lack of adequate staff capacity.

The council has also integrated a new requirement into its budget development process to strengthen the robustness of its transformation plans and savings delivery for the financial year 2024/25.

This process mandates the creation of a summary business case, known as the R2 form, for each budget proposal. The R2 form is designed to capture crucial financial details such as investment levels, income projections, expenditure reductions (both staff and non-staff), and impacts on service users. It also includes an assessment of equality impacts, risks, dependencies, high-level delivery timelines, and RAG rating to evaluate the risks linked with delivering planned savings. More intricate and transformational savings initiatives are subjected to enhanced programme and project management, aligning with the new Transformation Programme governance framework to ensure delivery assurance.

As of 27 June 2024, the council plans to achieve savings of £22.42 million between 2024/25 and 2026/27 through a comprehensive transformation programme. This programme is categorised into five risk levels—Blue, Green, Amber, Red, and Purple—based on the likelihood of realising projected savings.

1. Realised Savings (Blue): These savings account for £0.257 million (1% of total savings) and are confined to the financial year 2024/25. They reflect benefits that have already been achieved with verified evidence.
2. On-Track Savings (Green): Comprising £13.376 million (60% of total savings), these projects are on track with assured plans, indicating a high probability of realisation. The majority of these savings are expected in 2024/25, demonstrating a well-structured approach to achieving financial objectives.
3. Medium-Risk Savings (Amber): These projects represent £5.908 million (26% of total savings) and face potential obstacles but are developing mitigation strategies. Effective risk management is critical to realising these savings. Projects in this category require close monitoring and proactive management to ensure effective mitigation strategies and financial targets are met.
4. High-Risk Savings (Red): Totalling £2.879 million (13% of total savings), these projects present significant challenges due to limited mitigation scope. This category poses a notable risk to the overall success of the transformation programme, necessitating urgent attention to identify potential alternative approaches or contingency plans.
5. Undeliverable Savings (Purple): No savings are currently classified as undeliverable, suggesting no immediate need for alternative plans.

RAG	Savings	24/25 (£m)	25/26 (£m)	26/27 (£m)	Total (£m)	Total (%)
Approved Budget		**(15.302)**	**(5.151)**	**(1.967)**	**(22.420)**	**-**
Blue	Benefits and / or saving(s) realised, with evidence provided.	(0.257)	0.000	0.000	(0.257)	1%
Green	Benefits and / or saving delivery on-track, with assured plans in place.	(10.251)	(2.965)	(0.160)	(13.376)	60%
Amber	Medium-risk to benefits and / or saving(s) delivery. Mitigation in-play, or in development.	(3.460)	(1.391)	(1.057)	(5.908)	26%
Red	High-risk to benefits and / or saving(s) delivery. Limited scope for mitigation.	(1.334)	(0.795)	(0.750)	(2.879)	13%
Purple	Benefits and / or saving(s) are undeliverable. Alternative plan / saving required, for Exec approval.	0.000	0.000	0.000	0.000	0%
	Total Savings	**(15.302)**	**(5.151)**	**(1.967)**	**(22.420)**	**100%**

Table 11: Savings Programme (Source: Update to the Transformation Assurance Board, June 2024)

The medium and high-risk savings together account for 39% of the total savings programme , underscoring the importance of addressing the challenges associated with these projects. Medium-risk projects require robust mitigation strategies to ensure viability, while high-risk projects demand immediate action to identify potential solutions. Without effective management, these projects may face delays or fail to deliver anticipated benefits, potentially undermining the council’s overall savings targets.

The analysis of risk distribution across different portfolios highlights significant areas of concern. The Children's portfolio faces considerable challenges, with 40% of its projects categorised as medium risk. These projects require robust mitigation strategies to ensure successful delivery and achievement of savings targets. Additionally, 7% of the projects in this directorate are classified as high risk, necessitating urgent attention to develop contingency plans that can prevent delays and address potential obstacles effectively. The Target Operating Model & Core Services portfolio also presents notable risks, with 20% of its projects classified as high risk. These projects pose significant challenges to the council's transformation efforts and require immediate intervention. Developing alternative strategies or contingency plans will be critical to managing these risks and ensuring progress toward financial goals.

