



## **CABINET - 13 SEPTEMBER 2024**

### **MEDIUM TERM FINANCIAL STRATEGY – BUDGET MONITORING AND MTFS REFRESH**

#### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

### **PART A**

#### **Purpose of the Report**

1. The purpose of this report is to provide the Cabinet with an update on the County Council's short and medium term financial position in light of the current economic climate; seek approval for changes to the previously agreed 2024-28 capital programme; provide an update on the MTFS revenue budget monitoring position as at the end of Period 4 (the end of July); and seek approval for the forecast net revenue budget underspend to be used to increase the capital programme risk contingency.

#### **Recommendation**

2. It is recommended that:
  - a) The Cabinet notes the significant financial challenges faced by the County Council;
  - b) The Cabinet notes the Period 4 monitoring position from the current financial year and approves the use of the projected £6.4m net underspend to increase the capital programme risk contingency;
  - c) The proposed approach outlined in the report to updating the Medium Term Financial Strategy (MTFS), be approved;
  - d) The revised Capital Programme for 2024/25 to 2027/28 as set out in Appendix C to the report, be approved;
  - e) The Cabinet approves the marketing of the Quorn Solar Farm site with the benefit of planning and the grid connection as a leasehold or freehold disposal;
  - f) The Director of Corporate Resources, following consultation with the Cabinet Lead Member for Resources, be authorised to identify and proceed with the most economically advantageous option for the Quorn Solar Farm site.

### **Reasons for Recommendation**

3. To seek approval for the intended approach to the development of plans to address the latest financial position.
4. To seek approval for the forecast net revenue budget underspend of £6.4m to be used to increase the capital programme risk contingency.
5. To seek agreement to the revised capital programme for 2024-28 which requires amendment as a result of the latest forecast financial position.
6. To seek approval to the change of approach to market the Quorn Solar Farm site in order to maximise its financial return and minimise financial risks.

### **Timetable for Decision (including Scrutiny)**

7. The Scrutiny Commission will consider a report on the MTFS position on 4 September 2024 and its comments will be reported to the Cabinet.
8. The Cabinet will be asked to approve the draft MTFS 2025 to 2029 for consultation in December 2024. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the draft MTFS in late January 2025 and the Cabinet will then make a final recommendation to the County Council in February 2025.

### **Policy Framework and Previous Decisions**

9. The MTFS for 2024/25 to 2027/28 was approved by the County Council on 21 February 2024. Over the autumn and winter of 2024, the MTFS will be reviewed and updated.
10. The MTFS forms part of the Budget and Policy Framework as set out in Part 4C of the Council's Constitution.

### **Resource Implications**

11. The County Council continues to face a challenging financial outlook. The current MTFS showed the 2024/25 revenue budget as being balanced only after the use of £6m from earmarked reserves and anticipated a funding gap of £33m in 2025/26 rising to £83m by 2027/28, despite savings of £81m being targeted and built into the financial projections. An initial review of the position in light of service pressures, particularly those relating to children's social care and unaccompanied asylum seeking children through demand and cost increases, indicates that the Council will face additional costs in 2024/25 and future years.
12. The national economic picture continues to impact on the Council's MTFS. CPI inflation peaked in October 2022 at 11.1%, remained above 10% until March 2023 and then slowed to 4.0% by December 2023, and continued that trend to reach 2.0% in May and June 2024. The latest figure, for July 2024, shows a minor reversal to the trend and stands at 2.2%. The Bank of England is currently forecasting that inflation will increase to

around 2.75% by the end of 2024 before falling again. There are no indications that prices will fall back towards their historic level, resulting in a permanent increase in the Council's underlying cost base.

13. The pressures of inflation coupled with an ever-increasing demand for core services, is presenting a challenge across the whole local government sector. However, as a very low-funded authority Leicestershire is much worse placed than most to be able resolve the problem.
14. In the short term, the County Council will benefit from higher than anticipated investment interest income due to continued higher levels of interest rates. The Bank of England increased the base rate of interest 14 times in a row from December 2021 to August 2023 in a bid to tackle high inflation, reaching 5.25%, its highest level since the 2008 financial crash. That rate had remained unchanged through seven subsequent meetings and has been reduced to 5% by the latest meeting, held on 31<sup>st</sup> July. The next meeting will be on 18<sup>th</sup> September.
15. Based upon the available information, assuming current trends continue and new Government support is not forthcoming, the County Council's budget gap is set to grow from £33m in 2025/26 and could reach £100m by 2028/29. It is inevitable that the £81m of savings planned will have to increase significantly and that the County Council will need to give serious consideration to further Council Tax increases. The County Council will not be able to resolve this problem on its own; either expectations of what can be delivered will have to reduce or new funding found. £100m is almost one fifth of the Council's net budget.
16. The Council will continue to pursue efficiencies. However, it is clear that in the current climate, and on the back of the £262m of savings already delivered since 2010, it will not be possible to balance the Council's financial position without impacting on front line service delivery. Statutory responsibilities will have to be prioritised, and whilst there may be scope for assessing service levels, it will primarily be discretionary services where most savings will need to be identified.
17. The Capital Programme will also need to continue to be prioritised with only essential projects progressing. The revised four-year capital programme includes a shortfall in funding of £87m which will be funded by borrowing. The additional revenue costs arising from this borrowing total £7m per annum on the basis of internal borrowing.
18. The County Council has continued to press the Government to address the imbalance on relative funding levels between local authorities and will do so with the new government. However, the new government has not yet set out its position in relation to Fair Funding, although a Spending Review will be taking place later this year. Further information is expected in the Chancellor's budget on 30<sup>th</sup> October.
19. Furthermore, the financial situation also requires the Government to deal with the structural national issues around funding for those services, such as social care and Special Educational Needs and Disabilities (SEND), which are experiencing a relentless growth in demand. Proposals currently being pursued provide little comfort that the

financial pressures falling on local authorities such as Leicestershire will be reduced in the short or medium term.

20. It is vital that the County Council continues to act as quickly as possible to address its financial problems. The challenges being faced are being felt by most authorities, including the best funded, and the authorities unable to balance their budget first will ultimately face the biggest impact upon services. The number of authorities issuing Section 114 notices, or raising the prospect of doing so, continues to grow.
21. The Director of Law and Governance has been consulted on the content of this report.

### **Circulation under the Local Issues Alert Procedure**

This report will be sent to all Members.

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**PART B****2024/25 REVENUE BUDGET MONITORING – PERIOD 4**

22. The Period 4 revenue budget monitoring exercise shows a balanced position, after the use of a forecast net underspend of £6.4m to fund an increase in the capital programme risk contingency .
23. A summary of the position is summarised below and set out in more detail in Appendix A.

**REVENUE BUDGET MONITORING STATEMENT**  
**FOR THE PERIOD : APRIL 2024 TO JULY 2024**

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-3,010	-3,010	
Schools Budget – High Needs	0	23,450	23,450	
<b>Net Total</b>	<b>0</b>	<b>20,440</b>	<b>20,440</b>	
Children and Family Services (Other)	120,971	130,041	9,070	7.5
Adults and Communities	239,041	226,301	-12,740	-5.3
Public Health	-2,606	-2,606	0	0.0
Environment and Transport	107,691	107,891	200	0.2
Chief Executives	16,283	16,313	30	0.2
Corporate Resources	39,465	39,185	-280	-0.7
Capital Financing	17,400	16,800	-600	-3.4
Contingency for Inflation	25,537	19,137	-6,400	-25.1
Other Areas	-4,798	-10,978	-6,180	n/a
Contributions to earmarked reserves	15,000	21,640	6,640	44.3
Additional commitments (Capital programme risk contingency)	0	6,363	6,363	n/a
Contribution from budget equalisation reserve to balance 2024/25 revenue budget	-6,377	0	6,377	100.0
<b>Total</b>	<b>567,607</b>	<b>570,087</b>	<b>2,480</b>	<b>0.4</b>
<b>Funding</b>	<b>-567,607</b>	<b>-570,087</b>	<b>-2,480</b>	<b>0.4</b>
<b>Net Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	

24. The key projected variances that have been identified are set out below. Further details of major variances are provided in Appendix B.

