



CORPORATE GOVERNANCE COMMITTEE – 24 NOVEMBER 2025

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDITORS ANNUAL REPORT AND EXTERNAL AUDIT OF THE 2024/25 STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE STATEMENT AND PENSION FUND ACCOUNTS

Purpose of the Report

1. The purpose of this report is to:
 - Present the Auditor's Annual Report (Value for Money review) for 2024/25 for consideration,
 - Present the 2024/25 financial statements and letters of representation for approval,
 - Inform the Committee of the main areas of the financial statements, and
 - Report the key findings from the external audit of the accounts.

Background

2. Grant Thornton UK LLP, the County Council's external auditor, is required to communicate the results of the audit to those charged with governance prior to certifying the financial statements.
3. The Auditor's Annual Report (AAR) brings together a summary of all the work during 2024/25 that the auditor has undertaken for the County Council as the appointed external auditor. A core element of the report is a commentary on the value for money (VfM) arrangements at the Council.
4. The financial statements comprise the accounts for the County Council, the Annual Governance Statement and the accounts for the Pension Fund. The draft 2024/25 accounts were published on time at the end of June 2025 and were then subject to external audit.
5. Copies of the following reports are attached as Appendices to this report:
 - Auditor's Annual Report 2024/25 – covers the Council's arrangements for value for money (VfM) - Appendix A.
 - Updated Financial Statements (Appendix B)
 - Audit Findings Report (County Council) 2024/25 – Appendix C.
 - Audit Findings Report (Pension Fund) 2024/25 - Appendix D.

- Letter of representation for the County Council and Pension Fund – Appendix E and F.
6. The Committee received copies of the 2024/25 external audit plans at its meetings in March 2025 (County Council) and in June 2025 (Pension Fund). A progress report on the external audit was reported to the committee in September 2025.
 7. The external audit is almost complete and the auditor anticipates issuing an unmodified audit opinion on the financial statements by the end of December 2025.
 8. Representatives from Grant Thornton UK LLP, responsible for the audit will attend the Committee meeting to communicate any significant findings and answer any questions.
 9. The Accounts and Audit (Amendment) Regulations 2024 introduced 'backstop' dates by when local authorities must publish their audited accounts. For the financial year 2024/25 the deadline is the 27 February 2026. The 'backstop' dates then gradually move forward in subsequent years to the end of January 2027 for the 2025/26 accounts and then to the end of November 2027 for the 2026/27 accounts. The backstop dates were introduced to address delays in publishing local authority audited accounts.

Auditor's Annual Report - 2024/25

10. A copy of the Auditor Annual Report (AAR) is attached as Appendix A. The AAR covers the following areas:
 - Opinion on the financial statements.
 - Financial sustainability.
 - Governance.
 - Improving economy, efficiency and effectiveness.
11. Overall, the auditor's report is positive. They have concluded that the Council has appropriate financial management, has appropriate governance arrangements in place, and appropriate performance measurement, partnership working and procurement arrangements, but like many other councils faces significant financial challenges due to the Dedicated Schools Grant (DSG) deficit.
12. One significant weakness relating to the DSG deficit and two improvement recommendations have been made, further details below.

Opinion on the Financial Statements

13. The external audit of the financial statements is substantially complete and the auditor anticipates providing an unmodified opinion before the end of the year in accordance with the timeline in the external audit plan. The full opinion is included in the Audit Findings Reports covered later in this report.
14. In accordance with the Code of Audit Practice, the external auditor has also reviewed if the Annual Governance Statement does not comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting. They have noted that they have no issues to raise in this regard.