In the Property portfolio, 50% of the projects are identified as medium risk, underscoring the need for focused risk management and proactive measures to overcome challenges and achieve the desired savings. Similarly, the Place-Based Services portfolio has 15% of its projects in the medium-risk category, highlighting the importance of mitigation efforts to address potential issues and ensure project success.

Conversely, the Adults Directorate demonstrates strong performance, with 75% of its projects on track and contributing significantly to the council's savings objectives. This indicates effective project management and planning within the directorate, serving as a positive example for other areas to emulate. Overall, the council should prioritise enhancing risk management in the Children’s Directorate and Target Operating Model & Core Services, where high-risk projects could potentially undermine the transformation programme's overall success. By addressing these areas with focused strategies and targeted interventions, the council can better manage potential challenges and achieve its financial targets, ensuring sustainable improvements in service delivery.

In addition to the current programme, the council has identified potential areas for future transformation that focus on addressing inefficiencies and leveraging modern, digitally enabled service delivery. While these areas present significant opportunities, there is limited evidence of detailed planning to identify key inefficiencies or develop strategies for improvement. Further investigation and planning are necessary to ensure these future initiatives are viable and aligned with strategic goals.

Risks

1. The required level of savings to be delivered in 2024/25 is significant and unprecedented for the council. There is the risk that the council is unable to deliver the required savings, placing additional burden on the revenue budget in this year. Related to this risk the council was able to only deliver approximately half of that level of savings in 2023/24.

Recommendations

1. The council should develop comprehensive mitigation plans for savings that have been designated as ‘Amber’ and ‘Red’ within the Transformation Programme, focusing on identifying barriers and implementing solutions to reduce risks. Ensuring these plans

are regularly updated and integrated into the project's lifecycle is crucial to enable delivery.

Is the Council being ambitious enough in its approach to designing transformation and its future service delivery?

The council's current approach to transformation and future service delivery shows promise but lacks the ambition to address its strategic challenges and financial pressures fully. Review area one of this report highlighted the council's history of short-termism and reluctance to make difficult decisions, contributing to its existing budget gap. During interviews with council officers, several observations were made regarding the tactical nature of the current savings plans, reinforcing the view that the council's overall transformation strategy could benefit from increased ambition.

The council must look beyond traditional service boundaries to transform its operations and service delivery. A more ambitious approach would involve a thorough understanding of the economics of different service delivery models and a detailed examination of inefficiencies, such as manual or redundant processes and significant failure demand. Identifying and addressing these inefficiencies is crucial for maximising operational efficiency and cost-effectiveness. This level of analysis and strategic planning is still needed.

Furthermore, the current transformation themes are structured around traditional municipal silos, such as children's services, adults, and property. This structure limits the council's ability to streamline common processes across departments, such as applications, assessments, triage, and enforcement. By breaking down these silos and adopting a more integrated approach, the council can enhance its ability to deliver services more efficiently and effectively.

Had the council been more ambitious earlier, we would have expected it to undertake comprehensive functional maturity assessments of all service areas. This would involve evaluating current practices across key dimensions, including people, processes, and systems, and comparing them to best practice standards. Such assessments would provide a clear picture of the "as is" state and highlight gaps and opportunities for improvement, enabling the council to develop targeted strategies for transformation. Additionally, the council might have considered implementing a robust change management framework to guide the transformation process. This would include setting clear objectives, establishing key performance indicators, and fostering a culture of continuous improvement. By benchmarking against best practices, the council could identify innovative service delivery models and explore opportunities for digital transformation, such as automating routine tasks and using data analytics to drive decision-making.

To be more ambitious, the council should consider adopting a cross-cutting, systems-thinking approach to transformation that emphasises collaboration across departments and leverages technology to automate and optimise processes. This would involve rethinking service delivery models to focus on outcomes rather than processes and fostering a culture of innovation and continuous improvement. By doing so, the council can better position itself to bridge its budget gap, improve service delivery, and achieve long-term financial sustainability.

