



Annex B

Auditor's Annual Report for Cambridgeshire County Council-**DRAFT**

Year-ended 31 March 2025

—

February 2026

Contents



DRAFT

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Our audit reports are made solely to the members of Cambridgeshire County Council (the Council), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the members of Council, as a body, for our audit work, for our auditor's reports, for this Auditor's Annual Report, or for the opinions we have formed.

External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

01

Executive Summary



Executive Summary



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Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2024-25 audit of Cambridgeshire County Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office (the 'Code of Audit Practice') and is required to be published by the Council alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014 (the Act). Our responsibilities under the Act, the Code of Audit Practice and International Standards on Auditing (UK) ('ISAs (UK)') include the following:



Financial Statements - To provide an opinion as to whether the financial statements give a true and fair view of the financial position of the Group and the Council and of their income and expenditure during the year and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2024/25 ('the CIPFA Code').



Other information (such as the Annual report)- To consider, whether based on our audit work, the other information in the Statement of Accounts is materially misstated or inconsistent with the financial statements or our audit knowledge of the Council.



Value for money - To report if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We are also required to provide a summary of our findings in the commentary in this report.



Other powers - We may exercise other powers we have under the Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to any valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Financial statements	<p>We issued a disclaimer of opinion on the Council's financial statements on 25th February 2026. This is because we have been unable to obtain sufficient appropriate audit evidence over the financial statements. Further details are set out on page 7.</p> <p>We have provided further details of the key risks we identified and our response on page 8.</p> <p>Additionally, we are the auditor of the Cambridgeshire County Council Pension Fund's financial statements. We have issued an unmodified opinion on those financial statements. Further details are set out on page 7.</p>
Other information	<p>Whilst in our opinion the content of the other information is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.</p>
Value for money	<p>We identified 2 significant weaknesses in respect of the arrangements the Council has put in place to secure economy, efficiency, and effectiveness in the use of its resources. Further details are set out on page 11.</p>
Whole of Government Accounts	<p>We are required to perform procedures and report to the National Audit Office in respect of the Council's consolidation return to HM Treasury in order to prepare the Whole of Government Accounts.</p> <p>As the National Audit Office has not yet informed us that we are not required to perform any further procedures, we are unable to confirm that we have concluded our work in this area.</p>
Other powers	<p>See overleaf.</p>

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There are several actions we can take as part of our wider powers under the Act:

Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

As at the date of this report, we have not issued a Public Interest Report this year

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

As at the date of this report, we have not applied to the courts.

Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

As at the date of this report, we made no recommendations under Schedule 7 of the Act.

As at the date of this report, we have not raised any other recommendations.

Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

As at the date of this report, we have not issued an advisory notice this year.

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Audit Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

02

Audit of the financial statements



Audit of the financial statements



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Our responsibility is to conduct an audit of the financial statements in accordance with the Local Audit and Accountability Act 2014, Code of Audit Practice and ISAs (UK) and to issue an auditor's report.

However, due to the significance of the matters described below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Council financial statements.

We have fulfilled our ethical responsibilities under, and are independent of the council in accordance with, UK ethical requirements including the FRC Ethical Standard.

Our disclaimer of opinion on the Council's financial statements

We have issued a disclaimer of opinion on the Council's financial statements on 27th February 2026. We therefore do not express an opinion on the financial statements. The reason for our disclaimer of opinion is as follows:

The wording for our disclaimer is still being agreed and will be included in the final version of our report

Further information on our audit of the Council financial statements is set out overleaf.

Our opinion on the financial statements of the pension fund

Additionally, we are the auditor of Cambridgeshire County Council Pension Fund's financial statements. We have issued an unmodified opinion on these financial statements on 27 February 2026

The full audit reports are included in the Council's Annual Report and Accounts for 2024/25 which can be obtained from the Council's website.

Audit of the financial statements: Council

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The table below summarises the key financial statement audit risks that we identified as part of our risk assessment and how we responded to these through our audit.

Valuation of land and buildings

There is a risk the valuation of the Councils Land and buildings has been carried out incorrectly leading to errors in the accounts.

Our procedures

We have reviewed the in year valuation of the Councils Land and buildings. The Council valuating their assets on a rolling basis (i.e 1/5 of assets being revaluated each year). Due to the backstop date we have been unable to test the value of those assets not subject to revaluation in the current year.

Our findings

While we are disclaiming our audit opinion, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings

We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.

Valuation of investment property

There is a risk the valuation of the Councils investment properties has been carried out incorrectly leading to errors in the accounts.

Our procedures

We have reviewed the valuation of the councils investment properties to ensure that these have been valued on an appropriate basis and accounted for correctly

Our findings

While we are disclaiming our audit opinion, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

Valuation of post retirement benefit obligations

There is a risk that an inappropriate amount is estimated and recorded for the defined benefit obligation

Our procedures

We have reviewed the valuation of the councils retirement benefit obligations to ensure that these have been valued on an appropriate basis and accounted for correctly

Our findings

While we are disclaiming our audit opinion, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

Audit of the financial statements: Council

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The table below summarises the key financial statement audit risks that we identified as part of our risk assessment and how we responded to these through our audit.

Recoverability of Long-Term Debtor with This Land Group

During the year the Council restructured the loan financing provided to their subsidiary This Land. This resulted in the £120m loan balance being converted to a £60 million loan and a £60 million capital grant. Unlike the Loan, the Capital grant is non-interest bearing and, based on This Land's business plan, is not expected to be recovered. The treatment of this conversion, and how the £60 million loss that has been incurred as part of this conversion, should be recognised through the comprehensive income and expenditure statement, and the disclosures required, are complex

Our procedures

We have reviewed the specialist advice received by the council and their proposed treatment and disclosure of this conversion. Following this we challenge management on a number of disclosure and presentation points resulting in updates to the accounts to enhance reader clarity.

Our findings

While we are disclaiming our audit opinion, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings

We completed the procedures as described and, while we disagree with elements of the treatment applied at 31 March 2025, there is no net impact on the general fund reserve or minimum revenue provision and the £60m write down of the loan is correctly charged through the CIES.

While it was considered impractical to reliably calculate an expected credit loss as at 31 March 2024 retrospectively we did conclude there is a potentially material prior year adjustment.

A number of narrative and presentational updates were made to the accounts as a result of our work, considered to be qualitatively material.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our procedures

We have assessed the accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias

We have analysed all journals through the year using data and analytics and focus our testing on those which meet our high risk criteria.

