Leicestershire County Council

CHILDREN AND FAMILIES OVERVIEW AND SCRUTINY COMMITTEE: 20 JANUARY 2026

JOINT REPORT OF THE DIRECTOR OF CHILDREN AND FAMILY SERVICES AND THE DIRECTOR OF CORPORATE RESOURCES

MEDIUM TERM FINANCIAL STRATEGY 2026/27–2029/30

Purpose of Report

1. The purpose of this report is to:

   - Provide information on the proposed 2026/27 to 2029/30 Medium Term Financial Strategy (MTFS) as it relates to the Children and Family Services (CFS) Department;

   - Request members of the Committee to consider any issues as part of the consultation process and make any recommendations to the Scrutiny Commission and the Cabinet accordingly.

Policy Framework and Previous Decisions

2. The MTFS is the financial plan that is updated annually to set out the resource intentions of each department and the Council overall. The current MTFS was approved by the County Council in February 2025. The draft MTFS for 2026/27–2029/30 was considered by the Cabinet on 16 December 2025.

3. The Children's Act 2004 and Children and Social Work Act 2017 allocate duties to Local Authorities to ensure that children are safeguarded, and their welfare is promoted. This legislation underpins the work of the Children and Family services with respect to looked after children, children in need and children in need of protection.

4. The Children and Families Act 2014 and the Care Act 2014 place a duty upon Local Authorities to commission education, health and social care services jointly with other key public services like the police and NHS in order to safeguard and promote the welfare of all children in their area.

5. 'Working Together to Safeguard Children 2018' guidance provides a framework for all the relevant legislation and sets out the importance of early identification and response to issues of concern, particularly for vulnerable groups. The 2023 revision focuses on whole-family approaches, and embedding strong, effective and consistent multi-agency child protection practice.

6. The School and Early Years Finance (England) Regulations 2023 set the legislative framework for the Schools Budget and defines the education functions to be met from the Local Authority Budget.

7. Other relevant policies include:
   - Leicestershire County Council's Strategic Plan 2022-2026;
   - Children and Family Services Departmental Plan 2024-2026
   - Achieving Excellence through purposeful practice 2024-2027– Continuous Improvement Plan
   - Voice and Influence Strategy 2024-2027;
   - Children and Family Services –2024-2026 Placement Sufficiency Statement and Market Position Statement
   - Children and Family Services – Quality Assurance and Improvement Framework (QAIF)
   - Children Wellbeing and Schools Bill
   - National Framework for social work practice
   - Kinship Strategy
   - Reunification Strategy 2026-2029
   - Recruitment and Retention strategy 2024-2026
   - Children and Families Services Workforce Development plan 2025 -2028

Equality Implications

8. Under the Equality Act 2010 local authorities are required to have due regard to the need to:

   a) Eliminate unlawful discrimination, harassment and victimisation.
   b) Advance equality of opportunity between people who share protected characteristics and those who do not; and,
   c) Foster good relations between people who share protected characteristics and those who do not.

9. Given the nature of services provided, many aspects of the County Council's MTFS will affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those detailed assessments will be revised as the proposals are developed to ensure decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

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

11. If, as a result of undertaking an assessment, potential negative impacts are-identified, these will be subject to further assessment.

12. Any savings arising out of a reduction in posts will be subject to the County Council's Organisational Change Policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan.

Human Rights Implications

13. Where there are potential Human Rights implications arising from the changes proposed, these will be subject to further assessment including consultation with the Council's Legal Services.

Background

14. The draft MTFS is set out in the report to Cabinet on 16 December 2025, a copy of which has been circulated to all members of the County Council. This report highlights the implications for the Children and Family Services Department.

15. Reports such as this one are being presented to the relevant Overview and Scrutiny Committees. The Cabinet will then consider the comments of the Overview and Scrutiny bodies and responses from the wider consultation process at its meeting on 3rd February 2026. The County Council meets on 18 February 2026 to consider the final MTFS.

16. The revised MTFS for 2026-30 projects a funding gap of £23m in the first year that (subject to changes from later information such as the Local Government Finance Settlement) will need to be balanced by the use of earmarked reserves. There is then a gap of £49m in year two rising to £106m in year four, based on a 2.99% Council Tax increase, although no decision has yet been made on the level of increase to be approved.

