The Chartered Institute of
Public Finance & Accountancy

Plymouth City Council

External Assurance Review

August 2024

A Report by:

The Chartered Institute of Public Finance and Accountancy

Any questions arising from this submission should be directed to:

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1 Executive Summary

1.1 Summary of Findings, Issues, Evidence and Analysis

The review is focused primarily on providing assurance on the financial position of Plymouth City Council (the council), assessing whether the council has appropriate arrangements for financial management in place and to consider whether the request for Government support in the form of Exceptional Financial Support (EFS) in 2024-25 is warranted.

The council's request was for EFS amounting to £72 million for a historic accounting correction in 2019-20.

The 2024-25 forecast outturn at month 2 is balanced but with pressures of £1.164 million (Adults – due to the number of clients in long stay nursing) and £2.473 million (Looked After Children – due to placements). Services are expected to take corrective measures to mitigate these pressures.

Whilst at present the Medium Term Financial Forecast (MTFF) identifies a budget gap in 2025-26 of £17.279 million and further budget gaps in subsequent years to 2028-29, the council is confident these can be closed. The MTFF includes growth for both Adult Social Care and Children's Services, though there is a risk that this will be insufficient to support the increasing demand and complexity of needs.

The council has begun the work for the 2025-26 budget. There is a clear programme and timetable of activities to contain current year pressures and identify savings and mitigations, initially to address the £17.279 million gap identified for 2025-26 and result in a balanced and affordable budget. The ambition is to identify savings and mitigations for both 2025-26 and 2026-27 .

The council introduced the 'Executive Decision Governance Route' in respect of 'unusual and innovative decisions' in 2021 in response to the transaction which has resulted in the council's request for EFS.

Our overall view, based on the work undertaken, is that the £72 million EFS request for 2024-25 is a one-off and given current circumstances the council will not require further EFS in subsequent years.

1.2 Key Risks and Recommendations

Key risk	Risk rating (see details in Annex 1)	Recommendation (including Timeline)
1. There is a lack of clarity and focus on financing costs (interest and Minimum Revenue Provision (MRP)) to support decision-making.	4	The budget report, budget monitoring reports and the Medium Term Financial Strategy (MTFS) should clearly identify financing costs (interest and MRP) as a separate budget item, and that this is closely monitored and reported. **2025-26 Budget and MTFS and ongoing**
2. The council recognises the built-in growth for Adults and Children's Social Care is insufficient to cover the increasing pressures.	6	Regular monitoring and forecasting of changes in demand and costs combined with financial modelling as part of the MTFF/MTFS. **2025-26 Budget and MTFS and ongoing**
3. Sufficient savings proposals are not agreed to close the 2025-26 gap of £17.279m.	6	The council ensures it retains focus on taking the decisions necessary to set a balanced budget in 2025-26. **Until March 2025**
4. Implementation of the recommendations to strengthen corporate governance of the Family of Companies (FoC) is delayed.	3	The council ensures implementation of the recommendations to strengthen corporate governance of the FoC is given appropriate priority. **As soon as possible**
5. A single Shareholder Committee does not have sufficient capacity to provide oversight across the breadth of the entities within the FoC.	3	Consider the establishment of further Shareholder Committees (or Sub-Committees) with a specific remit in relation to a single company or group of companies based on function, size, degree of control and financial risk to the council. **As soon as possible**
6. Capital Programme underspends in 2024-25 with resulting impact on delivery of approved capital projects and knock-on effect in subsequent years.	3	Undertake a robust review of the profile of the Capital Programme to identify a realistic forecast outturn for 2024-25. **As soon as possible**
7. Financing costs as a proportion of net revenue continue to		Calculate forecast financing costs as a proportion of net

increase, impacting on financial sustainability and the availability of revenue resources to fund council spending priorities in the context of the currently forecast budget gaps in 2025-26 though to 2028-29.	**6**	revenue through to 2028-29 to provide greater clarity on the cost of future borrowing to fund the Capital Programme and inform decisions on the scale, profile and funding of the Capital Programme. **As soon as possible**

2 Introduction

2.1 Background

Plymouth City Council applied for EFS for 2024-25 in order to retrospectively resolve the accounting treatment of a transaction completed in 2019 to deal with its pension fund deficit.

In summary, Plymouth used borrowing to invest in an independent investment company (Miel), which in turn used the council's investment to completely pay off the council's pension deficit. The original basis of Plymouth's transaction was to secure long-term value for money and it was believed that the transaction should be accounted for as capital spend (by investing in a company).

This transaction was identified by the council's auditor as an issue; i.e. the auditor's view was that the council had incorrectly treated the transaction and used borrowing to fund a revenue pressure.

Ultimately, it is the novel 2019 transaction that has led to Plymouth's application for EFS.

2.2 Requirement

The Ministry of Housing, Communities, and Local Government (MHCLG) asked CIPFA to undertake the external assurance review on which the council's EFS is conditional. They invited us to provide an assessment of the financial position of Plymouth City Council including its financial resilience, financial management and capital programme.

To provide this assessment, we were asked to look at three key themes:

- *financial management and sustainability*: an assessment of the council's financial management and management of risk to reach a view on the council's overall financial resilience and sustainability.
- *capital programme, debt, investments and assets* : an assessment of the council's Capital Programme / overall debt position including short- and long-term borrowing, and approach to investment / asset management to reach a view on the suitability, Value for Money (VfM) and risk exposure of the council, and how this may impact on the overall financial resilience and sustainability of the council.
- *improvement plan and roadmap*: in consideration of the findings of the review areas, targeted, tangible and timely recommendations to assist the council in designing and implementing an improvement plan to address any identified risks and issues.

At MHCLG's request, particular attention was paid to providing an assessment on the robustness of the council's governance arrangements following the 2019 pension transaction and to understand if lessons have been learnt from that period.

2.3 Methodology

Desktop analysis

MHCLG provided appropriate background. We reviewed the material and made supplementary document requests to the council. The team has analysed around 60 documents and other items that have been shared by the council that are relevant for the review. We also examined relevant comparator material. We would like to record our thanks to officers for their ready compliance with our request for reports and data.

Interviews

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

Report drafting, feedback and fact-checking

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

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

Report Structure

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

3 Areas Reviewed

3.1 Review Area 1: Financial Management and Sustainability

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

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

Key findings and analysis

The council has efficient and effective financial management processes in place for financial planning and budget monitoring. There is strong and clear ownership of budgets across the corporate leadership team. Monthly budget monitors covering revenue and capital as well as the status of delivery of savings is reported. Directorates are expected to contain any in-year budget pressures including slippage of achieving savings within their existing resources during the year.

Financial performance is reported to Cabinet quarterly.