Our findings

While we are disclaiming our audit opinion, we are still required to identify our audit findings based on the work performed. We have identified the following audit findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

03

Value for Money



Value for Money

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Introduction

We are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the Code of Audit Practice:



Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Council ensures that it makes informed decisions and properly manages its risks.



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

We do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We are also not required to consider whether all aspects of the Council's arrangements are operating effectively, or whether the Council has achieved value for money during the year.

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council.

Summary of findings

Our work in relation to value for money is complete.

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	13	22	29
Identified risks of significant weakness?	Yes	Yes	Yes
Actual significant weakness identified?	No	Yes	Yes
2023-24 Findings	Risk of significant weakness noted but did not materialise into significant weakness	Significant weakness identified	Significant weakness identified

Value for Money

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National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

Local Government Reorganisation

The Government has announced proposals to restructure local government throughout England. County and District Councils (and, in some cases, existing Unitary authorities) will be abolished and replaced with new, larger Unitary authorities, which will (in many cases) work together with peers in a regional or sub-regional Combined Authority. Authorities which are unaffected by these proposals may still see changes in local police and fire authorities and in the Councils they already work in collaboration with.

Restructuring has, in some cases, resulted in differing views on how services should be provided in their regions – with little consensus on how previously separate organisations will be knitted together. Councils will need to ensure that investment decisions are in the long-term interest of their regions, and that appropriate governance is in place to support decision making.

Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Whilst the Government has indicated an intention to restore multi-year funding settlements, giving Councils greater certainty and ability to make longer-term investment decisions, the Government has also proposed linking grant funding to deprivation. For some authorities this presents a significant funding opportunity, whereas for others this reinforces existing financial sustainability concerns and creates new financial planning uncertainties.

Education

Many schools are now the responsibility of academy trusts, however some schools are still controlled and overseen by the local Council. Dedicated funding is provided by central government to run schools, however due to cost pressures many Councils have overspent against their central government allocation, particularly in relation to “high needs” expenditure (i.e. to support students with special educational needs and disability (SEND)). Government guidance is awaited on childrens services reform and SEND, and some authorities are delaying transformation programmes until there is clarity on how services should evolve.

An accounting override exists meaning Councils do not need to recognise schools deficits as part of their reserves which, for some, avoids Councils becoming insolvent. This override was extended to March 2028. However, some have raised concerns that this extension only defers the problem, and the underlying unsustainability of education expenditure has not been resolved.

Local context

Economic growth in Cambridgeshire has outpaced both the East of England and UK over the last decade. This has been driven primarily by rapid business creation and growth in Cambridge and South Cambridgeshire. Innovation-rich Cambridgeshire businesses have attracted significant investment from overseas, promoting an attractive business environment and high economic and population growth.

The release of results from the 2021 Census has highlighted that Cambridgeshire’s population has grown recently by much more than the average for England and was one of the fastest growing areas in the country. As at that census, the county’s population is around 679,000 which is up from around 621,000 ten years ago. All areas of the county have seen growth, but the increase East Cambridgeshire was lower than the national average; Cambridge City grew by 17.6% in those ten years with rural districts increasing by 5 to 9%. There has also been growth of 21-34% in the over 65 over population compared to a much smaller growth of 0-5% in the under 65 population in those same rural districts contributing to an aging population throughout the county.

Cambridgeshire is experiencing a number of financial pressures, with high levels of demand on services as the population continues to grow. Key areas of financial pressure include special educational needs and disabilities (SEND) and Council investments.

Financial Sustainability

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

We have considered the following in our work:

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

Budget Setting 2024-25

The Council undertakes an annual business planning process on a five-year rolling basis as set out in the Business Plan 2024-2029. This process commences in June of the previous financial year. Directorates manage the process through directorate management teams, which involve the senior officers for each service supported by a strategic finance lead. As part of this process, the Council identifies its budget pressures relating to demand or inflation to identify its budget gap. Departments work collaboratively to identify savings, income proposals and other mitigations to close the budget gap. The Council's formal committees receive several drafts of the business plan to enable overview and scrutiny of proposals being made ahead of Full Council agreeing the budget which took place on 14 February 2024 for the 2024-25 year end.

Each Council service has a finance business partner, and each directorate has a strategic finance lead. These officers, as well as senior finance managers, review all budget proposals for accuracy and review the key assumptions. This is complimented by review of proposals by a range of corporate services (including programme management, insight and HR), and ultimately by the Corporate Leadership Team (CLT). Included within the annual business plan are detailed business cases or proposal forms, to provide clarity on each proposal and allow for a detailed review of assumptions.

There was a Strategy and Resources Committee (became Strategy, Resource and Performance Committee from October 2024), meeting on 30 January 2024, which provided an opportunity for commentary on the Council's Business plan prior to the Full Council meeting. Review of this meeting confirmed that the appropriate information was provided to those in attendance to facilitate appropriate scrutiny. This includes the overarching Business Plan with supporting directorate finance tables setting out revenue and capital budgets for each directorate.

The approved budget was a balanced one, with the inclusion of savings and income generation proposals of £23.4m to bridge the budget gap for the 2024-25 financial year. This cost savings process was improved for 2024-25 budget setting with the collation of a summary of savings at a directorate level, which was aligned to the change from the strategy and resource committee to the strategy, resource and performance committee. This provided the necessary detail on the directorate, the value of the saving and a description of how this will be achieved which in turn provided clarity around the savings included within the budget to allow for effective challenge by the strategy, resource and performance committee.

Due to the continued financial pressures faced by the Council, the Council introduced a Financial Transparency process during the year. Key aspects of the process included tighter spending controls, value for money to be achieved through all spending, spending within budgets and adherence to Council procedures for spending.

As per review of the Integrated Finance Monitoring Report as at the year end, the Council showed an overspend of £4.5m compared to budget which was then funded through other reserves.

Financial Sustainability

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Monitoring

Each directorate has a dedicated business partner who attends monthly meetings where budgets are discussed, and they provide challenge and support to budget holders. A detailed review is performed for all budget lines with commentary variances including mitigating plans where required. All variances above £250k are considered significant variances requiring more detailed commentary. The monthly monitoring process is challenged initially by finance business partners. This is subsequently reviewed by senior members of the finance team and senior service managers, then by the CLT and Committee.

Each directorate has a savings tracker which is generated as part of the budget. As part of the monthly monitoring process, progress against the relevant savings targets is monitored using a RAG rating for delivery of the savings for the year. KPMG have reviewed the quarterly Integrated Finance Monitoring Report presented to Strategy Resource and Performance Committee and a sample of monthly committee finance reports and note that all savings included an RAG rating and commentary to support the rating. As such it is considered that appropriate scrutiny in relation to financial performance is provided throughout the year.