Strategic Change Programme

17. Demand for Children and Family Services continues to increase with growth of £61.55m projected over the period of the MTFS, as the requirement to meet CFS needs before intervention, arising from largely demographic growth and an increased need for costly social care provision types, increases. The continuing impacts of the pandemic and cost of living crisis provide additional challenges which are likely to be far-reaching as the effects have a cumulative impact on families, increasing the likelihood of family breakdown and the need for care services.

18. In response to these pressures, the department has in recent years embarked on several fundamental transformation programmes starting with the Defining Children and Family Services for the Future programme (DCFSF) and a similar programme for Transforming SEND and Inclusion in Leicestershire (TSIL). Both are now embedded into business as usual, with a continued focus on continuous improvement across children and family services – ensuring positive outcomes for children and young people and their parents and carers, making delivery of support sustainable for the future, and responding to financial pressures through the MTFS.

19. Other savings are being delivered through partnerships such as the Children's Innovation Partnership (CIP) with Barnardo's and through service re-design.

20. Organisationally, despite delivery of extensive savings already, a significant gap remains, emphasising the need to accelerate and expand the Council's ambitions and explore new, innovative options. A step-change in approach is therefore required and will also need to consider the impact of current social care reform work which will need to be fully reflected in future planning, as changes to service models, workforce requirements, and funding arrangements will significantly influence local priorities and resource allocation. Incorporating these reforms into strategic and financial planning is essential to ensure readiness for implementation and sustainability. This is considered further in the Efficiency Review section later in the report.

Proposed Revenue Budget

21. The table below summarises the proposed 2026/27 revenue budget and provisional budgets for the next four years. The proposed 2026/27 revenue budget is shown in detail in Appendix A.

	2026/27 £000	**2027/28 £000**	**2028/29 £000**	**2029/30 £000**
Original prior year budget	141,778	164,452	169,172	175,272
Budget Transfers and Adjustments	-826	0	0	0
Add proposed growth (Appendix B)	30,230	9,720	10,500	11,100
Less proposed savings (Appendix C)	-6,730	-5,000	-4,400	-4,175
Total Net Provisional CFS Budget	**164,452**	**169,172**	**175,272**	**182,197**

22. Detailed service budgets have been compiled based on no pay or price inflation; a central contingency will be held which will be allocated to services as necessary.

Other Changes and Transfers

23. Net budget transfers and adjustments – largely related to pay and reduced employer pension contributions – equates to decreases totalling £0.826m which have been reflected for the purpose of 26/27 budget planning and beyond.

24. Growth and savings have been categorised in the appendices under the following classification:

*	item unchanged from previous MTFS;
**	item included in the previous MTFS, but amendments have been made:
No stars	new item.

This star rating is included in the descriptions set out for growth and savings below.

25. Savings have also been classified as Transformation or Departmental and highlighted as "Eff" or "SR" dependent on whether the saving is seen as an efficiency or a service reduction or a mixture of both. "Inc" denotes those savings that are funding related or to generate more income.

Growth

26. Growth over the next four years in the Children and Family Services budget totals £61.55m. This is mainly due to pressures on the Social Care placements budget arising from increased numbers of children requiring very costly residential provision, and continued increasing demand of unaccompanied asylum-seeking children, which results in increased funding pressure when such cohorts transition to care leavers. Growth assumptions will continue to be reviewed at regular intervals, and where necessary any changes be reflected as part of the final MTFS report to Cabinet in February.

27. The budget increases are outlined below with details for each growth item and summarised in the table below and in Appendix B:

GROWTH

References			2026/27	2027/28	2028/29	2029/30
			£000	£000	£000	£000
		CHILDREN & FAMILY SERVICES				
**	G1	Demographic growth & increasing cost of Social Care Placement mix	24,500	32,700	41,500	51,000
**	G2	Front-line social care staff - increased caseloads	700	700	900	900
**	G3	Post Transforming SEND & Inclusion In Leicestershire(TSIL) sustainability	1,850	1,850	1,850	1,850
**	G4	Unaccompanied Asylum Seeking Children (UASC) - increased demand/cost	800	2,000	3,200	4,450
	G5	Disabled Children Service	1,380	1,700	2,000	2,350
	G6	Oakfield Expansion - Increased Transport need/demand	1,000	1,000	1,000	1,000
		TOTAL	**30,230**	**39,950**	**50,450**	**61,550**