Financial Sustainability

15. This section covers the financial outturn position for 2024/25, financial planning as part of the Medium Term Financial Strategy (MTFS) for the four years 2025-29, the delivery of MTFS savings and the identification and management of risks to the financial resilience of the Council. The review noted:
 - that the Council achieved an underspend on its revenue budget in 2024/25.
 - the 2025/26 MTFS budget is balanced after the use of £4.7m earmarked reserves.
 - the 2025/26 budget (and later years of the MTFS) is based on reasonable assumptions.
 - the 2025-29 MTFS projects a revenue funding gap of £91m by 2028/29, and that the Council had recently commissioned an external efficiency partner to support it in identifying savings and closing the MTFS revenue gap.
16. The report further adds that the MTFS is aligned to its strategic priorities, is consistent with other Council plans, and identifies and manages risks to its financial resilience, for example: uncertainty over funding from central government, the impact of inflation, the national living wage, pay awards and increasing demand for service pressures.
17. The report notes the DSG deficit is forecast to increase by £42m during 2025/26 and that by 2030 the Council estimates the cumulative deficit could be as high as £400m. It comments that “the Council has been successful in reducing both Education Health Care Plan (EHCP) demand and the assessment backlog and that this is filtering through to ensuring appropriate decisions are made consistently and children placed in suitable settings. Through adopting an innovative approach that complies with the legislation, the Council has made significant progress in improving the time it takes to process EHCPs”. However the report also recognises that despite the measures put in place the deficit continues to grow and is a significant financial risk to the Council. The Government has announced that it will extend the statutory override allowing the overspend to be accounted for as a negative reserve to 31 March 2028 (previously 31 March 2026).
18. Within this section of the report one key recommendation and one improvement recommendation was made as summarised below.
19. Key recommendation 1: The Council urgently needs to work with schools and parents to develop and implement plans to ensure that specialist or independent school placements are only used for children where this is the most appropriate route. The Council also needs to continue to increase the number of places available for children in mainstream schools.
20. Management response: The Council is focused on implementing further mitigations to reduce demand for EHCP’s and the unit cost of providing them, alongside delivering current Transforming SEND and Inclusion in Leicestershire (TSIL) programme savings. The further mitigations include mainstream inclusion initiatives to reduce reliance on independent service providers (ISP’s), policy and commissioning reviews and accelerating provision of new special school places. The issue cannot be fully resolved by the Council alone, and the governments delayed

special educational needs and disabilities (SEND) White Paper will be fundamental to the long-term sustainability of SEND.

21. Improvement recommendation 1: In order to bridge the financial gap forecast in its Medium Term Financial Strategy, the Council needs to identify and bring forward additional savings or income generation schemes at pace in order to avoid having to use reserves to balance its annual budget. As increasingly difficult decisions are taken, public transparency on their effectiveness is important. The Council should therefore consider reporting separately on savings plans and savings delivery.
22. Management response: The Council is currently refreshing its MTFS as part of the budget process for 2026/27. This is challenging with the uncertainty over Fair Funding proposals and delay of the Policy Statement. The Council has commissioned an external Efficiency Review to undertake an unconstrained review of its cost base and identify further opportunities for savings or income generation. Some initial findings are expected to be included in the draft budget report in December. Opportunities with sufficient assurance over delivery will be included in the final budget proposals in February. Separately, Chief Officers are working to deliver additional savings targets and accelerate existing transformation workstreams where possible. The Efficiency Review will also recommend a revised Transformation Programme, incorporating new and existing projects, and this can be used to consider how savings delivery can be reported separately.

Governance

23. This section covers the arrangements around risk management, budget setting and budget monitoring, informed decision making, and that appropriate governance standards are maintained. The report summarises that the Council has arrangements in place to identify and manage risks, has an effective internal audit function, and has appropriate budgeting setting and budget monitoring arrangements in place. It adds that arrangements are in place to ensure that appropriate and properly informed decisions are made, governance arrangements are in place for all external bodies where the Council has a key role, and that arrangements are in place to monitor standards, including legal and regulatory standards where it procures or commissions services. However a prior year recommendation to report contract exceptions more frequently (currently annually) is in progress and has been carried forward.

