Grant Thornton

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

2022-23

February 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Corporation 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 Corporation'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.

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Corporation of the City of London: City Fund ('the Corporation') 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 Corporation's arrangements under specified criteria and 2022-23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Corporation may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022-23 Risk assessment		2022-23 Auditor judgement on arrangements		2021-22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but eight improvement recommendations made.	A	No significant weaknesses in arrangements identified, but two improvement recommendations made.	
Governance	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but four improvement recommendations made.	A	No significant weaknesses in arrangements identified, but four improvement recommendations made.	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but three improvement recommendations made.	A	No significant weaknesses in arrangements identified, but three improvement recommendations made.	

G	No significant weaknesses in arrangements identified or improvement recommendation made
A	No significant weaknesses in arrangements identified, but improvement recommendations made
R	Significant weaknesses in arrangements identified and key recommendations made

Executive summary

Financial sustainability

The Corporation achieved a positive outturn position in 2022-23 allowing it to contribute to reserves, as planned, and roll forward additional contingencies into 2023-24 to help mitigate emerging risks. The Corporation has continued to set a balanced annual budget for 2023-24 which, again, allows a contribution to reserves to build them up for planned use on future projects. However, like many local authorities, the medium-term outlook is more challenging with deficits anticipated in individual years in the latter stages of the medium-term financial plan (MTFP). As a last resort, the Corporation does have sufficient reserves to support medium-term gaps, and the cumulative position over the MTFP remains a surplus. However, to protect reserves and achieve medium-term financial sustainability it is important that the Corporation looks to develop an efficiency and savings succession plan now that the Target Operating Model (TOM), Fundamental Savings Review and the flat 12% saving target of previous years have been maximised.

In addition, the Housing Revenue Account (HRA), although in surplus for the medium-term at its latest update, has a relatively low balance in the early years of its medium-term outlook. As such, unanticipated pressures pose a risk to housing revenue reserves. The position has been caused by pressures within costs of repairs and maintenance and an increase in the level of emergency repairs required.

We have made a number of improvement recommendations, identified to help achieve longer term financial sustainability, however no risks of significant weaknesses in arrangements have been identified.

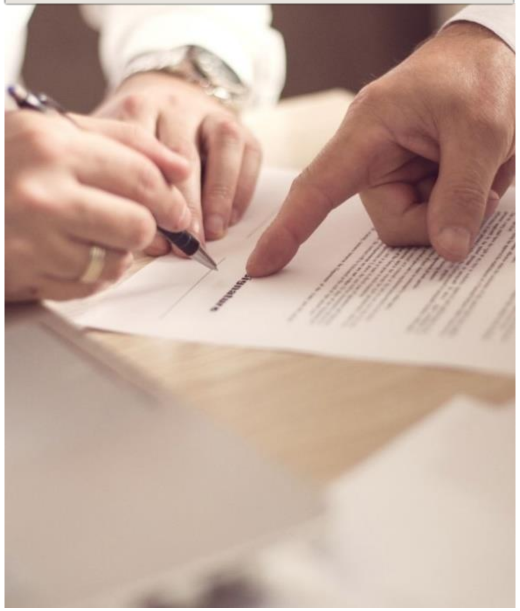
Governance

Although we have noted some minor areas of improvement in relation to risk management, Internal Audit, training, and project governance, overall governance arrangements are robust, and no risks of significant weaknesses have been identified. There is evidence that the Corporation reviews and updates arrangements on a regular basis to ensure they remain fit for purpose.

Improving economy, efficiency and effectiveness

Overall, arrangements continue to be appropriate, and no risks of significant weaknesses have been identified. We have raised some improvement recommendations and these cover common themes consistent with our prior year findings, most notably performance management reporting software and the ERP system implementation, both of which remain areas of work in progress due to a focus on responding to the backlog of financial statements production and audit. The procurement of an Enterprise Resource Planning (ERP) system was paused following the implementation of the Target Operating Model, due to changes in personnel, this has delayed the implementation by approximately two years, and following a budget review has seen an increase in the cost of the project by three times the original budget. However, it's important to clarify that this budget increase is not primarily attributable to the delay. Instead, it stems from a comprehensive review of the level of change needed and ensuring resources are aligned to that objective. This review process incorporated insights from other organisations' ERP implementations, guiding the reassessment of project scope and resource requirements. The Corporation has undertaken a deep dive exercise, making changes to those involved in the project, to ensure successful delivery within updated timelines and budget constraints.

We consider that the responses provided by management are appropriate and encourage the Audit and Risk Management Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.



Use of auditor's powers

We bring the following matters to your attention:

	2022-23
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 make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
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 an application 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 make an application for judicial review.

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

All local authorities 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 Corporation's responsibilities are set out in Appendix A.

Local authorities 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 Corporation 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 Corporation 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 Corporation makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Corporation makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

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

Our commentary on the Corporation's arrangements in each of these three areas, is set out on pages 10 to 51.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of relevant committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit & Risk Management Committee
- Considering the work of Internal Audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Annual Governance Statement and other publications

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for local authority services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of local authority income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the Covid-19 pandemic which, for example, have contributed to workforce shortages in a number of service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023-24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs of delivering services will exceed their core funding by £2bn in 2023-24 and by £900m in 2024-25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many bodies have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of authorities who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of local authorities.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and local authority owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current LG landscape

National context

Cost of living crisis

The rising costs of fuel, food and other essentials are combining with existing disadvantage and vulnerability factors, putting many households at greater risk of both immediate hardship and reduced opportunity and wellbeing.

Local authorities and local partners continue to do what they can to protect people against higher costs, targeting help at those facing the most complex challenges.

Local authorities' range of front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience.

The dramatic increase in inflation alongside increases to the National Living Wage, have added £2.4 billion in extra costs onto the budgets of local authorities in 2022-23. In 2023-24 local authorities are facing a funding gap of £3.4 billion, with a funding gap of £4.5 billion the following year.

To support its most vulnerable residents through the cost-of-living crisis, local authorities face additional cost pressures which will need to be addressed to avoid further cuts to vital frontline services.

Housing

Local authorities work closely with registered providers for social housing to deliver England's social housing supply. Their work is regulated by the Regulator of Social Housing, using value for money as a key regulatory standard.

The housing sector faces significant economic challenge. In 2022, the Regulator estimated that half of housing providers' headline costs related to major repairs. Where local authorities have borrowed to finance housing, the margin for paying rising interest rates and setting aside repayment funds is becoming more difficult to achieve.

Managing trade-offs is difficult. Members need to have a clear understanding of their organisation's performance, and decisions need to be transparent for stakeholders. Local authorities need to get the best out of the resources they have available for delivering safe, well-maintained homes. This means using effective procurement and contract management arrangements; adopting rolling plans of service reviews, supported by strong performance indicator reporting; recruiting and retaining staff with the right skills; and maintaining physical control over assets.

Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to local authorities. By June 2022, more than 250 English local authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, local authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected on local authority risk registers and where local authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for Members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will need to be vigilant.

The current LG landscape

National context

Children and young people – social care

Single tier councils and county councils spent £12.2 billion in 2021-22 and have increased their budget to £12.7 billion in 2023-24 as demand for children's social care services have increased.

Local authorities have a statutory duty to safeguard and promote the welfare of children at risk. A range of services can be provided including support to families as well as keeping children safe from harm and providing services for those children who are 'looked after' by the authority.

In recent years there has been an increase in demand with an increase in the number of child protection places and looked after children, as well as an increase in complexity of the needs of the children.

The increase in demand and complexity has resulted in an increase in the cost of individual residential placements which are often not local and outside the local authority's geographical locality as well as private and agency foster carers.

Many authorities have failed to model and anticipate the increase in demand and as a result lack sufficient local quality provision and are now actively trying to meet this challenge.

Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors.

The need for future workforce planning to ensure the organisation has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear.

To achieve this aim, local authorities need to develop a workforce plan or strategy which not only sets out aims and aspirations but also a roadmap with numerical targets against which outcomes can be measured and assessed.

The workforce strategy needs to be clearly linked with strategic objectives and financial planning.

Without a corporate workforce plan, organisations cannot take a strategic view of how the needs of the local authority in terms of human resources will develop over the medium- term and appropriate development through training and recruitment may not be undertaken.

Financial sustainability

We considered how the Corporation:

- 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.

2022-23 Budget and outturn position

In line with local government statute the Corporation set a balanced budget for 2022-23 for the City Fund which was approved by Common Council on 10 March 2022. This consisted of net expenditure of £157.7m met by funding generated from government grants and tax revenues, such as council tax and business rates, of £167.3m, allowing the Corporation to contribute £9.6m to reserves.

The year-end outturn position for 2022-23 was better than initially anticipated, with an underspend of £20.8m against a revised budget of £172.5m. The underspend was almost entirely attributable to the Finance department as a result of unused contingencies set aside within the budget, slippage in Supplementary Revenue Projects and a sizeable rates refund. Although, overall, the position represents strong financial performance at Fund level there were several overspends observed and many of the causes of underspends were non-recurrent or temporary in nature. There continues to be a need to address the underlying causes of any overspends to mitigate future financial pressures. The most significant overspends were a result of increasing costs associated with children's social care, unaccompanied asylum seekers and rates relief payments on properties being redeveloped.

As a result of the underspend on the City Fund the Corporation were able to carry forward £27.7m into 2023-24 to fund delayed activity, roll forward unspent contingency balances and create further contingencies to manage inflationary pressures in 2023-24.

2023-24 Budget and Medium-Term Financial Plan (MTFP)

The 2023-24 budget and MTFP for the City Fund was approved by Common Council on 9 March 2023. It assumes net expenditure of £160.5m met by income and funding of £185.7m, offset by a £2m drawdown of reserves. This produces a surplus position and allows for a contribution to reserves of £23.2m to achieve a balanced budget.

At the end of Quarter 2 (Q2) the 2023-24 forecast outturn position is an underspend of £15.6m against this budget, suggesting there may be scope for a greater contribution to reserves than planned or to set aside additional contingency for pressures in future years.

There is a statutory duty to remain balanced across the medium-term. Financial plans demonstrate that the City Fund anticipates generating a cumulative £17.78m surplus over the medium-term, but with deficits observed in the latter years of the MTFP. This is due to delays to anticipated business rates reforms to be implemented by central government, and results in much higher retention of rates collected than will occur under the expected reforms in later years. The financial boost in the early years of the MTFP is temporary, non-recurrent and cannot be relied upon. The reforms coincide with the impact of financing costs of major projects planned in the medium-term, with rates insufficient to off-set these in full. Although additional revenue can be raised through increases in local taxation the City Fund will require the use of general fund reserves, contingencies and further savings to close the gap.

£m	2023-24	2024-25	2025-26	2026-27
City Fund	22.8	13.7	(13.0)	(11.0)
Police deficit	(0.6)	(3.2)	(3.2)	(6.1)
Sub-total	22.2	10.5	(16.2)	(17.1)
Funding from increases in council tax, adult social care and business rates premium	4.6	4.6	4.6	4.6
City surplus/(deficit)	26.8	15.1	(11.6)	(12.5)

Noted later in the report, the Corporation does have an adequate level of usable reserves available to support the individual deficits, demonstrates a cumulative surplus, and does have time to identify additional savings or income sources to bridge the funding gaps in later years. Further work is needed by Officers to identify future funding sources and savings.

Financial sustainability

The positive forecast outturn for 2023-24 provides some protection against future deficits, provided the position crystallises and surplus funds can be set aside as additional contingency for future years. The budget and MTFP rely on the savings identified within the position being delivered in full, collection rates on taxation occurring as anticipated despite the increases approved, and no significant unanticipated risks occurring.

Budget assumptions

A series of assumptions relating income, expenditure and funding must be made when developing the budget and MTFP to minimise the impact of inherent uncertainties faced by the Corporation. Key expenditure assumptions have been made which relate to non-pay inflation and pay awards, these impact the majority of the expenditure incurred by the Corporation. The 2023-24 budget assumes inflation of 4% (3% in 2024-25 and 2% in 2025-26). Inflation was 10.1% in March 2023 when the budget was set and has since gradually fallen to 3.9% in December 2023. The Bank of England expected inflation to be at 5% by the end of 2023 and keep falling towards the target of 2% in 2024. Inflation assumptions used reflect the merging position and demonstrate the forward-looking nature of the budget. To mitigate the risk associated with high inflation at the start of 2023-24 the Corporation held a central inflationary contingency to ease the pressure on the budget, this was met from underspends carried forward from 2022-23.

The 2023-24 budget includes £2.1m in employee costs to reflect the full year impact of a pay award agreed from July 2022. The assumption reflects the variable nature of the award depending on grade rather than a flat rate percentage uplift. Nationally local government staff have been offered a pay rise equating to between 3.88% and 9.42% for 2023-24, depending on their pay grade, and therefore are also variable in nature. The pay assumptions are deemed appropriate. Future assumptions regarding employee costs would be more reliably forecast if supported by a Workforce Strategy and associated Workforce Plan which seeks to estimate the required establishment over the medium-term. The Corporation is currently working to develop a People Strategy which should fulfill this requirement – we will follow this up in 2023-24.

In common with other local authorities, City Fund receives funding via grants from central government, a share of business rates income and the proceeds of the local council tax. Grants are confirmed annually by central government and included within the budget as announced with little estimation required. The council tax threshold has been set at the maximum allowable before a referendum is triggered of 4.99% (including the social care precept of 2%). The rationale behind the maximum increase is to fund specific pressures within the budget in homelessness, adult social care, children's services and unaccompanied asylum seekers – which are the most significant overspends currently impacting the Corporation. The Corporation is maximising this stable form of income, demonstrating positive budget management, and seeking to address specific areas of budgetary pressure.

Reforms in the business rates system were expected to be imminent, originally planned for 2020, but delayed over recent years. Government has reaffirmed its commitment to do this in the next Parliament and the Corporation has assumed that the Business Rates Retention (BRR) consultations are expected to be announced in 2025-26 at the earliest within the MTFP. The City of London is allowed, uniquely, to set its own business rate premium. For 2023-24 this was set at 1.4p in the £ and represents a 0.2p increase on the prior year. Again, this is evidence of maximising a key income stream. Larger increases have been approved in prior years and there is potential to leverage additional income from this source in the medium-term to assist in addressing medium-term budget gaps.

Business rates and council tax income is impacted by collection rates, which must also be estimated when setting the budget. There is no information provided to Members regarding these assumptions, likewise limited disclosures were noted in relation to pay awards. The surplus outturn observed at the end of 2022-23, and forecast surplus for 2023-24, suggest that assumptions may be overly prudent. Decision makers, may benefit from more detailed information on the assumptions included in the budget to allow them to review, challenge and request adjustments as required – refer to **Improvement recommendation 1** on page 24.

Financial sustainability

Budget assumptions

The City Fund generates rental from investment properties and interest income. The 2023-24 budget assumes income of £41.2m and £27.5m from these sources, respectively. This represents a 3.8% increase in investment property rental income and a 330% increase in interest income due to anticipated increase in cash and investment holdings as well as rate changes. The Corporation stress tests and models its income funds and uses Treasury Advisers to provide information on anticipated interest rates. At Q2 of 2023-24 property investment income within the City Fund is forecast to be £0.289m, which is slightly better than anticipated, suggesting the assumptions around collection rates, vacant property levels and lease changes factored into the assumptions were appropriate. The interest income forecast for the same period has far exceeded expectations by £20.5m, despite a large percentage increase from prior year. The Corporation's Treasury advisers predicted that rates would increase to 4.5% in 2023 but by March 2024 would decrease to 4%. Instead, rates have been higher than the estimates suggested, and have been 5.25% since September 2023. The estimates were made on the best available information at the time of setting the budget from trusted sources and therefore are not suggestive of weaknesses within the Corporation's budget setting process.

Reserves and risks

In 2022-23 the Corporation contributed a planned £9.7m to the City Fund reserves. In addition to this £20.8m was taken into 2023-24 as contingency to mitigate emerging pressures within inflation and specific service-related demand pressures, as a result of a year-end surplus outturn.

As a result, the Corporation expected to commence the 2023-24 financial year with £20m in un-earmarked general fund reserves, which can be used for any purpose, and £133.6m of reserves earmarked for specific purposes or projects. Capital and Housing Revenue Account Reserves are held in addition to these. The budget expects that general fund reserves would remain unused at the end of 2023-24 and that overall earmarked reserves would reduce by £8.2m to £125.4m. Although the 2023-24 budget does allow for a £23.2m contribution to reserves this is offset by planned usage for specific purposes for which the reserves have been set aside for, most notably in Major Projects which the Corporation has committed to delivering and where a substantial balance has been built up in previous years to support planned projects. The Major Projects Reserve is also used to support the financial position in the short-term and is evidenced through the Major Projects Reserve reconciliation, in addition the Corporation demonstrates a track record of robust budgetary control.

Grant Thornton published a paper 'Lessons from recent Public Interest reports' in 2021 which includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. The Corporation's £20m of general fund reserves is 12.5% of the net expenditure requirement (before contribution to reserves) for 2023-24 and this position increases further when earmarked reserves are considered (to 90.5%).

Due to the unique nature of the Corporation, there is limited comparable information with which to benchmark its reserves position to develop a full picture of financial sustainability. Based on the 2022-23 audited accounts of London Borough councils, the Corporation's nearest neighbours, the average ratio of general fund and earmarked reserves to net expenditure is 55%, with the Corporation far in excess of this level, making it well placed to respond to future uncertainties. The Corporation would be ranked within the top 3 authorities when compared to other London Boroughs (top 10 councils included in the table).

Rank	Authority	General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)	Average for London Boroughs
1	Westminster	155%	55%
2	Wandsworth	106%	55%
3	Hounslow	90%	55%
4	Kensington and Chelsea	87%	55%
5	Hammersmith and Fulham	75%	55%
6	Lewisham	73%	55%
7	Richmond upon Thames	66%	55%
8	Greenwich	65%	55%
9	Southwark	60%	55%
10	Newham	57%	55%

Financial sustainability

The MTFP includes a deficit position in 2025-26 and 2026-27 totalling £24.1m. Current levels of reserves would be sufficient to support the deficits and still maintain a strong position. However, reserves are a finite resource and once used require replenishment to protect the organisation against unanticipated pressures or to support the achievement of future objectives. The use of earmarked reserves to support the financial position is carefully managed to ensure sufficient funds are set aside to address future deficits with a clear separation of funding to support the Major Projects programme and therefore does not impact the Corporation's ability to meet its intended objectives. Nevertheless, it is imperative that the Corporation explores ways to bridge the medium-term budget gap without the use of earmarked reserves.

