

Auditor's 20/21 and 21/22 Annual Report on Plymouth City Council

December 2024



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

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



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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 - key recommendation and improvement opportunities

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

We have written this annual report, with our VFM commentary in it, for both the 2020/21 and the 2021/22 financial years, for two reasons:

- we have been unable to close the 2019/20 financial statements audit, and commence the 2020/21 and the 2021/22 financial statement audits; and
- the Council is facing a financial crisis in the medium-term, from 2023/24 and beyond, and we need to report on the Council's VFM arrangements to the Audit and Governance Committee on 28 November 2022.

2020/21 and 2021/22 were unprecedented years in which the Council operated with a large number of its staff home working whilst supporting local businesses and residents through the pandemic. The Council responded well to COVID 19 and put in adequate arrangements to support its stakeholders.

Overall:

- We identified three key recommendations, in response to the significant weaknesses in Financial Sustainability and 11 opportunities for improvement, across all of the three Code's criteria, 14 recommendations in all, which are reported overleaf and the findings set out in detail within our report.
- The table below shows, in summary, our risk assessment and conclusion for the three VFM criteria: Financial Sustainability, Governance and Improving economy, efficiency and effectiveness

| Criteria | Risk assessment | Conclusion |
|--|---|--|
| <u>Financial sustainability</u> | <ul style="list-style-type: none"> • Risk of significant weaknesses identified in 20/21 audit plan | <ul style="list-style-type: none"> • Significant weaknesses in arrangements still exist in overall arrangements resulting in: <ul style="list-style-type: none"> ○ three key recommendation; ○ four improvement recommendations made |
| <u>Governance</u> | <ul style="list-style-type: none"> • Risk of significant weakness identified in 2020/21 audit plan | <ul style="list-style-type: none"> • No significant weaknesses in arrangements identified during our fieldwork, however <ul style="list-style-type: none"> ○ three improvement recommendations made |
| <u>Improving economy, efficiency and effectiveness</u> | <ul style="list-style-type: none"> • No risks of significant weaknesses identified | <ul style="list-style-type: none"> • No significant weaknesses in arrangements identified during our fieldwork however, <ul style="list-style-type: none"> ○ four improvement recommendations made |

Executive summary

Financial sustainability - how the body plans and manages its resources to ensure it can continue to deliver its services



The Council is operating in an increasingly uncertain financial environment. For the second successive year, in 2020/21, the Comprehensive Spending Review was a single year spending review. The Council delivered a breakeven position for the 20/21 financial year, after taking into account central government funding for COVID-19 and one-off adjustments. However, the Council's financial position is critical as there were significant funding gaps in each year of its five-year medium term financial plan with a total cumulative funding gap of £256 million to 2027/28. **We have identified a significant weakness in the Council's financial sustainability. We are not satisfied that the Council has appropriate arrangements in place to manage the risks it faces (like many other authorities) in respect of its financial resilience and have identified three KEY recommendations and four improvement recommendations, as follows:**

Key recommendations:

- **R1: Members should follow the advice of the Council's section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023/24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time into the base position.**
- **R2: The Council's Medium Term Financial Plan (MTFP) needs to be updated, as a priority, for the mid-year 2022 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 23/24;**
- **R3: The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the Council's significant financial challenges and associated workload during 22/23.**

Improvement recommendations:

- *R4: The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.*
- *R5: The Council's annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organisation. Service budgets and financial forecasts should be aligned with the Council's outcomes.*
- *R6: The Council's Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the "Action Plan / Future Mitigation" column of the Risk Register (which currently replicates the controls in place) so that officers and members are clear how the Council may put itself on a sustainable financial footing, reduce its financial pressures and achieve its strategic outcomes.*
- *R7: We consider that the Council's level of unearmarked General Fund reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit the Reserves Strategy and build up its reserves at a rate of greater than the current planned contribution of some £350,000 a year from 23/24.*

Governance - How the body ensures that it makes informed decisions and properly manages its risks



Our work for the 20/21 and the 2021/22 financial years focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic. Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. We have identified three improvement recommendations:

- *R8: We recommend that the Strategic Risk Register better informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.*

Executive summary (continued)



Governance (Continued)

- *R9: Given the significant financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly financial monitoring reports so that senior officers and members may see the level of variances at a service activity level to better inform decision making.*
- *R10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards (in the Financial management Code), produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.*

Improving economy, efficiency and effectiveness - How the body uses information about its costs and performance to improve the way it manages and delivers its services



The Council's ambition, community engagement and effective partnership working commendably earned it the national 2021 "Council of the Year" award as judged by the Municipal Journal. The Council has adequately delivered economy, efficiency and effectiveness in its use of resources. As part of its transformation journey, the Council still needs to effectively use benchmarking and data quality assurance to better understand the information about its costs and performance to improve the way it manages and delivers its services. We did not identify any risks of significant weakness, but we have identified the following four **improvement recommendations**.

The Council should:

- *R11: develop a data quality strategy setting out the Council's approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.*
- *R12: consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.*
- *R13: define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the Council's corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.*
- *R14: produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council's policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.*

Financial Statements audits



- Our progress on the 2019/20 and the 2020/21 financial statements audits, to date, is summarised on page 6 overleaf.

Financial statements audits



Opinions on the financial statements for the 19/20 and 20/21 accounts

Nationally, there is a technical accounting issue currently being debated by CIPFA on how public sector bodies account for their infrastructure assets in accordance with the International Financial Reporting Standards (IFRS). All local government audit opinions, for all firms, await national guidance and a possible statutory override of IFRS for infrastructure assets which is why we cannot sign any audit opinions without qualifying those with material infrastructure asset balances until this is resolved, which may be in the Autumn 2022.

2019/20 financial statements

We presented our 2019/20 audit findings, to date, to the 29 September 2022 Audit and Governance Committee. We reported that our work is incomplete and there are a number of areas where we are awaiting further information and revised accounts from the Council to conclude our work. These include:

- Receipt of a revised set of financial statements, incorporating a number of changes including those relating to financial instruments;
- The conclusion of our work in respect of the pension transaction - a significant issue which has consumed significant Council and audit resource.
- Resolution of the national issue relating to the carrying value of infrastructure assets within the Council's financial statements

The Council will need to reflect on the impact of the pension transaction within its Annual Governance Statement and we will review the other information to be published with the financial statements for consistency with our knowledge of your organisation once this is resolved.

2020/21 financial statements

Depending on the outcome of the 2019/20, we plan to start the audit of the 2020/21 financial statements in January. We have been made aware through our 2020/21 planning work that one-off adjustments at the 2020/21 year end has enabled the Council to report a breakeven position for that year so we will be adding these issues to our areas of audit focus.

We presented a revised 2020/21 audit plan to the 28 November 2022 Audit and Governance Committee.

2021/22 financial statements

We need to discuss with officers how we both work to auditing the annual accounts within the normal local government cycle as by the time we come to audit the 2021/22 financial statements, officers will be preparing the 22/23 financial statements in May 2023.



VFM: Arrangements to secure economy, efficiency and effectiveness in use of resources

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

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



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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

Conclusion

Plymouth City Council is an ambitious council that continues to achieve and improve the lives of its residents, through partnership working and community engagement, and commendably it earned the national 2021 "Council of the Year" award as judged by the Municipal Journal. Judges described Plymouth as "a local Council that has put culture-led regeneration and a sense of place at its heart, one that is determined to put its city on the map for all the right reasons".