* items unchanged from previous Medium Term Financial Strategy
** items included in the previous Medium Term Financial Strategy which have been amended

** G1 - Social Care Placements £24.5m 2026/27 rising to £51m by 2029/30

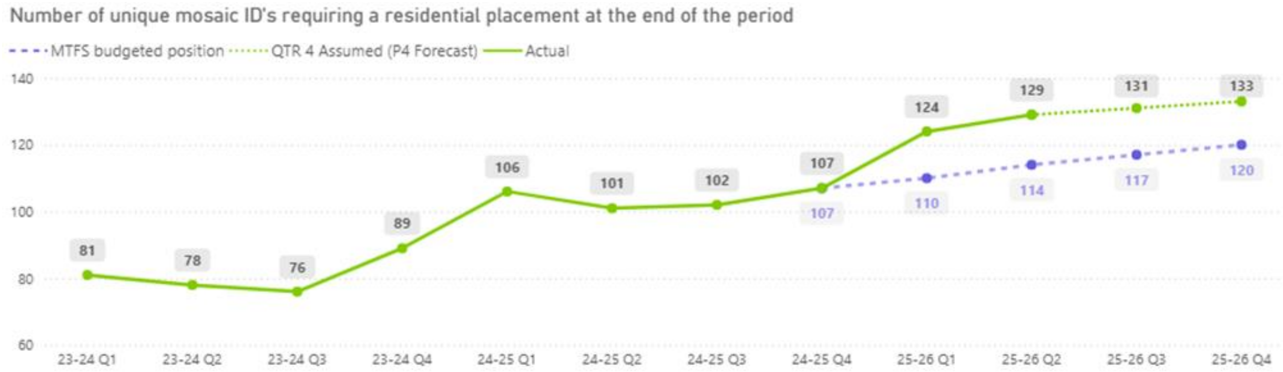
28. The children's social care placements budget comprises of a variety of settings to look after children as part of a statutory duty to safeguard children who may be at risk of harm.

29. This significant growth pressure relates largely to the increasing cost of children's social care placement mix, largely due to change in demand / numbers in relation to children in residential provision.

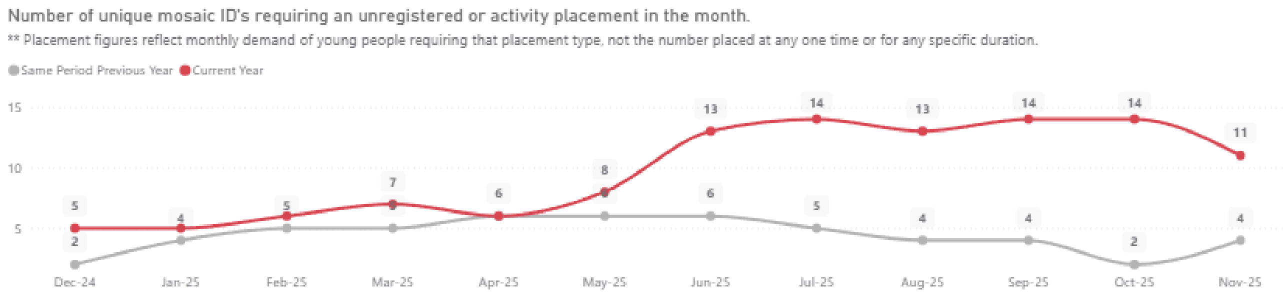
30. The MTFS for this financial year assumes budgeted residential numbers by March 2026 to be at 120 children (includes parent and child placements). Trend and demand analysis at the time of budget setting, and then subsequently until the end of quarter 4 of the financial year 2024/25, showed demand remaining relatively stable.

31. However, as illustrated in the graph below, numbers to date during the financial year 2025/26 have risen sharply. Current projections for the financial year show that this

number could rise to 133 by year end (11% increase vs budgeted mitigated position in terms of overall volume).



32. Of this overall increase in numbers, a small but financially significant increase in the number of unregistered and activity placements can be seen from May 2025 (See graph below). Unregistered placements are used when no other option is available and are more costly than registered residential placements, with the average weekly cost of such provision ranging from between £13k to £17k over the last 12 months. The current placement budget for 2025/26 allows funding for up to 5 children in this provision type over the financial year.