In addition to reserves the Corporation mitigates budgetary risks and pressures by setting aside contingencies within the budget each year for known and quantifiable pressures such as pay and price inflation. Underspends from 2022-23 were carried forward to support known one-off pressures outside of pay and inflation, such as energy price rises. The result, to date, is a forecast surplus position at year-end and provides some headroom should actual pay, prices, energy or unanticipated risks occur.

Each year when setting the budget, the Chamberlain (Section 151 Officer) is required to make a statement confirming whether the reserves of the Corporation are adequate. The statement for the 2023-24 budget and MTFP is positive in its confirmation of this and is consistent with the evidence observed. This statement must also confirm the robustness of estimates included within the budget, in reaching that conclusion the Chamberlain assesses potential risks to achieving the required budget position. Risks are clearly identified within the budget documentation for scrutiny by decision makers, to ensure they are complete, and are categorised between those within the control of the Corporation and those outside of its control. Risks identified outside of the Corporation's control relate to national macroeconomic issues we would expect to be considered such as recession, inflation, business rates reform and changes to local government funding. We would expect internal risks to cover cost overruns and delayed capital projects, housing (including quality/repairs and maintenance and overspends on the HRA), people (recruitment, retention, capacity and skills), the impact of financial responsibilities for the City Police, savings performance and implementation of the EPR system. We did not specifically identify risks being considered in relation to housing or the EPR system implementation within the budget reports. Other potentially relevant risks identified at London Borough councils have been related to IT system failures and the impact of climate change and achieving net zero. Whilst not included within the budget reports to Committee these risks are separately reported to the relevant Committees throughout the year. In addition, although risks have been identified, there is limited information as to their potential impact. Particularly for internal risks within the Corporation's control. We believe decision makers would benefit from being able to quantify the potential risk to assess if contingencies and reserves available to respond are sufficient. As such, there is the opportunity to review internal risks related to to the budget setting process for completeness and financial impact – refer to **Improvement recommendation 1** on page 24.

Savings

The City Fund seeks to achieve savings and efficiencies from three key sources within its budget – Target Operating Model (TOM) savings, 12% permanent finance savings, and savings from the Fundamental Savings Review.

The Target Operating Model (TOM) was approved by the Court of Common Council in December 2020. It was intended to transform City Corporation leadership and organisational structures and enable the organisation to become more efficient. The TOM programme, and departmental restructures associated with this, continued throughout the 2022-23 financial year and completed at the end of December 2023. 12% annual efficiency savings were required to made alongside the TOM programme and represent permanent budget reductions from 2021-22 onwards. In addition, the Corporation committed to the Fundamental Savings Review approved in 2019-20 to be delivered across five years from 2020-21 to 2024-25.

The TOM target and 12% reduction combined totalled £17.04m. The TOM savings, in isolation, exceeded expectation by £2.84m per year. Of the total savings target, £13.9m, permanent savings have been realised which will recur each year, with a further £2.6m savings achieved through temporary measures such as holding vacancies, as departments complete their TOM. £0.86m savings are unachieved at the end of 2022-23 and are included within the 2023-24 budget.

The 2022-23 budget included savings from all three key sources and a year-end surplus was achieved. One factor in achieving this position was vacancies held due to the delays in transitioning to the new TOM structure. Although this had a temporary financial benefit it has had an impact on knowledge retention, experience and costs associated with temporary staffing. In addition, although a positive City Fund position was achieved, several departments have overspent which has been attributed to delays in implementing TOM changes and allowing them to embed. Savings from these sources continue to be included in the budget in 2023-24 onwards, reflecting recurring permanent savings and one-off savings not achieved from the prior year. The 2023-24 position to date is forecasting a surplus.

The TOM has been extremely challenging for the organisation. Savings have been greater than anticipated but this has been achieved through redundancies, flexible retirement and voluntary departures in excess of the levels anticipated. The original design of how the programme was to be delivered, the sequencing of the programme and the extent of the

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restructuring changes has impacted delivery (as the programme was originally due to conclude at the end of March 2022) and on staff morale. Response to the pandemic was a significant factor in the delayed delivery. This resulted in the inclusion of a staff related risk on the Chamberlain's departmental risk register due to increased vacancies, particularly in Finance. This is explored later in the report in the 'Capacity' section on page 21 and 22 of the report.

The TOM has concluded, and the savings realised as permanent, recurring efficiencies. However, the latest MTFP demonstrates budget gaps which are currently unaddressed in 2025-26 and 2026-27. The budget report refers to the Resource Prioritisation Refresh (RPR) programme At present there is limited evidence to suggest the outcomes, as it stands, medium-term gaps will likely need to be met from reserves. Discussions with officers highlighted that the current priority is to develop a robust People Strategy and update the Corporate Plan to ensure that any future efficiency programmes to address the gap effectively align to the Corporation's objectives and consider the impact on the establishment, learning from challenges observed with the TOM. As such there is no action plan in place to address medium-term gaps at this stage and this should be prioritised. As the TOM, Fundamental Savings Review and 12% flat rate target have likely exhausted savings through 'salami slicing' of budgets, it will be vital that any newly developed efficiency programmes focus on transformation and consider income generation opportunities alongside cost savings – refer to **Improvement recommendation 2** on page 25.

The Corporation have established a Resource Prioritisation Refresh Programme (RPR), which aims to realign resources to corporate priorities, once updated in the Corporate Plan. The expectation is for the programme to create headroom, via a review and disposals of operational property and opportunities for income generation. This will enable the Corporation to reallocate funds, rather than being able to deliver further significant savings. Therefore, further work will still be required to close the medium-term financial gap.

The Corporation has set up a Savings Working Group during 2023, as part of the RPR, to aid the development of the next phase of efficiency planning, the working group will also investigate income generation opportunities. The Corporation does have experience and internal expertise it can call upon to assist in this area, in particular the Remembrancer's Office and Corporate Communication team, who already successfully generate income from events and filming opportunities respectively.

Savings from all three key sources are included within the budget and monitored, implicitly, through quarterly budget monitoring reports taken to the Finance Committee. In addition to this the Finance Committee, Corporate Services Committee and Policy and Resources Committee have received stand-alone updates on the TOM to ensure it receives an additional level of focus from Members. The Corporation has an Efficiency and Performance Committee, a sub-committee of the Finance Committee, responsible for the better performance of the Finance Committee's duties in the areas of efficiency and performance. The Committee has not met since February 2022, despite the TOM not being complete at that date. Further investigation has confirmed that this coincided with the Chairman becoming a member of the Finance Committee and the sub-committee being repurposed into an Efficiency and Performance Working party, who met twice 2023/24 following approval of their role by the Finance Committee. As the Corporation moves towards the next stage of efficiency and savings planning, and these newly established arrangements are embedding, the Corporation should keep the arrangements under review to ensure they are effective in monitoring the programme, sufficiently frequently and develop as the programme expands.

The Corporation previously had a TOM Programme Team in place to facilitate co-ordination and provide capacity to deliver the programme. An Operational Property Board and Income Generation Working party have been established in 2022 and 2023, respectively, to co-ordinate these key workstreams of the RPR. These provide co-ordination arrangements. Again, these arrangements should be kept under review to ensure that additional teams are established as workstreams within the programme develop– see **Improvement recommendation 2** on page 25.

Housing Revenue Account (HRA)

The Corporation is a provider of social housing and as such maintains an HRA. The City Fund is not available to fund HRA services and the HRA is ringfenced by legislation, meaning that the account is financially self-supporting. As such, the Corporation sets a budget for the HRA annually which is separately identifiable from the City Fund budget. Members of Community & Childrens Services Committee approve this annual budget. The 2022-23 HRA budget was approved in December 2021 and planned for a £0.247m surplus, taking the balance on the HRA from £0.593m to £0.840m. Members of the Committee are updated on the forecast position at several stages in the year. The anticipated position declined through 2022-23 before achieving an outturn position of a small £0.064m surplus and a year-end balance of £0.226m.

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	2022-23 Original budget £m	June 2022 forecast £m	January 2023 update £m	2022-23 Outturn £m
Expenditure	(12,428)	(12,749)	(12,458)	(14,185)
Income	15,994	16,103	15,453	17,215
Other movements	(366)	(210)	(145)	33
Transfer to Major Repairs Reserve	(2,953)	(3,000)	(2,963)	(2,999)
Surplus/(Deficit)	247	143	(113)	64
Balance b/f	593	82	162	163
Balance c/f	840	225	49	226

Members were presented with the HRA 5-year forecast in July 2022, projecting that the HRA would go into deficit by the end of 2023-24, reaching £1.281m deficit by 2026-27, due recurring deficits each year. By 2026-27 recovery was expected to occur. This outlook presents a risk that the HRA would not be self-supporting in the medium-term.

£m	2022-23	2023-24	2024-25	2025-26	2026-27
Expenditure	(12,749)	(13,387)	(13,654)	(13,927)	(14,206)
Income	16,103	17,193	17,698	18,928	19,706
Other Movements	(210)	(1,582)	(1,836)	(1,847)	(1,593)
Transfer to Major Repairs Reserve	(3,000)	(3,100)	(3,200)	(3,300)	(3,400)
Surplus/(Deficit)	143	(875)	(992)	(147)	507
Balance b/f	82	225	(650)	(1,642)	(1,789)
Balance c/f	225	(650)	(1,642)	(1,789)	(1,281)

Causes of the expected deficit position are slippage in rental income from new build projects which have been delayed (officers predict that the delays have been up to two years and caused income forgone of £1.2m per annum), the cost of servicing an additional £4m debt as a result of the Great Arthur House Cladding legal decision, the assumption of increased inflation of 5% in the first two years, and slightly reduced service charge recovery calculations.

The 2023-24 HRA budget and 5-year forecast have since been updated. The budget suggested that a £0.296m surplus would be made in-year resulting in a year-end balance on the HRA of £0.345m. At January 2024 the position has remained relatively stable with a £0.075m surplus and a year-end forecast balance of £0.301m based on up-to-date information. However, this level of reserve is very low and a 2% increase in expenditure or reduction in income would convert the surplus into a deficit.

The original budget assumed an expected capped level of rental increases of 5% in its estimates, this was used as a basis for medium-term estimates also. Subsequent to setting the budget, the 2023 Rent Standard was released by Government, announcing the cap would be 7% (linked to CPI inflation). At the start of the 2023-24 financial year the CPI rate of inflation was 10.1% compared to the assumed rental increase of 5% and therefore a causal factor in the medium-term deficit position. The 5-year forecast has been updated as at January 2024 and demonstrates an improved position in the medium-term, the previously anticipated deficit in the medium-term has been addressed and the HRA is now expected to remain in surplus throughout the period, building up each year. By 2028-29 the balance on the HRA is expected to be £1.876m and would require a 8-10% change in income or expenditure to eradicate the surplus. The Corporation have cited additional rental income from new build projects (COLPAI, York Way and Sydenham Hill) finally coming on-stream after numerous delays. The improved position is within expectation, due to an expected increase to 7.7% in the rent cap for 2024-25 and falling inflation, which was 3.9% in December 2023.

£k	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Surplus/(Deficit)	75	111	(55)	603	302	615
Balance b/f	226	301	412	357	960	1,262
Balance c/f	301	412	357	960	1,262	1,876

Given the low level of reserves in the early stages of the medium-term outlook, and volatility in the position observed in 2022-23, we believe Members would benefit from more intensive reporting, more frequent and more detailed, in relation to performance of the HRA. This increased level of oversight will allow decision makers to take corrective actions in a timely manner as they occur – refer to **Improvement recommendation 3** on page 26.

HRA finance was established as a red-rated risk on the Chamberlain's departmental risk from November 2023. This decision was made based on the five-year budget forecast for the HRA account. With inflationary pressures coinciding with the conclusion of the current contract for repairs and maintenance, expenditure is expected to increase across the HRA portfolio.

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Including the risk on this register does ensure there is greater oversight of the risk however this risk register is maintained by the Finance Committee, with reporting on the HRA being overseen by the Community & Childrens Services Committee – there is risk of the information is not being overseen by the appropriate committee– refer to **Improvement recommendation 3** on page 26.

To fund capital expenditure associated with the housing stock the Corporation maintains a Major Repairs Reserve (MRR). The HRA capital programme is predominantly funded from transfers into the reserve from the HRA, loans from the City Fund and City Cash and contributions from the Greater London Authority. The revenue cost of those loans is recognised within the HRA and deemed affordable in the medium-term per the latest 5-year plan.

The programme of works in 2022-23 and the medium-term focusses on the decent homes program, window renewal and roof replacements. For 2022-23 the HRA capital programme forecast £20.5m of expenditure experienced slippage, achieving a year-end outturn of £17m.

Despite the overall underspend repairs, maintenance and improvements costs, specifically, were overspent by £0.654m. This trend continues in 2023-24 with a forecast year-end underspend on the capital programme of £22.2m but an overspend on repairs and maintenance within the position of £1.1m. The increased expenditure was driven by increased demand for breakdown and emergency repairs and is suggestive of a repairs and maintenance programme which is reactive in its nature, as opposed to proactive in addressing housing quality issues before they escalate. The Corporation would benefit from shifting the focus of the repairs and maintenance programme to a more proactive and pre-planned approach to address the overspends – refer to **Improvement recommendation 4** on page 27.

The challenges observed have been attributed to an ineffective repairs and maintenance contract and under-investment in the programme in prior years. To address these issues the Corporation has implemented changes in key personnel, at the Director and Assistant Director level, within the relevant department. These newly appointed individuals are currently focussed on procuring a new repairs and maintenance contract, with the aim of responding to the inefficiencies identified in the existing contract. The Housing Management Sub Committee have been provided with regular updates on the progress of this procurement.

To take a more proactive approach to repairs and maintenance the Corporation would benefit from having a forward-looking Housing Strategy, covering the same planning horizon as the HRA, and an Asset Management Strategy for the housing stock. Both key strategies will allow the Corporation to plan ahead for future housing numbers and required cyclical improvements in advance, with the aim of saving additional costs of expensive emergency repairs. There was no evidence of either of these strategies being in place for 2022-23 and we have been made aware that the new management team within Community & Childrens Services are currently progressing these – refer to **Improvement recommendation 4** on page 27.

At the time of setting the July 2022 5-year forecast, which demonstrated a medium-term deficit on the HRA, the Corporation considered two options to respond to the forecast:

- reduce the cost base in these years and/or to delay where possible the major works programme and so reduce interest charges and capital repayments.
- fund specific planned capital works from loans from City Cash and City Fund, which would be repaid, but would mean expected revenue reserves would remain in surplus.

It was acknowledged that in conjunction with these options that an external review should be carried out to suggest areas of potential savings to enable longer-term remodelling of the HRA and ensure its ongoing financial viability. There is evidence to confirm that capital works have been funded from loans from the Corporation's funds, as well as grants. However there remains the opportunity to maximise efficiency, and financial sustainability, of the HRA capital programme by undertaking an external review of the cost base and/or remodelling to identify savings in the medium-term and boost the HRA and MRR reserve position further – refer to **Improvement recommendation 4** on page 27.

We note that the Corporation has a relatively small housing portfolio compared to other London Borough councils with 1,860 dwellings at the end of 2022-23. Based on 2021-22 figures this is the fourth smallest housing portfolio of all local authorities. However, the size of the portfolio does not negate the Corporation's responsibilities to its resident to provide quality housing provision and suitable living conditions. Progress of the Major Works Programme, which includes repairs and maintenance, is monitored at Housing Management Sub Committee, who meet quarterly. This is sufficiently frequent to address the associated risk.

Financial sustainability

Capital

The estimated capital programme for 2023-24 is £444.2m, a significant increase of 180% on the prior year. The majority of this (78%) is focused on two major projects (Museum of London and Salisbury Square) and Housing Revenue Account new builds and improvements to existing homes.

Considerable slippage was observed in the capital programme in 2022-23, with expenditure of £114.2m against a budget of £217.1m for the City Fund. As a result of this slippage, and a risk identified in relation to rising inflation rates, Members approved a pause in the programme for 2023-24, whereby no new bids for capital investment would be permitted in 2023-24 but would resume from 2024-25 onwards.

In developing the capital programme Members approve, in principle, capital bids for high priority projects and set aside the funds to support these projects from internal funds, reserves, cash and relevant grant. The Corporation limits its exposure to interest rate risk by avoiding external borrowing as a source of funding. Once projects are approved in principle a gateway review, option appraisal and project plan are undertaken before Members confirm schemes remain a priority, and a drawdown of the funds approved in principle is permitted. The Resources Allocation Sub-Committee receive regular Capital Updates which allow them to review this information and ultimately release relevant funds.

In 2022-23 the Committee has considered schemes from 2020-21 to 2022-23, initially approved in principle in the relevant year, and now being reviewed to establish if they have reached an appropriate stage in the capital process to release all or some of the fund initially approved. The Committee review projects, and allow the release of funds, when moving from approval in principle to commencing a gateway review process, at key milestones in an ongoing gateway review or when supporting project plans are in place. The fact that projects approved in prior years are still going through this approval process is is suggestive of a lack of pace, capacity, expertise, underlying governance and/or leadership within the relevant project teams to progress projects following approval in principle. Slippage in the capital programme itself also suggests management of projects once they have commenced could also be improved. This conclusion is supported by Internal Audit, who carried out a review of Compliance with the Project Management Framework, giving limited assurance. The review found non-conformance with the procedure. The Corporation would benefit from an updated, robust project framework to take capital projects from initiation all the way through to completion, managed by a dedicated Project Management Office (PMO).

To encourage consistent application and compliance with the framework additional training may be required, but we do note that as a result of the Internal Audit review expectations to consistently apply the procedure have been clarified.