The Cabinet Member for Finance has a strong private sector background in industry and finance and provides strong leadership to the portfolio.

Financial planning and budget setting is structured, and a clear process is in place. This starts with a Medium-Term Financial Forecast (MTFF) in June, followed by sessions to identify and validate growth and pressures, together with mitigations leading to a Medium Term Financial Strategy (MTFS) and budget proposals in time for February/March Cabinet and Full Council meetings.

The 'Medium Term Financial Forecast for 2024/25-2028/29' report was considered by the Cabinet on 8 July 2024. This report reflects the latest funding projections and sets out the forecasted budget shortfall in each year. The report outlines the current resources, income and expenditure assumptions for the planning period and builds on the outturn position.

There is a programme of activities to develop and identify pressures and growths as well as mitigations which form the basis of the MTFS. In the last financial year, this was prepared in September 2023 and covered 2023-24 – 2027-28 (i.e. it included the then current financial year).

The detailed budget papers setting out the recognised growth, pressures and mitigations for closing the funding gap in order to set a balanced budget are considered by Full Council in February/March. The 2024-25 budget was approved by the council on 8th March 2024.

The timing of the MTFS is being revised, as the council's external auditor has recommended, to align with budget approval for the 2025-26 budget setting process, so that the first year of the MTFS will also be 2025-26.

This will allow the council to present a more detailed MTFS, the first year of which will align with the budget the council is being asked to approve.

The MTFS and the 2025-26 budget should more clearly identify revenue financing costs (interest and MRP) as a consequence of borrowing. This is an increasingly significant element of the council's net revenue budget (forecast to be 19.4% in 2024-25). In our experience, this is often a separate line in the budget and the MTFS so there is clarity of variances against budget and the trajectory of financing costs over the period of the MTFS.

The Corporate Management Team (CMT) has begun the work for the 2025-26 budget and the MTFS. There is a clear programme and schedule of activities to develop a balanced budget which addresses the identified budget gap of £17.279 million in 2025-26 (a cumulative budget gap of £32.6 million in the period 2025-26 – 2028-29 is identified in the MTFF).

There are 4 budget strands to frame the activities to close the funding gap:

- Efficiencies
- Income maximisation
- Manage demand
- Service standards

The Audit and Governance Committee has a wide remit and the workplan is substantial and extensive with a clear focus on financial planning and management, performance, risk and assurance.

No concerns have been raised by external audit around financial management or governance processes other than the 2019 pensions transaction and the 2020 'interest swap' transaction, which were addressed in a report by the external auditor in 2021.

The Internal Audit Annual Report for 2023-24 identified 71% reasonable assurance and 29% as limited; the key areas of limited assurance were SEND, the Adult Social Care payment system, and debtors:

- Adult social care payment system – failure of internal controls
- Client financial services – gaps and delays combined with resourcing issues
- Debtors – increase in outstanding sundry debt, income and debt management policy not updated since 2017
- Issuing, appeals and cancellations of PCNs
- SEND – Governance and decision making, commissioning and contracting, monitoring and evaluation of contracts and placements
- Special guardianship orders

The CIPFA Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management.

The council's own assessment using the CIPFA Financial Management Code framework identified 7 indicators at amber and no reds. A detailed action plan is in place and progress is reported to the Audit and Governance Committee. The three lowest scoring indicators are:

- Documented option appraisal methodology to demonstrate VfM of its decisions
- Rolling multi-year Medium Term Financial Plan consistent with sustainable service plans
- Family of companies' oversight

In regard to VfM, the review of the arrangements for 2022-23 were presented on 12 March 2024 to the Audit and Governance Committee, and planning for the 2023-24 review is under way.

Risks

1. There is a lack of clarity and focus on financing costs (interest and MRP) to support decision-making.

Recommendations

1. The budget report, budget monitoring reports and the Medium Term Financial Strategy (MTFS) should clearly identify financing costs (interest and MRP) as a separate budget item, and that this is closely monitored and reported.

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

Key findings and analysis

Overall, there is a good finance leadership and structure in place, which is well resourced and works well with the services. Finance is embedded at a senior leadership level and the portfolio holder has an appropriate level of financial understanding.

Based on the current structure and composition of the Finance function, there is sufficient capacity to deliver an effective finance function and provide support to any required transformation activity.

A review of the reports provided and discussions with officers and members provides assurance that there is sufficient expertise and knowledge to provide the right level of support and information for planning and decision making.

The Section 151 (S151) Officer is retiring soon and recruitment for a replacement is underway.

Risks

None identified

Recommendations

None identified

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

Key findings and analysis

The council has a detailed and thorough Risk and Opportunity Strategy which clearly sets out the approach, risk appetite, risk tolerance opportunities and covers financial, service and organisational risk. The strategy also includes guidance and assistance for staff on how to undertake risk analysis and scoring. A new risk management process for organisational risk was implemented in January 2024 supported through training and the staff intranet. The traffic on the intranet risk management pages is tracked and there has been a significant increase since the new process was launched. The risk and opportunities registers include mitigations and management of each risk. There is a regular review of the risks reporting arrangement to CMT and the Audit and Governance Committee.

The risk register is comprehensive and regularly reviewed and updated using a locally developed app which provides easy access to the toolkit.

Financial risks are captured through budget planning and monitoring and reflected in the MTFF and MTFS. The continuing pressures in People (which includes Adult Social Care) and Children's Services is recognised through year-on-year growth built into the financial model.

The other key area of financial risk is homelessness, and a taskforce led by the Chief Executive has been mobilised which is looking at all the options including how best to acquire additional housing provision.

The level of reserves is low compared to similar authorities with Earmarked General Fund Reserves of £43.571 million and a General Fund Balance at £8.743 million (3.6% of the council's net revenue expenditure) as of 31 March 2024. However, it is not expected that Plymouth will require additional EFS in future years.