The 2022 LGA Peer Review (Feb 2022), commissioned by the Council's Leadership, stated that "Leading the way in terms of delivering economic growth has been a powerful driver for PCC to date and has already delivered a powerful legacy for the council, but as Plymouth - both the council and the city - emerges from the pandemic, and the Plymouth Plan is reviewed to reflect the impact of the last 2 years on demand led services, it's vital that the importance of this changing narrative for core statutory services is reflected in the ambition for Plymouth and that delivering social value receives parity of esteem with economic growth across all services areas."

However, the Council's ambitions and potential commitments, with partners, under its Corporate Plan and the longer term 2014 - 2034 Plymouth Plan appear not to be underpinned by adequate financial funding in the medium nor longer term. The Council made immediate revisions to service costs for the 22/23 financial year given the forecast £14.855 million deficit at the end of June 2022. After accounting for savings of £7.716 million, the forecast revenue outturn is currently estimated at a net £6.656 million over budget, which is a variance of +3.4% against the net budget at the end of August 2022. Although the Council is actively managing its in year 22/23 financial position, at a detailed level, we are not satisfied the Council has appropriate arrangements in place to manage the risk to its medium-term financial sustainability and we would consider this a significant weakness in the Council's arrangements for ensuring it has the capacity to continue to deliver sustainable services in the medium term. Many of the challenges are sector wide given the dual challenges of inflation and increased demands for local government services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



We considered how the Council:

ES1: identifies all the significant financial pressures it is facing and builds these into its short and medium term plans;

ES2: plans to bridge its funding gaps and identify achievable savings;

ES3: plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

ES4: ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning;

ES5: identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Significant weakness in financial sustainability

Plymouth City Council (the “Council”) has experienced deteriorating financial resilience for a number of years with its service spending pressures, its demand led children and adult social care costs, the impact of COVID-19 and the affordability of its ambitious capital programme. The Council’s ability to increase local taxation in line with inflation for several years has also impacted its financial sustainability as its level of general fund reserves is in the lowest 20% of unitaries nationally. General Fund reserves at £8.044 million are currently some 4% of net revenue expenditure. The budget monitoring reports during 20/21 and 21/22 showed significant overspends which reduced following one-off adjustments so the Council was able to break-even in both financial years.

The Council made immediate revisions to service costs for the 22/23 financial year given the forecast £14.855 million deficit at the end of June 2022. After accounting for savings of £7.716 million, the forecast revenue outturn is currently estimated at a net £6.656 million over budget, which is a variance of +3.4% against the net budget at the end of August 2022. In setting the Council tax for 22/23, members chose not to follow the advice of the Council’s section 151 officer to increase council tax within referendum limits. This decision impacts both the 22/23 budget and future budgets by not building on the base positions resulting in cumulative lost income of some £2.1 million a year, which would mean a “loss” of £10.5 million over the five year MTFs. In our view this was not a decision made after a full assessment of the degree of financial risk by members and this is not a decision that should be repeated in setting the 23/24 budget when the Council has such significant financial challenges. The Council’s Medium Term Financial Strategy (MTFS) needs to be updated and reported as a priority for the December 2022 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. **The MTFs, in February 2022, showed a cumulative deficit over the next four years to 26/27 of £118 million, however this gap has widened significantly as the five year MTFs has been recalculated to include the 2027/28 financial year.**

The Chief Executive spoke at Cabinet on 7 July 2022 of the “grave” financial situation that the Council is facing. The Council’s Section S151 Officer and Service Director for Finance left at the end of September 2022 having been with the Council for 2 years. One of the Deputy Directors of Finance is “acting up” until a new Section 151 Officer is recruited for April 2023 and there is a 30% vacancy rate in the finance department. Given the significant financial challenges facing the Council, we recommend that the Council employs another senior finance officer, in the interim, so the senior finance team has the capacity and knowledge required to help manage the significant financial challenges and associated workload .

Conclusion

Overall, we are not satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have identified three key recommendations for financial sustainability and 4 opportunities for improvement, as follows:

Financial Sustainability Key recommendations:

- **R1:** Members should follow the advice of the Council’s section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023/24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time.
- **R2:** The Council’s Medium Term Financial Strategy (MTFS) needs to be updated, as a priority, for the December 22 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 23/24;
- **R3:** The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the Council’s significant financial challenges and associated workload during 22/23 and beyond

Financial Sustainability Improvement recommendations

R4: The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.

R5: The Council’s annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Service budgets and financial forecasts should be aligned with the Council’s outcomes.

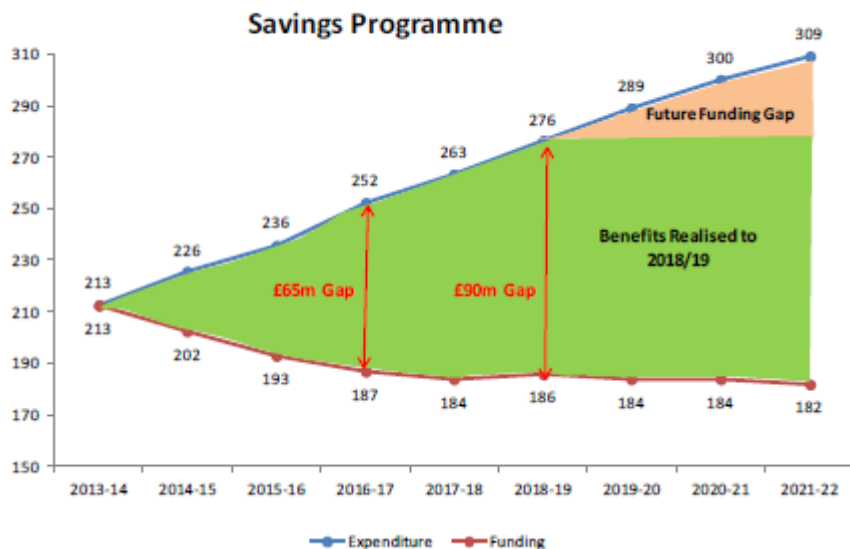
R6: The Council’s Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the “Action Plan / Future Mitigation” column of the Risk Register (which currently replicates the controls in place) so that Officers and members are clear how the Council may put itself on a sustainable financial footing, reduce its financial pressures and achieve its strategic outcomes.

R7: The Council’s levels of General Fund reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit its Reserves Strategy and build up its reserves at a rate of greater than £350,000 a year from 23/24.

1: How the Council identifies all the significant financial pressures it is facing and builds these into its short and medium term plans;

Ongoing financial challenges

The 19/20 – 20/21 Medium Term Financial Strategy (MTFS), currently on the Council’s website, shows the financial pressures and the financial funding gap was estimated to be £37 million at the end of 2021/22, as shown below as the “future funding gap”.



Revenue outturn for 20/21 and 21/22

For the 2020/21 and the 2021/22 financial years, the Council reported a breakeven position against a net budget of circa £194 million. The year end performances were an improvement on the forecast outturn position reported throughout the years and were achieved due to the receipt of additional COVID-19 funding. For 20/21, there still was an overspend of £0.625 million at directorate level and corporate items showed an overspend of £4.859m for business as usual activities. For the 21/22 financial year, there were net additional cost pressures totalling £10.313m plus cost pressures arising from the COVID-19 pandemic of £9.604m which needed to be managed.

Financial planning

The budget for 21/22 was agreed by Full Council in February 2021. However the MTFS was not formally updated and reported, at that time, detailing the extent of the growing medium-term funding gap and how the Council planned to bridge the funding gaps over the subsequent five years. This was because there was a period of limited direction from central government and the inability for local government to plan in detail beyond a one year horizon because of COVID-19. All that was reported to Council was the in year funding gap of £7.112 million which included significant cost and volume increases for Adults’ and Children’s services, as the significant proportion of the Council’s revenue budget (over 70%) is spent on these areas. Prior to receipt of the provisional settlement and spending review announcement financial modelling had shown a budget gap of £14.063m for the 21/22 financial year so the situation had ostensibly improved as management action actions were identified.

