

# Auditor's Annual Report on the City of London Corporation: City Fund

2021/22: Interim Report

March 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary



## Value for money arrangements and key recommendation[s]

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year of reporting under the current Code. BDO were the Corporation's previous auditors for the City Fund, and made no formal recommendations in their Auditor's Annual Report for 2020/21. 2021/22 is the first year Grant Thornton have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2021/22 Auditor Judgment
Financial sustainability	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but two improvement recommendations have been made.
Governance	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but four improvement recommendations have been made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	No significant weaknesses in arrangements identified, but three improvement recommendations have been made.

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.



## Financial sustainability

We have identified that there were arrangements in place for delivering a balanced budget during 2021/22 and have not identified any significant weaknesses in arrangements to ensure the Corporation manages risks to its financial sustainability. However, there remain significant challenges in closing gaps in the Corporation's MTFS. Like all local authorities, the Corporation is facing significant financial uncertainties. The level of organisational change and savings yet to be delivered is significant. It is essential that the Corporation is able to deliver the planned changes and realise the associated financial benefits to ensure it remains financially sustainable. We have made two improvement recommendations in relation to this.



## Governance

We have not identified any areas of significant weakness in the Council's governance arrangements with regard to managing risk, setting ethical standards, internal control and decision making. We have made improvement recommendations with regard to internal audit planning and external assessment, effective programme resourcing of the TOM, and promoting the gifts and hospitality policy.



## Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Corporation should introduce a consistent approach to the use of unit cost benchmarking, ensure the new Corporate Performance Framework is introduced, and the new ERP system implementation is appropriately resourced and scrutinised.

# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

BDO are yet to conclude their audit of the 20/21 City fund and Pension Fund. Our work on the 21/22 Pension Fund is substantially complete. Our work on the City Fund is underway and we will be presenting our findings to date to the Audit and Risk Management Committee on 13 March 2023. Our findings are set out in further detail on page 31.

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any Statutory Recommendations.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a Public Interest Report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make any applications to the Court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any Advisory Notices.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a Judicial Review.



# Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial Sustainability

Arrangements for ensuring the council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



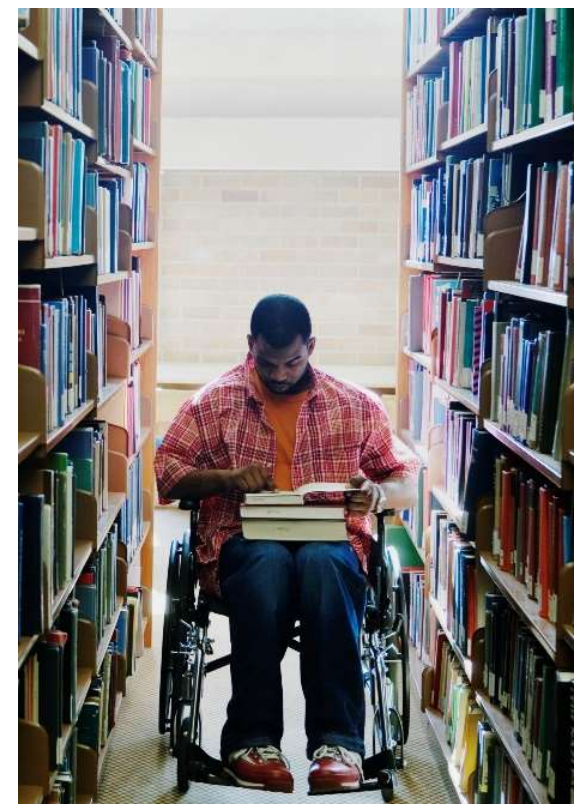
## Governance

Arrangements for ensuring that the council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 30.

# Key Committees and Sub-Committee

## A note on key committees and sub-committees

There are many committees, sub-committees and boards in place that oversee the work of the Corporation and its various institutions. Those summarised here are ones that have particular relevance to the scope of our VfM work. There are also service based committees such as Community and Children's Services, Culture, Heritage and Libraries, and Corporate Services.

Committee / Board	Key responsibilities	Committee / Board	Key responsibilities
The Court of Common Council	The Corporation's primary decision-making assembly. It is also the Police Authority for the City of London.	Independent Panel	An Independent Panel composed of independent persons, to receive allegations of misconduct, determine whether to investigate, present findings to the Court, and hear any appeal.
Finance Committee	Responsible for ensuring that the Corporation achieves value for money in all its activities.	Efficiency and Performance Sub-Committee (replaced by a working party during 2022/23)	Reporting to Finance Committee, it has responsibility for monitoring and oversight of the Efficiency and Sustainability Plan and of departmental Economy, Efficiency and Effectiveness Health Checks.
Policy and Resources Committee	Responsibilities include the Corporation's governance arrangements, recommending its strategic priorities, agreeing policy, allocating overall resources and directing the Corporation's economic development initiatives.	City of London Police Authority Board	To make sure the City of London Police runs an effective and efficient service, ensure value for money in the way the police is run, and to set policing priorities taking into account the views of the community.
Capital Buildings Board	Responsible for the management and oversight of major capital building projects (i.e. those projects with an estimated budget of £100 million or more) together with other such projects which have been referred to it.	Operational Property and Projects Sub-Committee	Established in May 2022. Making proposals to the Policy and Resources Committee for projects to be included in capital/supplementary revenue programme, and scrutiny of VfM on all Corporation and City of London Police procurement contracts above agreed thresholds. Prior to this the role was undertaken by three sub-committees: Corporate Assets Sub-Committee, Procurement Sub-Committee and Projects Sub-Committee. The role within key responsibilities was for the Projects Sub Committee to recommend to RASC and scrutinise VfM as noted.
Investment Committee	Responsible for the strategic oversight and monitoring of the performance of the Corporation's investments which are managed through three separate Boards, namely the Financial Investment Board, Property Investment Board and Social Investment Board.		
Audit and Risk Management Committee	Oversees the Corporation's systems of internal control and makes recommendations to the Finance Committee relating to the approval of the Annual Statements of Accounts.		
Resources Allocation Sub-Committee	Determines resource allocation in accordance with the Corporation's strategies undertaken on behalf of the Policy and Resources Committee.		

# Financial sustainability (1)



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 2021/22 Budget

The City Fund 2021/22 budget and Medium-Term Financial Strategy (MTFS) was reported to and agreed by the Court of Common Council on 4 March 2021 following approval of the budget envelopes for service committees made by the Resources Allocation Sub-Committee in December 2020. The medium-term financial position was summarised as follows:

	2020/21	2021/22	2022/23	2023/24	2024/25
Surplus / (Deficit)	£m	£m	£m	£m	£m
City Fund	32.9	-0.1	-16.6	-17.3	-17.1
Fundamental Review Savings	0	0.9	4.7	9.3	11.8
12% Savings	0	7	7	7	7
Social Care Precept	0	0.2	0.2	0.2	0.2
City Fund Forecast Position	32.9	8	-4.7	-0.8	1.9
Contribution to Build Back Better Fund	0	-3.9	-3.1	-5.6	-5.6
City Fund Surplus / (Deficit)	32.9	4.1	-7.8	-6.4	-3.7

Once planned savings and the social care precept (at 3%, council tax was otherwise frozen) were taken into account the City Fund was forecast an £8m surplus for 2021/22, with approximately half of this to be used to contribute to the Corporation's build back better fund, to be used initially to support the Corporation's climate action strategy. The surplus was largely possible due to additional growth to business rate retention income of £27m for the year, following a delay to the government's planned business rates reset.

The City Fund has two key income streams, rental and investment income. Key risks to achieving the 2021/22 surplus were highlighted as being the ongoing impact of Covid-19 including loss of commercial and rental income, and in particular the Barbican Centre, requiring £7m of support for continuing lost income.