Risks

None identified

Recommendations

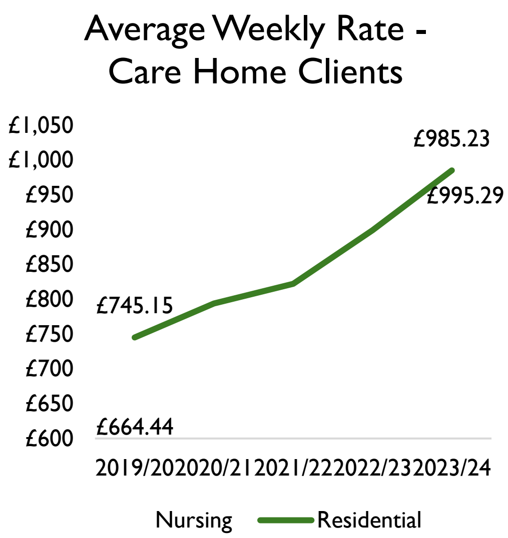
None identified

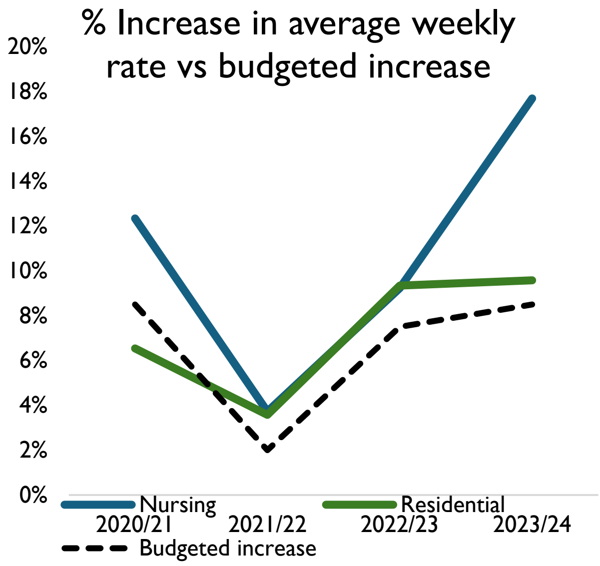
The underlying drivers of any financial fragility and risk and the council's ability to successfully manage those drivers so that issues do not materialise.

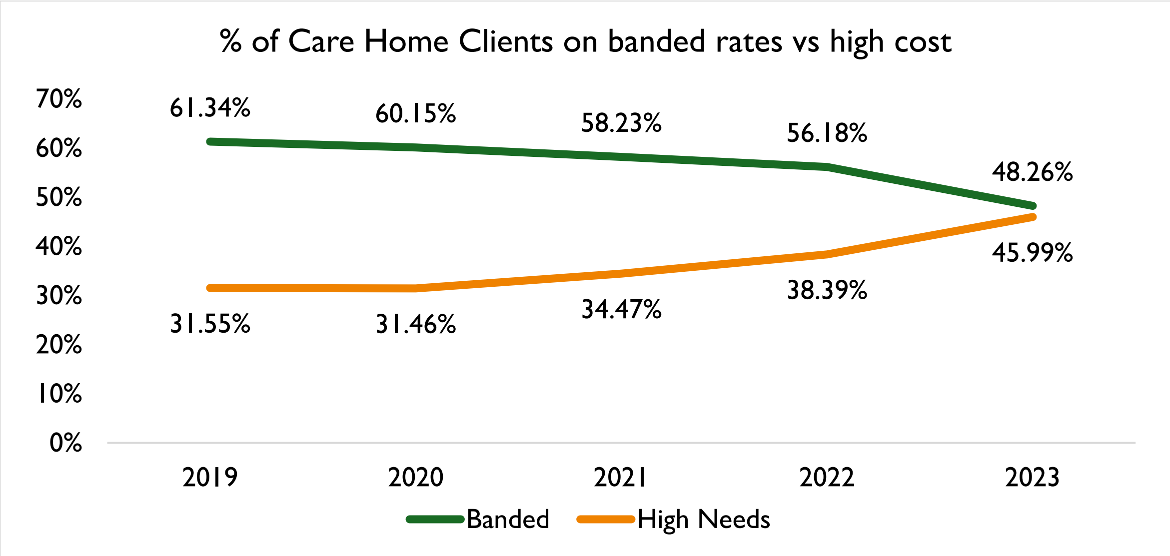
Key findings and analysis

The underlying drivers of the financial fragility which is impacting the council are the increase in demand both in absolute numbers and complexity for both Children's and Adult Social Care.

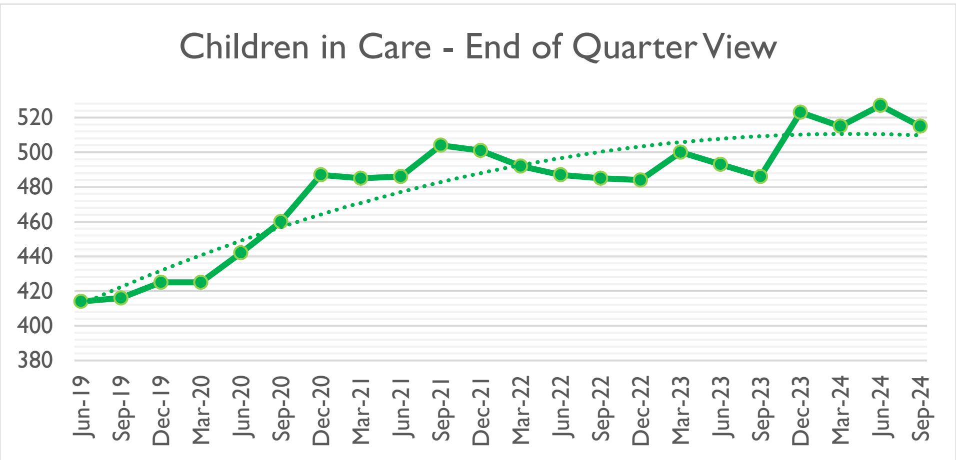
The increasing pressures within Adult Social Care are set out in the below graphs covering home care, residential and nursing care provision.

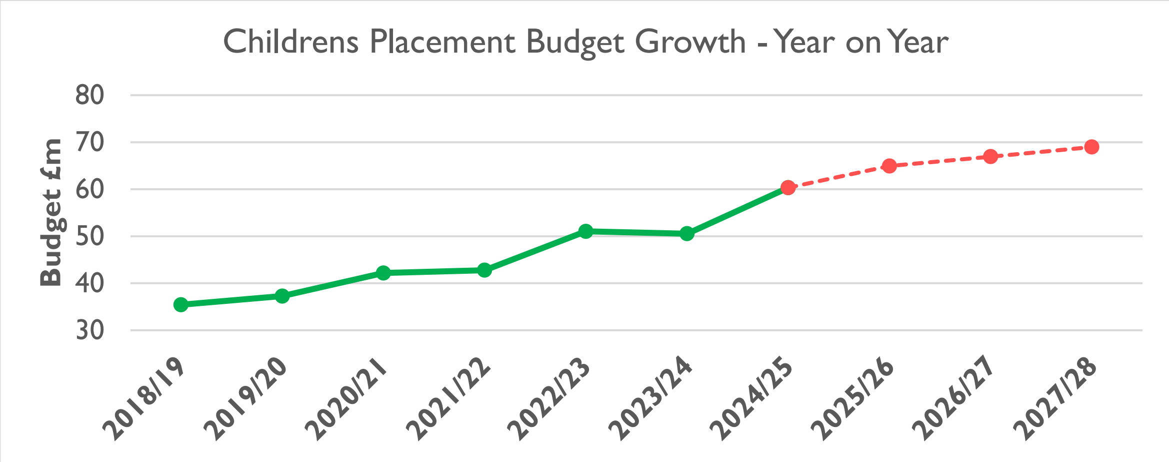






The number of children in care has seen a steady increase over the last five years and is expected to continue, with the funding requirement expected to increase over the next four years.