For 22/23, the annual budget gap increased to some estimated £30 million for the year. However, financial modelling scenarios with best, realistic and worst case scenarios were not formally presented to Cabinet. Instead the budget was presented with in-built planning assumptions using management actions that have not fully materialised. Significant work is currently being undertaken by the Council to identify savings opportunities to balance the books for 2022/23, as at the end of June 2022, the Council was reporting a £13.617 million forecast deficit. The Council’s Section 151 Officer has a draft Section 114 report in writing and may issue this if the 22/23 financial position is not improved by the 19 September 2022 Council meeting.

The MTFS, in February 2022, shows a cumulative deficit over the next four years to 26/27 of £118 million, however this gap has widened significantly to £256 million, in September 2022, as the MTFS fifth years has been recalculated to include the 2027/28 financial year. **The financial risks facing the Council are significant and given the low level of reserves, current indications are that the Council’s financial position is critical.**

2: How the council plans to bridge its funding gaps and identify achievable savings?

Savings plans

The Council monitors the delivery of planned savings on a monthly basis through its Central Management Team (CMT) and Cabinet. Historically the Council has a good track record of delivering its savings targets. Over the last 10 years, the Council reported that it has successfully delivered a savings programme totalling some £185m which averages out at approximately £18 million a year. However, a savings target of only £7.4m was included within the 2020/21 budget set in February 2020. Whilst specific savings schemes could not be always be achieved due to the need to act on a responsive basis to the service delivery and other operational challenges brought about by the Pandemic, the Council nevertheless achieved overall financial balance, through one-off measures for the 2020/21 year.

For 21/22, £18.845 million of savings were approved by Cabinet in February 2021. Progress against in year delivery of savings, on a risk basis, is reported each month as below in the October 21 Financial Monitoring Report

Appendix A 2021/22 Savings status (1) Summary

| Total | Achieved savings | on track for delivery | Working on for delivery | Planned, internal/external actions required to deliver | |
|------------------------|------------------|-----------------------|-------------------------|--|--------------|
| £m | £m | £m | £m | £m | |
| Children's | 4.001 | 1.723 | 0.688 | 1.176 | 0.414 |
| People | 3.160 | 3.160 | 0.000 | 0.000 | 0.000 |
| ODPH | 0.028 | 0.028 | 0.000 | 0.000 | 0.000 |
| Customer & Corporate | 4.571 | 1.136 | 1.896 | 0.019 | 1.520 |
| Place | 1.035 | 0.080 | 0.045 | 0.257 | 0.653 |
| Corporate Items | 1.050 | 1.015 | 0.000 | 0.000 | 0.035 |
| 2021/22 Savings | 13.845 | 7.142 | 2.629 | 1.452 | 2.622 |

Recurrent versus non-recurrent savings

Although the Council has a recent track record of closing budget gaps to produce breakeven outturns for 20/21 and 21/22, this has been mainly achieved through the use of additional COVID-19 grants and other one-off year end measures. This has masked the critical nature of the Council's financial position in year and in the medium term. It is not clearly reported whether savings are of a recurrent nature or whether they are one-off non-recurrent savings identified to balance the budget. The Council has a high level of vacancies, for example the vacancy rate in the Finance Department is approximately 30% so these vacancies are

classified as savings each year. The Council needs to identify new recurrent savings each year to sustainably close its funding gap rather than rely on annual vacancies. Difficult service decisions will need to be made to identify sufficient significant potential savings. The savings schemes at £11 million for 22/23 are insufficient to deliver the current years financial plan.

Improvement recommendation 4: *The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.*

3: The Council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

Strategic priorities

The Council set out its longer-term strategic plan within the Corporate Plan 2021 to 2025, which aligns to the Plymouth Plan 2014 – 2034. The Plymouth Plan sets the visions for the City for the Council and its partners and provides a strategic framework for its decision making, and informing the Medium Term financial forecast and annual budget setting.

The budget for 2021/22 was agreed by Full Council in February 2021. As part of that process, the Council's vision and values was restated as "A key principle informing the Council's response to the COVID-19 pandemic is that our existing vision, values, priorities and plans as summarised in the Corporate Plan remain fit for purpose. The Council's approach has been to prioritise key elements within the plan to ensure that we address the most immediate impacts of the pandemic on those most vulnerable, and support the city's recovery, both in health and economic terms in the most appropriate way."

Capital investment

The Council has focussed on driving the City's growth agenda which included leveraging investment, business development and support, spatial planning and strategy, a strong cultural and events offer, housing delivery and the ambitious capital delivery programme which includes major sustainable transport improvements. The capital programme is significant, as shown below.

Planned capital expenditure 20/21 to 24/25

| Directorate | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | Total |
|----------------------|----------------|----------------|---------------|---------------|--------------|----------------|
| | £m | £m | £m | £m | £m | £m |
| People | 10.300 | 2.391 | 7.009 | 3.025 | - | 22.725 |
| Place | 135.354 | 129.423 | 84.525 | 13.000 | 2.655 | 364.957 |
| Customer & Corporate | 7.932 | 31.003 | - | - | - | 38.935 |
| Public Health | 5.209 | 7.804 | - | - | - | 13.013 |
| Total | 158.795 | 170.621 | 91.534 | 16.025 | 2.655 | 439.630 |

4: ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning;

Financial planning - consistency with other plans

Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the Council’s annual budget setting round. The Council has a People Strategy, adopted in March 2020, but it is not clear how this is reflected in the Council’s MTFS as we have seen no evidence of where workforce establishment has been reported at a FTE level as part of medium term financial planning. The Council’s annual financial budget is not clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Some redundancies have been made as reported in the Council’s Financial Statements, however this is not reported as a planning measure.

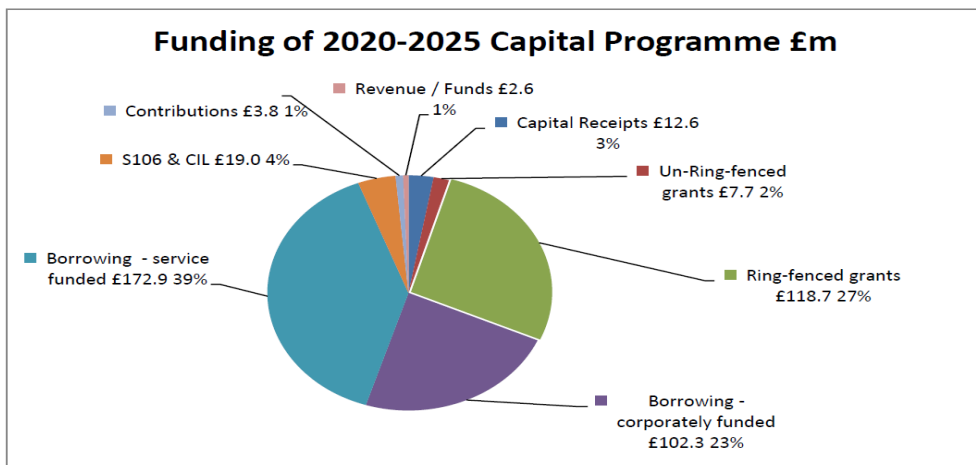
Improvement observation 5: The Council’s annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Service budgets and financial forecasts should be aligned with the Council’s outcomes.

Treasury Management

The Council has formally adopted CIPFA’s Code of Practice on Treasury Management. Its 20/21 Treasury Management Strategy was agreed by Cabinet in February 2020. Treasury mid-year statement and annual reports are presented regularly to the Audit & Governance Committee. The City has an ambitious capital investment programme which supports the local economy and the revenue implications of this investment are included within the budget plans, with an additional £1.485m added in 21/22. However, interest rates are rising which makes the capital programme less affordable in the long-term, especially where borrowing is funded by short-term borrowing. The Council has changed its debt portfolio in the last two years towards long term debt.