Detailed stress testing and scenario analysis was carried out on key income assumptions to assess the overall financial health of the Corporation's City Fund, including more pessimistic assumptions on retained business rates income and rental income. This was mitigated by including an additional £30m in earmarked reserves, which was ringfenced from the major projects reserve as a general risk reserve, with general reserves holding £20m.

# Financial sustainability (2)

## Budget 2020/21 (Cont'd)

The MTFS also considered medium-term funding and resource pressures and applied a general budgetary reduction of 12% for 2021/22, apart from social care and children's services which applied a 6% budgetary reduction, in order to set a balanced budget. At that time the Corporation had not yet identified savings to meet the full extent of the financial gap across the medium-term and the report noted that further work will be needed to identify savings that meet the full extent of the financial gap over the medium-term.

As well as the 12% budget reduction the MTFS included savings arising from an earlier Fundamental Review of services and which were approved in 2019/20. The 2021/22 budget includes workforce analysis and reflected ongoing structural changes as a result of implementing a new Target Operating Model (TOM) which is due to reshape services and deliver efficiencies and savings that had not concluded during 2020/21. TOM savings contribute to the 12% savings budgetary reduction. We discuss the Corporation's approach to savings later in this section.

Notwithstanding the planned savings the MTFS did not forecast a balanced budget for each of the five years of the medium-term financial strategy, without the use of general fund reserves.

Local government is facing a high degree of uncertainty over its future funding, and the MTFS of the Corporation acknowledged this risk. In particular that the government funding settlement was for only one year (2021/22) and planned government reviews of local government finance may have a detrimental impact on the Corporation's revenue funding, in particular if the Fair Funding Review results in a shift of resources away from London, and if the planned business rates reform removes the Corporation's growth in receipts over the medium term.

## Outturn 2021/22

The 2021/22 City Fund outturn position was an overall underspend of £2.9m against a revised budget of £66.3m net expenditure. The revised budget was an increase of £2m (3.1%) compared with the original budget, with the main reasons for this variance relating to the ongoing impact of Covid-19, pension strain and the timing of supplementary revenue projects. The key variances of the outturn when compared to the revised budget related to:

- An increase in insurance commissions, dividend and grant income.
- Delays to IT projects to 2022/23.
- Reducing in income from events as a result of Covid-19 restrictions

- Increase in Town Clerk departmental expenditure due to security requirements and a shortfall in income
- Slippage in cyclical work programmes caused by Covid-19 resulting in reduced expenditure by the City Surveyor's department.

The outturn report noted that whilst departments managed to find the 12% savings targets with one off savings during 2021/22, such as not recruiting to vacant posts, a number of departments still needed to identify permanent savings to meet their 12% target for future years. If they fail to do so, there is a risk that these savings will not be sustainable in the medium-term.

## Budget 2022/23

Local government funding uncertainty remained when the Corporation set its budget for 2022/23. The City Fund 2022/23 Budget Report and MTFS was approved by the Court of Common Council on 10 March 2022. The Resource Allocation Sub-Committee advised that 2022/23 should be a year of consolidation to "bed down" the 12% savings and take stock on the planned Fundamental Review savings.

The government had further delayed its planned Business Rates reset to 2023/24, which the Corporation has forecast means that the £27m business rates growth will be retained for 2022/23. The City Fund also benefitted from one-off government funding of £1.88m in 2022/23 and an overall surplus for the City Fund of £10.7m was forecast for the year. However, despite the additional income, the medium-term for City Fund finances, including Police, are described as being on a financial "knife edge" with significant deficits forecast across the remainder of the MTFS as summarised below:

	2021/22	2022/23	2023/24	2024/25	2025/26
Surplus / (Deficit)	£m	£m	£m	£m	£m
City Fund	13.4	10.7	-13.4	-8.5	-4.3
City Fund Police Deficit	0	-3.9	-10.6	-8.4	-10.5
City Fund Surplus / (Deficit)	13.4	6.8	-24	-16.9	-14.8

The City Fund deficit is largely caused by the expected reset in retained business rates growth in 2023/24. The Police deficit is due to increased service demands such as combatting cyber threats, protest activity and combating increasing violence and disorder.



# Financial sustainability (3)

## Budget 2022/23 (Cont'd)

The financial planning cycle included some sensitivity analysis and “stress testing” of assumptions in particular on pay inflation. However, we were advised that this type of analysis was more limited than in prior years due to a changed risk profile and reduced capacity in the finance team.

## Plans to bridge funding gaps and identify achievable savings

As already noted, during 2019/20 a Fundamental Review took place with the aim of aligning spending with the Corporation's Corporate Plan (2018-23) and to strengthen financial discipline at a time of declining financial resources, with the aim of applying these resources more effectively and identifying opportunities to increase income and make savings over the medium term. Savings assumptions were included in the MTFS (2020/21 to 2024/25) however the Resource Allocation Sub-Committee approved the re-phasing of Fundamental Review savings due to the impact of the pandemic during 2020/21.

In addition to the Fundamental Review savings, the Corporation has as already noted incorporated a general budgetary reduction of 12% for 2021/22, apart from social care and children's services which applied a 6% budgetary reduction, in order to set a balanced budget. This budgetary reduction excluded the City of London Police, Guildhall and School of Music and Drama who had their own, separate savings targets of 12%. The intention is that these savings are recurring and they are aligned to the Corporation's move to a new Target Operating Model (TOM). The TOM programme is intended to transform the leadership and organisational structures, and enable the Corporation to become more agile and efficient.

The TOM programme was originally due to be completed by the end of March 2022, however, due to the complexity and scale of the programme, the impact of the pandemic, and the need to have new chief officers recruited to posts, it is now anticipated to complete by the end of 2023. No overall costing was made for the new structure to be delivered by the TOM, or where budget would be found beyond absorption into existing funding, or temporary funding through transformation funds. Savings are monitored by departments and whether they are recurring or temporary, but are not split between City Fund and City Cash when being reported.

As at 18 February 2022 a total of £6m net savings had been identified for 2021/22 of which £3.2m were permanent (recurring) savings. As at 31 December 2022 a total of £18.2m savings had been identified for delivery, and £13.8m permanent savings had been delivered, with £4.3m savings identified still to be delivered. There had also been £2.6m of temporary savings delivered, but as they were non-recurring do not feature in the permanent savings delivered total. The budget structure will need to be translated into the new TOM structure during 2022/23, and the Corporation is not able to quantify a permanent split between TOM pay and non-pay savings until all departments transition into their new structure.

During the course of our review we were advised that a resource priorities refresh (RPR) has been instigated during 2022/23 to identify new savings, new sources of income, and reprioritise existing budgets to Corporation priorities..

Whilst the Corporation has a good track record of delivering to savings targets and balancing its budget, the approach to savings has included the use of unallocated savings lines and the use of non-recurring or one off savings to meet generally applied savings targets. The restructures and associated head count reductions have impacted on some enabling services and the Corporation will need to ensure that there is appropriate capacity in place for the planned changes and associated savings can be delivered.

**Improvement recommendation 1:** The Corporation must ensure that it identifies outstanding savings targets and delivers permanent savings in line with the Fundamental Review, TOM programme, and the 12% general budgetary reduction.

## Medium-Term and Reserves

Section 25 of the Local Government Act 2003 requires the Chamberlain to report on the robustness of estimates and the adequacy of reserves underpinning the budget proposals. This statement was included in the 2021/22 Budget Report and MTFS. The statement notes that risks have been considered and financial assumptions are prudent, including in relation to income levels. Provision has been made for all known liabilities and indicative costs for capital schemes that have not yet been evaluated, and the financial forecasts are based on the Corporation remaining debt free until such time as borrowing may be needed. Balancing 2022/22 budgets with “one off” measures was seen as providing more time to implement the new TOM and creation of a build back better fund.

