

ANNUAL GOVERNANCE STATEMENT 2011/12

Scope of Responsibility

1. The City of London Corporation is a diverse organisation with three main aims: to support and promote the City as the world leader in international finance and business services; to provide high quality local services and policing for the Square Mile; and to provide valued services to London and the nation as a whole. Its unique franchise arrangements support the achievement of these aims. This Statement refers only to the City of London Corporation in its capacity as a local authority and Police authority.
2. The City of London Corporation ("the City") is responsible for ensuring that its business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively; and that arrangements are made to secure continuous improvement in the way its functions are operated.
3. In discharging this overall responsibility, the City is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
4. The City has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE ¹Framework *Delivering Good Governance in Local Government*. A copy of the code is on the City's website at www.cityoflondon.gov.uk. This statement explains how the City has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to the requirement to prepare an Annual Governance Statement in accordance with proper practices in relation to internal control.

The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes by which the City is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the City to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
6. The system of internal control is a significant part of that framework and is designed to manage all risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable rather than absolute assurance of effectiveness. The City's system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the City's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
7. The governance framework has been in place at the City for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

¹ CIPFA is the Chartered Institute of Public Finance and Accountancy
SOLACE is the Society of Local Authority Chief Executives

Key Elements of the Governance Framework

Code of Corporate Governance

8. The principles of good governance are embedded within a comprehensive published Code of Corporate Governance, which links together a framework of policies and procedures, including:
 - Standing Orders, which govern the conduct of the City's affairs, particularly the operation of Committees and the relationship between Members and officers;
 - Financial Regulations, which lay down rules that aim to ensure the proper management and safeguarding of the City's financial and other resources;
 - Terms of reference for each Committee;
 - A corporate framework of delegation, which defines the responsibility for decision-making and the exercise of authority;
 - A Members' Code of Conduct, which defines standards of personal behaviour; a Standards Committee, and register of interests, gifts and hospitality;
 - A Code of Conduct for staff;
 - A corporate complaints procedure, operated through the Town Clerk's Department, with a separate procedure in Community and Children's Services, to comply with the relevant regulations;
 - A corporate Project Toolkit and other detailed guidance for officers, including procedures and manuals for business critical systems;
 - An anti-fraud and corruption strategy, including anti-bribery arrangements, and whistle blowing policy;
 - A Risk Management Handbook
 - Job and person specifications for senior elected Members; and
 - A protocol for Member/officer relations.
9. During 2011/12, the changes agreed as a result of the review of governance reported to the Court of Common Council in March 2011 were applied. These included changes to the composition of Committees and their terms of reference. These changes included the re-constitution of the Audit and Risk Management sub-Committee as a 'Grand' Committee reporting independently of the Finance Committee to the Court of Common Council. The Governance Review Working Party also reviewed the Framework of Accountability and Delegation and concluded that it remained fit for purpose.
10. The new Risk Management Handbook was approved by the Audit and Risk Management Committee in September 2011, and issued to all Chief Officers in October under cover of a letter from the Town Clerk and Chief Executive. A letter was also sent to all Committee Chairmen informing them of their role in the process. Most departments have adopted the revised framework, including regular reporting to Committee.
11. Subsequent to the Governance Review and the revised project management arrangements approved by the Court of Common council in October 2011, revisions have been agreed to Property Standing Orders, procurement regulations and Financial Standing Orders, mainly in respect of project management, procurement and contract letting arrangements.

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12. Following the enactment of the provisions of the Localism Act 2011 relating to the local government standards regime, the City will be under a duty to promote and maintain high standards of conduct by Members and co-opted Members. In particular, the Court of Common Council must adopt and publicise a code dealing with the conduct that is expected of Members when they are acting in that capacity. The City must also have in place arrangements under which written allegations of the breach of the code can be investigated and decisions on those allegations taken. In response to these legislative changes, the City is developing a local member code of conduct, including appropriate provision in respect of the registration and disclosure of pecuniary and other interests. This will complement the role of the Chief Commoner, who takes a lead in relation to Members' requirements for the efficient conduct of the City's business.
13. The Court of Common Council is defined as the police authority for the City of London Police area in accordance with the provisions of the City of London Police Act 1839 and the Police Act 1996. The role of police authority is to ensure the City of London Police runs an effective and efficient service by holding the Commissioner to account; to ensure value for money in the way the police is run; and set policing priorities taking into account the views of the community. These, and other key duties, are specifically delegated to the Police Committee.
14. The legislation that introduces Police and Crime Commissioners and Police and Crime Panels during 2012 does not apply to the City of London; therefore the Court of Common Council will continue to be defined as the police authority for the City of London Police area.