**Children and Family Services – Schools Budget**

25. Overall a net overspend of £20.4m is forecast on the Dedicated Schools Grant (DSG). This comprises an overspend of £23.5m on the High Needs Block, offset by a forecast underspend of £2.5m on the Early Years Block, and an underspend of £0.6m on the

Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

26. The High Needs Block projected overspend of £23.5m in 2024/25 is £6.5m more than the £17.0m forecast included within the original MTFs due to a higher than budgeted number of High Needs students in both independent schools and mainstream schools.
- Overall there is a forecast overspend in the placement budgets of £5m as a result of an increase of 435 (7.1%) in the number of funded places, the significant increases are within mainstream schools which are forecast to be 16.2% above budget and Post-16 by 14%. Overall unit costs across placement types show a decrease. This is offset by a small decrease in the use of local specialist places. Independent placements are in line with expectations. Unit costs appear stable with some provision types being less than budget. An overspend on specialist teaching services and the Secondary Education Inclusion partnerships of £1m is also forecast. The department are undertaking further analysis to understand the reasons for the increase in numbers.
  - Additionally, latest figures published by the Department for Education (DfE) forecast a £0.5m reduction in 2024/25 High Needs DSG income. This is due to an increase in students placed in provisions outside of Leicestershire as at Spring census date than the same point the previous year. The County Council has challenged the level of grant reduction and is awaiting the outcome.
27. Nationally, concern over the impact of SEND reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, is growing. Whilst the Government's Green Paper is set to result in systemic changes to the national SEND system, such changes may take a number of years to deliver and none appear to address the funding issues.
28. Leicestershire is actively engaged within the DfE's Delivering Better Value (DBV) in SEND programme as a result of the DSG deficit. At the end of 2023/24 the accumulated High Needs deficit stood at £41.2m. The Transforming SEND in Leicestershire (TSIL) programme has moved to an implementation and sustainability phase and improvements created during the design stage are being rolled out; this programme and the DBV programme are closely aligned.
29. Without new interventions the High Needs block deficit is expected to continue to increase over the MTFs period and is not financially sustainable. This creates a significant and unresolved financial risk to the Council.
30. The Early Years budget is showing an underspend of £2.5m. The budget is based on the number of hours used to calculate the original 2024/25 Early Years DSG income in December 2023. The forecast hours paid to providers for 2024/25 are £6.3m more than the budget. £1.2m of this is due to there being 39 paid weeks in the financial year April to March, a period covering two academic years. The funding is based on 38 weeks. It is expected that this will balance out in a future year. Payments forecast are also expected to increase by £5.1m due to an increased number of children compared to the budget.

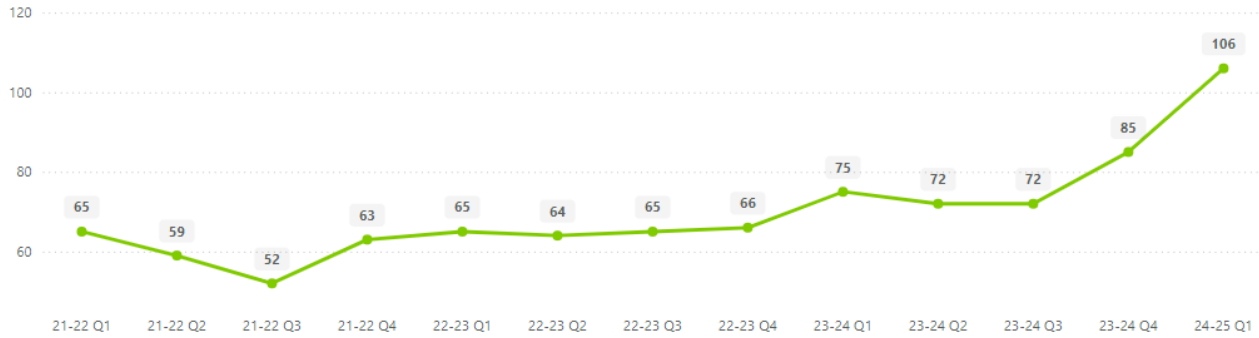
This is due to a higher number of 2-year-olds with working parents than originally forecasted by the DfE and a higher number of under-2s now being forecasted by the DfE.

31. The DSG grant has been increased to allow for the difference between the Spring 2024 census and the Spring 2023 census. There will be additional DSG income to fund the increase of 2-year-olds with working parents and the additional forecast for under 2-year-olds. The estimated increase to DSG Grant is £5.1m for the 2-year-olds with working parents, £0.55m for Spring 2024 census, £1.2m for under 2's and £0.37m relating to a prior year adjustment which being received this year. This gives a total increase of £7.3m for the DSG Grant.
32. There is also a planned underspend of £1.1m as part of the payback of previous years' Early Years deficits, and centrally managed budgets are forecast to underspend by £0.4m. The Early Years DSG deficit as at 31 March 2024 was £3.1m. The plan is to clear this deficit over 4 years. The DfE will recalculate the 2024/25 Early Years DSG income to allow for the Summer and Autumn Censuses which will count the additional 2-year-olds and under 2s, entitled to funding as part of the Early Years expansion.

#### Children and Family Services – Local Authority Budget (Other)

33. The Local Authority budget is projected to overspend by a net £9.1m (7.5%), mainly relating to projected overspends on the Children's Social Care Placements budget (£4.9m), Unaccompanied Asylum Seeking Children's budget (£2.1m), SEN Service budget (£1m), and Education Psychology Service (£0.9m).
34. The projected overspend on the Children's Social Care Placement budget (£4.9m) is largely due to change in demand / numbers in relation to children in residential provision, in comparison to budgeted assumptions. The MTFS for this financial year assumes budgeted residential numbers by March 2025 to be at 86 children (this includes parent and child placements). Trend and demand analysis at the time of budget setting, based on numbers between April 2021 to January 2024, indicated that the budgeted assumption of net demand of residential numbers growing to 86 by March 2025 to be reasonable and reflective of data-driven demand analysis. However, between the period of January 2024 and period 4, residential numbers increased rapidly to over 100 children. Current projections, based on current trajectory plans of children suggest children in residential provision could reach 112 by end of March 2025 (30% increase vs budgeted MTFS projection). The financial impact of this change in demand is significant.
35. The graph below shows a visual illustration of how demand in residential starts has changed over time, and the increase in demand from 2023/24 quarter 3.

Number of unique mosaic ID's requiring a residential placement at the end of the period.



36. The table below shows the difference in both projected numbers and weekly unit cost for some of the costliest placement types, comparing MTFS budgeted position to current projected position.

Placement Type	24/25 MTFS budgeted Assumptions		24/25 Current Projected Position		Budgeted vs Current Position - Difference	
	Numbers	Weekly Cost £	Numbers	Weekly Cost £	Numbers	Weekly Cost £
Residential Provision	86	6,181	112	5,880	26	-301
Independent Fostering Provision	150	926	142	964	-8	38
16plus Supported Accommodation (Non UASC)	77	1,666	80	1,900	3	234

37. The financial pressure is further compounded by market instability and provider choice which is resulting in children with a range of complex needs being 'unattractive' to the market (needs include violence and aggression as a result of experiencing trauma) and results in the use of high cost, £12,000+ per week per child, interim provisions until behaviour stabilises or another placement can be found. Other sufficiency issues impacting on budget pressure include a lack of step-down options from residential provision. There are approximately 16 children who have been waiting long periods for family-based placement, an increase of six from the position 12 months ago - with continued searches and work with providers to try to identify suitable provision. This is not helped by a low recruitment pipeline for mainstream carers nationally which particularly impacts on availability of placements for older children and those with more complex needs.
38. As part of the direct actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved alongside the Social Care Investment Programme (SCIP) working in partnership with Barnardo's. This will have a positive impact through the creation of additional residential provision capacity for under 16's, over 16's and parent and children places. The Council has been successful in obtaining additional capital grant funding (match funded by the Authority) to enable



investment in a number of properties creating provision for 20 plus placements over the MTFS of which two units are currently up and running with children placed and several other units to become operational very soon.

39. The £2.1m projected overspend position in relation to the Unaccompanied Asylum-Seeking Children (UASC) budget is largely due to the continued increase in UASC in care and care leavers, which has required a greater resource requirement to meet their needs. The impact of the development of dispersal hotels and the National Transfer Scheme (NTS) protocol development has resulted in an increase in the number of children who are UASC being accommodated by Leicestershire. Local authorities are mandated to receive UASC through the NTS if they are below their 0.1% threshold, which is calculated from the number of UASC funding claims (for under-18s) made by that local authority, and the latest ONS estimate of that local authority's total child population at that time. In Leicestershire's case, the 0.1% threshold currently equates to 140 Looked After Children UASC aged under 18. No consideration is given to the number of UASC care leavers aged 18+, which means the Council continues to have more demand for care leaver services and the current funding for care leavers decreases, but the demand grows. The Council continues to work with the East Midlands Council's Strategic Migration Partnership which continues to challenge the situation with the Home Office.
40. The number of UASC care leavers is projected to grow to over 200 plus by the end of the financial year, which includes a number of UASC Looked After Children who will have turned 18 in the next 6 months. In addition to the UASC care leaver numbers growing, the Council will also receive more referrals from the NTS as it is likely to fall below the 0.1% threshold level of 140 Looked after Children numbers. Overall this is a significant demand/financial pressure. The table below shows the change in demand over the last 3 financial years, and with demand likely to increase further over the period of the MTFS.

	UASC In Care (Under 18's)	Annual % Increase	UASC – Care Leaver (Over 18's)	Annual % Increase
Mar-22	60		69	
Mar-23	97	62%	112	62%
Mar-24	132	36%	163	46%
Jul-24	102	-23%	197	21%

41. The Special Educational Needs Assessment Service budget is currently forecast to overspend by £1.0m in 2024/25. Increased service demand and complexity has resulted in the need for additional service resources to ensure demand can be managed in the most efficient and effective manner. Although some growth funding was approved for 2024/25 this was insufficient to meet statutory responsibilities. A heavy reliance on agency workers to undertake Education, Health and Care Plan (EHCP) writing and tribunal work has resulted in a significant forecast overspend in this area. Meanwhile mediation costs remain high, adding to the forecast.
42. The Education Psychology service is projected to overspend by £0.9m in 2024/25. Difficulties recruiting into vacancies in this area has resulted in an increased reliance on

locums at a significantly higher cost. Increased demand due to an increase in the number of EHCP needs assessments has further impacted the overspend position.

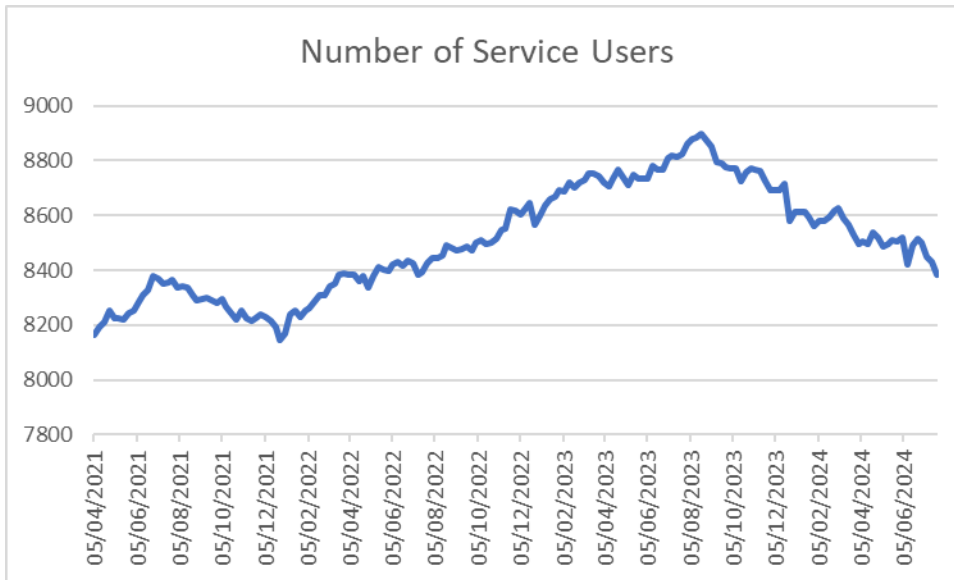
43. There is also an increased demand for social care children in need of financial support (Section 17/23 of Children's Act 1989), which supports children with challenging behaviour, as well as children with high needs 'on the edge of care' and therefore such preventative spend is seen as a more cost effective solution, avoiding the high costs of supporting children in the actual care system. The projected overspend on this budget for this financial year is projected to be £0.4m.
44. As a direct response to the projected overspends as described above, the departmental management team continue to lead on a review of non-statutory services supported by the introduction of corporate led financial controls. Taken together and with continued robust management and review of vacancies within the department the output of this work is projecting to deliver some net one-off in year efficiencies, and budget opportunities - £0.3m at this early stage, which includes delaying recruitment to non-essential posts where appropriate. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.
45. In light of the various financial pressures across the department, further mitigating actions (acting as key enablers in supporting both current and/or future MTFs savings / demand management) in place include:
  - a) Right service at the right time - ensuring reduced periods of care or care avoidance through family help and family support new models of working; and targeted interventions through exiting care by legal orders and step-down from residential interventions; refocusing resource on edge of care high need.
  - b) Improved oversight and sign off processes for those children with complex and escalating needs extending from Heads of Service to Assistant Director/Director level where appropriate.
  - c) Continued business activity introduced by the Defining Children's and Family Services programme focusing on children who have been referred to the Children and Family Services commissioning service for a placement and are likely to result in residential care due to market sufficiency issues or high need. This meeting is being extended to include foster care referrals received for children age 12+ who by virtue of their age and due to market pressures, are at risk of residential care.
  - d) Continued focussed management and review of vacancies within the department, with the output of this work projecting to deliver some one-off in year efficiencies and budget opportunities which includes delaying recruitment to non-essential posts where appropriate.

### Adults and Communities

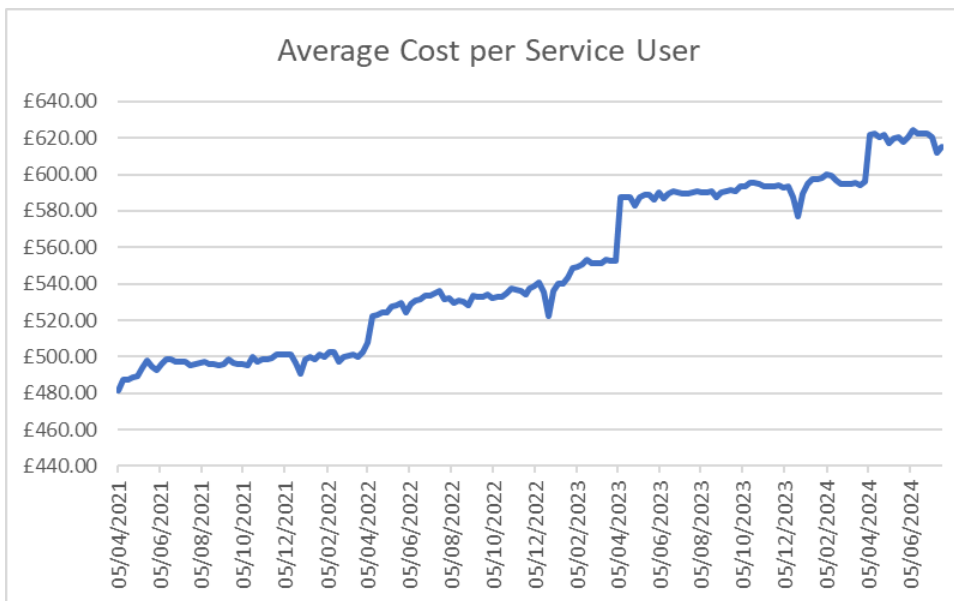
46. A net underspend of £12.7m (5.3%) is forecast for the revenue budget for 2024/25.

Overall Demand Trends

47. The chart below shows the overall number of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments and Community Life Choices from April 2021 through to June 2024. Typical growth would be approximately 1-1.5% per annum. However, current number of service users supported have now decreased to an annualised rate of 1.6% per annum since 2021. The department has worked to be more efficient with commissioning resulting in a decrease in number of service users of 2% since April 2023.



48. The average cost per service user rose over the same time period. The rise from April 2024 relates to the annual fee review uplift. Uplifts occur in April each year (except an additional one in October 2023 for residential care), and shows from May onwards.



49. Note the average cost per service user was not static and rose over the course of 2022/23 mainly driven by higher cost packages within residential care from market pressures to secure a placement and increasing hours being commissioned within Homecare from increasing numbers of discharges from hospital.
50. The department has established a wide-ranging demand management programme and a panel to review care packages since September 2023 which has started to have an impact on all commissioned services. It is still early in the financial year to be confident that these trends will continue.
51. The main areas of budget variance forecast in 2024/25 are:

Residential Care - £3.2m underspend

52. This underspend reflects a reduction in service user (SU) numbers in the previous few months compared to the expected level of SU numbers and accounts for £1.1m of the underspend. The forecast is based on 2,439 SUs per week costing an average of £1,074 per week. There is a significant increase in residential service user income which is mainly due to clearing a backlog of financial assessments which has generated an additional (£1.0m) one off income and there is additional health income (£0.5m) due to increasing numbers of service users receiving funding.

Homecare - £2.7m underspend

53. The number of home care service users and average hours has been falling since the introduction of the Fair Outcomes Panel in September 2023. The budget is based on an average of 2,690 SU per week. The latest forecast has an average 2,600 SU per week with an average cost per SU of £345 per week.

Direct Cash Payments - £2.5m underspend

54. The forecast underspend is mainly due to an 11% reduction in service users offset by a 13% increase in SU package cost. SU numbers have decreased since budget setting and levels of new SUs have halved, which is likely due to the effects of the Fair Outcomes Panel. The forecast is based on an average of 1,738 SU with an average cost of £474 per week and Carers averaging at 1,251 SU with an average cost of £53 per week. Market Sustainability and Improvement Fund grant has been received towards new SUs with increased personal assistant rates. This was implemented in August 2023 but has had a slow start with costs assumed to increase over the year.

Supported Living - £1.3m underspend

55. The forecast is lower than budget as there are less referrals being received, partly due to the level of vacancies within the Care Pathway but also alternative ways to commission are being pursued from the Fair Outcomes Panel and in group supervisory meetings. It is estimated that there will be an increase of approximately 35 service users over the course of the financial year. Two schemes are coming online with places of 16 and 15 respectively which should be allocated by the end of September.

### Community Life Choices (Day Services) - £0.9m underspend

56. The number of service users peaked in October 2023 and since then numbers have been decreasing rather than increasing which has been the historical trend.
57. The net underspends above are increased by a net £2.1m underspend mainly from staffing vacancies, grant income and other minor variations.
58. A robust demand management plan will continue to be in place during 2024/25 which will focus on managing demand particularly for homecare, including:
  - reviews of all service users' packages that have commenced or changed since April 2022
  - working with NHS partners to help improve the discharge pathway including reviewing funding arrangements
  - ensuring financial and funding assessments are undertaken
  - reviewing internal processes.

### Public Health

59. The department is forecasting to be on budget.

### Environment and Transport

60. A net overspend of £0.2m (0.2%) is forecast.
61. Across Highways and Transport operations a net £1.7m overspend is forecasted as a result of:
  - Mainstream School Transport - £1.0m overspend. Increase in overall number of students entitled to mainstream school transport and a rise in the number of routes. Bus operational costs have also increased resulting in higher contract costs, which combined with limited bus capacity, has resulted in a greater number of pupils being transported by taxi. Furthermore, additional costs are expected following DfE statutory change to Mainstream home to school transport policy, which becomes effective from September 2024.
  - Environmental and Reactive Maintenance – net overspend £1m in response to increasing demand for reactive repairs on a deteriorating road network. This is a statutory duty with works being undertaken in line with service policy.
  - SEN Transport – £0.7m overspend. Delays in receipt of applications for SEN transport leading to higher-cost procurement / spot-purchasing, combined with the effects of a shrinking transport sector. Also £0.1m shortfall in growth provision to meet the rise in the number of SEN transport journeys.
  - Social Care Transport / Passenger Fleet - net underspend £0.6m. Savings achieved from contract reviews plus £0.1m underspend arising from over-provision of growth to meet the rise in the number of commissioned journeys for Social Care Transport. Overall underspend on Passenger Fleet due to vacant driver and escort posts, net of additional vehicle hire and maintenance costs.

- Network Management - £0.4m underspend arising from additional Temporary Traffic Regulation Order applications.

62. Development and Growth services are forecasting a net £0.8m underspend due to vacancies across teams.
63. There is a net underspend of £0.6m forecast on Environment and Waste Management services. Additional income from the sale of dry recyclable materials (£0.6m), together with underspends arising from staffing vacancies (£0.1m) are offset by overspends on property and plant-related costs across the Waste Transfer Stations (£0.1m).
64. The remaining balance relates to £0.1m forecast underspends on department and business management due to staffing vacancies and reduced spend on software licenses.

### Chief Executive's

65. The Department is reporting a small net overspend of £30,000.

### Corporate Resources

66. There is a projected net underspend of £0.3m (0.7%) due to a combination of vacancies across several parts of the department and reduced commissioning spend. This is largely because of the introduction of tighter corporate led financial controls, together with existing robust management and review of vacancies within the department delivering a number of in-year efficiencies. This is offset by a contribution to the Investing in Leicestershire Programme (liLP) earmarked reserve (sinking fund) of £0.5m. This will help offset a forecast loss of £1.8m that will be funded from the sinking fund relating to the divestment of certain pooled property investments, explained in more detail within the liLP section later in this report.

### Central Contingencies

67. MTFs Risks Contingency (£10m original budget, £9.0m balance). £1m of the contingency has been released to provide temporary support to the Commercial Services budget. No further release of the contingency has been assumed in the projection. Monies that are not required to offset issues elsewhere in the 2024/25 budget will be transferred to corporate earmarked reserves to assist with addressing the projected budget gaps in future years.
68. Inflation Contingency (£36.1m original budget, £25.5m balance). The contingency is currently projected to be underspent by around £6.4m in the current year. This mainly relates to lower costs on the Adult Social Care Fee review than anticipated in the MTFs. The pay offer on the table at the moment for Local Government staff for the current year is lower than the assumption in the MTFs but given the fact that the Unions are urging their members to reject the offer the eventual cost of the settlement could be higher. The position on a number of other key requirements, such as energy and other running cost

inflation should become clearer as the year progresses so at this stage there is considerable uncertainty in this estimate.

69. Service Investment Fund (£0.2m original budget). This budget has been transferred for 2024/25 purposes to the Environment and Transport budget, to be used for flood investigation and scheme development work to address flooding as well as bidding for funding for project delivery. It will also provide capacity to administer Government flood-related grant funding.

### Central Items

70. The Financing of Capital budget is forecast to be £0.6m underspent, due to a reduction in interest payments following the early repayment of £10m of external debt principal in April 2024. Following high periods of inflation in the UK there had been an increase in the discounts available for the premature repayment of debt. At the start of the year the Council was £18m overborrowed against the capital financing requirement (the level of historic capital expenditure required to be funded).
71. Bank and other interest, £5.0m increased investment income. This is due to the Bank of England base rate levels being higher, and for longer than forecast, and higher than estimated average Council balances. The Bank of England base rate stands at 5.0% with market forecasts of future reductions now being later in the year. Average balances remain strong due to increases in earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance.
72. Central expenditure budgets are currently forecast to underspend by £1.2m. This comprises £1.0m relating to the cleansing of receipted aged purchase orders that are no longer required and £0.2m regarding a reduction to prior year business rates relating to Beaumanor Hall.
73. Additional contributions to corporate earmarked reserves of £6.6m. This relates to £3.2m to provide cover for the increase in the High Needs Block deficit, £2.4m from increased business rates income, as set out below, to be used to offset the anticipated gap in the MTFS projection in 2025/26, and a £1m contribution to the Transformation reserve, which is forecast to require additional funding over the MTFS period.
74. The Cabinet will be recommended to approve the use of the forecast net underspend of £6.4m to fund an increase in the capital programme risk contingency.
75. The approved MTFS projected a net gap in 2024/25 of £6.4m which was planned to be covered by a contribution from the budget equalisation reserve. Given the current forecast position, that contribution is forecast not to be required.

### Business Rates

76. Additional Business Rates income of £1.2m is forecast in 2024/25, based on the latest information from district councils on their NNDR1 forms and forecast section 31 grants.

The MTFS adopted a prudent approach and did not allow for potential real terms growth or for the full impact of inflation in charges to businesses and section 31 grants.

77. Additional Business Rates Pool levy income of £1.2m is forecast for 2024/25. The current forecast based on data in the NNDR1 forms shows a total of £23.0m, of which one third (£7.7m) will be allocated to the County Council under the revised treatment of Levies reported to the Cabinet in June 2023, compared with the forecast of £6.5m included in the 2024/25 budget. Monitoring of the 2024/25 business rates pool is being undertaken and an update will be provided in the next monitoring report.

### Overall Revenue Summary

78. At this stage the revenue budget is balanced after the transfer of £6.4m as set out below.
79. There are increasing pressures on the capital programme, through increasing construction costs and risks to future capital grants.

### CAPITAL PROGRAMME – CAPITAL REVIEW

80. Over the summer the four-year capital programme has been reviewed and refreshed to reflect the latest estimates and profile of capital schemes, new capital grants and other funding changes.
81. The original MTFS 2024-28 capital programme totalled £447m. This was increased at Period 2 (May 2024) to £497m after adjustments from the 2023/24 outturn due to the rephasing of expenditure on schemes, and new grants announced to Period 2.
82. Following the review over the summer the revised capital programme has been reduced to £494m. The changes are mainly due to a reduction in future years planned spend where the associated grant funding is now uncertain, offset by increases to some schemes. The increases to schemes are partly funded by additional capital grants and external contributions, but in some cases the Council has also had to use its own funding to finance the required levels of spend. Details are included in the following paragraphs.
83. The revised 4-year programme is summarised below, and shown in detail in Appendix C.

<b>Capital Programme Expenditure 2024-28</b>	Original 2024-28 Programme  £000	Updated 2024-28 (Period 2+ Outturn)  £000	Revised 2024-28 (Aug24 Refresh)  £000	Revised Programme Changes  £000
Children and Family Services	90,978	114,342	122,675	8,333
Adults and Communities	22,162	23,230	23,230	0
Environment and Transport	207,376	228,344	211,059	(17,285)
Chief Executive's	200	200	200	0
Corporate Resources	9,972	12,746	12,396	(350)
Corporate Programme	116,795	118,230	124,580	6,350
<b>Total</b>	<b>447,483</b>	<b>497,093</b>	<b>494,140</b>	<b>(2,952)</b>



<b>Capital Programme Funding 2024-28</b>				
Grant Funding/ Specific Contributions	215,852	255,217	237,833	(17,384)
Discretionary Funding – capital receipts/ Revenue/ Reserves	138,198	148,443	168,844	20,402
Discretionary Funding – borrowing required	93,433	93,433	87,463	(5,970)
<b>Total</b>	<b>447,483</b>	<b>497,093</b>	<b>494,140</b>	<b>(2,952)</b>

84. The key changes from the capital review are described below.

#### Children and Family Services

85. The overall programme has increased by £8.3m due to the following:

- SEND Capital Programme, £3.2m. Additional DfE High needs capital grant to expand special schools.
- School Accommodation Programme, £4.3m. Increased capital reserve contributions from the repayment of section 106 contributions previously forward funded.
- Music Hub Equipment, £0.5m. New DfE capital grant for music equipment in schools.

#### Adults and Communities

86. Minor reprofiling of spend but no other significant changes.

#### Environment and Transport

87. The revised capital programme has been reduced by £17.3m. The main changes are:

- Melton Mowbray Distributor Road (MMDR), £11.6m. This major scheme is a new 7.1km road construction around the North and East of Melton and is now approximately 50% complete with a planned completion date of early 2026. The original budget, agreed by the Cabinet in 2022, was £127.7m including a contingency of £11.6m which was held centrally. The latest forecast of scheme costs show that the contingency (held in earmarked reserves) is now required and this has been added to the scheme. There are, however, additional financial pressures and risks of up to £6m, which the project team are working with the contractor to reduce and mitigate. Cost pressures have arisen due to archaeological work being required, substantial ground soft spots, and adverse weather conditions leading to flooding along the new construction.
- Transport Asset Management (£29m). Removal of estimated future Network North grant funding. In October 2023, the then Prime Minister announced significant levels of new grant funding for 2023/24 and 2024/25, and indicative amounts for future years as part of an 11-year local road resurfacing and wider maintenance

programme on the local highway network, which in total could be up to £130m over the 11-year period. A total of £29m was included in the capital programme between 2025/26 and 2027/28. However, this funding is now uncertain and is under review by the new government. An update is expected in the Chancellor's Budget at the end of October. Given the increasing uncertainty it is prudent to remove the future year estimates and reassess the position post the Budget update as part of the MTFS refresh for 2025-29.

### Chief Executive's

88. No significant changes.

### Corporate Resources

89. Reduction of £0.4m on the Ways of Working, Office Infrastructure programme. Final spend on the programme is less than originally budgeted and can now be released. Other minor reprofiling of spend across other schemes.

### Corporate

90. The programme has been increased by £6.4m. The main changes are:

#### *Corporate*

- Capital Programme Portfolio Risk, £6.4m. Additional funding added to the portfolio from the forecast 2024/25 MTFS revenue outturn. Increasing financial risks through rising construction costs and uncertainties of future government grant funding.

#### *Investing in Leicestershire Programme (IiLP)*

- Airfield Business Park – major scheme to build new industrial units. Updated profile of spend following procurement resulting in £8m being reprogrammed to 2025/26, no change in the overall forecast scheme cost.
- Lutterworth East Sustainable Development Area – reduction in scheme costs of £1m following the Council's latest proposals to develop the site, approved by the Cabinet in June 2024. The funding released has been returned to the New Investments programme within the IiLP (part of the original £260m target of IiLP investments).
- Quorn Solar Farm. This project was reassessed earlier in 2024 and was removed from the capital programme in Period 2. An allocation of £0.25m has been set aside for works to secure the planning permission. Further details are provided in the IiLP update later in this report.

### Corporate Funding

91. Additional funding of £20.4m has been added to the capital programme during the summer refresh. This includes the £11.6m MMDR contingency from earmarked reserves, £6.4m from the forecast MTFS 2024-25 underspend and £2m released from a review of earmarked reserves.

### Capital Receipts

92. The estimated value and timing of capital receipts over the MTFS period has also been reviewed. Overall, there is a relatively small increase of £0.1m over the four-year period. £12m has been reprofiled from 2024/25, mostly to 2025/26, relating to the latest estimates of when capital sales will take place. This is mainly due to the latest profile of the sale of a farm in Melton - the estimated receipt is still expected in full but will now be phased in 2025/26 and 2026/27. Due to the rephasing of schemes across the wider capital programme this position can be managed.

### Borrowing Required

93. Overall, the net funding required for the programme has decreased by £6m following the review of the capital programme. This has reduced the overall amount of borrowing required to fund the capital programme to £87m (from £93m) in the original approved 2024-28 MTFS and will generate a new ongoing revenue saving of £0.35m per annum all other things being equal.
94. The additional funding has been released from a review of earmarked reserves over the summer (£2m), and an updated profile of the repayment of section 106 developer contributions previously forward funded corporately by the Council now expected to be received earlier than planned (£2.7m), reductions in funding required to some schemes and other minor changes.
95. The revised programme has also postponed when internal borrowing will first be needed to fund the capital programme, by one year from 2025/26 to 2026/27, and similar updated profiles in later years. This delays the cost of borrowing.

### Capital Summary

96. The review of the capital programme has resulted in updates to the capital programme for the latest known funding available and latest estimates of profiled spend. The revised four-year capital programme totals £494m.
97. The overall capital programme borrowing required has decreased by £6m to £87m overall. This will result in a £0.35m ongoing saving in reduced borrowing costs. The revised programme has also postponed when borrowing will be required to later years of the MTFS.

### Investing in Leicestershire Programme – Quarter 1, 2024/25 update

98. The Investing in Leicestershire Programme (IILP) is an integral part of the MTFS. Investments in property and other indirect holdings generate income that supports the Council's MTFS whilst contributing to the wider strategic objectives of the Council and the economic wellbeing of the area. The IILP Strategy is approved annually as part of the MTFS.

99. A summary of the IILP position at quarter one for 2024/25 is included within Appendix D and shows total forecast income of £8.753m for the year. The budgeted net income for 2024/25 is £8.6m, split between direct core holdings and diversifier investments as split in the table. This budget includes a contribution to the sinking fund of £1.5m in 2024/25. Which at the end of last year (2023/24) totalled £2.6m. The current plan intends to increase the amount held in the sinking fund to £6.7m by the end of 2027/28 assuming no large utilisation is needed.
100. The overall in year forecast net return for the liLP is 4.7% for 2024/25 when excluding the development assets still in construction and rural portfolio. Including these two asset classes reduced the forecast net income return to 3.0% for the year.
101. County Hall rents are included from 2024/25; the forecasted net income of £0.8m is likely to be £70,000 lower than budgeted owing to delayed commencement of a lease. A valuation of £8.9m has been allocated to the areas of County Hall let to third parties.
102. The diversifiers are indirect holdings with the purpose of reducing overall portfolio risk by investing in differing asset classes and geographies. Four separate types of investment are included: UK pooled property funds, a global infrastructure fund, three vintages of a pooled private (debt) credit strategy and a bank risk share strategy. The aim is to provide diversified income from a variety of differing sources.
103. One of the four pooled property funds within the diversifier's portfolio is in the process of being liquidated after large investors requested redemptions. The liquidation comes at a time when property prices have fallen as interest rates rose through 2022 and 2023. The liLP programme invested £7.5m in this fund in December 2015 and as at 31 March 2024 had a net asset value of £5.7m, a £1.8m capital loss if all the assets could be sold at the property managers valuation. The estimated loss will need to be funded by a contribution from the liLP (sinking fund) reserve. To offset some of the impact on the reserve an additional contribution to the reserve of £0.5m has been forecast within the Corporate Resources department revenue outturn for 2024/25, described earlier in the report. It is worth noting that the liLP fund has had £1.9m in income over the time of the investment and will continue to earn income whilst assets are sold.
104. The liLP is on target to achieve the budget for 2024/25 with the bank risk share investment within diversifiers having received income in quarter one equivalent to the full year target.
105. No new diversifiers were committed to last year although Partners' MAC 7 (private debt) has called capital totalling £5.6m through 2023/24 and has uncalled commitments which are likely to be called through 2024/25. The diversifiers' forecasted net income for this year is £3.1m which is £0.2m ahead of the budget. There is a combination of variances with pooled property lower than budget due to faster redemption of capital which is offset by higher than budgeted income from the bank risk share investment and private debt and infrastructure investments. These forecasts are based on current conditions which could change as the year progresses.

106. An independent review of the Fund was undertaken by Hymans Robertson in December 2023. The report recognizes the challenges faced by the property market resulting from higher interest rates and inflation over the past two years and acknowledged the challenges facing the market and the liLP. The report made a number of recommendations including setting ranges / limits on exposure to individual assets, tenants, property sectors and asset classes in order to guide the development of the portfolio. It also recommended the liLP explore opportunities to dispose of selected properties, partly to adjust property sector allocations but also to recycle funds into developments. The proposals are due to be discussed at the next liLP Board meeting in September. Any changes will be reported in future MTFs reports to the Cabinet.

### Quorn Solar Farm

107. The Quorn solar project has now been withdrawn from the Investing in Leicestershire Programme and as such forecast income from 2026/27 has been removed and will be replaced by other projects. It is intended that the site will now be marketed for sale or lease with the planning permission to build a solar farm to a purchaser. The decision to sell or lease the site to a prospective buyer is primarily based on the technical knowledge and experience required to build a solar farm in the timescale as determined by the grid connection the County Council has procured.

108. The Quorn Solar Farm has been an ongoing capital programme scheme under the liLP for a number of years. The financial background and changing landscape have meant that the scheme has not been progressed as initially envisaged and there are significant risks/uncertainties of progressing the original. In particular, the risks are:

- Financial (construction costs and electricity pricing)
- Grid connection (cost increases and ongoing network charges)
- Regulatory (potential for National Grid to revoke connection agreements)
- Design delays
- Procurement and grid connection timescales
- The potential market for the solar output
- Availability of appropriate project management resource

109. Most recently the project team has consulted with an external Energy Advisor to advise on the outcome of an option appraisal undertaken on the way forward given the risks set out above.

110. Three commercial options were explored in order to mitigate or manage these risks. The following options have been considered:

- a. **Third Party ownership/leasing option** - seek proposals for a third party to design, build, operate, maintain and own the project.
- b. **Third Party ownership with Corporate Power Purchase Agreement (CPPA)** – as the first but with the County Council contracting with the developer to procure the electricity produced.

- c. **Joint venture ownership with Corporate Power Purchase Agreement (CPPA)** – this would be as b. above, but with a minority equity stake (say 25%) alongside a CPPA and rental agreement.

111. Following further analysis and taking into account the advice received, it is considered that models b) and c), are considerably more complex and would require considerable time to negotiate and agree and therefore may not be achievable in the timescales without increasing the risks around planning and the grid connection.
112. The CPPA is agreed in advance and is usually CPI linked. The long-term contract secures a price and provides stability but if prices drop the County Council may end up overpaying. The value of the CPPA contract is not attractive enough to counter the delivery risk with these models.
113. The County Council has the ability to specify green energy through its existing purchasing routes. It currently purchases electricity from Total Energies via an ESPO electricity framework. ESPO forward purchase electricity up to 18 months in advance to take advantage of the low points in the market.
114. The County Council's consumption is placed in a 'basket' so that ESPO can forward purchase energy in the most cost-effective way. Aggregation exercises via frameworks allow for better rates to be negotiated and are more responsive to fluctuations in the energy market.
115. It is therefore recommended to pursue model a), the private sector-led commercial Option. While this model transfers all the return on investment of the Solar Farm to the private investor, it allows for a more certain (albeit lower) return on the development through a leasehold agreement and passes on all the risk in doing so. Investors are highly motivated to manage project risks and optimise their return on investment. Sites that have planning, grid and land are highly attractive. The County Council should be able to attract interested developers/investors to take over the site and receive an annual lease payment. A more detailed options appraisal has been considered by the liLP Board and contains commercially sensitive information. Depending on interest back from the market there may be other options to consider which are more economically advantageous. Members will be advised of the option which is ultimately progressed.

## **MTFS REFRESH 2025 - 2029**

### **National Position**

116. With the recent change of Government, there is an even greater level of uncertainty than usual. Whilst there have been some commitments to multiyear rolling settlements for local government, specific information about funding levels is limited at this stage. The budget announcement planned for the 30 October should provide more details.
117. In terms of what the Council does know, the new Chancellor of the Exchequer initiated a Treasury spending audit in July entitled "Fixing the foundations"

[https://assets.publishing.service.gov.uk/media/66ab7c2fce1fd0da7b59319a/E03171937 - Fixing the foundations - public spending audit 2024-24 - Web Accessible v2.pdf](https://assets.publishing.service.gov.uk/media/66ab7c2fce1fd0da7b59319a/E03171937_-_Fixing_the_foundations_-_public_spending_audit_2024-24_-_Web_Accessible_v2.pdf)

118. Headlines from this document were an apparent “£22 billion of unfunded pledges inherited from the previous Government this year”. The Chancellor has taken “difficult decisions” to find £5.5 billion of savings in 2024/25 and £8.1 billion next year.
119. The table below, taken from the above document, shows how it is expected that these savings will be delivered. The removal of automatic rights to Winter Fuel Payments and ending the Rwanda migration partnership are between them estimated to save £3bn. Another £3bn is expected to come from savings in central government departments’ expenditure limits. It is not known if or how any of these savings will impact on local government. Also of note is the postponement of the introduction of the adult social care funding reforms.

**Table 2: Immediate savings (£ millions)**

Department	Savings	2024-25	2025-26
All	Savings in departments to fund pay pressures <sup>1</sup>	-3,150	-3,150
	<i>of which: reduce administration budgets by 2%</i>	-225	-225
	<i>of which: stop all non-essential spending on communications</i>	-50	-50
	<i>of which: stop all non-essential spending on consultancy in 2024-25 and halve spending on consultancy from 2025-26</i>	-550	-680
DWP	Target Winter Fuel Payments at recipients of Pension Credit and certain other means-tested benefits from winter 2024-25 <sup>2</sup>	-1,400	-1,500
HO	End the Rwanda migration partnership and remove retrospection of the Illegal Migration Act	-800	-1,400
MHCLG	Cancel the Investment Opportunity Fund and other small projects	-70	-50
DHSC <sup>3</sup>	Do not proceed with adult social care charging reforms	-30	-1,075
DfT	Review the transport infrastructure portfolio, cancel A303 Stonehenge tunnel and the A27 schemes, and end the Restoring Your Railways programme	0	-785
DfE	Cancel the Advanced British Standard	0	-185
	<b>Total<sup>4</sup></b>	<b>-5,455</b>	<b>-8,145</b>
HMT	<i>Memo: NatWest retail offer<sup>5</sup></i>	<i>-100 to -450</i>	

<sup>1</sup>2024-25 savings assumed to be maintained in cash terms in 2025-26. 2025-26 budgets will be subject to Spending Review decisions.

<sup>2</sup>Winter Fuel Payments are classified as Annual Managed Expenditure (AME). Estimated savings sensitive to forecast take up of Pension Credit. Final savings will be certified by the OBR at the Budget taking account of any behavioural response.

<sup>3</sup>In addition, the government is reviewing the New Hospital Programme. Savings from this programme will be subject to this review.

<sup>4</sup>Totals may not sum due to rounding. Excludes savings from NatWest retail offer.

<sup>5</sup>Costs associated with a NatWest retail offer are not included in current forecast. This figure reflects the avoidance of a future loss of income from share sales should a retail offer take place. It assumes a retail offer of £1bn – £3bn in size, with a package of incentives for retail investors that equates to a discount to market price of between 10-15%. It does not take account of any other potential costs involved in such an offer or any discounts associated with potential institutional sales. For these purposes the offer is assumed to take place in and costs apportioned to 2024-25.

120. Going forward there will be an increased role for the Office of Budget Responsibility in overseeing Government spending plans. Also an Office for Value for Money is to be established to identify areas where Government spending can be stopped or reduced. A COVID corruption commissioner is to be appointed in order to identify and seek to recover funds claimed fraudulently during the pandemic.
121. The Autumn Budget itself will be based on “a set of non-negotiable fiscal rules.... alongside further difficult decisions on tax and spending”: The rules are:
- Treat taxpayers’ money with respect;
  - No increases to National Insurance, the basic, higher, or additional rates of Income Tax, or VAT for the duration of this parliament;
  - Fiscal rules to be met (move current budget into balance and reduce debt by the end of the forecast period).
122. The Chancellor also announced that a multi-year Spending Review would be launched at the October budget to set 2025/26 budgets and would conclude in spring 2025.
123. If public sector spending has to be reduced it is very likely that some areas such as the NHS and Schools will be protected, while others including local government are not. The Autumn Budget should provide some further clarity on the general position for local government as a whole but the position for the County Council will only be known when the Provisional Settlement is announced in December.
124. In the most recent meeting of the Monetary Policy Committee in August 2024 the base rate was reduced from 5.25% (a level it has been at for a year) to 5%. Whilst this has been driven by much lower recent rates of inflation, the Bank of England was keen to emphasise that inflation was not yet fully under control and as such rates will not see significant further reductions in the immediate future.
125. CPI inflation is currently at 2.2% and is expected to rise to around 2.75% by the year end and then to reduce again towards the 2% target.
126. Annual growth in employees’ average earnings stands at 5.4%. Public sector pay review bodies are reported to be likely to recommend pay awards of 5.5% for teachers and some NHS workers. The current Local Government pay award offer is below these levels for all but Grades 2 to 5. There is an increased risk that the pay award estimates in the Council’s current MTFS may not be sufficient.
127. UK GDP suffered a short-lived recession in the second half of 2023 but has shown growth of 0.7% in the first quarter of 2024 and 0.6% in the second quarter. GDP growth is ahead of the average of forecasts of 0.9% for 2024 and forecasts for 2025 show an average of 1.3%, with a range from 0.4% to 2.0%.
128. The UK unemployment rate has reduced in the latest quarter. The unemployment rate was estimated at 4.2%, 0.2% lower than the previous quarter but 0.2% above pre Covid-19 levels. The unemployment rate had generally been falling from late 2013 until the start of the pandemic. Thereafter it increased until the end of 2020 but had returned to pre-



pandemic rates. Unemployment rates by region show the East Midlands to be at 5.2%, higher than the national average of 4.2%.

129. Rising wages and continued relatively low unemployment levels will to some extent boost tax revenues although the ongoing higher level interest rates will increase the costs of servicing the national debt.
130. The previous Government allowed 19 councils facing budgeting difficulties in 2024/25 to capitalise amounts of revenue expenditure: Birmingham, Bradford, Cheshire East, Croydon, Cumberland, Eastbourne, Havering, Medway, Middlesbrough, North Northamptonshire, Nottingham, Plymouth, Slough, Somerset, Southampton, Stoke-on-Trent, Thurrock, West Northamptonshire and Woking.
131. Six of these councils are involved in statutory interventions by Government-appointed Commissioners: Birmingham, Croydon, Nottingham, Slough, Thurrock and Woking.

#### Leicestershire Position

132. The MTFS will be refreshed over the autumn, with a similar approach taken to that followed in previous years, namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. However, as with last year's MTFS, this will be done with greater urgency in the context of the serious financial position the County Council is facing, with a significant funding gap in 2025/26 (usually at this stage the following year's financial position would be balanced). There is also a great deal of uncertainty around the likely ongoing impact of inflation, the impact of other service reforms, e.g. SEND, as well as the Council's core income levels.
133. As well as the impact of inflation there are a number of other risks and challenges that will feed into the financial position.

#### Pay award

134. An offer has been made on the national employers' side of a pay award which is a fixed increase of £1,290 up to Grade 13 (equating to a range from 5.77% to 2.54%), and then 2.5% for Grades 14 and above. At this stage one Union has accepted the offer but the other two are launching formal ballots for industrial action, which will close in the middle of October. The national employers have responded to say that the offer is full and final.
135. The overall impact on the pay bill is estimated at around 3.9%. This will reduce the cost of the pay award compared with what was budgeted for, which will continue through the life of the MTFS. The current assumptions included regarding pay increases in 2025/26 and later years are for average increases of 3%. Each 1% equates to around £2m. As noted above, there is a risk that the current MTFS provision may not be sufficient but this will be modelled as part of the MTFS refresh.

#### National Living Wage

136. The National Living Wage (NLW) interacts with the impact of the pay award for internal staff. But there are additional costs associated with commissioned services, especially in

Adult Social Care. Each 50p increase on the rate adds approximately £10m to the Council's bottom line. The provision made within the corporate inflation contingency for the increased costs in 2024/25 was above the actual requirement, largely because the Adult Social Care fee review was lower than originally estimated due to falling inflation in early 2024. Significant provision was made for the 2025/26 to 2027/28 period, which will be reviewed as part of the preparation of the 2025-29 MTFS during the autumn. An announcement of the NLW for the next financial year is usually made alongside the Autumn Budget. The Government takes into consideration the recommendations of the Low Pay Commission, who are anticipating that the NLW from April 2025 will be between £11.61 and £12.18, with a central estimate of £11.89, compared with the April 2024 figure of £11.44.

### Running costs

137. The current MTFS allowed for running cost inflation of 4.5% for 2024/25 and 3% for 2025/26 onwards. The inflation assumptions reflect the impact of time lags, so the 4.5% used for 2024/25 reflects the relatively high inflation levels experienced in 2023/24. At present the assumption for 2024/25 is anticipated to be generally adequate but there are a number of significant inflation items which are still to be resolved over the coming months, and any amounts in excess of the provision made in the current MTFS will impact on the position for the new 2025-29 MTFS.

### Adult Social Care Reform

138. The current MTFS included provision for the potential impact of ASC Reform. As part of the Autumn Statement in November 2022, the Government announced that the reforms will be delayed by two years to October 2025. In July 2024, the new Government announced that it will not proceed with the reforms. However, it is not clear if there will be anything new that will replace them.

### Special Education Needs and Disabilities

139. The underfunding of SEND has caused a significant financial problem for the County Council for a number of years. At the time the budget was set, the cumulative deficit between SEND costs and High Needs funding was expected to reach £65m by the end of the current financial year and grow to £111m by the end of the MTFS. Predictions going forwards are uncertain, the latest forecast for 2024/25 shows a worsening position. The policy of the new Labour government in relation to SEND reform and DSG deficits is unclear.

### Services Demand

140. The existing pressures within the MTFS are continuing: this could require increases in growth and adverse in year budget variations for SEND, children's social care, and UASC services. When the MTFS is refreshed and extended for a year, 2028/29 in this case, the new year adds between £25m and £30m to the financial deficit.

Mitigations

141. There are also a number of factors that could potentially help mitigate the financial risks:

Council Tax	Permitted increase without a referendum is increased. The 2024-28 MTFS assumed maximum increases of 4.99% in 2025/26 and 2.99% in 2026/27 and 2027/28. The limit for 2025/26 will be confirmed as part of the 2025/26 Settlement due in December. A 1% increase in council tax precept would generate c.£4.0m for each year permitted. However, given recent lower levels of inflation there is unlikely to be any further room in the future.
Council Tax Collection funds net surplus	2025/26 currently includes a net £0.5m forecast. Latest forecasts show that a net surplus of £1.5m from 2024/25 will be available.
Business rate reset	Provision of £5m built in against the Government resetting the business rates baselines in 25/26, and a balance of £5m in 26/27. Very likely to be delayed beyond 25/26, with a £5m benefit to the overall budget (Figure will be reviewed in new MTFS and likely to increase due to higher than anticipated growth in business rates.)
Fair Funding Review	The review implementation date has been postponed several times and the policy of the new government in relation to funding reform is unclear. The County Council formed the F20 group that promoted a temporary solution for the worst funded councils, but the previous government did not progress it.
Business Rates (BR) Pool surpluses	The current MTFS does not include any forecasts for County Council shares from the BR Pool. The latest forecast for 24/25 is c£7.7m. If the Government undertakes a BR Reset exercise the BR Pool levy will be reset to around £0m.
Additional interest on cash balances	Upward movement on interest rates leads to greater returns on treasury management activity
Adult Social Care Grants	The 2024/25 budget includes additional Government funding for ASC. The MTFS assumes it was one off but there could be the possibility that this may continue.

142. The implications of the various issues described above will be assessed based on the latest emerging information over the coming months and fed into the December Cabinet report. However, despite reducing pressures from inflation and Adult Social Care, the medium to long term financial position remains dire and an initial estimate of the challenge is that the current MTFS projected gap of £83m will rise above £100m. Whilst this forecast will undoubtedly change, the scale of the challenge is highly unlikely to diminish to the point that the County Council would not need to take significant corrective action.

143. Facing a 2025/26 MTFS gap of £33m - which assumes currently programmed savings of £21m will be delivered, is concerning. And whilst there are some reductions in Adult

Social Care demand, the pressures on children's social care services appears to be increasing. Even this challenge pales into insignificance compared to the prospect of a gap exceeding £100m in 4 years' time.

144. To balance the budget the use of reserves or other short-term measures will undoubtedly be adopted by some authorities, as was the case with the County Council's 2024/25 budget, with £6m being required from reserves to balance the budget at that point. Whilst this can deal with short term problems of a one-off nature it does not solve the structural imbalance between income and expenditure that inflation and spending pressures are causing. It is vital that all resources are targeted at solving the problem rather than just delaying tackling it. Options would also need to include a review of the capital programme to cut back on activity in order to release reserves.
145. It is important that the savings that are already under consideration are progressed and delivered on as soon as possible. Furthermore, there will be a need to add in significantly more savings as part of the MTFS refresh in the autumn.
146. However, this will be insufficient to address the financial challenges ahead.
147. In order to identify further areas where savings can be made all departments are being asked to present options for how they could further reduce their budgets and accelerate delivery of existing savings under development. Savings will focus on options around cheaper provision, increased income, reduced demand and reviewing budgets where the escalated financial controls have reduced spend to identify if there is scope for longer term savings. However, this will be far from easy given the savings already being targeted and the significant savings delivered in previous years.
148. Crucial in progressing this is the need to push on crystalising the Savings under Development. The latest position on these is included in Appendix E.
149. Additional savings and reductions in growth will be brought forward for inclusion in the December Cabinet report. Growth will be subject to significant scrutiny to ensure future projections are robust. Additional growth will only be included for unavoidable demand driven pressures. Growth for service improvements is clearly unaffordable and so will not be included.
150. With respect to capital schemes and projects, there is no room for additional schemes to be added unless they are invest to save, related to end of life of assets needed for essential service delivery, or fully funded from external sources.
151. The updated capital funding gap totals £87m. With interest rates now having increased significantly the annual costs to fund the borrowing have increased and hence the funding gap needs to be reduced.
152. Core service capital schemes (such as Highways Maintenance and Schools) will be restricted to the annual capital grant allocations and banked developer funding only. And services such as ICT and Property will need to be focussed on maintaining service delivery rather than enhancing it. In some cases where it is possible, there will be a need

to until they can be delivered after inflationary or acute current cost pressures subside mothball schemes.

153. Whilst there will be a strong focus on identifying and driving out further efficiencies, the reality is that after £262m worth of savings having been made over the last 14 years there is limited scope. As such this work will also need to involve looking at service reductions across all service areas. Any non-statutory services, or those where service levels are above statutory minimum levels, will need to be considered for reduction or for being stopped following appropriate consultation being undertaken.
154. Many Councils are increasingly putting control measures in place to address overspends, the scale of which may depend on the severity of the financial position. In December 2023 the Council introduced a range of escalated financial controls which include:
- Additional approval requirements by Chief Officers for all recruitment
  - Reviewing agency and overtime spend by Directorate Management Teams to ensure it is essential for service delivery
  - Introduction of a Corporate Procurement Board to review all procurement activity over £100,000, and all exceptions to Contract Procedure Rules.
  - Restrictions on non-essential spend, which includes travel, training and stationery.
  - Restrictions on the use of consultants and special advisors
155. Given the MTFS position, the controls remain in place but are reviewed regularly. These controls do not replace the financial responsibilities that officers have in their roles. For the spend controls to be successful, continued ownership by everyone who has a part in spending or generating income is vital.
156. It should be noted that spending controls do not mean service cuts, although it should influence how services are delivered. Future savings will not be prioritised based on where spend was reduced through the controls and managers will need to consider the potential to make permanent changes to their services.

### **Planning Framework**

157. The key Government announcements in the coming months will be;
- The Autumn Budget Statement on 30<sup>th</sup> October.
  - The Provisional Local Government Finance Settlement expected mid/late December.
  - The multi-year Spending Review, to conclude in Spring 2025.
158. The broad MTFS timetable is:
- September to November 2024 – refresh growth, savings and capital including consideration by Lead Members.
  - 30<sup>th</sup> October 2024 - National Budget and National Living Wage announcements
  - 17<sup>th</sup> December 2024 – the Cabinet will be asked to approve the draft MTFS for consultation.
  - December 2024 – receipt of the Provisional Local Government Finance Settlement

- January 2025 – public consultation on the draft MTFS, including the Overview and Scrutiny Committees and the Scrutiny Commission.
- 7<sup>th</sup> February 2025 – the Cabinet will be asked to approve the final draft MTFS for submission to the County Council.
- 19<sup>th</sup> February 2025 – County Council will be requested to approve the MTFS for 2025/26 to 2028/29.

### **Equality Implications**

159. Public authorities are required by law to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between people who share protected characteristics and those who do not; and
- Foster good relations between people who share protected characteristics and those who do not.

160. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic (age; disability; gender re-assignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation) under the Equality Act 2010. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

### **Human Rights Implications**

161. There are no implications arising from the recommendations in this report. If aspects of the MTFS proposals relating to policy or service changes are likely to result in human rights implications then these will be considered at a formative stage in the development of those proposals and the Council will be required to demonstrate that it has paid due regard to these in its decision-making.

### **Crime and Disorder Implications**

162. Some aspects of the County Council's MTFS are directed towards providing services which will support the reduction of crime and disorder.

### **Environmental Implications**

163. The MTFS includes schemes to support the Council's response to climate change and to make environmental improvements. There is the potential for aspects of the MTFS and the challenges set out in this paper to affect the County Council's response to climate

change and environment improvements. An assessment of the impact of proposals will be undertaken prior to any final decisions being made.

### **Partnership Working and Associated Issues**

164. As part of the efficiency programme and changes to services, working with partners and service users will be considered along with any impact issues, and they will be consulted on any proposals which affect them.

### **Risk Assessments**

165. As this report states, risks and uncertainties surrounding the financial outlook are significant. The risks are included in the Corporate Risk Register which is regularly updated and reported to the Corporate Governance Committee

### **Background Papers**

Report to the Cabinet – 24 May 2024– 2023/24 Provisional Revenue and Capital Outturn  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7506&Ver=4>

Report to County Council -21 February 2024 – Medium Term Financial Strategy 2024/25 to 2027/28  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=7305&Ver=4>

### **Appendices**

Appendix A: Revenue Position as at Period 4, 2024/25

Appendix B: Revenue budget major variances

Appendix C: Revised Capital Programme 2024-28

Appendix D: Investing in Leicestershire Programme – 2024/25 Quarter 1 update

Appendix E: Savings Under Development

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