Leicestershire County Council

# CABINET – 15 JULY 2025

# MEDIUM TERM FINANCIAL STRATEGY UPDATE

# REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

# PART A

## Purpose of the Report

1. The purpose of this report is to provide the Cabinet with an update on the Spending Review and Fair Funding consultation, both issued in June, and their potential impact on the County Council's financial position

2. The report also provides an update on the approach to updating the Council's Medium Term Financial Strategy (MTFS) ahead of the budget setting process for 2026/27 and seeks approval to commence a procurement process to commission external support for identifying further savings.

## Recommendations

3. It is recommended that the Cabinet:

   a. Notes the update on the Spending Review;

   b. Notes the update on the Fair Funding consultation and gives approval for the Director of Corporate Resources, following consultation with the Lead Member for Resources, to submit a response to the consultation;

   c. Notes the ongoing uncertainty around the impact that recommendations a and b above will have on the Council's position and engage Leicestershire's Members of Parliament to lobby on the Council's behalf;

   d. Approves the commencement of a procurement process to commission a Council-wide savings review, with a report being bought back to the Cabinet prior to any award being made.

## Reasons for Recommendation

4. To inform the Cabinet of the key announcements arising from the Spending Review and Fair Funding consultation and, where possible, give indications of the likely impact on the County Council's financial position.

5. The Council needs to continue to make progress in closing the current MTFS gap to allow a balanced budget position to be presented to the County Council for approval in February 2026.

**Timetable for Decisions (including Scrutiny)**

6. The Cabinet will consider a further MTFS update at is meeting in September, ahead of draft budget proposals being submitted to the Cabinet in December. The Scrutiny Commission will also receive these reports.

7. An update report on the procurement process for a savings review will be presented to the Cabinet at the conclusion of the process and prior to the contract award being made.

**Policy Framework and Previous Decisions**

8. The County Council approved the 2025/26 to 2028/29 Medium Term Financial Strategy (MTFS) in February 2025. The MTFS highlighted the concerning level of budget gaps forecast for future financial years and the need to quickly identify additional savings or income generation options

9. The key aim of the MTFS is to ensure that the Authority has appropriate resources in place to fund key service demands over the next few years. The MTFS includes the establishment of earmarked reserves and the allocation of ongoing revenue budget and capital resources for key priorities. The MTFS is refreshed annually to take account of the most up to date information and assumptions.

10. The Spending Review sets out the Government's departmental spending plans over the current Parliament to 2028/29. This gives an indication of local government funding at a national level, but does not provide any individual Council allocations. This will not be known until the Local Government Finance Settlement in announced, which in previous years has been in December.

**Resource Implications**

11. The Medium-Term Financial Strategy is the key financial plan for the Council. It currently shows an estimated deficit of £90m by 2028/29, of which nearly £40m falls in 2026/27. It is currently being updated to reflect latest information on costs, demand and funding implications.

12. Both the Spending Review and Fair Funding consultation have the potential to have a significant impact on the Council's financial position, although not all information is available to be able to assess the impact in any detail and the Government still has significant discretion to change proposals ahead of the Finance Settlement later in the year. The Ministry of Housing, Communities and Local Government (MHCLG) is due to issue a policy statement in September

which may provide further information ahead of the Local Government Finance Settlement.

13. The Council will need to identify further savings opportunities at pace to ensure that a balanced budget can be set for 2026/27 and that the Council's financial position remains sustainable over the medium term.

14. The Director of Law and Governance has been consulted on the report.

**Circulation under the Local Issues Alert Procedure**

15. The report will be circulated to all Members.

**Officer(s) to Contact**

Declan Keegan Director of Corporate Resources
Telephone:
Email: declan.keegan@leics.gov.uk

Simone Hines Assistant Director – Finance, Strategic Property and Commissioning
Telephone: 0116 305 7066
Email: simone.hines@leics.gov.uk

# PART B

## Background

16. The Council's current Medium Term Financial Strategy shows a gap in the region of £90m, with almost £40m falling in 2026/27. That position already assumes delivery of £33m of General Fund savings. Urgent attention therefore needs to be given to the identification and development of further savings or income generation opportunities.