Financial Performance 2024-25

Total overspend against budget for Cambridgeshire County Council in 2024-25 was £4.5m. This was the result of overspends totalling £16.3m across 6 directorates which were offset by underspends in other core service areas. The key area of underspend compared to budget were Adults, Health and Commissioning and Corporate items.

The directorate with the highest level of overspend was Children, Education and Families (excluding DSG). This directorate experienced overspend of £6.9m compared to budget which was a 5% overspend, although this is an improvement from 2023-24 which was £11m overspend or 9% of the budget. The most significant pressure for this service relates to the cost of high need placements, where the supply for these is low, driving costs up significantly.

Whilst it is noted that there was an overspend compared to budget and is a bigger overspend compared to the prior year (£1.2m), this was less than 1% of the total budgeted spend for the year and as such is not considered a significant deterioration. The financial performance was regularly reported throughout the year with risks and mitigations clearly outlined as also captured as part of the financial transparency process implemented during the year. However, it is noted that the Council has several ongoing financial pressures including This Land Ltd, DSG and the Waste PFI contract. These have been considered as part of the review of specific financial pressures on page 16.

The General Fund capital programme reported an underspend of £16m. These are typically the result of delays in schemes with costs being incurred in subsequent years.

Financial Sustainability

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Savings plans

As part of the budget setting process for 2024-25, directorates were required to identify savings proposals for inclusion within their budget. Each area of potential savings is RAG rated with Blue being those savings expected to overachieve down to Black being those that are not expected to achieve any savings. KPMG has seen regular reporting as part of the integrated Finance Monitoring Report detailing the currently forecasted savings during the year and reason for the outcome.

In 2024-25 Cambridgeshire had an overall savings target of £33.68m for which the outturn was an under delivery of £13.1m (39%). The most significant deviations relate to the Place and Sustainability directorate who only achieved £2.6m of their planned £7.7m savings (66%) with four savings being black RAG rated with no savings and 3 being red rated with significantly less savings being achieved than planned during the year. The largest of these was the North Angle Solar Farm (NASF) which under performed by £3.6m this was attributed to wholesale prices for exporting electricity to the grid decreasing towards the end of 2023 and the delays in connecting the private wire and NASF to the distribution network meaning the Council were only able to export to the grid from November 2024. KPMG have reviewed the relevant committees and note that this was regularly reported. As such it is noted that whilst there was a significant underachievement in the savings these were appropriately monitored and reported.

Due to ongoing budgetary pressures, the budget gaps continue to increase into future years with budget gaps of £76m noted by 2029-30 in the 2024-25 Business Plan. This results in a cumulative impact of £177m over the 5 year period which causes significant financial pressure for the Council. KPMG have reviewed the period 5 Integrated Financial Monitoring report for 2025-26 and note that the Council are reporting a £17.1m variance from their £60m savings plan which is a 28.5% deterioration from plan, though an improvement from the 2024-25 financial year. The ability for the Council to deliver its savings programme is indicative of a financial sustainability risk.

Unidentified Saving 2025 – 2030	2025-26 £'000	2026-27 £'000	2027-28 £'000	2028-29 £'000	2029-30 £'000
Total Savings Identified	(29,308)	(16,722)	(14,654)	1,343	1,840
Total Savings Requirement	(29,308)	(35,387)	(25,720)	(21,278)	(22,292)
Unidentified Savings / Savings Gap	-	(18,665)	(11,066)	(22,621)	(24,132)

Financial Sustainability

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Specific Financial Pressures

As noted on below, the Council have several significant financial pressures which together have the risk of putting long term strain on the financial sustainability of the Council. KPMG have performed a review of each of these areas to understand their cumulative financial impact on the Council.

This Land Limited.

This Land Ltd is a development company wholly owned by Cambridgeshire County Council established in 2016. At the start of the year the Council had loans of £113.85 million owed by the Company and also an investment of £5.85m treated as equity.

Due to This Land not performing in line with its business plan and certain key sales not materialising as planned, in February 2024 the interim CEO of This Land wrote to the Council asking for provisions to be made so that This Land could remain a going concern. Early in 2024-2025 the Council appointed external advisors to review the business plan of This Land, and in their report dated June 2024 they concluded that if support was not extended in the short-term, it would likely result in either a fire-sale of assets to try and generate additional liquidity, which would almost certainly depress sales values and negatively impact the value of the Council's security, or lead to the insolvency of the Group in the short-term. The report further acknowledged that the additional support would likely increase Council's exposure without enhancing its security value, potentially resulting in a greater write-off for the Council in the future if the business could not be turned around.

This led to the Council taking a number of actions during 2024-2025 to support the financial position of This Land Ltd. This included the deferral of interest payable, resetting fixed interest on all loans, drawdown of the remaining c.£6.3m within the existing £120.0m facility at a revised interest rate and the provision of a letter of support from the Council.

As we stated as part of our reporting in the prior period the Council did not recognise an expected credit loss (ECL) provision despite the significant increase in credit risk indicated by the above factors. Whilst any expected credit loss charge in 2023-24 or 2024-25 would not pass to the general fund immediately due to the reversal through the Capital Adjustment Account (CAA), the Council would still be required to include minimum revenue provision (MRP) impacting their general reserves over time. During the year there has been a change in guidance. Where previously the Council would only be required to calculate a "prudent" provision within the MRP, any ECL on the Council's existing loans, from May 2024, would be required to be recognised as MRP in full over the lifetime of the underlying assets. This results in a larger Minimum Revenue Provision (MRP) which would directly impact the Council's revenue budget, potentially limiting funds available for other services.

The actions taken by the Council enabled the subsidiary to continue to operate during the period. After this, on the 31st of March 2025, the Council made the decision to reduce the long-term exposure of the Council by converting £59.9 million of the now £120 million loan to a capital contribution - a non-interest-bearing contribution with no set repayment date. This conversion has resulted in an impairment as a result of the reduction in future cashflows. We note that in the event that there is cash surplus of £5,900,000 or more at the This Land Group level, after discharge of all debts and liabilities, at the end of the accounting period ending 31 March 2029, This Land would be required, upon request by the Council, to pay the surplus cash in repayment of the capital contribution made by Cambridgeshire County Council. From reviewing This Land's current cashflow forecasts we noted that there was currently no plan for the £59.9 million capital contribution to be repaid, with cashflows forecast to be slightly above breakeven in 2029 following the repayment of the final £60.1m loan balance and interest.