Depletion of City Fund reserves is a consideration for the medium-term: although reserve balances were forecast to remain healthy in 2021/22, the potential call on reserves to support revenue and capital expenditure beyond 2021/22 reinforced the need for future savings and income generation.

The Chamberlain reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient, resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2021/22.

The Section 25 report of the Chamberlain in relation to the 2022/23 Budget and MTFS sets out the same position, with the addition that zero-based budgeting is planned to realign existing resources to new corporate priorities.



# Financial sustainability (4)

## Medium Term and Reserves (cont'd)

The table below summarises the estimated reserve positions as set out in the budget papers for 2021/22 and 2022/23.

Usable Reserves	Estimated Opening Balance 1 April 2021 (£m)	Estimated Closing Balance 31 March 2022 (£m)	Estimated Opening Balance 1 April 2022 (£m)	Estimated Closing Balance 31 March 2023 (£m)
<b>Revenue</b>				
General Fund	20.0	20.0	20.0	20.0
Earmarked	136.4	130.8	198.3	147.1
Housing Revenue Account	- 0.4	- 0.5	0.6	0.8
<b>Total Revenue</b>	<b>156.0</b>	<b>150.3</b>	<b>218.9</b>	<b>167.9</b>
<b>Capital</b>				
Capital Receipts Reserve	102.4	73.4	157.1	118.8
Capital Grants Unapplied	20.7	6.6	30.6	19.8
HRA Major Repairs Reserve	0.2	0.2	0.3	0.3
<b>Total Capital</b>	<b>123.3</b>	<b>80.2</b>	<b>188.0</b>	<b>138.9</b>
<b>Total Usable Reserves</b>	<b>279.3</b>	<b>230.5</b>	<b>406.9</b>	<b>306.8</b>

General Fund reserves are set at £20m and maintained to provide a prudent level of working capital. The most significant element of earmarked reserves is the major project financing reserve with an April 2021 balance of £94.3m which included £30m to mitigate the worst case scenario planning on rental income risks. This £30m was retained in 2022/23 with the position to be reassessed in December 2023.

## Organisational Resilience

As noted previously in this section, the Corporation has been taking considerable steps in delivering two key change programmes to generate savings and manage medium-term funding gaps:

- Fundamental Review: to strengthen financial discipline at a time of declining financial resources, with the aim of applying these resources more effectively and identifying opportunities to increase income and make savings over the medium term.
- TOM programme to transform the leadership and organisational structures, generate savings, and enable the Corporation to become more agile and efficient.

The senior leadership of the Corporation are consistent in their financial sustainability messages, such as “the financial envelope is the financial envelope”. However, whilst transformation in some services has been delivered at considerable speed, neither programme has yet been fully implemented and both have experienced delays. The TOM programme is contributing to the 12% general budgetary reductions and is largely concerned with reducing the Corporation’s headcount. Whilst the Corporation is taking action to ensure its medium-term financial sustainability, we note that in some cases the approach is “top slicing” or “salami slicing” of budgets used historically appears to be at odds with the stated aim of better aligning resources to the Corporation’s strategic priorities. The Corporation has recognised the need for resource alignment, which forms part of the RPR. Departments and services have not in all cases been able to identify required savings, with unidentified savings lines in some budgets, utilising temporary measures such as not recruiting to vacant posts.

Notwithstanding the above, the Corporation has introduced additional measures such as the resource priorities refresh (RPR) during 2022/23 to identify new savings, new sources of income and to reprioritise resources to corporate priorities. Plans had been considered to undertake a zero based budgeting exercise to align resources to strategic priorities which we understand are no longer progressing. As already noted, the Resource Allocation Sub-Committee advised that 2022/23 should be a year of consolidation to “bed down” the 12% savings and take stock on the planned Fundamental Review savings.

The Corporation has already recognised that some key enabling services, such as HR and IT, have required re-investment in capacity alongside TOM restructuring and our work has identified potential capacity constraints in other enabling services, alongside recruitment and retention challenges that local government and other sectors and industries are currently facing. The Corporation has commissioned an external review of grades, pay, terms and conditions, to take a more systematic approach to an emerging trend of paying market supplements to attract staff to certain roles. In addition the TOM programme and resultant loss of some employees creates a risk to maintaining corporate knowledge.

It will be critical that the Corporation maintains its organisational resilience so that it is able to fully deliver the planned transformation programmes and associated savings, conclude its review of operational property, and realise the strategic objectives of all these changes, and ensure medium-term financial sustainability.

**Improvement recommendation 2:** The Corporation should consider how it can better align the increasing number of programmes and initiatives that are designed to improve financial sustainability, and ensure that it retains the capacity to deliver overall savings targets.

# Financial sustainability (5)

## Capital Programme and Treasury Management

The City Fund 2021/22 budget and Medium-Term Financial Strategy (MTFS) agreed by the Court of Common Council on 4 March 2021 included the Corporation's Capital Strategy, Treasury Management Statement and Investment Strategy.

The Capital Strategy (2021/22 to 2024/25) is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy was developed in line with the Prudential Code, focuses on core principles that underpin the Corporation's capital programme, is integrated with the MTFS, and aligns with the priorities set out in the Corporation's Corporate Plan and other key strategy documents such as those covering the investment in estates.

A key consideration of the Capital Strategy is the affordability of the capital programme in terms of the MTFS. The commissioning and procuring for capital schemes should comply with the requirements set out in the Corporation's Standing Orders, Financial Regulations and Procurement Code.

The capital programme was summarised as follows:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Later Years £m	Total £m
City Fund	123.9	245.1	233.7	232.5	176.2	84.4	1,095.8

The two major capital projects relating to the City Fund (and also City Cash) are the Museum of London relocation and the Salisbury Square Development. For the City Fund, the Corporation planned to utilise its temporary cash balances in lieu of external borrowing to fund capital expenditure. A programme of property disposals was planned to fund the City Fund major projects in preference to external borrowing. The updated capital strategy for 2022/23 to 2025/26 included an additional major capital project relating to the City Fund: Barbican Centre renewal.

The Strategy notes that these present a significant challenge to the finances of the organisation, requiring a step change in the previously debt-free status of City's Cash and possibly City Fund. The revenue impact of interest payable on external borrowing results in significant revenue pressures, together with the additional statutory City Fund requirement for a Minimum Revenue Provision (MRP) towards the repayment of principal if City Fund were to borrow. The final decision on progression of the major projects is based on the business cases and identification of a sustainable funding strategy. The updated Capital Strategy for 2022/23 to 2025/26 has removed the risk of City Fund losing debt-free status.

An Asset Management Service Board Review (AMSBR) has been undertaken to review the Corporation's operational estate. The recommendations of the AMSBR have been incorporated in the Corporate Property Asset Management Strategy and led to the development of individual Asset Management Plans. The intention is to better align Asset Management Plans with the business planning cycle, and with other strategies such as workforce, capital and investment. There are plans to facilitate a detailed 'Asset Challenge' to ensure targeted investment in operational assets that are fit for purpose. This was ongoing at the time of our review, and should also provide a means for identifying underutilised assets to be considered for alternative use or disposal.

An Operational Property Review is also ongoing, overseen by the Operational Property and Projects Sub-Committee, which first met in May 2022, to improve the consistency of property related information and support prioritisation of asset related expenditure and ensuring appropriate funding is in place to maintain the Corporation's operational assets. This forms part of the RPR previously mentioned.

The Treasury Management Statement and Investment Strategy sets out how the Corporation's cash flow is adequately planned with surplus monies to be invested in low risk counterparties or instruments in line with the Corporation's low risk appetite. The strategy also sets out the approach to the funding of capital expenditure, including any internal borrowing needs, and ensure the Corporation can meet its longer-term cash flow planning and capital spending obligations. The strategy is compliant with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management as revised in November 2017.