Business Strategy and Planning Process



15. The City has a clear hierarchy of plans, setting out its ambitions and priorities:
 - The sustainable community strategy for the City of London (The City Together Strategy: The Heart of a World Class City 2008-2014) is a shared focus for the future, helping to co-ordinate partners' activities towards meeting the needs and aspirations of the City's diverse communities. This was informed by extensive consultation with a wide range of stakeholders and specific interest groups.
 - A Local Strategic Partnership (The City Together) oversees the development of the Community Strategy, which is centred on the Square Mile and the City's local authority and Policing functions. Governance arrangements are reviewed each year

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to make sure that they are able to deliver the current priorities. This includes the structure of the LSP Board and its sub-groups.

- The Corporate Plan shows how the City Corporation will fulfil its role as a provider of services both inside and outside of the City boundaries. The Corporate Plan includes a statement of the City's Vision, Strategic Aims, Key Policy Priorities and Core Values.
 - The City of London Policing Plan details the policing priorities and shows how these will be delivered over the coming year. It also contains all the measures and targets against which the Police Committee hold the City of London Police to account
 - Other corporate plans and strategies are mentioned elsewhere in this document.
16. Plans and strategies are informed by a range of consultation arrangements, such as central and local residents' meetings, representative user groups and surveys of stakeholders. The Corporate Plan for 2011-15 was informed by detailed consultation with elected Members.
17. The City has a unique franchise, giving businesses (our key constituency) a direct say in the running of the City, and a range of engagement activities, including through the Lord Mayor, Chairman of Policy and Resources Committee and the Economic Development Office. An annual consultation meeting is held for business ratepayers.
18. In response to the government's health reforms, the City has established a shadow Health and Wellbeing Board, initially formed of key partners from the Adult Wellbeing Partnership and the Children and Young People's Strategic Partnership, with agreed terms of reference and a transitional action plan. Work is progressing on the integration of the Board within the City's governance arrangements. The City successfully applied for Early Implementer Status and is a member of the Early Implementer Network and the London Health and Wellbeing Board Network.

Links to the City of London Corporation's Information Management Strategy

19. The Information Management Strategy (approved October 2009) sets out the headline approach to information management in the City. It summarises the current position, gives a vision of where we want to be and proposes a set of actions to start us on the path to that vision. The Strategy defines our approach to the other key elements for information management, in particular data security and data sharing.
20. Overall responsibility for Information Management Governance is vested in the Information Systems (IS) sub-Committee. The Information Management Governance Board (IMGB) is chaired by the Director of the Built Environment and reports to the IS Strategy Board, which in turn reports to the Performance and Strategy Summit Group of Chief Officers and the IS sub-Committee. The Chief Information Officer was appointed as the Senior Information Risk Owner (SIRO) and Information Asset Owners (IAO) within departments were identified in spring 2010. The IS Division re-affirms IAO appointments annually.

Financial Management Arrangements

21. The Chamberlain of London is the officer with statutory responsibility for the proper administration of the City's financial affairs. In 2010 CIPFA issued a "*Statement on the Role of the Chief Financial Officer in Local Government*" which codifies the key responsibilities of this role and sets out how the requirements of legislation and professional standards should be met. The City's financial management

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arrangements conform to the governance requirements of the Statement. The Chamberlain also fulfils the role of Treasurer of the Police Authority.

22. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, a system of delegation and accountability, and independent scrutiny. In particular the system includes:
- a rolling in depth survey of the City's forecast position over a five year period;
 - comprehensive budget setting processes;
 - monthly, quarterly and annual financial reports which indicate performance against budgets and forecasts;
 - access by all departmental and central finance staff to systems providing a suite of enquiries and reports to facilitate effective financial management on an ongoing basis;
 - ongoing contact and communication between central and departmental finance officers;
 - clearly defined capital expenditure guidelines;
 - formal project management disciplines;
 - an in-house internal audit service;
 - insuring against specific risks;
 - scrutiny by Members, OFSTED, CQC, HMIC, other inspectorates, External Audit and other stakeholders, and
 - requests for Members and Chief Officers to disclose related party transactions including instances where their close family have completed transactions with the City of London Corporation.
23. Action is being taken to address the shortfall identified by the medium term financial forecast, a situation exacerbated by the Local Government Finance Settlement which resulted in significant reductions in Government Grant. Reductions of 12.5% are being implemented to most budgets on a phased basis from 2011/12 and further targeted/selective budget reductions and efficiency programmes are being pursued including those arising from new corporate wide procurement arrangements. It is anticipated that these actions will protect the City's financial position over the next two years. However, further action may be required depending, amongst other things, on the detailed grant figures for the next two years (2013/14 and 2014/15) of the Government's four year Comprehensive Spending Review period. An Efficiency Board monitors the savings achieved and a Transformation Board is overseeing the change process. The Efficiency and Performance sub-Committee receives regular reports from these two Boards.
24. The Policy and Resources Committee determine the level of the City's own resources to be made available to finance capital projects on the basis of a recommendation from the Resource Allocation sub-Committee. Ordinarily, such projects are financed from capital rather than revenue resources, and major projects from provisions set aside in financial forecasts.
25. The City has a number of procedures in place to ensure that its policies and the principles that underpin them are implemented economically, efficiently and effectively. This framework includes:

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- Financial Strategy. This provides a common base for guiding the City's approach to managing financial resources and includes the pursuit of budget policies that seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives;
 - Budget policy. The key policy is to balance current expenditure and current income over the medium term. Both blanket pressure and targeted reviews are applied to encourage Chief Officers to continuously seek improved efficiency and find better ways of working;
 - Annual resource allocation process. This is the framework within which the City makes judgements on adjustments to resource levels and ensures that these are properly implemented;
 - Capital Strategy. This ensures that the City's capital resources are deployed to realise its corporate aims and priorities;
 - Corporate Asset Management Plan. This aims to ensure that the opportunity cost of financial resources tied up in land and buildings is recognised, and that expenditure on the portfolio is directed efficiently and effectively to provide value for money;
 - Capital budget evaluation, management and monitoring. The City has a comprehensive system of controls covering the entire life cycle of capital and major revenue projects; and
 - Treasury Management and Investment Strategies. Setting out the arrangements for the management of the City's investments, cash flows, banking and money market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
26. Consideration is given to efficiency during the development and approval stages of all major projects, with expected efficiency gains quantified within reports to members.
27. Following a review of strategic financial management arrangements, changes have been implemented to further strengthen financial management with the emphasis on the provision of high quality advice across the organisation whilst continuing to maintain sound stewardship of the City Corporation's finances.
28. The performance of the City's financial and property investments are monitored regularly, both in-house and independently, through WM Performance Services and our Independent Investment Adviser (for financial investments) and IPD (property).
29. During 2011/12, the Efficiency and Performance sub-Committee of the Finance Committee assumed the elected Member lead for value for money issues, and for the scrutiny of departmental revenue estimates. The sub-Committee continued to challenge the achievement of value for money at a departmental level and helped to further embed a value for money culture within the City's business and planning processes. In March 2012, the sub-Committee agreed proposals for a new approach to identifying further efficiency savings through cross-cutting reviews, rather than departmental reviews.
30. The Police Performance Management and Value for Money sub-Committee's responsibilities include overseeing the force's resource management in order to maximise the efficiency and effective use of resources to deliver its strategic priorities; and monitoring government, police authorities and other external agencies' policies and actions relating to police performance. Following a review of policing governance, the sub-Committee has been renamed as the Police Performance and Resource Management sub-Committee.

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31. Revised project management and procurement arrangements were approved by the Policy and Resources Committee, and the Court of Common Council in October 2011. These provide a more consistent approach to project management and better co-ordination of the portfolio of projects across the organisation. A Projects sub-Committee has been established and meets monthly to ensure that projects align with corporate objectives and strategy, and provide value for money. A Corporate Programme Office has been established in the Town Clerk's Department and a revised project procedure has been introduced to encourage consistency of delivery across the organisation, while allowing flexibility to respond to circumstances with appropriate speed.

Risk Management

32. During 2011/12, a full review was undertaken of the City's Risk Management framework, resulting in a refreshed strategy and policy, published in a Risk Management Handbook, approved by the Audit and Risk Management Committee in September 2011. The framework aligns with the key principles of ISO 31000: Risk Management Principles and Guidelines and BS 31100: Risk Management Code of Practice and defines clearly the roles and responsibilities of officers, senior management and Members. The Handbook emphasises risk management as a key element within the City's systems of corporate governance and establishes a clear protocol for the evaluation of risk and escalation of emerging issues to the appropriate scrutiny level. The re-focussed framework assists in ensuring that risk management continues to be integrated by Chief Officers within their business and service planning and aligned to departmental objectives.
33. The Strategic Risk Management Group, consisting of senior managers representing all departments, including the City of London Police, meets twice annually. The group is chaired by the Deputy Town Clerk, the officer risk management champion, and is a considerable driver in promoting the application of consistent, systematic risk management practices across the organisation. A Core Team of members of the Strategic Risk Management Group meets at regular intervals throughout the year and provides the central coordination point for the consideration of strategic risk and the evaluation of emerging issues.
34. Actions being taken to mitigate operational risks are monitored by Chief Officers and by the relevant service Committee. Corporate oversight of strategic risk is provided by the Chief Officers Group and Audit and Risk Management Committee, in addition to the receiving quarterly risk update reports, this Committee has adopted a cycle of regular in depth review of individual risks stated on the Strategic Risk Register.
35. During 2011/12, three new risks were added to the Strategic Risk Register; Pond Embankment Failure at Hampstead Heath, Public Order and Protest, and service disruption as a result of industrial action. This last risk was added in the autumn in response to the threat of industrial action over public sector pensions, but was later removed to be managed on an operational level. Similarly, the residual risk of major IS failure was considered to be low and so this was also removed from the Strategic Risk Register.