Funding for the capital programme

The Council’s Capital Financing Reserve is financed by an increasing amount of external borrowing at some 62% compared to other sources as shown below:



Service borrowing accounts for 39% of the capital programme of £172.9 million. Service borrowing funds capital investments where the borrowing repayments are covered by income or savings being made within the Service Departments. However it is not reported whether the capital scheme has been effective and the savings made. The Council also funds projects from Corporate Borrowing at £102.3 million, some 39%. This is largely for projects that are considered to be overall strategic priorities and where the borrowing repayments are covered by making revenue provision in the annual budget. To ensure the capital programme remains sustainable in the long term the level of borrowing continues to be regularly monitored and any impact of a change in interest rates reported.

Financial risk management

The Council maintains a Strategic Risk Register that is reviewed quarterly by CMT and the Audit & Governance Committee. The Strategic Risk Register, was updated for May 2022 report with the Financial Risk upgraded from an Amber Risk with a score of 12, in February 2022, to a Red Risk risk with the highest possible score of 25. This financial risk is described as “The risk of the Council’s expenditure exceeding the resources available to meet that expenditure within the medium term financial plan period (2022/23-2025/26).” However this wasn’t the risk, this was the fact as medium-term expenditure already exceeded medium-term resources by an estimated £118 million in February 2022 and interestingly, at this time, the risk was inappropriately scored as a 12 (a Probability of 3 multiplied by the Impact of 4).

The risk would be better described as a “Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes”. **The Action Plan for this risk replicates the description of the controls already in place with the additional line that “ It is of critical importance to the Council and City that CMT and Cabinet select means of reducing the costs of the Council to fully mitigate the forecast budget shortfalls in future years. Until this work is completed later in 2022 the risks will remain at the current level”**

There is no clear financial plan in the “Action Plan / Future Mitigation” column of the Risk Register as to how the Council may put itself on a sustainable footing and reduce its financial pressures and achieve its strategic outcomes. The Council’s risk monitoring needs to better record all its key financial risks, at a more granular level rather than one overall finance risk, over the short term and medium-term; and the mitigating actions required to manage these significant financial risks.

Improvement observation 6: The Council’s Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the “Action Plan / Future Mitigation” column of the Risk Register (which currently replicates the controls in place) so that Officers and members are clear how the Council may put itself on a sustainable footing and reduce its financial pressures and achieve its strategic outcomes.

5: identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Managing financial resilience

The budget for 2021/22 was agreed by Full Council in February 2021. Cabinet were asked to note that the budget shortfall of £7.112m could be offset by:

- a Council Tax increase of up to 1.99%
- an Adult Social Care (ASC) precept of up to 3%
- the use of limited local resources including a limited use of reserves.

Section 25 of the Local Government Act 2003 requires that when a local Council is making its budget calculations, the Chief Finance Officer of the Council must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

The Council’s Service Director of Finance advised that a zero or nil council tax rise would financially disadvantage the Council in the short and medium term. However, this advice was not taken for both the 21/22 and the 22/23 budgets when a zero council tax rise was voted in for two years running. We have made the Key Recommendation earlier in the report that this should not be repeated for the 23/24 budget as this has cost the Council a cumulative total of some £9 million.

Level of reserves

General fund reserves should only be used for unplanned events and uncertainties in future years’ budgets, whereas earmarked reserves are set aside for specific purposes where the Council has future commitments that it needs to fund.

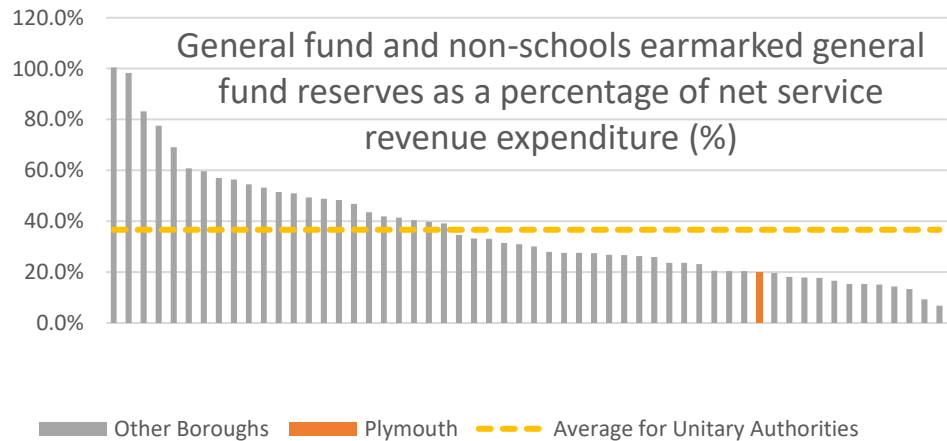
The graph shows that Plymouth is in the bottom quartile for available general fund reserves, of only £8.044 million, at 31 March 2022, and the Council is the 43rd lowest unitary out of 53 unitaries nationally in terms of reserve levels.

For 2019/20, the average level of reserves for unitary authorities is 36.7% and the graph, to the left, shows Plymouth with less than the average at only 19.9%. At the end of the 21/22 financial year, the Council had “Other PCC Earmarked Reserves” of £22.22 million and General Fund reserves of £8.044 million. This will be even lower at the end of 2022/23, as it was recommended to Cabinet in October 2022, that reserves of £1.585 million are applied in year to offset the 2022/23 in-year overspend as these earmarked reserves are no longer required for their original purpose.

When earmarked reserves are excluded, the General Fund reserves are only at 1.99% of gross revenue expenditure, which is much lower than the Council’s own target for its reserves level of 5% which was set as part of the 19/20 to 20/21 Medium Term Financial Strategy. However, the Council’s potential five year budget gap of over an estimated £150 million to 27/28 exceeds the Council’s reserves of only £8.044 million by many, many times which shows that the Council’s planned target of 5% is insufficient as the level of financial risk is great.

We recommend that a detailed reserves strategy is put in place detailing how the Council plans to increase the level of its reserves to . Although there is a budget allowance of £350k a year to top up the balance to achieve the 5% target, the level of reserves is deteriorating as there was a £350k contribution holiday in 22/23.

Improvement recommendation 7: We consider that the Council’s level of General Fund reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit its Reserves Strategy and build up its reserves at a rate of greater than the current planned contribution of some £350,000 a year from 23/24.



Improvement recommendations



Financial sustainability

KEY Recommendation One

R1: Members should follow the advice of the Council's section 151 officer, and if recommended, allow for the increase of council tax within referendum limits for the 2023/24 financial year so that the Council may both reduce its funding gap and build up a sustainable level of reserves over time.

Management comment

Agreed.



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

Improvement recommendations



Financial sustainability

KEY Recommendation Two

R2: The Council's Medium Term Financial Plan (MTFP) needs to be updated, as a priority, for the mid-year 2022 Cabinet and Council meetings so that it reflects the latest inflationary and energy price increases. The MTFP needs to be robustly triangulated with savings, capital, treasury, workforce and operational business planning for 23/24.

Management comment

The 2023/24 position was presented to Council in November 2022, which is the earliest available opportunity to match savings with the funding gap. The funding gap has been discussed since early July 2022 with cabinet members and the public have been notified of the scale of the deficit. It is difficult to maintain a meaningful MTFP when central government have been giving one-year settlements.