As discussed in more detail on page 16 we have seen increased oversight and monitoring of This Land and the Council's other investments during the period, included the set up of a new Shareholders Subcommittee to monitor and challenge the Councils Investments.

Financial Sustainability

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Dedicated Schools Grant

Since 2006 the Department for Education has funded local authorities for their current expenditure on schools, early years and children and young people with high needs through a specific grant known as the Dedicated Schools Grant (DSG). The conditions of grant for the DSG provide that any underspend must be carried forward to the next year's Schools Budget and historically any deficit was required to be funded through General Funds.

Over recent years there has been significant challenges within the Education sector and increasing costs and therefore significant deficits have built, up and following a consultation in 2020 Councils are no longer able to utilise General Fund reserves to pay off these deficits without secretary of state approval. This is an ongoing issue impacting a number of Council's nationally.

For Councils with significant funding a program call the "safety Valve" was established to support Councils with large DSG deficits to bring services back to a breakeven position with support and additional funding from the Department of Education. Cambridgeshire County Council is part of the Safety Valve program.

We reviewed the minutes from the May 2025 Schools Forum which reviewed the year end position as at 31 March 2025. The reported noted "The biggest concern was the number of schools in deficit which had increased from 31 in the last financial year to 37 maintained schools out of 121." There was also a significant proportion of maintained schools and more heading towards deficit. The Council's DSG cumulative deficit at 31 March 2025 was £62.9m, which represents the Council's biggest financial risk. The statutory instrument, which prevents the deficit from eroding the Council's stated reserves, expires in March 2028. No sustainable solution has been put forward by government, but they have indicated that they will further extend the ringfencing of this deficit until March 2028. This means that the ring-fenced DSG funded service budgets saw a larger overspend (£22.8m) due to spend on high needs education services where demand is outstripping that funding source. The Council hopes that 2025-26 will bring a long-term national solution to this matter, otherwise the risks to the Council's financial position, alongside many Councils nationally, will be stark.

The increasing DSG deficit, against the backdrop of a relatively small general fund balance (excluding earmarked reserves), and no revised plan for sustainable recovery is indicative of a risk to Financial Sustainability. We acknowledge that the decision by central government post year end to provide additional support to those local Authorities with DSG high needs deficits, as announced on the 9th of February 2026, does reduce the financial risk to the Council, and the specific impact on arrangements will be considered as part of our reporting for the March 2026 year end

	2024-25 £'000
Opening Deficit Balance	(40,000)
In-year movement (Excluding 2024-25 DfE Safety Valve payment and LA contribution)	(22,800)
Closing Deficit Balance 2024-25 (Excluding 2024-25 DfE Safety Valve payment and LA contribution)	(62,800)

Financial Sustainability

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Waste PFI Contract

In 2008 Cambridgeshire entered into a Private Finance Initiative (PFI) to provide waste treatment and household waste facilities for the County. At the inception of the contract the total estimated payments were circa £730m over a 28 year period. Subsequent to the inception of the PFI contract, the Environment Agency reissued environmental permits to include improvement conditions that limit the industrial emissions from the Waterbeach treatment facility to specified levels where previously no limits were included. The facilities require upgrades to reduce emissions at significant cost which must be met by the Council according to the terms of the Waste PFI Contract. This has resulted in increased costs of circa £100k per week to manage the treatment of the waste. Costs continued to rise during 2024-25 due to the facility being non-operational, which required waste to be diverted through more expensive routes. This pressure was managed through the use of reserves, alleviating the immediate budgetary impact.

As a result, the Council have reviewed and considered a number of options to mitigate the increased costs of operating this contract. KPMG have inspected the Waste PFI Review report shared with the Strategy, Resource and Performance Committee and associated minutes and note that there is appropriate scrutiny and challenge with regards to decision making for the waste PFI despite the ongoing financial pressures noted as a result. From our discussions with Management, we are aware that during 2025-26 further progress has been made regarding the future management of this contract.

North Angle Solar Farm

The North Angle Solar Farm was energized during November 2024 with construction substantively completed. The Council did face pressures during the year, specifically relating to variations on the contract exceeding expected costs with a lower than expected budget due to historical transfers.

Specific pressures conclusion

We note that there are a number of financial pressures impacting the Council, and whilst each of these in isolation may not be considered to be indicative of a financial sustainability VFM weakness, we consider that when taken in aggregation the impact of the declining performance of This Land, DSG pressures and future Waste PFI costs and one off capital projects, such as the Solar Farm, do represent a significant risk in relation to Financial Sustainability. As per review of the corporate risk register the Council recognise a financial risk which receives an overall risk rating of 12.

Financial Sustainability

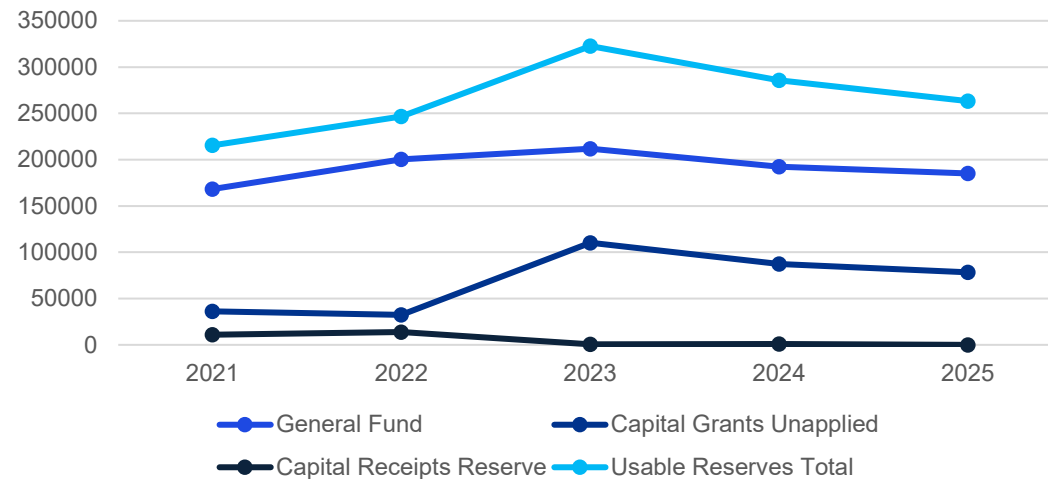
Reserves

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Councils are required by law to maintain adequate reserves. The principal reserve for a Council is the General Fund, which consists of earmarked and non-earmarked reserves, and is used to meet day to day expenditure. The total balance of the General Fund and earmarked reserves has increased from 31 March 2020 from £114m to £185m at 31 March 2025 and the Council has maintained largely consistent general fund balances for the three previous financial periods. The key driver for the increase in the general fund was the result of a significant government grant received by the Council.

