

Appendix D – Financial Sensitivity Analysis

1. PURPOSE

This Appendix summarises the sensitivity analysis undertaken in respect of the proposed extension of the contract between Plymouth City Council and **Plymouth Active Leisure Ltd (PAL)** a company wholly owned by the Council.

The analysis aims to assess the potential impact on the Council's revenue position and group financial exposure should key assumptions vary over the proposed extension period, and to provide assurance regarding affordability and financial risk.

While the contractual arrangement sits between the Council and the company, financial risks ultimately remain with the Council as shareholder. The proposed contract extension is therefore considered not only from a commissioning perspective, but also in terms of its potential implications for PAL.

2. KEY FINANCIAL SENSITIVITIES CONSIDERED

Sensitivity analysis has focused on areas where changes could materially affect either the cost to the Council or the financial stability of PAL. The results are presented per year over the next five years, together with a cumulative position across the full term of the proposed contract.

Inflation and cost pressures – Price increases have been assumed to rise in line with inflationary and wage-related pressures, and a small contingency has been included within the cost base. As price uplifts are expected to broadly offset underlying cost increases, no separate inflation sensitivity has been modelled.

Additional opportunities – A number of potential income and efficiency opportunities have been identified but not yet included in the model, pending further detailed work. These represent possible future mitigations should adverse financial impacts arise.

The sensitivity assessment therefore focuses on the following key areas:

- **Total Income/Total expenditure** – This sensitivity models a sustained decline in overall usage across services, without recovery, while still allowing for targeted areas of income growth. As agency services account for approximately 85% of PAL's total income, this scenario poses the greatest potential impact for PCC. A corresponding reduction in expenditure has also been assumed to reflect cost-mitigation measures.
- **Existing services growth** – Income growth from existing services is a core component of the business plan. Sensitivities test the impact of growth falling short of targets, as well as upside potential if targets are exceeded.
- **Growth as a result of capital investment** – Income increases linked to new or expanded services dependent on capital investment. This includes the risk of underperformance against targets, scenarios where performance exceeds expectations, and the possibility that planned projects do not proceed.

2.1 Impact of Individual Sensitivities

Tables 1 and 2 below illustrate the estimated impact of changes in each key assumption. The columns set out the effect across the first five years of the contract, followed by the cumulative impact over the full duration of the proposed extension.

Table 1: Impact on PAL's annual surplus or deficit position and total for the contract – *figures show change compared to modelled base position*

Sensitivity	Illustrative Change	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	Total over contract
Existing services growth + capital investment growth	-10%/+10% change	0.000	0.001 to (0.001)	0.010 to (0.010)	0.020 to (0.020)	0.024 to (0.024)	0.432 to (0.432)
Total Income	10% reduction	0.100	0.103	0.112	0.123	0.128	2.261
Total Expenditure	7% reduction	(0.075)	(0.076)	(0.077)	(0.078)	(0.079)	(1.403)
Capital projects do not proceed	All	(0.052)	(0.218)	(0.153)	(0.056)	(0.022)	1.183

If the investment projects do not proceed, there will be an initial saving as the upfront expenditure required to enable future income growth would not be incurred. However, over the medium to long term this results in a net reduction in surplus, as the associated income streams would not materialise.

Table 2: Impact to PCC in relation to the Agency charge – *figures show change compared to modelled base position*

Sensitivity	Illustrative Change	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	Total over contract
Existing services growth + capital investment growth	-10%/+10% change	0.013 to (0.013)	0.028 to (0.028)	0.037 to (0.037)	0.045 to (0.045)	0.053 to (0.053)	0.830 to (0.830)
Total Income	10% reduction	0.585	0.613	0.645	0.670	0.695	12.244
Total Expenditure	7% reduction	(0.439)	(0.451)	(0.464)	(0.477)	(0.491)	(8.690)
Capital projects do not proceed	All	(0.016)	0.047	0.049	0.052	0.054	0.943

A reduction in income from agency services would have a proportionately larger impact on PCC, as the Council would need to fund the resulting shortfall to maintain delivery of those services.

2.2 Combined Impact – Scenario Analysis

Scenario analysis has also been undertaken to assess the cumulative impact of multiple adverse factors occurring simultaneously. Table 3 below sets out PAL's total modelled annual profit and loss position over the first five years of the contract, as well as the cumulative position across the full term of the proposed extension for different scenarios. The total financial impact for PCC (arising from agency model services) is presented in Table 4, illustrating the total net cost to PCC under different scenarios.

Table 3: PAL Profit and Loss (surplus)/deficit – figures show total modelled position for each scenario

Scenario	Illustrative Change	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	Financial outcome over contract term
Improved case	10% additional growth	0.108	0.205	0.040	(0.032)	(0.085)	(3.123)
Base Case		0.108	0.207	0.050	(0.012)	(0.061)	(2.692)
Adverse Case	10% reduction in growth	0.108	0.208	0.060	0.007	(0.038)	(2.259)
Severe Case	Total reduction in Income of 10%, reduction in cost base of 7% + capital projects do not proceed	0.133	0.234	0.150	0.179	0.158	1.231

Table 4: PCC agency cost – figures show total modelled position for each scenario.

Scenario	Illustrative Change	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	Financial outcome over contract term
Improved case	10% additional growth	0.553	0.520	0.362	0.264	0.188	2.632
Base Case		0.553	0.533	0.390	0.301	0.233	3.464
Adverse Case	10% reduction in growth	0.553	0.545	0.418	0.338	0.278	4.294
Severe Case	Total reduction in Income of 10%, reduction in cost base of 7% + capital projects do not proceed	0.699	0.676	0.609	0.535	0.479	7.811

The adverse case models a 10% reduction in growth for existing services and projects compared with the base case. Even under these conditions, PAL is projected to retain a cumulative surplus over the contract term, and PCC would continue to experience a positive impact on its overall revenue position.

In the severe case, the model applies a 10% reduction across all income streams and a 7% reduction in costs, alongside the assumption that planned capital projects do not proceed. Under this scenario, PAL is likely to face significant financial pressures that may require mitigation through contract variations, operational adjustments, or, if not resolved, shareholder intervention. The scenario would have direct implications for the Council, as increased agency charges would erode the financial benefits of the contract and instead create an additional budgetary pressure.

3.0 GOVERNANCE, RISK AND MITIGATIONS

The following mitigations are in place to manage the identified sensitivities:

- Formal client and shareholder oversight through contract management and shareholder governance arrangements.
- Regular monitoring of the subsidiary's financial performance and cash position.
- Clear separation of client and shareholder decision making roles.
- Contract review points and termination provisions, where applicable.
- Ongoing assessment of compliance with Teckal exemption requirements.
- Prudent financial modelling
- Additional opportunities for income growth not included in the modelling work that are being explored

These arrangements help ensure that the subsidiary operates transparently, efficiently and in a manner consistent with value for money principles.

4.0 CONCLUSIONS

Sensitivity analysis confirms that the proposed contract extension with the Council's wholly owned subsidiary is affordable under current assumptions and presents a lower operational and financial risk than alternative delivery options at this time. The analysis also indicates that the financial model has sufficient resilience to absorb a degree of adverse variation without compromising overall viability.

However, as with all wholly owned company arrangements, financial risk ultimately rests with the Council. Approval of the extension should therefore be viewed in the context of continued strong contract management, shareholder oversight and regular financial review throughout the extension period.