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

Improvement recommendations



Financial sustainability

KEY Recommendation Three

R3: The Council needs to employ an interim senior finance officer to start immediately, to support the newly promoted Section 151 Officer, so the Finance Department has adequate capacity and knowledge required to help manage the significant financial challenges and associated workload during 22/23.

Management comment

An interim has been appointed, starting 16th November until March 2023



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

Improvement recommendations



Financial sustainability

Improvement Recommendation

R4: The Council needs to identify new recurrent savings each year to sustainably close its significant funding gap rather than rely on annual vacancy rates. Difficult service decisions will need to be made to identify sufficient significant potential savings for members to choose from.

Management comment

The savings proposals listed in the 2023/24 budget show this, with sustainable savings and difficult decisions. There will always be some element of one-off savings; we are working to minimise these.



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

Improvement recommendations



Financial sustainability

Improvement Recommendation R5: The Council's annual financial budget needs to be clearly aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Service budgets and financial forecasts should be aligned with the Council's outcomes.

Management comment We do ensure the budgets are aligned to our outcomes.



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

Improvement recommendations

Financial sustainability

Improvement Recommendation

R6: The Council’s Strategic Risk Register needs to record significant financial risks, at a more granular level, over the short and medium-term. The mitigating actions to manage these risks need to be recorded in the “Action Plan / Future Mitigation” column of the Risk Register (which currently replicates the controls in place) so that Officers and Members are clear how the Council may put itself on a sustainable financial footing, reduce its financial pressures and achieve its strategic outcomes.

Management comment

We have requested further detail on “granular level”.



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

Improvement recommendations



Financial sustainability

Improvement Recommendation

R7: The Council's levels of reserves, at some £8 million, is insufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy costs. The Council needs to revisit its Reserves Strategy and build up its reserves at a rate of greater than £350,000 a year from 23/24.

Management comment

We had a plan to increase by £350,000 p.a. but this is difficult in the current financial climate. We have asked for clarification on what level would be sufficient.



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

Governance

How the body ensures that it makes informed decisions and properly manages its risks



We considered how the Council:

Gov 1: monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;

Gov 2: approaches and carries out its annual budget setting process;

Gov 3: ensures effectiveness processes and systems are in place to ensure budgetary control;

Gov 4: ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency;

Gov 5: monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

Summary on Governance

Our work for the 2020/21 and the 2021/22 financial years focussed on developing a detailed understanding of the governance arrangements in place at the Council as we had identified a significant risk around governance in our 20/21 audit plan given the governance issues that arose in 19/20. We have since found that the issues arising from our 2021 July Governance review have been adequately resolved with new procedures put in place. Our 19/20 Audit Report, presented to the Audit & Governance Committee on 28th September 2022, details the improvements made.

Plymouth has adequate risk management processes and procedures in place for 20/21 and 22/23, although these are currently being reviewed to better embed risk management throughout the Council. As we have seen from the Financial Sustainability section in this report, key critical decisions need to be made to stop the further deterioration of the Council's financial position. The Council's Risk Register does not sufficiently document the Council's financial risk nor the mitigating actions being taken to manage that risk.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it makes informed decisions and properly manages its risks, with the exception of the Council's financial risks. We have identified four opportunities for improvement, as follows:

Governance improvement recommendations:

- *R8: We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.*
- *R9: Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly finance monitoring reports so that senior officers and members may see the level of variances at an activity level which will better inform their decision making around services.*
- *R10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, in the CIPFA Financial management Code, produce a robust action plan with SMART targets to achieve full compliance by the deadline of March 23 and reports this to the Audit & Governance Committee.*

Gov 1: How the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;

Risk management

The Council has a Risk and Opportunity Strategy 2020 – 2022 which was approved by the Council’s Audit & Governance (A&G) Committee in November 2020. This Committee is currently responsible for reviewing the Council’s Strategic Risk Register at each of its meetings. The Strategic Risk Register include a description of the risk, mitigating actions, and a RAG rated risk score derived from the probability and impact of the risk occurring both before and after the mitigating actions are taken into account. A risk owner is assigned to each risk.

There were 22 strategic risks on the Risk Register in March 2022. This is a large number of risks for the A&G Committee to review. It is also the role of the Committee to provide assurance to Cabinet over the effectiveness of the Council’s Risk Management process rather than deep dive into individual risks. The scrutiny function is delivered through four overview and scrutiny committees and the main aim of scrutiny is to act as a ‘critical friend’ to the Cabinet and other decision makers, to promote better services, policies and decisions. We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members decisions making.

Improvement recommendation 8: We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members’ decision making.

The Strategic Risk Register is supported by registers for each Directorate and these are discussed regularly at Directorate management Team meetings. In September 22, the Council is using Gallagher and Bassett, its Insurance Risk Advisors, to review the Council’s risk management process and provide further training for the Departmental Risk Management Champions, as the Council needs to better embed risk management throughout its structures. The LGA Corporate Peer Challenge Review Report, of February 2022, stated that the Council should **“Promote and embed risk awareness across the organisation and continue to address and report progress against key financial risks and external audit requirements “.**

Internal control

In 2020/21 and 21/22, Internal Audit reported to each meeting of the G&A Committee and provided an annual report and opinion, update reports and internal audit plans. The Committee also approved the Internal Audit Charter and Strategy. Sufficient work was undertaken to enable the Head of Internal Audit to provide a ‘reasonable assurance’ opinion in both financial years.

The Council had the following policies to prevent and detect fraud:

- Anti-fraud and corruption strategy; and
- Whistle-blowing

Anti-fraud work and investigations were undertaken by the Council’s proactive Counter Fraud Service. The annual and half yearly report of the CFS provides updates on both anti-fraud and corruption strategy and the whistle-blowing policy

From our work we have found no areas of weakness in the management and reporting on internal control and the prevention and detection of fraud.

Gov 2: How the Council approaches and carries out its annual budget setting process;

Budget setting

Under the Council’s Constitution, Cabinet is required to recommend the annual revenue and capital budget to Council in February each year as well as the Capital Financing and Treasury Management Strategy. The Cabinet report:

- summarises the impact of the provisional Local Government Finance Settlement on the budget;
- sets out revenue budget planning assumptions in respect of income, approved savings plans and resource requirements;
- summarises cost pressures and mitigations in respect of the COVID-19 pandemic;
- sets out the Capital budget, Capital financing strategy and the treasury management strategy for 2021/22;
- itemises the Council’s response to its agreed recovery and renewal priorities and objectives during 2021/22; and
- sets out the Cabinet’s response to the Budget Scrutiny Select Committee’s recommendations relating to the 2021/22 budget.

Public engagement

In December 2021, this year’s budget engagement exercise *“Help us prioritise Plymouth’s pounds”* yielded a high level of response from its stakeholders compared to previous years. Listening to Plymouth residents is a high priority for the Council and it received valuable feedback.

Budget Engagement



The Council recognises that setting the budget does not mean the work is over as financial pressures continue to provide a challenge and it will need to deliver savings plans and continue to transform how it operates to reduce costs.

