Leicestershire County Council

SCRUTINY COMMISSION – 10 MARCH 2025

2024/25 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to provide members with an update on the 2024/25 revenue budget and capital programme monitoring position as at the end of Period 10 (the end of January 2025).

Policy Framework and Previous Decisions

2. The 2024/25 revenue budget and the 2024/25 to 2027/28 capital programme were approved by the County Council at its budget meeting on 21 February 2024 as part of the Medium Term Financial Strategy (MTFS).

3. The four-year capital programme was reviewed over the summer and an updated programme was approved by the Cabinet on 13 September 2024.

4. The Cabinet on 13 September 2024 approved the use of the Period 4 forecast net revenue budget underspend of £6.4m to fund an increase in the capital programme risk contingency.

Background

5. The Period 10 revenue budget monitoring exercise shows a net projected underspend of £7.5m.

6. The Period 10 capital programme monitoring exercise shows net projected slippage of £24m.

7. The monitoring information contained within this report is based on the pattern of expenditure to the end of January 2025 and projected to 31st March.

2024/25 REVENUE BUDGET MONITORING – PERIOD 10

8. The Period 10 revenue budget monitoring exercise shows a net projected underspend of £7.5m. A summary of the position on the revenue budget is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2024 TO JANUARY 2025

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-5,590	-5,590	
Schools Budget – High Needs	0	23,200	23,200	
Net Total	0	17,610	17,610	
Children & Family Services (Other)	124,197	133,237	9,040	7.3
Adults & Communities	241,074	224,614	-16,460	-6.8
Public Health	-2,606	-2,606	0	0.0
Environment & Transport	112,895	112,225	-670	-0.6
Chief Executives	16,806	16,266	-540	-3.2
Corporate Resources	41,042	40,072	-970	-2.4
Capital Financing	17,400	19,800	2,400	13.8
Contingency for Inflation	12,289	2,189	-10,100	-82.2
Other Areas	-4,113	-12,033	-7,920	n/a
Contributions to earmarked reserves	15,000	21,600	6,600	44.0
Additional commitments (capital programme risk contingency+ highways maintenance)	0	7,263	7,263	n/a
Contribution from budget equalisation reserve to balance 2024/25 revenue budget	-6,377	0	6,377	-100.0
Total	567,607	562,627	-4,980	-0.9
Funding	-567,607	-570,147	-2,540	0.4
Net Total	0	-7,520	-7,520	

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

Children and Family Services – Schools Budget

10. Overall a net overspend of £17.6m is forecast on the Dedicated Schools Grant (DSG). This comprises an overspend of £23.2m on the High Needs Block, offset by a forecast underspend of £4.4m on the Early Years Block, and an underspend of £1.1m on the Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

11. The High Needs Block projected overspend of £23.2m in 2024/25 is £6.2m more than the £17.0m forecast included within the original MTFS due to a higher than budgeted number of High Needs students in both independent schools and mainstream schools.

- Overall there is a forecast overspend in the placement budgets of £5.7m as a result of an increase of 817 (13%) in the number of funded places. The significant increases are within mainstream schools which are forecast to be 24.2% above budget, and Post-16 further education colleges by 33.7%. The department is undertaking further analysis to understand the reasons for the increase in numbers. The overspend is driven primarily by increased demand as costs per place appear stable in most provision types. The department is investigating the utilisation of places in the Council's own specialist units, currently c.82%, to reduce the need for placements in the more costly Independent sector. An overspend on specialist teaching services and the Secondary Education Inclusion partnerships of £0.8m is also forecast.

- Additionally, the latest figures published by the Department for Education (DfE) forecast a £0.2m reduction in 2024/25 High Needs DSG income. This is due to an increase in students placed in provisions outside of Leicestershire as at Spring census date than the same point the previous year.

12. Nationally, concern over the impact of SEND reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, is growing. Whilst the Government's Green Paper is set to result in systemic changes to the national SEND system, such changes may take a number of years to be implemented, and none appear to address the funding issues. There is also no clarity on the future of the statutory override, currently due to end in March 2026.

13. Leicestershire is actively engaged within the DfE's Delivering Better Value (DBV) in SEND programme as a result of the DSG deficit. At the end of 2023/24 the accumulated High Needs deficit stood at £41.2m and this will rise to around £64.4m at the end of 2024/25, based on current projections. The Transforming SEND in Leicestershire (TSIL) programme has moved to an implementation and sustainability phase and improvements created during the design stage are being rolled out; this programme and the DBV programme are closely aligned.

14. Without new interventions the High Needs block deficit is expected to continue to increase over the MTFS period to £118m and is not financially sustainable. This creates a significant and unresolved financial risk to the Council.

15. The Early Years budget is showing an underspend of £4.4m. The budget is based on the number of hours used to calculate the original 2024/25 Early Years DSG income in December 2023. Both payments and income are higher than budgeted due to the outputs of the Free Early Education Entitlement (FEEE) expansion and a higher number of 2-year-olds with working parents and a higher number of under 2s now taking up their FEEE entitlement. Changes to the methodology and timings as to when grant income is received means part of this underspend position at the end of March 2025 will need to be

earmarked for the next term where it is likely additional spend will be incurred for those parents who are choosing to stretch their FEEE entitlement over the full 52 weeks.