Health & Safety

36. The Health & Safety at Work Act (1974) requires the City as an employer to ensure that it implements systems for the protection of its staff and visitors. The Corporate Health & Safety Policy, which is currently under review, is aligned to HSG65, the

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Health and Safety Executive's guidance document on the essential philosophy of good health and safety. It also fulfills the requirements of the Corporate Manslaughter Act (2007). Its goal is to ensure that safety becomes part of normal business by applying a practical, sensible and common sense approach.

37. Top X (the City's Health & Safety risk management system) was successfully aligned into the business planning process in 2010. Operating alongside the risk management process, it assists in ensuring that specific safety risks are integrated by Chief Officers within their business planning. All departments regularly submit their Top X which is analysed and considered twice a year by the Corporate Health & Safety Committee, chaired by the Deputy Town Clerk. This allows any emerging issue to be managed, and it is envisaged that Top X will also provide the Chief Officers Group with a corporate strategic oversight of any safety risks.

Business Continuity

38. The Civil Contingencies Act (2004) requires the City, as a Category 1 responder, to maintain plans to ensure that it can continue to exercise its functions in the event of an emergency, requiring responders to train their staff responsible for business continuity, exercise and test their plans, and review these plans on a regular basis.
39. The City has an overarching Business Continuity Strategy and Framework and each department has their own business continuity arrangements. The disaster recovery solution for the City was reviewed in 2010 and a new contract has been agreed. Both corporate and departmental arrangements are regularly reviewed to ensure they align with the relevant risk registers and business objectives. Officers from the different departments share best practice and validate their arrangements through the Emergency Planning and Business Continuity Steering Group, which sits on a quarterly basis.
40. Management of the City's business continuity management system (BCMS) lies with the Security and Contingency Planning Group, and all departments play a role in it. The group has provided training to departments on core business continuity competencies required and has conducted an internal review of the BCMS as a whole. An action plan based on this review is currently under implementation. Following an independent internal review by the Cabinet Office's Emergency Planning College, the City was awarded the Certificate of Alignment to the British Standard for Business Continuity (BS25999-2:2007) on 20th April 2011.

Role of Internal Audit

41. Internal Audit plays a central role in providing the required assurance on internal controls through its comprehensive risk-based audit programme, with key risk areas being reviewed annually. This is reinforced by consultation with Chief Officers and departmental heads on perceived risk and by a rigorous follow-up audit and spot checks regime.
42. The internal audit process is supported, monitored and managed by the Audit and Risk Management Committee in accordance with CIPFA's *Audit Committees – Practical Guidance for Local Authorities*.
43. The Internal Audit Section operates under the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (CIPFA Code). The annual internal review of the effectiveness of the Section in relation to the CIPFA Code has found that the Section is fully compliant with the Code. In 2010 CIPFA issued a "Statement on the Role of the Head of Internal Audit in Public Service Organisations" which codifies the key responsibilities of this role and sets out how the

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requirements of legislation and professional standards should be met. The City's Head of Internal Audit arrangements conform to the governance requirements of the Statement.

44. The Audit and Risk Management Committee has overseen the introduction by internal audit of a more targeted approach to the follow-up and implementation of high priority audit recommendations during 2011/12 to ensure the internal control environment is maintained.
45. The fraud investigation function continues to be effective, to exceed national targets for housing benefit fraud sanctions and to conduct a wide range of anti-fraud activities