Gov 3: How the Council ensures effectiveness processes and systems are in place to ensure budgetary control:

Budget monitoring

The Council operated a formal corporate revenue and capital monitoring process during the 20/21 and the 21/22 financial years. Monthly budget monitoring reports were presented to the Overview & Scrutiny Committees and Cabinet. Variances at a departmental level are also reported, as shown below:

Monthly finance report to Cabinet – October 2021

| Directorate | Budget £m | Forecast £m | COVID offset £m | Forecast Net Variance £m | Status |
|---------------------------------|--------------|----------------|-----------------------|-----------------------------------|-----------|
| Executive Office | 5.429 | 5.694 | (0.245) | 0.020 | over |
| Customer and Corporate Services | 44.031 | 45.850 | (1.164) | 0.655 | over |
| Children's Directorate | 53.047 | 61.865 | (8.404) | 0.414 | over |
| People Directorate | 89.441 | 93.018 | (3.577) | 0.000 | on budget |
| ODPH | (0.537) | (0.730) | (0.134) | (0.327) | under |
| Place Directorate | 24.976 | 28.830 | (3.733) | 0.121 | over |
| Corporate Items | (20.846) | (38.103) | 17.257 | 0.000 | on budget |
| Total | 195.541 | 196.424 | 0.000 | 0.883 | over |

As a senior manager or member the above £883k forecast variance in year compared to net expenditure of £195.541 million may not give much cause for concern. Explanation for variances are reported but at a high level so that any relevant non-financial information, such as service activity and workforce information, is not sufficiently included in the financial reports to Cabinet.

Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly monitoring reports so that service directors and managers are held accountable for financial performance and members may see the level of variances at an activity level to better inform their decision making.

Improvement recommendation 9: Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly finance monitoring reports so that members may see the level of variances at an activity level which will better inform their decision making around services.

Gov 4: How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency:

Informed decision making

In addition to decision-making committees, the Council also has four overview and scrutiny committees for different directorates, to ensure that decisions are subject to adequate challenge and review prior to being taken. The Council's committees make use of various report templates which are structured in such a way to ensure that relevant considerations and impacts are made, depending on the type of decision required.

2022/23 was the first year of implementation of the CIPFA Financial Management Code (FM Code), with local authorities being required to demonstrate progress towards compliance by 31 March 2023. In comparison to some other councils, there has no reporting to members with regard to the Plymouth's compliance with the FM Code or of actions required to move the Council towards full compliance as is required in 22/23.

CIPFA Financial Management Code Principles

The following FM Code principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management a local Council is financially sustainable:

- **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- **Accountability** - based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with **transparency at its core** using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- **Adherence to professional standards** is promoted by the leadership team and is evidenced.
- **Sources of assurance** are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management process and is **evidenced by prudent use of public resources**.

Source: The CIPFA Financial Management Code

CIPFA expects that compliance with the FM Code will typically be achieved by documenting compliance with the Statements of Standard Practice that underpin each of the Financial Management Standards. Given the Council's critical financial position we think this will be a constructive exercise in identifying areas, including leadership at the top, where financial management processes and procedures and subsequent decision making may be improved.

We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.

Improvement observation 10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, in the CIPFA Financial Management Code, produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.

[Gov 5: How the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.](#)

Monitoring Standards

The 20/21 and 21/22 Annual Governance Statement are compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks. The Council's constitution has a section relating to Codes and Protocols which sets out general behaviour and principles expected of members and officers. This appears to be consistent with expectations observed across the sector.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. During our review we are not aware of any instances where officers or elected members have not complied with the necessary standards and no evidence of significant non-compliance has been identified, with the exception of the MIEL transaction and the Interest Rate Swap transactions which we reported on as part of our 2019/20 Value for Money Conclusion. The outcome of our Governance Review was reported to the July 2021 Audit & Governance Committee and we have since seen that the Council has implemented appropriate actions in response to the 11 recommendations .

Improvement recommendations

Governance

Improvement Recommendation

R8: We recommend that the Strategic Risk Register informs the annual overview & scrutiny work programmes so that risk management is properly embedded in members' decision making.

Management comment

We are undertaking a review of our scrutiny arrangements.



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

Improvement recommendations

Governance

Improvement Recommendation

R9: Given the financial challenges faced by the Council we recommend that a more granular level of information by cost centre is included in the monthly finance monitoring reports so senior officers and members may see the level of variances at an activity level which will better inform their decision making around services.

Management comment

We are always open to suggestions to better inform and report. However, we have to be mindful of too much detail. Best practice is sought.



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

Improvement recommendations

Governance

Improvement Recommendation R10: We recommend that the Council carries out a self-assessment against the CIPFA Financial Standards, produces a robust action plan with SMART targets to achieve full compliance by the deadline and reports this to the Audit & Governance Committee.

Management comment We have asked for clarification.



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

Improving economy, efficiency and effectiveness ^(3Es)

How the body uses information about its costs and performance to improve the way it manages and delivers its services



We considered how the Council:

- **3Es 1:** uses financial and performance information to assess performance to identify areas for improvement;
- **3Es 2:** evaluates the services it provides to assess performance and identify areas for improvement;
- **3Es 3:** ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve;
- **3Es 4:** ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Summary on “Improving economy, efficiency and effectiveness”

The Council’s ambition, community engagement and effective partnership working commendably earned it the national 2021 “Council of the Year” award as judged by the Municipal Journal. Judges described Plymouth as “a local Council that has put culture-led regeneration and a sense of place at its heart, one that is determined to put its city on the map for all the right reasons and where political and officer leadership is genuinely a single voice for the benefit of all residents”. The judges added “Pride in the City leaps off the pages of Plymouth’s submission. It has taken a novel approach to putting the city on the map as Britain’s Ocean City. The Council is clearly ambitious, strongly engaged in its communities and is working well with partners on key agendas.”

However, as discussed in the Financial Sustainability section of this report, the ambition is not matched by the Council’s current available resources to continue this journey without a critical review of the Council’s short, medium and long-term finances. The Council needs to continue to transform its service delivery but savings and financial sustainability are increasingly harder to attain as, in April 2020, the Council moved into its seventh year of its transformation journey which appears to have enabled the Council to deliver over £108m of budget savings and efficiencies.

As part of its journey, the Council still needs to effectively use benchmarking and data quality assurance to better understand the information about its costs and performance to improve the way it manages and delivers its services.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure economy, efficiency and effectiveness in its use of resources. We have identified no significant weaknesses and three opportunities for improvement, as set out below

Improving economy, efficiency and effectiveness – Improvement recommendations:

- **R11:** The Council should develop a data quality strategy setting out the Council’s approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.
- **R12:** The Council should consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.
- **R13 :** The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the City’s corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council’s objectives will enable the Council to evaluate and assess their level of contribution.
- **R14:** The Council should produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council’s policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.

3Es 1: The Council uses financial and performance information to assess performance to identify areas for improvement;

Performance management

The Council set out its vision and priorities within its Corporate Plan 2021 to 2025, which aligns to the Plymouth Plan 2014 – 2034 which sets the visions for the City for the Council and its partners.

Corporate Plan

The Corporate Plan 2016 to 2019 sets out our vision to be 'one team serving our city' and retains our ambition to be a Pioneering, Growing, Caring and Confident City.

OUR PLAN
A CITY TO BE PROUD OF

CITY VISION
Britain's Ocean City

One of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone.

OUR MISSION Making Plymouth a fairer city, where everyone does their bit.

OUR VALUES

- WE ARE DEMOCRATIC**
We will provide strong community leadership and work together to deliver our common ambition.
- WE ARE RESPONSIBLE**
We take responsibility for our actions, care about our impact on others and expect others will do the same.
- WE ARE FAIR**
We are honest and open in how we act, treat everyone with respect, champion fairness and create opportunities.
- WE ARE CO-OPERATIVE**
We will work together with partners to serve the best interests of our city and its communities.

OUR PRIORITIES

- A GROWING CITY**
A clean and tidy city
An efficient transport network
A broad range of homes
Economic growth that benefits as many people as possible
Quality jobs and valuable skills
A vibrant cultural offer
A green, sustainable city that cares about the environment.
- A CARING COUNCIL**
Improved schools where pupils achieve better outcomes
Keep children, young people and adults protected
Focus on prevention and early intervention
People feel safe in Plymouth
Reduced health inequalities
A welcoming city.