The City Fund has a positive Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. The City Fund had no external debt, and is maintaining an under-borrowed position which is forecast to increase. This means that the capital borrowing need is being managed within internal resources. The strategy notes this approach is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the Corporation is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing, and so caution will be adopted by treasury operations. The Chamberlain monitors interest rates in financial markets and adopts a pragmatic approach to changing circumstances.

# Financial sustainability (6)

## Capital Programme and Treasury Management (Cont'd)

During Autumn 2022 the Corporation reviewed its capital programme to ensure appropriate funding was available, in particular in light of significant inflation impacting on construction related expenditure. This has been reported to the Resources Allocation Sub-Committee, who have prioritised funding allocations and made decisions on whether to pause or stop some capital projects. During 2023/24 the Corporation plans to not take on any new capital project bids to prioritise delivery of already approved projects.

We have not identified any significant weaknesses in relation to the Corporation's capital programme and treasury management arrangements.

## Conclusion

In conclusion, we have identified that there were arrangements in place for delivering a balanced budget during 2021/22 and have not identified any significant weaknesses in arrangements to ensure the Corporation manages risks to its financial sustainability.

However, there remain significant challenges in closing gaps in the Corporation's MTFS. Like all local authorities, the Corporation is facing significant financial uncertainties. The level of organisational change and savings yet to be delivered is significant. It is essential that the Corporation is able to deliver the planned changes and realise the associated financial benefits to ensure it remains financially sustainable.

We have made two improvement recommendations set out on the following pages.



# Improvement recommendations



## Financial sustainability

### Recommendation 1

The Corporation must ensure that it identifies outstanding savings targets and delivers permanent savings in line with the Fundamental Review, TOM programme, and the 12% general budgetary reduction.

### Why/impact

The criticality of achieving savings plan targets to meet the MTFS funding gap.

### Summary findings

The MTFS does not currently balance across the medium-term without the use of reserves. There have been delays in implementing the Fundamental Review and TOM programme and it is critical that the Corporation is able to identify and deliver permanent savings to the values agreed so that financial sustainability, along with the strategic objectives of the changes are realised.

### Management Comments

The Corporation is committed to delivering the flight path savings already planned. This includes ensuring year on year permanent savings are delivered. Furthermore, the Resource Planning Refresh workstreams will look to either create headroom for new pressures, increase untapped income generation opportunities, and make savings through the operational property review.



The range of recommendations that external auditors can make is explained in Appendix B

# Improvement recommendations



## Financial sustainability

### Recommendation 2

The Corporation should consider how it can better align the increasing number of programmes and initiatives that are designed to improve financial sustainability, and ensure that it retains the capacity to deliver overall savings targets.

### Why/impact

New savings related initiatives are being introduced when existing savings programmes have not been fully delivered.

### Summary findings

There are a number of savings targets in the MTFS (Fundamental Review, TOM and 12% budgetary reductions) that are at varying stages of delivery. Alongside this newer initiatives are being introduced such as the resource priorities refresh and zero based budgeting. There is a risk that in having multiple programmes and initiatives they will not be aligned, focus will be lost, which will adversely impact on the ability of the Corporation to meet the strategic objectives of the change programmes and achieve financial sustainability.

### Management Comments

The Corporation's focus is to ensure the existing planned savings are delivered first and foremost. Where Fundamental Review savings are planned across the MTFP and unidentified savings are yet to be achieved, Chief Officers are being challenged through member led bilateral meetings and officer led star chambers to ensure these are prioritised and to ensure there is a departmental plan to deliver against these. Unseen/unavoidable/new pressures aligned to the new corporate prioritise still need to be addressed. This is led through the RPR. The Chamberlain and Financial Services Director is working closely with the Chief Strategy Officer and her team to ensure savings already embedded are addressed in the first instance.



The range of recommendations that external auditors can make is explained in Appendix B



# Governance (1)



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Risk Management

The Risk Management Policy and Strategy was endorsed by the Audit & Risk Management Committee (A&RMC) in May 2021. The Committee provides assurance to the Corporation's highest decision making body, the Court of Common Council, on the effectiveness and management of strategic and operational risks facing the Corporation. The Corporation's risk appetite seeks to minimise taking any unnecessary risks and to reduce risk to an acceptable level to a public body and is defined as "the amount of risk and organisation is willing to accept"

The strategy sets out the framework by which risks is managed at all levels of the organisation with a clear allocation of roles and responsibilities for all members and officers of the Corporation.

We note that as part of the drive to strengthen its risk management process, which has been led by the Chairman of A&RMC, and to embed its risk management culture throughout the Corporation oversight of risk management moved on 1 April 2022 from the Internal Audit Team to the Corporate Strategy and Performance Team under the new Chief Strategy Officer (CSO). This was in line with the TOM changes to introduce an integrated approach to corporate strategy, planning, risk management and performance. The CSO also oversees the preparation of the Annual Governance Statement (AGS).

The Risk Management Strategy clearly outlines the risk management roles and responsibilities; a summary overview of Risk Management Responsibilities is included in the strategy along with individuals roles and responsibilities

The Corporation's risks, including strategic risks, are recorded in the Corporation's electronic risk management system in line with the risk management framework.

A&RMC has undertaken nine informal risk management challenge sessions across all Corporation activities (not just the City Fund) and deep dives into corporate risks to review risks and mitigations, which is an example of effective challenge from elected members. We have not identified any significant weaknesses in relation to risk management arrangements.

## Internal Audit and Internal Control

The Corporation has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. The governance framework comprises the systems and processes by which the Corporation is directed and controlled. The system of internal control is a significant part of that framework and is designed to manage all risk to a reasonable level.

The code of corporate governance covers both the local authority and police authority roles of the Corporation, and links together a framework of policies and procedures, including standing orders, financial regulations, scheme of delegation, members code of conduct and a code of conduct for employees.

The Corporation has an in-house internal audit function in place to monitor and assess the effective operation of internal controls. The work of Internal Audit, Counter Fraud and Investigation team is overseen by the A&RMC which receives monthly updates on the progress of intermetal audit reviews. The 2021/22 Internal Audit Plan was agreed by this committee in January 2021. However, our review has identified that, although the Corporation had a Internal Audit Plan for the start of the 2021/22 year this was not fully delivered. However, we recognise that internal audit plans can change and need to take account of emerging risk, priorities and resources available.

# Governance (2)

## Internal Audit and Internal Control (Cont'd)

The A&RMC also considered Internal Audit's Annual Report on the 2021/22 in May 2022. The Head of Internal Audit's overall opinion was that, for the areas reviewed during the year, the Corporation had 'adequate and effective systems of internal control in place to manage the achievement of its objectives.'

The delivery of the audit plan was adapted during the year to reflect that the Internal Audit function was working with a reduced level of resources due to the changes resulting from the TOM programme, which resulted in three auditor posts being deleted, reducing capacity of the team. At the time of our review, the post of Principle Auditor was still vacant. Assurance was given by the Head on Internal Audit in the 2021/22 Annual Internal Audit Report to A&RCM that this did not impact on the ability to provide an annual opinion.

**Improvement recommendation 3:** The Corporation should consider developing a formal risk based approach to its programme of Internal Audit work at the start of the year when formalising the annual internal audit plan to ensure that key risk areas are reviewed and there is high level oversight of its planned reviews.

The report presented to A&RMC in May 2022 showed that 36 final Internal Audit reports were issued during 2021/22, covering Finance, Key Systems, IT, Major Programmes, Risk Management, Safety Management, Social Care, Corporate Priorities and Grants. Overall, the report states that four internal audit reviews returned limited assurance ratings, and we note that management accepted and had responded to the recommendations made in the action plan for each service.