The Corporation plans to develop a new Board with the purpose of overseeing capital activity. This will ensure that there is dedicated Member and officer oversight of the full capital programme, but does not mitigate the need for robust, day to day operational management of individual projects within the programme. For 2023/24 financial regular capital forecasting is in place to mitigate this risk. The Corporation implemented a Projects and Procurement Sub-Committee in October 2023 as a response to the findings of a project governance review, resulting in a proposal to introduce a portfolio approach to programme and project management. Members endorsed the proposals for the creation of an Enterprise Portfolio Management Office (EPMO) and to introduce a Portfolio Board to be Chaired by Town Clerk to act as the gateway to Member governance. Since July 2023 a small portfolio management implementation team (2FTE) has been recruited. A key finding from the review was an urgent lack of capacity and internal capabilities to effectively embed a portfolio management approach. This is being addressed through the development of an EPMO as part of the reorganisation of the Commercial and Project Governance divisions but remains in progress.

The Corporation has an existing Capital Buildings Board which has met regularly since 2018. Their remit is management and oversight of major capital building projects, with focus on overall direction, financial control and reviewing projects. Throughout 2022-23 focus has predominantly been on the Museum of London Relocation Project, New Museum Project, Salisbury Square Development and the Police Headquarters Project, existing multi-year projects. It is imperative that in developing a new Board the Corporation ensures that there is no duplication of responsibilities between the existing Capital Buildings Board, any new Board, Finance and the operational project management teams. There is the opportunity to review governance arrangements in place to monitor and project manage all projects within the capital programme to avoid the need to pause it in future years – refer to **Improvement recommendation 5** on page 28.

During the pause of the capital programme a wholesale review of the programme, including major projects and business as usual (BAU) projects, took place in October 2022. The aim of the Capital Review was to ensure that the Corporation lives within capital budgets for the financial year 2022-23 and 2023-24 across City Fund and City's Cash. During this review officers were given the opportunity to put forward revised forecasts for inflationary and other pressures, and the information was used to determine whether projects remained a priority against specific criteria and feasible within the approved in principle funding envelope, or if scope could be amended.

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The review identified expected overspends across the capital programme of £50.7m (of which £16m related to the City Fund), including those already contracted or in progress as well as those yet to commence. The overspend has been mitigated by only continuing with those projects already in progress, under contract or green-rated as they are expected to deliver or are high priority. To achieve this, difficult decisions were made to cease several projects yet to commence and rephase projects which remained a priority and were still expected to meet objectives. It is expected that the rephased projects will be reviewed as part of the 2024-25 budget setting process.

Although challenges have been noted in relation to the delivery of the capital programme, the Corporation has been proactive in responding via the wholesale review, reprofiling and pausing of the programme. The action has been deemed timely and Members of the Resource Allocation Committee have been well-informed of the review throughout the process. Latest monitoring information expects slippage in the programme to continue in 2023-24, but at an improved level - at 27% underspend compared to 47% in 2022-23. The positive direction of travel provides assurance over the effectiveness of the actions being taken, noting that a time lag between the capital review process and financial impact is to be expected. Future years capital forecast is an expected overspend, and the Corporation will need to explore longer term actions it can take to address the overspend, as pausing applications for new bids and cancelling capital plans will not be sustainable in the medium-term. Failing to identify a longer-term solution would have negative implications in the Corporation being able to fulfil Corporate Plan objectives, which currently commit to ensuring that spaces are secure, resilient and well-maintained, communities have the facilities they need, and enterprise is inspired. Each of these commitments is supported by an effective estate – see **Improvement recommendation 5** on page 28. A caveat is noted, that the Corporate Plan expires in 2023 and an updated plan is expected to be developed, as such objectives may change. However, given the nature of the organisation we would expect the estate to continue to feature in some form within the updated objectives.

CITY FUND	Budget 23/24	Current Year Actuals @ 31/09/23	Current Year Forecast @ Q2	Forecast vs Budget in year	Future years budget	Future years forecast	Forecast vs Budget in future years	Total budget vs Total Forecast
BAU Capital and SRP	£m	£m	£m	£m	£m	£m	£m	£m
Subtotal	190.9	27.9	152.0	(39.0)	222.7	217.1	(5.6)	(44.6)
Major Projects Subtotal	256.9	50.3	174.3	(82.6)	565.8	643.1	77.3	(5.3)
Total	447.8	78.2	326.3	(121.5)	788.5	860.2	71.7	(49.9)

Despite the pausing of the capital programme the Corporation has acknowledged the need for urgent health and safety capital works to take place across the estate and set aside a £3m contingency to fund these, and separately ringfenced £13m from Major Projects Reserves to support urgent health and safety works at the Barbican, subject to business case approval. Discussions with officers and various reports to members have cited an insufficient repairs and maintenance programme as a concern. We note £30m risk reserves is being released to support urgent health and safety cyclical works, it is vital that these urgent works continue to be prioritised. During 2022-23 Internal Audit completed a review of Corporate Health and Safety – Second Line of Defence which received limited assurance and 3 red-rated, high priority recommendations. It also acknowledged that the Corporation had been issued an Improvement Notice by the Health and Safety Executive in response to an incident where an individual suffered life-changing injuries. The findings of the Internal Audit review focussed on ineffective arrangements by the Corporate Health Safety and Wellbeing Committee to monitor departments' arrangements for identifying, assessing, recording, monitoring, managing or escalating health and safety risks. To ensure that the contingency set aside in the capital programme for health and safety works can be used effectively the underlying governance arrangements to identify and monitor health and safety risks in the estate need to be robust. Internal Audit has confirmed that a new Corporate Health and Safety Business Plan has been developed and includes Corporate Key Performance Indicator targets. Internal Audit expect to undertake a follow up review in 2023-24 which will determine if the governance arrangements are effective and well-embedded, at which point it will be clearer whether there is a risk in relation to health and safety.

An independent strategic review of the City Corporation's health and safety arrangements was undertaken by Quadriga Health & Safety Ltd and reported to Members in January 2024. It provides several recommendations to take forward, aimed at ensuring the underlying governance arrangements in relation to health and safety demonstrate best practice. The outcome of the Corporation's response to these recommendations will not be known until the 2024-25 financial year.

Treasury Management

The City Fund maintains a strong, net investment, balance sheet position consisting of £994.3m in short term investments and cash and cash equivalents at the end of 2022-23. Although this is a reduction on the prior year of £31.1m, there remains 2.16 times more investment assets than current liabilities due within the next financial year, this is considered a strong position. All investments are considered to be liquid and can be realised within less than a year should the Fund require readily available cash.

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The City Fund does not hold any long-term investments, outside of investment properties from which it receives rental income. There are a few factors behind this decision one of which relates to the need to maintain liquidity to support upcoming major capital projects required under the Authority's increasing capital financing requirement and due to the size of the Authority's Collection Fund. Long-term investments would not be readily accessible but generally have higher rates of return than short-term investments. The Authority, as per CIPFA's Treasury Management Code of Practice, follow the Security, Liquidity and then Yield principles. We note due to the above factors Security and liquidity of the investments have been key priorities, but we note that the City Fund may have the opportunity to increase income from investments by converting some shorter-term balances into longer term products and still maintain a strong current asset ratio subject to the authority's cash requirements over the short term – refer to **Improvement recommendation 6** on page 29.

The Corporation sets its Treasury Management-Strategy Statement and Annual Investment Strategy (the Strategy) at the same time as the budget, ahead of each financial year. For 2022-23 and 2023-24 the-Strategy gives priority to the security and liquidity of investments, before yield. The Corporation acknowledges within its Treasury Management-Strategy-Statement and Annual Investment Strategy that it currently manages significant short-term investment balances. These balances are expected to decline in the next few years as the capital programme progresses, a significant level of core cash will persist for the next ten years based on current financial plans.

Prior to 2023/24, the Financial Investment Board (the Board) was responsible for strategic oversight and monitoring of the performance of the City Fund's financial investments, with the Investment Committee having oversight of both this Board and the Property Investment Board. In 2023/24 the Financial Investment Board and the Property Investment Board were merged into the Investment Committee, which then took on responsibility for the strategic oversight and monitoring of the performance of the City Corporation's City Fund and City's Estate investments. The newly constituted Investment Committee first met in May 2023 and meets, every 2-3 months and receives an update on the treasury management portfolio at each meeting.

The 2022-23 Strategy expected that the bank rate would rise incrementally from 0.50% to 1.25% over the medium-term, being 0.75% for 2022-23. The treasury outturn position at the end of 2022-23 noted that the income yield on short-term investments for 2022-23 was 2.13% for City Fund compared to 0.5% in the prior year. Following shocks to the financial market in the UK in September interest rates changed significantly and the rates ended at March 2023 at 4.25% and have continued to rise to 5.25% where they currently remain. We note in this current environment, this does present opportunities to the City Fund to potentially obtain significantly higher income generation from this area, given its high level of short-term investments.

In addition, due to the Authority having previously held shorter term deposits whilst interest rates remained low, the Authority is in a strong position to take advantage of changes in the market subject to the authority's cash requirements over the short term – see **Improvement recommendation 6** on page 29.

Pension Fund

The Corporation is the administering body for The City of London Pension Fund, which is part of the national Local Government Pension Scheme (LGPS). All aspects of the pensions administration service is contained within one team comprised of nine full time equivalent staff, entirely focused on pensions matters.

Investments are made via a range of investment managers selected by the Fund to effectively balance risk, return and diversification. Investments are made in line with the Funding Strategy Statement. The Funding Strategy Statement was updated and approved in February 2023, prior to this a statement was obtained from September 2021. As such, there is evidence this is reviewed with sufficient regularity.

The Corporation has a dedicated Pensions Committee responsible for ensuring compliance with the LGPS Regulations including reviewing strategy, monitoring performance of the Fund, consulting stakeholders and liaising with actuaries and investment managers. The Pensions Committee receives a full suite of information with which to carry out its responsibilities, including presentations from external stakeholders such as the actuary, investment managers and pensions administrators. There is regular performance reporting taken to the Committee to allow members to scrutinise and hold administrators and managers to account as required. Performance is reviewed at least quarterly which is considered an appropriate level of oversight based on the risk register and schedule of Committee meetings, it is in line with common practice at other local authorities.

The investment performance of the Pension Fund is subject to regular monitoring by the City of London's custodian BNY Mellon, City officers, the investment consultant, as well as the Pensions Committee. Performance for 2022-23 is summarised within the Pension Fund Accounts supported by the valuation of the Fund which is undertaken by expert actuaries, Barnett Waddingham. For 2022-23 the Fund was in a net asset position which is positive, amounting to £1,375.4m (31 March 2022: £1,388.1m). The Fund has more assets than anticipated liabilities and so the Fund is affordable.

Financial sustainability

Pension Fund (continued)

The Fund's primary long-term investment objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities and this has been achieved for 2022-23. Net returns on investments amounted to a loss of £1.1m (2021-22: gain of £97.8m) before investment management fees of £7.2m. However, this has not impacted the asset position.

Risks in relation to the Pension Fund are included within the overall consideration of risk within the Chamberlain's department in accordance with the City of London Corporation's risk management framework. The risks relating to the Fund's investments and administration are monitored and mitigated separately, documented in the Pension Committee's risk register. This is presented at least quarterly to the Committee to ensure that Members have appropriate oversight when making pension-related decisions. The risk register contains 13 risks, of which only one is red-rated and considered high risk. This is in relation to the McCloud Remedy and is a national issue which has been unresolved since 2018. On 10 March 2022 legislation was passed to support the implementation of the McCloud remedy, thereby removing of age discrimination from the Fund. However, further guidance and legislation is required before it can be applied directly to the LGPS and as such remains a risk until uncertainty is addressed. This is a national issue which is largely out of the LGPS control.

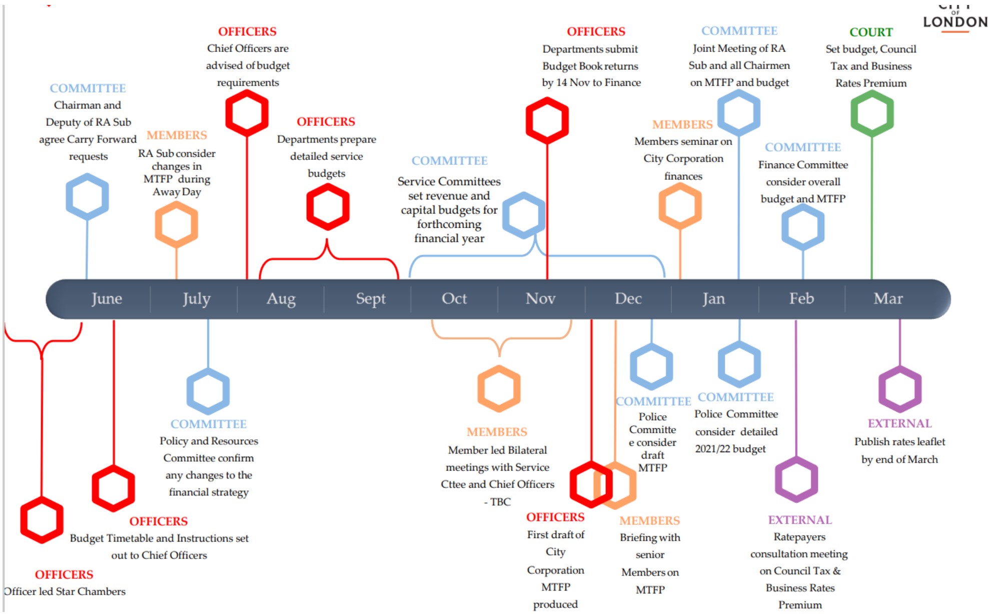
Internal assurance is obtained through regular oversight from the Corporation's Internal Audit function. The most recent audit of the Pension Fund's investment arrangements was undertaken in 2019-20 which provided a rating of "substantial assurance" indicating that there was a sound control environment with risks to system objectives being reasonably managed. There is no evidence to suggest a decline in arrangements from review of information taken to committees, the media or discussion with officers.

Financial governance

Budget setting

The budget setting process, and stakeholders involved, has remained consistent with the prior year. The process is formalised in an easily accessed and understood document which clarifies the timeline, milestones, responsible individuals and tasks at each stage. This was last refreshed and presented to the Finance Committee in July 2023 and considered timely to inform the 2023-24 budget setting process. Noted later in this report, there has been significant turnover in the Finance team during 2022-23 and 2023-24 and, as such, the update and communication of the approach ensures that all staff are trained in following the process and it can be applied consistently. The previous process was largely the same as the update, well-understood and no issues with departure from the process have been noted.

The budget setting process commences in June each year with a Star Chambers process. This is a widely used approach within the public sector and allows for engagement of internal stakeholders across all departments submitting their budget proposals, including savings and growth, for detailed scrutiny by relevant officers prior to finalisation. The budget cycle culminates in the final budget being approved by Court of Common Council in March each year. The timeline was fully complied with in setting the 2022-23 and 2023-24 budgets.



Due to the medium-term budget gap identified, when setting the 2022-23 budget and MTFP, it was suggested to Members that an option to identify further savings when updating the budget and MTFP in 2023-24 would be to undertake a zero-based budget exercise. The budget process, historically, has used the roll forward approach whereby the prior year budget is used as a baseline and updated for known changes in funding, income and expenditure and assumptions adjusted for more up to date information. The zero-based budgeting approach starts from a 'zero base' and therefore all income, expenditure and funding assumptions, growth and savings must be justified. The zero-based budgeting approach is well-supported by the Star Chambers process and the approved process for setting the 2023-24 budget had the underlying governance mechanism in place to take this forward. However, we noted from the budget documentation that for 2023-24 the Corporation continued to use the roll forward approach. During the year the Finance team experience significant turnover and use of interims, including in senior roles. The zero-based approach is time and resource intensive and requires more capacity than the roll forward approach. The 2023-24 forecast outturn is positive and the continued use of the roll forward approach has not presented a risk to financial sustainability. However, given that the medium-term outlook continues to be a deficit in the later years of the MTFP, and the anticipated outturn is a surplus (in addition to a planned contribution to reserves), this may suggest that the Corporation could benefit from the zero-based approach when setting the 2024-25 budget and MTFP to ensure assumptions are robust and realistic and savings can be identified to close the medium-term gap. Capacity in the Finance team has improved, and recruitment continues to be prioritised – the Corporation should now review whether capacity is sufficient to support the process – refer to **Improvement recommendation 1** on page 24.

The Corporation continues to include stress testing and scenario planning on its key income assumptions, there is evidence of this within the budget where it is clear more pessimistic scenarios on business rates in particular have been considered. The analysis is undertaken in developing the budget but a full range of scenarios across optimistic, realistic and pessimistic are not presented to Members for the entire budget. Given that the outturn for 2022-23 and forecast for 2023-24 to date are a surplus position the decision not to include detailed analysis reflects the low, short-term risk. Should that risk change, the Corporation may consider including more detailed analysis in their budget documentation to assist decision makers in their understanding of the financial outlook.

Financial governance

Budget monitoring

The Corporation effectively monitors financial performance via its Revenue Budget Monitoring reports which are reviewed quarterly by the Finance Committee for the City Fund. The information presented in a detailed appendix ensures that members are made aware of latest budget, forecast outturn position and variances at City Fund Level and by individual department. Despite a surplus outturn position for 2022-23 and forecast surplus for 2023-24 this approach allows Members to identify overspends within the position, hold relevant officers to account and take corrective action in a timely manner to improve the year-end position. The information is reported to Members in an easily digestible format which includes narrative focusing on the most significant variances, graphical representation of trends in the data and tables of figures focusing on key income or expenditure streams. This approach ensures that Members are provided with a full suite of information with which to make decisions.

Stakeholder engagement

It is clear from the budget setting process that internal stakeholders are involved at each stages of the process. Internal stakeholders include officers within individual departments, Members, committees and the budget is ultimately approved by the Court of Common Council. There is evidence that external experts are also consulted as required, for example the use of Treasury Advisors to inform assumptions in relation to cash, borrowings and investments.