HOW WE WILL DELIVER

- Listening to our customers and communities.
- Providing quality public services.
- Motivated, skilled and engaged staff.
- Spending money wisely.
- A strong voice for Plymouth regionally and nationally.

Plymouth
Britain's Ocean City

www.plymouth.gov.uk/ourplan

Quarterly performance reports are presented to CMT and Cabinet. These reports included an assessment of performance against the Corporate Plan commitments and operational performance. Performance is reviewed by the Cabinet in a public meeting to facilitate openness and transparency and to enable public scrutiny.

The Corporate Plan priorities are delivered through specific programmes and projects which are coordinated and resourced through cross-cutting strategic plans, capital investments and directorate business plans. The key performance indicators (KPIs) and their associated targets are monitored quarterly to inform the Council on how they are doing in delivering what they have set out to achieve in the Corporate Plan.

The Council has continued to transform how it delivers services to ensure they are more efficient and better focused on customer needs. This includes working in new ways, joining services up with its partners and maximising the opportunities from digital technology. In difficult financial circumstances the Council continued to deliver core services. The COVID-19 pandemic has had far reaching impacts across all services, including the ability for the Council to report on performance against some indicators.

Data quality

The Council obtains its performance information from a range of sources and gains some assurance over the accuracy of data it uses by regular engagement of finance business partners with their service areas around spend/ in-year budget forecasts and regular reporting of financial matters to Departmental Management teams, CMT and Cabinet

However, the Council does not have a data quality strategy which could give it more comfort over the accuracy of its performance reporting. The Data Quality Strategy could include:

- definition of data quality objectives and why they are important;
- roles and responsibilities, including members and officers;
- monitoring of quality through independent review; and
- arrangements for data sharing.

Improvement observation 11: The Council should develop a data quality strategy setting out the Council's approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.

3Es 2: The Council evaluates the services it provides to assess performance and identify areas for improvement;

Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can identify areas for improvement and also provide targets to work towards. The Council does not appear to promote participation in formal benchmarking across its services, nor does it use it as a comparison in its formal quarterly performance reports. It may be used as part of business cases at a departmental level, however it is not part of the formal reporting of performance against corporate plan targets to the Cabinet

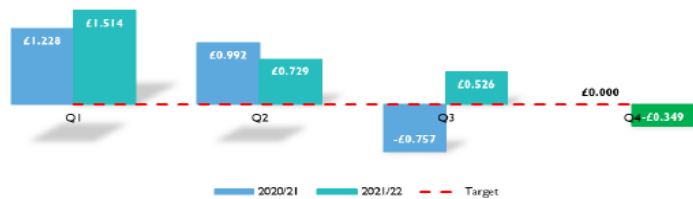
Currently the Corporate Performance Report only lists three Value for Money indicators which aren't really as VFM indicators, as they do not show the effectiveness of service delivery compared to the input expenditure. The Council's VFM indicators (shown below) are currently:

- spend against budget
- Council Tax collected (YTD) and
- Business rates Collected (YTD)

Providing value for money

| Quarterly KPIs | Q1 2021/22 | Q2 2021/22 | Q3 2021/22 | Q4 2021/22 | Direction of travel | Target |
|-----------------------------------|------------|------------|------------|------------|---------------------|---------|
| 5. Spend against budget | £1.514m | £0.729m | £0.526m | -£0.349m | ▼ | £0.000m |
| 6. Council tax collected (YTD) | 28.4% | 55.2% | 81.8% | 96.8% | ▲ | 96.5% |
| 7. Business rates collected (YTD) | 37.5% | 51.6% | 77.2% | 98.7% | ▲ | 99.0% |

Forecast year end variation spend against budget (£million)

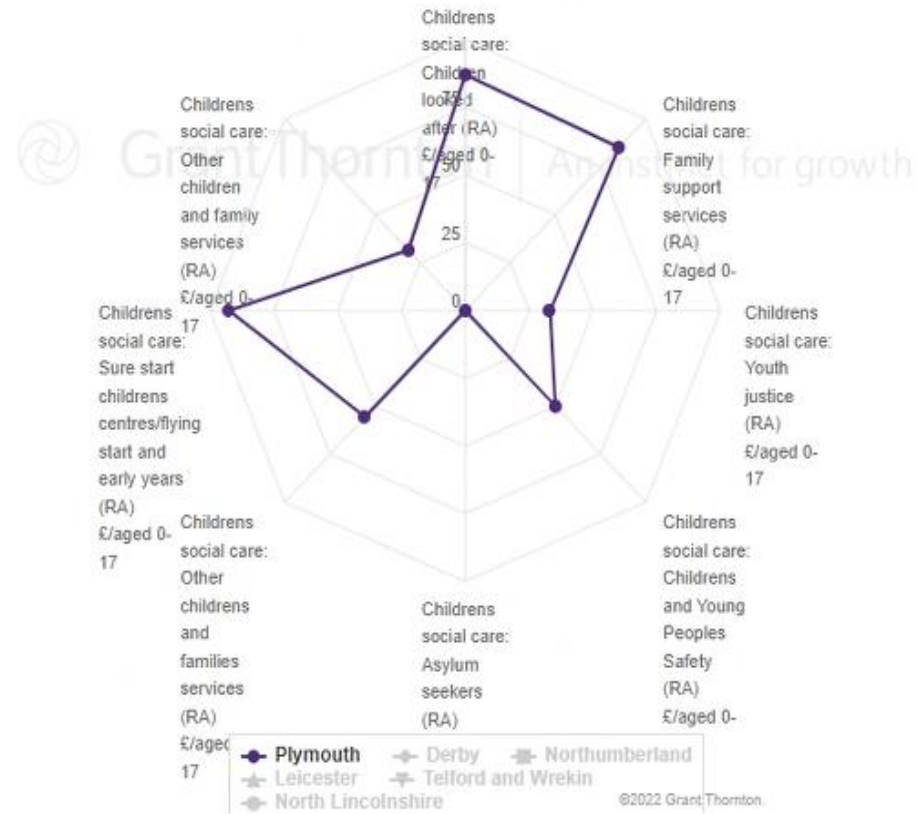


Independent benchmarking was undertaken as part of our VFM work. We used the CIPFA and GT management tool 'CFO Insights' and compared the national unit costs for a range of services, as reported to central government in the Revenue Outturn (RO) reports. This identified two areas where the unit costs for Plymouth were high in comparison to other unitary councils:

- Children's social care – see diagram on the right;
- Cultural and Related Services, which unsurprisingly showed the high level of spend on tourism.

The chart below illustrates the areas of spend that have contributed to these high unit costs eg Children's Services and Cultural Services. Whilst, these benchmarks are only able to provide an indication of where costs are high, they do provide an indication of where further exploration of these costs could identify potential efficiencies and savings for the Council.

CHILDREN'S SOCIAL CARE



Improvement observation 12: The Council should consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.

3Es 3: The Council ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve;

Partnerships

Since 2014, Plymouth City Council has led the development and implementation of the Plymouth Plan, a ground-breaking city plan which looks ahead to 2034. Since its inception, the Plymouth Plan has set out a shared direction of travel for the long-term future of the city of Plymouth. Plymouth City Council provides overall management and co-ordination of the Plymouth Plan, and the council and all its partners are responsible for its delivery.

THE PLYMOUTH PLAN

2014 - 2034

One of Europe's most vibrant waterfront cities where an outstanding quality of life is enjoyed by everyone

WHAT WE WANT TO ACHIEVE...

LEADING CITY
A city fulfilling its strategic role as a major economic driver for the heart of the South West

HEALTHY CITY
People live in happy, healthy, safe and aspiring communities

GROWING CITY
A city which has used its strengths to deliver quality and sustainable growth

INTERNATIONAL CITY
Plymouth is internationally renowned as the UK's premier marine city, and famous for its waterfront, maritime heritage and culture.