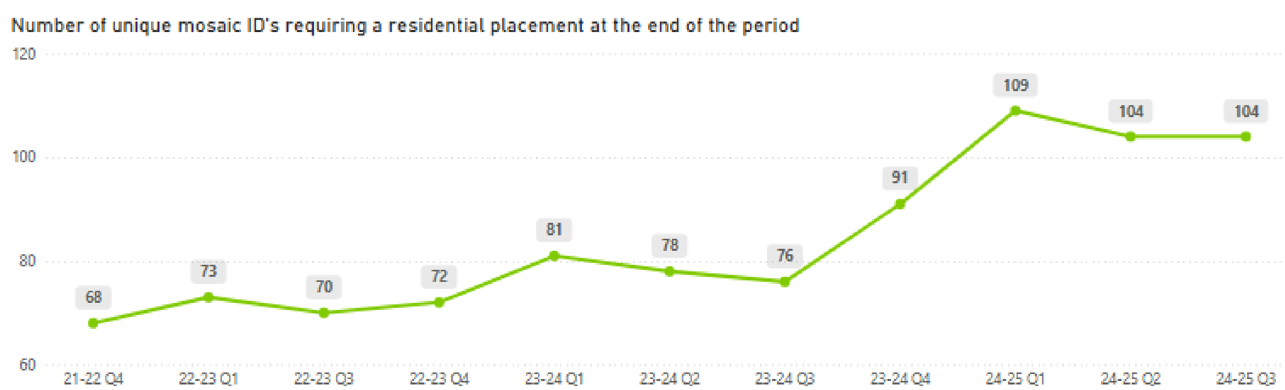
16. The overall underspend position on Early Years includes the budgeted planned underspend of £1.1m as part of the payback of previous years' Early Years deficits. The Early Years DSG deficit as at 31 March 2024 was £3.1m. The plan is to clear this deficit over 4 years which would be March 2027 at the latest.

Children and Family Services – Local Authority Budget (Other)

17. The Local Authority budget is projected to overspend by a net £9.0m (7.3%), mainly relating to projected overspends on the Children's Social Care Placements budget (£4.1m), Unaccompanied Asylum-Seeking Children's budget (£1.7m), Education Psychology Service (£1.1m), and the Disabled Children Service (£1m).

18. The projected overspend on the Children's Social Care Placement budget (£4.1m) is largely due to change in demand / numbers in relation to children in residential provision, in comparison to budgeted assumptions. The MTFS for this financial year assumes budgeted residential numbers by March 2025 to be at 86 children (this includes parent and child placements). Trend and demand analysis at the time of budget setting, based on numbers between April 2021 to January 2024, indicated that the budgeted assumption of net demand of residential numbers growing to 86 by March 2025 to be reasonable and reflective of data-driven demand analysis. However, between the period of January 2024 and summer 2024, residential numbers increased rapidly to over 100 children and have stayed at that level for the remainder of the year. Current projections, based on current trajectory plans of children, suggest children in residential provision could reach 108 by end of March 2025 (26% increase vs budgeted MTFS projection). The financial impact overall on this budget due to the change in demand is very significant.

19. The graph below shows a visual illustration of how demand in residential provision has changed over time, and the increase in demand from 2023/24 quarter 3.



20. The table below shows the difference in both projected numbers and weekly unit cost for some of the costliest placement types, comparing MTFS budgeted position to the current projected position / cohort of children at March 2025.

	24/25 MTFS budgeted Assumptions by March 25		24/25 Current Projected Position by March 25		Change	
Placement Type	**Numbers**	**Weekly Cost £**	**Numbers**	**Weekly Cost £**	**Numbers**	**Weekly Cost £**
Residential Provision (Including Parent and Child)	86	6,181	108	6,055	22	-126
Independent Fostering Provision	150	926	142	975	-8	49
16plus Supported Accommodation (Non UASC)	77	1,666	80	1,855	3	189

21. The financial pressure is further compounded by market instability and provider choice which is resulting in children with a range of complex needs being 'unattractive' to the market (needs include violence and aggression as a result of experiencing trauma) and results in the use of high cost, £12,000+ per week per child, interim provisions until behaviour stabilises or another placement can be found. This can also result in volatility in the average unit cost of this cohort at any one time. Other sufficiency issues impacting on budget pressure include a lack of step-down options from residential provision. There are approximately 10 children who have been waiting long periods (6 months plus) for family-based placements, which reflects a similar position to 12 months ago - with continued searches and work with providers to try to identify suitable provision. This is not helped by a low recruitment pipeline for mainstream carers nationally which particularly impacts on availability of placements for older children and those with more complex needs.

22. As part of the direct actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved alongside the Social Care Investment Programme (SCIP) working in partnership with Barnardo's. This will have a positive impact through the creation of additional residential provision capacity for under 16's, over 16's and parent and children places. The Council has been successful in obtaining additional capital grant funding (match funded by the Council) to enable investment in a number of properties creating provision for 20 plus placements over the MTFS with several units now live and operational, with the remainder of units due to open over the next 12-18 months.