The process starts with individual departments developing their individual budget proposals and report these to their relevant committee for scrutiny by members, before being finalised and included within the City Fund budget. Initial proposals take place in December and allows sufficient time for challenge before the City Fund budget is approved. The final budget is sighted by members of the Finance Committee, the Resource Allocation Sub-Committee and the Chairs of Service Committees before approval by the Court of Common Council. This three-pronged approach is deemed to be robust and internal consultation is extensive.

There is no evidence of a formal public consultation taking place in relation to the annual budget, as is commonplace at other local authorities due to the legal requirement to consult. The budget process map confirms that in February each year, prior to approval of the budget, council tax and business rates payers are invited to a consultation meeting.

Residents are able apply to receive notifications from the Corporation, those that partake in this service are sent a paper consultation form to enable them to provide feedback in relation to the budget. Residents are also able to attend public committee meetings and share feedback via this route. It has been noted that there is limited uptake of either route, likely a factor of the low resident numbers in the locality. These measures, coupled with the informal meeting, ensure that the Corporation is meeting the minimum standards in obtaining public consultation in relation to the budget. However, to ensure that the benefit of resident feedback can be maximised the process could be improved, with the caveat that consultations are time-consuming and costly and therefore the approach should balance the cost and the benefit.

The Corporation publishes its active and past consultations on its website, review identified that the Corporation has undertaken 10 formal consultations since July 2021, which is relatively low. Therefore, in reviewing the consultation process in relation to budgets the Corporation may also consider the sufficiency of its wider consultation activities, again seeking to achieve a balance of cost and benefit in doing so – refer to **Improvement recommendation 7** on page 30.

Capacity

At the start of 2022-23 the Finance Committee recognised an amber-rated risk within its risk register associated with the impact implementation of the Target Operating Model may have on staffing and knowledge retention. In November 2022 the risk score was revised and increased, but remained amber-rated as vacancies emerged within the Finance team which were above the level that could be supported internally. By January 2023 the risk was escalated to a red-rated risk due to the resignation of an Assistant Director position placing considerable pressure on existing staff. The risk was further exacerbated by the departure of the Chief Accountant shortly after. Mitigations were mobilised which involved the use of temporary interim staff to fill these key positions, and other supporting roles, within the Finance team. By November 2023 sufficient mitigations were in place which allowed members to approve the reduction of the risk to amber following successful recruitment and fulfilment of the Assistant Director role and vacancies across financial services, enabling the realignment of workloads and decreased the likelihood that the service will fail to deliver its objectives. The Learning and Education Board was reinstated in July 2023 to support new, and existing staff, in undertaking their roles to minimise knowledge loss.

Financial governance

During September 2023 interviews were held for the Chief Accountant post and was successfully appointed, with an expected start date in January 2024.

Discussions with officers have suggested that vacancies within the Finance department were approximately 28 FTE at April 2023, including two key officer roles. The Finance Committee and Corporate Services Committee received confidential reports on this vacancy position in April 2023. Finance Committee received a further report in September 2023 and verbal updates have also been provided to Audit and Risk Management Committee. Given the associated risk consistent formal monitoring would have been beneficial to facilitate closer oversight, however we acknowledge that Members have been updated verbally to ensure awareness of the position – refer to **Improvement recommendation 8** on page 31.

The audits of the Corporation's accounts for 2020-21 to 2022-23 were delayed. The 2020-21 Statement of Account were approved by Members in December 2021 but due to a national technical accounting issue regarding infrastructure asset accounting completing the audit was delayed. Following resolution BDO completed and signed the audit opinion of the 2020-21 accounts in November 2023. This had an impact on the ability of Grant Thornton to complete the 2021-22 audit given the need to have assurances over the opening balances of the 2021-22 Statement of Accounts. The audit of the draft 2021-22 accounts commenced in November 2022 but due to the delays in relation to 2020-21, the need for updated actuarial reports and ongoing discussions on certain accounting treatments, the was audit completed and signed on 7 December 2023. At the time of writing, the 2022-23 audit is near completion and planned to be signed in February 2024.

Although Finance team capacity was identified as a challenge, other factors contributed to the delays in completing prior year audits of the financial statements. The Corporation has responded to their capacity challenges by prioritising recruitment of key finance team members and sourcing temporary external staff to support the process. The Finance team has been able to support the audit process to enable the outstanding audits to be signed in quick succession, clear the backlog, and resume the expected audit timeline for 2023-24. The Corporation will need to ensure future resilience of the Finance team by undertaking a detailed review of the required establishment and developing succession planning tools to avoid similar risks in future – refer to **Improvement recommendation 8** on page 31.

We note that the audit opinions for 2020-21 and 2021-22, where accounts preparation and audit process took place during the period of Finance team vacancies, were unmodified and therefore positive. We also plan to issue an unmodified audit opinion on the 2023-23 Statement of Accounts, as such, capacity has not impacted quality of the financial information.

The use of agency, consultancy and external temporary staff to bridge gaps in skills, experience and capacity comes at a higher cost to the Corporation than salaried employees. Expenditure on contingent labour in 2021-22 was £12.4m, 4.02% of the pay bill. Overall spend for 2022-23 is forecast to be in the region of £14.5m which amounts to a 14% increase in spend compared to 2021-22. Although this is a Corporation-wide figure vacancies in the Finance department has contributed to the increase, we also note that agency spend in relation to the Finance department was communicated via the confidential reporting noted. The overall increase in agency usage does highlight potential gaps in capacity, expertise or knowledge elsewhere in the Corporation. Recruitment and retention of staff is common issue being observed across the sector, leading to widespread agency usage.

We were unable to obtain information in relation to the vacancy factor associated with other departments and given the cost implication we believe Members of the Corporation would benefit from regular reporting on vacancy rates, agency spend rates and remedial action at Corporation-wide level to allow them to scrutinise, challenge and hold departments to account until the challenge has been fully addressed. – refer to **Improvement recommendation 8** on page 31. In the meantime, to help control spend in this area the Corporation has put in place additional controls from 1 May 2023 such as a documented approval process, limits on placement length, delegated responsibility for approval, monitoring controls and use of approved procurement routes only. The effectiveness of these measures will not be known without effective reporting of agency spend and vacancy rates and therefore the recommendation is supported.

We are aware from discussion with officers that the Corporation are in the process of developing a People Strategy. This provides the opportunity to develop a supporting Workforce Plan which will estimate the required establishment and associated cost for future years to ensure that the Corporation has the appropriate establishment to deliver its services effectively, can plan, and control, the cost of this – see **Improvement recommendation 8** on page 31.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent any risks of significant weakness in current arrangements. The Corporation's financial arrangements remain fit for purpose.

Improvement recommendations

Improvement recommendation 1 – Budget setting	The Corporation should update the budget setting process to: • Provide additional detail to Members, specifically in relation to assumptions and risks. • Consider applying the zero-based budgeting approach when setting the 2024-25 budget and MTFP.
Improvement opportunity identified	More detailed information on the assumptions included in the budget allows decision makers to review, challenge and request adjustments, as required, to ensure assumptions are robust and realistic, based on information available at the time. Particularly for internal risks within the Corporation's control, decision makers would benefit from being able to quantify the potential risk to assess if contingencies and reserves available to respond are sufficient. As such, there is the opportunity to review internal risks related to the budget setting process for completeness and financial impact. The zero-based budgeting approach starts from a 'zero base' and all income, expenditure and funding assumptions, growth and savings must be justified which presents opportunities for efficiencies to be more easily identified.
Summary findings	Limited information in relation to business rates and council tax collection rates, inflation and pay award assumptions was observed in the budget setting documentation reviewed by the Finance Committee, Policy and Resources Committee and the Court of Common Council. Although risks to achievement of the budget have been identified there is limited information as to their potential impact, quantitative or qualitative, and evidence to suggest additional potential risks exist that have yet to be considered. Due to the medium-term budget gap identified when setting the 2022-23 budget and MTFP, it was suggested to Members that an option to identify further savings when updating the budget and MTFP in 2023-24 would be to undertake a zero-based budget exercise.
Criteria impacted	Financial sustainability
Management comments	*The Corporation's budget papers for 2024/25 have just been prepared and are on the agenda for review by Finance Committee on the 20th February. Within these reports there are specific references to the key areas of assumption and risks within the forecasts, although these do not fully address the areas highlighted by the auditors. Management have noted the recommendation and will ensure future reports are reflected with additional information.* *As the 2024/25 budget setting process is already complete there is therefore no time to consider a zero-based approach for this year. However, a review of the current process is beginning in advance of the 2025/26 process. A full zero-based approach can also lead to overinflation of budgets and are a considerable pressure on an organisation to complete in sufficient detail. It is therefore expected that the 2025/26 process will be an iterative budget process, building and learning from the current position. Key material areas will however be subject to move in depth scrutiny to ensure budgets are appropriate and the projections of the key drivers of costs and income are reflected in the budgets. Additionally, in light of the maturing approach to risk across the organisation, the risk assessment for the 2025/26 budget setting process will be broadened to encompass a wider spectrum of potential risks and their impacts.*

Improvement recommendations

Improvement recommendation 2 – Savings	The Corporation should prioritise developing a savings and efficiency plan as a successor to the Target Operating Model (TOM) and supporting programmes. In doing so the Corporation should: • Ensure the programme focuses on transformation and considers income generation opportunities alongside cost savings. • Continually review newly established governance arrangements for monitoring efficiency projects to ensure they remain fit for purpose and develop as the programme expands
Improvement opportunity identified	The TOM has concluded, however savings and efficiencies remain a vital tool in the budget setting process to ensure financial sustainability can continue to be achieved in the medium-term.
Summary findings	The TOM has concluded, and the savings realised as permanent, recurring efficiencies. However, the latest MTFP demonstrates budget gaps which are currently unaddressed in 2025-26 and 2026-27. At present there is limited evidence to suggest there is a succession plan to the TOM, therefore as it stands medium-term gaps would likely need to be met from reserves. The TOM, Fundamental Savings Review and 12% flat rate savings target have likely exhausted savings through 'salami slicing' of budgets. The Corporation has set up a Savings Working Group during 2023, as part of the RPR, to aid the development of the next phase of efficiency planning, the working group will also investigate income generation opportunities. There is also an Efficiency and Performance Committee, who are a sub-committee of the Finance Committee, responsible for the better performance of the Finance Committee's duties in the areas of efficiency and performance, taking a monitoring role. The Committee was repurposed into an Efficiency and Performance Working party, who met twice 2023/24 following approval of their role by the Finance Committee. The Corporation previously had a TOM Programme Team, an operational level team, in place to facilitate co-ordination and provide capacity to deliver the programme. An Operational Property Board and Income Generation Working party have been established in 2022 and 2023, respectively, to co-ordinate these key workstreams of the RPR. These provide co-ordination arrangements.
Criteria impacted	Financial sustainability
Management comments	*The Transformation Framework is currently under development, with a focus on:* • *Delivering financial efficiencies, and* • *Increasing financial value-add across the City Corporation* *This will be delivered through nine proposed workstreams (which are currently under review by ELB) under the Four pillars of the Transformation framework:* • *Organisational Excellence* • *Innovative Collaboration* • *Entrepreneurial Spirit* • *Raising our Game*

Improvement recommendations

Management comments

Two examples of Transformation workstreams already in train focused on cross-corporation income generation are as follows:

1.The Operational Property Review, which aims to:

- *Define an incentivisation scheme for Chief Officers/Service Committees to pursue opportunities aligned with Corporate Priorities, even without sufficient funding.*
- *Review and optimise property utilisation, aiming to reduce the number of properties owned/occupied by the City of London Corporation (CoLC).*
- *Identify opportunities to reduce property running costs and achieve annual cost reductions.*
- *Maximise financial returns on each property.*

2.The Income Generation workstream of Transformation involving:

- *Advertising plan A review has been completed of the Square Mile and is moving into implementation phase. Phase 2 includes a review of Open Spaces and both advertising and sponsorship potential*
- *An IPR strategy in early design stages to maximise income generation from licensing opportunities and protection of our own IPR*
- *A Retail strategy is in the design phase, which aims to embed retail best practice across the city-corporation through process efficiencies and develop a strategy to maximise revenue*
- *An agency has been engaged to develop a Sustainable Lord Mayor's Show, looking to generate year-round interest and revenue through exhibitions and smaller-scale events*
- *Maximising film income, building on our success in this space where a team of two brought in over £1.3m in 2022 and potential for further enhancing this income through film-related tourism*
- *Development of a Commercial Opportunities Group to drive a commercial culture across the organisation*

The Efficiency and Performance Working Party continues to provide direction and coordination of Transformation, income generation and efficiency activity at the City Corporation.

There is already a Transformation Team at the City of London with four team members (soon to be five). The team will likely bring in a delivery partner to assist with the delivery of the ambitious transformation programme that is currently in design.

Improvement recommendations

Improvement Recommendation 3 – HRA revenue	The Corporation should review its arrangements for monitoring the HRA including reviewing performance more frequently, more detailed information provided to Members regarding performance and monitoring consistently undertaken by the most relevant committee.
Improvement opportunity identified	An increased level of oversight by Members of the Community and Childrens Services Committee will allow decision makers to take corrective actions in a timely manner as they occur.
Summary findings	Members were presented with the HRA 5-year forecast in July 2022 which projected that the HRA would go into deficit by the end of 2023-24, reaching £1.281m deficit by 2026-27. This position has been updated as new information has become available and assumptions updated. An improved position eradicates the predicted deficit but a low level of reserves in the initial years of the HRA is expected, with a 2023-24 forecast balance of £0.301m. Therefore, the position is highly susceptible to unanticipated or volatile changes in assumptions. HRA finance has been established as a red-rated risk on the Chamberlain's departmental risk from November 2023. Including the risk on the register does ensure there is greater oversight of the risk however, the risk register is maintained by the Finance Committee, with financial reporting on the HRA overseen by the Community & Childrens Services Committee. There is a risk the information is not being overseen by the appropriate committee.
Criteria impacted	Financial sustainability
Management comments	*The Housing Revenue Account (HRA) 30-year Business Plan sets out the long-term financial position of this ring-fenced account. Whilst the HRA Business Plan is for a period of 30 years, the key focus is on the medium-term (five years) as there is more certainty on costs, demands, resources and pressures, to enable the prioritisation of housing investment.* *Members receive an annual update with recommendations as to any amendments to the Plan that may be required in the medium-term five-year forecast horizon.* *Children and Community services are the main committee for action on all aspects of the HRA - Finance Committee scrutinise the financial risk and ensure we are bringing into balance.*

Improvement recommendations

Improvement recommendation 4 – HRA capital	To improve efficiency in the HRA Capital Programme the Corporation should: • Shift the focus of the repairs and maintenance programme to a more proactive and pre-planned approach to address the overspends. • Develop a forward-looking Housing Strategy, covering the same planning horizon as the HRA, and an Asset Management Strategy for the housing stock. • Undertake an external review of the cost base and/or remodelling to identify savings in the medium-term and boost the HRA and MRR reserve positions further.
Improvement opportunity identified	The approach to repairs and maintenance of the housing stock has been a reliance on emergency, reactive and costly repairs attributed to an ineffective repairs and maintenance contract and under-investment in the programme in prior years. A pre-planned cyclical approach to these works would identify and make improvements at an earlier stage and prevent costly emergency works. Both the Housing Strategy and Asset Management Strategy are key strategies that will allow the Corporation to plan ahead for future housing numbers and required cyclical improvements in advance, with the aim of saving additional costs of expensive emergency repairs. Although an improvement in the medium-term outlook has been achieved following an update of the 5-year HRA forecast this has been achieved without a remodelling or formal review exercise, as such an opportunity remains to identify further savings from this exercise. This exercise is an opportunity to maximise efficiency, and financial sustainability, of the HRA capital programme.
Summary findings	For 2022-23 the HRA capital programme forecast £20.5m of expenditure, however, slippage led to a year-end outturn of £17m. Despite the overall underspend repairs, maintenance and improvements costs, specifically, were overspent by £0.654m. This trend is expected to continue in 2023-24. The increased expenditure was driven by increased demand for breakdown and emergency repairs and is therefore suggestive of a repairs and maintenance programme which is reactive in its nature, as opposed to proactive in addressing housing quality issues before they escalate. There was no evidence of either a Housing Strategy or Asset Management Strategy in place for 2022-23. We have been made aware that the new management team within Community and Childrens Services are currently progressing these. When setting the July 2022 5-year forecast for the HRA the Corporation considered its options improve the expected HRA position, as a result of the pressures of the capital programme. Alongside these options it was suggested that an external review should be carried out to suggest areas of potential savings to enable longer term remodelling of the HRA and ensure its ongoing financial viability. There is no evidence that a formal review has taken place.
Criteria impacted	Financial sustainability
Management comments	*Explanations noted for the Improvements & recommendations identified in HRA Capital. The Asset Management strategy will reflect the longer-term direction for the management and maintenance of our assets.*

Improvement recommendations

Improvement recommendation 5 – Capital programme	There is the opportunity to review governance arrangements in place to monitor and project manage all projects within the capital programme to avoid the need to pause it in future years. The review of arrangements should consider: • Developing an updated, robust project framework to take capital projects from initiation all the way through to completion managed by a dedicated Project Management Office (PMO). • Providing training within the updated framework to ensure compliance and consistent application. • Exploring longer term actions it can take to address the overspend expected in the medium-term capital programme as pausing applications for new bids and cancelling capital plans will not be sustainable in the medium-term. • In developing a new Capital Oversight Board, the Corporation must ensure that there is no duplication of responsibilities between the existing Capital Buildings Board, any new Board, Finance and the operational project management teams.
Improvement opportunity identified	Slippage in the capital programme and a backlog in gateway reviews is suggestive of a lack of pace, capacity, expertise, underlying governance and/or leadership within the relevant project teams to progress projects following approval in principle. Slippage in the capital programme itself also suggests management of projects once they have commenced could also be improved. Failing to identify a longer-term solution would have negative implications in the Corporation being able to fulfil the objectives within its Corporate Plan, which currently commits to ensuring that spaces are secure, resilient and well-maintained, communities have the facilities they need, and enterprise is inspired. Each of these commitments is supported by an effective estate.
Summary findings	The capital programme has experienced slippage in recent years and there is a backlog in moving from approval in principle to having a gateway review undertaken, to reach an appropriate point in the gateway review or have appropriate supporting project plans in place to allow Members to permit the release of funds for the projects. Internal Audit carried out a review of Compliance with the Project Management Framework, giving limited assurance. The review found non-conformance with the procedure. Expectations on how to consistently apply the procedure have been clarified since the Internal Audit review. As a result of ongoing slippage in the capital programme, and a risk identified in relation to rising inflation rates, members approved a pause in the programme for 2023-24, whereby no new bids for capital investment would be permitted in 2023-24 but would resume from 2024-25 onwards. The Corporation plans to develop a new Board with the purpose of overseeing capital activity. The Corporation has an existing Capital Buildings Board whose remit is management and oversight of major capital building projects. It is imperative that in developing a new Board the Corporation ensure that there is no duplication of responsibilities between the existing Capital Buildings Board, any new Board, Finance and the operational project management teams. There is the opportunity to review governance arrangements in place to monitor and project manage all projects within the capital programme to avoid the need to pause it in future years.
Criteria impacted	Financial sustainability
Management comments	*The Corporation is implementing a portfolio management approach to ensure effective governance and oversight of all projects across the entire project lifecycle. This will ensure visibility of project performance and risks and enable swift corporate action to address any issues such as slippage and to proactively manage costs. The new approach also includes roll out of an enterprise wide portfolio management system and refreshed Project Management Academy providing a comprehensive learning and development mandatory offer for all officers involved in project delivery.*