17. In addition, the local government funding landscape is extremely uncertain, with a Spending Review and Fair Funding consultation both having been announced in June. These play a large part in determining the funding that the Council will have from 2026/27 – with the Spending Review setting out the national funding available for local government and the Fair Funding consultation impacting on how the funding is allocated across Councils.

18. The announcements to date provide some indication of the future direction of travel for Council funding, but with so many different factors it is difficult to draw any firm conclusions about the impact on the County Council.

## Spending Review

19. The Chancellor's Spending Review was announced on 11 June and set out day-to-day budgets for Government departments up to 2028/29. It gives a headline spending total for local government for each year, but no sense of individual Council allocations. It did announce that overall Government departmental spending will rise by 2.3% per year in real terms.

20. Core Spending Power (CSP) for local government will increase annually by an average 2.6% in real terms between 2025/26 and 2028/29. However, it is important to note that CSP includes income from both Council Tax and Business Rates.

21. Once Council Tax is excluded from the CSP figure, the remaining grants are expected to increase by just 3.3% over the entire Spending Review Period in real terms, equivalent to a 0.9% annual real terms increase. For a growing county, such as Leicestershire, the resulting real terms CSP increase per head of population could be negligible. This would suggest that there is no large injection of resources to smooth the transition to a new funding formula following this summer's Fair Funding review. The table below is an extract from the Spending Review document:

| £billion | 2025-26 | 2026-27 | 2027-28 | 2028-29 | Cash terms Increase 2025-26 to 2028-29 | Real Terms Increase 2025-26 to 2028-29 |
|---|---|---|---|---|---|---|
| CSP | 69.4 | 73.2 | 76.1 | 79.3 | 14% | 9.3% |
| Of which council tax | 38.3 | 40.5 | 42.8 | 45.3 | 18% | 11.9% |
| **CSP excluding Council Tax** | **31.1** | **32.7** | **33.3** | **34.0** | **9%** | **3.3%** |

22. The figures above assume Council Tax increases by 5% for each of the three years of the Spending Review. This is broken down as 3% for core Council Tax and 2% for the adult social care precept. These are the referendum limits and the Government has assumed that all Councils will increase Council Tax by the maximum amount in each year of the Spending Review. Hence, the 5% increase is reflected in the figures in the previous two paragraphs. For Leicestershire, Council Tax equates to over 70% of CSP, implying that at the current rate of inflation Government grants would not increase and could reduce if inflation falls as expected.

23. Adult Social Care is to receive an additional £4bn in 2028-29 compared to 2025-26. This includes an increase to the NHS minimum contribution to Adult Social Care via the Better Care Fund. This increase is likely to overlap with the CSP position described above.

24. A Transformation Fund for the reform of the Special Educational Needs and Disabilities (SEND) system of £547m in 2026-27 and £213m in 2027-28 was also announced. The Government will also set out further details on supporting Councils with SEND "*as we transition to a reformed system*" within the next funding reform consultation.

25. £555m of funding was also announced for the reform of Children's Social Care over the Spending Review Period to refurbish and expand children's homes and foster care placements.

26. The Household Support Fund is being changed into a new Crisis and Resilience Fund which will incorporate the Discretionary Housing Payments (DHP's). DHP's are currently administered by district councils alongside Housing Benefit and it's not clear how the consolidation of these grants will work in practice or whether the allocation methodology will change. HSF funds Councils to support some of the most vulnerable households with the largest element providing Free School Meals outside of term time.

27. The core schools' budget will increase by £2bn in real terms over the Spending Review period. This provides a £4.7bn cash increase per year by 2028-29 which ensures average real terms growth of 1.1% a year per pupil. However, this amounts to a real-terms freeze in the budget once the cost of expanding free school meals is stripped out.

28. The Spending Review is reported to be a Zero-based Review, where each line of spend had to represent Value for Money.

29. There were a number of transport related announcements made in the Spending Review, including:
    a. £2.3 billion for Local Transport Grant (capital funding) plus £100m revenue (4-year allocation)
    b. £24 billion for motorways and local roads over 4 years
    c. £616 million for active travel – to be allocated by Active Travel England
    d. £900 million for buses to be announced in due course
    e. £3 cap on bus fares extended to March 27
    f. £2.6bn for Phase 2 of decarbonising transport to include continued support for uptake of electric vehicles, further roll out of charging infrastructure and further investment in walking and cycling infrastructure

30. The County Council has now received allocations for some of the transport related grants, and they are covered in a separate report being considered at this meeting.

31. Whilst the Spending Review set out overall spending for local government, it did not provide sufficient information to give any indication of the impact for each Council, particularly due to planned funding reform. Reference was made in the Spending Review to progressing funding reform for 2026/27, and a consultation on proposals was issued on 20 June; this is covered in the following paragraphs.

32. The focus of Local Government in the spending review was Core Spending Power. However, Councils receive a significant level of funding outside of CSP at the discretion of Government departments, for example Public Health and SEND grants. The position on these grants may not be clear until the end of the financial year. A further complication is that it is not clear how grants outside of Core Spending Power, which could be incorporated under funding simplification, are being treated. This would reduce the benefit of the headline increase. The announcement of a Council Tax cap of 5% for the Spending Review period continues the Government's trend of increasing the proportion of expenditure that is funded through local taxation.

**Fair Funding Consultation**

33. The 'Fair Funding Review 2.0' was published by MHCLG on 20th June and consultation closes on 15th August. The Government will set out its response and final policy positions in a Policy Statement in the autumn. The settlement is then expected to be announced in late November, and will cover a three year settlement period, coinciding with a full business rates reset and revaluation, both of which introduce another layer of change.

34. The consultation is introduced as 'the next step in introducing a fairer funding system that targets money where it is most needed'. It is an extremely complex

consultation with no exemplifications on the impact on individual local authorities.

35. The current local government funding system is based on an assessment of each authority's relative needs and resources, i.e. the demand that each authority has for its services, how much locally raised resources it has to pay for those services, and an adjustment for the differing costs of providing those services in different areas of the country. The consultation proposes changes to the way in which relative needs and resources are calculated. Key elements of the consultation are summarised in the following paragraphs.

36. A lot has changed since the current formula was put in place in 2013-14 and as such, large changes in allocations are expected for many Councils.

37. Although the review is focused on simplicity and is intended to be evidence-based, Ministerial discretion will inevitably play a part in deciding the final allocations.

38. It should be noted that there are still a considerable number of unknowns, which makes it difficult to assess the actual impact of the proposals. The County Council Network is working with MHCLG to clarify a number of points.

**Relative Needs**

39. Relative needs share is a measure of the demand and cost that each local authority faces in the delivery of services, relative to others. The proposals aim to simplify the current funding methodology by reducing the number of formulae that are used to assess need, but does introduce new bespoke formulae for high-cost areas such as home to school transport. It also proposes changes to the current Adult Social Care and Children's.

40. Alongside service specific formulae, the proposals retain the 'foundation formula' which are driven by population and deprivation. All formulae seek to account for cost differences in measuring services, including in urban and rural areas.

41. Initial analysis suggests that there is an increased share of needs for County Councils generally compared to the previous mechanism. The Council's current needs share is 0.77% and this is estimated to increase to 0.88% under the proposals - an improvement of 14%. The increase appears to be driven predominantly by an increased Adult Social Care needs assessment, which included an updating of the population formula that was 10-years out of date. The Council has also gained from the foundation formula which is population driven.

42. However, relative need is just one element of the overall funding formula and cannot be taken in isolation.

## Relative Resources

43. The relative resource assessment looks at how each authority can raise Council Tax income locally, relative to others. The consultation proposes a different approach to the current formula, seeking to address that ability to raise Council Tax has not been fully accounted for in previous funding allocations. The consultation states that the "*objective of equalisation is to make funding available in such a way as to enable all local authorities to provide the same level of service to their residents*".

44. Council Tax equalisation has always been part of the funding system, but the proposals to use a notional Band D Council Tax within the formula, set at the estimated 2026/27 average, is moving to 100% equalisation. This effectively means that the new system will treat Council Tax in the same way as another grant and not give any regard to local discretion. For areas where a high proportion of "needs" can be raised by local "resources", such as this Council, the equalisation approach being consulted on will have a significant adverse impact.

45. It is likely that the outcome of the proposals will mean that those with significantly lower-than-average Council Tax levels will be expected to increase Council Tax by more than the current referendum principles in order to level-up Council Tax income across the Country. It is worth noting that the national average Council Tax, upon which the calculation will be based, is distorted by London having much lower Council Tax levels than the rest of the Country which is partly what the proposals are aiming to address. For example, the London average Band D charge in 2025/26 is £1,982 compared to £2,344 in shire areas. There are some extremes within this, with Westminster's Band D charge at £1,017 (including the GLA).

46. The other concern around the 100% equalisation approach is that the previous settlement also applied equalisation to grants outside of CSP when determining allocations. If this continues in the new system there will be a double counting of equalisation, and some Councils may be penalised twice. The Council will want to raise these issues in its response to the consultation.

47. Overall, the consultation does not provide sufficient information on how the Council Tax equalisation adjustment will be calculated, or how it differs to the current funding formula, to be able to give an indication of the impact on the Council. This, along with a number of other queries, is being raised by the sector with MHCLG to gain some further clarity and understanding.

## Transitional Arrangements

48. The consultation paper highlights that the "*vast majority of councils with social care responsibilities will see their Core Spending Power increase in real terms over the multi-year Settlement, with most councils seeing it increase in cash terms*". However, as already noted above, CSP includes rises in Council Tax which have been confirmed as 3% core Council Tax referendum principle, and a 2% Adult Social Care precept.

49. The Government intends to gradually move each local authority to their updated funding allocation over the multi-year Settlement (three years). This means that those who gain from the formula changes will not see the full benefit until year 3, whereas those who set to lose will have the impact softened over a three year period.

50. In addition to the phasing, there will also be a funding floor, to ensure that Councils see their income protected by a specific amount over the settlement period and therefore prevent funding reductions on such a scale that may pose a threat to financial stability. However, this means that funding is held back from those Councils who gain from the new formula in order to pay for the funding floor. The Government will be confirming the precise details of how this will work later in the year. However, it does mean that there will be two different, but interacting, mechanisms which soften the impact of the changes over a three year period – both by phasing and then damping.

**Other considerations**

**Funding simplification**

51. The consultation proposes reducing the number of separate grants compared to 2025/26, with a number of grants being 'rolled in' to the main settlement. The grants that are to be rolled in to CSP include the core Social Care grant, local authority element of the Better Care Fund and the Market Sustainability Grant, although the consultation is light on the detail of how these grants will be allocated.

52. The consultation also proposes to introduce consolidated grants, combining a number of funding streams that have similar outcomes but still with a ring-fence. For the County Council, the Public Health grant is affected, which will be combined with 'other service specific grants', although the consultation doesn't state which ones or if there will be a change to allocation. A number of Children's related grants will also be consolidated.

**Business Rates Reform**

53. This could present a significant financial risk to the Council, with proposals to reset business rates baselines, meaning that growth built up since inception of the scheme in 2013 could potentially be lost, or at least distributed in a different way through the new formula. This has been consulted on separately and no further details are given other than to confirm that the Government is continuing to work with the sector on technical aspects of the reset and that consideration is still being given to the future of business rates pools.

54. Much will depend on how Business Rates growth will be reallocated. It is likely that the growth removed at the reset will be added to the core settlement and the new funding mechanism will be used to reallocate it. In this scenario the impact for Leicestershire may be positive because the Council is likely to pick up a larger share through the formula than it would through the current

retention system, where the districts benefit from the largest share of growth. However, the consultation doesn't confirm how Business Rates income will be reallocated through the formula. A reset also significantly reduces the benefit of Business Rates pools, so even if the Government decides to continue with them, the Council is likely to lose the current benefit it receives (which has averaged around £7m in recent years) until growth across Leicestershire builds up again from new baselines.

**New Homes Bonus**

55. The grant will end and funding of circa £290m will be added back into the core settlement for distribution through the new funding formula. The Council only receives a small allocation of NHB now, as the current allocation mechanism is weighted towards districts in two-tier areas. The Council is likely to benefit from this change, but it won't make a material difference to Core Spending Power.

**SEND deficits**

56. An extension to the current statutory override has now been confirmed to 31st March 2028. The Council's deficit currently exceeds £60m and may reach £100m by the end of 2025/26 based on current forecasts. This will cost around £3m p.a. in lost interest by this point, as well as having a continued pressure on transport and SEN assessment budgets. This is only a temporary solution and the long-term risk to the Council's financial sustainability remains. The Government has said that an approach to SEND reform will be set out in a White Paper in the autumn.

**Re-organisation**

57. Whilst there are still a number of unknowns in relation to the Fair Funding proposals, district councils are expected to be significant losers, based on what is known so far, largely due to the loss of Business Rates growth. Districts currently receive the greatest share of growth and it makes up a much bigger proportion of funding compared to their net budgets. If growth is reallocated through the settlement, districts will be allocated a much smaller proportion than they do now. Early analysis suggests that some of Leicestershire's districts are among the hardest hit nationally due to the level of Business Rates growth above the baseline and its proportion of overall funding. Conversely, Leicester City Council is expected to gain significantly from the proposals and will see increases in its share of relative needs and Business Rates income. A greater share of its increase in Core Spending Power is also likely to come from grant funding rather than reliance on Council Tax. This impact of the Fair Funding proposals will be important context for Local Government Reorganisation, both in terms of the impact on Business Case savings and the future sustainability and resilience across the County. The end of the damping period (2028/29), which is when districts will have the biggest financial impact, will coincide with the launch of new Councils under the current reorganisation timescale, so this will need to be considered as part of financial modelling and Business Case development.

**Overall assessment**

58. As can be seen from both the Spending Review and Fair Funding updates above, the current local government finance landscape is challenging with many unknowns. The Spending Review only gave broad indications of Core Spending Power, and the inclusion of Council Tax, Business Rates and rolled-in grants makes it difficult to understand the impact on the County Council. In addition, the complexity of the funding reform proposals, many of which are still under consideration by MHCLG, makes the picture even more uncertain. It is likely though that there could be below-inflation increases in core Government grant funding, with increases in CSP, driven predominantly from Council Tax income.

59. The first draft of analysis by officers of the Fair Funding consultation suggests that the Council may have a small gain compared to current MTFS assumptions, due to its needs share increasing, and the assumed loss of Business Rate growth built into the MTFS. However, the consultation lacks clarity in some areas and there are many interacting factors, so it is difficult to be certain about the impact. The phasing and damping mechanism will also reduce any gain in the early years, so it would not be seen in full until year 4 and is unlikely to lead to any significant shift in the Council's financial position.

60. As already mentioned above, Local Government in Leicestershire overall is expected to see a reduction in funding due to the impact on district councils.

61. All of the Council's £596m Core Spending Power is being incorporated into the review, through either the needs or resources assessment. Therefore, the outcome of funding reform is very sensitive to small changes in assumptions or Government proposals. For example, a 5% error in estimating the impact would change the Council's funding by £30m p.a.

62. The proposals are likely to lead to very significant changes in funding in some parts of the country – London in particular, who have already started to lobby very strongly. District councils are also significant losers and as there are still a large number of individual district councils, the Government is likely to receive a large volume of responses from that part of the sector.

63. MHCLG is due to release a Policy Statement in early autumn, alongside the consultation response, which should provide further information. The final position is expected to be confirmed in the provisional settlement.

**Strategy to close the MTFS gap**

64. The Council's current MTFS gap is estimated to be £90m by 2028/29, with almost £40m of that falling in 2026/27. This is currently being refreshed, taking into account the 2024/25 outturn position and latest information on assumptions such as inflation and service growth. This will be more difficult than in previous years due to the uncertainty over Fair Funding, the range of service reforms in the pipeline, and the lack of guidance the Government has provided to the Low Pay Commission in setting National Living Wage.

65. If this gap isn't resolved the position worsens; as service demand and inflation grow, the gap and less cash leads to greater borrowing. It is vital that the Council keeps on top of the savings challenge so that it has a planned thoughtful approach and avoids short term reactive decision making.