23. The £1.7m projected overspend position in relation to the Unaccompanied Asylum-Seeking Children (UASC) budget is largely due to the continued increase in UASC in care and care leavers, which has required a greater resource requirement to meet their needs. The impact of the development of dispersal into private residential

accommodation by the Home Office and the National Transfer Scheme (NTS) protocol development has resulted in an increase in the number of children who are UASC being accommodated by the Council.

24. Local authorities are mandated to receive UASC through the NTS if they are below their 0.05 % threshold, which is calculated from the number of UASC funding claims (for under-18s) made by that local authority, and the latest ONS estimate of that local authority's total child population at that time. In Leicestershire's case, the 0.05% threshold currently equates to 140 Looked After Children UASC aged under 18. However, this has been increased by the Home Office in January 2025 to 0.07% which will mean an increase to 145 children and young people. No consideration is given to the number of UASC care leavers aged 18+ within the allocation of the 0.07% by the Home Office. Which in turn means the Council continues to have more demand for care leaver services and the current funding for care leavers decreases, but the demand grows. The Council is working with the East Midlands Council's Strategic Migration Partnership which continues to challenge the situation with the Home Office.

25. The number of UASC care leavers is projected to grow to over 200 plus by the end of the financial year, which includes a number of UASC Looked After Children who will have turned 18 in the next six months. In addition to the UASC care leaver numbers growing, the Council will also receive more referrals from the NTS as it is likely to fall below the 0.07% threshold level of 145 Looked after Children numbers. Overall this is a significant demand and financial pressure. The table below shows the change in demand over the last three financial years, and with demand likely to increase further over the period of the MTFS.

	UASC In Care (Under 18's)	Annual % Increase	UASC – Care Leaver (Over 18's)	Annual % Increase
Mar-22	60		69	
Mar-23	97	62%	112	62%
Mar-24	132	36%	163	46%
Mar-25 (estimated)	104	-21%	224	37%

26. The Education Psychology service is projected to overspend by £1.1m in 2024/25. Difficulties recruiting into vacancies in this area have resulted in an increased reliance on locums at a significantly higher cost. Increased demand due to an increase in the number of EHCP needs assessments has further impacted the overspend position.

27. The Disabled Children Service is projecting an overspend position of £1.0m. Difficulties recruiting into vacancies within the service has resulted in an increased reliance on agency workers at a significantly higher cost (£0.3m). The remainder of the overspend position (£0.7m) relates to increased demand across both direct payments and commissioned support due to increasing numbers eligible and needing access to short breaks and wrap around support for this cohort of children on the edge of care.

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

29. There is also an increased demand for social care children in need of financial support (Section 17/23 of Children's Act 1989), which supports children with challenging behaviour, as well as children with high needs 'on the edge of care' and therefore such preventative spend is seen as a more cost effective solution, avoiding the high costs of supporting children in the actual care system. The projected overspend on this budget for this financial year is projected to be £0.7m.

30. There are further projected budget pressures (£0.5m) linked to frontline social care service budgets – mainly within Family Safeguarding and First Response due to some recent challenges with caseload management linked to incoming service demand. Due to staffing pressures in First Response service, and increased demand, additional agency staff were required for a period of time. This has led to a review of longer-term staffing for the service. In respect of Family Safeguarding, continued struggles to recruit experienced social workers have led to recruiting more newly qualified social workers needing agency staff working alongside them for the first 12 months. This will enable the service in 12 months' time to have a suitably experienced and skilled permanent workforce. The reliance on agency will reduce after 6 months with a significant reduction in 12 months. Agency usage and appropriateness is reviewed on a monthly basis as part of business-as-usual practice.

31. As a direct response to the projected overspends as described above, the departmental management team continue to lead on a review of non-statutory services supported by the introduction of corporate led financial controls. Taken together and with continued robust management and review of vacancies within the department the output of this work is projecting to deliver some net one-off in year efficiencies, and budget opportunities of £0.9m, which includes delaying recruitment to non-essential posts where appropriate. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.

32. In light of the various financial pressures across the department, further mitigating actions (acting as key enablers in supporting both current and/or future MTFS savings / demand management) remain in place and include:

a) Right service at the right time - ensuring reduced periods of care or care avoidance through family help and family support new models of working; and targeted interventions through exiting care by legal orders and step-down from residential interventions; refocusing resource on edge of care high need.