The council has included uplifts in the 2025/26 budget projection in the MTFS for Adult Social Care. (£3.5 million) and Children's Services (£3.0 million) with further increases in remaining years of the MTFS planning period.

In addition to Adults and Children's service pressures, the council recognises there is a significant demand for homelessness services leading to pressure on service delivery and statutory targets with additional significant budget implications. A Homelessness Recovery Plan has been developed, including establishing a Housing Task Force led by the Cabinet Member and the Chief Executive to provide strategic leadership with representation from across the council to ensure that appropriate focus is applied. A Homelessness Recovery Board is responsible for operational elements of the plan and reports to the task force.

Risks

2. The council recognises the built-in growth for Adults and Children's Social Care is insufficient to cover the increasing pressures.

Recommendations

2. Regular monitoring and forecasting of changes in demand and costs combined with financial modelling as part of the MTFF/MTFS.

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

Key findings and analysis

Savings plans totalling £3.696 million have been included in the 2024-25 budget and are lower than in previous years. Based on a review of prior year savings, the council has regularly achieved savings and since 2014-15 a total £185 million have been achieved.

The 2024-25 forecast budget at month 2 is balanced but with pressures of £1.164 million (Adults – due to the number of clients in long stay nursing) and £2.473 million (Looked After Children – due to placements). Services are expected to take corrective measures to mitigate these pressures. Separately there are savings within Children (£1.096 million) and Adults, Health and Communities (£1.000 million) which are flagged as amber at this stage.

The regular budget monitoring reports now include a section on deliverability of agreed savings or mitigations for non-delivery. Set out below is the status of these savings from the council's Month 2 budget monitor.

Directorate Savings	Plan	£m	Month 2 Delivery Status
Corporate Items	Minimum Revenue Provision and Bad Debt Provision Release	(0.900)	Green
Children's Directorate	Net savings associated with profile of placement types	(1.096)	Amber
People (Adults, Health and Communities)	Managing demand in homelessness spend	(1.000)	Amber
	Release of Bad Debt Provision	(0.500)	Green
Public Health	Contribution to revenue budgets	(0.200)	Green
Total savings		**(3.696)**	

Services have been asked to contain these pressures within their existing budgets.

CMT has begun the work for the 2025-26 budget and MTFS. There is a clear programme and timetable of activities to contain current year pressures and identify savings and mitigations, initially to address the £17.279 million gap identified for 2025-26. The ambition is to identify savings and mitigations for 2025-26 and 2026-27.

The table below sets out the growth and pressures for the 2025-26 – 2028-29 financial planning period and the projected funding gap.

Provisional Gap	2025/25	2026/27	2027/28	2028/29
Additional Core Resources £m				
Revenue Support Grant	(0.374)	(0.762)	(0.539)	(0.560)
Council Tax	(7.443)	(6.908)	(6.740)	(7.455)
Business Rates	(0.305)	(0.153)	(0.109)	(0.116)
Total Additional Core Resources £m	**(8.122)**	**(7.823)**	**(7.388)**	**(8.131)**
Right Sizing the Budget £m				
Salary and Pension inflation	4.000	4.120	4.244	4.371
Reverse one off drawdown of Reserves	5.000	0.000	0.000	0.000
Flexible use of Capital Receipts	1.448	0.000	0.000	0.000
Repay S106 monies	0.900	0.980	0.900	0.000
Replenish working balance	1.000	0.000	0.000	0.000
National Living Wage	4.660	3.000	3.000	3.000
Minimum Revenue Provision (MRP one-off)	0.400	0.000	0.000	0.000
Adult Social Care Bad Debt one-off	0.500	0.000	0.000	0.000
Total Right sizing the Budget £m	**17.908**	**8.100**	**8.144**	**7.371**
Other Costs and Adjustments £m				
Climate Fund - Revenue borrowing	0.250	0.250	0.000	0.000
Social Care Grant	(3.500)	(2.000)	(2.000)	(2.000)
ASC Demand Growth	3.543	3.781	4.035	4.000
Childrens Demand Growth	3.000	3.000	3.000	3.000
Send Home to School Transport/SEND	1.500	0.000	0.000	0.000
Environmental Bill	0.500	0.000	0.000	0.000
Treasury Management Costs	2.200	0.000	0.000	0.000
ICT	1.000	0.000	0.000	0.000
Energy Costs	(1.000)	0.000	0.000	0.000
Total Other Costs £m	**7.493**	**5.031**	**5.035**	**5.000**
Total Provisional Gap £m	**17.279**	**5.308**	**5.791**	**4.240**

Risks

None identified

Recommendations

None identified

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

Key findings and analysis

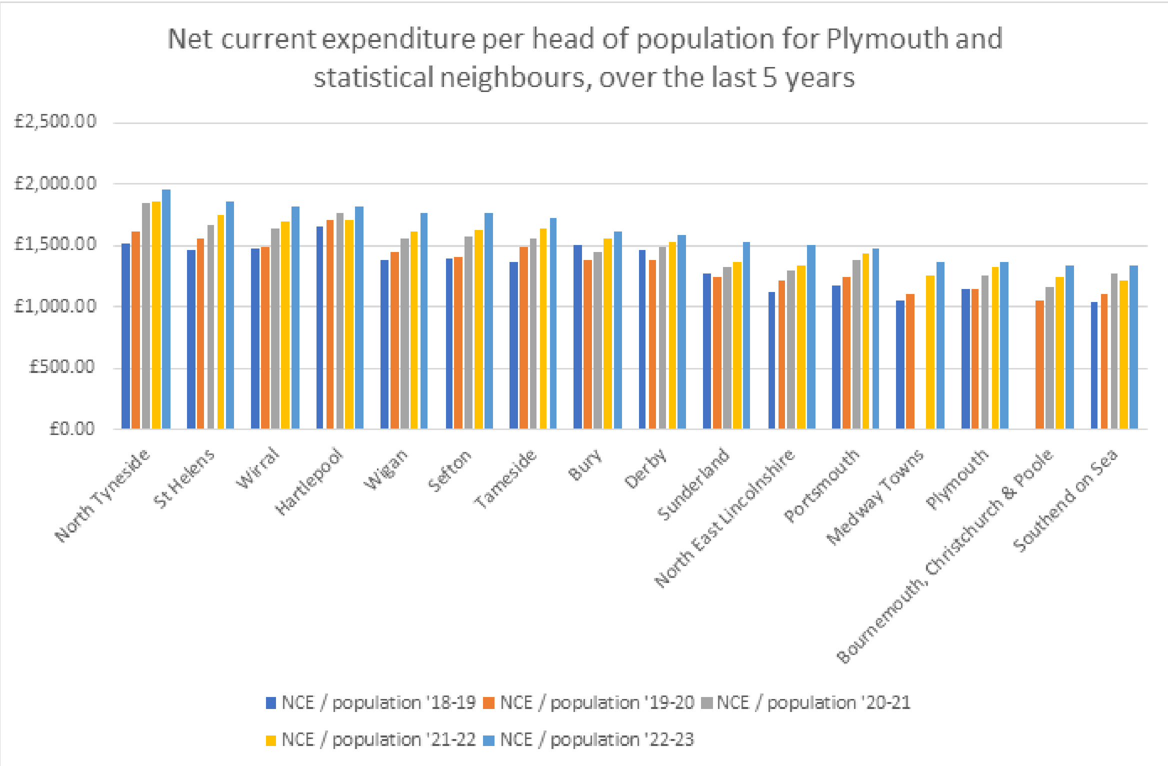
The council has completed and submitted its productivity statement which appears to be comprehensive and includes a section on minimising wasteful spend. The council has a low level of EDI activity with no dedicated resources associated with EDI.