The internal audit function is bound by the Public Sector Internal Audit Standards (PSIAS) to ensure they operate effectively and provide a quality service. PSIAS require that compliance with its provisions is externally assessed every five years. The last review for compliance against the internal audit standards was completed in 2017/18, and confirmed the service complied with requirements. Since that time annual self-assessments, consistent with PSIAS also confirmed ongoing compliance. However, the planned external assessment which was due to take place during quarter one of 2022/23 has been deferred to quarter one of 2023/23, dependent on the availability of the external reviewer.

**Improvement recommendation 4:** The Corporation should prioritise undertaking the External Quality Assessment in 2022/23 against the Public Sector Internal Audit Standards so that compliance is confirmed and any improvements are identified.

The Internal Audit Counter Fraud and Investigation team is responsible for the investigation of allegations of fraud and corruption. The Corporation has an Anti-Fraud and Corruption Strategy which is available from the Corporation's website. The strategy dates to 2019 and outlines the Corporation's commitment to minimising the risk of loss to the organisation resulting from fraud and corruption originating both internally and externally.

The Strategy is designed to encourage prevention, promote detection, ensure effective investigation where suspected fraud or corruption has occurred and prosecute offenders where appropriate. Ownership of this Strategy and corporate oversight for fraud and irregularity is maintained by the A&RMC. The Committee received six monthly fraud update reports, regarding the investigation caseload and details of proactive anti-fraud activities planned and undertaken. Employees of the Corporation are expected to be aware of and understand the City's rules and regulations and have a duty to report their concerns when they suspect a fraud or irregularity.

The Strategy was due to be formally reviewed in 2022/23 but we note that due to other priorities a formal review will now take place during 2023/24. The annual report of the Anti Fraud and Investigations service was presented to A&RMC in May 2022. In total, 31 investigations were completed during 2021/22. There was an increase in cases relating to social housing fraud within the year due to the relaxation of lockdown rules and investigation officers were able to conduct their on site investigation activity.

The Corporation is committed to maintaining the highest standards from both members and officers and any fraud or whistleblowing complaints and concerns raised are taken seriously and investigated. Internal Audit is responsible for maintaining a confidential and secure register of all concerns raised through the Whistleblowing Policy which was reviewed in March 2022. We note that during 2021/22, there were six whistleblowing referrals in accordance with the policy, four were concluded during 2021/22 and two cases were concluded in May and September 2022 respectively. The four concluded cases were referred by Internal Audit to relevant line management, for example one being a complaint about a potential health and safety breach. The one which was concluded in May 2022 involved a review relating to a breach of the Procurement Code. No specific action was required to the Code as the review found that the incident related to how the code was implemented by the officer concerned.

# Governance (3)

## Internal Audit and Internal Control (Cont'd)

The Fraud team's mid-year report to A&RMC reported that in the first half of 2022/23 there was one disclosure relating to a whistleblowing allegation of a breach of the Corporation's gifts and hospitality policy. The case was investigated and this confirmed two officers had been in breach of the policy. In one case this was due to unfamiliarity with the policy, and the other due to difficulty accessing the necessary form on the intranet due to it being password protected. The gifts and hospitality policy is managed by HR, declaration forms to register gifts and hospitality are password protected on the intranet so that only nominated users have access. We note that internal audit did not carry out any further work on the arrangements of accessing the gifts and hospitality on-line declaration forms. The promotion of key code of conduct policies, such as that relating to gifts and hospitality, could improve awareness and compliance.

**Improvement recommendation 5: The Corporation should ensure that all staff are aware of the requirements of the Gifts & Hospitality policy, and have access to declaring gifts and hospitality, and consider the delivery of refresher training.**

The A&RMC oversees the Corporation's systems of internal control. Our review of ARMC papers indicated that there was often detailed challenge by members on key areas such as the Corporation's Governance Review proposals.

The A&RMC met six times during 2021/22, and attendance of permanent committee members was high over this period. Members of this Committee come from a range of backgrounds and experience, and provide technical and professional expertise. The Committee is comprised of thirteen members and three external representatives who are non-members of the Court of Common Council and have no voting rights. The external representatives bring significant experience and expertise to the Committee and provides an appropriate level of challenge.

Members of A&RMC seek additional assurances, such as through specific deep dives of corporate risks of which eight were considered by the A&RMC during 21/22, for example on the Information Management Programme, Climate Action Strategy, Safeguarding Risk and Resilience Risk.

To help support effective decision making, the Corporations Risk Management Policy and Strategy is presented to the A&RMC on an annual basis for review and endorsement.

The 2021/22 AGS has been prepared to reflect CIPFA's AGS evaluation criteria and comparable local authority AGSs have been reviewed, to benchmark the quality and presentation of the Corporation's AGS. This was undertaken on the recommendation of members following their review of the prior year AGS.

Our review of the 2021/22 AGS does not highlight any significant weaknesses in governance arrangements. However, we have identified three improvement recommendations which are set out on pages 20 to 22.

## Informed Decision Making

The Corporation's decision making arrangements operate on a committee-based system. The Court of the Common Council is the primary decision-making body of the Corporation and membership is non-party political, which is unique in local government. Members are elected by the wards of the City every four years.

Corporate Plans are in place for the City Fund (Corporate Plan 2018-23) and City Police (City of London Police Corporate Plan 2018-23) which set out the respective visions of the two bodies and the framework for the delivery of strategic priorities. The Corporate Plan sets out twelve key outcomes under the key focus areas of: contributing to a flourishing society, shaping outstanding environments and supporting a thriving economy.

The City Corporation has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.

In carrying out our work and through discussions with senior officers we are not aware of any instances of decision making that is unlawful or of non-compliance with the Constitution or regulatory standards.

In September 2019 the Policy and Resources Committee proposed undertaking a comprehensive review of the Corporation's governance arrangements. This review was undertaken by Lord Lisvane who reported in February 2020. The Court of Common Council agreed initial changes resulting from this review in December 2021 which created a revised committee structure including an Independent Panel, a Competitiveness Advisory Board and an Emergency Committee. The implementation of the Lisvane review is ongoing and should the Corporation approve all the proposals identified by the review the overall number of bodies within the formal committee structure would reduced from the 135 to 78.

We have not found any significant weaknesses in relation to informed decision making, but note that following the Lisvane review, there is ongoing debate in the Corporation about the number of committees, sub-committees and boards, with a particular focus on the role of members, levels of delegated authority, and the potential for greater empowerment of senior officers to improve their effectiveness. This will be a policy decision for the Corporation.

# Governance (4)

## Appropriate Standards

The Corporation has in place Member and Officer Protocols alongside Member and Employee Codes of Conduct, which aim to promote high standards of governance and ethical behaviour. The Corporation's Codes of Conduct are clearly set out, and are accessible to members and officers, and to the public via the Corporation's website. The Code of Conduct was last reviewed in June 2020 and is due to next be reviewed during 2023-24.

The Lisvane review included a recommendation to abolish the Standards Committee and Standards Appeals Committee, which the Corporation approved. The functions of these committees were replaced by an Independent Panel made up of nine independent persons who consider any complaints relating to breaches of the members code of conduct any resulting recommendations are automatically referred to the Court of Common Council.

The Independent Persons do not have a decision making role but have a delegated authority to present to Court certain recommendations of the Panel.

We have not found any significant weaknesses in the arrangements in place to ensure appropriate standards are upheld and are appropriately managed.

## TOM Programme Governance

Governance for the TOM programme, which is the principal organisational transformation activity being delivered by the Corporation, is based on two officer committees. The TOM Steering Group was established to define the scope of the programme. The TOM Design Advisory Board (DAB) manages day-to-day governance of the programme. The DAB's role includes confirming that proposals meet agreed design principles, and assurances that savings proposed are appropriately categorised.