The overall decrease in the general fund for the year ended 31 March 2025 was £7.3m in line with plan which is 3.9% of the total general fund reserve. Whilst there has been a reduction this is not considered to be significant and therefore is not indicative of a significant risk in relation to Financial Sustainability. However, as noted on previous pages the known financial pressures do pose a risk to the medium-term reserves position.

Movement in Reserves



Governance arrangements related to financial sustainability

We have reviewed the Business Plan for the 2024-25 financial year. This details the Council's strategic ambitions and visions and includes is closely aligned to the Council's strategic Framework for 2024-2029. The aims were consistent with those included in the Council's Medium Term Financial Strategy hence we are satisfied that there is consistency between the financial & operational plans set.

We have reviewed the Corporate Risk Register, which includes a risk that the Council does not have enough budget to deliver agreed short and medium term corporate objectives, which has a score of 12 against a risk appetite score of 15. Corporate risks are presented to the Audit Committee on a quarterly basis and at 31 March 2025.

It is noted that there is a regular, detailed review of the risk register which is evident from review of Committee meeting minutes.

Significant Value for Money Risk

DRAFT



1 Delivery of cost savings programme

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

Significant Value for Money Risk

As part of the financial budget setting process, the Council identified sufficient cost savings to bridge the budget gap. However, there was a £4.3m under delivery of these schemes. With significant saving's gaps unidentified going forward.

Our response

We sought to understand the process for identifying the cost saving schemes and how these are subsequently monitored throughout the year.

Our findings

The Council's cost saving process is an integral part of the budget setting process with detail provided in relation to each scheme identified within a directorate.

Throughout the year, the cost savings are reported to the relevant Committees and also are reported to Strategy Resource & Performance Committee as part of the quarterly Integrated Financial Performance Report. The savings schemes are RAG rated based on the risks associated with their delivery. This regular monitoring allows the Council to respond quickly to any new or emerging pressures.

As per detailed review of the savings schemes, there were key schemes which were underdelivered in the 2024-25 financial year resulting in the overall £4.3m under delivery.

Conclusion

Based on the findings above we have determined whilst there has been an under delivery of the savings plan, it is appropriately monitored and reported throughout the year and overall the Council were only £4.3m off the 2024-25 financial budget (less than 1% of total budgeted spend).

As a result delivery of cost savings is considered a risk but is not indicative of a significant weakness in arrangements. KPMG will continue to monitor delivery of cost savings going forward to determine whether this has a more pervasive impact on overall financial performance.

Significant Value for Money Risk

DRAFT



2

Aggregate impact of specific financial pressures

Risk that value for money arrangements may contain a significant weakness linked to financial sustainability

Significant Value for Money Risk

Due to a number of specific financial pressures impacting the Council, and increasing demands on resources, there is a risk that the Council does not have in place adequate arrangements to mitigate these pressures when considered in aggregate.

Our response

We have performed a detailed review of the specific financial pressures and considered the aggregate impact to determine whether a significant weakness in arrangement exists.

Our findings

This Land

The net liabilities position of This Land Ltd has worsened each year since 2021, increasing the risk associated with recovering the £120 million loan balance with £60 million of this balance being converted into a capital contribution as of 31 March 2025. While this conversion and the resulting reduction in future cash flows do not impact the 2024–25 General Fund they have needed to be adjusted for in the MTFP. These will also affect the Council's available working capital.

Dedicated Schools Grant

For 2024-25 the net DSG deficit increased by £22.8m. This is against the backdrop of a relatively low, unearmarked, general fund balance.

Waste PFI

The ongoing pressures of the Waste PFI cost the Council circa £100k per week under the current arrangement. Whilst these costs are known and factored into the Place and Sustainability directorate budget, it continues to create additional financial pressures for the Council.

Conclusion

Based on the potential cumulative impact of the noted financial pressures, the uncertainty surrounding the impact of potential losses to the Council, and without detailed mitigating action plans, we have determined that there is a significant risk in arrangements to secure Financial Sustainability into the Medium Term. As each of these risks matures KPMG will closely monitor the progress and performance to determine whether these later become significant weakness.

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

We have considered the following in our work:

- how the Council monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Risk Management

The Risk Management Policy is a key element of the risk management architecture supported by a Risk Management Toolkit. The Risk Management Policy was reviewed and approved in June 2024 as part of the annual policy review process. The Risk Management Policy contains key areas including risk identification, risk management and appetite, recording of risks, risk monitoring and reporting and risk escalation.

The Council has created a culture in which employees are responsible for identifying, assessing, measuring, monitoring, reporting and escalating risks associated with their functions or activities which feed into directorate and strategic risks. Once risks have been challenged and the appropriate actions developed, these will be added to the relevant risk register. Risk registers operate at three tiers across the organisation: service/project specific, directorate, and corporate.

Risk scores (both current and target) are calculated by multiplying the potential impact by the potential likelihood of the risk. The Council uses a 5 x 5 matrix scoring system, which produces a range of scores from 1 to 25.

The Corporate Risk Register has been updated throughout the year, reviewed by the Corporate Leadership Team (CLT) Risk & Assurance group and presented to the Strategy, Resources & Performance Committee and Audit & Accounts Committee at regular intervals. The risk register provides the following information against each risk to enable informed decision making: current risk score, risk appetite, triggers, potential consequences, controls and actions plans. The entries have a sufficient level of detail with well-considered mitigating actions.

During KPMG's discussions with the Council's risk management team, we noted that the Council has introduced notable improvements in risk management and governance. Decision-making and budget planning now follow a top-down, politically-led approach, integrating risk assessment with resource allocation. Committees have an enhanced role, both making decisions and scrutinising proposals, particularly those involving reductions in spending. Transparency has increased, with clearer reporting from the Section 151 officer and improved tracking of savings and financial pressures. A new performance management framework provides regular oversight through quarterly dashboards and annual reports. While major financial risks are closely monitored, progress is sometimes affected by external factors such as government delays.