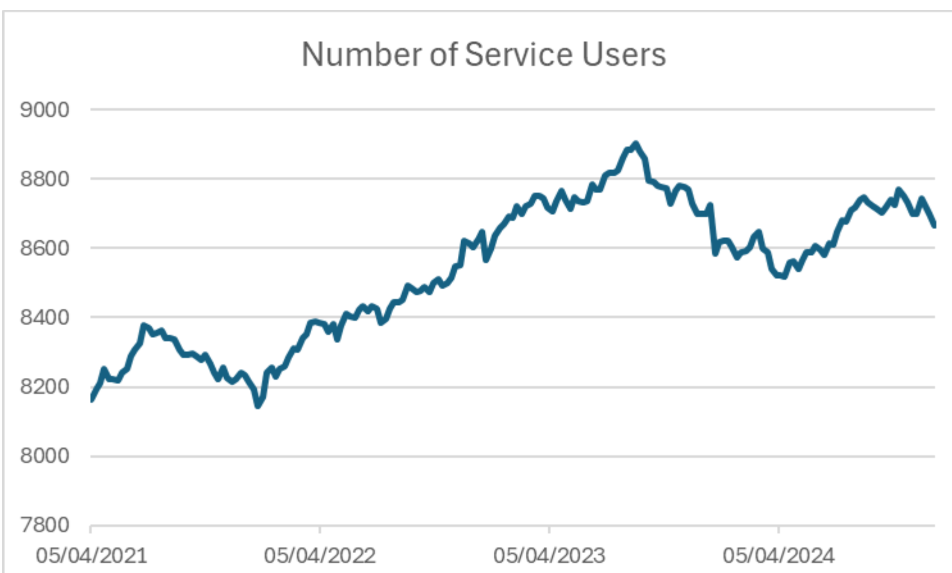
b) Improved oversight and sign off processes for those children with complex and escalating needs extending from Heads of Service to Assistant Director/Director level where appropriate.
c) Continued business activity introduced by the Defining Children's and Family Services programme focusing on children who have been referred to the Children and Family Services commissioning service for a placement and are likely to result in residential care due to market sufficiency issues or high need. This meeting is being extended to include foster care referrals received for children age 12+ who by virtue of their age and due to market pressures, are at risk of residential care.
d) Continued focussed management and review of vacancies within the department, with the output of this work projecting to deliver some one-off in year efficiencies and budget opportunities which includes delaying recruitment to non-essential posts where appropriate.

Adults and Communities

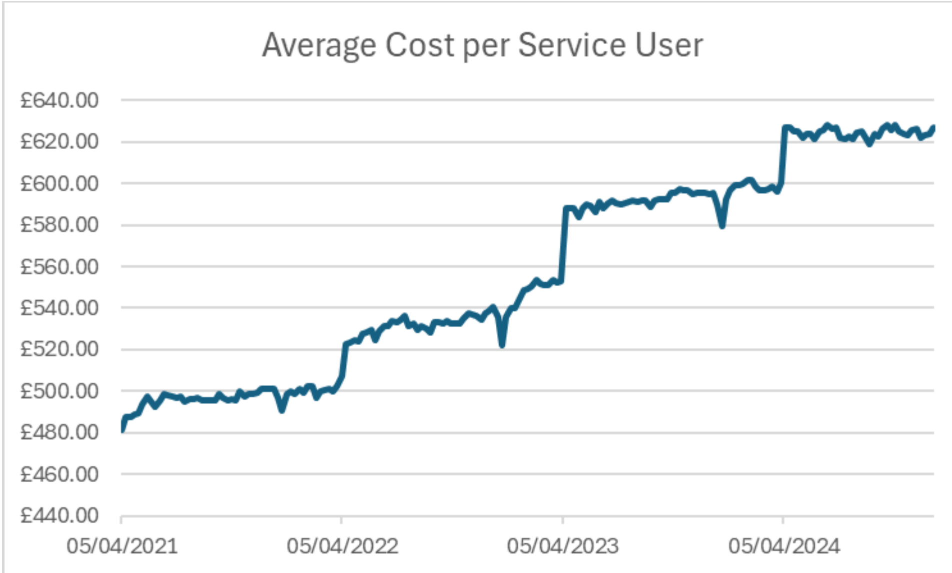
33. A net underspend of £16.5m (6.8%) is forecast for the revenue budget for 2024/25.

Overall Demand Trends

34. The chart below shows the overall number of service users being supported across Residential Care, Homecare, Supported Living, Direct Cash Payments and Community Life Choices from April 2021 through to December 2024. Prior to the introduction of the Fair Outcomes Panel in September 2023 annualised growth from April 2021 to September 2023 was approximately 3.5%. Since then, the department has worked to be more efficient with commissioning and the number of service users supported have now decreased to an annualised rate of 1.7% over the whole period.



35. The average cost per service user rose over the same time period. The rise from April 2024 relates to the annual fee review uplift. Uplifts occur in April each year.



36. The department has established a wide-ranging demand management programme and a panel to review care packages since September 2023 which has started to have an impact on all commissioned services.

37. The main areas of budget variance forecast in 2024/25 are:

Residential Care - £3.8m underspend

38. There is a significant increase in residential service user income which is mainly due to clearing a backlog of financial assessments which has generated an additional (£3.2m) of one-off income. This income may not be fully guaranteed due to charges being raised relating to the past. Additional health income (£1.3m) is expected due to increasing numbers of service users receiving funding. There is a overspend forecast for residential care (£0.7m) reflecting rising service user numbers in the second half of the year. The forecast is based on 2,466 service users per week costing an average of £1,076 per week.