Member governance of the programme has taken place in three stages:

- Approval of organisation design principles and the officer governance approach (in early 2021).
- Reporting to individual Committees responsible for departments and institutions, with final approval of proposals being made by the Corporate Services Committee.
- Finance Committee and Corporate Services Committee monitoring the achievement of TOM savings and the impact of the changes.

The programme has been sequenced to focus initially on the restructure of the top two tiers of officers, which was largely completed by Summer 2021.. The chief officers then progressed the wider TOM restructure of services and enabling functions.

The culture and people workstreams have been deferred until restructuring has concluded, due to the complex nature of developing and implementing the TOM across the Corporation and a limitation of resources in HR and in the TOM programme team. The TOM programme team was disbanded when funding ceased at the end of March 2022 despite TOM work still ongoing.

Following the restructuring of top tier officer roles, an Executive Leadership Board (ELB) was established as the senior officer leadership group for the Corporation, with membership comprised of the Town Clerk and Chief Executive, Chief Officers and institutional heads. A new Town Clerk and Chief Executive started in role during early February 2023.

A Senior Leaders Forum (SLF) was established at the same time as ELB to provide a quarterly forum for tier one and two officers, including those within institutions. Its strategic intentions were to connect leaders across the Corporation and enable communication on plans across the organisation, and to help shape strategy, initiatives and decisions before these are escalated to ELB. A number of sessions had taken place by summer 2022, at which stage the SLF was paused and a review is underway to improve and refine how this group operates.

**Improvement recommendation 6:** Given the importance of the TOM programme to the Corporation and it's ongoing implementation, the Corporation should consider reinstating the TOM programme team to provide appropriate capacity and co-ordination of the programme.

## Capital Programme

The Corporation has a significant and ambitious capital programme and oversight for this is shared between the Capital Building Board, the Resources Allocation Sub-Committee and the Operational Property and Projects Sub-Committee. At the time of our work these arrangements were under review. The Resources Allocation Sub-Committee monitors all approved and centrally funded capital expenditure and releases funding in line with a gateway approval process. The Operational Property and Projects Sub-Committee has oversight of all business as usual (BAU) capital programmes regardless of funding. The Capital Buildings Board monitors spend in relation to major capital projects – those with spend of over £100m alongside any other projects which have been referred to it. The Court of Common Council approves all capital projects, based on the recommendations of the Policy and Resources Committee.

Two major projects were ongoing during 2021/22 relating to the City Fund and City Cash:

- The Salisbury Square development: the creation of new police and courts head quarters.
- The Museum of London relocation



# Governance (5)

## Capital Programme (Cont'd)

The Capital Buildings Board also has oversight of major capital projects relating exclusively to City Cash, including the markets relocation project and the Guildhall redevelopment.

A new major capital project relating to City Fund was included within the MTFP 2022/23, subject to business case approval for Barbican Centre renewal.

The Capital Buildings Board is moving to a more frequent cycle of meetings – from bi-monthly to monthly, to allow for more timely decision making.

We have not found any significant weaknesses in the governance arrangements in place for the capital programme.

## City of London Police IT Service

The Corporation provides IT services to the City of London Police delivered via a combination of directly employed staff, and in partnership with Agilisys and a number of other third party contractors. An Internal Audit review was undertaken in December 2021 to examine the controls in place which found that there was no Service Level Agreement or shared service agreement in place. In addition, the review found that there is an absence of clear arrangements for monitoring the performance and service delivery of the IT provision between the two bodies. We note that arrangements, in the form of an action plan, have been put in place to respond to the recommendations.

## Data Security

Seventy-six data breaches were reported to the Corporation's Compliance Team during 201/22. Of these:

- Sixty-six were caused as a result of human error. This could have included leaving personal data in an unsecure location, or sending personal data to an incorrect recipient or including personal data in excess of what is needed.
- Five breaches were caused as a result of a technical issue.
- The other breaches were highlighted as a result of issues experienced by third party companies who process personal data either on behalf of or in relation to the Corporation.

Of these breaches two incidents were reported to the Information Commissioner's Office (ICO). In both cases the ICO was satisfied with the actions the Corporation had taken and no further actions were required.

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## Budget Setting and Monitoring

The financial planning cycle for 2021/22 included a series of bilateral meetings where the Chairs of the Policy and Resources and Finance Committees, their deputies, the Chamberlain, Town Clerk, and Financial Services Director met with chief officers and the relevant Committee Chair to discuss their financial plans, and scrutinise and challenge growth assumptions and savings opportunities. There was a particular focus on high risk spending departments.

There was a Resources Allocation Sub-Committee away day to work through financial planning options, before the draft budget was finalised and the MTFs was presented to the Resources Allocation Sub-Committee, then Finance Committee, before being presented and approved by the Court of Common Council.

During the year representatives of the finance team in the Chamberlain's department meet with chief officers to review their progress on identifying and delivering savings and delivering annual budgets. Budget monitoring reports are reviewed each quarter by the Finance Committee and relevant departmental committees.

A protocol is in place that means any year-end overspends by a department need to be met within following year budgets, unless an exception is approved by the Chamberlain in consultation with the Chair and Deputy Chair of the Resources Allocation Sub-Committee. (who are the Chairs of the Policy and Resources and Finance Committees). A similar protocol applies to carrying forward year-end underspends.

## Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have made four improvement recommendations which is set out on the following pages.



# Improvement recommendations



## Governance

### Recommendation 3

The Corporation should consider developing a formal risk based approach to its programme of Internal Audit work at the start of the year when formalising the annual internal audit plan to ensure that key risk areas are reviewed and there is high level oversight of its planned reviews.

### Why/impact

Having a formal internal audit plan based on the level of resources the internal audit function has at the start of the financial year would ensure that the Corporation has assurance that the planned work would be delivered.

### Summary findings

The Internal Audit Plan defines the level of work that is to be carried out throughout the year. These plans can be flexible and subject to change within the year due to competing priorities, we note that the Corporation had changed its internal audit plan in 21/22 due to limited resources and priority was given to those reviews which would directly inform the annual opinion.

### Management Comments

A formal process for developing the programme of Internal Audit work is in place. Whilst the standards require planning at least on an annual basis, we operate an ongoing approach to planning (minimum of 3 months with Audit and Risk Management Committee receiving this forward look within every internal audit update, which is sometimes as often as every 2 months). In practice the internal audit team are reviewing the programme of work on a weekly basis which aligns with guidance from the professional institute.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



Governance

Recommendation 4

The Corporation should prioritise undertaking the completion of the External Quality Assessment in 22/23 against the Public Sector Internal Audit Standards so that improvements can be identified and implemented in a timely manner.

Why/impact

The last external assessment was undertaken in 2017-18 by the Corporation. External assurances provide a view on and recommendations for improvements that ensure Internal Audit, and the Corporation committees, continue to be effective in their role.

Summary findings

An external assessment against the standards must be completed at least every five years and the Corporation has deferred this assessment from 22/23 to the following year due to resource issues.

Management  
Comments

Completion of the EQA already is a priority. The assessment will be completed in Q1 of 2023/24.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



Governance

Recommendation 5	The Corporation should ensure staff are aware of the requirements of the Gifts & Hospitality policy and consider rolling out specific refresher training.
Why/impact	The Corporations Code of Conduct polices which includes both Members and Officers Gifts & Hospitality Policy requires that staff act with integrity and honesty and awareness of these policies are crucial to demonstrate that there are effective governance arrangements in place.
Summary findings	The mid year Fraud investigation that came through the Corporations Whistleblowing Channel concluded that the two staff involved were unaware on how to register the hospitality event they were offered.
Management Comments	The Deputy Town Clerk is happy to support a new initiative that supports the awareness of the Gifts and Hospitality policy across staff and members. We will work with HR to make the declaration user friendly and look into training options.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Governance

### Recommendation 6

Given the importance of the TOM programme to the Corporation and its ongoing implementation, the Corporation should consider reinstating the TOM programme team to provide appropriate capacity and co-ordination of the programme.