Improvement recommendations

Improvement recommendation 6 – Treasury management	The Corporation should continue to review its investment portfolio to ensure that it is maximising returns that can be generated within its Treasury Management Strategy in light of increasing interest rates.
Improvement opportunity identified	Long-term investments, although not readily accessible, have higher rates of return than short-term investments. The City Fund has the opportunity to maximise investment returns, investing monies for longer terms while rates are high, as the Corporation's Treasury Advisers predict that rates will fall in the medium term. This can be achieved whilst continuing to maintain a strong current asset ratio subject to the authority’s cash requirements over the short term
Summary findings	The City Fund does not hold any long-term investments, outside of investment properties from which it receives rental income given rising interest rates at the year end this provides the Authority an opportunity to have significant income generation from these Investments going forwards.
Criteria impacted	Financial sustainability
Management comments	Whilst Management notes the recommendation, the Authority must follow CIPFA’s Treasury Management Code of Practise which prioritises security and liquidity over yield. In addition, the Authority has a major project programme that needs to be funded over the short to medium term. The Treasury Management Strategy allows for investments up to three years and, as at the 31 March 2023 (when the Bank Base rate was 4.25%) all fixed term deposits were for 12 months or less. Keeping the fixed term investment to under 12 months has allowed officers to capture the upside of the successive increases in the Bank Base Rate. During 2023/24 the authority did enter into a three-year fixed term deal at very competitive rates (when the Bank Base Rate was 5.25%). Whilst officers will look for suitable opportunities to invest over the longer term, the primary objectives will remain the security and liquidity, to meet the funding needs of the Authority over the short to medium term.

Improvement recommendations

Improvement recommendation 7 – Stakeholder engagement	The Corporation should explore ways to increase, and maximise, resident feedback.
Improvement opportunity identified	Resident feedback on the budget, and other operations, provides beneficial insight from the users of those services that can be used to achieve improvements and efficiencies.
Summary findings	The Corporation is meeting the minimum standards in obtaining public consultation in relation to the budget. However, to ensure that the benefit of resident feedback can be maximised the process could be improved, with the caveat that consultations are time-consuming and costly, and therefore the approach should balance the cost and the benefit. The Corporation publishes its active and past consultations on its website, the Corporation has undertaken 10 formal consultations since July 2021, which is relatively low.
Criteria impacted	Financial sustainability
Management comments	*The Corporation is undertaking work to ensure that its communications and consultations with residents are streamlined, co-ordinated and reach as many residents as possible as cost-effectively as possible. A key part of this is ensuring that we are able to contact far more residents by email than currently for consultation and communications purposes, while recognising the value of in-person engagement.*

Improvement recommendations

Improvement recommendation 8 – Capacity	The Corporation should seek to respond to the staffing and capacity challenges it has faced in 2022-23 as a result of the Target Operating Model (TOM) by: • Ensuring regular Member oversight of vacancy rates, agency spend and mitigating actions Corporation-wide until the impact of the TOM has been addressed. • Undertaking a detailed review of the required establishment, for the Finance team, and developing succession planning tools to avoid future capacity challenges. • Developing a Corporation-wide Workforce Plan, to support the People Strategy.
Improvement opportunity identified	Forward planning and effective monitoring of the establishment, and changes in that establishment, will allow the Corporation to proactively manage capacity constraints and react in a timely manner where these are unanticipated.
Summary findings	Vacancies within the Finance department were approximately 28 FTE at April 2023, including two key officer roles. The Finance Committee and Corporate Services Committee received confidential reports on this vacancy position in April 2023. Finance Committee received a further report in September 2023 and verbal updates have also been provided to Audit and Risk Management Committee. The Chamberlain's risk register to Finance Committee is updated monthly - highlighting any changes. The Corporation is in the process of developing a People Strategy, high level strategies such as this are commonly supported by a detailed Workforce Plan which will estimate the required establishment and associated cost for future years to ensure that the Corporation has the appropriate establishment to deliver its services effectively, can plan, and control, the cost of this.
Criteria impacted	Financial sustainability
Management comments	*The wash up and finalised TOM closing report will address the issues that were faced with capacity in 2022/23. The People Strategy and implementation of the ERP system will as part of workforce planning enable departments to understand their workforce profiles including vacancy rates. Quarterly dashboards will be shared with departments and to members during the committee cycle. The 2024 review of the People & HR function and structure will when signed off and implemented ensure that the Strategic People Partners are aligned to departments and able to identify areas of capacity challenge and strategic risk. However, since TOM overall turnover has reduced from 14% in 2022 to 9.90% in January 2024.*

Governance

We considered how the Corporation:

- 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
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management

The Risk Management Policy and Strategy, approved in May 2021, remains in place. We would expect a key policy, such as this, to be reviewed and updated to ensure it remains fit for purpose every 3-5 years, or when a significant change takes place within the organisation. The current policy remains appropriate and relevant to 2022-23. It continues to use a well-understood and established 4x4 matrix scoring and RAG (Red, Amber, Green) rating system, which is applied consistently across operational and strategic risks.

Responsibility for oversight of the Strategy and Policy remains the responsibility of the Audit and Risk Management Committee, who also play an integral role in reviewing risks throughout the year. The Committee receives risk updates at least quarterly, which is sufficiently regular based on their risk profile, risk appetite and common practice. The updates focus on the highest rated (red) risks from departmental risk registers, which represent operational level risk, and all risks within the Corporate Risk Register, which represent strategic level risks impacting the ability of the whole organisation in meeting its goals. This clear distinction between the two types of risk is important and ensures that actions taken to mitigate them are tailored to the differing nature of the risks, leading to more effective management of those risks.

The Audit and Risk Management Committee fulfil their role related to risk effectively. In addition to reviewing the Corporate Risk Register Members also request specific 'deep dives' throughout the year. This has continued in 2022-23 and a range of topics have been covered, with no repetitiveness observed, and aligned to amber- and red-rated risks on the register. A total of five deep dives were completed in the year, this is considered to provide an extensive and comprehensive understanding of risk when combined with the regular risk reporting. A change to arrangements in 2022-23 means that these 'deep dives' are now carried out by Internal Audit, providing an additional level of assurance and expertise and increasing the level of reliance that Members can place on the findings.

There is evidence that risks within the Corporate Risk Register, and 'deep dives' are well discussed by Members of the Committee who seek clarity, challenge risk scoring, ask for further information and schedule additional deep dives, as required, into key areas of risk. Members are effective in their role of holding officers to account.

In addition to reporting of operational risks at the Audit and Risk Management Committee, individual departmental risk registers are maintained, and these are scrutinised quarterly at their relevant departmental committees. As such the most significant operational risks are subject to a heightened level of review and increased levels of accountability. The departmental risk registers inform the strategic risk register and there is a clear line of reporting and link between the two types of register.

Members are presented with a Corporate Risk Register summary and detailed appendix to ensure that their attention can be focused on key issues, balanced with transparency of the full range of information regarding each risk. There are some minimum standards we would expect to be met in an effective risk register:

- relevant key controls and sources of assurance are set out
- they are RAG-rated, including impact and likelihood
- they are mapped to corporate objectives
- they are allocated to a responsible senior officer
- direction of travel for each key risk is provided

The current format of the register fulfils each of these requirements, and provides additional information above these minimum expectations, with the exception of a clear mapping to the relevant corporate objective which is not included. The Corporation is in the process of developing a new Corporate Plan, which will revise objectives, and so provides an opportunity to link risks to revised objectives once developed – refer to **Improvement recommendation 9** on page 39.

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We would expect between 10-20 risks to be included within a Corporate Risk Register to reflect the size and nature of the organisation whilst also ensuring all risks are strategic and a manageable number to facilitate meaningful discussion on each risk. This has been achieved as we have observed 15 risks at the end of 2022-23, increased from 14 at the start of the year. The number of risks and risk scores have been reviewed at each Committee meeting, with adjustments made demonstrating that members are effectively ensuring risks remain reflective of the environment the organisation operates within.

From our knowledge of the Corporation, Internal Audit reviews and discussions with officers we would expect certain key themes to be covered within the Corporate Risk Register such as:

- financial sustainability of the City Fund
- financial sustainability of the HRA
- impact of the TOM on recruitment and retention of staff
- slippage in the capital programme
- climate change
- project management
- health and safety
- repairs and maintenance of the estate (including housing)
- ERP system implementation

Most of these risks are included within the register with the exception of the ERP system implementation (we review this further in the 'Improving economy, efficiency and effectiveness' section of the report), as such the Corporate Risk Register should be reviewed to ensure it is complete based on current circumstances – refer to **Improvement recommendation 9** on page 39.

The register details performance against the overall target risk appetite of the organisation each time it is presented. The Corporation has been consistently demonstrating risk above appetite throughout 2022-23 and 2023-24 to date which suggests that additional work may be needed to understand the cause to review of risk appetite, ensuring it remains realistic or implementing additional mitigations to reduce risk levels. We note that the risk appetite has separately been identified as a key deliverable for 2023-24 for the organisation – refer to **Improvement recommendation 9** on page 39.

As part of the Target Operating Model (TOM) oversight of risk management moved from Internal Audit to the Corporate Strategy and Performance Team (CSPT) in the Deputy Town Clerk's Department on 1 April 2022. The change allows the Corporation to develop its internal risk management culture and ensure clear alignment with strategic objectives due to their wider remit and overall organisation viewpoint. Prior to the transfer from Internal Audit to deliver these objectives, the CSPT was re-purposed, and a new post of Chief Strategy Officer (CSO) created (reporting directly to the Town Clerk/Chief Executive), appointed in June 2021. Wider officer roles and responsibilities for risk management were reviewed as part of the TOM and presented to the Audit and Risk Management Committee in May 2022 to ensure clarity and consistency of application following updates to the process.

Internal Audit

Internal Audit services continue to be provided by an in-house team at the Corporation, with their role, remit and line of reporting unchanged from prior year. The Audit and Risk Management Committee receive updates at each meeting from the Head of Internal Audit in relation to the findings of specific reviews completed, follow up reviews and updates regarding progress of recommendations.

Internal Audit completed 20 reviews for 2022-23 covering Finance, key systems, IT, Programmes and Projects, risk management, safety management and corporate priorities. There is a clear link between the reviews undertaken, the Corporate Risk Register and the Corporate Plan and, as such, the planned reviews were well-designed to provide effective assurance on areas of particular importance to the Corporation meeting its objectives. We noted a reduction in the number of reviews undertaken compared to 2021-22, where 36 reviews were completed. Financial pressures and organisational redesign have impacted the level of resource available for Internal Audit work, as the team continue to recover from vacancies which occurred in the prior year due to the impact of the Target Operating Model (TOM) on the team. Priority has been given to work which most directly informs the annual opinion and therefore, despite the reduced resources, there continues to be appropriate coverage of key areas of operations, objectives and risks. This approach fulfils the minimum standards required to provide a year-end opinion. However, should Members require more wide-ranging assurances further investment in the Internal Audit team, in terms of upskilling, more extensive recruitment exercises or increased number of posts, will be required to increase capacity – refer to **Improvement recommendation 10** on page 40.

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Simultaneously, additional responsibilities have been placed on Internal Audit to assist with 'deep dive' exercises associated with the Corporate Risk Register. Although this is beneficial to the level of assurance these exercises provide, while Internal Audit capacity is reduced, the Corporation may wish to review whether the current remit of Internal Audit responsibilities is appropriate – see **Improvement recommendation 10** on page 40.

Internal Audit is required to comply with the Public Sector Internal Audit Standards in providing their services. In line with the standards the Head of Internal Audit must develop an Internal Audit Plan to determine the reviews that will be undertaken within the year in order to provide necessary assurances and provide an opinion on the system of internal control at year-end. To comply with the standards the Plan must:

- be developed at least annually
- include reviews based on risks and business objectives, determined by a documented risk assessment process
- be formally documented
- include information on how the plan will be delivered and resourced
- include how the internal audit service will be delivered
- include input from, and be formally approved by, senior management and Members
- significant interim changes to the plan must be communicated to senior management and Members for review and approval

Internal Audit presented a formally documented, indicative programme of work to the Audit and Risk Management Committee for approval in January 2022, to be implemented from April 2022. The Plan is well-aligned to objectives and risks within the Corporate Risk Register and has a clear prioritisation methodology. As such, many of the requirements of the Standards have been met. However, due to a change in approach to planning developed by the Internal Audit service, the initial programme of work covered 6 months, as opposed to the annual plan required, with a commitment to review and update quarterly. The aim of this approach is to ensure fluidity and responsiveness of the plan to emerging risks, however a formalised annual plan does not prevent such changes being made to the plan via quarterly Internal Audit updates to the Audit and Risk Management Committee.

The updates presented in-year have included limited information on, and haven't sought approval for, changes in the planned reviews for 2022-23 despite changes being made since the initial work programme was approved. At year-end 20 reviews were completed, the same number planned for a 6-month period, with differences in the specific reviews noted. This is due to capacity issues leading to a re-prioritisation of audits as opposed to a change in risk, predominantly. The Committee was not informed of this until the year-end Head of Internal Audit Opinion. In addition, we have not identified an indicative number of days, or information in relation to the resourcing of individual audits, within the initial plan. This is vital in ensuring that the Plan can be fulfilled with available resource, or alternative capacity sought, and there is transparency to Members so they can hold Internal Audit to account should the planned service level not be fulfilled. The Corporation should work with Internal Audit to ensure that the Audit Plan is fully PSIAS compliant – see **Improvement recommendation 10** on page 40.

In accordance with the requirements of the PSIAS, the function must undertake an External Quality Assessment of its compliance with the standards every 5 years. This is supported by an annual self-assessment in intervening years. The annual self-assessment for 2022-23 has been completed and confirmed that the Internal Audit function conforms with the requirements of the standards. The External Quality Assessment was due to be completed by March 2023 to comply with requirements. This was delayed and was undertaken in May 2023, reported in June 2023. The assessment confirms that Internal Audit generally conforms with the standards, this is positive and ensures minimum standards are met but areas for improvement were noted.

Of the 20 reviews completed, three of these resulted in a rating of 'limited assurance', which is a low level of assurance requiring improvement, in relation to Barbican Estate, Project Management and Health and Safety. Our work has reviewed these areas and noted that whilst improvements are required actions have been, or are in the process of, being taken to respond. The number of limited assurance reviews has reduced since prior year when four areas received this rating, as such there is a positive direction of travel. Although, as a proportion of the total number of reviews completed in-year, the position has deteriorated slightly from 11% of reviews receiving 'limited assurance' in 2021-22 to 15% in 2022-23. Therefore, the Corporation should seek to assess if the issues are more pervasive than the areas reviewed and respond at Corporation-wide level – see **Improvement recommendation 10** on page 40.

The 2022-23 reviews resulted in 51 recommendations raised by Internal Audit. All recommendations are followed up by Internal Audit and services re-reviewed, several times if required, to provide assurances over effectiveness of controls and quality. Of the recommendations raised in 2022-23 19 remain outstanding at year-end following a first review. Internal Audit has undertaken a high-level review of the recommendations made and not highlighted any common or recurring themes which would be indicative of pervasive control issues. Issues, particularly in relation to 'limited assurance' reports

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relate to inconsistent or incorrect application of controls rather than lack of controls, policies or procedures. This suggests a requirement to review training needs across the Corporation, particularly given the capacity and turnover challenges highlighted within this report – refer to **Improvement recommendation 11** on page 41.

Overall, the Corporation has approximately 100 Internal Audit recommendations at the end of 2022-23, 51 of these relate to unaddressed recommendations from prior years. Although there has been a positive and timely response noted to the majority of recommendations raised in 2022-23 there is a slower response rate to prior year recommendations, creating a backlog. The Corporation should prioritise responding to older recommendations, effectively facilitated by a formal action plan and tracker produced by Internal Audit and overseen by Members, to increase progress towards achieving the recommendations and holding officers to account where actions are not observed – refer to **Improvement recommendation 10** on page 40.

The Head of Internal Audit's opinion is that the City of London Corporation has adequate and effective systems of internal control in place to manage the achievement of its objectives despite capacity challenges and areas of improvement noted.

Counter Fraud

Internal Audit also continue to provide Counter Fraud services to the Corporation, a separate and specific team within the Internal Audit function exists to focus on the investigation of fraud and corruption. Fraud is identified through their own work, referrals and whistleblowing activity. The Counter Fraud team updates the Audit and Risk Management Committee twice yearly on the results of their work. Although this is less frequent than Internal Audit updates the reduced oversight is reflective of the risk and materiality of fraud in relation to the Corporation, and so is sufficiently regular.

At the end of 2022-23 the Counter Fraud team completed 52 investigations of fraud, compared to 31 in the prior year. Increase in cases was observed across all categories of fraud and is not indicative of a specific controls issue. Two face-to-face training sessions were provided by the Counter Fraud team during 2022-23, focused on providing staff with new skills to detect and prevent fraud, which has contributed to the increase in investigations. This also demonstrates that whistleblowing and referral procedures are effective.