Homecare - £2.9m underspend

39. The number of home care service users (SU) and average hours has been falling since the introduction of the Fair Outcomes Panel (FOP) in September 2023. The budget is based on an average of 2,690 SU per week. The latest forecast has an average 2,600 SU per week with an average cost per SU of £340 per week.

Supported Living - £1.7m underspend

40. The forecast anticipates an increase of approximately 20 service users over the course of the year which is lower than anticipated. This is mainly due to lower referrals coming via Care Pathway staff but also alternative ways to commission are being pursued from the Fair Outcomes Panel and in Group Supervisory Meetings. Currently there are 520 service users at an average cost of £1,638 per week.

Community Commissioned Services Income - £1.4m underspend

41. An overachievement of service user income is forecast (£0.7m) mainly from the one-off processing of the backlog of financial assessments. This income may not be fully guaranteed due to charges being raised relating to the past. Total health income is forecast to over-recover by £0.7m as the numbers of homecare and cash payment service users with health funding has grown since the Fair Outcomes Panel came into operation.

Home First - £1.3m underspend

42. Underspend relates to staffing vacancies that are in the process of being filled. Recruitment is ongoing to ensure that the new HART delivery model (intake model) is fully staffed. This will have the benefit of increasing reablement capacity reducing the commissioning of external provision when there isn't adequate HART capacity.

Discharge Fund - £1.0m underspend

43. Additional income from health: for discharges from hospital (£0.8m) plus an additional £0.2m applied to the current residential expenditure overspend.

Better Care Fund (BCF) / Other NHS Income - £1.0m underspend

44. Additional BCF and Discharge Grant income of £1.7m offset by a shortfall in Discharge to Assess (D2A) recharge income of £0.7m.

Direct Cash Payments - £0.7m underspend

45. Underspend is mainly due to a 11% reduction in service users (SU) offset by a 14% increase in SU package cost. SU numbers have decreased since budget setting and levels of new SU have halved, which is likely due to the effects of the Fair Outcomes Panel. The forecast is based on an average of 1,735 SU with an average cost of £478 per week and Carers averaging at 1,254 SU with an average cost of £52 per week. Market Sustainability and Improvement Fund (MSIF) grant has been received towards promoting the use of personal assistants for new SU's. This was implemented in August 2023 but has had a slow start with costs assumed to increase over the year.

Community Life Choices (Day Services) - £0.7m underspend

46. The number of service user peaked in October-23 and since then numbers have been lower than budgeted for. There has been a noticeable increase of 5% in service user numbers over the course of the year, which are likely to be young adults which have transitioned from the Children's and Family Services department.

47. The net underspends above are increased by a net £2.0m underspend mainly from staffing vacancies, grant income and other minor variations across the department.

Public Health

48. The department is forecasting a net underspend of £0.1m mainly due to additional Public Health Grant that has been received in year. The underspend will be transferred to the Public Health earmarked reserve.

<u>Environment and Transport</u>

49. A net underspend of £0.7m (0.6%) is forecast.

50. Across Highways and Transport operations a net £1.8m overspend is forecasted as a result of:

- Mainstream School Transport - £1.4m overspend. Increase in overall number of students entitled to mainstream school transport (6.7% since 2021/22) and a rise in the number of routes. Bus operational costs have also increased resulting in higher contract costs which, combined with limited bus capacity, has resulted in a greater number of pupils being transported by taxi. Furthermore, with effect from September 2024, additional costs arising from DfE statutory change to Mainstream home to school transport policy.
- Environmental and Reactive Maintenance – net overspend £1.5m in response to increasing demand for reactive repairs on a deteriorating road network and severe weather conditions. This is a statutory duty with works being undertaken in line with service policy.
- SEN Transport – £0.4m overspend. Impact of additional growth in service users over and above original growth forecasts.
- Social Care Transport - £0.7m overspend - due to an under reserve in 2023/24 and additional taxi spend, which is met by an underspend on Passenger Fleet.
- Network Management - £0.8m underspend arising from additional Temporary Traffic Regulation Order applications.
- Engineering Services - £0.8m underspend due to increase recharge to the Capital Programme for staff time incurred on capital works.
- Passenger Fleet – net underspend £0.6m due to vacant driver and escort posts, net of additional vehicle hire and maintenance costs.

51. Development and Growth services are forecasting a £0.3m underspend arising from vacancies across teams (£0.8m) offset by shortfall in developer income (£0.2m) and recharges to capital programme for staff time incurred on capital works (£0.3m).

52. There is a net underspend of £2.1m forecast on Environment and Waste Management services. Additional income from the sale of dry recyclable and electrical materials (£1.4m), together with underspends arising from staffing vacancies (£0.1m); and net underspends arising from changes to Waste treatment including diverting waste away from landfill (£0.5m). There is also a £0.1m underspend on environmental policies and initiatives due to reduced capacity for service delivery and lower take up of planned initiatives.

53. The remaining balance relates to £0.1m forecast underspends on department and business management due to staffing vacancies and reduced spend on software licenses.