33. Over the past four years the numbers of children who have started in unregistered and activity provisions has been relatively low. This financial year children needing to be supported in such provision types represents a circa 100% increase versus the average of the last 4 years. Often such provision types are the only options available to the Council for some children with often the most complex needs who come into care or require an emergency placement. Due to a national and local placement sufficiency pressure, the Council is often left with no choice in the placements it brokers for children. They are often the most expensive due to them taking children with complex mental health, absconding and criminal exploitation risks and the emergency nature in which the child is placed. Despite a decrease from prior months, as at end of November 2025, there were 11 children in unregistered/ activity placements, which continues to add a significant financial strain to the current challenging budget situation.

34. There is clear evidence that the children in these placements have experienced high levels of trauma and /or have complex disabilities and special educational needs that result in a break down in family relationships or, for those already in care, a request to move the child, often in emergency circumstances. Despite extensive packages of support to keep them within their family (unless they have suffered abuse in the family) the home situation, their foster home or registered home becomes untenable. For some,

the activity/ unregistered placement is for a set period until the Council can find registered homes or rehabilitate them at home. Unfortunately, for some they experience several breakdowns of placements and subsequent moves. For these children the market and placement sufficiency are even more challenging and placements more costly, adding an increased financial burden to the budget.

35. For all children in activity / unregistered placements, searches are regularly undertaken to source a registered provision. However, there is currently a gap in the market to support these children, and work needs to be undertaken with providers with a view to how they can support within the remit of their Ofsted registration. Often providers are unable to care/ continue to care for children due to complex mental health and associated levels of need and self–harming behaviour. Knife crime and links to risk of criminal exploitation is also a factor for some children.

36. All children in unregistered placements have oversight from senior managers in the Department and their circumstances and progress of placement searches are discussed in a weekly meeting chaired by the Assistant Director. For most, the period in unregulated or unregistered provision is short term, but for children with the most complex needs it is more challenging to secure a registered home and if successful to maintain them there. In the last 12 months 9 of the children who were placed in either an activity placement or an unregistered placement for a period have now moved into a registered home at a lower weekly cost. For these 9 children who have moved from activity to registered residential placement, the average reduction in cost per child is £3,522 or on average, 37% cheaper than unregistered provision for these children.

37. Also, of note and of financial significance, due to a set of very unique challenges and issues (Sufficiency and need), three children are currently in secure provision, two of which at a significantly higher than average weekly cost of £37k and £33.5k (historically the upper limit of costs of such provision type has been no more than £15k per week), which contributes to the overall projected in year overspend position. Given the complexity of their situation, it is likely they will remain in secure welfare provision for a minimum of 6 months.

38. Under Section 25, The children Act 1989, detaining a child in secure is rare and only happens, with agreement of the Court in the riskiest of situations. Children in welfare secure are placed if there is an history of absconding and /or they are placing themselves or the public at significant risk of harm or danger. Secure panel meetings are chaired by the Assistant Director and final sign off given by the Director. For future financial planning, there is an assumed need for such provision type over the MTFS period of between 1-2 children annually needing to be supported in secure provision. However, this position will be reviewed regularly and any subsequent deviations from current projected assumptions to be fed into future MTFS planning work.

39. The weighted average weekly cost of residential provision is very costly at an average of circa £7k per week but can vary considerably depending on needs. The three key contributing factors impacting the cost of provision are:

   a. *Cohort of children (those with the most appropriate fit for residential care):* the department is seeing an increase in the complexity of young people taken into care and requiring a residential placement. This includes young people with complex mental health difficulties, violence and aggression as result of experiencing trauma, criminal exploitation, risk of harm to self and others, controlling behaviour, repeat missing episodes and court ordered deprivation of liberty.

b. *Age of children entering Residential provision:* The rolling average age of those children entering residential provision as their first placement type has also decreased from an average 13.2 years in 2021 to 8 years currently (decrease of 39%). The age range of children and young people in residential settings is now therefore widening, and in some cases children and young people may be in a residential setting for longer (having started to access it at a younger age).

c. *Market pressures and sufficiency:* A lack of provider capacity and volatility in the market, has significantly increased the cost of new placements compared to those placements ending. This is particularly challenging when searching for placements for children with a range of complex needs 'unattractive' to the market (needs) and results in the use of high cost (£12k+/ per week per child) interim provisions until behaviour stabilises or another placement can be found. Lack of step-down options from residential provision is also an issue. There are currently some children who have been waiting long periods to 'step down' to family-based placements that cannot be found. This is compounded by the low recruitment pipeline for mainstream carers, locally and nationally, which particularly impacts on availability of placements for older children and those with more complex needs.