Completed investigations resulted in fraud totaling £1.335m being identified, almost three times more than the prior year. Of this, £0.692m is deemed to be recoverable, with 90% already recovered by year-end and the remainder expected to be recovered through court orders in 2023-24. The identified and recoverable fraud relates to social housing tenancies (16%), council tax (1%) and corporate investigation (83%).

The significant increase in the amount recovered is mainly attributable to one case, a single mandate fraud attack with a value of £575,639 – successfully recovered but expected to be non-recurring in nature. The increase in recoverable amounts is also attributed to the Corporation's strong focus on identifying cases from the use of Unlawful Profit Orders (UPOs) and/or Proceeds of Crime Act (POCA) resulting in higher levels of success in resolution and recovery.

In the first half of the year 34 investigations took place and progressed well. The associated value of these is £658,333 of which 23% is considered to be recoverable and has been recovered in full. This suggests that although recovery methods continue to be strong there is the opportunity to investigate ways to maximise recovery when fraud is identified. However, in doing so the value recovered must outweigh the time and monetary cost of recovery. Given the reduction in total value of fraud and the relative immateriality of the value in context of the organisation this does not represent a priority action or recommendation for the Corporation, but a future consideration should that change.

2022/23	Total	Corporate investigations	Housing	Council tax
Number of investigations	52			
Total value	£1.335m			
Recoverable	£692k	£577k	£108k	£7k
Recovered	£626k	£576k	£53k	£7k
2023-24 (to Q2)				
Number of investigations	34			
Total value	£658k			
Recoverable	£150k	£111k	£34k	£5k
Recovered	£150k	£111k	£34k	£5k

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As noted in the prior year, the Corporation has an Anti-Fraud and Corruption Strategy which determines the underlying governance arrangements for how fraud is prevented and detected. The latest strategy is dated 2019, we would expect a key strategy such as this to be updated every 3-5 years. The Corporation was due to update this in 2022-23 but it was delayed due to capacity challenges and review of priorities. The update is now planned for 2023-24 – to date, the Strategy has not been updated and approved and remains a priority for 2023-24. Given the Strategy is less than 5 years old it remains relevant and fit for purpose.

Governance reviews

The Corporation has focused significant resources on achieving iterative improvement of governance arrangements in 2022-23 to ensure they are robust, demonstrate best practice and are fit for purpose at an organisation that has experienced change in recent years under the Target Operating Model (TOM). The Corporation has sought to make changes in a proactive way backed by sound analysis. This included several internal and external reviews which have established existing arrangements, identified specific areas for improvement, raised recommendations and provided a delivery model to achieve these. The approach is considered timely, following the implementation of the TOM and the creation of a new Project Governance Division, given that similar reviews have not taken place since 2018-2019.

The Corporation engaged external consultancy in October 2022 to review the governance of projects by officers. Ultimately this recommended implementation of a Portfolio Management Framework. The implementation of this framework aimed to break down silos in the organisation and promote a more integrated and streamlined project delivery process. This was welcomed by the Corporation as a route to that provide greater assurance to Members regarding the delivery of strategic objectives, allocation of resources and management of strategic risks and issue. The proposals introduce a phased approach with the first phase of implementation focusing on establishing strong foundations for developing the portfolio model over time. This includes:

- ensuring the integrity of underlying data
- developing the project management system (including clear definitions and thresholds for clarity of approach)
- establishing the Enterprise Portfolio Management Office
- establishing a Portfolio Board to ensure effective Member and officer oversight
- refreshing the Project Management Academy to ensure effective training delivered on the new approach

It is clear the Corporation is committed to ensuring a strong foundation is in place prior to making significant changes to how key projects are undertaken. The delivery model includes provisions for how the project will be funded, resourced, managed and success measured. This was presented to members in July 2023, but we have not noted a detailed action plan or KPI report being taken to the Policy and Resources or Finance Committee since – this would be of benefit to track progress more transparently – see **Improvement recommendation 12** on page 42.

The scope of the review focused on officer governance as opposed to Member governance, which also plays a key role in the success of project management. This was acknowledged by the Corporation and the scope of the review was updated in March 2023 to include a second, supporting assessment, of existing Member governance (i.e. committee structures) and ultimately developed proposals for improvements to support the development of a Portfolio Management Approach and ensure Member focus is on strategic oversight and direction of projects. The two reviews together ensure that an extensive and comprehensive view of existing arrangements has been obtained and that complementary changes can be made across the Corporation which support the Portfolio Management Approach.

These reviews followed on from, and considered, a 2019 commissioned review by Lord Lisvane focusing on the Code of Corporate Governance. The overall theme of the review was reduction in an excessive number of committees and sub-committees. Recommendations have, in part, been implemented. For example, in a reduction in, and simplification of, the number of committees. However, many committees that were suggested to be abolished still exist, such as the Markets Board and the Capital Buildings Board. In March 2023 an internal Light Touch Governance Review (LTGR) was undertaken which has sustained a focus on Lisvane's recommendations, it provided an opportunity to address any significant concerns arising out of the various new structures and processes. Officers were tasked to bring back recommendations in areas that Members feel are clearly not working, where improvements could be made quickly, or where immediate intervention was required. As well as reviewing several terms of references and standing orders this led to the recent decision to merge the Property Investment Board and Financial Investment Board into a single Investment Committee.

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Following the Lisvane review an Operational Property and Projects Sub-committee (OPPSC) was set up, which met for the first time on 30 May 2022. The OPPSC has three broad sets of responsibilities:

1. Overseeing a substantial part of the Corporation's property assets to ensure that the corporate landlord function is managed effectively

2. Overseeing procurement

3. Overseeing the Corporation's projects and programmes

The LGTR recently considered the pressures on the OPPSC as part of its review and recommended that the review of project management should consider how the workload of the Committee could be better managed to enable a more strategic and proportionate overview of projects which focusses Members' attention on the key issues that demand political attention. The Member governance review found that the OPPSC is an important and effective part of the Corporation's governance and decision-making, benefitting from clear terms of reference and political leadership. Although the Committee's responsibilities are wide-ranging, they make sense in terms of their coverage and synergies between the three main functions. If the OPPSC did not exist, it would be necessary to invent it.

Overall, the Member governance review continued to suggest a streamlining of governance by abolishing the Market Board and amending the terms of reference for the OPPSC, the Policy & Resources Committee and the Port Health & Environmental Services committee to reduce duplication and be aligned to the new Portfolio Management Approach. Given these reviews were completed in 2023-24 they are yet to embed and take effect.

There is significant effort noted to simplify complex reporting structures and ensure effective oversight of projects, as the value and volume of these increases. This is a positive initial improvement journey in gathering intelligence to take improvements forwards. Now further efforts will be required to convert the various recommendations into tangible actions, and ensure they embed effectively to achieve the desired impact.

Information management and security

The Corporate Risk Register includes risk CR16 Information Security which covers breach of IT Systems resulting in unauthorised access to data by internal or external sources or officer/ Member mishandling of information. At the start of the year the risk was amber-rated with a score of 12. The risk has been proactively, rather than reactively, managed via actions observed including E5 Licenses implemented for email malware, mandatory training for all staff and Members, simulated cyber-attack training with the IT Security team and investigating the options and costs of 24x7 security monitoring with a specialist partner to respond to increased threat due to war in Ukraine.

The risk remained amber-rated at 12 until November 2022 and further proactive actions noted such as security enhancements (Safelinks for Microsoft Defender, Multifactor Authentication is now mandatory, guests (external attendees) can no longer automatically join a Teams meeting and the Digital Information Technology Service (DITS) have commenced an overarching Security Review, with the aim of reviewing how technology security is managed across the organisation). In November 2022 the impact score increased from major to extreme, taking the overall score to 24. The change was implemented as a result of lessons learnt from the Hackney Council cyber-attack incident which cost over £12m and took more than a year to remediate, with negative publicity for a significant period on top of this. The increase in risk observed is not a result of an actual cyber-attack at the Corporation, or any decline in controls, but instead learning from other organisations to ensure an active response prior to a risk emerging. This represents sound risk management. Mitigations are continually reviewed and there is evidence of ongoing actions taking place. No evidence of cyber-attacks or significant breaches impacting the Corporation have come to our attention, but the scoring has remained at 24 to ensure proactive management continues. In 2023-24 the security service provided by Agilisys has now been brought in-house, giving greater control and visibility over security controls.

The Corporate Risk Register also includes risk CR29 Information Management concerned with lack of officer commitment and investment of the right resources into organisational information management systems and culture. Essentially addressing the risk that the Corporation's Information Management Strategy (2018-2023) would not be implemented effectively, causing vulnerability to personal data, information rights breaches and non-compliance with possible Information Commissioner's Office fines or other legal action. This has consistently been amber-rated with a score of 12. Actions to respond have included moving to the use of Sharepoint, a new role created to lead on Information Management in the Digital, Information and Technology team and Chief Officers being provided with local Senior Information Risk Owner (SIRO) training.

A 'deep dive' exercise was undertaken by Internal Audit on Information Management in September 2022. The objective of the work was to review the effectiveness of the arrangements in place for the systematic management of corporate risk. Overall, the review was positive, it identified scope for more in-depth management of the risk but had not identified that the planned mitigating actions were no longer valid. No further

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action was required to reduce or manage this risk differently, providing assurance it is being effectively managed.

Code of Conduct

An Independent Panel was established in Summer 2021 in response to the Lord Lisvane review which recommended that a panel should be established to receive, approve investigations and make decisions in relation to allegations of misconduct, as well as any appeals. The Panel consists of nine independent persons who have met on several occasions since establishment, supported by the Town Clerk and the Comptroller and City Solicitor as Monitoring Officer. Their focus to date has been on developing a new, fit for purpose, Complaints Procedure.

The updated procedure was implemented in February 2022 and formally presented to the Policy and Resource Committee in May 2022, alongside updated terms of reference for the Panel. A Member Development and Standards Sub-Committee was also set up to ensure that all Members have access to opportunities to broaden their specialist knowledge and skills in relation to their duties, and is also responsible for monitoring, upholding and reviewing the City Corporation's Standard's regime. This Committee met for the first time in July 2023 and plans to meet quarterly.

The Terms of Reference stipulate that the Panel will commit to the publication of an Annual Report at the end of each municipal year, beginning in 2023, and its purpose will be to summarise the number and type of complaints heard in that period. An initial update was provided in May 2022, when the procedure was updated, to demonstrate that the approach embedding effectively. At that stage the Panel had held two Assessment Sub-Panel meetings, each of these considering two separate complaints (four complaints in total) and that the first Hearing Sub-Panel meeting was scheduled for mid-May 2022. We are not aware of any significant or significant number of complaints from the available information, but the Corporation did observe a small increase in Member-on-Member complaints in the period which it considered to have a divisive impact on decision-making.

As a result of this observation, in September 2023, the Court of Common Council approved proposals for revisions to the newly established Complaints Procedure with regard to any future Member complaints under the Code of Conduct. The changes provide an alternative avenue for Members to resolve concerns as to the conduct of other Members, through the Chief Commoner and the Aldermanic Chairs, and the need to exhaust that process before a formal complaint is made to create a more streamlined process. This demonstrates the Corporation updating governance arrangements to address emerging issues effectively.

Complaints can be escalated to the Local Government and Social Care Ombudsman where they are considered to be serious in nature or have not been dealt with effectively by the Corporation. A total of three investigations were escalated to the Ombudsman for the period between 1 April 2022 to 31 March 2023. Following investigation there were no complaints upheld for the Corporation and in 100% of cases the Ombudsman was satisfied that the Corporation had successfully implemented their recommendations. The number is considered relatively low, suggesting effectiveness of internal procedures not requiring further escalation.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in governance arrangements and do not represent risks of significant weakness in current arrangements. The Corporation's governance arrangements remain effective.

Improvement recommendations

Improvement recommendation 9 – Risk management	The Corporation should continue to review and make iterative improvements to its Risk Management Strategy including: • Mapping risks within the Corporate Risk Register to objectives within the Corporate Plan. • Understanding the cause of risks being carried above the Corporation's risk appetite, reviewing the risk appetite itself to ensure it remains realistic and/or implementing additional mitigations to reduce risk levels. • Reviewing risks to ensure completeness, notably consideration of the risks associated with the ERP system implementation.
Improvement opportunity identified	Effective risk management ensures that both the strategic and operational risks of the organisation are managed consistently. The Corporation is in the process of updating its Corporate Plan and has the opportunity to link these to the Corporate Risk Register which details the key risks in facing the objectives within the Plan. The risk appetite agreed by Members determines the level of risk the Corporation believes it can tolerate whilst still meeting its objectives, as such carrying risk above that appetite suggests meeting objectives could be hindered or that the appetite is not reflective of the current environment.
Summary findings	Some minimum standards have been identified related to the format of a risk register to ensure that members are provided with sufficient information on the risks being faced by the organisation to manage them effectively. The Corporation's Corporate Risk Register meets the majority of these standards with the exception in there being no clear link between risk and corporate objectives. In addition, the risk register throughout 2022-23 and 2023-24 to date confirms that risks facing the organisation are above the risk appetite desired. The ERP system implementation has a local risk register, reviewed regularly by the ERP Board and Lead Committee, however it has not been recognised as a specific risk in the Corporate Risk Register.
Criteria impacted	Governance
Management comments	*Management partially accept this recommendation. The Corporate Plan does not cover everything we do e.g. statutory obligations and is also a snapshot in time. There is a relationship between the Corporate risk register and the Corporate Plan but the former should go much wider and broader.* *Management will also look to include the ERP system implementation to the Departmental/Corporate Risk register.*

Improvement recommendations

Improvement recommendation 10 – Internal Audit	The Corporation should work with Internal Audit to ensure effectiveness of the service can be maximised by: • Identifying and investing in increasing capacity needs through a combination of training, upskilling and intensive recruitment exercises. • Reviewing additional responsibilities of Internal Audit, especially in relation to 'deep dive' support to ensure these can be supported within the team capacity. • Ensuring the Internal Audit Plan set at the start of the year is fully PSIAS compliant. • Prioritising response to 51 outstanding recommendations raised by Internal Audit relating to prior years. • Working with Internal Audit to develop a formal action plan and tracker, overseen by Members, to formally monitor the progress of outstanding recommendations. • Reviewing the issues raised in reviews rated 'limited assurance' to determine if the findings are more pervasive than the individual services they relate to.
Improvement opportunity identified	Internal Audit is a key mechanism by which the Corporation identifies and manages risk. It is important that the function operates effectively and efficiently and that Internal Audit findings are acted upon in a timely manner.
Summary findings	Internal Audit completed 20 reviews in-year compared to 36 in 2021-22. The indicative Audit Plan suggested 20 reviews would be undertaken in the first 6 months of the year, suggesting fewer reviews than would be planned on an annual basis. Financial pressures and organisational redesign have impacted the level of resource available for Internal Audit work, as the team continues to recover from prior year vacancies which occurred due to the impact of the Target Operating Model (TOM) on the team. Simultaneously, additional responsibilities have been placed on Internal Audit to assist with 'deep dive' exercises associated with the Corporate Risk Register. Internal Audit is required to comply with the Public Sector Internal Audit Standards (PSIAS) in providing their services. This includes developing a formal Internal Audit Plan annually which is approved by Members. There are several requirements to meet in doing so and we have noted some elements of non-conformance with the standards in this area. Of the 20 reviews completed, three resulted in a rating of 'limited assurance', which is a low level of assurance requiring improvement. The number of limited assurance reviews has reduced since prior year when four areas received this rating, as such there is a positive direction of travel. Although, as a proportion of the total number of reviews, the position has deteriorated. Overall, the Corporation has approximately 100 Internal Audit recommendations at the end of 2022-23, 51 of these relate to outstanding recommendations raised prior years.
Criteria impacted	Governance
Management comments	*Identifying and investing in increasing capacity: currently have 3 team members enrolled on the Chartered Institute of Internal Auditors Internal Audit Practitioner Apprenticeship Programme (all expected to complete Summer 2024). Increasing overall capacity of the team is not in the gift of the Head of Internal Audit, there is 1 vacancy which is currently being recruited to, the financial budget for Internal Audit is fully committed.* *Reviewing Additional responsibilities of Internal Audit: the Risk Deep Dives are well within the remit of Internal Audit and this work is significant to the Head of Internal Audit in forming an overall opinion on the effectiveness of risk management arrangements. This work is part of our assurance programme and should not be separated from what External Audit have identified as delivery of the audit plan – this is part of that programme.*

Improvement recommendations

Management comments	*Ensuring the Internal Audit Plan set at the start of the year is fully PSIAS compliant: The PSIAS are based on the Global Internal Audit Standards, and were set in 2017. The profession has developed significantly since this time as reflected in the 2024 Global Internal Audit Standards which are mandatory from 2025. Nonetheless, the EQA confirmed that the planning process generally conforms to standard 2010. Greater depth on this has been included in Internal Audit update reports from 2023. It should be noted that, while the Head of Audit has described the planning process to be quarterly rather than annual, the significant majority of the resources available to Internal Audit are committed to delivery of annual plans that are subsets of the overall programme of work: City of London Police, Guildhall School of Music and Drama, Barbican Centre and 2 external clients that we provide services to – Museum of London and London Councils) this constitutes over 50% of available resources. From the balance, we have an annual plan of Corporate Risk Assurance Work (the "deep dives") and follow-up work (10-15% of total available resources), the balance of available resources is relatively small so the anticipated use of this time could be set out more explicitly at the start of the year. Important to note that the current standards drive a resource based plan, so an annual Internal Audit plan will represent what work can be delivered with the resources available whereas the 2024 Standards approach is more aligned to setting out what work the Head of Audit deems necessary and the requirement is on the organisation to allocate the resources necessary to do this – there will be a significant change to the Internal Audit planning approach as we transition to the new standards.* *Prioritising outstanding recommendations: already in progress, although should be noted that Internal Audit are only able to report on action taken by management i.e. what they find through review and are not accountable for implementation – that is the organisation's responsibility.* *Developing a formal action plan and tracker overseen by Members: the report of open recommendations including management responses and latest notes is available to Members – this is a very detailed report, Internal Audit can include this as a published appendix to future Internal Audit updates if the Audit and Risk Management Committee has appetite for this.* *Reviewing issues raised to determine if findings are more pervasive: findings from completed Internal Audit reviews inform the forward programme of work so this is already happening. We have included issue categorisation within our newly implemented Internal Audit Management IT application with the view to enabling increased data analysis in the future (i.e. after sufficient volume of data has been gathered).*