Chief Executive's

54. The Department is reporting a net underspend of £0.5m, mainly due to staffing vacancies and additional income.

Corporate Resources

55. There is a projected net underspend of £1.0m (2.4%).

56. Net underspends of £2.3m mainly relate to vacancies across several parts of the Department and reduced commissioning spend. This is largely because of the introduction of tighter corporate led financial controls, together with existing robust management and review of vacancies within the Department delivering a number of in-year efficiencies.

57. The underspends are offset by contributions of £1.3m to earmarked reserves as below:

- £0.5m contribution to the Investing in Leicestershire Programme (IiLP) earmarked reserve (sinking fund) to help offset a forecast fall in the net asset value of £1.8m that will be funded from the sinking fund relating to the divestment of certain pooled property investments, explained in more detail within the IiLP section later in this report.
- £0.5m contribution to earmarked reserves to offset one-off costs related to the relocation of the data centre to a third party host from Romulus Court.
- £0.4m contribution towards a sinking fund for corporate buildings and country parks.

Central Contingencies

58. MTFS Risks Contingency (£10m original budget, £9.0m balance). £1m of the contingency has been released to provide temporary support to the Commercial Services budget. No further release of the contingency has been assumed in the projection. The balance of funding will be transferred to corporate earmarked reserves to assist with addressing the projected MTFS budget gaps in future years. The 2025-29 MTFS shows a gap of £5m in 2025/26 rising to £38m in 2026/27. To mitigate the impact it is important that wherever possible funding is set aside to meet those future years' challenges.

59. Inflation Contingency (£36.1m original budget, £12.3m balance). The contingency is currently projected to be underspent by around £10.1m. This mainly relates to lower costs on the Adult Social Care Fee review than anticipated in the MTFS. The pay settlement for Local Government staff for the current year was also lower than the assumption in the MTFS. Given uncertainty regarding the impact of changes to National Insurance from April 2025, an amount of £2m will be carried forward to 2025/26 via a transfer to earmarked reserves.

60. Service Investment Fund (£0.2m original budget). This budget has been transferred for 2024/25 purposes to the Environment and Transport budget, to be used for flood investigation and scheme development work to address flooding as well as bidding for

funding for project delivery. It will also provide capacity to administer Government flood-related grant funding.

Central Items

61. The Financing of Capital budget is forecast to be £2.4m overspent. This comprises an underspend of £0.9m (part year 2024/25) due to a reduction in interest payments following the early repayment of £39m of external debt principal during 2024/25, offset by premiums, of which £3.3m will be charged in 2024/25. Following high periods of inflation in the UK there had been an increase in the discounts available for the premature repayment of debt which will then lead to annual savings in interest payments for the next 40 years. At the start of the year the Council was £18m overborrowed against the capital financing requirement (the level of historic capital expenditure required to be funded). By year end the Council is now forecast to be underborrowed by £25m, which can be funded using internal investment balances rather than more expensive external borrowing.

62. Bank and other interest, £6.0m increased investment income. This is due to the Bank of England base rate levels being higher, and for longer than forecast, and higher than estimated average Council balances. The Bank of England base rate stands at 4.5%. Average balances remain strong due to increases in earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance.

63. Central expenditure budgets are currently forecast to underspend by £1.9m. This comprises £1.0m relating to the cleansing of receipted aged purchase orders that are no longer required, £0.7m regarding a reduction to prior year business rates relating to Beaumanor Hall, Century Theatre and other properties, and £0.2m relating to higher than forecast income from a share of the surplus for ESPO in 2023/24.

64. Additional contributions to corporate earmarked reserves of £6.6m. This relates to £3.1m to provide cover for the increase in the High Needs Block deficit, £2.5m from increased business rates income, as set out below, to be used to offset the anticipated gap in the MTFS projection in 2025/26, and a £1m contribution to the Transformation reserve, which is forecast to require additional funding over the MTFS period.

65. The Cabinet on 13th September 2024 approved the use of the Period 4 forecast net underspend of £6.4m to fund an increase in the capital programme risk contingency.

66. A revenue contribution to the capital programme of £0.9m is also forecast to fund increasing pressures during the year on highways capital maintenance – a net overspend of £0.9m is forecast in the capital section of this report.

67. The approved MTFS projected a net gap in 2024/25 of £6.4m which was planned to be covered by a contribution from the budget equalisation reserve. Given the current forecast position, that contribution is now forecast not to be required in the current year but is likely to be needed in future years, with the approved 2025/26 budget only being balanced with the use of reserves.

Business Rates

68. Additional Business Rates income of £1.3m is forecast in 2024/25, based on the latest information from district councils on their NNDR1 forms and forecast section 31 grants. The MTFS adopted a prudent approach and did not allow for potential real terms growth or for the full impact of inflation in charges to businesses and section 31 grants.

69. Additional Business Rates Pool levy income of £0.7m is forecast for 2024/25. The current forecasts based on data in the NNDR1 forms and monitoring exercises shows a total of £21.7m, of which one third (£7.2m) will be allocated to the County Council under the revised treatment of Levies reported to the Cabinet in June 2023, compared with the forecast of £6.5m included in the 2024/25 budget.