### Why/impact

The TOM programme is intended to transform the leadership and organisational structures, and enable the Corporation to become more agile and efficient. It remains a key transformation and savings programme. A lack of central programme resource puts successful conclusion of the programme at risk.

### Summary findings

The TOM programme team was disbanded when funding ceased at the end of March 2022 despite TOM programme work still ongoing.

### Management Comments

The TOM programme is reaching the end of its structural redesign activity and implementation. Members have agreed to close the TOM programme in summer 2023 recognising that some of the structural changes, albeit agreed, will continue to be implemented to the end of 2023. The focus on culture and transformational change is growing in momentum through (amongst other initiatives), the People Strategy and development of a corporate vision and values, led by the new Town Clerk. Additional resourcing of the TOM would be more effectively deployed in to delivering activity in these areas that are now key to delivering long-term organisational change, efficiency and effectiveness.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness (1)



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Performance Management

In March 2022 the Executive Leadership Board agreed to refocus previous activity on its Corporate Performance Framework (CPF) that had been put on hold due to an internal review. The review found that the performance indicators then in place may be of value to some areas of the organisation where they relate to specific work programmes. However, collectively they fell short of providing overarching strategic performance indicators for the Corporation. The CPF lacked any way of delivering strategic oversight of organisational activity and it didn't provide a means of visualising organisational activity or progress over time.

The Corporation recognise that a shift is needed towards performance indicators focussed on outcomes which need to be SMART (specific, measurable, achievable, relevant and timebound) and performance data should be presented in a more visualised way to make it more accessible and better inform strategic decision making. The updated CPF will be designed for continuous improvement, with ongoing feedback on content encouraged. This work is being developed in tandem with the new Corporate Plan to ensure alignment of performance with the Corporation's strategic priorities.

Our work identified that there is a recognition to improve performance information within the Corporation, with plans to develop this during 2023/24.

Improvement recommendation 7: The Corporation should ensure that the proposed redesign of the Corporate Performance Framework includes key performance indicators in alignment with the objectives of the Corporate Plan.

## Use of Financial and Performance Information

The Efficiency and Performance Sub-Committee reports to the Finance Committee and has responsibility for monitoring and oversight of the Efficiency and Sustainability Plan and of departmental Economy, Efficiency and Effectiveness (EEE) health checks. The role of the Sub-Committee is designed to help embed a VFM culture within the Corporation's business planning processes and periodically review the performance of each Chief Officer. The Sub-Committee was established in April 2011 and last met in February 2022, with four subsequent meetings being cancelled. During 2022/23 it was agreed by the Finance Committee that the sub-committee would be replaced by a working group consisting members of the Finance Committee and senior officers.

A series of deep dives, were undertaken relating to individual departments and were reported to the Efficiency and Performance Sub-Committee in February 2022. These included progress on both the Fundamental Review and Target Operating Model savings. In total eight deep dive reviews were undertaken, considering how efficiently departments are performing and how risks are being managed.

The deep dive report relating to the Chamberlain's Department noted plans to upskill finance staff to increase strategic and professional impact and present financial data in more visual and less tabular format.

Financial performance is a standing agenda item on chief officer monthly meetings, and departmental and service committees receive quarterly financial performance updates as do the Resources Allocation Sub-Committee and Finance Committee.



# Improving economy, efficiency and effectiveness (2)

## Use of Financial and Performance Information (cont'd)

The May 2022 Finance Committee received an update on the Chamberlain's Business Plan which set out Key Performance Indicators (KPIs) relating to 2021/22:

- At the end of 2021/22 the level of business rates collected was 95% compared to 94% in 2020/21 and 97% in 2019/20.
- Council Tax collection had an in-year collection rate of 96% compared to 94% in 2020/21 and 98% in 2019/20.
- Commercial rent collection was 84% for the year compared to the 98% pre-pandemic target.

The report noted the ongoing impact of the pandemic on income collection rates, and that whilst not yet back to pre-pandemic levels, the rates for 2021/22 were better than anticipated.

The new Chief Strategy Officer is developing an improved range of KPIs, recognising inconsistencies across the Corporation, which will include a review of data sources available and business intelligence capabilities to analyse data. The new ERP system, which is discussed separately in this section, is anticipated to provide improved management information, for example on people related data.

Qualitative sources of performance data are used by some services, such as feedback from resident forums.

Benchmarking data is not used comprehensively across the Corporation, and there was a consensus from senior stakeholders we met during our review that benchmarking could be better used to identifying areas of improvement. Where benchmarking is used data relating to non-local authorities is sought, for example private sector legal costs to compare against the Corporation's legal services costs, and benchmarking the Barbican with other arts centres.

We have undertaken our own financial benchmarking using 2020/21 Revenue Outturn (RO) and 2022/23 Revenue Account (RA) data, which is the most recently available at the time of our review. We compared the Corporation's unit costs to its ten statistical nearest neighbours. The Corporation's unit costs benchmarks very high for the following service blocks when compared to the benchmark group: environment and regulatory services, planning and development services, housing services, children's social care, adult social care, public health, cultural and related services, and central services. These variation may be because of different policy choices or due to differences economies of scale due to the statistical nearest neighbours being London borough councils.

The Corporation should consider such benchmarking and satisfy itself on whether there is any learning from others, due for example to different delivery models in use, or more generally if there are opportunities to support the identification of efficiencies or service improvement.

Improvement recommendation 8: The Corporation should review the position to determine if there is potential for efficiencies within these service blocks, or if they are comfortable with the comparative unit costs due to variations in statistical nearest neighbours' priorities, as part of their acknowledged interest in the greater use of benchmarking.

## New ERP System

The Corporation is introducing a new Enterprise and Resource Planning (ERP) system, with the business case being approved during 2020. The new system will replace the current HR, payroll and finance systems (Midland HR and Oracle) with a single ERP solution for the Corporation and its institutional departments. The new system should improve financial and related reporting information, and remove current work around solutions. The new system, importantly, will support the organisational culture and behaviour changes aligned to the new TOM, including greater agility in the provision of financial insight and advice.

The Society for Innovation, Technology and Modernisation (SOCITM) has been engaged to provide support to the design of the new system. Following the design stage there was a pause in project delivery to ensure key roles were filled, including a programme director, to review assumptions in the original business case in light of changed economic circumstances, and to review the system design to ensure it was aligned to the TOM and supported planned service transformation.

A Steering Group has been established with members appointed from key committees to provide oversight of a Project Board. A go live date for the introduction of the new system has not yet been confirmed and at the time of our review the procurement stage was underway.

The implementation of a new ERP system is costly, complex and time consuming. Delivered successfully it will help enable the Corporation's TOM programme benefits realisation, improve financial reporting information, remove duplication and introduce more standardised processes. It will also enable a cultural change with services moving towards greater "self-service" requiring effective budget management skills, whilst enabling services will change from their current role, to provide more strategic and targeted advice and support to services, including Finance Business Partners.

Improvement recommendation 9: The Corporation must ensure that it continues to provide appropriate capacity, skills, and oversight to the implementation of the new ERP system to ensure its delivery realises the anticipated organisational benefits.

# Improving economy, efficiency and effectiveness (3)

## External regulators

The most recent Ofsted inspection of Children's Services was undertaken in March 2020 and the Corporation received Outstanding judgments for:

- The impact of leaders on social work practice with children and families.
- The experiences and progress of children in care and care leavers.