Improvement recommendations

Improvement recommendation 11 – Training	The Corporation should undertake an exercise to identify training needs across the Corporation and provide required training accordingly.
Improvement opportunity identified	The Corporation has experienced significant turnover and use of temporary staff in 2022-23. To ensure that this does not impact quality and controls training needs should be reviewed before any risk emerges.
Summary findings	Internal Audit reviews in 2022-23 resulted in 51 recommendations raised. Internal Audit has undertaken a high-level review of the recommendations made and not highlighted any common or recurring themes, which would be indicative of pervasive control issues. Issues, particularly in relation to 'limited assurance' reports relate to inconsistent or incorrect application of controls rather than lack of controls, policies or procedures.
Criteria impacted	Governance
Management comments	*The My Talent, my development workstream of the People Strategy will identify areas of concern for training and development and outline the wider skill shortages which need to be addressed through training and development. A review of the mandatory training is currently being undertaken and will be implemented in Q1 2024/25. As above for turnover which has been steadily reducing over the last three months.*

Improvement recommendations

Improvement recommendation 12 – Project governance	To effectively monitor the progress of the recommendations of the external Project Governance review the Corporation should develop a detailed action plan or KPI report which is regularly reviewed by the Policy and Resources or Finance Committee.
Improvement opportunity identified	Implementation of robust monitoring arrangements would ensure progress is tracked more transparently and increase the likelihood of achieving the recommendations in the report.
Summary findings	The Corporation engaged an external consultancy firm in October 2022 to review the governance of projects by officers specifically. Ultimately this recommended implementation of a Portfolio Management Framework. The delivery model was presented to Members in July 2023, and we have not noted a detailed action plan or KPI report being taken to the Policy and Resources or Finance Committee since.
Criteria impacted	Governance
Management comments	*The papers to members in July 2023 established the Property and Projects sub-Committee (PPSC) as the oversight body for the new portfolio management approach. PPSC is a sub-Committee of the Finance Committee. PPSC committee received the proposed approach to the implementation of Portfolio Management in October 2023. The approach outlined an implementation plan together with a forward plan of deliverables. The committee has subsequently received updates on progress.*

Improving economy, efficiency and effectiveness

We considered how the Corporation:

- 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

Our review of arrangements in 2021-22 established that the Corporation had no formally documented performance framework in place and, unlike many other local authorities, did not have operational Key Performance Indicators (KPIs) with which to measure performance of individual services against. Metrics such as this are a measure of success relative to an expected target, set by Members, which determine the baseline service quality the Corporation wishes to achieve. Despite being described as a more 'outcome-focussed' organisation, officers acknowledge the benefits and scope for improvement in relation to performance information and planned to develop this area in 2022-23 and 2023-24.

The Corporation has taken steps to ensure that underlying data, resources and tools can support any newly developed Performance Management Framework, prior to formalising its approach. As such in 2022-23 the Corporation focused on the below which has been led by the Executive Leadership Board (ELB):

- delivering capability at team/departmental level
- developing data resource at organisational level
- identifying ways of developing a top-down performance approach for the organisation that can be integrated into the business planning process

The Corporation's Corporate Strategy and Performance Team have been working on an updated Corporate Plan for 2024-2029, which is in the process of being finalised. A draft was presented to Members in December 2023 and Court of Common Council in January 2024 for feedback and approval. For performance management to be effective it is imperative that it is aligned to the objectives of an organisation and also considers the risks the organisation faces. As such, until the Corporate Plan is finalised, we acknowledge that supporting performance management arrangements cannot be formalised.

The draft Corporate Plan seeks to improve on the lack of measurable success factors and performance management metrics within the previous Corporate Plan. The updated Plan includes a commitment to report on organisational progress against outcomes on an annual basis. Reporting will include both quantitative and qualitative performance information on each outcome included in the Corporate Plan. To date, the Corporation has identified some of the areas it wishes to measure performance, the underlying performance measures required and a full aspirational list of the data it would like to bring online over the lifespan of the Corporate Plan. Therefore, steps towards developing a framework have been taken however, development of a formal set of KPIs is still very much in its infancy. The Corporation has identified a lack of maturity and capability with respect to data within the organisation, and it is expected that setting up performance reporting will be iterative and take time. Our prior year recommendation remains open, acknowledging that this is a work in progress and that the Corporate Strategy and Performance Team remains committed to an iterative improvement journey and ongoing development in relation to performance management.

Although an overarching corporation-wide framework and metrics covering the full range of services and operations are still in development there is evidence of performance monitoring taking place on specific areas of focus or services on an ad hoc basis. Due to the nature of the Corporation finance and business are of particular interest to internal and external stakeholders. We have already noted effective monitoring of the financial position, in addition to this we have observed publication of the City Statistics report which provides information on trends in the City's workforce, economy, and role as a financial and professional services hub in the context of the same trends observed UK-wide. Individual committees set targets and review performance trend data in relation to their own specific services such as the Chamberlain's KPI reporting on business rates, council tax and rental income collection rates and Community and Childrens Services Committee reports in relation to safety performance.

Improving economy, efficiency and effectiveness

There is evidence that operational performance is reviewed, however this is not yet undertaken consistently across the organisation with a clear link to objectives and should continue to be a priority.

We have noted good practice in relation to the performance monitoring of the Climate Action Strategy. It has set clear targets, in manageable milestones, and performance is report via an easily accessible dashboard with up-to-date information, as well as in a formal setting annually. To date that has been successful and strong performance is observed, giving the opportunity for the Corporation to learn lessons from this exercise, internally. Using existing expertise, software and methodology the Corporation has the resources to develop a similar performance dashboard to support the performance management framework and KPIs once fully developed – refer to **Improvement recommendation 13** on page 49.

Many local government bodies also find it beneficial to seek comparative data from external sources, as a way of learning and developing best practice observed in other organisations. The Corporation is unique in comparison to other bodies in the local government sector which does limit wholesale opportunities for such benchmarking, however for those areas where operations or strategies are similar this would be a useful tool to build into the performance management framework whilst it is in development. The draft Corporate Plan confirms the intention, where possible, to consider benchmarking, especially where this is reliably available through government data sources (such as OFLOG) or on policing data.

External assurance

The Corporation is subject to external inspections from relevant regulators to give assurances over the quality of specific services it provides and conformance with expected standards. This is additional assurance to those provided by internal measures such as Internal Audit reviews, deep dives and ad-hoc performance monitoring.

At the last full inspection of Childrens' services, in March 2020, Ofsted deemed the overall effectiveness of services to be outstanding, the highest possible rating, demonstrating elements of best practice. Ofsted visited the service again in November 2022 to undertake a focused visit, as opposed to formal inspection. These visits do not carry with them a performance rating but seek to provide findings which the Corporation can use to make iterative improvement or seek to extend areas of best practice. They also act as a risk assessment tool for Ofsted to determine the frequency and need to re-inspect.

The visit continued to provide positive assurances over the service and highlights include:

- An environment in which social work flourishes
- Manageable caseloads
- Effective learning, development and support
- Stable workforce
- Effective supervision and scrutiny of the service

In addition, Ofsted also inspected the Adult Community Learning Service in June 2022. The inspection report confirmed that the Adult Skills and Education Service provides a good standard of education and training for residents and employers in the City of London and resulted in an overall rating of 'Good' across all categories. This provides positive assurances on the quality of the service provided and good practice was noted in the speed with which service users received a response, strong level of support they receive and the quality of the professionals delivering the service. A relatively small number of areas for improvement were identified in terms of setting stretching targets for learners, providing clearer feedback to service users and greater oversight of sub-contractors. An action plan, with responsible individuals identified for each action, was developed immediately to respond.

As noted within the Governance section of this report, the Local Government and Social Care Ombudsman is a source of escalation for complaints where a complainant is not satisfied with the response, or has not received response to their complaint made to the Corporation. The level of activity with the Ombudsman is an indicator of whether service quality or conduct of the organisation is an issue. We identified no risk in this area. As the Corporation is also a provider of social housing, complaints from tenants can be escalated to the Housing Ombudsman Service. No formal determinations resulting in findings of maladministration, or compensation, were found for 2022-23.

Improving economy, efficiency and effectiveness

The Enterprise Resource Planning (ERP) Programme

We reported last year that Members approved a business case in 2020 to provide an integrated platform across the Financial, HR and Payroll functions, known as the ERP system. The system is aimed to improve self-service and automation capabilities as a direct response to the Target Operating Model (TOM) review which identified a need for continuous improvement in this area. The TOM review findings also coincided with a reduction in support and upcoming contract renewal of existing HR and Payroll systems, providing a clear rationale for the programme.

The programme was expected to be delivered across six key phases as below. The Corporation uses a well-established and widely used Gateway Review process in undertaking any major capital project to ensure Members are sighted on progress, updated assumptions and continued option appraisal and provides the opportunity to review this information before approving progression to the next gateway. The Gateway Review process is well aligned to the phases of projects.

Discover	Define & Develop	Procure & Prepare	Implement	Embed	Scale, Improve, Refocus
• Understanding the as-is and your current Performance and pain-points • Building your case for change	• Defining your future organisational direction • Defining Service and Process Improvement priorities • Developing your functional, reporting, technical and interface requirements • Developing your principles and requirements of your Implementation approach • Gaining Commitment to your Outline Business Case • Preparing to go to market	• Procuring new suppliers • Making key Organisational Design Decisions that will influence system design and configuration • Mapping your transformation journey • Preparing your data for migration • Preparing your People for Change • Preparing to measure your benefits • Putting all necessary plans and approaches in place • Identifying and mobilising Implementation Resources • Gaining final approval to proceed	• Overall Assurance of Programme success • Strategic & Service Readiness, including transitioning to new Systems Operating Model and delivering identified Service Improvements • People Readiness • Process Readiness • Systems, Data and Reporting Readiness • Developing Benefits evidence • Ensuring Information Compliance • Assuring Programme Delivery • Assuring Commercial Performance	• Ensuring adoption of the new system and new processes • Embedding and Improving your new Operating Model • Realising benefits	• Measuring outcomes delivered and identifying any gaps • Reflecting on lessons learned to inform future transformations • Agreeing your next areas of focus for Transformation

At the outset it was expected that the below timelines would be achieved:

- Discovery, Define & Develop phases – February 2020 to July 2021
- Procure & Prepare phase – July 2021 to February 2022
- Implement phase – 15 months in total, consisting of implementation January 2022 to February 2023 (12 months) and 'go live' period of February 2023 to April 2023 (3 months)
- Embed phase – April to October 2023
- Scale, Improve & Refocus phase – ongoing from October 2023

However, at the start of 2022-23 and at Gateway Review 3 in April 2023, slippage in the expected timeline began to emerge – with the Discovery, Define & Development phases complete and movement to the Procure & Prepare phase expected to take place in early 2022-23, facilitating the Implementation phase to commence in November 2022. As the programme progressed to Gateway Review 4 in December 2023, the latest milestone, slippage continued. The Corporation successfully completed the Procure & Prepare phase for a preferred technology partner between April and October 2023. A separate procurement exercise is required to select a software integrator to support the implementation phase starting in January 2024. Due to the delays, the new EPR solution has an updated 'go live' date of April 2025 at the earliest, a 2-year delay. Slippage has predominantly been attributed to the impact of the implementation of the TOM, which paused the ERP programme due to the loss of key skills and knowledge, and reduced capacity for change due to retention and recruitment issues. In addition, the programme was continually reviewed, to ensure that it remained fit for purpose, resulting in scope changes via the Gateway Review process. The Corporation may benefit from improved scrutiny and challenge in setting appropriate timelines within project plans to ensure they are realistic at the outset, including contingency for scope changes from their review process, which takes place across all major projects – refer to **Improvement recommendation 14** on page 50.

During the period when delays occurred the country experienced a period of high and rising inflation, as such the ERP budget was reviewed to account for the impact of increased inflation on expected costs. The original proposal for the programme set a budget of £5.9m based on the estimated costs of the project at the time. The Gateway Review process allows for adjustments to the budget to be proposed, justified and

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approved by Members. At each Gateway the budget has increased. Gateway 2 in March 2021 saw an increase in the budget to £7.4m, Gateway 3 in April 2023 saw an increase to £9.6m and by Gateway 4 in December 2023 the expected total budget had reached £19.4m (3.3 times the original budget). Uplifts in the budget required to complete the programme are a result of needing to increase resource to the project to ensure the scope can be delivered in full, needing to account for the costs of backfilling and re-charging permanent staff used in delivering the programme and ongoing testing of market rates for external resource. To ensure lessons are learned from this programme, and can be applied to further projects, the Corporation would benefit from applying greater rigour to the budget setting process for projects to ensure robustness of assumptions, particularly in relation to staff costs – refer to **Improvement recommendation 14** on page 50.

A specific issue has been highlighted as a result of the increased budget of the project. The Corporation engaged with an external consultant to support the design of the new system. However, it was identified by the Corporation that they failed to adapt their local authority delivery model to reflect the unique characteristics of the Corporation and specifically, did not account for the level of backfill posts required for implementation of the system. This was highlighted to the ERP Board with immediate action taken to replace the external consultant with a newly recruited experienced Program Director to lead on progressing the programme. It was this change in leadership that resulted in the review, update and increase of the budget following a 'deep dive' of the programme budget, with input from HR and Finance, led by the Program Director. This highlights the need for greater scrutiny of project and programme budgets going forward, especially where external parties are involved in their development, to ensure completeness of those budgets. Improved due diligence when selecting project partners would be beneficial to ensure their delivery model is suitable for the Corporation– refer to **Improvement recommendation 14** on page 50.

The original proposal was fully funded within the available capital envelopes across the City Fund, City Cash and City Bridge Foundation. Despite the expected increase in the budget this continues to be the case and no external borrowing has been required by the City Fund, which continues to rely solely on internal funding for its capital programme.

Despite an increase in expected costs the ERP programme is forecast to deliver savings of £16.3m over 10 years, against a total capital spend of £16.4m, excluding the costed risks, to achieve breakeven on the capital expenditure. This expectation, changes in arrangements to strengthen the accuracy of the budget and the inclusion of a £3m risk contingency in the new budget demonstrates that the Corporation has taken effective steps to respond to an issue that was identified in the course of the programme. Therefore, a weakness in arrangements has not been identified but improvements could be made to ensure issues do not reoccur in future projects.

Although a 'deep dive' exercise was undertaken by the Programme Director to identify and address a specific emerging issues in relation to the budget there is no evidence of a formal lesson learned exercise or Internal Audit review of the programme while it is in progress. This would be beneficial to ensure improvements could be made to maximise successful delivery of the project. A lesson learned exercise, once the project is complete, would be beneficial also to ensure that similar challenges are not repeated on future projects – see **Improvement recommendation 14** on page 50.

There is a clear governance structure in place for the monitoring of the programme~~.~~ There is a clear line of reporting into the Chamberlain as Senior Responsible Officer (SRO) for the programme. The Programme continues to be supported by a Members' Steering Group to provide oversight and steer to the ERP Programme Board. The ERP Programme Board meets monthly, chaired by the Chamberlain. Members of the Finance Committee, and other relevant committees, have been updated on progress and changes to the programme at each Gateway stage and relevant approvals sought~~.~~

A Project Dashboard was established at the outset of the programme and is monitored by the Programme Team, this includes consideration of risks associated with the project and provides an overall risk rating. At Gateway Review 2 the risk rating of the project was Green but, since slippage in timelines were identified at Gateway 3, this has increased to Amber and is currently a medium risk project. In light of other public examples, the Corporation may wish to review the risk profile of the project in light of new information to ensure it remains relevant and is managed appropriately – see **Improvement recommendation 14** on page 50.

Departmental risks are monitored and managed via the Chamberlain's departmental

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risk register and Corporation-wide risks through the Corporate Risk Register. There is no ERP specific risk on either of these registers and it has not been recognised as impacting the department or Corporation's ability to meet its objectives. As the risk profile of projects, such as this one, change it is important that their risk, relative to the department and Corporation, is reviewed and updated in the relevant risk registers – see **Improvement recommendation 14** on page 50.

Procurement

No weaknesses have been highlighted in the Corporation's procurement arrangements through our prior year work or the Corporation's own assurances, and there is evidence that the Corporation is committed to ongoing improvement in this area. Changes to arrangements in 2022-23 included updates to the Corporation's Procurement Code following the implementation of the TOM, with the new arrangements going live in January 2023. The changes to the Procurement Code have been supported by the development of a business partnering approach within the Commercial Service, relaunch and strengthening of arrangements for Category Boards and comprehensive communications and engagement to ensure the changes are understood and an effective assurance framework is in place.

Although implementation of the TOM is complete, work is ongoing to embed the Head of Procurement role, which was established under this model. An online Commercial Academy was launched in January 2023 to provide clearer bite-sized guidance to service areas regarding the Procurement Code and roles and responsibilities. The service continues to develop a network of officers involved in procurement and contract management across the Corporation.

Climate Change

In 2019, the UK Government passed legislation to bring all greenhouse gas emissions to net zero by 2050. This was to align with the commitments in the Paris Agreement to limit global warming to 1.5 degrees. In response many local authority bodies have declared climate emergencies. It is estimated that 570 councils (including town, parish, community and village councils) have declared such an emergency, now 95% of the population lives in an area where such an emergency exists. The Corporation has not formally declared a climate emergency, the purpose of which is to outwardly acknowledge that the organisation needs to act on the causes and impacts of climate change. We have observed evidence that, despite a formal declaration not being made, the Corporation is demonstrating several steps in responding and, as such, this is not a weakness in arrangements.