Improving Economy, Efficiency and Effectiveness

24. This section covers financial and performance measurement, the effectiveness of the Councils role within significant partnerships, and how it commissions or procures services.
25. The report noted; the Council has arrangements in place to monitor and report on performance of the Council, engages in and responds to external inspections appropriately, has reduce the time taken to issue EHCPs from 52 weeks to around 25 weeks at the same time as demand for assessments continued to increase. It adds that the Council ensures it delivers its role within significant partnerships and engages with stakeholders, and has contract and monitoring arrangements in place where it commissions or procures services. This section of the report also includes the recent Care Quality Commission (CQC) inspection report that gave an overall

rating of “Requires Improvement”, with waiting lists being the key area for improvement. The Council is developing an action plan to act on the issues identified.

26. One improvement recommendation has been made in this section as summarised below.
27. Improvement recommendation 2: The Council should ensure that the action plan developed in response to the Care Quality Commission September 2025 inspection report is fully costed, with clear milestones and progress is publicly reported on a regular basis.
28. Management response: The CQC action plan has been costed and is included as growth as part of the 2026/27 budget process and MTFS refresh. Immediate actions for 2025/26 are being funded through available earmarked reserves. Progress against the plan will be reported to the Adult and Communities Overview and Scrutiny Committee.

Pension Fund

29. The reported noted the strong financial sustainability position of the fund (a funding level of 140% compared to liabilities); that governance arrangements are appropriate and that effective performance management is in place.
30. No recommendations we made in respect of the pension fund.

Statement of Accounts – 2024/25

31. A copy of the updated Statement of Accounts for 2024/25 is attached as Appendix B. The main areas of the financial statements are set out below.

Narrative Statement

32. The purpose of the Narrative Statement is to offer interested parties an effective guide to the most significant matters reported in the accounts. It includes a summary of the economy, efficiency and effectiveness, and the financial and non-financial performance of the Authority, and an explanation of the contents of the accounts.

Movement in Reserves Statement (MIRS)

33. This statement shows the movement in year on the different reserves held by the County Council, analysed into ‘usable reserves’, i.e. those that can be applied to fund expenditure and ‘unusable reserves’ which cannot be used to fund services.
34. Unusable reserves include reserves that hold unrealised gains and losses as well as adjustments for the differences between amounts charged in accordance with accounting standards and amounts charged for statutory purposes. An example is the short term accumulating compensated absences adjustment account. This account holds the estimated value of untaken annual leave as at the balance sheet date. The charge is required to be recognised by accounting standards, but statutory mitigation then requires it to be reversed out via an unusable adjustment account to avoid it being a charge to the General Fund. Other examples include capital charges

for depreciation, gains and losses on investments, and a time limited mitigation for the deficit on the Dedicated Schools Grant (DSG).

35. Overall, usable reserves which comprise the general fund and earmarked revenue and capital reserves total £316m as at 31 March 2025:

Usable Reserves	31/3/24	31/3/25
	£m	£m
General Fund – Delegated Funding for Schools	5.0	0.7
General Fund – Uncommitted Balance	21.0	25.0
Subtotal - General Fund	26.0	25.7
Earmarked Revenue Reserves:		
Capital/Repairs	136.0	126.5
Risk	84.3	111.1
Revenue projects	17.5	23.2
Ring-fenced grants etc.	21.4	17.9
Partnerships	1.7	1.2
Subtotal – Earmarked Reserves	260.9	279.9
Earmarked Capital Reserves	29.8	10.5
Total Usable Reserves	316.7	316.1

General Fund

36. The General Fund includes delegated funding for schools and the uncommitted balance of the Council which is held for unforeseen risks that require short term funding. The balance of £25m represents 4.1% of the net 2025/26 revenue budget (excluding schools' delegated budgets). The target range is between 4% and 7% of net budget, excluding schools. The new MTFS for 2026-30 includes plans to increase the uncommitted fund to £29m by the end of 2029/30 to reflect increasing uncertainty and risks over the medium term.

Earmarked Revenue and Capital Reserves

37. Details of the earmarked revenue reserves can be found in Note 11 to the accounts. The main earmarked reserves held are:
- Capital Financing £111m. This reserve holds MTFS revenue contributions required to fund the approved capital programme in future years. The reserve is fully committed to finance the 2025-29 MTFS capital programme and will be used before the planned £84m unsupported borrowing included in the MTFS 25-29 is required. Holding this fund is an essential part of the Council's approach to avoid incurring additional debt where possible.
 - Budget Equalisation £92m. This reserve is held to manage variations in funding across financial years including MTFS funding gaps. It also includes the increasing pressures on the High Needs element of the DSG which was in deficit by £64m as at 31 March 2025 (part of £48m overall DSG deficit) and is now projected to rise to £111m at the end of 2025/26. If future demand remained on a similar trajectory to 2025/26, the cumulative DSG deficit could increase to

upwards of £400m by March 2030.

- Insurance £17m. Funds held to meet future claims, or parts of claims, that are not covered by insurance policies. This could be due to policy limits and deductibles or claims relating to periods when the insurer has failed, such as Municipal Mutual Insurance or The Independent Insurance Company.
38. Capital receipts and capital grants unapplied total £11m. The balance held represents funds received but not yet applied as at year end. The amounts vary as and when capital projects complete.
39. The required level of earmarked reserves is kept under review during the year. Formal assessments are undertaken during the summer, in February as part of the Medium Term Financial Strategy (MTFS) and at year end.

Comprehensive Income and Expenditure Statement (CIES)

40. The CIES shows the accounting cost of providing services in accordance with accounting standards rather than the amount funded from taxation and income. The Council raises taxation to cover expenditure in accordance with statutory regulations which can be different from the accounting cost.
41. The headings used in the CIES align with the main reporting areas of the Council. However, the CIES cannot be directly compared to the outturn position reported to the Cabinet because the financial accounts comply with various reporting standards whereas the management accounts are compiled on a slightly different basis. The key differences relate to the way depreciation, impairment and movements to and from reserves are reported.
42. The CIES shows a net surplus on the provision of services for 2024/25 of £50m compared with a net surplus of £113m the year before. The change is a combination of factors including changes in the valuation of land and buildings and the pension fund, and increasing service department expenditure. This compares to an actual outturn position against budget of a £9m surplus.

Balance Sheet

43. The Balance Sheet shows the value of the assets and liabilities of the Council as at the balance sheet date. As at 31 March 2025 net assets were £1.2bn (same as in prior year).
44. The net deficit on the pension fund totals £28m (prior year net deficit £33m). The amount included in the accounts is assessed under International Accounting Standard 19 (IAS19) adjusted for a restriction on any net surplus. The reported position is after a technical accounting assessment required (per IFRIC14) on the LGPS net position – which was a net surplus of £453m. IFRIC 14 places a restriction over the amount of a net asset that can be recognised. In principle, the amount recognised as an asset may not exceed its recoverable amount due to the future minimum funding requirements of the LGPS. This assessment resulted in the £453m being removed leaving a net liability of £28m relating to unfunded LGPS and Teachers pensions.

45. The pension fund balance represents all pension entitlements that have been earned to date, but which are not yet in payment. Where there is a net deficit, statutory arrangements will result in the deficit being made good through increased contributions by the employer over the remaining working life of employees as assessed by the pension fund scheme's actuary. However, it is the triennial fund valuation that actually informs the levels of future contributions required. The triennial valuation of the Fund as at 31 March 2025 will be completed during 2025/26 with outcomes and recommendations presented to the Local Pension Committee and new employer contribution rates effective from the 1 April 2026. The latest estimates show that the Fund had increased to a 140% funded position (105% previously), which was a significant improvement, largely driven by investment returns over the last 3 years.
46. Investments held by the Council include cash and cash Equivalents (highly liquid investments that mature within 3 months or less from the date of acquisition) and short and long term investments. They total £461m as at 31 March 2025, compared with £506m at the same time last year.
47. At year end accounting Provisions totalled £5.8m compared with £6.4m last year. overall. Provisions are held to fund liabilities of uncertain timing or amount and are shown in greater detail in Note 27 to the accounts. The main provisions held are for Insurance, representing the estimated value of outstanding unsettled claims as at 31 March 2025, and Business Rates (the Council's 'notional' share of district councils' business rates appeals). The share of business rates appeals is notional as it is required to be reversed out via the Collection Fund Adjustment Account (shown at the bottom of the Balance Sheet) in order that it is not a charge to the General Fund.
48. The capital financing requirement (CFR) is shown in Note 39 to the accounts and totals £198m at the year end. The CFR is a measure of capital expenditure incurred historically that has yet to be financed. Actual debt as at the balance sheet was £175m. The difference between the CFR and actual debt is a temporary under-borrowed position of £23m. Actual external debt has reduced during the year by £45m due to favourable opportunities taken to repay external debt early. The position is kept under regular review.

Annual Governance Statement

49. The financial statements are accompanied by the Annual Governance Statement (AGS). The statement sets out the purpose of the system of internal control, how it operates in the Council and how its effectiveness has been reviewed. The AGS included in the financial statements has been updated for the latest position. The AGS is due to be approved by the Constitution Committee at its meeting on 24 November 2025, and signed by the Chief Executive and Leader of the County Council.

Pension Fund Accounts

50. The financial statements also include the Pension Fund Accounts for the Local Government Pension Scheme (LGPS) administered by the County Council.
51. There were 195 active employers within the fund and over 109,000 members in the pension scheme as at 31 March 2025.

52. The overall net assets of the fund increased during the year from £6.4bn to £6.7bn. The increase was due to an increase in net returns on investments of £310m. Details of the investments held are shown in Note 12 to the Pension Fund Accounts.
53. As mentioned earlier in the report, the latest triennial valuation of the Fund as at 31 March 2025 will be completed during 2025/26. The latest estimates show that the Fund had increased to a 140% funded position (105% previously). Although the funding level of individual employers will vary the positive position indicated that the contribution rates for the majority of employing bodies is expected to have peaked and can be reduced.

Audit Findings Report 2024/25 (County Council)

54. The committee received an interim audit progress report in September 2025. Good progress has continued to be made and the audit is substantially complete. The audit was undertaken between August and November as planned. The auditor anticipates issuing an unmodified audit opinion on the financial statements by the end of December 2025.
55. A copy of the audit findings report is attached as Appendix C. The auditor will provide a verbal update at the meeting.
56. The remaining items being reviewed by the auditor are:
- Review of responses provided regarding 6 land and buildings valuation queries.
 - Receipt of evidence from the Council to support a sample of assets written off in year with a net nil carrying value.
 - Final review of the net pensions liability.
 - Final review of land and building asset valuations between 1 October (valuation date) and year end.
 - Final review of operating expenditure, income and employee benefits.
 - Auditor review of the final set of financial statements
 - Final quality reviews by the audit manager and key audit partner.
57. Officers are not expecting any significant issues to arise from these remaining areas, and so the accounts are being presented for approval, with delegated authority being requested for the Director of Corporate Resources in consultation with the Chair of the Committee to make any minor amendments required at the conclusion of the audit. If any amendments required are not considered minor then they would require the accounts to be brought back to the committee in January.
58. During the course of the audit one unadjusted item has been identified. This related to the valuation of the Council's net pension liability which is estimated to be a reduction of £1.7m. In order to meet the publication dates for the draft accounts the Pension Fund uses estimates for some asset valuations which are then received at a later date. Based on materiality for the County Council this item has not been adjusted for, materiality in the financial statements is £20m.
59. The audit has identified some classification and disclosure changes required to the accounts which have been made in the final set of financial statements. These include minor presentational and casting points, enhanced disclosures for some notes and corrections to the financial instruments Note 20.