Risks

1. There is insufficient depth and substance in the Transformation Programme to meet the medium term budget gap and enable the council to operate within its financial envelope for the future.
2. The council is unable to successfully embed the Transformation Programme to deliver continuous improvement required to be financially sustainable in the long-term.

Recommendations

1. The council should broaden the scope of the Transformation Programme to include long term planning and strategic vision beyond immediate savings. We encourage the council to develop future-oriented initiatives that align with digital transformation and modern service delivery trends. High-impact initiatives should be prioritised, focusing on digital transformation and service innovation.
2. The council should conduct comprehensive functional maturity assessments across all service areas to identify inefficiencies and areas for improvement. These assessments should be used to inform strategic planning and set benchmarks against best practices.
3. The council should develop a comprehensive change management framework that includes clear objectives, key performance indicators, and a culture of continuous improvement. There should be integrated accountability structures that clearly define roles and responsibilities for transformation initiatives.

Has the Council identified the changes required to secure long term financial sustainability?

Despite Middlesbrough Council's concerted efforts to transform its operations and secure financial stability, it has not yet fully identified the necessary changes to achieve long-term financial sustainability.

The council's transformation strategy detailed in the Approach to Transformation of Middlesbrough Council report, presented to the Full council on 27 March 2024. The current transformation strategy lacks the ambition and integration needed to comprehensively address the council's strategic challenges and financial pressures. By adopting a more holistic and forward-thinking approach, focusing on cross-functional collaboration, technological innovation, and long-term planning, the council can better position itself to achieve financial stability and deliver improved services to its residents. This will require a strategic shift in focus and a commitment to embracing innovative solutions and best practices.

Risks

No new risks identified

Recommendations

No new recommendations identified

What further actions are required for the authority to mitigate the risk of a future capitalisation.

We are of the view that, based on the current status of the council's Transformation Programme, the council is likely to require further Exception Financial Support for the medium term period. This will provide the council with the cushion required to substantiate and deliver on its Transformation Programme and target operating model. The recommendations we have raised in this section of the report will support the council in substantiating the Transformation Programme and the sooner that this can be done this could reduce the amount of additional support required over the period.

Risks

No new risks identified

Recommendations

No new recommendations identified

How does the Council plan to manage the transformation programme (how will it be monitored, progressed and delivered)?

The council's approach to managing its transformation programme emphasises effective monitoring, progression, and delivery of its initiatives. Central to this approach is the Transformation Portfolio Management Office (PMO), which provides strategic oversight and ensures that all programmes and projects are managed consistently within the corporate Programme and Project Management Framework (PPMF). The PMO is responsible for setting and upholding programme and project standards, ensuring the consistent application of principles across the portfolio. This includes standardising how programme information is compiled, facilitating portfolio-level governance, and providing independent assurance of project status. The PMO ensures that projects are aligned with strategic priorities, resources are effectively allocated, and benefits are realised according to timelines.

The council has established a reporting framework that aligns with its monthly corporate performance reporting cycle to monitor progress. This framework ensures that accurate and timely status reports are provided, enabling evidence-based decision-making and enhanced visibility of portfolio activity. By maintaining a single source of truth regarding programme progress, the PMO can aggregate views of risks and issues, ensuring proactive management and mitigation. The PMO also plays a key role in coordinating the transformation efforts, acting as a cohesive force between programmes within the portfolio. This coordination includes managing interdependencies, optimising resources, and promoting best practices to maximise impact. The PMO provides ongoing support and training to programme and project managers, enhancing their capability to deliver successfully.

To ensure projects progress effectively, the PMO categorises them based on complexity and risk, applying either a Full Framework (Level 1) or Project on a Page (Level 2) approach. This categorisation determines the level of oversight and resources required, allowing for tailored management strategies that align with project needs. Projects must pass through four stages to reach completion, with gateway approvals required at each stage to ensure compliance with the PPMF. Any changes to project time, cost, scope, or benefits are captured in a change control form, requiring approval from the Project Sponsor. This process ensures that projects remain on track and that deviations are addressed promptly. The Chief Executive makes Interim project resourcing decisions transparently, focusing on return on investment and compliance with financial procedures.

