

Significant weakness in respect of Oadby and Wigston Borough Council Value for Money arrangements

2023/24

16 January 2024



Executive summary

Value for money arrangements and key recommendations

Requirements of auditors

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.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 was the third year that we have reported our findings in this way and 2023/24 will be the fourth. As part of our work, we consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's 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'.

The Code requires auditors to report in a commentary each year under the specified reporting criteria and expects that where auditors identify significant weaknesses in arrangements as part of their work, they will raise them promptly with those charged with governance at the body ('immediate reporting').

Our 2022/23 value for money work

In our Auditor's Annual Report for 2022/23, in relation to financial sustainability, we noted that, based on its financial planning at February 2023, "*The Council is forecasting a cumulative deficit of £2.64m over the five year period 2023/24 to 2027/28.*"

We also commented "*The Quarter One 2023/24 Budget Monitoring Report to the September Policy, Finance and Development (PFD) Committee forecasts an outturn deficit of £0.282m against a breakeven budget. This represents 4.1% of the revised revenue budget of £7.6m. The report sets out the main reasons, including £0.241m leisure services, £0.106m staff vacancy savings not achieved and £0.115m errors in setting the original budget. There are savings in capital financing charges of £0.132m due to significant slippage in capital programme funding requirements. The Council is therefore failing to maintain expenditure within budget in 2023/24. This makes the need for developed savings plans even more important, so that some contingency is built in.*"

We concluded "*Officers have identified income generation and savings schemes which, if fully implemented, would significantly improve the financial position, but difficult decisions are needed to implement these. As Officers have identified opportunities which would significantly reduce the financial challenge we have stopped short of concluding that financial sustainability is a significant weakness. We have therefore not raised a "Key recommendation", but would urge the Council to take the opportunities available.*"

The Council is now forecasting a significant deterioration in its financial position. We consider that this is occurring within the 2023/24 financial year therefore do not propose to revisit our conclusions in respect of 2022/23. However, we do need to consider whether there are any matters which may require 'immediate reporting' in 2023/24. We consider these on the following page.

Executive summary

The Council finances in December 2023

The position in December 2023

The 5 December 2023 Policy, Finance & Development Committee received a report on the 2024/25 Draft Revenue Budget and Medium Term Financial Plan. The report highlights a significantly worse position than the one forecast in February 2023.

It states *“The report outlines the draft budget position for the 2024/25 year for the Council’s General Fund, which is an anticipated deficit position of £1.267m. The report outlines an updated MTFP position for 2024/25 to 2027/28 which shows a cumulative gap of £6.883m.”* (see table opposite).

The cumulative gap is an increase of £4.23m on the cumulative deficit of £2.65m reported in February 2023 (before savings from the "Sustainability Plan Programme" (SPP) are factored in). Through its SPP the Council believes it has identified £1.267m of annual savings from 2025/26.

In our 2022/23 Auditor’s Annual Report we considered these in some detail, noting that around £0.7m of savings *“will be the most difficult for Members to agree. But the Council needs to achieve all of the savings and income generation opportunities identified in order to achieve financial balance, even if there are no further unexpected pressures or costs, which is highly unlikely.”*

Even if all of the savings are achieved, the Council is still estimating an underlying deficit of around £0.3m a year (whereas previously small surpluses were being forecast if all savings were achieved). The report also highlights that reserves used to balance the budget will run out in 2025/26, a year earlier than anticipated in the February 2023 report (see Chart opposite).

Judgement

We consider that the deterioration in the Council’s financial position and the risk that it will basically run out of money in 2025/26 unless further significant and challenging savings are achieved, is a significant weakness in arrangements and we have made a key recommendation as set out on the next page.

	February 2023		November 2023	
Financial Year	In-year Gap	Cumulative Gap	In-year Gap	Cumulative Gap
2023/24	£431,000	£431,000	£912,566	£912,566
2024/25	£269,000	£700,000	£1,267,000	£2,179,566
2025/26	£810,000	£1,510,000	£1,498,000	£3,677,566
2026/27	£686,000	£2,196,000	£1,596,000	£5,273,566
2027/28	£457,000	£2,653,000	£1,609,000	£6,882,566



Key recommendation

Key Recommendation 1

The Council needs to take urgent action to implement savings plans identified in order to ensure that the use of reserves to balance the budget does not continue and that the Council does not find itself in a position where it is unable to fund its expenditure in 2025/26.

Identified significant weakness in arrangements

The Council's latest financial projections are that its Medium Term Financial Plan shows a cumulative gap to 2026/27 of £6.883m before planned savings. Based on the Council's in order to maintain services reserves will need to be used to balance the budget with projections that these will run out in 2025/26. The Council has identified around £1.2m of potential savings. It now needs to implement these. Even if these savings are achieved in full there remains an annual underlying deficit of around £0.3m for which additional savings or funding will be required.

Summary findings

The risk of Chief Finance Officers having to issue a S.114 notice, effectively declaring a body bankrupt, is increasing. The latest financial forecasts show that, without significant action, Oadby and Wigston Borough Council is likely to be in that position some time in 2025.

Criteria impacted by the significant weakness



Financial Sustainability

Auditor judgement

Based on the work undertaken, we are not satisfied that Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We have therefore identified a significant weakness in arrangements.

Management comments

The Council (12 December 2023) considered the emerging budget position for 2024/25. Council approved the sustainability plan (appendix 4 to the report) in the main, including moving to alternate weekly refuse and recycling collections. Some small changes to the proposal were made requiring a small increase in savings to be found through service transformation, however all the suggestions put forward to meet the £1.267M gap have been approved including an ongoing commitment that the Council should not use reserves to balance the revenue budget.

Progressing the actions management has identified to address the recommendation made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