70. The Government has announced a redistribution of £100m from the national Levy and Safety Net fund, of which the County Council has been allocated £0.5m.

Overall Revenue Summary

71. At this stage the revenue budget is projected to underspend by a net £7.5m.

72. There are increasing pressures on the capital programme, through increasing construction costs and risks to future capital grants. The Cabinet on 13 September 2024 approved the allocation of £6.4m from the Period 4 forecast revenue outturn to increase the capital programme risk contingency. That amount could be increased from part of the net £7.5m projected underspend at period 10. The capital programme will generate future savings for the Council's revenue budget.

73. The budget for 2025/26 has recently been approved and was only balanced with the use of reserves. The significant gap in the MTFS for 2026/27 and later years budgets is still very concerning. As such, there is a need to ensure surplus funds in the current year are set aside to mitigate against the impact of these gaps. It is therefore assumed that an element of the additional net £7.5m underspend forecasted at Period 10 will be used to contribute to the budget equalisation reserve.

74. Also, the Government's intentions to proceed with Local Government Reorganisation will involve one-off costs in future years and an element of the projected underspend could be set aside to provide funding towards those costs.

75. However, the position is still subject to change and the Provisional Outturn reports to Cabinet on 27 May 2025 and the Scrutiny Commission on 9 June 2025 will include recommendations on the use of the final year-end net underspend.

CAPITAL PROGRAMME

76. The updated capital programme for 2024/25 totals £167m. This follows a review of the programme undertaken over the summer and approved by the Cabinet in September 2024.

77. The latest forecast on the capital programme for 2024/25 shows overall slippage of £24m. A summary is shown in Appendix C with details of the variances provided in Appendix D.

78. The main variances are reported below.

Children and Families

79. The Department is forecasting net acceleration of £7m. The main variances include:

80. Provision of School Places Programme – net £9.3m acceleration across the following schemes –
    - Shepshed Iveshead School +£5.7m, Hastings High School +£2.6m, Hinckley Redmoor Academy +£2.4m and Oadby Manor High School +£1.3m have progressed earlier than the original prudent timelines.
    - Slippage of -£1.8m on Brocks Hill Primary as planning permission is rescheduled to March 2025, and slippage of £-0.3m at Weland Park School.

81. SEND Programme – slippage of £2m due to revised project timelines to two schemes following the review and refinement of the scope of the works with the schools.

Adults and Communities

82. The Department is forecasting net slippage of £1.5m on the Social Care and Improvement Programme (SCIP). This relates to two extra care schemes that have not progressed out of the planning stage as quickly as intended due to the need to ensure financial viability. However, both projects are expected to progress in 2025/26.

Environment and Transport

83. The Department is forecasting net slippage of £17.5m and an overspend of £0.9m. The main variances are described below.

84. Melton Distributor Road, £8.6m slippage as the latest estimated timetable for the scheme is highlighting more deliverables anticipated in 2025/26 rather than 2024/25. The programme of works remains flexible to accommodate weather events, reprioritising works to appropriate times to ensure completion of the overall programme remains on track. The scheme is expected to be complete in early 2026. The overall cost estimate for the scheme remains as per previous forecasts.

85. Vehicle Replacement Programme, £2.9m slippage due to additional procurement requirements after a supplier ceased trading resulting in a delayed programme.

86. Zouch Bridge, £1.0m slippage. Work on the scheme is underway with latest estimation highlighting more work to be completed in 2025/26 and less in 2024/25. The programme commenced this year and demobilising in the winter months in line with anticipated

Environmental Agency permit constraints. The review of deliverables timetable does not highlight any concerns with completion of the programme.

87. Other schemes:
- Advance Design, £1.3m slippage due to alignment of programme to Multi Module Area Investment Plans (MMAIP) and delivery of cycling and walking programmes.
- Safety Schemes, £0.6m slippage due to awaiting outcomes from the community speed management initiative survey due March 2025.
- Melton Depot Replacement, £0.5m slippage to due working on designs for the programme being lengthier than anticipated.
- Property flood risk alleviation, £0.5m slippage due to latest project profiles.
- Traffic Signal Renewals, £0.5m slippage due to procurement delays relating to the DfT funded Traffic Signal Obsolesce Grant.

88. There is also a net overspend of £0.9m across the departmental programme mainly relating to additional expenditure of £1.7m on highways maintenance schemes, restorative and preventative including road patching/dressing due to the need to keep the network safe following deterioration of highway assets. Additional government grant funding has been included in the new MTFS 2025. The overspends are offset by various underspends on other capital schemes across the departmental programme.

Corporate Resources

89. The Department is forecasting net slippage of £1.8m and an underspend of £0.5m. The main variances are:

- Climate Change (Energy Initiatives) - £0.6m slippage awaiting the design of the fleet transition plan and £0.2m as awaiting the outcome of match funding bids.
- ICT - End user device programme (PC, laptop), £0.5m slippage agreed by the ways of working programme board to ensure refresh funds are available beyond the existing MTFS period.
- Property Services - £0.4m slippage across various smaller schemes due to revised completion.
- Workplace Strategy – Office Infrastructure, £0.4m underspend due to latest estimations of works remaining costing less than previously anticipated.

