Leicestershire County Council

CABINET – 17 JUNE 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PROVISIONAL REVENUE AND CAPITAL OUTTURN 2024/25

PART A

Purpose of the Report

1. The purpose of this report is to set out the provisional revenue and capital outturn for 2024/25.

Recommendations

2. It is recommended that:

   (a) The 2024/25 provisional revenue and capital outturn be noted;

   (b) The prudential indicators for 2024/25 as shown in Appendix E to this report be noted;

   (c) The net underspend is used for the additional commitments as specified in the report;

   (d) To endorse an additional £10m treasury management investment in bank risk sharing product (capital release funds) in line with the Council's approved Treasury Management Strategy.

   (e) To note that the current MTFS gap of £90m by 2028/29 requires immediate action to deliver savings, and give delegated authority to the Director of Corporate Resources following consultation with the Leader and Lead Member for Resources to undertake procurement processes, as required, to appoint external support.

(Key Decision)

Reasons for Recommendations

3. To inform the Cabinet of the provisional revenue and capital outturn for 2024/25 and seek agreement to the transfers to earmarked reserves to fund future commitments and endorse an additional £10m treasury management investment in bank risk sharing product (capital release funds), in line with the Council's approved Treasury Management Strategy.

Timetable for Decisions (including Scrutiny)

4. A report on the provisional revenue and capital outturn will be considered by the Scrutiny Commission on 9 June 2025 and any comments or recommendations will be reported to the Cabinet at the meeting.

Policy Framework and Previous Decisions

5. The County Council approved the 2024/25 to 2027/28 Medium Term Financial Strategy (MTFS) in February 2024. The key aim of the Strategy is to ensure that the Authority has appropriate resources in place to fund key service demands over the next few years. The Strategy includes the establishment of earmarked reserves and the allocation of ongoing revenue budget and capital resources for key priorities.

6. The 2024-28 capital programme was reviewed over the summer of 2024 and an updated programme was approved by the Cabinet on 13 September 2024.

Resource Implications

Revenue Outturn

7. A summary of the revenue outturn for 2024/25, excluding schools grant, is set out below:

	£000
Updated budget	567,607
Provisional outturn	561,376
Net underspend	-6,231
Additional funding	-2,544
Net underspend	-8,775
Additional commitments	8,775
Net position	0

8. Overall there has been a net underspending of £8.8m, which will be used to meet additional commitments detailed later in the report. A more detailed summary is given in Appendix A. Details of the variances for departments and central items are included in the report and in Appendix B.

9. The General Fund Reserve is proposed to increase to £25m as at 31st March 2025, which represents 4.1% of the 2025/26 revenue budget (excluding schools' delegated budgets), in line with the County Council's approved reserves policy target range of 4% to 7% of net expenditure. This will be achieved by a transfer from earmarked reserves. . The current MTFS includes contributions of £1m per year to increase the general fund. These will be reviewed as part of the updating for the MTFS for 2026-30. It is necessary to increase the General Fund to reflect increasing uncertainty and risks over the medium term and to avoid a reduction in the percentage of the net budget covered given the overall budget increase.

Capital Outturn

10. A summary of the capital outturn for 2024/25, excluding schools devolved formula capital, is set out below:

	£000
Updated budget	168,223
Less provisional outturn	134,079
Net Variance	-34,144

11. Overall, there has been a net rephasing of expenditure of £34.1m compared with the updated budget. This funding will be carried forward to 2025/26 to fund schemes that were not completed in 2024/25.

12. Details of the variances and key projects delivered in 2024/25 are included in the report, and in Appendix D.

Circulation under the Local Issues Alert Procedure

13. None.

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PART B

Overall Position - Revenue

14. Appendix A shows the provisional outturn position for 2024/25. This compares the actual net expenditure incurred with the updated budget. The original budget has been updated for transfers between services and from central contingencies.

15. Appendix B gives details of significant variances by departmental revenue budgets for 2024/25.

Children and Family Services – Schools Budget

16. Overall there is a net overspend of £16.3m on the Dedicated Schools Grant (DSG). This comprises an overspend of £23.2m on the High Needs Block, which has been forecast at that level for most of the year, offset by an underspend of £5.0m on the Early Years Block, and an underspend of £1.9m on the Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

17. The High Needs Block 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 an overspend in the placement budgets of £6.4m as a result of an increase of 1,028 (17%) in the number of funded places above budgeted position. The significant increases are within mainstream schools which are 33% above budget, and Post-16 Further Education Colleges by 59%. The department is undertaking further analysis to understand the reasons for the increase in numbers. 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 circa 81%, 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 further increases overall overspend position.

- Additionally, the final figures published by the Department for Education (DfE) resulted in 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 the Spring census date than the same point the previous year.

18. Nationally, concern over the impact of Special Educational Needs and Disabilities (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.

19. 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 rises to £64.4m at the end of 2024/25. 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.

20. Without new interventions the High Needs Block deficit is expected to continue to increase over the MTFS period and is not financially sustainable, despite planned savings in the region of £50m by 2028/29. This creates a significant and unresolved financial risk to the Council.

21. The Early Years budget is showing a financial year-end underspend of £5.0m. 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 funding lag around timings as to when grant income is received and means the 'true' underspend position in relation to 2024/25, will not be confirmed until later in the summer of 2025 upon DfE confirmation of any funding adjustments.

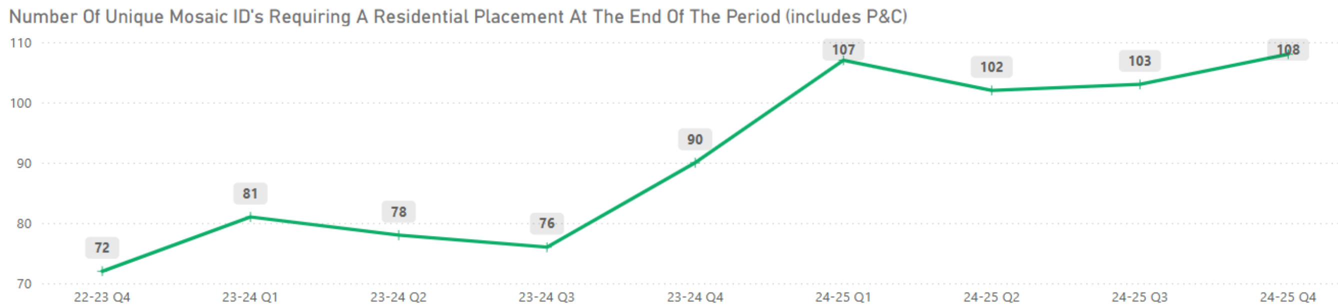
22. The overall underspend position includes the budgeted planned underspend of £1.1m as part of the payback of previous years' Early Years deficits. The Early Years DSG deficit as at 31 March 2024 was £3.1m. The plan was to clear this deficit over 4 years which would be March 2027 at the latest. Once the final DfE funding position is known (over the summer 2025) this will then determine the final position on the Early Years Block for 2024/25 and therefore the extent to which the deficit position could be cleared sooner than the planned March 2027 date.

Children and Family Services – Local Authority Budget

23. The Local Authority budget is overspent by a net £8.8m (7.1%), mainly relating to overspends on the Children's Social Care Placements budget (£5.0m), Unaccompanied Asylum-Seeking Children's budget (£1.5m), Education Psychology Service (£1.2m), and Disabled Children Service (£0.8m).

24. The overspend on the Children's Social Care Placement budget (£5.0m) is largely due to the change in demand / numbers in relation to children in residential provision, in comparison to budgeted assumptions. The MTFS 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 this assumption was 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. The end-of-year position showed 108 children in residential provision (26% increase vs budgeted MTFS projection). The financial impact overall on this budget due to the change in demand is significant.

25. The graph below illustrates how demand in residential provision has changed over time, and the sharp increase in demand from 2023/24 quarter 3 to 2024/25 quarter 1.



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

	24/25 MTFS budgeted Assumptions by March 25		24/25 Position at end of 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	145	980	-5	54
16plus Supported Accommodation (Non UASC)	77	1,666	82	1,750	5	84

27. 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 (for example, where they display violence and aggression as a result of experiencing trauma) and results in the use of high cost, £12,000+ per week per child, interim provision 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 11 children who have been waiting long periods (6 months plus) for a family-based placement, 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 affects availability of placements for older children and those with more complex needs.

28. As part of the direct actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved alongside the Social Care

Investment Programme (SCIP) working in partnership with Barnardo's. This will have a positive impact through the creation of additional residential provision capacity for under 16's, over 16's and parent and children places. The Council has been successful in obtaining additional capital grant funding (match funded by the Authority) to enable investment in a number of properties creating provision for 20 plus placements over the lifetime of the MTFS. Several units are now live and operational, with the remainder of units due to open over the next 12-18 months.

29. The £1.5m 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 Leicestershire.

30. Local authorities are mandated to receive UASC through the NTS if they are below their 0.1 % threshold, which is calculated from the number of UASC funding claims (for under-18s) made by that local authority, and the latest ONS estimate of that local authority's total child population at that time. In Leicestershire's case, 0.1% threshold currently equates to circa 145 Looked After Children UASC aged under 18. No consideration is given to the number of UASC care leavers aged 18+ within the allocation of the 0.1% by the Home Office. This 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 Councils' Strategic Migration Partnership which continues to challenge the situation with the Home Office.

31. The number of UASC care leavers is 216 by the end of the financial year, which includes a number of UASC Looked After Children (i.e. those in the care of the Authority) who will have turned 18 in the last 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 0.1% threshold level of 145. Overall this is a significant demand and financial pressure. The level of grant paid by the Home Office is sufficient to cover the costs of the cohort that are under 18, but it drops significantly for those over 18 and does not cover the cost incurred. 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	82	-38%	216	33%

32. The Education Psychology service is overspent by £1.2m 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 the growing number of Education,

Health and Care Plan (EHCP) needs assessments has further impacted the overspend position.

33. The Special Educational Needs Assessment Service budget is overspent by £0.5m 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 (EHCP) writing, tribunal work and provide additional management resource has contributed to the overspend. Meanwhile mediation costs remain high, adding to the in-year financial pressure.

34. There is also an increased demand for children in need of financial support who meet the thresholds as set out in Sections 17/23 of Children's Act 1989, which targets children with challenging behaviour, as well as children with high needs 'on the edge of care'. 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 overspend on this budget for this financial year is £0.7m.

35. There are further 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. Key staff in First Response have been absent and, due to demand, additional agency staff were required. This has led to a review of longer-term staffing need 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 its appropriateness is reviewed on a monthly basis as part of business-as-usual practice.

36. The Disabled Children Service overspent by £0.8m. 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 (£0.5m) 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.

37. As a direct response to the financial pressures which were being seen in-year across the different service areas, the departmental management team is carrying out a review of non-statutory services, supported by the introduction of corporate led financial controls. Together with continued robust management and review of vacancies within the department, this work has delivered some one-off in-year efficiencies, and budget opportunities of £1.5m. This includes delaying recruitment to non-essential posts where appropriate, as well as maximising any grant funding to ensure such prescribed outcomes can be met in the most efficient, effective and compliant way possible. Further work is being undertaken to explore the feasibility of this work delivering ongoing future budget efficiencies.

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

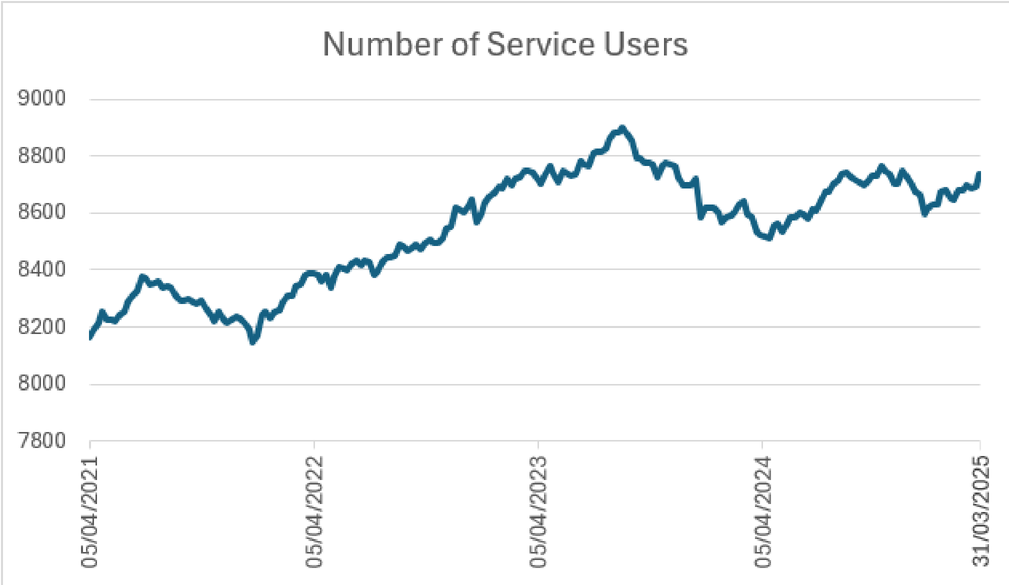
a) Pro-active reviews of a child's placement package, ensuring package of support and care is fit for purpose and aligned to needs. This is supported by ensuring reduced periods of care or avoiding the need for care through family help support and new models of working, and targeted interventions through exiting care by legal orders and step-down from residential interventions.
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.
c) Continued business as usual 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 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; this is projected to deliver some one-off in-year efficiencies and budget opportunities, including delaying recruitment to non-essential posts where appropriate.

<u>Adults and Communities</u>

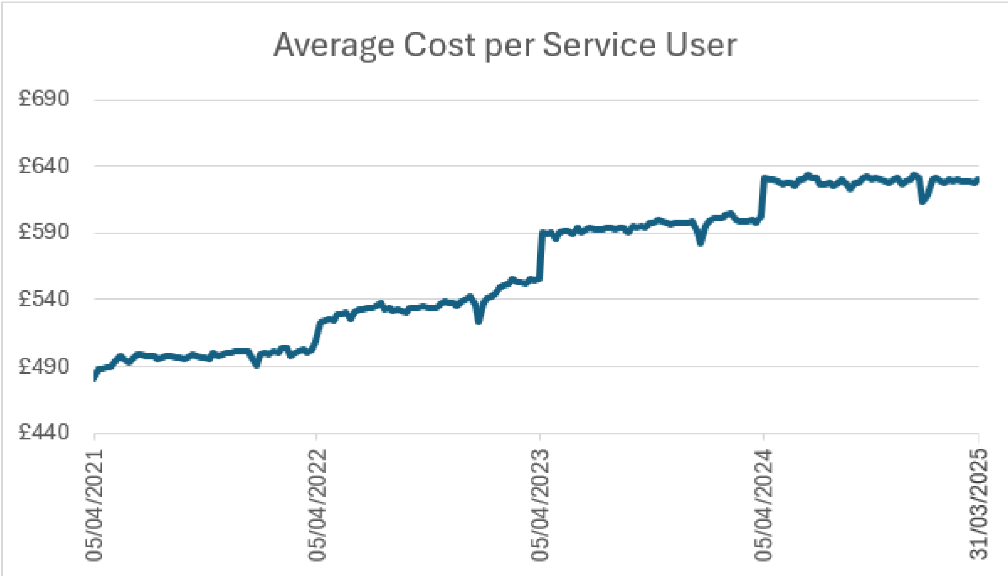
39. There is a net underspend for the departmental revenue budget for 2024/25 of £17.3m (7.2%).

<u>Overall Demand Trends</u>

40. 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 March 2025. Prior to the introduction of the Fair Outcomes Panel (departmental panel to review care packages) 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 has now decreased to an annualised rate of 1.5% over the whole period.



41. 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.



42. 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.

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

<u>Homecare - £3.8m underspend</u>

44. The number of home care service users and average hours had been falling since the introduction of the Fair Outcomes Panel in September 2023. The budget is based on an average of 2,690 service users per week. At the start of the year there were 2,550

service users. Over the year there has been a 4% growth in SU numbers to 2,650 as of March 2025. Average hours per service user are currently around 10.7 per week which has now reached a stable position, having fallen from around 11.2 hours a year earlier. The average cost per week per service user over the year is £340, (2023/24. £330).

Residential Care - £3.2m underspend

45. Residential service user income overachieved the budget by £2.6m predominantly from clearing a backlog of financial assessments which has generated additional one-off income. This income may not be fully guaranteed due to the charges being raised relating to the past and therefore being more difficult to collect. Additional health income was also received of £1.1m due to increasing numbers of service users with funding following the introduction of the Fair Outcomes Panel. The additional income was partially offset by an overspend on residential care expenditure of £0.8m due to an increase in service user numbers. There was an average of 2,384 service users over the course of the year with an average cost of £1,095 per week. There are also fewer service users in shared lives residential placements creating an additional underspend of £0.35m.

Better Care Fund (Balance) / Other NHS Income - £2.7m underspend

46. Additional BCF and Discharge Grant income of £2.7m which can be used to support hospital discharge related costs.

Home First - £1.3m underspend

47. The underspend relates to staffing vacancies that are in the process of being filled. Recruitment is ongoing to ensure that the new Homecare Assessment and Reablement Team (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 is not adequate HART capacity.

Supported Living - £1.1m underspend

48. There was an increase of approximately 20 service users over the course of the year which is lower than anticipated. The underspend was due to lower referrals coming via the care pathway, but also resulted from alternative commissioning options being pursued by the Fair Outcomes Panel and in group supervisory meetings. Currently there are 526 service users at an average cost of £1,645 per week.

Direct Cash Payments - £1.1m underspend

49. The underspend is due to 2.45% reduction in service users leading to a £1.2m underspend. The number of new packages being commissioned has decreased by 30% since the introduction of the Fair Outcomes Panel leading to lower service user numbers. The cash payment income target was £0.1m lower than budgeted, and the department is working to improve this process where service users have not used their full allocation and have surplus balances building. Currently there are 1,726 service users receiving a

direct cash payment and 1,279 carers receiving a carers cash payment. The department has actively encouraged the uptake of personal assistants by cash payment recipients. This was implemented in August 2023 and has had a slow start but numbers are expected to scale up over 2025/26.

Community Life Choices (Day Services) - £0.8m underspend

50. The number of service users peaked in October 2023. Since then numbers have been lower than budgeted for. There has been a noticeable increase of 6% in working age adult service user numbers over the year, which are likely to be young adults who have transitioned from the Children's and Family Services Department.

51. The net underspends above are increased by a net £3.3m underspend mainly from staffing vacancies, grant income and other minor variations. Collection of adult social care debt has been challenging during the year as it is dependent on many factors, some of which are outside the Council's control, such as delays within the court system to process Court of Protection applications.

52. During budget setting for the new MTFS 2025-29 a total of £9m was reduced from the 2025/26 Adults and Communities budget in light of the ongoing impact of the variances from 2024/25. Following the outturn position another review will be undertaken to determine if there are any further reductions that can be made to the 2025/26 budget. This will be reported as part of the Period 2 monitoring position in June 2025.

Public Health

53. The outturn is as budgeted after movements to the earmarked public health reserve. Additional public health grant and underspends on teen health and sexual health services, offset by a reduction in planned contributions (£1m) from the earmarked reserve.

Environment and Transport

54. A net underspend of £1.8m (1.6%) is reported.

55. Across Highways and Transport operations a net £1.1m overspend is reported as a result of:

- Mainstream School Transport - £1.5m overspend. This arises from an increase in overall number of entitled students (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, have resulted in more pupils being transported by taxi. Furthermore, with effect from September 2024, additional costs arose from a DfE statutory change to Mainstream home to school transport policy.
- Environmental and Reactive Maintenance – net overspend £1.9m. This is 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.

- SEND Transport – £0.2m underspend. Due to the ongoing targeted tendering work.
- Passenger Fleet – a net underspend of £0.4m due to vacant driver and escort posts, net of additional vehicle hire and maintenance costs.
- Social Care Transport - £0.6m overspend. This is due to an under reserve in 2023/24 and additional taxi spend, being met by an underspend on Passenger Fleet.
- Network Management - a £0.7m underspend arising from additional Temporary Traffic Regulation Order applications.
- Engineering Services – a £1.6m underspend due to an increased recharge to the Capital Programme for staff time incurred on capital works.

56. Development and Growth services are reporting a £0.5m underspend arising from vacancies across teams (£1.0m) offset by a shortfall in developer income (£0.1m) and recharges to capital programme for staff time incurred on capital works (£0.4m).

57. There is a net underspend of £2.7m reported for Environment and Waste Management services. Additional income from the sale of dry recyclable and electrical materials (£1.6m), together with underspends arising from staffing vacancies (£0.1m); and net underspends arising from changes to waste treatment including diverting waste away from landfill (£0.9m). 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.

<u>Chief Executive's</u>

58. The Department had an underspend of £0.8m (4.7%), mainly due to staffing vacancies within the Growth Unit (£0.5m), Democratic Services (£0.2m) and across the remaining service areas (£0.1m).

<u>Corporate Resources</u>

59. There is a net underspend of £1.1m (2.6%).

60. There have been vacancy underspends across the directorate due to difficulty in recruiting to posts and continued corporate recruitment controls. Recruitment to professional and technical posts is particularly difficult due to competition in both the public and private sector markets. There have been reduced energy costs across Council buildings and increased income from some areas that deliver chargeable services for other organisations such as Human Resources and Internal Audit. This will enable some earlier delivery of savings in 2025/26. Continued tighter corporate led financial controls, together with existing robust management and review of vacancies within the department have helped to deliver a number of in-year efficiencies.

61. Commercial services have also performed better than anticipated but it remains a challenging environment, due to the impact of inflation and reducing customer base in some parts of the service. Schools are the main customer and are under increasing financial pressures.

62. The underspends are offset by contributions to earmarked reserves as below:

- £0.5m 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 relating to the divestment of certain pooled property investments, explained in more detail within the IiLP section later in this report.
- £0.4m to earmarked reserves to offset one-off costs related to the relocation of the data centre currently located at Romulus Court, Leicester to a third party host.
- £1.4m towards a sinking fund for corporate buildings (particularly Beaumanor Hall due to urgent maintenance requirements) and country parks.

Central Contingencies

63. 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. The balance of funding has been 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 £38m in 2026/27 rising to £62m in 2027/28. To mitigate the impact it is important that wherever possible funding is set aside to meet those future years' challenges and the budget equalisation reserve should aim to at least have the equivalent of 2 years budget gaps to avoid financial resilience issues.

64. Inflation Contingency (£36.1m original budget, £12.3m balance). The contingency was underspent by £10.3m. This mainly relates to lower costs on the Adult Social Care Fee review than anticipated in the MTFS, linked to falling inflation. The pay settlement for Local Government staff for 2024/25 was also lower than the assumption in the MTFS. Given a shortfall in government funding regarding the impact of changes to National Insurance from April 2025 and uncertainty of the impact on the costs of supplies and services to the Council, an amount of £2m has been carried forward to 2025/26 via a transfer to earmarked reserves.

65. Service Investment Fund (£0.2m original budget). This budget was 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 also provided capacity to administer Government flood-related grant funding.

Central Items

66. The Financing of Capital budget is £6.2m 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 early repayment premiums of £7m 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 in excess of the premiums paid. 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). At the year-end the Council is now underborrowed by

£20m, which can be funded using internal investment balances rather than more expensive external borrowing.

67. Bank and other interest, has provided £7.5m increased investment income. This is due to the Bank of England base rate levels during 2024/25 being higher, and for longer than forecast, and higher than estimated average Council balances. The Bank of England base rate now stands at 4.25%. Average balances remain strong due to earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance.

68. Central expenditure budgets are overspent by £0.5m. A contribution of £1m has been made to the Pension Fund to cover actual ill health retirement costs incurred in 2024/25, offset by underspends in other budgets, including £0.2m relating to higher than forecast income from a share of the surplus for ESPO (the Eastern Shires Purchasing Organisation, a public sector consortium) in 2023/24.

69. There is an underspend of £2.2m on Other Items, mainly relating to £1.2m from cleansing of receipted aged purchase orders that are no longer required and £0.7m regarding a reduction to prior year business rates relating to some properties including Beaumanor Hall and Century Theatre.

70. 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.

71. 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. This has already been reflected in the outturn position.

72. 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 improved overall position, that contribution was not required in 2024/25 but is likely to be needed in future years, with the approved 2025/26 budget only being balanced with the use of reserves (£4.7m).

<u>Business Rates</u>

73. Additional Business Rates income of £1.3m is forecast in 2024/25, based on the last information received from district councils on their NNDR1 forms and forecast section 31 grants. The final position will be based on the NNDR3 returns to be submitted to the Government by the end of May. 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.

74. Additional Business Rates Pool levy income of £0.7m is forecast for 2024/25. The current forecast, 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 treatment of levies reported to the Cabinet in June 2023, compared with the forecast of £6.5m included in the 2024/25 budget. The actual levy position will be determined from the data in the NNDR3 returns due by the end of May.

75. The Government redistributed £100m from the national Levy and Safety Net fund, of which the County Council was allocated £0.5m.

Overall Revenue Summary

76. Overall, there is a net underspend of £8.8m. It is proposed that this is added to the Transformation reserve, to provide funding for the costs of work to support the development of further savings to mitigate the projected shortfalls in future years' funding, and initial costs relating to Local Government Reorganisation.

77. The scale of the County Council's challenge will require all areas to be reviewed for opportunities. In common with previous years, it is expected that a mixture of internal and external resource will be required to identify and deliver savings, and the underspend from 2024/25 will be used to support this where required. The current MTFS gap, combined with the uncertainty over the Spending Review and Funding Reform, requires immediate action to identify further deliverable savings options. The process to refresh the MTFS is underway, and a progress report will be taken to scrutiny in September providing further information on the approach to identifying new opportunities to ensure a sustainable budget can be set for 2026/27. Areas that are likely to require external support are:

- An overall review of the cost base and efficiency of the Council to identify further savings opportunities.
- A review of Third Party Spend to identify savings opportunities, either from reduced spend or rationalizing suppliers, or contract negotiations.
- Reviewing the current operating models for Business Support and Customer Services to improve efficiency across the organization.
- Undertaking a series of service reviews to identify opportunities to deliver services differently.
- Reviewing the current operating model for the Transformation Unit to ensure savings delivery is maximized at an increased pace.
- Development of Preventative interventions to better manage demand on services.
- Capacity to ensure change activity can be undertaken at sufficient pace.
- Specialist expertise to supplement the Council's knowledge.

78. The current MTFS gap, combined with the uncertainty over the Spending Review and Funding Reform, requires immediate action to identify further deliverable savings options. The work set out above will support this process and will focus on strategic, organization-wide opportunities to identify savings of a sufficient scale. It is likely to be a significant investment, but it is necessary to ensure acceleration of the current savings programme, especially in light of the risks from funding reform, the Spending Review and Government's planned reform of services.

79. In terms of Local Government Reorganisation, the current timeline is to prepare and submit a full business case in November this year. That is likely to involve significant work in terms of financial modelling, options appraisal and consultation and may require additional capacity. The Council has recently received feedback from government on its interim plan submission and is now reviewing it to understand what further work will be needed. The government has also made a contribution towards business case development for each area.

80. Despite the overall net underspend position for 2024/25, the underlying position remains very challenging, even after actions taken to reduce expenditure. There are significant overspends in the Children and Family Services budget and the 2024/25 £23m deficit on the High Needs Block (resulting in a £64m cumulative HNB deficit) is of particular 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 local government settlement did not provide any clarification on government's plans for SEND reform. The High Needs deficit is forecast to exceed £100m by the end of the MTFS period.

81. Many of the underspends are due to staff vacancies which by their nature are not on-going, and the significant additional income from bank and other interest is likely to be short-term too. Tight control over spending and reducing running costs where possible through ongoing financial controls has enabled the Council to produce a net underspend position, despite continued cost pressures, particularly on children's services.

82. The current MTFS still shows a gap of £90m by 2028/29, despite demand pressures in adults being well managed and inflationary pressures reducing. Whilst a review of the MTFS is currently underway to take into account the final outturn position, this is incredibly difficult before any final proposals on local government funding reform are released. The Spending Review is expected on 11th June and further funding consultations are due before the summer recess, but it could be well into autumn before the actual impact on the Council is known. This means that it is even more important to have clear, deliverable savings plans and a robust level of reserves as there may be limited time to react once the financial position for 2026/27 becomes clearer.

83. The national financial position remains extremely tight, and the Chancellor may need to announce further spending reductions in June to remain within fiscal rules. As local government is not a protected department, unlike Health and Education, it may be harder hit from any reductions. Funding reform is not expected to be favourable for county areas, with the government giving a bigger focus to areas of deprivation. This has already impacted on Leicestershire through the 2025/26 finance settlement. The combination of further government spending reductions and funding reform could present a very challenging budget setting process for 2026/27.

General Fund and Earmarked Reserves

84. The current balance of the General Fund is £21m, representing 3.7% of the 2025/26 net revenue budget, which is below the Council's approved Reserves policy target range of 4% to 7% of net revenue expenditure. The latest MTFS 2025-29 includes contributions of

£1m per year to increase the General Fund by the end of the MTFS period to £25m. Subject to the proposed addition of £8.8m from the 2024/25 net underspend to the Transformation reserve, it is proposed to transfer £4m of this balance to the General Fund. This would increase the General Fund balance as at 31 March 2025 to £25m and to 4.1% of the 2025/26 net revenue budget, and within the Reserves policy target range. It is necessary to increase the General Fund to reflect increasing uncertainty and risks over the medium term and to avoid a reduction in the percentage of the net budget covered given the overall budget increase.

85. The level of earmarked reserves held as at 31 March 2025 totals £230m including schools and partnership funding. They can be summarised as below:

Capital/Repairs	£126m
Risk	£110m
Revenue projects	£23m
Ring fenced grants etc	£18m
Schools DSG	-£48m
Partnerships	£1m
Total	£230m

86. Earmarked reserves are shown in more detail at Appendix C. This shows balances at April 2024 and as at the end of March 2025. The MTFS includes further analysis of the County Council's earmarked reserves including the reasons for holding them.

87. The risk-based reserves shown in the table above include the Budget Equalisation reserve which is held to support the MTFS and provide some level of cover for future funding gaps in case adequate savings are not identified or delivered. This reserve also provides some mitigation for the High Needs deficit. Given that the budget gap in 2026/27 is expected to be in the region of £38m, as well as the future challenges on the High Needs deficit, it is important that this reserve is held at a reasonable level.

88. The main earmarked reserves are set out below.

Renewals of Vehicles and Equipment (£2.2m)

89. Departments hold earmarked reserves for the future replacement of vehicles and equipment such as ICT.

Trading (£5.8m)

90. Sinking fund set aside to fund repairs and maintenance of the Investing in Leicestershire Programme (IiLP).

Insurance (£15.6m)

91. Earmarked reserves of £10.7m are held to meet the estimated cost of future claims to enable the Council to meet excesses not covered by insurance policies and smooth

fluctuations in claims between years. The levels are informed by advice from independent advisors.

92. The uninsured loss fund of £4.9m is required mainly to meet potential liabilities arising from Municipal Mutual Insurance (MMI) that is subject to a run-off of claims following liquidation in 1992. The fund also covers the period before the Council purchased insurance cover and any other uninsured losses.

Children and Family Services

93. Children and Family Services Developments (£2.3m). This provides funding for a number of projects such as improving management information, information access and retention and responding to changing requirements as a result of OfSTED and legislation.

Adults and Communities

94. Adults and Communities Developments (£1.4m). This earmarked reserve is held to fund a number of investments in maintaining social care service levels and assisting the Department in achieving its transformation.

Public Health

95. Public Health (£5.8m) – to fund Public Health initiatives within Leicestershire.

Environment and Transport

96. Commuted Sums (£1.9m). This funding, received from housing developers, is used to cover future revenue costs arising from developer schemes where the specifications are over and above standard developments. For example, block paving, bollards, or trees adjacent to the highway. These liabilities can arise many years after the funding is received and therefore the balance on this earmarked reserve has built up over time.

Corporate

97. Transformation Fund (£12.0m), subject to approval of £8.8m from the 2024/25 net revenue underspend and a transfer of £4m to the General Fund. The Fund is used to invest in transformation projects to identify and deliver efficiency savings and also to fund severance costs. To achieve the level of savings within the MTFS the Council needs to change significantly and this will require major investment, including in some of the core ‘building blocks’ such as improvements to data quality, and improvements to digital services enabling more self-service.

98. Broadband (£2.7m). This earmarked reserve was established to allow the development of super-fast broadband within Leicestershire. There is a significant time lag in spending County Council funds as a result of securing grant funding from Government and the European Regional Development Fund that required those funds to be spent first and within a set period.

99. Budget Equalisation (£91.9m). This manages variations in funding across financial years and potential one-off funding for future MTFS gaps. As things stand, there could be a significant call on this reserve in the medium term if further savings are not identified and delivered in the short term. The reserve also includes the increasing pressures on the High Needs element of the DSG which is in deficit by £64.4m at the end of 2024/25. The Children and Family Services Department is investigating a number of actions that could over the course of the MTFS reduce demand and therefore the overall deficit.

Capital

100. Capital Financing (£129.2m). This earmarked revenue reserve is used to hold MTFS revenue contributions required to fund the approved capital programme in future years. When financing actual capital expenditure incurred, capital funding is used first and this revenue reserve is used last (as revenue funding is less restricted than capital funding, the latter of which can only be used to fund new capital expenditure). This reserve is fully committed to fund the 2025-29 MTFS capital programme and will be used before any of the planned £84m new unsupported borrowing included in the 2025-29 programme is used.

101. Pooled Property Fund(s) (-£18.1m) balance after principal repayments. The Cabinet previously approved the investment of £25m of the Council’s earmarked reserves into pooled property funds. The investments are held to achieve higher returns than if the funds were invested as cash and return an annual contribution of approximately £1m. The investment is funded from the overall balance of earmarked reserves and can be realised in the future when required.

Other / Partnerships Earmarked Reserves

102. DSG (overall deficit of £48.3m). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations. This reserve is earmarked to meet the revenue costs of commissioning places in new schools, early years and to support pressures on the High Needs block. A summary is shown below:

	Schools Block	**Early Years Block**	**High Needs Block**	**Total**
	£m	**£m**	**£m**	**£m**
As at 31 March 2024	12.3	-3.1	-41.2	-32.0
Changes 2024/25	1.9	5.0	-23.2	-16.3
As at 31 March 2025	**14.2**	**1.9**	**-64.4**	**-48.3**

103. Within the Schools block funding, future DSG allocations for schools’ growth will be retained and added to the earmarked reserve to support the revenue costs of commissioning new schools. The deficit on the High Needs Block will increase in the medium term until the savings arising from the High Needs Development Plan are delivered. In the short term the surplus on the Schools Block will partially offset the high needs and early years deficits.

104. Health and Social Care Outcomes (£10.2m) used in conjunction with Health partners across Leicestershire.

105. Active Together (£1.1m). The main purpose of this earmarked reserve is to hold partner contributions until expenditure on the agreed activities has been incurred. A significant part of the service's funding from external agencies is uncertain in nature, so the earmarked reserve also allows management of funding variations and a redundancy provision.

CAPITAL PROGRAMME

106. The updated capital programme for 2024/25 totals £168m. This follows a review of the programme undertaken over the summer and approved by the Cabinet in September 2024. A total of £134m has been invested during 2024/25.

107. A summary of the capital outturn for 2024/25, excluding schools devolved formula capital, is set out below:

Programme Area	Updated Budget £000	Actual Expenditure £000	Net Variance £000	%
Children and Family Services	44,367	48,736	4,369	110%
Adults and Communities	7,080	5,580	(1,500)	79%
Environment and Transport	95,910	75,259	(20,651)	78%
Corporate Resources	4,542	2,203	(2,339)	49%
Corporate Programme	16,324	2,301	(14,023)	14%
Total	**168,223**	**134,079**	**(34,144)**	**80%**

108. A summary of the net variance is shown below:

Programme Area	Underspend £000	Overspend £000	Rephasing of expenditure £000	Accelera-tion £000	Total £000
Children and Family Servs.	(13)	13	(11,565)	15,933	4,369
Adults and Communities	(0)	0	(1,500)	0	(1,500)
Environment and Transport	(983)	1,413	(21,081)	0	(20,651)
Corporate Resources	(503)	0	(1,852)	16	(2,339)
Corporate Programme	(0)	0	(14,023)	0	(14,023)
Total	**(1,499)**	**1,426**	**(50,021)**	**15,949**	**(34,144)**
	(73)		**(34,072)**		

109. The net underspend has been added to the capital financing reserve to reduce the level of internal borrowing required for the new MTFS capital programme. The net rephasing of expenditure of £34m has been carried forward to the capital programme 2025-29 to fund reprogrammed projects.

110. A summary of the key projects delivered and main variations are set out below. Further details of the main variations are provided in Appendix D.

111. Appendix E compares the provisional prudential indicators with those set and agreed by the Council at its budget meeting in February 2024. These are all within the limits set except for the 'actual capital financing costs as a percentage of net revenue stream' indicator – increase due to premiums on the early repayment of debt, reducing future interest costs, explained earlier in the report.

112. A review of the new 2025-29 MTFS capital programme will be undertaken during the summer 2025 in light of the outturn and financial pressures on large capital projects. An updated capital programme will be reported to the Cabinet in September 2025.

<u>Children and Family Services</u>

Key Projects Delivered

113. Creation of additional school places across the County at eleven different schools across all phases of Education. A total of 315 new primary school places across two Primary Schools including a second zero carbon school, Wellington Place Primary in Market Harborough. Regarding secondary provision, work started in year on 1,145 new school places across four schools. This involved expansions at existing schools which will conclude early in the 2025/26 financial year. The SEND programme saw the completion of a project with the DfE for the Bowman Academy Communication and Interaction Special School that opened 64 places. A further 36 places were delivered across other schools to support the growing need for High Needs places in Leicestershire.

Main Variances

114. Overall, the departmental outturn is net acceleration of £4.4m.

115. The main variances relate to the Provision of School Places Programme:

- Shepshed Iveshead School, £6.8m acceleration. This scheme delivers additional teaching spaces on a large and complex campus which houses multiple different education provisions that have some degree of interaction. The budget was profiled prudently between 2024/25 and 2025/26 in the MTFS. Good progress has been made and it is now forecast that the scheme will complete in early summer 2025.

- Burbage Hastings High School, £4.5m acceleration. This project creates a new sports hall and addition classrooms. The budget had been prudently profiled in the MTFS. Good progress has been made and it is now forecast that the scheme will complete in late summer 2025.

- Hinckley Redmoor (secondary), £3m acceleration. This project delivers a new science block, sports hall and refurbished catering facility. It is an academy delivered scheme, prudently profiled in the MTFS.

- Oadby Brocks Hill Primary, £1.8m slippage. This passported scheme creates 210 places at the school. Delays in the planning permission process have resulted in only internal configuration work being undertaken before the end of the financial year.

116. Other variations include rephasing of expenditure of £5m on the Children's SEND programme (across various schemes), £1.2m reprogrammed on the Strategic Capital Maintenance programme, and £0.5m rephasing on the Children's Social Care Improvement Programme (SCIP).

Adults and Communities

Key Projects Delivered

117. Disabled Facilities Grant of £5.5m passported to Leicestershire district councils to help people with the cost of adapting their homes to meet their essential needs.

Main Variances

118. Overall, the departmental outturn is net rephasing of expenditure of £1.5m. The variance is on the SCIP programme relating to two extra care schemes where the land transactions have been delayed to 2025/26.

Environment and Transport

Key Projects Delivered

119. A total of £45.3m was spent on the preparation and delivery of major projects in 2024/25, including:

- North and East Melton Mowbray Distributor Road, £40.1m – for the construction of the new distributor road to ease congestion in the town centre and facilitate growth.
- A511 Major Road Network scheme, £1.8m in designing and preparing the full business case to the Department for Transport. Project to tackle longstanding congestion and traffic related problems on the A511 between Leicester (M1 Junction 22) and the A42 commenced 2019/20 with a completion on site anticipated in 2028.
- Zouch Bridge, £3.4m – the existing bridge is at the end of its life. It forms part of the A6006 which is strategically important in terms of transport infrastructure and the regional economy. Construction commenced in 2024/25 and is ongoing.

120. A total of £22m was invested in Highways Asset Maintenance:

- £18.0m on carriageways
- £1.6m on footways and rights of way
- £0.8m on bridge maintenance and strengthening
- £1.2m on street lighting maintenance
- £0.1m on flood alleviation
- £0.3m on traffic signal renewal

121. A total of £0.7m has been invested in Environment and Waste improvement works, including at Recycling and Household Waste Sites (RHWS).
- £0.4m on General Improvements at RHWS locations
- £0.3m on improvements to Ashby Canal

Main Variances

122. Overall, the departmental outturn is a net rephasing of spend of £20.7m and a net overspend of £0.4m. The main capital programme variances are:

- North and East Melton Mowbray Distributor Road, £10.5m rephasing of expenditure due to reprograming of work with the contractor. The scheme is expected to complete in early 2026.
- Zouch Bridge Replacement – Construction and enabling works, £1.9m.
- Council Vehicle Replacement Programme, £1.8m rephasing of expenditure as orders have been committed. |However, due to supplier issues this has delayed the delivery of the vehicles.
- RHWS - £0.9m rephasing due to minor delays across various projects to 2025/26.
- Advance Design, £1.0m rephasing of expenditure due to alignment of programme to Multi Module Area Investment Plans (MMAIPS) and delivery of cycling and walking programmes.
- Externally Funded Schemes, £0.7m rephasing of expenditure based on latest construction estimations for a number of small, programmed schemes.
- Melton Depot Replacement, £0.6m rephasing of expenditure due to designs for the programme taking longer than anticipated.
- Property flood risk alleviation, £0.6m rephasing of expenditure due to latest project profiles.
- Safety Schemes, £0.6m rephasing of expenditure due to awaiting outcomes from the community speed management initiative survey that ran until March 2025.

123. Overall there is a net overspend of £0.4m across the departmental programme. This comprises the following areas: (the overspend can be managed across the overall capital programme from underspends in Corporate Resources).

- Restorative and preventative maintenance programmes, £2m additional costs, in order to keep the network safe due to the deterioration of highway assets. Additional government grant funding has been included in the new MTFS for highways maintenance in 2025/26.
- RHWS programme, £0.7m underspend. Reduced costs and contingencies not required.
- Transport Asset Management, capital schemes and design, £0.6m underspend, reduced scheme risk contingencies required and
- Other minor underspends - £0.3m

Corporate Resources

Key Projects Delivered

124. During 2024/25 £2.2m was invested, including the following programmes:

- ICT end user devices, £0.5m, updating Council-owned computers.
- Hyper-Converged Infrastructure refresh, £0.4m, a refresh of the virtualised network datacentre servers along with associated network storage devices across both data centre sites.
- Ways of Working programme, £0.7m, a programme to drive efficiency and promote productivity by promoting a culture of flexible, smarter working and office optimisation enabling rental income from partners.
- Property services, £0.5m, extending the life of council properties.

Main Variances

125. The overall departmental position was £1.9m rephasing of spend and an underspend of £0.5m. The main variances are:

- Climate Change (Energy Initiatives) - £0.7m rephasing of expenditure awaiting the design of the fleet transition plan and the outcome of match funding bids.
- ICT - End user device programme (PC, laptop), £0.5m rephasing of expenditure agreed by the Ways of Working programme board to ensure refresh funds are available beyond the existing MTFS period.
- Property Services - £0.6m rephasing of expenditure across various smaller schemes due to revised completion.
- Workplace Strategy – Office Infrastructure, £0.3m underspend due to latest estimations of works remaining costing less than previously anticipated.
- Other minor underspends £0.2m across the climate change and property programmes.

Corporate

Key Projects Delivered

126. During 2024/25, £2.3m was invested into the direct property estate, including a £1.8m investment in Airfield Business Park, Market Harborough.

Main Variances

127. The overall programme requires rephasing of expenditure of £14m on the Investing in Leicestershire Programme (IiLP). The main variances are:

- Airfield Business Park, £6.2m, project spend reprofiled due to delays with signing build contract.

- Lutterworth East Planning and pre highway construction works programme, £3.2m This follows a review of the scheme, reported to the Cabinet in June 2024. The revised profile shows the majority of spend now being incurred in 2025/26 and 2026/27.
- Lutterworth Leaders Farm, £2.7m due to the requirement to obtain highways approval for a pedestrian crossing.

Capital Receipts

128. The requirement for new capital receipts to fund the capital programme for 2024/25, excluding the sale of pooled property investments, was £5m. The actual receipts were £0.7m due to delays in planned disposals. In all cases the sales are still proceeding but did not complete by the year end. The temporary shortfall can be managed due to reprogramming of spend across the programme and will be carried forward to 2025/26 to be replenished when the sales are completed.

Overall Capital Summary

129. The Council has delivered a number of key capital projects during 2024/25, including new school places and investment in a number of transport projects. Managing and delivering major capital projects is complex and the spend on some projects has been rephased into future years to match completion timescales.

130. The Capital Programme in future years is challenging, with a funding gap in the MTFS. However, further opportunities to generate capital receipts or secure external funding will continue to be explored to reduce the gap and minimise any borrowing requirement.

Investing in Leicestershire Programme (IiLP)

131. 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.

132. A summary of the IiLP position at quarter four for 2024/25 is included within Appendix F and shows total net income for the year of £8.6m 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 is after an additional contribution to the sinking fund of £2.8m during 2024/25. The sinking fund totalled £5.8m at the end of 2024/25. It is intended to increase the amount held in the sinking fund to £7m by the end of the MTFS 2025-29 period assuming no large utilisation is needed.

133. The actual percentage in year net return for the IiLP is 5.4% for 2024/25 when excluding the development assets still in construction, and the 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. Valuations as at the end of March have not yet been received from the external valuer for the direct

holdings so only the income returns are showing in the table against this part of the portfolio.

134. The solar project on the outskirts of Quorn has now been withdrawn and as such the forecast income for that scheme from 2026/27 has been removed and will be replaced by other in-flight projects. The site, which has planning permission to build a solar farm, has now been sold and the Council will benefit from the sale proceeds as well as receiving business rates income from the site. There is an incentive within the business rates system whereby the authority granting planning permission for renewable projects retains the business rates income directly. The decision to sell the site was primarily based on the technical knowledge and experience required to build a solar farm in the short timescale required to guarantee the grid connection.

135. 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 (debt) strategy and a bank risk share strategy. The aim is to provide diversified income from a variety of differing sources.

136. One of the four pooled property funds within the diversifiers' 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. During 2024/25 £5m capital was returned to the IiLP from asset sales by the manager but this related to £6.6m of the original principal investment, resulting in a £1.6m realised loss that has been reflected in the financial outturn position though a charge against the IiLP sinking fund. The remaining principal at year-end was £0.9m compared to the year-end market valuation of £0.7m. The estimated remaining £0.2m loss would be a further charge to the sinking fund in 2025/26 depending on the actual sale values. However, it should be noted that the IiLP fund has received over £2m in income from this fund over the time of the investment.

137. Another of the four pooled property investments is also undergoing restructuring as the result of a large number of redemption requests. It is likely that the IiLP will see its capital returned during 2025. This Fund, at present, is valued at just below the original investment but has received £2.6m in income since the first investment was made in February 2016.

138. No new diversifiers were committed to during 2024/25 although the Partners' MAC 7 (private debt) has called capital totalling £6.8m and has uncalled commitments of circa £3m which are likely to be called through 2025/26. The diversifiers' actual net income for this year is £6.2m which is £3.4m ahead of the budget as a result of income from the bank risk share and private debt investments being ahead of budget. This level of one-off outperformance, mainly within the diversifier investments, will likely not persist as the Bank of England base rates have reduced and capital has been returned during 2024/25.

139. 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.

Bank Risk Share – additional investment £10m

140. In June 2022 the Cabinet approved the initial investment of £10m into the Christofferson Robb and Company's, Capital Relief Fund 5 (CRF5). A subsequent investment of £5m was invested in March 2023. After capital returns the latest amount held as at March 2025 is £12.5m. This will continue to reduce as the underlying loans are repaid. The Council's approved Treasury Management Strategy Statement allows a maximum investment of £20m.

141. Within the banking regulatory environment, regulatory capital has to be held as support for loans. This is to ensure that the bank has adequate 'buffers' against losses under a range of scenarios. If a bank wishes to increase its lending activity it has to hold more regulatory capital and this capital can be expensive. For example, raising equity can be difficult if the amount to be raised is a large portion of the existing equity value. The riskier a type of loan, the more a bank needs to hold in reserve in capital.

142. By arranging a mechanism for transferring the risk for loans made, banks can receive approval from the regulators to hold less regulatory capital against existing loans. This releases capital to support other banking activities. The risk transfer and the approval by regulators makes bank capital release attractive to both the bank and the investor. As capital is expensive for banks, they can afford to pay a healthy premium to the counterparty (the investor) that the risk is being transferred to. In return, the banks end up with lower risk weighted assets (loans weighted on the level of risk they present to the bank) and better capital ratios.

143. Returns to investors in the fund come from the insurance premium paid by the bank which will be distributed to investors, less any fees. The invested capital will be returned as underlying loans are repaid less any losses incurred.

144. CRF5 has performed ahead of expectations, its target return is 9% pa. It is estimated that capital will be returned over the next 24 to 36 months and as such a new commitment would need to be made in order to maintain exposure to this asset class. This is a closed ended investment product with a life of seven years and as such regular commitments are needed in order to maintain an exposure.

145. The asset class is one that the independent review of the IiLP strategy by Hymans Robertson proposed should be in the range from 15-25% of total IiLP assets. This investment will help bring the IiLP back towards the middle of the range alongside other investments that will be proposed later in 2025/26.

146. Christofferson, Robb & Company is a private credit management firm that was founded in 2002 with capital first deployed into bank risk share strategies in 2004 and which specialises in European bank capital release. It has a dedicated team split across mainly London and New York and has the longest track record of managers operating this strategy.

147. The strategy has been known to the County Council since 2017 when the Leicestershire County Council Local Government Pension Scheme (LGPS) invested in an earlier release of the bank risk share strategy, Credit Relief Fund 3 (CRF3). The Leicestershire LGPS has invested into CRF5 and more recently in CRF6 and was advised by the investment consultant firm, Hymans Robertson.

148. The current iteration of the strategy (CRF6) targets an internal rate of return of 13%. This is higher than the previous fund CRF5 and is due to the higher interest rate environment that is expected to continue whilst bank risk share transactions are being conducted. CRF6 commenced conducting risk transfer transactions in 2024. The premiums paid by banks are linked to the base rate plus a margin. At time of uncertainty and stress the margin being agreed between Christofferson, Robb & Company and the transacting bank can be higher to the benefit of investors if loan losses are below estimations.

149. The Treasury Management Strategy Statement, approved by Council in February, allows for a maximum of £20m to be invested into this asset class. It is not proposed to increase this limit and so a commitment of up to £10m is proposed, ensuring that the overall limit is not breached. The investment period for this product ends at the end of 2025 (although the manager can request an extension) and as such at present income distributions are expected to commence around April 2026.

150. As with all investments there is a level of risk that exists. As a part of the review of the IiLP Strategy Hymans Roberston proposed that maintaining an allocation to this asset class would benefit the aims of the IiLP. This proposed allocation is in keeping with the strategy. Types of investment risk include:

- Leverage – the manager, Christofferson, Robb & Company, can employ leverage at Fund (CRF6) level. In addition, the underlying loans which are being insured are leveraged.
- Key man risk – the departure if key employees can halt investments due to be made. This provision within the investment particulars is to protect investors.
- Regulatory dependency – the manager relies on the EU Bank Recovery and Resolution Directive (2015) to mitigate risks associated with counterparty defaults and capital recovery. Changes by the European Banking Authority could impact the viability of Bank Capital Relief transactions. The manager will cease investing if this occurs during the commitment period, although it is unlikely existing transactions would be affected.
- General investment risk – this could come from a variety of sources including poor selection of loans to insure and general economic conditions deteriorating that affects the borrower's ability to service loans.

East Midlands Freeport

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

152. 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 balance remaining at year end was £8,800, which has since been fully repaid, with interest. However, the loan facility continues to March 2027 and so there is potential for funds to reborrowed up until that date.

Equality Rights Implications

153. There are no direct equality implications arising from the recommendations in this report.

Human Rights Implications

154. There are no human rights implications arising from this report.

Appendices

Appendix A - Comparison of 2024/25 Expenditure and the Updated Revenue Budget
Appendix B - Revenue Budget 2024/25 – main variances
Appendix C - Earmarked Reserve balances 31/3/25
Appendix D - Capital Programme 2024/25 – main variances
Appendix E - Prudential Indicators 2024/25
Appendix F - Investing in Leicestershire Programme 31/3/25

Background Papers

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