The council uses a wide range of benchmarking data and tools to ensure that their services offer VfM, and benchmarking is also embedded in performance reporting.

When compared to statistical neighbours using CIPFA benchmarking:

- Overall, Plymouth spends 16.25% less than the average of their statistical neighbours, per capita.
- Plymouth council has 340% higher income from Planning and Development, 165% higher income from Environmental and Regulatory Services and 158% higher income from Education Services than is average for its statistical neighbours.
- Per-capita net current expenditure on highways is 20% higher than the comparator group average. This may be due to them having a more extensive road network.

Plymouth compares favourably on net expenditure per head of population when compared with its statistical neighbours.



Risks

None identified

Recommendations

None identified

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

Key findings and analysis

Historically the council has been able to manage identified budget pressures through its own resources and mitigations and it expects to be able to do so for the current year and over the planning cycle.

The 2023-24 balanced outturn was achieved by drawing down £1.953 million of usable reserves and £9.307 million of corporate resourcing adjustments.

The 2024-25 forecast budget at month 2 is balanced but with pressures of £3.674 million. Separately there are savings with Children (£1.096 million) and AHC (£1.000 million) which are flagged as amber at this stage.

2024-25 Budget monitoring and mitigations:

- Slow down spend
- Manage within allocated budget with clear visibility and reporting of savings delivery
- Push to deliver additional savings
- Defer spend from 2024-25 into 2025-26
- Any pressures managed through service mitigations
- Avoid / reduce unbudgeted spend such as – community meals / repairs and maintenance
- Build on existing work programmes:
    - Children's Social Care
    - Home 2 School Transport (SEND)
    - Homelessness
    - Adult Social Care

The reporting arrangements for monthly financial performance now includes detailed monitoring of delivery of savings targets.

Risks

3. Sufficient savings proposals are not agreed to close the 2025-26 gap of £17.279 million.

Recommendations

3. The council ensures it retains focus on taking the decisions necessary to set a balanced budget in 2025-26.

3.2 Review Area 2: Capital Programme/Debt/Investments /Assets

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

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

Key findings and analysis

The council has produced a comprehensive 'Capital Handbook' dated 26 July 2024, which sets out the governance processes in place in the council in respect of the Capital Programme and in relation to individual capital projects.

The Handbook sets out a series of 'Gateways'.

These are explained in detail in the Handbook including through Capital Projects Process Flow Charts.

The Capital Projects Officer Group (CPOG) is an officer group that has responsibility for managing and overseeing the capital programme. This includes endorsing (or not endorsing) all Capital Mandates and Business Cases for presentation to decision makers and testing proposals against the council's priorities and polices.

The Capital Programme Board has as core members the Leader of the Council and the Cabinet Member for Finance, together with the CEO, S151 Officer and the Service Director for Strategic Planning & Infrastructure as 'standing advisors to the Board'. Other Members and Officers are by invitation depending on the capital project under consideration. The role of the Capital Programme Board is to:

- Assess all submissions for capital expenditure prior to them entering into the normal reporting process for approval

- Advise the appropriate decision-maker / forum (Leader, Cabinet, Cabinet Member, Council) on the use of capital resources in delivering the vision, mission, and priorities of the Corporate Plan.

The Capital Handbook also sets out how capital spend is reported, stating "The reporting of Capital Programme expenditure and funding is currently included in the monthly Finance Monitoring Report presented to CMT and Cabinet plus the management Scrutiny Board. At the end of each reporting quarter, the Capital Budget Monitoring Report will be presented to Full Council".

The governance of the Capital Programme, as set out in the Capital Handbook, is "fit for purpose". In the section below on "Alignment of the capital programme with the broader strategic direction of the council including an assessment of the deliverability and affordability of its capital programme" we consider the scale of the Capital Programme and its financing, including external debt, in more detail.

In relation to the council's borrowing strategy, the 'Treasury Management Strategy 2024/25' states "The Council will continue to review its portfolio of borrowing and may refinance its debt dependant on the market conditions". It further states "The Council has taken the opportunity to refinance some of its short-term borrowing with long term fixed rate borrowing from PWLB. This has reduced the Council's short-term borrowing and therefore reduced the interest rate risk (risk of interest rates rising)".

The council also has an arrangement in place (the interest rate swap transaction in 2020) to mitigate part of the risk of short-term borrowing through a contract that fixes the rate of interest on £75m for 20 years. This has, to date, proven financially beneficial to the council, the net benefit to the end of 2023/24 since inception being £3.975 million.

Risks

None identified

Recommendations

None identified

Where applicable, an assessment of the council's approach to any part or wholly owned companies and any associated risk these companies expose the council to.

Key findings and analysis

The council has an interest in a comparatively high number of companies (20) which collectively are referred to the Family of Companies (FoC). These companies vary in size, function, and the extent of the council's interest. These include:

- DELT Shared Services Limited – a Joint Venture with NHS Devon ICB to deliver ICT services and systems to its partners
- CATERed Limited – a subsidiary jointly owned by the council (51%) and 67 local schools (49%) to deliver school meals
- Arca (Plymouth) Limited – a wholly owned subsidiary responsible for the administration and management of The Box and St Luke's Church
- @PlymouthCare Limited - a wholly owned subsidiary providing support ad care services to help people remain independent in their own home

- Plymouth Active Leisure Limited - a wholly owned subsidiary of the council which took back responsibility for operating the council's leisure centres from Sports and Leisure Management LTD (SLM) on the 1 April 2022

The council has recently undertaken a review of the effective corporate governance of the council's FoC which was considered by CMT in June 2024. As a consequence, it is planned that a number of recommendations to strengthen FoC corporate governance will be considered by the Audit and Governance Committee in September 2024. These include the establishment of a Shareholder Committee and a Shareholder Board.