66. The Council has a good track record of delivering savings, having implemented almost £280m since 2010. The Council now needs to go further, quickly, to ensure that it remains financially sustainable. It is increasingly difficult to do this, given the savings already made and the Council's low-funded position. There may also be further increases in service demand and inflation which could worsen the position. It is therefore vital that the Council continues with a proactive approach to avoid short term reactive decision making.

67. The Corporate Management Team is working on a range of further opportunities, but the scale of the challenge requires more intensive focus to ensure all options are considered. To assist with this, it is proposed that external support is commissioned, with the necessary expertise and experience to bring best practice approaches from elsewhere in the sector. Initially this would involve a comprehensive review of the Council's cost base, completed at pace, to identify options to reduce costs or generate income. The contract could be structured in a way that allowed further support to be commissioned to implement the recommendations arising from the review, if and when appropriate. At this stage it is unlikely that the MTFS gap can be closed completely and still meet statutory duties without some level of service reductions or alternative delivery models

68. It is therefore proposed to instigate the procurement process for the above work. An established procurement framework is likely to be used which has the advantage of already being competitively tendered, giving assurance over Value for Money. The Director of Corporate Resources will present a further report to the Cabinet, likely to be in October, following evaluation of the tender responses, which will set out the outcome of the procurement process in order for the Cabinet to make a final decision on whether to proceed with the award. As in previous years, the Cabinet will consider a draft budget report in December, ahead of Scrutiny and public consultation, so sufficient progress will need to be made on developing savings options within that timeline.

69. In terms of further progress with developing the MTFS, further information is expected through September and October which will start to provide further clarity. Key timelines are expected to be:

| | | |
|---|---|---|
| Fair Funding consultation closes | 15th August | |
| MTFS update to the Cabinet | 12th September | Latest update on MTFS forecast, including revised growth and savings estimates, which will continue to be kept under review throughout the budget process |
| Government expected to respond to consultation and issue a Policy Statement | Early October | Policy Statement expected to give further information to enable the impact of the Fair Funding Review to be more accurately assessed |
| Autumn Budget | Early November | No date announced yet. Likely to give an indication of any tax changes and uplift in National Living Wage |
| Local Government Finance Settlement | December | In previous years this has been close to Christmas but MHCLG has indicated an early settlement is the aim this year. The settlement will confirm the grants distributed by MHCLG |
| Draft budget proposals to the Cabinet | 16th December | Cabinet approves the draft budget, including savings and Council Tax for consultation |
| Council tax base and business rates projections | January | Provided by district councils |

70. There are also some areas of uncertainty outside of the Council's control and without any clear timescale. The pay award for 2025/26, for instance, has not yet been agreed and has been rejected by all of the main Trade Unions. This impacts on the current financial year, but also will provide the basis to begin negotiations for 2026/27. The timing of notification of funding that is not administered by MHCLG is uncertain and significant uncertainties could remain post-Christmas.

## Conclusion

71. The Spending Review shows a very tight settlement for Local Government, especially once the assumed Council Tax increase is taken into account. The implications of the Fair Funding Review are unclear but are unlikely to materially improve the Council's financial position. This makes financial planning extremely difficult, but a refresh of the Council's MTFS will continue over the summer with a further report being presented to the Cabinet in September. This will combine assumptions over funding with the latest forecast of service pressures and achievement of savings.

72. Focused attention is needed to close the MTFS gap, with particular regard to 2026/27. An external review of the Council's current cost base will provide additional capacity and expertise to assist in identifying and developing further opportunities. This will need to be completed at pace to ensure sufficient progress on savings can be incorporated into the draft budget, which will be presented to the Cabinet in December.

73. Officers will submit a response to the Fair Funding consultation following further analysis and engagement with MHCLG. The response is likely to focus on ensuring that rurality is given adequate weighting in the formula and that Council Tax equalisation produces a fair and equitable distribution of resources.

## Equality Implications

74. There are no equality implications arising from the recommendations in this report. An Equality Impact Assessment will take place for any options that are to be considered as part of the draft budget proposals.

## Human Rights Implications

75. There are no human rights implications arising from the recommendations in this report.

## Other Implications and Impact Assessments

76. Any relevant impact assessments will take place for any options that are to be considered as part of the draft budget proposals.

## Background Papers

None

## Appendices

None