Corporate Programme

90. The programme is forecasting slippage of £10.7m. The main variances are:

- Airfield Business Park, £4.5m slippage, project spend reprofiled due to delays with signing build contract.
- Lutterworth East Planning and Pre highway construction works programme, £3.2m slippage. This follows a review of the scheme, reported to the Cabinet in June 2024. The revised profile shows the majority of spend being incurred in 2025/26 and 2026/27.

- Lutterworth Leaders Farm Drive Thru Restaurants, £2.7m slippage due to requirement to obtain highways approval for a pedestrian crossing on the A4303 dual carriageway.

Capital Receipts

91. The latest estimate of capital receipts in 2024/25 is £15.4m, in line with the budget. The estimate includes £4.8m of new land and building disposals, £5.7m from the sale of pooled property funds and £4.9m from unapplied capital receipts brought forward from 2023/24.

Investing in Leicestershire Programme – Quarter 3, 2024/25 update

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

93. A summary of the IiLP position at quarter three for 2024/25 is included within Appendix E and shows total forecast income for the year of £8.5m which is in line with the budget for 2024/25. The total budget is split between direct core holdings and diversifier investments as shown in the appendix. The position also includes a contribution to the sinking fund of £2.1m in 2024/25 (the sinking fund totalled £2.6m at the end of 2023/24). The current plan is to increase the amount held in the sinking fund to £7m by the end of the MTFS period assuming no large utilisation is needed. At present any in year outperformance to the budget will be used to accelerate building of the sinking fund.

94. The overall in year forecast net return for the IiLP is 5.2% for 2024/25 when excluding the development assets still in construction, and rural portfolio. Including these asset classes reduces the forecast net income return to 3.0% for the year as a consequence of the low percentage returns against the rural portfolio which is expected and nil income against the development assets.

95. The Quorn solar project has now been withdrawn and as such forecast income from 2026/27 has been removed and will be replaced by other in-flight projects. The site has now been marketed for sale or lease with the planning permission to build a solar farm to a purchaser. The decision to sell or lease the site to a prospective buyer is primarily based on the technical knowledge and experience required to build a solar farm in the timescale as determined by the grid connection the County Council has procured. Bids have now been assessed, and a preferred bidder has been identified.

96. The diversifiers are indirect holdings with the purpose of reducing overall portfolio risk by investing in differing asset classes and geographies. Four separate types of investment are included: UK pooled property funds, a global infrastructure fund, three vintages of a pooled private credit strategy and a bank risk share strategy. The aim is to provide diversified income from a variety of differing sources.

97. One of the four pooled property funds within the diversifier's portfolio is in the process of being liquidated after large investors requested redemptions. The liquidation comes at a time when property prices have fallen as interest rates rose through 2022 and 2023. The IiLP programme invested £7.5m in this fund in December 2015 and as at 31 March 2024 had a net asset value of £5.7m, a £1.8m capital loss if all the assets could be sold at the property managers' valuation. The IiLP fund has had £2.0m in income over the time of the investment and will continue to earn income, albeit at lower levels, as assets are sold. Another one of the four investments is also undergoing restructuring as the result of a large number of redemption requests, it is likely that the IiLP will receive its capital returned during 2025. This Fund, at present is valued at just below the original investment and has received £2.5m in income since the first investment was made in February 2016.

98. No new diversifiers are being committed to during 2024/25 although the Partners' MAC 7 (private debt) has called capital totalling £6.6m and has uncalled commitments of c.£3m which are likely to be called through 2025/26. The diversifiers' forecast net income for this year is £5.2m which is £2.3m ahead of the budget largely as a result of income from the bank risk share investment being ahead of forecast. The additional income will be added to the sinking fund as previously mentioned.

99. An independent review of the Fund was undertaken by Hymans Robertson in December 2023. The report recognizes the challenges faced by the property market resulting from higher interest rates and inflation over the past two years and acknowledged the challenges facing the market and the IiLP. The report made a number of recommendations including setting ranges / limits on exposure to individual assets, tenants, property sectors and asset classes in order to guide the development of the portfolio. It also recommended the IiLP explore opportunities to dispose of selected properties, partly to adjust property sector allocations but also to recycle funds into developments.

Recommendation

100. The Scrutiny Commission is asked to note the contents of this report.

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications of this report.

Background Papers

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

Report to the Cabinet – 13 September 2024– Medium Term Financial Strategy – Budget Monitoring and MTFS Refresh
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7509&Ver=4

Appendices

Appendix A: Revenue Budget monitoring statement
Appendix B: Revenue budget major variances
Appendix C: Capital Programme monitoring statement
Appendix D: Capital Programme – forecast main variances and changes in funding
Appendix E: Investing in Leicestershire Programme – 2024/25 Quarter 3 update

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