The Shareholder Committee will consist of 4 Cabinet Members to be nominated by Cabinet supported by Council officers as required. Additional advisors, who do not need to be officers or members of the Council, may be invited to attend the Shareholder Committee as required. The Shareholder Board will include the Leader, at least 2 Cabinet Members chosen by the Leader, the S151 and Monitoring Officers and 2 co-opted members, who will be independent persons providing relevant expertise and appointed by the Leader on merit.

The council has provided working capital loans to three companies. Loan agreements are in place for loans to @PlymouthCare Limited and Fully CATERed Limited (a wholly owned subsidiary of CATERed Limited). During the course of our work, it was identified that there was no loan agreement in respect of a working capital loan of £365,000 made to Plymouth Active Leisure Limited in October 2022. This is being remedied. This loan is to be repaid in 8 quarterly repayments of £45,625 over 2024/25 and 2025/26. The first repayment is now due.

To date the council has not made any capital loans to companies. However, consideration is currently being given to a £600,000 loan to Plymouth Active Leisure Limited to purchase gym equipment. This has been approved in principle by CMT. However, it is subject to approval by CPOG and the delegated decision of the Portfolio Holder or Leader subject to the business case. The council will charge a margin (0.5%) on top of the council's cost of borrowing if the loan is approved and ensure compliance with guidance on MRP in relation to this first capital loan to a company.

Risks

4. Implementation of the recommendations to strengthen corporate governance of the FoC is delayed.
5. A single Shareholder Committee does not have sufficient capacity to provide oversight across the breadth of the entities within the FoC.

Recommendations

4. The council ensures implementation of the recommendations to strengthen corporate governance of the FoC is given appropriate priority.
5. Consider the establishment of further Shareholder Committees (or Sub-Committees) with a specific remit in relation to a single company or group of companies based on function, size, degree of control and financial risk to the council.

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

Key findings and analysis

The Capital Programme set out in 'Revenue and Capital Budget 2024/25' approved by the council on 8 March 2024 is set out below.

Five-Year Capital Programme by Directorate

Directorate	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£m	£m	£m	£m	£m	£m
Children's Services	3.540	0.304	0.130	-	-	**3.974**
People	8.764	21.506	9.030	0.220	-	**39.520**
Place - Economic Development	22.994	50.562	33.427	26.232	10.415	**143.630**
Place - Strategic Planning & Infrastructure	36.503	79.843	13.142	3.291	0.622	**133.401**
Place - Street Services	28.081	19.462	1.768	0.105	0.044	**49.460**
Customer & Corporate Services	4.718	5.166	2.206	-	-	**12.090**
Office for Director of Public Health	11.580	4.440	0.105	-	-	**16.125**
Total	**116.180**	**181.283**	**59.808**	**29.848**	**11.081**	**398.200**
Finance by:	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total**
	£m	£m	£m	£m	£m	£m
Capital Receipts	4.306	3.587	1.414	0.245	0.611	**10.163**
Grant Funding	53.783	74.934	2.136	0.023	0.022	**130.898**
Corporate Funded borrowing	30.211	54.820	15.023	0.478	0.043	**100.575**
Service dept. supported borrowing	23.809	44.283	38.826	25.987	10.373	**143.278**
Developer contributions	2.859	3.526	2.323	3.071	0.032	**11.811**
Other Contributions	1.212	0.133	0.086	0.044	-	**1.475**
Total	**116.180**	**181.283**	**59.808**	**29.848**	**11.081**	**398.200**

Excluding 2023-24, planned capital spend in the period 2024-25 – 2027-28 is £282 million with £181 million of this scheduled in the current financial year. The major areas of capital spend relate to Place accounting for £239 million of planned spend in the period 2024-25 – 2027-28 (85% of the total).

The 'Provisional Capital and Revenue Outturn Report 2023/24' considered by Cabinet on 8 July 2024, identified a capital spend of £91.361 million, an underspend of £24.819 million against the £116.180 million identified in the table above. This £116.180 million was the forecast outturn at December 2023. The original Capital Budget for 2023-24 was £200.567 million; therefore, outturn is 45% of the original budget and 79% of the forecast outturn at December 2023. This is a significant degree of slippage against the forecast in the final quarter.

This has resulted in a revised Capital Programme as set out below.

Directorate	2023/24 Actual	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	Total Programme
	£m	£m	£m	£m	£m	£m
Place	64.444	155.370	84.459	42.075	11.629	357.977
People	7.500	26.532	9.830	0.220	0.000	44.082
Children's Services	3.640	0.546	0.130	0.000	0.000	4.316
Customer & Corporate Services	5.116	5.287	1.545	0.710	0.280	12.938
Office for the Director of Public Health	10.661	6.167	0.105	0.000	0.000	16.933
TOTAL	**91.361**	**193.902**	**96.069**	**43.005**	**11.909**	**436.246**

The overall programme to 2027-28 has increased by £38.046 million to £436.246 million and the Capital Budget for 2024-25 has increased by £12.619 million to £193.902 million.

The 'Revenue and Capital Budget 2024/25' states "The Council continues to take a strategic approach to the Capital Programme, having established ten outcomes aligned to the Plymouth Plan and the Plymouth and South West Devon Joint Local Plan; together with the investment and business planning programmes of other organisations to maximise delivery in the city and surrounding areas".

The Capital Programme as approved on 8 March 2024 is aligned to these ten outcomes as is illustrated below.

Five-Year Capital Programme by Outcome

Primary Outcome of Projects	£m
Delivering a Net Zero Plymouth	68.758
Delivering a sustainable City Centre and Waterfront	43.372
Delivering a sustainable Derriford / Northern Corridor	43.940
Delivering a sustainable Eastern Corridor	0.966
Delivering sustainable homes for the city	26.385
Delivering essential City infrastructure / Improving neighbourhoods	48.936
Ensuring sufficient good quality school places	3.775
Delivering a sustainable economy	92.862
Connecting the City	28.702
Commercialisation of services (including property)	40.504
Total	**398.200**

The proposed funding of the Capital Programme approved on 8 March 2024 of £398.2 million was reliant on borrowing of £243.853 million (61% of the funding) with grant funding of £130.898 million (33% of the funding).