60. The auditor has reported that the key judgements and estimates used in respect of the:
- Valuation of land and buildings and the valuation of the net pensions liability are nearing completion, and are 'to be confirmed'.
 - Minimum revenue provision are appropriate.
 - The IT environment (Oracle Fusion) – reported an overall medium risk, including security management, relating to system access roles within the system. The issues have been addressed and no issues were noted in the specific audit procedures performed.
61. There were six improvement recommendations raised and four items re-raised from 2023/24. All other prior year recommendations have been implemented.
62. The new improvement areas were (all medium/low):
- Medium:
- Off ledger adjustments for the final statements – recommend to process in the ledger, e.g. balances analysed between short and long term journalled rather than manually adjusted in the final statements.
 - ContrOCC invoicing – accuracy of data when setting up charges.
 - Financial Instruments note – enhanced review controls for note compilation.
- Low
- Instructions to the external valuer – formal terms are agreed upfront.
 - Journal authorisation – journals are reviewed by senior team members.
 - Journal processing – formalise policy to ensure adequate cover for journal processing during staff absences.
63. The recommendations have been agreed / will be reviewed as part of 2025/26.
64. The following areas were re-raised from 2023/24:
- Processing of capital accounting entries in the fixed asset register, including the valuation date used of 1 October. This has been changed to 31 March 2026 for 2025/26.
 - Fixed Asset Register – the valuation method category used when entering the 2023/24 valuations has not yet been updated. This will be updated during 2025/26. This has no impact on the asset valuations/ carrying values.
 - Journal approval less than £20,000. Access to enter and approve a journal is restricted in Oracle Fusion to the central finance team only and overall numbers of journals at this level are very low. Consideration has to be given to the level of resources required compared with the risk and that there are other controls, such as budget monitoring that mitigate the risks. Internal Audit have also reviewed the process and have reported substantial assurance.
65. The final audit fee for the Council is £282,063, the same as advised in the external audit plan.
66. A copy of the letter of representation for the Council is attached as Appendix E.

Audit Findings Report 2024/25 (Pension Fund)

67. As reported in their progress report to the committee in September 2025 the auditor has substantially completed their work on the pension fund audit and anticipate issuing an unmodified opinion. The final audit opinion will be provided once the audit of the County Council (as the Administering Authority) is complete. A copy of the audit findings report is attached as Appendix D.
68. No material adjustments were required to the accounts. One immaterial adjustment was identified which has not been adjusted for relating to the valuation of pension fund assets. The difference is caused by timing differences and the need to use estimates to meet the publication deadlines for the draft accounts, 30 June 2025, compared with receipt of the valuation statements. This had a net impact of the pension Fund Account of an understatement of £5.95m. The materiality level for the Fund Account is £27m.
69. The auditor reported that the key judgements and estimates made in respect of the valuation levels of pension fund investments were appropriate and that the IT controls relevant to the pension management system 'Altair' are effective. The Pension Fund uses the same accounting system as the County Council, Oracle Fusion, and therefore the same risks have been reported. As mentioned earlier, the issues have been addressed and no issues were noted in the specific audit procedures performed.
70. The final audit fee for the Pension Fund is £98,470, the same as advised in the external audit plan.
71. A copy of the letter of representation for the Pension Fund is attached as Appendix F.

Summary

72. Given the length and complexity of the accounts, the very minimal number of adjustments required is a significant achievement.

Recommendation

73. The Committee is asked to note the Auditor's Annual Report and consider the issues raised in the County Council and Pension Fund Audit Findings Reports and approve delegated authority to the Director of Corporate Resources and Chairman of the Committee to approve and sign the financial statements and letters of representation for 2024/25, once the final outstanding items have been resolved.

Background Papers

External Audit of the 2024/25 Statement of Accounts – Audit Progress Report – 19 September 2025.

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7962&Ver=4>

External Audit Plan 2024/25 (Pension Fund), Corporate Governance Committee – 23 June 2025. <https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7961&Ver=4>

External Audit Plan 2024/25 (LCC), Corporate Governance Committee – 31 March 2025

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CIId=434&MIId=7960&Ver=4>

Terms of Reference, Corporate Governance Committee – 6 December 2024

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CIId=434&MIId=7724&Ver=4>

Circulation Under the Local Issues Alert Procedure

None.

Equal Opportunities Implications

None.

Appendices

Appendix A - Annual Auditor's Report 2024/25

Appendix B - Statement of Accounts, AGS and Pension Fund Accounts 2024/25

Appendix C - Audit Findings Report - County Council

Appendix D - Audit Findings Report – Pension Fund

Appendix E - Letter of Representation – County Council

Appendix F - Letter of Representation – Pension Fund

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