In summary, Middlesbrough Council's management of its transformation programme involves rigorous monitoring, structured progression, and strategic delivery. By leveraging the PMO's expertise and the PPMF's structured approach, the council is equipped can deliver its transformation goals effectively, ensuring alignment with strategic priorities and optimising resource utilisation.

Risks

No new risks identified

Recommendations

No new recommendations identified

What are the Council's current governance arrangements for delivering savings and transformation, and do the arrangements allow for a robust level of challenge for transformation planning and delivery?

The council has established comprehensive governance arrangements to oversee the delivery of savings and transformation initiatives, ensuring a robust framework for challenge and accountability in transformation planning and delivery. The governance structure is designed to provide strategic oversight, political accountability, and operational support, aligning with the council's strategic priorities and transformation objectives.

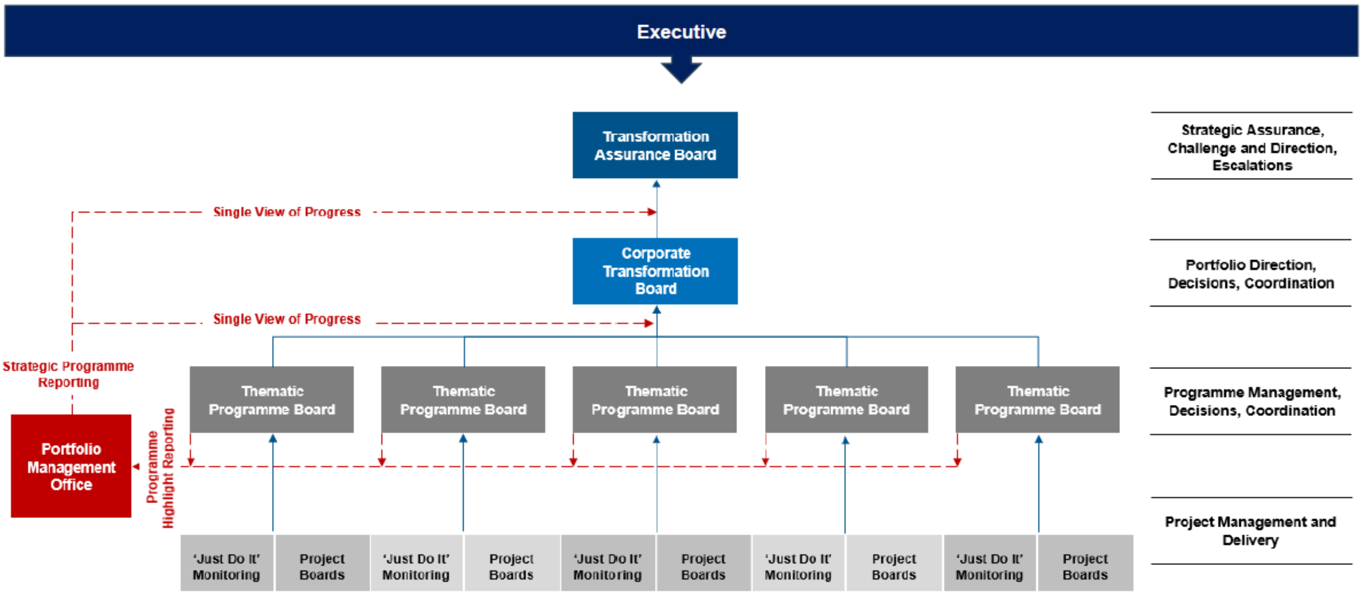
The governance framework is anchored by the Transformation Assurance Board, chaired by the Mayor. This board provides political accountability and oversight, ensuring the transformation portfolio aligns with key political and operational priorities. The board is responsible for reviewing progress, addressing any challenges, and ensuring that the necessary resources and support are in place to facilitate successful delivery. It serves as the primary interface between the transformation programme and the Executive, providing a transparent reporting and decision-making platform.

Supporting the Transformation Assurance Board is the Corporate Transformation Board, chaired by the Chief Executive, who acts as the Transformational Portfolio Sponsor and Senior Responsible Officer. This board drives the transformation portfolio forward, ensuring that objectives are met and projected benefits are delivered. The Corporate Transformation Board holds Thematic Programme Sponsors accountable for the successful delivery of their respective programmes and ensures alignment with strategic goals. It also interfaces with the Transformation Assurance Board, providing regular updates on progress and challenges.