During 2024-25, specific, high-risk areas (e.g., DSG, This Land, Guided Busway) had their own risk registers and statutory officer working groups for focused oversight. Furthermore, we noted through inspection of minutes of meetings that a more dynamic management of risk was evident during the year, with new risks (e.g. Learning Disabilities Partnership) added and de-escalated as resolved.



Legal & regulatory environment

One of the functions of the Council is compliance with laws and regulations and its subsequent monitoring – this is included within the Council's Constitution. This is regularly updated including during 2023/24 (where it was updated in December 2023) with additional updates since then. Included within the Constitution is the role of the Monitoring Officer. The Monitoring Officer reports to the Committee or full Council if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. No such reports were made in 2024-25. In addition to this the Monitoring Officer will report annually on their duties in the MO report.

The Council stays informed about relevant legislative changes through Letters and Guidance notes from the Government. These updates are distributed to the appropriate departments responsible for implementing any legally mandated changes. Legal Services also share pertinent information with Council departments and provide training or access to training resources.

KPMG have reviewed correspondence with the Council's external regulators including but not limited to: Local Government and Social Care Ombudsman, Ofsted and the Care Quality Commission. Per review of the reports and articles issued in relation to Cambridgeshire we have not identified any significant risks in relation to regulatory compliance.

Policies & Procedures

The Council's Code of Conduct documents the responsibilities of Council employees and members processes regarding conflicts of interest, gifts and hospitality.

The whistleblowing policy is reviewed on an annual basis by Audit and Risk Management Committee to ensure it continually complies with legislation and is effective in practice. Any significant amendments will be subject to consultation with Trade Union representatives. The Policy was reviewed and approved October 2024 and published on the website. The policy is available on the Council website and is sufficiently communicated and detailed as to allow colleagues to make complaints.

KPMG have obtained the year end whistleblowing report which included 35 whistleblowing reports. For each of the reports the nature is noted and then the approach that will be undertaken in relation to investigation the report. The whistleblowing log is regularly updated to show the reports as either open or closed with the overall conclusion being reported and the noting of any actions taken. The Council prepare an annual whistleblowing report to the Audit and Accounts Committee outlining the staff engagement with the policy, whistleblowing reports and an updated policy for review and approval.

We note that the Council has an approved procurement process which is set out as part of the Councils constitution. As part of our review of this strategy we have identified a specific policy on engaging with local suppliers, with any contract in excess of £5,000 where possible obtaining two quotations from local suppliers. There is a specific process in place in relation to tender waivers which may only be sought in exceptional circumstances. The Council provide regular reporting to the Strategy Resource & Performance Committee around the percentage of contract waivers submitted with less than 5 days prior to their start date, KPMG note that the Council has performed below the expected target of 20% with a peak at 80% in September 2024-25 however we note a positive trajectory with March 2025 being 18% which is below the target of 20%. The Council also has a process in place to report any breaches to Members through the Assets and Procurement Committee from June 2024.

Governance

Specific Governance Risks

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This Land Ltd.

We are aware that there have been historical governance issues identified with This Land, resulting in the Council as shareholder bringing in external advisors Avison Young to complete a review over the governance arrangements in November 2021 and Grant Thornton to review This Land's business plan in June 2024. These reports, presented to the Strategy and Resources Committee identified a number of actions to be taken and also included a review of business case assumptions. We note that since the report in 2024 there has been regular tracking of the actions by This Land and the Council has set up a Shareholder subcommittee, with the first meeting in January 2025, which meets approximately once a month to review This Land, and the other investments made by the Council, in detail demonstrating that the Council has taken steps during the period to increase oversight of their investments.

Dedicated Schools Grant

As noted on page 17, there has been an increase in the deficit position on the DSG. We understand from our discussions with management that they are looking to reset their transformation program across schools and will resubmit a revised safety valve recovery plan to the Department of Education during 2025-26, in response to the continued pressure on schools' services.

During the period the Dedicated School Grant risk is not captured in the Children, Education and Families Directorate risk register. It is however captured at a high level in the Corporate Risk Register.

We note that there does not appear to have been adequate oversight of the DSG action plan by the school's forum throughout the year 2024-25, with requested updates not always provided and limited reporting during the year. Furthermore, during the prior year, internal audit completed a review of the DSG Safety Valve which was based around providing assurance around the effective governance and management processes in place to allow the Council to meet its obligations under the Safety Valve agreement. The overall report provided limited assurance over the adequacy of the system and compliance. The organisational impact of the findings was categorised as major. The report identified 7 recommendations (2 essential, 2 high risk and 3 medium risk). The essential findings relates to a lack of data accuracy regarding EHCP costs preventing effective action planning and an insufficient action plan to address the ongoing challenges. Due to the timing of the report with the final report issued in May 2024, the areas of concerns were not considered to have been effectively managed during the 2023-24 financial year and were carried forward into the 2024-25 financial year, of which one essential recommendation remained open for 2024-25, which related to the need to develop the action plan to address the deficit on the Council's DSG account, to include defined and prioritised actions, clear expected benefits and identification of interdependencies.

We note that there has been subsequent action by the Council to revisit and revise their Safety Valve plan and this has commenced during 2025-26.

Based on the above we have identified a significant risk in relation to the Governance of around management of the DSG deficit during 2024-25, see page 28 for details.

Guided Busway

In 2024-25, the Council was prosecuted for historical health and safety failings on the guided busway, with a fine being received during April 2025 to be repaid by 2028 by the Council. Following these offences the Council have implemented a number of recommendations including improved fencing, signage and lighting around the guided busway and more regular health and safety audits to identify health safety risks and associated remedial actions as early as possible. This also includes a Guided Busway task list and there is a risk assessment of sites being conducted during the year.

Significant Value for Money Risk

DRAFT



3

Risk identification and escalation

Risk that value for money arrangements may contain a significant weakness linked to governance

Significant Value for Money Risk

The Council does not fully identify directorate level risks for inclusion in risk registers, as a result there is a potential that risks do not have appropriate prominence or go unmanaged at the directorate or corporate risk level.

Our response

We have reviewed risk registers held at various levels of the Council and inspected minutes to corroborate if these registers are appropriately discussed and challenged.

We have performed directorate level enquiries to understand the extent of risk management in their areas.

Our findings

During KPMG's discussions with the Council's risk management team, we noted that the Council has introduced notable improvements in risk management and governance. Decision-making and budget planning now follow a top-down, politically-led approach, integrating risk assessment with resource allocation. Committees have an enhanced role, both making decisions and scrutinising proposals, particularly those involving reductions in spending. Transparency has increased, with clearer reporting from the Section 151 officer and improved tracking of savings and financial pressures. A new performance management framework provides regular oversight through quarterly dashboards and annual reports. While major financial risks are closely monitored, progress is sometimes affected by external factors such as government delays.