The council identifies part of the borrowing required to fund the Capital Programme as 'Service Department Supported Borrowing' (£143.278 million of the £398.2 million approved on 8 March 2024). Whilst borrowing is undertaken corporately, a charge is made to service departments. Projects seeking to fund proposals from service borrowing are required to meet the principle of 'invest to save', business cases evidencing that a loan to fund capital spend can be repaid from the net revenue benefits achieved from the investment.

The 'Provisional Capital and Revenue Outturn Report 2023/24' to Cabinet on 8 July 2024 identified an increase in external borrowing in 2023-24 of £97 million as is illustrated below.

	2022/23 £m	2023/24 £m	Current Av. Rate
Short Term	75.0	85.0	1.58%
PWLB	395.5	482.5	3.32%
LOBO	64.0	64.0	4.34%
Long Term	18.0	18.0	4.37%
TOTAL	552.5	649.5	3.23%

Financing costs as a proportion of net revenue has been increasing steadily from 12% in 2019-20 to a forecast position close to 20% in 2024-25, as is illustrated below.

Financing Cost to Net Revenue	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	2023/24 Actual	2024/25 Forecast
Financing costs (£m)	22.400	28.515	30.441	34.384	38.590	45.877
Proportion of net revenue	12.08%	14.72%	15.67%	17.39%	17.75%	19.39%

Projections for this ratio beyond 2024-25 have not been calculated by the council. However, working papers provided to us indicate that external debt is forecast to increase from £649.5 million at 31 March 2024 to £980.3 million by 31 March 2029, with associated financing costs of £56 million based on assumed movements in interest rates.

It is clear that the council's Capital Programme is aligned to strategic direction and objectives. However, the deliverability of the Capital Programme must be questioned, given the underspend in 2023-24 and the scale of the Capital Budget in 2024-25 of £193.9 million.

At the same time, the council needs to remain aware of the burden financing costs place on the council's Revenue Budget and assess the affordability of the increased borrowing which underpins the Capital Programme, though further slippage in the Capital Programme will mitigate this by reducing the need for external borrowing.

Risks

6. Capital Programme underspends in 2024-25 with resulting impact on delivery of approved capital projects and knock-on effect in subsequent years.

7. Financing costs as a proportion of net revenue continue to increase impacting on financial sustainability and the availability of revenue resources to fund council spending priorities in context of the currently forecast budget gaps in 2025-26 though to 2028-29.

Recommendations

6. Undertake a robust review of the profile of the Capital Programme to identify a realistic forecast outturn for 2024-25

7. Calculate forecast financing costs as a proportion of net revenue through to 2028-29 to provide great clarity of the cost of future borrowing to fund the Capital Programme and inform decisions on the scale, profile and funding of the Capital Programme.

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

Key findings and analysis

In relation to valuation, the council's external auditors, Grant Thornton, made a number of observations in 'The Audit Findings for PCC Year Ended 31 March 2021' (which was considered by the Audit and Governance Committee on 12 March 2024.

These items are marked closed in the report 'Management Response to GT 2024 Actions' which was considered by the Audit and Governance Committee on 23 July 2024.

The council does not have a current, overarching Asset Management Plan though it does have some individual service asset management plans (e.g. Highways).

However, a workstream within the council's Transformation Programme, 'The Way We Work', has the objective "To rationalise our need for accommodation, maximise our use of existing space, modernise our estate and grow our shared and income generating assets". The key drivers for this workstream are:

- Continue to work flexibly, where the staff involved and the requirements of their role can be safely and productively performed
- Ensure ease of access to the council's services by the public
- Reduce accommodation costs in order to support the balancing of our budget
- Achieve carbon neutrality by 2030 in order to support the Climate Action Plan

In addition, the programme is tasked with looking at the wider corporate estate to identify and progress further opportunities for rationalisation.

This workstream is reported to the Change Board. There is a schedule of potential asset disposals which is being reviewed and updated in August 2024. Since 2011 the council has disposed of 197 assets with a total value of £25.4 million. The council has previously engaged with the LGA Capital and Assets Programme to aid in delivering estate rationalisation and most recently the current LGA One Public Estate Programme.

Therefore, the council does actively consider the appropriateness of its asset portfolio.

Risks

None identified

Recommendations

None identified

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

Key findings and analysis

The 'Treasury Management Outturn Report 2023/24', considered by the Audit and Governance Committee on 23 July 2024, identifies that as at 31 March 2024 the council held £79 million of cash and investments which was a decrease of £7 million as at 31 March 2024 as illustrated below.

Investments	Balance on 01/04/2023 £m	Movement £m	Balance on 31/03/2024 £m	Avg Rate/Yield (%)
Short term Investments (Banks and call accounts)	3	(2)	1	2.00
Money Market Funds	28	(5)	23	5.23
Other Pooled Funds	55	-	55	5.45
TOTAL INVESTMENTS	**86**	**(7)**	**79**	**5.33**

The 'Treasury Management Strategy 2024/25' states "Given the increased risk and very low returns from short-term unsecured bank investments, the Council holds non-treasury management investment in diversified managed funds which offer a higher yield".

The £55 million pooled funds is a long-term investment (CCLA Property Fund, CCLA Diversified Fund, Schroder's Income Maximiser and Fidelity Enhanced Income Fund). The Treasury Management Strategy 2024-25 recognises these give a higher return than short-term investments, though with an increased risk of capital values falling. Interest received on the managed pooled funds was £3.128 million in 2023-24. Total interest received in 2023-24 was £4.979 million.

Since 1 April 2021 the council does not invest in commercial property if it is to be held primarily to generate income. The council will invest in the commercial property only where the main purposes are to regenerate areas of the city, encourage private investment and to create or retain local jobs.

The commercial property portfolio is referred to as the Property and Regeneration Fund (PRF). It has a gross rental yield of 5.3% and net income (after costs) of £1.005 million, a net income return of 1.2%.

The council has limited dependence on income from either its investments (money market funds/pooled fund) or from its commercial property portfolio (PRF).

Risks

None identified

Recommendations

None identified

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

Key findings and analysis

The council is compliant with the CIPFA's Treasury Management Code of Practice and the Prudential Code. The Council is also compliant with guidance on MRP.

MRP is provided for on its commercial property portfolio (the PRF). As yet, no capital loans have been made to companies the council has an interest in, but the council is aware of the need to comply with the guidance if and when such loans are provided.

The council does not make commercial investments purely for yield.

Risks

None identified

Recommendations

None identified

A view on the robustness of the council's governance arrangements following the 2019 pension transaction and to understand if lessons have been learnt from that period.

Key findings and analysis

The council's external auditors, Grant Thornton, undertook a Governance Review of the 2019 pension transaction together with the 2020 'interest rate swap' transaction which was considered by the Audit and Governance Committee on 28 July 2021.