The Corporation developed a Climate Action Strategy, approved and adopted in October 2020, as a timely response to the UK government legislation. The strategy spans 2020-2027 and aims to achieve net zero carbon emissions at a much faster pace than legislation requires, positively contributing to the global issue. Delivery of the strategy is supported by a dedicated Climate Action Team. By adopting the strategy, the City Corporation has committed to:

- Achieve net zero carbon emissions from its own operations by 2027
- Achieve net zero carbon emissions across investments and supply chain by 2040
- Support the achievement of net zero for the Square Mile by 2040
- Invest £68m over the next six years to support these goals, of which £15m is dedicated to preparing the Square Mile for extreme weather events

The strategy is supported by annual plans, set for each financial year, which break down the overall action plan into smaller milestones with the aim of increasing success, and have ability to monitor success and take action in a timely manner should the Corporation divert away from the plan at any stage.

The strategy is fully funded and, therefore, is not only ambitious but believed to be achievable by the Corporation within the available resource constraints. There is a clear consideration of the strategy within the budget setting process, with the 2022-23 budget including specific priorities, one of which is 'Tackling climate change, with ambitious climate action to achieve our net zero targets; and influencing action across the country'. Net zero remains a priority within the 2023-24 budget, also.

In addition, the Corporation has developed the Build Back Better Fund, set up in 2021-22 to support Climate Action Strategy savings. 2022-23 financial plans confirmed that this fund stood at £16m in 2021-22 expecting it be used over the medium-term to support projects and reducing to £10.3m by 2025-26. This was updated in setting the 2023-24 budget and MTFP. The reserve now includes adjustments for financing the revenue element of climate action plans, starting in 2022-23 with £14.8m and reducing over the 5-year period to £2.2m. There is clear financial support for the plans in place.

The Corporation also developed a plan in 2021 committed to aligning their investment portfolios with net zero emissions, which details how this will be achieved by 2040. This ensures financial and operational actions are addressed separately but simultaneously.

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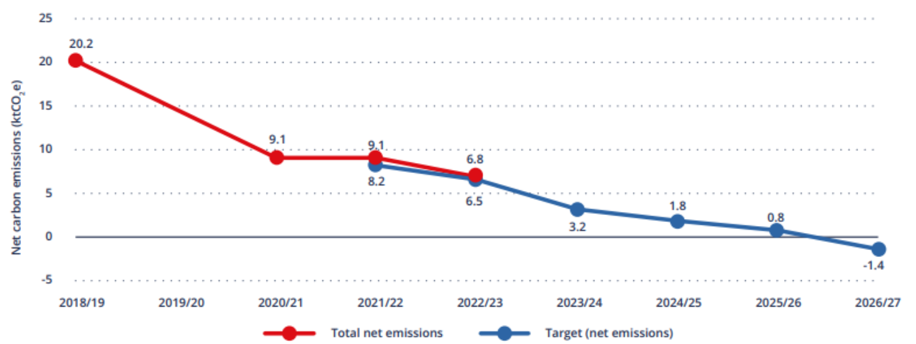
The Corporation have developed a Climate Action Dashboard, an interactive and transparent tool to visualise up-to-date data and report progress against their net zero and climate resilience targets. To achieve the target of net zero by 2027 the dashboard breaks down the overarching target into annual milestones of 84% by 2023-24 and 96% by 2025-26. The focus being on the top 15 emitting buildings. There is a clear downward trend in emissions since 2018-19 and this is expected to continue, under the strategy, over the medium-term to achieve net zero. For 2022-23 the net emissions target was 6.5 ktCO2e, the Corporation exceeded the target achieving 6.8 ktCO2e. This metric measures the Corporation's carbon footprint. Overall, the actions being undertaken have a positive impact on emissions, and based on the current trajectory suggest net zero can be achieved. At the same time, financial sustainability is being achieved, suggesting the actions are affordable.

Net zero by 2027 across the City Corporation's operations (Scopes 1 and 2)



Although the dashboard is readily available via the Corporation's external website to ensure transparency and accessibility, the Corporation commits to publishing a report of progress against targets at the end of each year. In addition, the Corporation invites stakeholders to participate in a survey to help understand how well they feel the Corporation has engaged with them in relation to climate change. The results of the survey show that there is the opportunity to improve communication with stakeholders, as many stakeholders highlighted that they were unaware of how to access climate-related information. There was a disparity in the response between staff and business owners who were positive in their responses, compared to those that worked in the area who tended to disagree with the statements in the survey. There was no information in relation to residents' responses. Although the Corporation has a relatively low number of residents, they are service recipients and are affected by key policies and strategies such as this. The Corporation could improve its communication with stakeholders in relation to climate change, in particular ensuring there is equal access to information for those working and living in the Square Mile – refer to **Improvement recommendation 15** on page 51.

The Corporation has set out, on its public website, ways in which both businesses and residents can contribute to reducing emissions within their own homes and offices, instilling a sense of collective responsibility.

Conclusion

Overall, although we have identified areas for improvement in arrangements, they aim to encourage the already evident proactive, and iterative, improvement trajectory of the Corporation. The Corporation's arrangements for ensuring economy, effectiveness and efficiency remain appropriate.

Improvement recommendations

Improvement recommendation 13 – Performance management	The Corporation should draw upon existing expertise, software and tools in developing its Performance Management Framework to ensure good practice can be replicated to the Corporation-wide approach. Notable good practice already in use in a specific area of the organisation is the Power Bi Dashboard mechanism used to monitor climate change performance.
Improvement opportunity identified	The Performance Management Framework is in development phase and presents the opportunity to draw on successes in performance management from other aspects of the organisation to generate efficiencies, and extend the successes observed elsewhere.
Summary findings	The Corporation's Corporate Strategy and Performance Team has been working on an updated Corporate Plan for 2024-2029, which is in the process of being finalised. A draft was presented to Members in December 2023 and Court of Common Council in January 2024 for feedback and approval. The updated Plan includes a commitment to report on organisational progress against outcomes annually. Reporting will include both quantitative and qualitative performance information on each outcome included in the Corporate Plan. Performance monitoring of the Climate Action Strategy sets clear targets, in manageable milestones. Performance is report via an easily accessible dashboard with up-to-date information, as well as in a formal setting annually. To date, performance management of the Climate Action Strategy has been successful and strong performance is observed,
Criteria impacted	Improving economy, efficiency & effectiveness
Management comments	*Management accept recommendation and this work is already in progress.*

Improvement recommendations

Improvement Recommendation 14 – ERP programme	The Corporation should seek to identify lesson learned from the ongoing ERP programme and apply learning to future major projects or programmes. Actions should include: • Improved scrutiny and challenge in setting appropriate timelines within project plans to ensure they are realistic at the outset, including contingency for scope changes from the Gateway Review process. • Applying a greater degree of rigour to the budget setting process for projects to ensure robustness of assumptions, particularly in relation to staff costs. • Greater scrutiny of project and programme budgets, where external parties are involved in their development, to ensure completeness of costs. • Improved due diligence when selecting project partners, to ensure their delivery model is suitable for the Corporation. • Undertaking formal lessons learned, Internal Audit review and/or risk 'deep dive' exercise during the ERP programme as it progresses, and once complete, to identify specific improvement areas to apply to this and other projects. • Continually reviewing the risk profile of this, and other projects, in light of new information to ensure it remains relevant, is appropriately reflected in the relevant departmental or Corporate Risk Register and is, therefore, managed effectively.
Improvement opportunity identified	The Corporation has the opportunity to learn from a major and challenging project to ensure that the challenges faced are not repeated in future projects, thus maximising success and mitigating risks in the future.
Summary findings	The business case for the project was approved in November 2020 with an original budget of £5.8m and an expected implementation date of April 2023. The project experienced a series of challenges which caused delays in the expected timeline, with implementation now expected in April 2025, and a significant increase in the budget required to £19.4m.
Criteria impacted	Improving economy, efficiency & effectiveness
Management comments	*The business need for a new Finance, HR & Payroll solution was discussed and agreed in 2020/21. As part of this process, it was recognised that The City needed to undertake a fundamental review of its existing and future operations and make a strategic decision about what technological platform best suited its current and future needs. It was also recognised that such choices needed to take into account and reflect The City's future operating model choices. To that extent the review was commissioned which as mentioned, had a strong local authority focus but did not appreciate the broader spectrum of The City's operations. Further work has been undertaken to bridge the gap.* *The City has now determined that a cloud-based Enterprise Resource and Planning (ERP) solution meets its needs best. The City has also recognised the need to ensure that such a complex project requires a high degree of technical expertise and experience to support the development and deployment of this solution and support the skills and cultural changes needed to embrace best practice in key business processes.* *The expected budgetary increase reflects a combination of the additional cost of an advanced technological platform, hyperinflationary cost pressures and the need to assemble a dedicated implementation for a successful solution deployment, all of which were uncertain at the initial business case development stage.* *The City has a robust project management solution, which will be enhanced further following a review and implementation of recommendations arising. This includes taking any learning lessons from projects in flight and ensuring that they are applied in future comparable endeavours.* *Management will also look to include the ERP system implementation to the Departmental/Corporate Risk register.*

Improvement recommendations

Improvement recommendation 15 – Climate change communication	The Corporation should ensure that it provides equal access to information for those working and living in the Square Mile in relation to its actions to respond to climate change.
Improvement opportunity identified	Responding to climate change is a collective responsibility and by achieving successful communication on the topic to its stakeholders the Corporation increases the effectiveness of its response to the climate change agenda.
Summary findings	The Corporation invites stakeholders to participate in a survey to help understand how well they feel the Corporation has engaged with them in relation to climate change. The results of the survey show that there is the opportunity to improve communication with stakeholders as many stakeholders highlighted that they were unaware of how to access climate related information. There was a disparity in the response between staff and business owners who were positive in their responses, compared to those that worked in the area who tended to disagree with the statements in the survey. There was no information in relation to residents' responses.
Criteria impacted	Improving economy, efficiency & effectiveness
Management comments	*The City Corporation is currently finalising the Climate Action Strategy (CAS) action plan for its fourth year of implementation. Once approved by the Policy and Resources Committee, the CAS team and the Communications team will work together to develop and deliver a communications plan with the key objectives of:* • *Increase climate literacy.* • *Raise awareness of the City Corporation's climate action plan and how they will affect them.* • *Inform about what CAS will achieve and provide equal opportunity to access information.* • *Increase local climate action.* *Comms will also be shared internally with staff and Members and in addition, the City Corporation will launch on the 21st of February 2024 a Climate Champions Group open to all staff from CoLC and its institutions. This group will support continued climate learning and signpost opportunities.* *The survey referenced in the audit was delivered in May 2022 and the findings have been incorporated in the communications from the CAS.*

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	**Financial sustainability** – 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% budgetary reduction.	Improvement	March 2022	The TOM target was set at a minimum value of £4.5m and, when combined with the overall 12% reduction, totalled £17.04m. The TOM savings achieved are £7.334m per year and therefore exceeded expectation by £2.84m. Of the total savings target £13.9m permanent savings were realised which will recur each year, with a further £2.6m savings achieved through temporary measures such as holding vacancies, as departments complete their TOM. The majority of savings identified have been achieved on a permanent and recurring basis. £0.86m savings not achieved at the end of 2022-23 are included within the 2023-24 budget. The recurring savings are included in the MTFP and, to date, the 2023-24 position is forecast to be a surplus, suggesting permanent savings are being realised. The TOM has now completed but the MTFP includes gaps in later years and we have raised a recommendation for a transformative savings programme to be developed to replace the TOM and work towards mitigating the gap.	Yes	The recommendation is addressed due to completion of the TOM, current year **improvement recommendation 3** looks forward to the next phase of efficiency planning.
2	**Financial sustainability** – 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 capacity to deliver overall savings targets.	Improvement	March 2022	As above, the TOM is complete and we have raised a recommendation that encourages the Corporation to seize the opportunity to develop a transformational savings programme going forwards.	Yes	See above

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	**Governance** – 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.	Improvement	March 2022	The approach to Internal Audit planning has been amended since the prior year and in 2022-23, a programme of work was not set for the 12 months from April 2022. Instead an indicative 6 month plan was developed and maintained on an iterative basis throughout the year. From our review of arrangements we established that there is evidence of planning that meets some of the minimum requirements of the PSIAS with improvement required to ensure full compliance.	Partially	**Improvement recommendation 10** raised in the current year supersedes the 2021-22 improvement recommendation in this area.
4	**Governance** – The Corporation should prioritise undertaking the completion of the External Quality Assessment in 2022-23 against the Public Sector Internal Audit Standards so that improvements can be identified and implemented in a timely manner.	Improvement	March 2022	An annual self-assessment for 2022-23 was completed and confirmed that the Internal Audit function conforms with the requirements of the standards. The External Quality Assessment was due to be completed by March 2023 to comply with requirements. This was delayed and was undertaken in May 2023 and reported in June 2023. The assessment confirms that Internal Audit generally conforms with the standards, this is positive and ensures minimum standards are met but areas for improvement were noted.	Yes	No
5	**Governance** – The Corporation should ensure staff are aware of the requirements of the Gifts & Hospitality policy and consider rolling out specific refresher training.	Improvement	March 2022	This work has not been actioned. Ownership of this recommendation now sits with HR per the Town Clerk's request that HR take this forward.	No	Response to the recommendation to be reviewed in 2023-24.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	**Governance** – Given the importance of the TOM programme to the Corporation and its ongoing implementation, the Corporation should consider re-instating the TOM Programme Team to provide appropriate capacity and co-ordination of the programme.	Improvement	March 2022	As noted, the TOM programme is now complete and a replacement savings and efficiency programme yet to be developed. The Corporation would continue to benefit from central co-ordination of any newly developed programme. We have identified that the Corporation intends to develop a Savings Working Group to aid the development of the next phase of efficiency planning, who will also investigate income generation opportunities. An Efficiency and Performance Committee, a sub-committee of the Finance Committee, is also in place which is responsible for improving performance of the Finance Committee's duties in the areas of efficiency and performance. An operational team, with a similar purpose to the TOM Programme Team, would be beneficial once a new efficiency programme is developed. The underlying governance arrangements for oversight will be in place once the Savings Working Group and Efficiency and Performance Committee are set up, or re-instated.	Yes	The recommendation is addressed due to completion of the TOM, current year **improvement recommendation 3** looks forward to the next phase of efficiency planning.
7	**Improving economy, efficiency & effectiveness** – 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.	Improvement	March 2022	The Corporation's Corporate Strategy and Performance Team has been working on an updated Corporate Plan for 2024-2029, which is in the process of being finalised. This includes a commitment to report on quantitative and qualitative performance information on each outcome included in the Corporate Plan. To date the Corporation has identified some of the areas it wishes to measure performance, the underlying performance measures required and a full aspirational list of the data it would like to bring online over the lifespan of the Corporate Plan. Therefore, steps towards developing a framework have been taken however, development of a formal set of KPIs is still very much in its infancy due to a lack of maturity and capability on data within the organisation.	Partially	Our prior year recommendation remains open, acknowledging that this area is a work in progress and that the Corporate Strategy and Performance Team remains committed to ongoing development in relation to performance management.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	**Improving economy, efficiency & effectiveness** – 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.	Improvement	March 2022	Our review of 2022-23 arrangements did not highlight any benchmarking as the performance management framework has yet to be finalised. The Corporation is unique in comparison to other bodies in the local government sector which does limit wholesale opportunities for such benchmarking. However, for those areas where operations or strategies are similar this would be a useful tool to build into the performance management framework whilst it is in development. The draft Corporate Plan does confirm the intention, where possible, to consider benchmarking, especially where this is reliably available through government data sources.	No	Our prior year recommendation remains open, acknowledging that this area is a work in progress and that the Corporate Strategy and Performance Team remains committed to ongoing development in relation to performance management.
9	**Improving economy, efficiency & effectiveness** – 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.	Improvement	March 2022	A newly appointed Programme Director undertook a deep dive of the budget and resourcing requirement for the programme to respond to inaccuracies identified in by the external consultant. This resulted in an increased budget to account for backfilling and recharging of business-as-usual (BAU) staff to ensure the cost of the project is realistic in its assumptions around capacity.	Yes	Current year **improvement recommendation 14** raised to ensure ongoing improvement in the ERP programme.

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the financial statements:

- give a true and fair view of the financial position as at 31 March 2023 and of expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2022-23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK);
- the Code of Audit Practice (2020) published by the National Audit Office; and
- applicable law.

We are independent of the Corporation in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We anticipate issuing an unqualified opinion on the City Fund's financial statements in February 2024.

Detailed findings are set out in our 2022-23 Audit Findings Report, which will be presented to the Corporation's Audit and Risk Management Committee in February 2024.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the City Fund's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Appendices

Appendix A: Responsibilities of the Corporation

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.

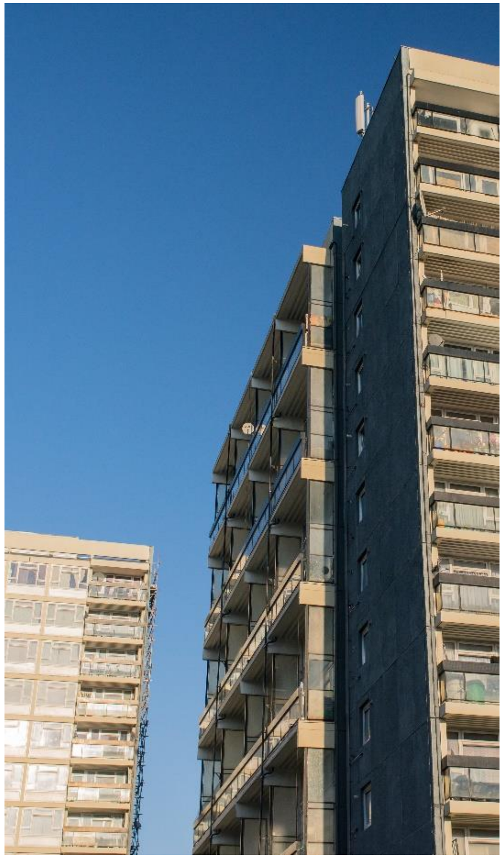
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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) 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 references
Statutory	Written recommendations to the Corporation 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 the Corporation's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Corporation. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Corporation, but are not a result of identifying significant weaknesses in the Corporation's arrangements.	Yes	See relevant sections

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