Performance Management

46. The corporate business planning framework sets out the planning cycle with clear linkages between the different levels of policy, strategy, target setting, planning and action (the "Golden Thread").
 - All departments are required to produce annual departmental business plans for approval by the relevant service committee(s). These are all clearly linked to the overall Corporate Plan and to The City Together Strategy. The plans also show key objectives aligned with resources – financial and staffing – and other corporate considerations (e.g. risk management; Health & Safety management; learning and development).
 - All departments are required to report quarterly to their service committees with progress against their business plan objectives and with financial monitoring information.
 - Regular performance monitoring meetings are held by the Deputy Town Clerk with selected Chief Officers.
 - Performance and Development Appraisals are carried out for all staff, using a standard set of core behaviours. The appraisals are used to set individual objectives and targets and to identify learning and development needs that are linked to business needs. From 2009/10, pay progression has been linked to performance assessments under the appraisal process.
 - 360° feedback forms part of appraisals for chief officers and selected senior officers, as well as being used for management training.
47. Performance is communicated to Council Tax and Business Rates payers through the City-wide residents meetings, an annual business ratepayers' consultation meeting and regular electronic and written publications, including an annual summary of performance and accounts. A six-monthly Senior Managers Forum has been introduced to complement the annual strategic briefings which are held for all staff.
48. In 2011, the City retained its Investors in People accreditation. Improvements noted in the final assessment report included business planning – "*excellent at all levels, and has succeeded in becoming more 'joined up', accessible and meaningful*" and governance and leadership – "*more inclusive, 'modern', and responsive to ever changing needs*".

Audit and Risk Management Committee

49. The new Audit and Risk Management Committee is an enhanced source of scrutiny and assurance over the City's governance arrangements. It considers and approves internal and external audit plans, receives reports from the Head of Audit and Risk Management, External Audit and other relevant external inspectorates, including

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HMIC, as to the extent that the City can rely on its system of internal control. The Committee reviews the financial statements of the City prior to recommending approval by the Finance Committee and considers the formal reports, letters and recommendations of the City's external auditors. The Committee also monitors and oversees the City's Risk Management Strategy. During 2011/12, a third external Member was appointed to the Committee. The Committee also started a systematic programme of detailed reviews of each of the risks on the City's Strategic Risk Register.

Review of Effectiveness

50. The City has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the internal auditors and managers within the authority who have responsibility for the development and maintenance of the governance environment and also by comments made by the external auditors and other review agencies and inspectorates.
51. Processes that have applied in maintaining and reviewing the effectiveness of the governance framework include scrutiny primarily by the Policy and Resources, Finance, Police, Audit and Risk Management, Investment, and Standards Committees; and the Resource Allocation, Police Performance Management and Value for Money, and Efficiency and Performance sub-Committees.

Head of Internal Audit's Opinion

52. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 ("the CIPFA Code") requires the Head of Internal Audit to provide a written report to those charged with governance timed to support the Annual Governance Statement. The Head of Internal Audit is satisfied that sufficient quantity and coverage of internal audit work and other independent assurance work has been undertaken to allow him to draw a reasonable conclusion as to the adequacy and effectiveness of the City's risk management, control and governance processes. In his opinion, the City has adequate and effective systems of internal control in place to manage the achievement of its objectives. In giving this opinion he has noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes.
53. Notwithstanding his overall opinion, internal audit's work identified a number of opportunities for improving controls and procedures which management has accepted and are documented in each individual audit report. He notes the timeliness in the implementation of priority audit recommendations has improved during the year, and strategic risk management arrangements have been enhanced.
54. His annual report draws out one area of particular emphasis requiring management attention in the area of ICT operational and security controls.

Future Developments

55. The governance framework is constantly evolving due to service and regulatory developments and assessments. Improvement plans have been compiled in response to the reports and assessments summarised above. Controls to manage principal risks are constantly monitored, in particular for services with statutory responsibilities for the safety of vulnerable people. In order to maintain, develop and strengthen the existing governance framework future plans include:

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- Reviewing arrangements for the City's Local Strategic Partnership in response to Government policy
- Agreeing the governance arrangements for the City's Health and Wellbeing Board
- Refocusing the work of the Efficiency and Performance sub-Committee by introducing a programme of cross-cutting and themed reviews
- Conducting a review of the operation of the new Audit and Risk Management Committee
- Agreeing revised arrangements for a Member code of conduct and local arrangements following changes to the national standards regime
- Conducting a post-implementation review of the changes introduced by the governance review
- Reviewing and refreshing the corporate scheme of delegations, in particular to reflect recent departmental reorganisations
- Implementing the revised risk management framework across the organisation, embedding the systematic and timely review and consideration of risk at the appropriate level
- Implementing the Strategic Finance Review, to improve the quality of strategic financial advice and support the delivery of efficient and effective services
- Agreeing a savings and efficiency programme to address the potential deficit identified in the City's Medium Term Financial Strategy

Chris Duffield
Town Clerk and Chief Executive

Date:

Mark Boleat
Chairman, Policy and Resources
Committee

Date: