Agenda Item 7a

CABINET – 7 FEBRUARY 2025 (Revised - 6 February 2025)

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2025/26 - 2028/29

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to present the County Council's proposed 2025/26 to 2028/29 Medium Term Financial Strategy (MTFS) for approval, following consideration of the draft MTFS by the Cabinet in December 2024 and the Overview and Scrutiny bodies in January and receipt of the provisional Local Government Finance Settlement.

Recommendations

2. That the following be recommended to the County Council:

   (a) That subject to the items below, approval be given to the Medium Term Financial Strategy (MTFS) which incorporates the recommended net revenue budget for 2025/26 totalling £615.2m as set out in Appendices A, B and E of this report and includes the growth and savings for that year as set out in Appendix C;

   (b) That approval be given to the projected provisional revenue budgets for 2026/27, 2027/28 and 2028/29, set out in Appendix B to the report, including the growth and savings for those years as set out in Appendix C, allowing the undertaking of preliminary work, including business case development, engagement and equality and human rights impact assessments, as may be necessary to achieve the savings specified for those years including savings under development, set out in Appendix D;

   (c) That approval be given to the early achievement of savings that are included in the MTFS, as may be necessary, along with associated investment costs, subject to the Director of Corporate Resources agreeing to funding being available;

   (d) That the level of the general fund and earmarked reserves as set out in Appendix K be noted and the planned use of those earmarked reserves as indicated in that appendix be approved;

(e) That the amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2025/26 be as set out in Appendix M;

(f) That the Chief Executive be authorised to issue the necessary precepts to billing authorities in accordance with the budget requirement above and the tax base notified by the District Councils, and to take any other action which may be necessary to give effect to the precepts;

(g) That approval be given to the 2025/26 to 2028/29 capital programme, totalling £439m, as set out in Appendix F;

(h) That the Director of Corporate Resources following consultation with the Lead Member for Resources be authorised to approve new capital schemes, including revenue costs associated with their delivery, shown as future developments in the capital programme, to be funded from funding available;

(i) That the financial indicators required under the Prudential Code included in Appendix N, Annex 2 be noted and that the following limits be approved:

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Operational boundary for external debt i) Borrowing ii) Other long term liabilities	 201 6	 197 6	 232 6	 271 5
TOTAL	**207**	**203**	**238**	**276**
Authorised limit for external debt i) Borrowing ii) Other long term liabilities	 211 6	 207 6	 242 6	 281 5
TOTAL	**217**	**213**	**248**	**286**

(j) That the Director of Corporate Resources be authorised to effect movement within the authorised limit for external debt between borrowing and other long-term liabilities;

(k) That the following borrowing limits be approved for the period 2025/26 to 2028/29:

(i) Maturity of borrowing:-

	Upper Limit	Lower Limit
	%	%
Under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

(ii) An upper limit for principal sums invested for periods longer than 364 days is 20% of the portfolio.

(l) That the Director of Corporate Resources be authorised to enter into such loans or undertake such arrangements as necessary to finance the capital programme, subject to the prudential limits in Appendix N;

(m) That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2025/26, as set out in Appendix N, be approved including:

(i) The Treasury Management Policy Statement, Appendix N; Annex 4;
(ii) The Annual Statement of the Annual Minimum Revenue Provision as set out in Appendix N, Annex 1;

(n) That the Capital Strategy (Appendix G), Investing in Leicestershire Programme Strategy (Appendix H), Risk Management Policy and Strategy (Appendix I), Earmarked Reserves Policy (Appendix J) and Insurance Policy (Appendix L) be approved;

(o) That it be noted that the Leicester and Leicestershire Business Rate Pool will continue for 2025/26;

(p) That the Director of Corporate Resources, following consultation with the Lead Member for Resources, be authorised to make any changes to the provisional MTFS which may be required as a result of changes arising between the Cabinet and County Council meetings, noting that any changes will be reported to the County Council on 19 February 2025;

(q) That School funding is subject to a 0.5% transfer of funding to the High Needs Block of the Dedicated Schools Grant;

(r) That the Leicestershire School Funding Formula is subject to capping at 0.28% per pupil and continues to reflect the National Funding Formula for 2025/26;

(s) That delegated authority be given to the Director of Children and Family Services, following consultation with the Lead Member for Children and Family Services, to agree the funding rates for early years providers.

Reasons for Recommendations

3. To enable the County Council to meet its statutory requirements with respect to setting a balanced budget and Council Tax precept for 2025/26, to allow efficient financial administration during 2025/26 and to provide a basis for the planning of services over the next four years.

4. To enable early work to be undertaken on the development of new savings to address the worsening financial position.

5. That school budgets are capped at a per pupil gain of 0.28% necessary to undertake the 0.5% transfer of funding from the Schools Block to the High Needs Block of the Dedicated Schools Grant and to ensure they do not exceed the Schools Block Dedicated Schools Grant but continue to reflect the 2025/26 National Funding Formula.

6. To enable rates to be set for early years providers for 2025/26. The delegation will enable the rates to be set for the providers.

Timetable for Decisions (including Scrutiny)

7. On 17 December 2024 the Cabinet agreed the proposed MTFS, including the 2025/26 revenue budget and 2025/26 to 2028/29 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission then considered the proposals at their meetings in January 2025 (the comments of these bodies will be circulated separately – as Appendix Q).

8. The County Council meets on 19 February 2025 to consider the MTFS including the 2025/26 revenue budget and capital programme. This will enable the 2025/26 budget to be set before the statutory deadline of the end of February 2025.

Policy Framework and Previous Decisions

9. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 21 February 2024.

10. The County Council's Strategic Plan (agreed by the Council on 18 May 2022) summarises the Council's vision for Leicestershire through five strategic outcomes and a single line vision statement. The outcomes represent long-term aspirations for Leicestershire which may not be achieved in full during the four-year course of the Strategic Plan. Therefore, the Plan also includes specific aims for the Council to achieve by 2026 in order to progress towards each outcome. It also sets out some of the key actions which the Council will deliver to achieve these aims. The five outcomes are:

    - Clean, green future
    - Great communities
    - Improving opportunities
    - Strong economy, transport and infrastructure
    - Keeping people safe and well

11. The MTFS, along with other plans and strategies such as the Transformation Programme, the Capital Strategy, the Treasury Management Strategy, the Corporate Asset Management Plan and the Risk Management Strategy, aligns with these aims and underpins the Strategic Plan's delivery.

12. The Cabinet at its meeting on 13 September 2024 noted the significant financial challenges faced by the Council and inter alia agreed the approach to updating the MTFS.

Legal Implications

13. The Director of Law and Governance has been consulted on this report.

14. The Council's Constitution provides that the budget setting is a function of the County Council which is required to consider the budget calculation in accordance with the provisions set out in Local Government Finance Act 1992. This requires that there be a calculation of the total of the expenditure the Council estimates it will incur in performing its functions and will charge to the revenue account for the year, such allowance as the Council estimates will be appropriate for contingencies and the financial reserves which the Council estimates will be appropriate for meeting future expenditure.

15. The Council is required to set a balanced budget each year following the processes set out in the Local Government Finance Act 1992. The Director of Corporate Resources as the Council's section 151 Officer has a number of duties relating the Council's financial administration and resilience including to report on the robustness of the Council's budget estimates and the adequacy of its reserves. There is a further duty to issue a formal report if the s151 Officer believes that the Council is unable to set or maintain a balanced budget. In addition, there is a requirement set out in the Local Government Act 2003 and relevant regulations[1] for the council when carrying out its duties to have regard to the Prudential Code for Capital Finance in Local Authorities.

16. The Council is further charged with a duty to secure best value by making 'arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness'. This duty is supplemented by statutory guidance to which the Council must have regard.

17. The function of the County Council in setting its budget in due course will engage the public sector equality duty which is addressed in the Equality Impact Assessment (EIA) section below. An overarching and cumulative impact assessment will be available for the County Council when it considers the budget; it is important to note that the duty does not arise at a fixed point in time but is live and enduring and decision makers are required to have 'due regard' to the duty at each stage in the process although it is recognised that it is at the point in time when plans are developed to reconfigure or reduce services that the assessment is key.

18. The County Council as a major precepting authority is required to consult representatives of business rate payers and details of the budget consultation are set out below. There is no statutory requirement to undertake a public consultation on the MTFS but it is important to bear in mind that decisions which flow from the MTFS in relation to a change of provision or service may require adequate and proper lawful consultation before any decision is made as well as an equalities assessment to comply with the Public Sector Equality duty as referred to above.

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[1] Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

19. There is a requirement for the precept to be approved by the Council and notified to the billing authorities by no later than 1 March 2025.

20. Section 106 of the Local Government Finance Act 1992 applies; this means that a member who has not paid an amount due in respect of Council Tax for at least two months after it has become payable is subject to various restrictions if they attend a meeting at which matters relating to the calculation of the precept are considered. The effect of the restriction means that a member in this position must declare this fact and they cannot vote. It is an offence to vote or to fail to make this declaration.

Resource Implications

21. The MTFS is the key financial plan for the County Council. The County Council's financial position has been challenging for a number of years due to over a decade of austerity combined with significant growth in spending pressures, particularly from social care and special education needs. This was exacerbated by the impact of the Covid-19 pandemic and significant increases in inflation, to levels not seen for many decades.

22. The Chancellor's Budget announced on 30 October 2024 set out national spending totals for 2025/26 and a direction of travel in terms of future government policy, but provided little detailed information or certainty for the Council's MTFS. A Policy Statement was released on 28 November 2024 and the provisional 2025/26 Local Government Finance Settlement was announced on 18 December 2024. The changes to the Council's financial position arising from the settlement are included in this report.

23. The level of uncertainty in the MTFS continues to remain very high, driven by continued increased demand for services but particularly due to uncertainty over future funding. The scale of the challenge faced to balance the MTFS by year four is becoming harder each year given the level of savings already delivered. Whilst the government has promised a multi-year settlement from 2026/27, the direction of travel set out in the 2025/26 provisional settlement presents further risks for the County Council. The government has indicated a stronger focus on deprivation as part of funding reform proposals, which will not benefit Leicestershire if rurality is not also considered a significant factor. A consultation on funding reform was issued alongside the provisional settlement.

24. The current MTFS was unprecedented in that the first year was only balanced by the use of earmarked reserves to fund a gap of £6m, with a gap of £33m in year two rising to £83m in year four.

25. The position in 2024/25 has improved and as at December (Period 9) it is forecast that the £6m use of reserves will not be required, a further £6m can be set aside to support the capital programme and that an additional forecast underspend of £4m can be added to the Budget Equalisation reserve, to provide funding towards anticipated gaps in later financial years. There is, however, a significant overspend on Children's services (£8m) and the High Needs Block deficit has increased to £24m for the year. These are offset by the impact of demand management actions in Adult Social Care, a reducing impact of inflation

and increased investment income. Although the net result of these issues is an overall improvement when compared to the previous MTFS forecasts, the medium to longer term financial position of the Council still remains very difficult.

26. There are also a number of challenges in the Capital Programme, with increased costs on some major schemes due to the impact of inflation and weather-related delays, as well as additional pressures in Highways Maintenance.

27. This revised MTFS for 2025-29 projects a gap of £4.7m in the first year that (subject to changes from later information such as the final Local Government Finance Settlement) will need to be balanced by the use of earmarked reserves. There is then a gap of £38m in year two rising to £91m in year four. The gaps in the second, third and fourth years of the MTFS are particularly concerning, especially as a number of mitigations have already been included, such as future increases in Council Tax. To have a realistic chance of closing the gap the County Council will need to quickly identify additional savings or income generation options that allow 2026/27 to be balanced without the use of reserves. For this reason, existing financial control measures remain in place and the introduction of further measures are kept under review to ensure a tight focus on eliminating non-essential spend.

28. Delivery of the MTFS requires savings of £176m to be made from 2025/26 to 2028/29, unless service demand reduces, or additional income is secured. This MTFS sets out in detail £85m of savings and proposed reviews that will identify further savings to reduce the £91m funding gap on the main revenue budget and the £118m cumulative funding gap on the High Needs grant by 2028/29. High Needs expenditure within the Government grant going forwards has (in recent years) exceeded grant to the extent that a cumulative deficit of £65m is forecast by the end of the current financial year. Strong financial control, plans and discipline will be essential in the delivery of the MTFS.

29. To ensure that the MTFS is a credible financial plan, unavoidable cost pressures have been included as growth. By 2028/29 this represents an investment of £107m, primarily to meet the forecast increase in demand for social care. The MTFS also includes a net £92m provision for pay and price inflation in 2025/26 and later years. The majority of these pressures are unavoidable due to the nationally set National Living Wage and level of National Insurance, which has a significant influence on social care contracts, pay awards and increases to running costs driven by the levels of inflation. The financial impact of these, just in 2025/26, is estimated to be £20m with the inflationary uplift for Adult Social Care providers making up the majority of this additional cost.

30. Balancing the budget is an ongoing and increasingly difficult challenge. With continual growth in service demand recent MTFSs have tended to show two-years of balanced budgets followed by two years of growing deficits. This approach balances the need for sufficient time to identify initiatives that will close the gap without cutting back services excessively. The MTFS only forecasts a balanced budget next year after assuming the use of £4.7m of earmarked reserves to meet the gap, but the following three years are all in deficit.

31. It is concerning that the MTFS still shows considerable budget gaps, especially in 2026/27 (£38m). It will be a priority for reserves to be set aside to fully cover this gap to ensure that the County Council has sufficient time to formulate and deliver savings and supress service growth. A heightened focus on the County Council's finances continues to be required whilst this situation remains.

32. The draft four-year capital programme totals £439m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, social care accommodation and essential ICT and Property capital schemes. Capital funding available totals £355m, with the balance of £84m being temporarily funded from the County Council's internal cash balances, with external borrowing potentially being required in future years.

33. Whilst the Autumn Budget and Local Government Finance Settlement only set out detailed government spending plans for 2025/26, it is clear that spending has been front loaded and there are likely to be further reductions in government spending, in real terms, for unprotected departments beyond 2025/26. The Institute for Fiscal Studies (IFS) estimates that unprotected government departments, which includes local government, will see reductions in real terms of 1.4%. This will have a more significant impact on areas, such as Leicestershire, that are experiencing population growth.

34. Furthermore, the consultation on funding reform, released in December, sets out the government's intention to use deprivation as a proxy for need for allocating resources in the future, as well as placing more emphasis on a Council's ability to raise income. The consultation also sets out the intention to reset Business Rates from 2026/27, alongside a multi-year settlement. These changes are likely to lead to the Council receiving less funding than it does now, especially if the formula fails to acknowledge the impact of rurality on the cost of services.

35. Local Government Reorganisation may also have an impact on the Councils financial position in future years. The current budget proposals and MTFS assume the status quo, and so do not include any additional costs or savings which may arise from future reorganisation. If the Council does need to fund one-off costs necessary to support any changes, this is expected to be possible on a spend to save basis, which its strong balance sheet will facilitate. The exact source of funding will be considered when the nature and timing of re-organisation is known.

36. To deal with the challenges that the County Council has faced in recent years, as the lowest funded County Council, a proactive approach has been required. Given the heightened uncertainty from the Spending Review, funding reform and Local Government Reorganisation, the more important it is that the County Council keeps this focus. The level of change expected over the next 12 months is significant and the Council will need to be able to react and adapt to changes in the local government finance system and wider government policy.

Circulation under the Local Issues Alert Procedure

37. This report has been circulated to all Members of the County Council.

Officers to Contact

Declan Keegan, Director of Corporate Resources,
Corporate Resources Department,
(0116) 305 7668   E-mail Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director (Finance, Strategic Property and Commissioning),
Corporate Resources Department,
(0116) 305 7066   E-mail Simone.Hines@leics.gov.uk

PART B

Changes to the draft Budget proposed in December 2024

38. The report on the draft MTFS taken to the Cabinet on the 17 December provided a lot of detail on the Chancellor's statement, the national financial context, the local government financial settlement and expected service and funding reforms. That detail is not repeated in this report. Instead it focuses on what has changed since then. These changes are summarised in the table below:

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Shortfall at 17 December 2024	6.3	42.1	66.4	95.6
Funding changes				
Social Care Grants	-2.8	-2.8	-2.8	-2.8
National Insurance increases from April 2025	4.4	4.4	4.4	4.4
NI estimated compensation from Government	-3.6	-3.6	-3.6	-3.6
Council Tax – updated tax base	-0.1	-0.1	-0.1	-0.1
Council Tax Collection Funds (latest estimate)	1.0	0.0	0.0	0.0
Business Rates (NNDR1)	2.7	2.7	2.7	2.7
Other Changes				
Growth	-2.0	-2.0	-2.0	-2.0
Inflation / Savings	-0.5	-0.5	-0.5	-0.5
Financing of Capital	-1.8	-1.9	-2.8	-3.3
Bank and Other Interest	1.0	0.5	1.5	1.5
Service Investment Fund	1.0	0.0	0.0	0.0
Contribution to Reserves / Other	-1.0	-0.9	-1.0	-1.0
Contribution from Reserves (to balance 25/26)	-4.7	0.0	0.0	0.0
Revised Shortfalls	**0.0**	**37.9**	**62.2**	**90.8**

39. The changes are as detailed below:

- Social Care Grants (-£2.8m) increased allocation in the provisional settlement, which includes £51m compared with £48.2m anticipated in the draft MTFS. The national total is £200m higher than previously published.

- National Insurance. Increased costs arising from changes to NI from April 2025 on the Council's payroll amount to £4.4m. The Government has set aside £515m nationally to provide compensation and the County Council has been allocated £3.6m.

- The District Councils have provided tax base figures for 2025/26 which are slightly higher than the estimate included at the time of the Cabinet Report in December 2024. There will be an increase of £0.1m in the Council Tax precept.

- Council tax collection fund estimates for 2024/25 have now been received from the billing authorities and are £1.0m lower than the previous estimate.

- Business rates forecasts (NNDR1 forms) have been received from the District Councils. These show a lower forecast for “local shares” and section 31 grants of £2.7m compared with the estimates included in the draft MTFS reported to Cabinet in December.

- Growth – growth of £0.1m for the Chief Executives department has been moved to the Growth Contingency (G28 on Appendix C), as the department may be able to absorb the growth against underspends identified in the current year. There is also an adjustment to the growth item for ICT cyber security (G27) with a £0.2m reduction in 2025/26, again offset by an adjustment to the Growth Contingency. Given the change on business rates forecasts above, the growth contingency amount for 2025/26 of £2.0m has been removed to help offset the impact on the net overall budget.

- Inflation - £0.5m. The central inflation contingency has been amended for the latest information.

- Financing of Capital (-£1.8m in 2025/26 rising to -£3.3m in 2028/29). Reduction in borrowing costs following the early repayment of external debt undertaken in December 2024 and January 2025.

- Bank and Other Interest (£1.0m reduction in 2025/26 rising to £1.5m in 2027/28) due to lower cash balances as a result of the early repayment of debt.

- Service Investment Fund £1m. It is proposed that £1m be set aside for flooding improvement works in response to the flooding incidents experienced across the County.

- Contribution to Reserves - £1m. Monies previously included in this budget regarding Extended Producer Responsibility income now re-allocated to the Service Investment Fund for the purpose of flood works as set out above.

- The remaining budget gap of £4.7m in 2025/26 will be funded by a contribution from the Budget Equalisation earmarked reserve, to enable the Council to meet its legal duty to set a balanced budget for 2025/26 following the processes set out in the Local Government Finance Act 1992. The amount to be funded from reserves is subject to any changes in the final settlement announcement.

Final Local Government Settlement

40. The final Local Government Settlement has not yet been received and is due in early February 2025. Any significant changes will be reported to the Cabinet.

Spending Power

41. The Government uses a measure of core spending power in assessing an authority's financial position. The County Council's historic annual core spending power from the 2025/26 Provisional Settlement is shown below. The key thing to note is that over this period Revenue Support Grant (RSG) had disappeared completely by 2019/20 compared to a figure of £56m in 2015/16 (in 2013/14 RSG was £81m).

42. In compensation for these reductions, additional specific funding streams have increased.

Core Spending Power table (since 2015/16) Leicestershire County Council

	15/16 [1] £m		20/21 £m	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m
Settlement Funding Assessment: RSG [2]	56.2		0.0	0.0	0.0	0.0	0.0	1.2
Settlement Funding: Business Rates	60.5		64.4	65.1	68.2	75.2	80.0	81.3
Council Tax	233.4		319.3	336.9	351.6	374.2	397.9	422.5
Local Authority BCF [3]	0.0		17.2	17.2	17.7	17.7	17.7	21.8
New Homes Bonus	3.3		3.7	2.6	2.1	1.2	1.0	1.0
Social Care Grant	0.0		13.0	14.2	19.9	33.2	43.7	51.0
Market Sustainability	0.0		0.0	0.0	1.6	5.7	10.6	10.6
ASC Discharge Fund [3]	0.0		0.0	0.0	0.0	2.5	4.1	0.0
Services Grant	0.0		0.0	0.0	4.3	2.5	0.4	0.0
Domestic Abuse Grant [4]	0.0		0.0	1.1	1.1	1.2	1.2	1.5
CSC Prevention Grant	0.0		0.0	0.0	0.0	0.0	0.0	1.5
National Insurance Grant	0.0		0.0	0.0	0.0	0.0	0.0	3.6
Grants rolled in [5]	1.4		1.8	2.0	2.1	4.6	1.1	0.0
Core Spending Power	354.8		419.5	439.1	468.6	517.9	557.7	596.0

[1] 2015/16 has been the base comparator year used by central government to compare changes.
[2] RSG 2025/26 includes Extended Rights to Free Travel grant, previously a specific grant allocated to the Environment & Transport budget.
[3] Improved Better Care Fund and ASC Discharge Grants merged into Local Authority BCF grant from 2025/26.
[4] Domestic Abuse Safe Accommodation Grant has been rolled into CSP in 2025/26. The funding in earlier years has been included to maintain the integrity of CSP comparisons between years. The grant has previously been allocated to the Children & Family Services budget.
[5] Grants which have been consolidated into the Settlement, included in relevant earlier years to maintain the integrity of comparisons between years.

43. The table shows that 'core spending power' increased in cash terms by £241m (68%) from 2015/16 to 2025/26. However, most of that increase relates to Council Tax which has increased by £189m (a 81% increase), while Business Rates show a £21m (34%) increase and Government grants have increased by £31m (50%). With inflation historically running at circa 3% each year, and rising to averages of 10% in 2022/23 and 6% in 2023/24, the overall 68% increase represents a relatively small real terms increase but provides little allowance for increasing populations, the above inflation increases to the National Living Wage, the increase in employer's National Insurance from April 2025 and the significant increasing service demands local authorities are facing especially around social care services. This is particularly difficult for Leicestershire which continues to be

an area of one of the fastest growing populations nationally (1.6% between 2022 and 2023 compared with a national average of 1.0%).

44. Moreover, the Core Spending Power (CSP) measure assumes councils increase council tax by the maximum amount permitted, including raising the full adult social care precept. Whilst the County Council has always done this since the adult social care precept was introduced, it is mindful that in doing so it has raised council tax above inflation in some years.

45. The inherent problem with the current Government methodology to setting funding is that it takes no account of the relative funding position of individual authorities.

46. Given annual Government announcements on funding, and the proposed plans to reform the local government finance system generally, there are still significant risks due to the uncertainty of future funding levels.

Business Rates

47. The two main components of the business rates retention scheme income received by the County Council are the “baseline” and “top up” amounts. The baseline is the County Council’s share (9%) of business rates generated locally and the top-up is allocated to the County Council to compensate for the small baseline allocation.

48. When Government makes changes to the national Business Rate Scheme compensation for funding losses are made through a series of grants, referred to as Section 31 grants.

49. The MTFS includes an assumption that the total of the baseline, top up and Section 31 grant elements will be increased by 1.7% in 2025/26, in line with the CPI in September 2024, and that the increase will be partly received in the form of additional section 31 grant from the Government, as the Chancellor of the Exchequer has frozen the “poundage” charged to “small” businesses for 2025/26 at 2023/24 levels and has also extended reliefs to some sectors of the economy.

50. A forecast of £1m real terms growth in Business Rates in 2025/26 was assumed in the report to Cabinet in December, in addition to the inflationary increase above. The District Councils submitted 2025/26 NNDR1 forms at the end of January and these show a lower level of “local share” and section 31 income than previously forecast, leading to a reduction of £2.7m in the business rates forecast in the updated MTFS.

51. The previous Government had indicated its intention for a full reset of baselines in 2020/21 but this was postponed until 2021/22 and, due to the pandemic was deferred again until 2022/23. The Local Government Finance Settlement in December 2022 confirmed that the reset would be deferred again until at least 2025/26. The Government intends to undertake a full reset in 2026/27. The reset will result in Councils losing their share of accumulated growth. For the County Council this is projected to amount to around £10m per annum, although there is expected to be some form of transitional protection. The income to the Leicester

and Leicestershire Business Rates Pool (of which the County Council would receive around a third, subject to agreement of the Pool members) would reduce by circa £24m.

52. The Government introduced the Business Rates Retention System from April 2013 and as part of these changes local authorities were able to enter into Pools for levy and safety net purposes. Net surpluses are retained locally rather than being returned to the Government as would have been the case if no Pool had existed. The current pooling agreement allows for the surplus to be shared between the County Council, Leicester City Council and the seven District Councils. An estimate of £8m has been included in 2025/26 for the County Council's share of that year's levies, which forms part of the figure of £22.6m shown as the budgeted contribution to the earmarked reserves, to be used for economic priorities. But nothing has been included for later years due to the planned reset mentioned in the previous paragraph.

53. In total £92m has been retained in Leicestershire between 2013/14 and 2023/24, due to the success of the Business Rates Pool, with a further potential surplus for the pool of £22.1m forecast in 2024/25.

54. Due to the level of accumulated surplus, continued pooling in 2025/26 is expected to remain beneficial compared to not being in a pool, despite the wider economic challenges.

Council Tax

55. The Localism Act 2011 provides for referendums on any proposed increase in Council Tax which is defined as excessive (using definitions prescribed by central Government) which effectively gives a power of veto. A cap on the core increase of 3% is permitted for County Councils for 2025/26. In addition, the Councils will be permitted to raise an additional 2% to fund adult social care (the adult social care precept).

56. The most financially significant decision of any budget is usually the level that Council Tax will be increased by. This is not just a consideration for the current year, it affects the level of income available ad infinitum. Every 1% Council Tax is increased by is worth £4.0m to the County Council. The 2025/26 draft budget assumes a 4.99% increase, which would cost each household in a band D property the following:

Council Tax (Band D Property)	Main (Core)	ASC Precept	Total
Increase	2.99%	2.00%	4.99%
Cost Per Week	£0.92	£0.62	£1.54

57. This contributes significantly towards achieving a balanced budget. If this increase was not taken more service cuts would be the inevitable consequence, and the Council's taxbase would be permanently reduced, impacting the MTFS position for many years.

58. The Government has confirmed that it will require local authorities to adjust the presentation of the adult social care precept on council tax bills from 2025/26, so that they show a single line for the council tax increase set by social care authorities. This will simplify bills received by billpayers and also provide clarity on the total council tax increases set by local authorities.

59. The draft MTFS is based on Council Tax increases of 2.99% in 2026/27 and in each subsequent year. Subject to Government announcements there may be scope to raise additional amounts for both the core Council Tax and for the Adult Social Care precept in the subsequent years, but that would need to be assessed by the Council in light of the revised position in each refresh of the MTFS in future years, taking into account affordability

60. Council Tax base growth in 2025/26 of 1.12% is lower than anticipated in the current MTFS and the draft MTFS assumes increases of 1.5% in subsequent years.

61. Collection fund forecasts have been received from the district councils in January 2025 and show a reduction of £1m from the £2.5m net surplus included in the draft MTFS reported to the Cabinet in December 2024.

Budget Consultation

62. The County Council had undertaken its annual consultation on the draft budget. The consultation period ran from 18 December 2024 until 19 January 2025 and asked for view on the planned savings and growth included in the draft budgets as well as on the level by which council tax should be increased. A detailed report on the consultation outcome is attached as Appendix O.

63. Of those that expressed a preference on the Council's proposed growth and savings programme, the majority were supportive of the approach taken.

64. With respect to Council Tax, 46% of responses supported an increase of 3% or higher for the core element and 41% supported an increase in the adult social care precept element of 2% or higher.

65. There continues to be strong support for the Council continuing with its fair funding campaign to lobby Government to review the way funding is distributed between councils.

2025/26 - 2028/29 Budget

66. The 2025/26 budget is summarised in Appendix A and detailed in Appendix E. The detailed four-year MTFS is set out in Appendix B and E and is summarised in the table below.

Provisional Budget	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Services including inflation	578.7	611.7	651.2	695.3
Add growth	25.0	27.0	27.0	28.2
Less savings	-13.3	-10.0	-5.6	-4.6
	590.4	628.7	672.6	718.9
Central Items	5.9	8.0	10.8	12.7
	596.3	636.7	683.4	731.6
Contributions to:				
Earmarked reserves	22.6	9.7	8.8	11.6
General Fund	1.0	1.0	1.0	1.0
Contribution from Budget Equalisation reserve (to balance 25/26)	-4.7			
Total Spending	**615.2**	**647.4**	**693.2**	**744.2**
Funding				
Business Rates	-100.4	-84.0	-85.4	-86.9
Council Tax	-424.0	-442.1	-462.2	-483.1
Central Grants	-90.8	-83.4	-83.4	-83.4
Total Funding	**-615.2**	**-609.5**	**-631.0**	**-653.4**
Shortfall	**0.0**	**37.9**	**62.2**	**90.8**

67. The MTFS shows a shortfall of £4.7m in 2025/26, which will need to be met by a transfer from the Budget Equalisation earmarked reserve. There are shortfalls of £38m in 2026/27 rising to £91m in 2028/29. As set out in the following section there is a range of initiatives currently being developed that will aim to bridge the gap.

68. The Council maintains a range of earmarked reserves which are held to cover identified risks or for specific future projects. The Budget Equalisation reserve is held as contingency for the risks and uncertainties in the Medium-Term Financial Strategy and to smooth the impact of budget gaps across the strategy. Given the significant gap of £38m in the MTFS from 2026/27 it is even more important that this reserve retains at least sufficient balance to cover that gap in the event that newly identified savings have a longer implementation time. After accounting for the £4.7m required for the 2025/26 gap, this reserve does have a sufficient balance to fund the gap currently forecast for 2026/27 but this would only be called upon if other mitigations are not successful or take longer to deliver. The use of reserves to balance the budget gap is not a sustainable position and so urgent attention will need to be given to identifying further savings or income generation opportunities that can be delivered from 2026/27 onwards.

Savings and Transformation

69. The Council is not optimistic that additional government funding may be made available to reduce the gaps outlined in the previous paragraph, especially given

the direction of travel with funding reform, so it is clear that significant additional savings will still be required on top of the £33m that have been identified, £13m of which are to be made in 2025/26.

70. This is a challenging task, especially given that savings of £276m have already been delivered over the last fifteen years. This was initially driven by the real terms reduction in Government grants, which is in excess of £100m since 2010. In recent years, service demand pressures have become the main driver.

71. The identified savings are shown in Appendix C. The main proposed four-year savings are:

- Children and Family Services (£16.9m). This includes savings of £0.9m and £12.7m from the second and third phases of the defining CFS for the future programme, £2m from the innovation partnership and £1m from reduced care costs through growth of internal family-based placements.
- Adults and Communities (£8.3m). This includes £4.0m from increased Better Care Fund income and £0.6m from alternatives to homecare.
- Public Health (£0.1m) from the review and redesign of several service areas.
- Environment and Transport (£4.5m). Savings include £2.0m from the assisted transport programme.
- Chief Executive's Department (£0.3m). This includes savings from reviews of several service areas and additional income.
- Corporate Resources (£3.2m). This includes savings of £0.7m from ICT efficiencies, £0.7m from the ways of working office programme and £0.5m from the customer and digital programme.

72. Of the £33m identified savings, efficiency savings and additional income accounts for £32m, and can be grouped into four main types:

a) Service re-design and delivery (£10m)
b) Better commissioning and procurement (£13m)
c) Other (£1m)
d) Additional income (£8m)

73. Further savings or additional funding will be required to close the budget shortfall of £38m in 2026/27 rising to £91m in 2028/29.

74. It is estimated that the overall savings requirement would lead to a reduction of around 200 posts (full time equivalents) over the four-year period. However, it is expected that the number of compulsory redundancies will be much lower, given the scope to manage the position over the period through staff turnover and vacancy control. Demand management in the Council's social care services will be critical to achieving a balanced MTFS and may help minimise the impact on employees.

75. The development and ultimate achievement of these savings was already challenging, following more than a decade of austerity, which was then exacerbated by the impact of the pandemic and then rising inflation. Whilst

inflation is now falling, it is at a slower rate than previously expected and higher costs are now baked into the Council's cost base and so will have a long-term impact.

76. The MTFS also includes the High Needs Block Development Plan which is reducing costs through increasing local provision of places, practice improvements and demand reduction initiatives. The aim of the programme is to ensure that the expenditure can be contained within the allocation through the Dedicated Schools Grant. Savings of £52m are planned over the MTFS period.

77. Despite these savings, the High Needs Block deficit continues to grow and is an increasing concern, especially as the government has not yet set out any plans to extend the Statutory Override beyond March 2026 or announced any alternative proposals. The provisional settlement did not provide any clarification on government's plans for SEND reform. Further details are provided in the Dedicated Schools Grants section of the report below.

Closing the budget gap over the medium term

78. It is clear that the Council, like many other local authorities, faces a significant financial challenge, and urgent attention will need to be paid to identifying further savings or income generation options to close the gap over the medium term. Whilst reserves are likely to be needed to close the budget shortfall for 2025/26, this can only be a short-term measure and with a growing financial gap in future years this is not a sustainable approach to balancing the budget.

79. The Council's strategic change portfolio currently encompasses more than 150 change initiatives, projects and programmes of varying size, scale, and complexity. These initiatives collectively contribute to meeting the savings targets outlined in the existing MTFS but will need to go further, identifying, designing and implementing additional opportunities for change.

80. To help bridge the gap several initiatives are being investigated to generate further savings or income generation and these are being prioritised to ensure that Council resources are focused on the initiatives that will have the greatest impact. The activity already underway can be broadly categorised as:
    - Progressing significant cross cutting initiatives – Sustainable Support Services, Prevention, and Customer Programme
    - Savings Under Development (outlined below)
    - Focus on demand management – given that a significant proportion of growth in the MTFS comes from increase demand for services, ways to reduce that demand in the future will be pivotal, particularly in social care
    - Income generation
    - Spend Controls – escalated operational controls remain in place to ensure robust financial management

81. Outlines of the Savings Under Development have been included as Appendix D. Once business cases have been completed and appropriate consultation and assessment processes undertaken, savings will be confirmed and included in a

future MTFS. This is not a definitive list of all potential savings over the next four years, just the current ideas being developed.

82. It is unlikely that the Savings Under Development at Appendix D will be sufficient to close the current forecast gap of £91m even if they are all achieved to their maximum potential.

83. It is expected that the strategy to close the budget gap and ensure the Council remains financially sustainable will need to go wider than transformation of services and focus on the following activity:

- Service Redesign and review of policies to focus on essential spend
- Reassessing Council priorities, refreshing the Strategic Plan alongside the MTFS to focus spend on the services that are most important to residents and ensure it can adapt to any changes from the Spending Review in 2025.
- Effective procurement, a root and branch review of how the Council spends its money and efficiency expectations on suppliers of goods and services.
- Spend Controls – further escalations to tighten corporate oversight on spending
- Work with partners to ensure service responsibilities and funding are aligned

84. There are some specific actions that will be undertaken in the Spring of 2025 to move forward delivery of the MTFS. These include:

- Refresh of the Strategic Plan
- Agree realistic savings targets for the cross-cutting workstreams set out above
- Plan the full public consultation on the Strategic Plan and MTFS in early summer 2025
- Complete a review and prioritisation of the Transformation Programme with external support to identify areas that could be targeted.
- Redesign the oversight process to ensure effective challenge of the MTFS process and Directorate spending plans is in place
- Fundamental review of the Capital Programme and financing strategy
- Robust control of external cost drivers

85. As mentioned above, several substantial cross-cutting change programmes are in progress to enhance the efficiency of the Council:

- The Prevention Review programme involves a systemic examination of prevention activities undertaken across the Council and its partners, aiming to reduce unnecessary expenditures and alleviate demand on higher-cost services. The Council has commissioned external support for this programme and phase 2 has now commenced.
- The Customer programme focuses on streamlining and modernizing customer contact through improved practices, automation and technology.
- The Sustainable Support Services Programme will ensure the optimal allocation of internal support resources and processes to enhance compliance and reduce costs. This is currently focusing on the Children and Families service before being expanded to other areas.

86. There will need to be a renewed focus on these programmes during the next few months to ensure that savings are identified and delivered to support the 2026/27 budget gap. Given the scale of the financial challenge, focus will be needed to prioritise resources on the change initiatives that will have the greatest impact, and work is already underway to do this.

Growth

87. Over the period of the MTFS, growth of £107m is required to meet demand and service pressures with £25m required in 2025/26. The main elements of growth are:

- Children and Family Services (£56.9m). This is mainly due to £44.5m for pressures on the Social Care placements budget arising from increased numbers of Looked After Children, and £11.2m for unaccompanied asylum seeking children, from increased demand and cost pressures.
- Adult Social Care (£14.7m). This is largely the result of an ageing population with increasing care needs and increasing numbers of people with learning disabilities and mental health issues.
- Environment and Transport (£21.0m). This mainly relates to increased service user numbers and costs for Special Educational Needs (SEN) transport (£9.6m), the anticipated costs of the introduction of an emissions trading scheme (£6m), highway maintenance increased requirements (£2.2m) and increased requitements for mainstream school transport (£1.2m).
- Corporate Resources (£0.5m) for ICT cyber security.
- Corporate Growth (£14.1m). This has been included to act as a contingency for potential further cost pressures in the later years of the MTFS. The amount has been set based upon historic levels of growth incurred. The contingency reflects that it is not possible to specifically identify all of the growth before the first year of a four-year MTFS.

88. Details of proposed growth to meet spending pressures are shown in Appendix C.

Inflation

89. The Government's preferred measure of inflation is the CPI. In December 2024 this was 2.5%. The Office for Budget Responsibility (OBR) expects inflation to increase to 2.6% in 2025/26 and then decrease to 2.2% in 2026/27, 2.1% in 2027/28 and 2028/29 and then to match the 2% target in 2029/30.

90. However, the Council's cost base does not always reflect CPI. Energy and fuel increases, for example, have a much more significant impact. The draft MTFS therefore assumes 3% per annum in each year.

91. The impact of the National Living Wage (NLW) is particularly significant. In recent years social care costs have been driven up by its continued increases, for which an additional provision has been made. The NLW also has a significant impact on the Council's pay costs.

92. The main local government pay awards in 2024/25 have been based on full-time staff receiving an increase of £1,290 up to Grade 13. This equates to a range of increases from 5.77% increase for staff on the first Grade to 2.54% for staff at the top of Grade 13. Staff on Grades 14 and above have received an increase of 2.5%. The average across the whole pay scale is around 3.9%. The MTFS provides for an estimated average pay award increase of 3.5% in 2025/26, with higher percentage increases in lower grades. The MTFS assumes average increases of 3.5% in 2026/27 and later years.

93. It is of note that the remit of the Low Pay Commission has been expanded beyond simply setting the NLW as a floor of two-thirds of median hourly earnings. The remit now includes recognising the importance of boosting low earnings, creating the potential for increases to exceed the floor. The government will create a body to set pay and conditions for adult social care staff in England should its Employment Rights Bill become law, alongside a raft of more general employment reforms. Both of these interventions are expected to increase costs above the level in the MTFS and no funding have been identified by government.

94. National Insurance changes from April 2025 will impact on both the Council's own pay bill and the charges from service providers and suppliers. The Government has stated that it has set aside £515m nationally to provide compensation to local authorities, and the Final Settlement shows that the Council will receive £3.6m.

95. The increased costs from providers and suppliers will have to be met by the Council and provision has been made in the central inflation contingency for this additional cost. This is expected to be in the region of £20m for 2025/26 alone, with the inflationary uplift for Adult Social Care providers being the most significant element of this, driven by the NLW and National Insurance increases which have not been fully funded.

96. The Leicestershire Local Government Pension Scheme (LGPS) is currently preparing for its next triennial actuarial assessment which will set rates from 2026/27. Whilst it is too early to give any clear steer on the outcome of the exercise, it is hoped that the improved funding position of the fund will enable some level of reduction in the Council's contribution rate. The position will be reviewed in future MTFS refresh exercises.

97. Detailed service budgets for 2025/26 are compiled on the basis of no pay or price increases. A central contingency for inflation is to be held, which will be allocated to services as necessary.

Central Items

98. Capital financing costs are budgeted at £14.8m in 2025/26, £15.0m in 2026/27 and 2027/28 and are then expected to rise to £16.0m in 2028/29, as a result of the increasing financing requirement for the capital programme.

99. Interest income relating to Treasury Management investments is budgeted at £12m in 2025/26 and is estimated to reduce to £5m by 2028/29 as balances are

reduced to fund internal borrowing for the capital programme and interest rates are expected to fall. Whilst the Council has benefitted, and continues to benefit, from high interest rates, this will reduce in later years of the MTFS.

100. Central grant income in the 2024/25 budget totalled £69.9m. The projected total of £90.8m in 2025/26 reflects the following changes:

- £7.3m additional Social Care Grant
- £6.3m Extended Producer Responsibility funding (new)
- £3.6m Compensation for National Insurance changes
- £1.5m Children's Social Care Prevention Grant (new)
- £1.4m Domestic Abuse Safe Accommodation Grant, previously a specific grant to the C&FS budget
- £1.2m Revenue Support Grant – mainly Extend Rights to School Transport grant, previously a specific grant to the E&T budget
- (£0.4m) removal of remaining balance of Services Grant

Health and Social Care Integration

Better Care Fund (BCF)

101. The importance of the Better Care Fund was detailed in the December Cabinet report. The value of 2024/25 BCF funding for Leicestershire is shown in the table below. The announcement of funding for 2025/26 is awaited.

	2024/25 £m	
NHS Minimum Allocation	51.5	Level mandated by NHS England
Discharge Fund	8.5	Allocated to both ICBs and local authorities to support safe and timely discharge from hospitals
IBCF	17.7	Allocated to local authorities, specifically to meet social care need and assist with alleviating pressures on the NHS, with emphasis on improving hospital discharge, and stabilising the social care provider market.
Disabled Facilities Grant	4.8	Passed to district councils
Total BCF Plan	**82.5**	

102. In 2024/25, £22.9m of the NHS minimum allocation into the BCF will be used to sustain adult social care services. The national conditions of the BCF require a certain level of expenditure to be allocated for this purpose. This funding has been crucial in ensuring the Council can maintain a balanced budget, while ensuring that some of its most vulnerable users are protected; unnecessary hospital admissions are avoided; and the good performance on delayed transfers of care from hospital is maintained.

103. In addition to the required level of funding for sustaining social care service provision, in 2024/25 a further £7.9m of Leicestershire's BCF funding has been

allocated for social care commissioned services. These services are aimed at improving carers' health and wellbeing, safeguarding, mental health discharge, dementia support and crisis response.

104. The balance of the NHS Minimum Allocation £20.7m is allocated for NHS commissioned out-of-hospital services. The County Council commissions community care services on behalf of the NHS through shared care and joint funding arrangements. The Council is reviewing these arrangements alongside the provision of Continuing Health care and Funded Nursing care to ensure residents are receiving optimal care and it is funded appropriately.

105. Any reduction in the funding for social care from the BCF would place additional pressure on the Council's MTFS, and without this funding there is a real risk that the Council would not be able to manage demand or take forward the wider integration agenda.

Other Grants and Funds

106. There are a number of other specific grants included in the MTFS, some of which are still to be announced for 2025/26, for example:

- Public Health – estimated £28.3m.
- Asylum Seekers – estimated £8.5m.
- Pupil Premium – estimated £5.4m.
- Education & Skills Funding Agency – estimated £4.1m.
- Children & Families Grant - £3.1m announced alongside Provisional Settlement, combines several grants, including Troubled Families
- Universal Infant Free School Meals – estimated £2.3m.
- Music Education Hubs Grants – estimated £1.5m.
- PE and Sports – estimated £1.3m.
- Bus Service Improvement Plans – estimated £6.5m.
- Household Support Fund – estimated £6.5m.

Dedicated Schools Grant Settlement 2025/26

Schools Block

107. School funding remains delivered by the National Funding Formula (NFF) which funds all pupils at the same rate irrespective of the authority in which they are educated. The NFF uses pupil characteristics each with a nationally set funding rate to generate school level funding to local authorities, as such all local authorities are funded equally. However, within the NFF only the per pupil entitlement is universal to all pupils with other factors reflecting the incidence of additional pupil needs such as deprivation and low prior attainment. Whilst all authorities are funded equally, funding levels between local authorities and individual schools within those local authorities vary purely as a result of the proportion of pupils with additional needs. Nationally basic per pupil funding accounts for 74.6%, additional needs 17.8% and school led & premises funding 7.6% of the NFF.

108. The DfE has taken further steps towards the full implementation of the NFF in 2025/26 by requiring local authorities to be within + /- 2.5% of the nationally set NFF levels and only use these factors within their local funding formula, the Leicestershire Funding Formula meets these criteria. Tightening of the criteria for the NFF has required Leicestershire to seek permission to continue to fund rental costs in some small schools and maintain the approach to funding schools undertaking and affected by age range changes by adjusting pupil numbers which has been in place since 2013. With these exceptions, assuming approval from the DfE, the Leicestershire funding formula remains fully in accordance with the NFF.

109. The Secretary of State has approved a transfer of funding from the Schools Block to the High Needs Block of the Dedicated Schools Grant (DSG) 2025/26. In total £2.8m will be transferred from the Schools Block to the High Needs Block to establish a SEND Investment Fund targeted at building capacity in mainstream schools to address the needs of pupils with Social, Emotional and Mental Health Needs (SEMH). School budgets have been submitted to the ESFA for validation.

110. The 2025/26 Schools Block DSG settlement is £559.7mm, an increase of 1.97%. Whilst the NFF for schools is based upon the 2024 School Census, funding for local authorities is based upon the pupil characteristics recorded in the 2023 school census. For 2025/26 the number of pupils eligible for additional funding, i.e. free school meals results in the Schools Block DSG being insufficient to meet the costs of the NFF by £0.7m. The national regulations allow for an adjustment through capping annual gains in funding to 0.28% per pupil which has been undertaken to close the funding gap and enact the schools block transfer. School budgets fully meet the minimum per pupil funding level of £4,955 per primary pupil and £6,465 per secondary pupil.

111. Nationally the per pupil increase for 2025/26 is +2.23% per pupil and includes provision for the full year cost of the 2024 Teachers' pay award. As the funding guarantee is at a per pupil level, schools with decreases in pupil numbers will see an overall decrease in budget allocation.

112. Additionally, within the Schools Block, but separate to funding for individual schools, local authorities receive funding for the initial revenue costs of commissioning additional primary and secondary school places. For 2025/26 this is confirmed at £2.1m.

High Needs

113. Nationally High Needs funding is increased by £1bn. £480m of the increase is targeted at meeting the cost of the 2024 Teachers' pay award (and is outside the DSG settlement) and will be paid to providers through a separate grant: full details of this have yet to be issued by the DfE. The remaining £520m delivers a minimum 7% increase per head of population and a rise of £7.3m from 2024/25 The increase within the settlement of £116.6m is in line with forecasts. However, it should be noted that the population factor accounts for just £43.8m (38%) of the settlement figure meaning that 62% of the formula, and funding for special

schools, is subject to no uplift. Unlike the schools NFF where all funding factors have been increased for 2025/26.

114. Leicestershire remains at the funding floor, i.e. the application of the high needs NFF would generate a lower settlement without this protection. The NFF remains unresponsive to changes in the overall SEN population and does not take into account the number of children and young people with an Education, Health and Care Plan (EHCP):

- £10.1m (9%) of the NFF is driven by the number pupils in special school and independent school places
- £30.1m (26%) of the formula relates to historic spend from 2017/18.
- £2.8m (2%) of the formula is from the funding floor.

115. Future government policy in respect of SEND has yet to be confirmed. However, the Policy Note that presents the 2025/26 funding arrangements sets out that the DfE are working on a range of reforms which will establish a mainstream school and college environment that is more inclusive for children and young people who require specialist SEND support. There is no indication of whether the high needs NFF will be reviewed.

116. The forecast position on the High Needs element of the DSG over the MTFS period is shown below:

	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Grant Income	-117,413	-120,912	-124,516	-128,228
Placement Costs	133,176	147,214	163,382	181,901
Other HNB Cost	12,265	12,865	12,865	12,865
Pre Opening Costs - New Places	0	264	236	0
Schools Block Transfer	-2,799	-2,799	-2,799	-2,799
SEND Investment Fund	2,799	2,799	2,799	2,799
Total Expenditure	**145,441**	**160,343**	**176,483**	**194,766**
Funding Gap Pre Savings	**28,028**	**39,431**	**51,966**	**66,537**
TSIL Programme Defined Opportunities	-12,384	-20,034	-28,018	-34,237
Increase in Local Specialist Places	-389	-4,252	-11,193	-14,486
SEND Investment Fund - Return on Investment	0	-2,799	-2,939	-3,086
Total Savings	**-12,773**	**-27,085**	**-42,149**	**-51,809**
Annual Revenue Funding Gap	**15,255**	**12,346**	**9,817**	**14,729**
2019/20 Deficit Brought Forward	**7,062**			
2020/21 High Needs Deficit Brought Forward	**10,423**			
2021/22 High Needs Deficit Brought Forward	**11,365**			
2022/23 High Needs Deficit Brought Forward	**6,683**			

2023/24 High Needs Deficit Brought Forward	**5,650**			
2024/25 Forecast High Needs Deficit Brought Forward	**24,170**			
Cumulative High Needs Funding Gap	**80,608**	**92,954**	**102,771**	**117,500**
Surplus (-ve) / Deficit Other DSG Blocks	-11,834	-10,834	-9,334	-7,334
Dedicated Schools Grant Surplus (-ve) / Deficit	**68,774**	**82,120**	**93,437**	**110,166**
High Needs Spend as % of High Needs DSG	**125%**	**133%**	**143%**	**153%**

117. Currently local authorities are required to carry forward DSG deficits in an unusable reserve through the continued use of a Statutory Accounts override and may only now contribute to DSG with the approval of the Secretary of State. The accounts override legislation is confirmed until March 2026 when it is expected to end. Unless further legislation changes this, from this point local authorities will be required to make financial provision for the deficit. The lack of clarity from government on the future of the statutory override, or any alternatives, presents a significant risk to the sustainability of the Council.

118. It is nationally recognised that additional funding alone will not address the financial difficulties, many of which are created by a system where school and parental expectations have a greater influence than a local authority assessment of needs, appropriate provision and affordability. It is clear that policy changes are needed. At the continued levels of expected growth, the position is completely unsustainable and puts the Council's finances in a very difficult position. As such it is essential that the planned measures to contain ongoing growth are successful, but additional measures are put in place to reduce both demand and costs.

Central Services Block

119. The central services block funds a number of school-related expenditure items such as existing school-based premature retirement costs, copyright licences under a national DfE contract for all schools and other historic costs. The settlement is £4.4m for 2025/26.

120. The settlement continues an annual reduction of 20% for the Historic Costs element of the settlement but a guarantee remains in place to ensure that funding does not decrease below the financial commitment to meet former teacher pension costs.

Early Years Block

121. The provisional Early Years Block is £109.2m and funds both the entitlement to Early Years Education for 2025/26 as set out below and the costs of early years' service. The entitlement for 2025/26 is;
    - 15 hours for eligible working parents for children aged 9 months to 2 years. This will extend to 30 hours in September 2025.

- 15 hours for 2 years olds requiring additional support, this was formally disadvantaged 2 year olds
- Universal offer of 15 hours for 3 and 4 year olds
- 15 hours entitlement for work parents for 3 and 4 year olds

122. Leicestershire receives £5.71 per hour for the 3 – 4-year-olds, £7.53 for 2-year-olds and £10.18 for under 2s. Local authorities are required to pass through a minimum of 96% of the settlement to providers, the remaining 4% meeting the cost of the Early Learning and Childcare service. There is also the continuing need to recoup the early years deficit recorded in 2022/23. The Early Years DSG deficit as at 31 March 2024 was £3.1m. The plan is to clear this deficit over 4 years which would be by March 2027. Taking the above into consideration, work is underway within the service to enable the local authority to calculate and notify providers of their funding rates no later than 28 February 2025.

<u>Adequacy of Earmarked Reserves and Robustness of Estimates</u>

123. The Local Government Act 2003 requires the Director of Corporate Resources to report on the adequacy of reserves, and the robustness of the estimates included in the budget.

124. When setting the MTFS prudent and realistic estimates have been used for core assumptions. The following table provides a summary of the impact of changes to those key assumptions:

Impact of (+ or -)	Likelihood	Equates to (+ or -)
1% Council Tax	Low	£4.0m
1% Business Rates growth	Medium	£0.6m
1% Pay award (excludes staff funded from specific grant (e.g. Dedicated Schools Grant, Public Health etc.)	Medium	£2.1m
1% Non-pay budget (excludes ASC demand growth)	Medium	£1.6m
1% ASC demand growth	Medium	£2.1m

125. The financial environment continues to be challenging with a number of known major risks over the next few years. These include:

Risk Area	**Commentary**	**Mitigation/Provision**	RAG
Inflation	High inflation persisting for longer than expected leading to increased costs and continuation of Cost of Living crisis.	Inflation allowance within the budget and MTFS	Amber
Non achievement of savings and income targets	The requirement for savings and additional income totals £176m over the next four years of which £91m is unidentified	Strong governance in place to maximise savings delivery and early identification of any slippage. MTFS risks contingency and budget equalisation reserve in place	Amber

SEND spend in excess of grant	A cumulative deficit of £118m is anticipated by the end of 2028/29. Expenditure each year is expected to be between £10m and £15m more than high needs block funding, despite £52m of savings being targeted.	Statutory override currently in place but significant risk if this ends and no alternative arrangements are put in place by government	Red
National Living Wage and salary increases	Increases in the NLW have been estimated for 3 of the 4 years of the MTFS and pay awards are unknown for any year. Each 1% increase in the NLW increases the Council's cost base by around £2m per annum. Whilst there is some provision for this in the inflation allowance, there is a risk that it may not be sufficient.	Inflation allowance to manage in-year fluctuations	Amber
Local Government Finance Reform and other policy reforms	A number of significant government initiatives already delayed with further delays expected. These include: • Planned reform of the local government funding system • Review of Business Rate retention, including a "reset" of the system's baselines • Fair Funding Review • Review of SEND reforms • Adult Social Care charging reforms • Children's Social Care reforms	Assumptions made in the MTFS for future funding e.g. business rates growth phased out and other grant income kept flat	Amber
Further service demand	Unforeseen service pressures resulting in an overspend, particularly demand-led children's and adult social care.	Balanced growth assumptions in the MTFS, financial controls, MTFS contingencies	Amber

126. No budget can ever be completely free from risk. Necessarily, assumptions are made which means that the budget will always have an amount of uncertainty.

127. There are a number of ways that risks will be mitigated and reduced which are highlighted above and explained further below:

- General Fund
- MTFS contingencies
- Earmarked reserves
- Effective risk management arrangements.

<u>General Fund</u>

128. The General Fund balance is available for unforeseen risks that require short term funding. The forecast balance at the end of 2024/25 is £21m which represents 3.4% of the net budget (excluding schools' delegated budgets). It is planned to increase the General Fund to £25m by the end of 2028/29 to reflect increasing uncertainty and risks over the medium term, and to avoid a reduction in the percentage of the net budget covered. Examples of risks include:

- Legal challenges arising from a change in savings approach.
- Legislative changes that come with a financial penalty, for example General Data Protection Regulations (GDPR).
- Service provision issues that require investment, for example the capital investment to support the High Needs Block Development Plan.
- Variability in income, particularly from asset investments.
- New legislation introducing new burdens or service requirements

129. To put the level of resources into context: with the exclusion of schools, the County Council spends nearly £70m a month.

130. The proposed MTFS also includes a contingency of £8m each year for other specific key risks that could affect the financial position on an ongoing basis. Further details are provided earlier in the report.

Earmarked Reserves

131. The estimated balance for revenue earmarked reserves (excluding schools and partnerships) as at 31 March 2025 is £117m and for capital funding purposes £103m. This is set out in detail in Appendix K to this report. The final level of earmarked reserves will be subject to the current year budget outturn.

132. Earmarked reserves and balances are held for specific purposes in line with the Council's Earmarked Reserves Policy attached as Appendix J. The main earmarked reserves and balances projected at 31 March 2025 are:

(a) Capital Financing (£103m). Holds MTFS revenue contributions for the capital programme or one-off projects.
(b) Budget Equalisation (£91m). This reserve is held to manage variations in funding across financial years including MTFS funding gaps. It also includes some cover for the increasing pressures on the High Needs element of the DSG which was in deficit by £41m as at 31 March 2024 and is forecast to increase to £118m by the end of 2028/29. The temporary statutory override on the DSG is currently to the end of March 2026.
(c) Insurance (£16m). Held to meet the cost of future claims not covered by insurance policies.
(d) Transformation (£5m). Used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
(e) Earmarked reserves are held for specific departmental infrastructure, asset renewal and other initiatives (£22m).
(f) Pooled Property investments (-£17m) – invested against the balance of earmarked reserves held.

133. The level of earmarked reserves and balances is monitored regularly throughout the year. Where funds have been identified that are no longer required transfers have been made. Assessments are undertaken during the summer, in February as part of the MTFS and at year end.

134. The CIPFA financial resilience index for local authorities provides a useful set of indicators of the financial risks facing local authorities. The index can be broadly grouped into three categories:

- Levels of reserves, with higher values considered good.
- Hard to reduce expenditure, for example social care, with lower levels good.
- Certainty of income, with higher levels good.

135. The latest index is for balances as at 31 March 2023 and broadly shows positive results. One indicator is rated as high risk with the others showing as medium or low risk. The main indicators are:

- Growth above business rates baseline – high risk. A provision of £10m has been included in the MTFS for a future business rates reset.
- Reserves sustainability measure – low risk. Ratio of current level of reserves and the average change over each of the last three years.
- Interest Payable / Net Revenue Expenditure – medium risk. Interest payable on external debt, due to the high debt interest rates relative to current available rates.
- Unallocated reserves – medium to high risk. The proposed MTFS includes plans to increase the level of the General Fund.
- Change in earmarked reserves – medium risk.

136. Although the position shows that overall risks are increasing, particularly in relation to the level of reserves, the County Council is still reporting a better position than most County Councils. The increased risk factor in relation to reserves emphasises the importance of identifying and delivering further savings as a priority to avoid the further use of reserves beyond 2025/26.

137. Grant Thornton, the County Council’s external auditor, reviews the level of earmarked reserves held by the County Council as part of its value for money review of the current MTFS. The latest available report, from 2023/24, reported no issues.

School Balances

138. Balances are also held by schools. They are held for two main reasons: firstly, as a contingency against financial risks and secondly, to meet planned commitments in future years. The balance at 31 March 2024 was £5.0m. The balance at 31 March 2025 has not been estimated but is expected to have reduced as a result of spending pressure. It is also affected by the number of schools converting to Academies.

Risk Management

139. The Council’s risk management policy statement and strategy, and insurance policy are reviewed annually and are included as Appendix I and L respectively. The policies were considered and noted by the Corporate Governance Committee on 24 January 2025.

Robustness of Estimates

140. The Director of Corporate Resources provides detailed guidance notes for Departments to follow when producing their budgets. As well as setting out certain assumptions such as inflation, these notes set a framework for the effective review and compilation of budget estimates. As a result, all estimates have been reviewed by appropriate staff in departments. In addition, each department's Strategic Finance Manager has identified the main risk areas in their budget and these have been evaluated by the Director of Corporate Resources. The main risks are described earlier in the report.

141. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. Saving initiatives that are at an early stage of development, or require further work to confirm deliverability, have not been included in the MTFS, but are reported for information as savings under development.

142. The Cabinet and the Scrutiny Commission receive regular revenue and capital monitoring reports, budget and outturn reports. In addition, further financial governance reports, including those from the External Auditor, are considered by the Corporate Governance Committee. This comprehensive reporting framework enables members to satisfy themselves about both the financial management and standing of the County Council.

143. Whilst the Director of Corporate Resources is able to provide assurance over budget proposals and level of reserves, it should be noted that there remains a considerable financial risk in relation to the Council's High Needs Deficit and urgent clarity is needed from government on the solution to dealing with, and accounting for, the cumulative deficit.

Concluding Comments – Revenue Position

144. Having taken account of the overall control framework, budget provisions included to support the delivery of transformation, growth to reflect spending pressures, the inclusion of a contingency for MTFS risks and the earmarked reserves and balances of the County Council, assurance can be given that the estimates are considered to be robust and the earmarked reserves adequate.

145. The draft MTFS is balanced in 2025/26, but only by using almost £5m of one-off reserves. There is then a financial gap of £38m in 2026/27 rising to £91m by 2028/29.

146. There are significant uncertainties that could change the financial gap facing the County Council. These can be summarised as uncertainty over funding and future government policy, cost and demand growth and delivery of savings.

147. Funding uncertainties are predominately driven by Government and external factors. It is expected that some funding streams will reduce. For example, if the planned reset of the Business Rate Baseline is implemented, the Council will lose the benefit of growth built up over a number of years and currently worth around £10m per annum. In addition, the position on some specific grants after 2025/26 is uncertain. In line with previous practice the MTFS assumes a reduction in business rates and some grants.

148. With the Spending Review due later this year and funding reform expected to progress at pace over the next year, the funding position from 2026/27 may look very different. The government's approach of increasing the focus on deprivation, for recent funding allocations, and not recognising other significant costs, such as rurality, is concerning. The national public sector financial position is unstable and further reductions in government spending may be required in the Spending Review.

149. The Government has signalled its intention to undertake multiple reforms over the next 12 months which will create significant pressure locally to adapt to legislative changes and potentially a new level of funding. With the high level of uncertainty being faced the County Council needs to be in the best possible financial shape to deal with the inevitable challenges. Local Government Reorganisation will add further capacity pressures, but would improve financial sustainability in the longer term.

150. Cost growth manifests itself as either inflationary pressures or service growth. Service growth primarily relates to a growing and ageing population and a large increase in school-age children requiring support, which put huge demands on social care and SEND service. The Council is also seeing an increase in complex cases and exceptionally high cost placements which is putting further pressure on social care costs.

151. Successful delivery of savings is dependent upon a range of factors, not all of which are in the control of the County Council. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. With 2026/27 forecast to not be balanced there is less time to generate new savings and a lower margin of error on delivery. Identifying new savings will be a key activity a task made harder by the reduced options available.

152. Balancing the budget is a continued challenge. With continual growth in service demand, recent MTFS's have tended to show two years of balanced budgets followed by two years of growing deficits. This approach balances the need for sufficient time to identify initiatives that will close the gap without cutting back services excessively. As with the previous MTFS, this MTFS only forecasts a balanced budget next year, after using £5m of earmarked reserves to meet the gap, but the following three years are all in deficit.

153. The gaps in the second, third and fourth years of the MTFS are particularly concerning. To have a realistic chance of closing them the County Council will need to identify mitigations that allow 2026/27 to be balanced without the use of reserves. This includes a reinforcement of existing financial control measures

and the potential introduction of new ones to ensure a tight focus on eliminating non-essential spend.

154. Reserves are only a short-term solution and the Council will need to ensure it has adequate savings and growth mitigation plans in place from 2026/27 to avoid the need to rely on reserves again to balance the budget. A heightened focus on the County Council's finances continues to be required whilst this situation remains.

155. In additional to these direct uncertainties the County Council is not insulated from financial difficulties of partner organisations. Currently the County Council's ongoing financial plans include £52m of funding related to the BCF. Even a partial loss of this funding would be difficult to manage.

156. Maintained schools and academies are under significant financial pressure; this could affect the County Council through its statutory responsibilities relating to education, for example to ensure the provision of sufficient school places. This pressure also increases the risk of lost commercial income, as schools and academies are the Authority's main commercial trading partner.

157. The focus on Leicestershire's finances over the past few years, including taking tough decisions on service reductions, has put the Council in a relatively sound short-term position. It is essential that the focus on medium term financial planning and strong financial discipline is maintained. It is inevitable that further growth in service demand and costs alongside a tightening funding position will have an impact on services in the future, and the Council will need to take a robust approach to prioritising its resources.

158. The scale of the continued growth in demand for social care, compounded by high inflation, is currently the main cause of the County Council's financial pressures. However, the most challenging issue facing the Council is the cumulative SEND deficit. A well-resourced programme is in place that recognises the need to get the service into financial balance. The Council will need to ensure delivery of the programme is a key priority

159. The delivery of this MTFS rests on four factors:

- Dealing with the steep increase in cost pressures, which will involve innovative and proactive commissioning strategies.
- The absolute need to deliver the savings in the MTFS. The key risks are the technical difficulty of some projects and the public acceptance of some savings.
- The need to have very tight control over demand-led budgets, such as social care and special education needs, and focus on initiatives to reduce the level of future demand through prevention and promoting independence.
- The need to manage other risks and external factors that could affect the Authority's financial position. These include costs currently being borne by the NHS shifting to local authorities, continuation of inflationary pressures and loss of trading income.

Treasury Management Strategy Statement

160. The Treasury Management Strategy Statement, which includes the minimum revenue provision (MRP) statement and annual investment strategy, must be approved in advance of each financial year by the County Council. Appendix N to this report sets out the Treasury Management Strategy Statement for 2025/26.

161. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council is required to approve an annual MRP statement and set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are included with the Treasury Management Strategy as Annex 1 and Annex 2.

162. The legislation requires the Council to set its treasury strategy for borrowing and to prepare an annual investment strategy (for treasury management investments). This sets out the Council's policies for managing its treasury management investments and for giving priority to the security and liquidity of those investments. This Strategy should be read in conjunction with the Investing in Leicestershire Programme (IILP) Strategy (Appendix H), which sets out the Council's approach when considering the acquisition of investments for the purposes of inclusion within the IILP, and the Capital Strategy (Appendix G), which sets out the Council's approach to determining its medium term capital requirements.

163. The Treasury Management Strategy has been updated for 2025/26 for increased limits for approved organisations for lending. Average investment balances of around £450m means it is necessary to increase some limits in order to maintain a flexible, risk averse approach to treasury management and sufficient counterparties. The changes are detailed below

Institution	**Maximum Sum Outstanding / Period of Loan**
Money Market Funds	£40m limit within any AAA-rated fund, rising to £50m should the cash position necessitate. (previously £40m maximum per fund)
	£200m maximum exposure to all Money Market Funds (previously £160m))
Term Deposits with overseas banks domiciled within a single country.	£70m overall country limit (previously £50m) No change to individual bank limits.

Minimum Revenue Provision Review

164. The Local Authorities (Capital Finance and Accounting) Regulations 2003 require local authorities to charge to their revenue account in each financial year a minimum amount to finance capital expenditure. This is referred to as Minimum Revenue Provision (MRP). The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

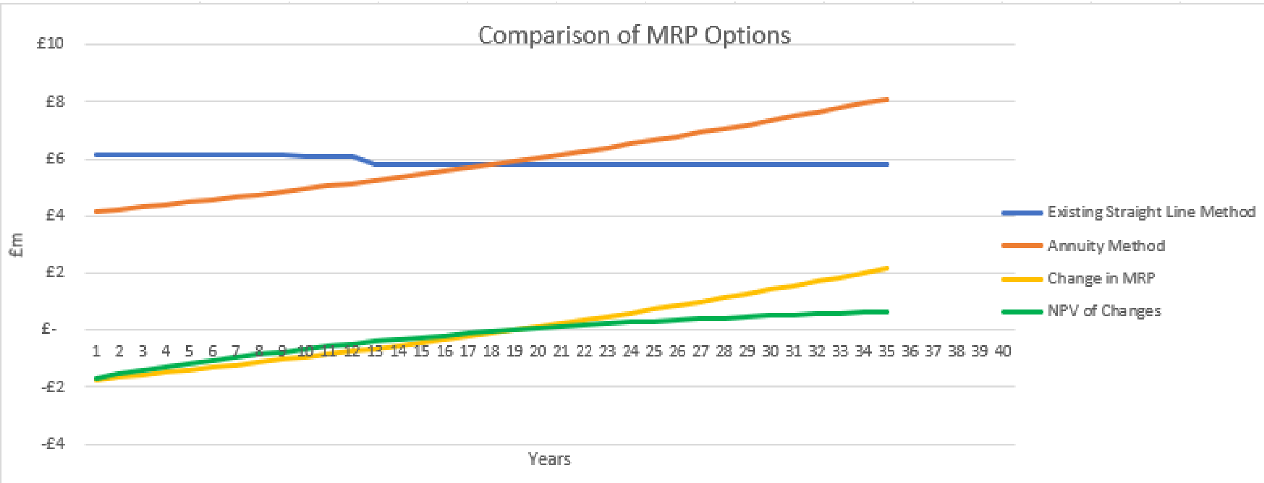
165. In 2019/20 the Council reviewed the expenditure that is required under statute relating to a prudent MRP. Based on the average economic remaining life of assets held, the MRP calculation for supported and unsupported borrowing was amended to a period of 40 years, which reduced the MRP charge to around £6m per annum.

166. During 2024/25 the Council has reassessed the MRP policy to assess its continued appropriateness. The review has identified that changes to the existing policy can be made to remain prudent and to more accurately reflect the time value of money through the use of an annuity calculation. This results in a consistent charge to the general fund for assets over their useful lives. Setting the annuity rate at the Bank of England's Monetary Policy Committee's inflation target rate of 2% is considered appropriate and prudent. MRP will increase by this percentage each year. This reflects the time value of money and can be considered to be fairer on council tax-payers as it produces a consistent charge as measured in real terms. The revised approach reduces the MRP charge to around £4.3m p.a. across the MTFS period.

167. CIPFA's practitioners' guide to Capital Finance in Local Government supports the use of the annuity method on the basis that the MRP charge to the General Fund takes account of the time value of money.

168. It should be noted that the revised approach does not change the overall amount of MRP payable; the same amount is simply repaid over a different time period but is more aligned with the period over which the underlying assets provide benefit. The MRP strategy can be found in Annex 1 to this strategy.

169. The impact of the revised approach on the General Fund over the remaining period is shown in the following chart.



170. The chart shows:
- Annuity based MRP – charge of £4.1m in 2025/26 rising to £8.1m in year 35.
- Straight line MRP – consistent charge of £6m

171. The revised approach is currently being reviewed by the Council's external auditors. No issues are expected. However, if anything significant is raised, the previous straight line method to the MRP calculation will be reinstated. The draft MTFS 2025-29 includes provision for the financial implications if this was needed.

172. The Treasury Management Strategy has been prepared on the basis that there will be no new external borrowing by the County Council in the period covered by this MTFS, see capital section below for further details.

173. The Council continues to maintain a low risk approach to the manner in which its list of authorised counterparties is produced and takes advice from the Council's treasury management advisors, Link Group, on all aspects of treasury management.

174. The strategies were considered and noted by the Corporate Governance Committee on 24 January 2025.

Capital Programme 2025/26 to 2028/29

175. The overall approach to developing the capital programme is set out in the capital strategy (Appendix G) and is based on the following key principles:

- To invest in priority areas of growth including roads, infrastructure, economic growth and to support delivery of essential services.
- No discretionary capital schemes will be added to the programme unless fully funded by external sources.
- Capital schemes will only be added to the programme once a business case has been completed.
- To invest in projects that generate a positive revenue return (spend to save), minimum return on investment for new schemes: 7% return (c.10 year payback)
- Passport government capital grants received for key priorities for highways and education to those departments.
- No new forward funding of section 106 contributions.
- Maximise external sources of income including capital receipts, section106 housing developer contributions and bids to external funding agencies.
- No investment in capital schemes primarily for financial return where borrowing is required anywhere within the capital programme (in line with the Prudential Code).
- In exceptional circumstances limited prudential borrowing will be considered where needed to fund essential investment in service delivery.
- Thorough risk appraisal of new schemes, with adequate contingencies held.

176. The draft capital programme totals £439m over the four years to 2028/29, shown in detail in Appendix F. The programme is funded by a combination of Government grants, capital receipts, external contributions, revenue balances and earmarked funds.

Changes to the Capital Programme 2025-29 – since 17 December 2024

177. Since the draft capital programme to the Cabinet in December the following government capital grant allocations for 2025/26 have been announced.

Government Grant	Draft MTFS 2025-29 estimate	*Revised 2025-29 estimate
Disabled Facilities Grant	£19.4m	£22.0m
Highways Maintenance	£71.0m	£115.2m
Bus Service Improvement Grant (BSIP)	£0m	£3.1m
Zero Emission Buses (Zebra)	£0m	£8.8m

* 2026/27 to 28/29 estimated to continue at the same 2025/26 levels.

178. Disabled facilities grant – annual increase of £0.7m, four year total £2.6m. Funding received is passported to District Councils to fund major housing adaptations in the County.

179. Highways maintenance – annual increase of £11m, four year total £44m. The annual amount includes £1.9m allocated as an incentive element. This means the Council will need to comply with the incentive requirements in order to secure this funding. The incentive requirements have not yet been confirmed by the DfT.

180. Bus Service Improvement Grant - £3.1m DfT funding (2025/26 only) to make improvements for local bus services and infrastructure.

181. Zero Emission Bus Regional Area 2 project - £8.8m DfT funding (2025/26) to provide greener bus travel.

182. Leaders Farm, Lutterworth East – phase 1, drive thru restaurants – following the receipt of tenders the budget has been increased by £0.5m to £3.5m. This has been funded from the IILP new investments programme allocation but will be dependent on approval of an updated Business Case to demonstrate continued viability of the scheme and the Council will continue to explore ways to cost engineer the design further in order to reduce costs. The overall plans for the site include a phase 2, subject to business case and inclusion in the capital programme, to construct new industrial and office units.

183. E&T Road Safety / Casualty reduction schemes - £0.25m. Funding allocated to year four of the capital programme to continue the annual programme of road safety and casualty reduction schemes identified through the analysis of reportable injury accidents.

184. The proposed capital programme and funding is shown below.

Draft Capital Programme 2025-29	2025/26	2026/27	2027/28	2028/29	Total
	£m	£m	£m	£m	£m
Children and Family Services	40.9	21.9	16.9	3.5	83.1
Adults and Communities	6.5	6.1	6.1	5.5	24.3
Environment and Transport	88.7	47.9	31.8	32.3	200.7
Chief Executive's	0.1	0.1	0.0	0.0	0.2
Corporate Resources	2.5	2.0	3.3	1.9	9.7
Corporate Programme	15.1	28.9	31.2	45.4	120.5
Total	**153.8**	**107.0**	**89.3**	**88.6**	**438.6**

Capital Resources	2025/26	2026/27	2027/28	2028/29	Total
	£m	£m	£m	£m	£m
Grants	69.7	40.6	40.6	40.6	191.4
Capital Receipts from sales	13.5	11.4	1.0	3.8	29.7
Revenue/ Reserve Contributions	45.3	39.9	0.3	0.1	85.7
External Contributions	25.3	15.0	5.6	2.3	48.2
Total	**153.8**	**107.0**	**47.4**	**46.8**	**355.0**
Funding Required	**0.0**	**0.0**	**41.8**	**41.8**	**83.6**

185. Where capital projects are not yet fully developed, or plans agreed, these have been included under the heading of 'Future Developments' under each departmental programme. It is intended that as these schemes are developed during the year, they will be assessed against the balance of available resources and included in the capital programme as appropriate. A fund of £40m is included in the draft capital programme, shown within the Corporate programme.

186. The overall proposed capital programme can be summarised as:

Service Improvements	£219m
Invest to Save	£78m
Investment for Growth	£69m
Future Developments/ Risk Contingency	£73m
Total	**£439m**

Funding and Affordability

Forward Funding

187. The Council has previously forward funded investment in infrastructure projects to enable new schools and roads to be built and unlock growth in Leicestershire before funding, mainly from section 106 developer contributions, is received. This allowed a more co-ordinated approach to infrastructure development. In recent years £20m has been forward funded in the capital programme. Of this total, £5.5m has already been repaid and £7.5m is estimated to be repaid between 2024/25 and 2028/29. The balance of £7m is estimated to be repaid after 2029.

188. When the expected developer contributions are received, they will be earmarked to the capital programme, to reduce the dependency on internal cash balances in the future.

189. There are risks involved in managing and financing a programme of this size. And an increased reliance on developer contributions through section 106 agreements means that it may take many years for investment to be repaid. Historic agreements may not be sufficient for the actual cost of infrastructure in the high inflation environment that is currently being experienced. The drivers of inflation are having a particularly profound impact upon construction schemes. Risks could be further compounded in the event of an economic slowdown, which could delay the housing development required before Section 106 funding is received.

190. A key determinant in generating sufficient developer contributions is the approach taken by the district council, as the local planning authority. The district council will set the local planning context against which section 106 agreements will be agreed and ultimately decide on planning permission.

191. The Council's financial position, both in relation to capital and revenue funds is grave. As the lowest funded county council in England, the Council has limited capacity to provide capital funding, or forward funding (recovered over a period of time) to support planned growth and therefore the focus must be on maximising developer contributions and delivery rather than the County Council filling viability gaps in highways infrastructure requirements.

192. Due to the risk of forward funding not being repaid, for example if a developer's planned scheme is no longer viable. The County Council's intention is for all future schemes to be fully funded, including adequate contingency, before they are committed to. Without appropriate funding, infrastructure relating to further plans cannot be added to the programme. It is therefore critical that Local Plans are prepared with sufficient evidence to secure contributions and delivery for critical infrastructure.

193. Whilst this approach significantly reduces the financial risk faced by the County Council, in the shorter term, it does not remove it entirely. Until such time as Government policy reflects and addresses the challenges faced by local authorities in meeting housing needs whilst ensuring infrastructure is available and appropriate, district councils, as planning authorities are in the best position to manage the developer contribution risk. It is therefore necessary for the district councils to work with the County Council to ensure Local Plans include policies that balance the need to support delivery of growth without exposing the County Council to further financial risk. District councils also need to work with the County Council to direct more funding towards priority infrastructure

194. Without new funding the County Council can only commit to constructing new infrastructure upon receipt of funds from developers. Whilst the County Council will always be mindful of its statutory duty to ensure that highway safety is not compromised, there could be adverse impacts of development, such as congestion, if sufficient developer funding is not secured through the planning process.

Capital Grants

195. Grant funding for the capital programme totals £191m across the 2025-29 programme. The majority of grants are awarded by Government departments including the Department for Education (DfE) and the Department for Transport (DfT). At this stage many of the main government grants are not yet known and have been estimated.

Children and Family Services

196. Capital grant funding for schools is provided by the DfE. The main grants are:

a) Basic Need – this grant provides funding for new pupil places by expanding existing schools and academies or by establishing new schools. Funding is determined through an annual submission to the DfE which identifies the need for additional school places in each local authority area. The DfE has announced details of the grant award for 2025/26 of £17.1m. No details have been announced for future years. A nominal estimate of £1m has been used for these years which will be updated once the allocations are announced. (The allocation for 2024/25 was £3m).

b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2025/26 and future years have not yet been announced. An estimate of £2m per annum is included in the capital programme.

c) Devolved Formula Capital (DFC) - funding provided to schools. The DfE has not yet announced details of grant allocations. However, an estimate of £0.5m per annum is included in the MTFS, based on the number of maintained schools.

Adult Social Care

197. Capital funding for the Disabled Facilities Grant (DFG) programme has been announced for 2025/26 of £5.5m, but not later years. An estimate in line with this allocation has been included in the capital programme.

Environment and Transport

198. Most of the main DfT grants have now been announced for 2025/26 with the exception of the Integrated Transport Block allocation. This grant is expected to continue and therefore an estimate in line with previous years has been used. Estimates for later years of the main DfT grants have also been used, based on previous years. The four year totals include:

a) Maintenance - £28.8m p.a. (£115.2m overall).
b) Integrated Transport Block - £2.8m p.a. (£11.0m overall).

199. Other significant Environment and Transport capital grants included are:

- DfT Zero Emission Buses - £8.8m in 2025/26 only.
- DfT Bus improvement grant - £3.1m in 2025/26 only.

Capital Receipts

200. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £30m across the four years to 2028/29.

201. The estimate includes potential land sales that are subject to planning permission. In these cases the value of the site is significantly increased when planning permission is approved. However, this also comes with a significant amount of uncertainty and potential for delays. The estimate also includes the planned sale of some investments in Pooled Property Funds, an estimate of £7.5m has been included.

Revenue / Earmarked Funds/ Contributions

202. To supplement the capital resources available and avoid the need for borrowing, £86m of revenue/ reserves funding is being used to fund the programme consisting of:

Departmental reserves	£1m
Capital financing reserve	£85m
Total	**£86m**

203. The capital financing reserve temporarily holds revenue contributions to fund the capital programme until they are required. Other capital funding sources that contain restrictions are maximised before using the capital financing reserve. The capital financing reserve includes an estimated £8m from the Councils share of the Leicester and Leicestershire business rates pool for 2025/26, and £7.4m from the 2024/25 business rates pool levy.

External Contributions and Earmarked Capital Funds

204. A total of £48m is included in the funding of the capital programme 2025-29. This relates mainly to section 106 developer contributions, including an estimated £4.7m in section 106 receipts relating to forward funded capital schemes over the next four years.

Funding from Internal Balances

205. Overall a total of £84m additional funding is required to fund the proposed 4 year capital programme and enable investment in schools and highway infrastructure to be made. Over the next 10 to 15 years £7m of this funding will be repaid through the associated developer contributions forward funded.

206. Due to the strength of the County Council’s balance sheet, it is possible to use internal balances (cash balances) to fund the capital programme on a temporary basis instead of raising new external loans. Levels of cash balances held by the Council comprise the amounts held for earmarked funds, provisions, the

Minimum Revenue Provision (MRP) set aside for the repayment of debt and working capital of the Council. The cost of raising external loans over the medium to long term is forecast to exceed the cost of interest lost on cash balances by circa 2%.

207. The overall cost of using internal balances to fund £84m of investment is dependent on what happens to interest and borrowing rates over the medium to long term. Current forecasts show the cost of externally borrowing would be around £6.5m per annum for the next 40 years, in interest and repayment of principal - minimum revenue provision (MRP). Internal borrowing would still require MRP setting aside but net interest savings could amount to £2m per annum. But because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

208. The County Council's estimated amount of external debt as at March 2025 is £204m. As described above this is not assumed to increase during the MTFS. The relative interest rates and cash balances will be kept under review to ensure that this is the right approach.

Capital Programme Summary by Department

209. Over the period of the MTFS, a capital programme of £439m is required of which £154m is planned for 2025/26. The main elements are:

- Children and Family Services - £83m. The priorities for the programme are informed by the Council's School Place Planning Strategy and investment in SEND as part of the High Needs Development Plan.
- Adults and Communities - £24m. The programme includes £22m relating to the Disabled Facilities Grant (DFG) programme and schemes for the Social Care Investment Plan (SCIP).
- Environment and Transport - £201m – completion of major schemes including the Melton Mowbray Distributor Road Northeast and the Zouch Bridge replacement; investment in the Transport Asset Management (TAM) programme – preventative and restorative highways maintenance - and the Environment and Waste Programme. Other significant projects include the Melton Depot replacement and the corporate wide vehicle replacement programme.
- Chief Executive's - £0.2m, Legal case management system.
- Corporate Resources - £10m. Investment in ICT, Transformation, Property and Environmental projects.
- Corporate Programme - £121m. Investment in the Investing in Leicestershire Programme (IILP) £47m (subject to business cases), the future developments fund £40m (subject to business cases), and the major schemes portfolio risk fund of £33m.

210. Details of the proposed capital programme are shown in Appendix F to this report.

Capital Summary

211. The capital programme totals £439m over the four years to 2028/29. The Council recognises the need to fund long term investment and has forward funded £20m of capital infrastructure projects for highways. £13m of this is estimated to be repaid by 2028/29 with the balance of £7m expected between 2029 and 2038.

212. Longer term infrastructure schemes (outside of the MTFS period) are not included in the programme. Pressure on school places and Leicestershire's infrastructure is expected from population growth, with estimates of a 10% increase in the County's population between 2020 and 2030. It is assumed that section 106 and government funding will be available at the necessary level.

213. There are many government grant allocations not known after 2025/26, including the main departmental grants; DfE schools basic need, condition and devolved formula capital allocations, and the DfT maintenance and integrated transport block grants. There are also significant pressures in Highways Maintenance as it becomes increasingly difficult for the Council as the local highways authority to balance dealing with immediate works under existing policies with investment in proactive maintenance to reduce long term costs.

214. Overall £84m from internal cash balances will be used to fund the cash flow of capital programme. As such there is very limited scope to add further capital schemes to the capital programme. The additional revenue costs arising from this total £6.5m per annum, on the basis of internal borrowing.

215. By their nature, discretionary asset investments, which are made to generate capital receipts or revenue returns, are risky. Whilst this is partially mitigated by the County Council's ability to take a long-term view of investments, removing short-term volatility, it is likely that not all investments will yield returns in line with the business case.

216. A significant portion of the programme enables revenue savings. Delays or unsuccessful schemes will directly affect the revenue position.

217. Additional Government investment in housing and infrastructure is increasingly subject to a competitive bidding process and areas with devolution deals are likely to be preferred.

Investing in Leicestershire Programme

218. The Council directly owns and manages properties, including Industrial, Office and County Farms as part of the Investing in Leicestershire Programme (IILP). The fund also includes financial investments outside of direct property ownership, for example private debt, and pooled property investments (the indirect investments provide diversification of the fund).

219. The fund is held for the purposes of supporting the delivery of various economic development objectives and is also income generating making a contribution to the Council's overall financial position. The aims of the IILP Strategy align with the five strategic outcomes set out in the Council's Strategic Plan (strong

economy, transport and infrastructure; improved opportunities; great communities; safe and well; and clean and green.

220. A total of £47m has been included in the draft 2025-29 capital programme. This will bring the total held to £260m (based on historic cost). Annual income returns are currently around £8m and are forecast to increase to £10m by the end of the MTFS period (and higher in later years), contributing ongoing net income for the Council.

221. The IILP programme includes investment in a bank risk sharing investment product, £15m was invested in the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF5). The investments made in CRF5 during 2022 and 2023 are performing ahead of expectations, providing income and is now returning the £15m capital. As the capital is returned it is planned to reinvest £7.5m into the next iteration of the fund (CRF6), which targets an internal rate of return of 13%. This is higher than the previous CRF5 fund and is due to the higher interest rate environment that is expected to continue whilst bank risk share transactions are being conducted. The premiums paid by banks to CRF6 are linked to a central bank interest rate plus a margin. The Treasury Management Strategy allows for a maximum of £20m to be invested into this asset class.

222. The IiLP programme also includes investment in private debt. The Council is currently invested in three iterations of the Partners Group multi asset credit (MAC) funds, 4, 6 and 7, with a current net asset value of £21m. The treasury management strategy allows up to £30m plus a temporary £20m to allow for times when commitments are being made whilst capital is being returned from older investments. The Leicestershire County Council LGPS has invested within this asset class for many years, originally via Partners Group products and recently via LGPS Central, the investment management company part owned by the Leicestershire LGPS fund. With this in mind and the fact Central will be regularly raising capital for this asset class, it is intended to reinvest returning capital with the one or more of the same managers Central will select for inclusion within its senior secured private debt and real asset (property and infrastructure) private debt investment vehicles. At present Central are in the process of shortlisting potential investment managers for the commitments they have received. Officers propose to use Central's short list and selected manager list to propose two to three managers with whom to commit up to £17.5m. The amounts are within the treasury management strategy limits as mentioned earlier.

Other Funding Issues

East Midlands Freeport

223. The County Council is acting as Accountable Body in relation to the establishment and ongoing activity of the East Midlands Freeport (EMF). The Freeport has been in operation since March 2023.

224. The County Council has provided up front funding to support business case development and wider set up costs. This is in the form of a commercial loan

capped at £4m. Capacity funding has also been received from MHCLG. A total of £2.9m of the loan has been drawn down and has started to be paid back from the Freeport's retained business rates income stream. The current balance remaining is £0.9m which is expected to be fully repaid, with interest, within the 2025/26 financial year.

<u>Equality and Human Rights Implications</u>

225. Under the Equality Act 2010 local authorities are required 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.
- Foster good relations between people who share protected characteristics and those who do not.

226. Given the nature of the Council's work, many aspects of the MTFS will affect residents and service users with protected characteristics. An equality impact assessment (EIA) of the outline proposals is undertaken annually, Appendix P. The purpose is to:

- enable decision makers to make decisions on an informed basis which is a necessary component of procedural fairness.
- inform decision makers of the potential for equality impacts from the budget changes.
- consider the cumulative equality impacts from all changes across all Departments and across time.

227. This assessment is at a high level and is an overview of the MTFS. Many of the proposals in the MTFS were agreed as part of the decision to adopt the previous MTFS, and others are amendments to existing plans that have already been agreed. Each individual proposal will require a full EIA to identify and potential inequalities and propose mitigating action.

228. Overall, the assessment found that the Council's budget changes will have the potential to impact older people, children and young people, working age adults with mental health or disabilities and people with disabilities more than people without these characteristics. This is as expected given the nature of the services provided by the Council. The findings of the Leicestershire Community Insight Survey for the first quarter of 2025 found that 32% of respondents had been affected by service changes - an increase from 22% for the same period in 2024. Disabled people and those of working age were more likely than others report that they had been impacted by such changes.

229. There are several areas of the budget where there are opportunities for positive benefits for people with protected characteristics both from the additional investment the Council is making into specialist services and to changes to existing services which offer improved outcomes for users whilst also delivering financial savings.

230. Any savings arising out of a reduction in posts will be subject to the County Council's Organisational Change policy which requires an EIA to be undertaken as part of the action plan. Where there are potential human rights implications arising from the changes proposed, these will be subject to further assessment including consultation with the Council's Legal Services.

Crime and Disorder Implications

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

Environmental Implications

232. The MTFS includes schemes to support the Council's response to climate change and to make environmental improvements.

Partnership Working and Associated Issues

233. As part of the efficiency programme and improvements 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

234. 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 17 December 2024 – Provisional Medium Term Financial Strategy 2025/26 to 2028/29 – Proposals for Consultation
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7512&Ver=4

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

County Council Strategic Plan
https://www.leicestershire.gov.uk/about-the-council/council-plans/the-strategic-plan

Appendices

Appendix A: 2025/26 Revenue Budget
Appendix B: Four Year Revenue Budget 2025/26 to 2028/29
Appendix C: Growth and Savings 2025/26 to 2028/29
Appendix D: Savings under Development
Appendix E: Detailed Revenue Budgets 2025/26
Appendix F: Capital Programme 2025/26 to 2028/29

Appendix G: Capital Strategy
Appendix H: Investing in Leicestershire Programme Strategy
Appendix I: Risk Management Policy and Strategy
Appendix J: Reserves Policy
Appendix K: Earmarked Reserves forecasts
Appendix L: Insurance Policy
Appendix M: Council Tax and Precept
Appendix N: Treasury Management Strategy Statement and Annual Investment Strategy
Appendix O: MTFS Consultation Report
Appendix P: Equality Impact Assessment
Appendix Q: Comments of the Overview and Scrutiny Committees and Scrutiny Commission (to follow)

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