During 2024-25, specific, high-risk areas (e.g., DSG, This Land, Guided Busway) have their own risk registers and statutory officer working groups for focused oversight. Furthermore, we noted through inspection of minutes of meetings that a more dynamic management of risk was evident during the year, with new risks (e.g. Learning Disabilities Partnership) added and de-escalated as resolved.

Conclusion

Based on our findings we have noted considerable improvement in this area compared to the prior year and would not consider this to indicate a weakness around value for money.

Significant Value for Money Risk

DRAFT



4

Governance arrangements for This Land

Risk that value for money arrangements may contain a significant weakness linked to governance

Significant Value for Money Risk

We are aware that there have been historical governance issues identified with This Land, which resulted in the Council as shareholder bringing in external advisors Avison Young to complete a review over the governance arrangements in November 2021. This report identified a number of actions to be taken and also included a review of business case assumptions..

Our response

We have reviewed the corporate risk register and associated Committee minutes for consideration of review and challenge of This Land.

We have considered the steps taken by the Council following the report from Avison Young in relation to the governance arrangements, and the subsequent change to the business plan and restructure of the funding provided to This Land following the review by Grant Thornton.

Our findings

We note that since the Avison Young report there has been regular tracking of the actions by This Land and the Council, and we note that through 2024-25 further progress was made to strengthen the governance arrangements.

The Council and This land have taken appropriate steps during 24-25 to improve the oversight and challenge by the Council through the development and challenge of a revised business plan, as presented in January 2025 to the new Shareholder subcommittee.

We are aware that additional training has taken place for members of the Shareholders Subcommittee during 2025/26.

Conclusion

Based on our findings we have not identified a significant weaknesses in arrangements, given the actions taken to address historical issues in the short to medium term .

Significant Value for Money Risk

DRAFT



5

Governance arrangements for Dedicated Schools Grant

Risk that value for money arrangements may contain a significant weakness linked to governance

Significant Value for Money Risk

We note that there does not appear to have been oversight of the DSG action plan by the schools' forum throughout the year 2024-25 and therefore consider there to have been a lack of formalised governance arrangements over the Safety Valve program in the period.

Our response

We have reviewed the minutes of the Schools Forum during the 2024-25 financial year.

We have reviewed the internal audit report on the DSG Safety Valve Review.

We have reviewed the risk register to consider the extent to which the DSG is featured.

Our findings

We note that there does not appear to have been adequate oversight of the DSG action plan by the school's forum throughout the year 2024-25, with requested updates not always provided and limited reporting during the year.

KPMG does note that internal audit completed a review of the DSG Safety Valve in the prior year which was based around providing assurance around the effective governance and management processes in place to allow the Council to meet its obligations under the Safety Valve agreement. The overall report provided limited assurance over the adequacy of the system and compliance. The organisational impact of the findings was categorised as major. The report identified 14 recommendations (2 essential, 2 high risk, 9 medium risk and 1 advisory). One essential recommendation remained open for 2024-25, which related to the need to develop the action plan to address the deficit on the Council's DSG account, to include defined and prioritised actions, clear expected benefits and identification of interdependencies.

Conclusion

Based on our findings we have identified a significant weakness in relation to the Council's Governance arrangements for managing the Dedicated Schools Grant deficit.

Value for Money: Recommendations

The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

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#	Grading	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	High	<p>Issue & Impact</p> <p>We note that there does not appear to have been adequate oversight of the DSG action plan by the school's forum throughout the year 2024-25, with requested updates not always provided and limited reporting during the year. One of the essential recommendations raised by internal audit remained outstanding at year end.</p> <p>Recommendations</p> <p>Management should improve their oversight of the DSG recovery plan, with key actions and milestones, to be regularly discussed and challenged as part of the Schools Forum throughout the year. Management should continue to implement the findings of internal audit</p>	<p>Management Response/Officer/Due Date</p> <p>Schools Forum has established a High Needs Block Working Group (chaired by the Forum Vice-Chair) which meets on a monthly basis. During the last twelve months, this Group has regularly reported to Schools Forum and monitored the high needs block deficit. Reports to Schools Forum were made in March 2025, May 2025, June 2025, July 2025, November 2025 and January 2026 (http://tiny.cc/CambsSchForum). The quarterly finance monitoring reports to the Children and Young People's (CYP) Committee have also provided high needs block monitoring information to Councillors.</p> <p>National monitoring and accountability arrangements for "safety valve" authorities (such as Cambridgeshire) have been in flux during the year pending progress by Department for Education with their plans for a White Paper and major reforms. Very recently, the final local government settlement has suggested substantial national support for the deficit accumulated up to 31 March 2026 (including the announcement that the safety valve programme will be discontinued as a separate scheme). At the date of publication, we are currently analysing the impact of these announcements.</p> <p>We have continued to progress the recommendations in this area from internal audit, as part of the Inclusion for All programme, with this captured by monitoring reports at the Audit and Accounts Committee (AAC) – actions are scheduled to complete by July 2026. There is more information in the October 2025 report to the CYP committee as part of the SEND Area Ofsted CQC Action Plan Document.ashx and as part of the Children, Education and Families Assurance Statement to AAC in June 2025 (http://tiny.cc/AACJ25)</p> <p>Action: Service Director: Education [July 2026]</p>

Improving economy, efficiency and effectiveness

DRAFT

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

We have considered the following in our work:

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

Operational Performance

Financial performance is reported quarterly and highlights directorate spending, actual and forecast variances to budget and any areas that may need attention. These are reported at both directorate Committees and then to the Strategy, Resource and Performance Committee as part of the integrated financial performance report.

In addition to the financial monitoring, each directorate is also required to report against operation Key Performance Indicators (KPI's) linked to their service provision. Included within the KPI report is the current quarter and previous quarter performance against the target levels alongside commentary and actions taken to improve the performance.

On a quarterly basis, the Strategy Resource and Performance Committee receive a performance report on those KPIs which are considered to be Council wide risks, such as staff turnover. KPMG have reviewed a sample of directorate and Council wide performance reports and considered that the entries have a sufficient level of detail to allow informed decision making on operational performance.

The inclusion of financial and operational performance reviews enables the Council to identify areas of improvement and subsequently enhance the services provided to residents.