Grant Thornton's recommendations were further considered by the Audit and Governance Committee on 27 September 2021 and 29 November 2021.

As a consequence, the council developed the 'Executive Decision Governance Route' in respect of 'unusual and innovative decisions'. Guidance on this together with a change to the Constitution were approved at the Audit and Governance Committee meeting on 21 November 2021.

The Constitution was amended in respect of such decisions to state “A Cabinet Member shall have the discretion not to exercise his or her delegated powers to make a decision, choosing in preference for the matter to be considered by and subject to decision by the full Cabinet or Leader. In deciding whether to exercise this discretion the Cabinet Member should consider the Executive Decision Guidance”.

The Guidance contains the following and states “If the answer is yes to any of the following questions below then taking the decision within Cabinet is strongly advised”.

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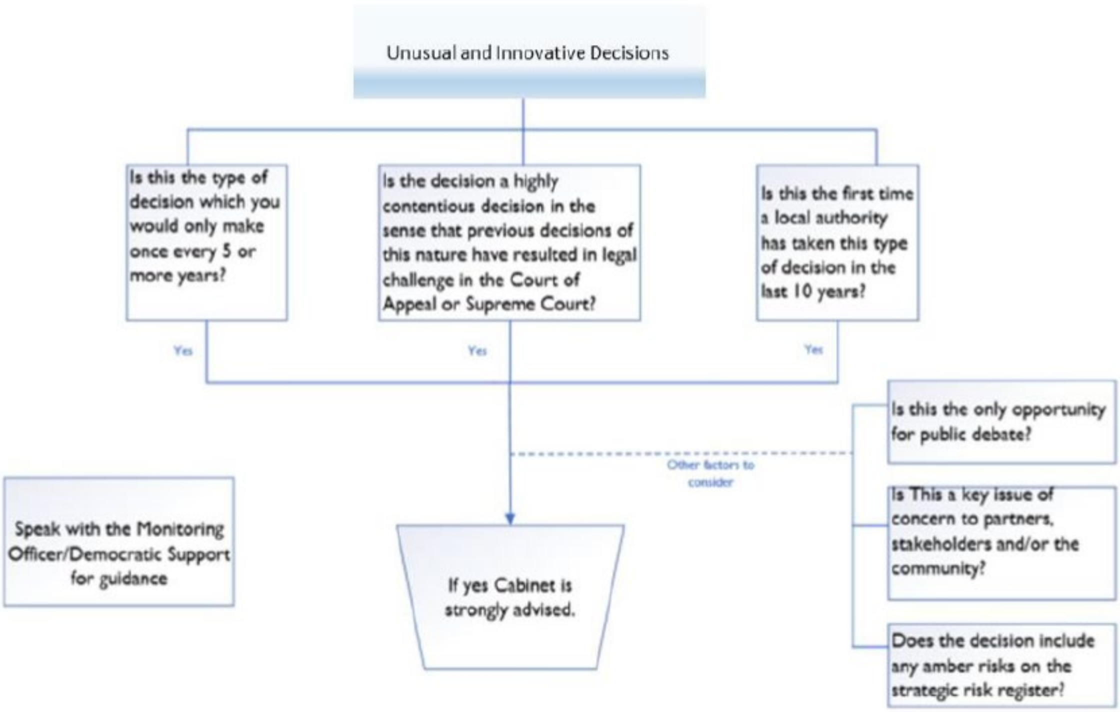

Our understanding is that CMT make an early determination of the application of this guidance and that this ‘Executive Decision Governance Route’ has been utilised on a limited number of occasions when deemed necessary since its introduction.

In conclusion, the council has learnt lessons from that period.

Risks

None identified

Recommendations

None Identified

Annex

A1 Risk Assessment – Method

Likelihood:

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

Impact:

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

A2 Documents Reviewed

- Capital Financing Strategy 2024-25
- Finance monitoring month 2 2024-25
- Financial outturn report 2023-24
- Auditors report to Committee
- MTFF report 2024-28
- MRP charges and Policy 2020-2025
- Property Regeneration Fund Review – July 2024
- Proposed budget 2024-25
- Revenue and capital budget and proposed council tax levels for 2024-25
- Savings proposals
- Treasury management MRP 2020-2025
- Treasury management strategy 2024-25
- Capital business case template version 11
- Capital handbook
- Actions of Capital Programme Officer Group 10.05.2024
- CPOG Terms of reference
- GT Governance review Actions Update
- GT Governance report on GT actions plus CIPFA Code
- Borrowing % net revenue
- Average % spend capital programme June 2024
- Monitoring 2024-25
- TM MTFF CMT 02072024
- Bereavement capital business case
- Bereavement cabinet paper appendices
- Plymouth Crematorium – Highlight report March 2024
- Leader's scheme of delegation June 2024
- DAP Internal Audit plan 2023-24
- Main accounting system 2023-24 draft report
- Treasury management 2023-24 IA report
- Risk management Strategy
- Q4 2023-24 Risk Management Report
- Structure charts for Finance and Legal
- Acquisition and delivery strategy – Temp Homes purchase programme
- Capital investment business case – purchase of accommodation
- 2024 Asset valuations summary
- Asset disposals
- Income sensitivity analysis
- Investment strategy & Framework
- Monthly PRF Report May 2024
- Audit and Governance Committee, agenda packs

A3 Interviews Conducted

NAME	ROLE
David Northey	Service Director for Finance (S151 Officer)
David Haley	Director of Children's Services (CMT Member)
Anthony Payne	Strategic Director for Place (CMT Member)
Carolyn Haynes	Interim Head of Finance (Deputy 151 Officer)
Helen Slater	Lead Accountancy Manager (Deputy 151 Officer)
Tony Rose	Head of Devon Audit Partnership (Internal Audit)
Paul Dossett	External Audit Partner, Grant Thornton
Cllr Tudor Evans	Leader
Liz Bryant	Head of Legal Services (Monitoring Officer)
Alison Critchfield	Deputy Head of Legal Services
Cllr Mark Lowry	Cabinet Member for Finance
Gary Walbridge	Interim Strategic Director for People (CMT Member)
Cllr Andy Lugger	Leader of the Opposition
Ross Jago	Head of Performance, Governance & Risk
David Draffan	Service Director for Economic Development
James West	Head of Land & Property
Ruth Harrell	Director of Public Health (CMT Member)
Paul Barnard	Service Director for Strategic Planning & Infrastructure
Anthony Payne	Strategic Director for Place (CMT Member)
Cllr Andy Lugger	Leader of the Opposition
Cllr Sarah Allen	Chair of Audit & Governance Committee
Kerry Malton	Lead Accountancy Manager Commercial Finance
Wendy Eldridge	Lead Accountancy Manager Treasury and Capital
Tracey Lee	Chief Executive

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