Each transformation programme is overseen by a Thematic Programme Board, chaired by a relevant Programme Sponsor who is a representative of the LMT. These boards provide guidance and challenge to Programme Managers, define success metrics, and ensure the delivery of projects and benefits within their programmes. The Thematic Programme Boards are accountable to the Corporate Transformation Board and report on progress and issues, ensuring that any deviations are addressed promptly and effectively.

The governance arrangements also include localised project boards that are established as needed. These boards ensure that projects are scrutinised uniformly, with exceptions escalated to senior responsible officers to bring them back on track. The layered governance structure allows for a clear and integrated approach to project approval, continuation, and change control, with clearly defined gateway controls and escalation routes.

In addition to the governance structure, delegated decision-making powers are in place to facilitate agile management of the transformation portfolio. This includes approving proposed change controls to maintain project tolerances relating to time, scope, cost, and benefit. In consultation with the Mayor, the Chief Executive oversees interim project resourcing decisions, ensuring alignment with financial profiling and return on investment goals.



Graph 3: Transformation Governance (Source: Approach to Transformation of Middlesbrough Council, March 2024)

Delegated decision-making and reporting processes are aligned with the monthly corporate performance reporting cycle, providing consistency and transparency. Programs and projects are categorised based on complexity and risk, with a structured process for progressing through stages to completion. Interim project resourcing costs and decision-making are managed transparently within the transformation portfolio's financial profile, following council constitutional and procedural rules.

Overall, Middlesbrough Council's governance arrangements provide a robust framework for challenging and guiding transformation planning and delivery. The multi-tiered governance structure ensures accountability, strategic alignment, and effective management of resources and risks. By fostering a culture of transparency and evidence-based decision-making, the council is well-positioned to address its transformation challenges and achieve its savings and transformation goals.

Risks

No new risks identified

Recommendations

No new recommendations identified

Annex

A1 Risk Assessment – Method

Likelihood \ Impact	Critical:3	Moderate:2	Marginal:1
Probable:3	High - 9	High - 6	Medium - 3
Occasional:2	High - 6	Medium - 4	Low - 2
Improbable:1	Medium - 3	Low - 2	Low - 1

Likelihood:

- Improbable – possible, but unlikely to happen.
- Occasional – might happen, might not happen, in the order of 50/50
- Probable – most likely will happen.

Impact:

- Marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the council, some awareness / action may be required by members.
- Moderate – financial losses / costs up to £100,000, operating impacts hitting services for some of the community, a significant issue for members to deal with
- Critical – major financial losses / costs in excess of £100,000, subsequent intervention by MHCLG or other 3rd parties, reaches national press interest, major political embarrassment for members.

A2 Documents Reviewed

The review team has reviewed over 150 documents kindly provided by the council.

A full list is available on request.

A3 Interviews Conducted

In order of interviews conducted:

Name of interviewee	Role
Clive Heaphy	Interim Chief Executive
Debbie Middleton	Interim Chief Finance Officer
Charlotte Benjamin	Monitoring Officer
Joe Tynan	Executive Director of Children's Services
Rob Brown	Director of Education and Partnerships
Ann-Marie Johnstone	Head of Policy, Governance and Information
Richard Horniman	Director of Regeneration
Max Thomas	Chief Executive, Veritau – Internal Audit
Phil Jeffrey	Assistant Director, Veritau – Internal Audit
Gemma Cooper	Head of Strategy, Business and Customer
councillor Nicky Walker	Executive Member of Finance
Mark Adams	Director of Public Health
Erik Scollay	Director of Adult Social Care and Health Integration
Andrew Humble	Head of Financial Planning and Support
Geoff Field	Director of Environment and Commercial Services
Dawn Alaszewski	Director of Children's Care
Justin Weston	Head of Finance and Investment
councillor Jill Ewan	Chair of Audit Committee
Nicole Finnegan	Head of Human Resources

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