A judgement of Good was received for the experiences and progress of children who need help and protection. The Children's Social Care and Early Help Service Development plan for 2202/23 sets out progress on the Ofsted findings noting that the actions put in place have all been completed.

We have reviewed the annual letter from the Local Government and Social Care Ombudsman for 201/22, which showed that in 100% of cases the Ombudsman was satisfied the Corporation had successfully implemented their recommendations.

## Procurement

From April 2021 the Chief Operating Officer took over responsibility from the Chamberlain's department as the central service for the Corporation's procurement operations and is responsible for City Procurement. The Operational Property and Projects Sub-Committee is responsible for overseeing the performance and development of City Procurement. However, major decisions regarding policy and financial approval will be referred to the Policy and Resources, the Court of Common Council or other Committees for approval wherever necessary. The Strategic Resources Group and Senior Officer Board oversees procurement performance and policy development.

The Corporation's procurement code is supported by the a procurement strategy with the strategy being seen as a key driver to enhance the Corporation's access to more commercial opportunities to meet the Corporation's ambitious plans to "maintain London's position as a globally renowned centre for financial and professional services, commerce and culture by developing a range of major capital investments that will enhance the Square Mile's reputation and role."

The current City Procurement Strategy 2020-2024 has been developed to be aligned to the outcome of the Fundamental Reviews and the Corporate Plan. It was approved prior to the introduction of the TOM programme. The strategy sets out four key targeted outcomes with an ambition for the Corporation to become "best in class" in procurement provision. The targeted outcomes are:

- Key people across the organisation are upskilled in commercialism, contract management and procurement.
- Sustainable cost assurance is guaranteed for the future,
- Opportunities to leverage responsible outcomes are maximised.
- Services provide what is needed and are easy to use, via an enhanced self-service offering and a streamlined and more timely processes.

The procurement code and strategy are supported by a set of policies and procedures included in the Corporation's Financial Regulations, Standing Orders, Project Procedures, and Scheme of Delegation.

A whistleblowing incident reported in 2021/22 confirmed a breach the Procurement Code but there was no evidence to support claims that this was a one-off failure of controls.

Overall, we have not identified any significant weaknesses in procurement arrangements and there is no evidence of the Corporation failing to operate a fair procurement exercise for a significant contract.

## Organisational Capabilities

As already noted, the Corporation recognises the need to improve business intelligence skills and capabilities to support plans for improving corporate KPIs and the new ERP system should provide improved financial management information.

The Fit for the Future programme in the Chamberlain's department is designed to improve the skills, experience and capacity of the finance team so that it is better able to meet finance business partner requirements in supporting organisational transformation and provide the necessary project and commercial advice. The capital team are currently working with an external provider who are providing skills transfer in relation to major projects.

It is also recognised that service departments need to be more consistent in their project management and financial management capabilities, and the latter will be particularly important once the new ERP system is in place. We have already made an improvement recommendation in relation to the new ERP system.

# Improving economy, efficiency and effectiveness (4)

## Key partnerships

Beyond the Corporation's statutory duties, it is also responsible for a wide portfolio of work and institutions both inside and outside the "square mile" of the City of London. The Corporation:

- oversees a number of City of London institutions such as the Guildhall School of Music, the Barbican Centre and three independent schools.
- is responsible for the management of public spaces such as Hampstead Heath and Epping Forest, a number of markets (Billingsgate, Smithfield and New Spitalfields) and housing and schools outside of the Corporation's boundary.
- is also responsible for the City of London Police and has a key role in promoting the City of London internationally.

Not all these institutions and responsibilities relate to the City Fund.

The City of London Police worked in partnership with the then Clinical Commissioning Group and the NHS during 2021/22 to provide a Mental Health Street Triage service, a service that has been in operation since 2017. The 2021/22 City of London Police annual report noted that during the year the service had helped to avoid 77% of police encounters ending in a detention under the Mental Health Act. Positive engagement with people in mental health crisis after initial police contact was trialled over a twelve month period which significantly reduced return rates of persons in distress.

Overall, we have not identified any significant weaknesses in arrangements relating to key partnerships.

## Conclusion

Overall, we found no evidence of any significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness. We have made three improvement recommendations which are set out on the following pages.



# Improvement recommendations



Improving economy, efficiency and effectiveness

**Recommendation 7**      The Corporation should ensure that the proposed redesign of the Corporate Performance Framework includes key performance indicators in alignment with the objectives of the Corporate Plan.

**Why/impact**      The new Corporate Performance Framework is being updated to ensure that the Corporation’s performance can be measured against its strategic priorities with a focus on key outcomes.

**Summary findings**      The Corporation has recognised that a shift is needed towards performance indicators focussed on outcomes which need to be SMART (specific, measurable, achievable, relevant and timebound) and performance data should be presented in a more visualised way to make it more accessible and better inform strategic decision making.

**Management Comments**      The Corporate Performance Framework needs to work effectively across all levels of the organisation, using management information, key corporate data and contextual analysis. As part of the Corporate Plan refresh, lessons have been learnt on measuring outcomes from the previous Corporate Plan and activity is taking place to improve management information systems and data capture, so that the new corporate plan will include clear, measurable outcomes and targets.



The range of recommendations that external auditors can make is explained in Appendix B.



# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 8

The Corporation should review its unit cost benchmarking position to determine if there is potential for efficiencies within these service blocks, or if they are comfortable with the comparative unit costs due to variations in statistical nearest neighbours' priorities, as part of their acknowledged interest in the greater use of benchmarking.

### Why/impact

Learning from other councils by using unit cost benchmarking may help identify new areas for efficiencies/ savings or improving service delivery.

### Summary findings

The Corporation does not use financial benchmarking consistently and it is accepted that this position needs to change.

### Management Comments

The Corporate Performance Framework needs to work effectively across all levels of the organisation, using management information, key corporate data and contextual analysis. As part of the Corporate Plan refresh, lessons have been learnt on measuring outcomes from the previous Corporate Plan and activity is taking place to improve management information systems and data capture, so that the new corporate plan will include clear, measurable outcomes and targets.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 9

The Corporation must ensure that it continues to provide appropriate capacity, skills, and oversight to the implementation of the new ERP system, to ensure it's delivery realises the anticipated organisational benefits.

### Why/impact

The new ERP system will be complex to deliver but is critical to improving financial and other management information. Appropriate capacity and skills must be made available to maximise a successful implementation and ensure appropriate scrutiny.

### Summary findings

The implementation of a new ERP system is costly, complex and time consuming. Delivered successfully it will help enable the Corporation's TOM programme benefits realisation, improve financial reporting information, remove duplication and introduce more standardised processes. It will also require a cultural change across the organisation.

### Management Comments

One of the reasons for pausing the ERP programme in the first instance was due to staff shortage and has been added to the programme's Risk Register which is regularly monitored by the Programme Board. The Corporation understands appropriate capacity and skills is needed and will continue to have this high on the agenda.



The range of recommendations that external auditors can make is explained in Appendix B.

# Opinion on the financial statements



## Audit opinion on the financial statements

BDO LLP are yet to give an opinion on the 2020/21 City Fund accounts and Pension Fund. We have commenced work on the 2021/22 accounts and have largely progressed the Pension Fund audit. A separate report on this will be provided to the Audit and Risk Management Committee. Work on the City Fund audit is also well underway and a progress update will be provided to the Committee.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. This work has yet to commence.

## Preparation of the accounts

The Corporation provided a good set of draft accounts after the national deadline in line with a number of other authorities due to capacity constraints. This did not prove to be a significant issue as the audit work on 2020/21 was still underway.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair.
- Prepared in accordance with relevant accounting standards.
- Prepared in accordance with relevant UK legislation.



# Appendices



# Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Corporation's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Corporation will no longer be provided.

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Corporation's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 13-14, 20-23 & 28-30.