HOW WILL WE KNOW WE'RE SUCCESSFUL?

| | | | |
|---|---|---|--|
| Plymouth is recognised as a key regional economic driver | People get the best start to life , enjoy a better quality of life and increased life expectancy | Plymouth's population has grown to more than 300,000 | Plymouth offers a diverse cultural experience with a major events programme |
| Plymouth has high quality strategic services and facilities | More people are taking care of themselves or finding care within their community | Plymouth continues to be recognised as a leading Green City | Plymouth is internationally renowned as a leading UK tourist destination |
| The quality and resilience of Plymouth's transport and digital connectivity has improved | More residents are contributing to and involved in their community | Plymouth has more vibrant, productive and innovative businesses | Plymouth is recognised internationally for marine science and high technology manufacturing |
| Plymouth's strategic defence role has been safeguarded and strengthened | There is good quality health and social care for people who need it | People have the skills to be school ready and work ready to meet the needs of the city | Plymouth has a reputation for world class universities and research institutions |
| Plymouth's stunning setting and natural assets have been enhanced | Plymouth has good quality neighbourhoods where people feel safe and happy | Plymouth has the right environment for growth and investment | Plymouth has a reputation as a welcoming and multicultural city with diverse communities |

The Council's Business Plan 2018-2022 identifies where partners contribute to the Council's objectives and has named a number of specific partnerships. The governance relating to these partnerships is varied and depends on the nature of the partnership. Those partnerships that the Council considers to be of greatest importance will have member involvement.



These arrangements are not dissimilar to other councils, but we have found is that an increasing number of councils are defining their significant partnerships in registers where the contribution that individual partnerships make to the council's corporate objectives can be evaluated and documented. Plymouth has a list of partnerships but there is no information on governance and expected outcomes. This is important as partnership outcomes needs to be measured. For example, Devon and Plymouth were rated as "SOF4" (the lowest score for the NHS System Oversight Framework 21/22) by NHSE through the performance of its NHS Trusts; and this is rare, with one of the key problems being the progress on the integration between health and social care.

The Council was particularly successful in its response to COVID 19 as it was able to draw upon its status as a trusted partner, building on a foundation of strong relationships developed over many years and political administrations. It is now important that the council allows time and space to consciously capture the learning from what worked well during these challenging times – especially in terms of the positive relationships we saw across the health and social care sector, to support a more resilient and sustainable future.

We have not identified any significant weaknesses in the Council's partnership arrangements, however we consider that the Council would benefit from defining its significant partnerships and developing a register that identifies the contribution that the partnerships makes to the Council's corporate objectives.

Improvement observation 13: The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the City's corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.

3Es 4: The Council ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Procurement and contract management

Whenever money is being spent with an external provider, staff are required to follow the Council's mandatory contract procedure rules, documented in the Council's Constitution, to ensure that relevant legislation is complied with, and professional standards and internal policies are complied with.

The Council has a Head of Procurement to advise officers on procurement policies and procedures. The Procurement Service team specialises in procurements in Construction, Facilities Management, Professional Services and Environment and Transport. The Council's Strategic Co-operative Commissioning Team specialises in procurements in social care and healthcare.

The Council also complies with the Public Services (Social Value) Act and applies Social Value evaluation weightings between 5% and 25% of the total evaluation weighting. Implementing and embedding Social Value at a local level involves making commissioning and procurement decisions in a new way that ensures wider benefits are considered throughout the commissioning cycle and how this links to the strategic themes and policy areas within the Plymouth Plan.

Monitoring of contracts

Arrangements are in place to monitor performance of sub-contractors as part of the monitoring of budgets and Key Performance Indicators through the departmental and corporate performance monitoring procedures. In terms of securing grant funding for capital contracts, officers will remain proactive at securing external grant funding wherever possible in order to continue to deliver significant, ambitious capital investment in the city.

Procurement strategy

The Council does not have a procurement strategy although it does have a comprehensive procurement section on the Council's website detailing procurement rules, regulations & details of its E-Procurement System for its suppliers. A procurement strategy would enable the Council to better document its spending goals and objectives, legislative changes, the role and effectiveness of the

procurement function, the complexity of procurement carried out and the dynamics of the supply chain and markets. Importantly the Strategy could include strategic initiatives to further improve its procurement practices through better analysis of spend, budget and risk.

Improvement observation 14; The Council should produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council's policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.



Improvement recommendation



Improving economy, efficiency and effectiveness

Improvement recommendation

R11: The Council should develop a data quality strategy setting out the Council's approach to improving the quality of data required to support good decision making, including an independent assessment and assurance around data quality.

Management comment Management will consider this recommendation.



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

Improvement recommendation



Improving economy, efficiency and effectiveness

Improvement recommendation

R12: The Council should consider how it can use independent formal benchmarking in its reporting to the Cabinet to (1) explore any high unit costs, and potential savings, within its services and (2) provide assurance that it is delivering cost effective services in other areas.

Management comment

Management will consider this recommendation.



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

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation

R13: The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the City's corporate objectives. Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.

Management comment

Management will consider this recommendation.



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

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation

R14: The Council should produce a procurement strategy, as part of a review of its procurement arrangements, to ensure that the Council's policies, procedures and practices up to date in terms of a better analysis of spend, budget and risk.

Management comment

Management will consider this recommendation.



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

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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

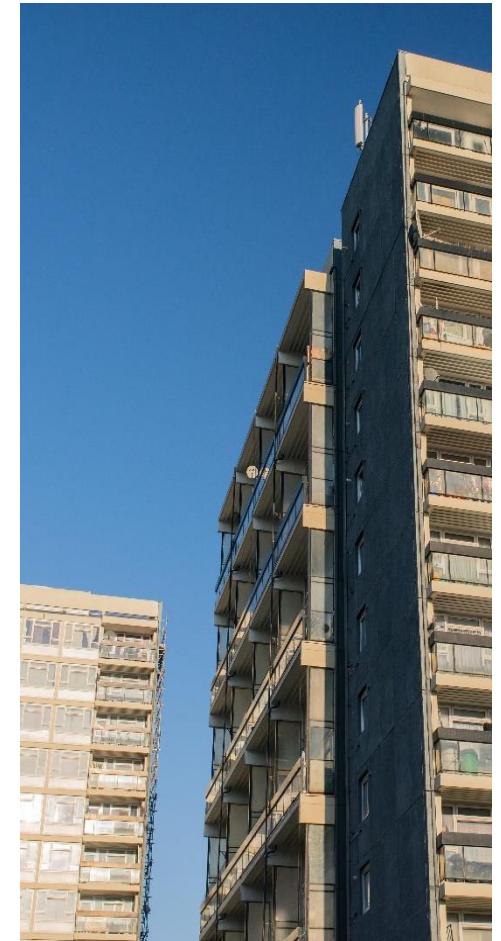
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local Council accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council'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 Council will no longer be provided.

The Council 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 Council's auditors as follows:

| Type of recommendation | Background | Raised within this report | Page reference |
|------------------------|---|---------------------------|---|
| Statutory | Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report. | NO | |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'. | YES | <ul style="list-style-type: none"> Financial sustainability - page 8 |
| Improvement | These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements. | YES | <ul style="list-style-type: none"> Financial sustainability - pages 8 - 9 Governance – page 20 Economy, efficiency and effectiveness – page 27 |

Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

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 a statutory recommendation

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 apply 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 Council or an officer of the Council:

- is about to make or has made a decision which involves or would involve the Council 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 an advisory notice

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 Council, or of a failure by an Council to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for judicial review