Savings plans

In 2024-25 the Council had an overall savings target of £20.5m for which the outturn was an under delivery of £13m. KPMG have reviewed the 2025-26 period 2 Integrated Financial Monitoring report and noted that the Council opens the year with a forecast revenue overspend, if no further action is taken, of £14.8m (3%). This is a significant forecast variance that will require a strong response from the Council through the identification of additional mitigations, in order to return to a balanced position for the year and avoid the need to draw from the general reserve.

KPMG have considered the process to identify and deliver cost savings and note that cost savings are initially identified as part of the budget setting process and are considered to be given appropriate scrutiny and challenge prior to inclusion within the financial plan. The key challenge for 2024-25 related to the delivery of the identified schemes with a number of specific under deliveries such as the North Angle Solar Farm. KPMG have considered whether this is indicative of a significant risk in relation to improving economy efficiency and effectiveness, however note the under-delivery was largely due to delays in timelines rather than unsuccessful schemes and as such is not considered to be a significant risk or weakness.

Improving economy, efficiency and effectiveness



DRAFT

Agency Workers

As per our review of payroll costs we note that the Council has spent circa £15m on agency workers during the year, which represents 5.8% of total payroll spend. On a biannual basis, the Audit and Accounts Committee are presented with a report on Consultancy and Agency spend for the previous two quarters. This report provides a detailed review of consultancy and agency spend at a directorate level.

During the 2024-25 financial year the most significant area of agency spend related to the Children, Education and Families directorate as a direct result of the separation of services from Peterborough City Council and the lack of available qualified social workers. As a result posts were filled on a temporary basis until permanent solutions were identified. There is consistent agency workers reliance for social care roles, particularly for qualified children's social workers. The Children's Workforce Programme Board has a specific workstream looking at how to improve recruitment in this area to reduce the level of reliance.

This remains an area of focus for the Council, although note that as per review of the 2024/25 Q1 and Q2 reporting, Spend in quarter 1 rose by 17% compared to the same quarter in the previous year but spend in quarter 2 reduced by 21% compared to the same quarter in the previous year. Overall, therefore, spend continues to decline. There is considered to be appropriate monitoring and reporting in place in relation to agency spend.

Procurement

The Council has a formalised procurement process as set out in the Constitution. As per review of these arrangements, they are consistent with the Public Contracts Regulations 2015. In addition, during the year, the Council have made the necessary changes to their processes to ensure they are compliance with the requirements of the provider selection regime which came into effect from 1st January 2024. The Council has a Procurement Governance Board, who have primary oversight of the Council's procurement activities which are set out in the group's terms of reference.

During the 2024-25 financial year, the Council performed internal audit reviews into Procurement Compliance, Commissioning Governance (delivered by TIAA Ltd) and Street Lighting PFI.

Procurement governance

While a review of Procurement Governance was scheduled for 2024-25 as part of the core Internal Audit Plan, the previous audit was only completed in March 2024 and taking into account the deferral of the implementation of the Procurement Act until 24th February 2025, which meant that the review was deferred until early 2025-26.

Improving economy, efficiency and effectiveness



DRAFT

Tender Waivers

The requirements in relation to tender waivers are set out in the Contract Procurement Rules. All tender waivers require formal approval and must be justified in accordance with the exemption details outlined with the Procurement Rules.

The Council has a corporate KPI linked to waivers submitted within 5 days of their start date. The target is that only 20% of waiver requests are received within 5 days of the start date, however this KPI was not consistently achieved. with a peak in September 2024 with 80% of waiver requests being submitted within 5 days of the start date.

As per review of the External audit waver data for 2024-2025, it was noted that 147 waivers totalling £7.6m were requested in the 12 months to March 2025, 133 requests totalling £6.7m were required within less than 5 days notice.

This Land

This Land is a commercially run subsidiary of the Council which has seen significant challenges since its inception and has not performed in line with the original business plan. This has resulted in changes being proposed to funding arrangements and an updated business plan being prepared and challenged by the Council during 2024-25. The result of this was a conversion of £59.9m million of the outstanding £120m loan balance being converted to a capital contribution, as detailed on page 17, resulting in a reduction in future cashflows due to these capital contributions carrying no interest and having a very low probability of being repaid in full.

From a governance and oversight perspective there has been appropriate action taken in terms of increasing scrutiny and strengthened governance (including use of external advisors such as Avison Young, Grant Thornton and MUFU), with a new Shareholder Subcommittee. These actions were implemented in response to the underperformance of This Land in prior periods. While the measures have led to a significant reduction in the Council's expected future cash flows from its investment in This Land, KPMG notes that decisions have been made with the intention to maximize returns while reducing the risk of subsidiary failure.

Management has engaged specialists to review This Land's business plan and advise on future actions to support recovery of the Council's investment. Our review of the Shareholder Subcommittee indicates that appropriate consideration and challenge of future plans is taking place. Although the Subcommittee was formed late in the period, its establishment demonstrates the Council's commitment to preventing similar issues with This Land or other investments going forward with training being provided to the Councillors on the committee so that they can perform their roles appropriately.

Significant Value for Money Risk

DRAFT



7

Private sector skills and experience

Risk that value for money arrangements may contain a significant weakness linked to improving economy, efficiency and effectiveness

Significant Value for Money Risk

The Council does may not have the suitable skills and experience to effectively manage the risks associate with a commercial private sector subsidiary facing significant financial and cashflow challenges.

Our response

We have considered the experience of members in relation to risk associated with private sector entities, such as This Land.

We have assessed the review and challenge of performance against the This Land business plan noted within relevant Committee minutes

Our findings

We do note, as summarised in the Governance section of this report, that there are arrangements in place to monitor and challenge the performance of This Land including seeking advice from external advisors.

Our review of minutes of the shareholder subcommittee shows involved discussions in regard to This Land performance throughout the year and a review of the Corporate Risk register now includes This Land as a separate item

We note that following the historic underperformance of This Land and with the advice of their specialists and challenge of the Shareholder Subcommittee, management made the decision to convert £59.9m of the £120m loan into a capital contribution. Though the future cashflows resulting from this are less than the amount initially planned it does help to reduce the risk of the remaining £60.1m investment going forward and likely allow for greater recovery compared to the assets being sold at a discount to enable the entity to continue to pay their debts as they fall due.

Conclusion

While we acknowledge the significant enhancements that have been made, as the Sub-Committee was only set up towards the end of 2024-2025, with little time to evidence its effectiveness or the impact of actions taken, we've concluded that the significant weakness remains for the 24/25 year end, but we have not sought to repeat the recommendation.



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