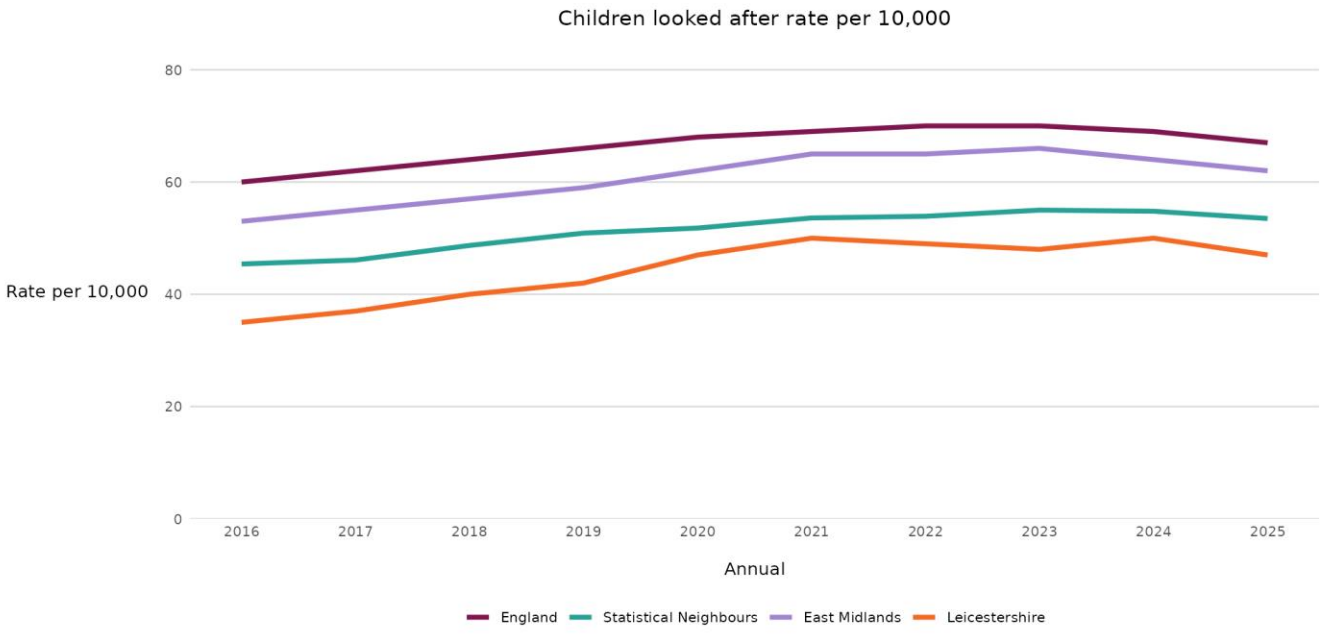
40. In summary, current in-year projections, when extrapolated forward, indicate that future financial growth will be essential to sustain service delivery, meet strategic objectives and statutory obligations. These trends highlight the need for proactive planning and targeted investment to ensure long-term stability, while maintaining efficiency and value for money across all operations.

<u> G2 – Front Line Social Care Staff – Increased Demand and Caseload Management £0.7m 2026/27 rising to £0.9m by 2028/29</u>**

41. The department has been continually focused on preventing (where is it right for the child to do so), children coming into care and reducing the time that children and young people are in care. The current overall rate of Children in Care per 10,000, 0–17-year-old population (47 per 10,000) remains lower than comparator authorities (mean of 60 per 10,000) – see table/graph below.

Children Looked After rate per 10,000

LA	South Gloucestershire	Wiltshire	Nottinghamshire	West Sussex	Somerset	Warwickshire	Gloucestershire	East Riding of Yorkshire	Hampshire	North Somerset	Leicestershire
2020	36	44	56	46	48	65	57	55	57	54	47
2021	37	40	61	51	47	73	62	56	59	50	50
2022	44	41	59	49	50	69	66	53	61	47	49
2023	43	44	58	50	51	63	67	57	66	51	48
2024	36	46	56	50	52	64	64	56	66	58	50
2025	33	46	53	54	55	56	57	58	60	63	47



42. The numbers of children looked after continues to steadily increase in Leicestershire. This is due to not only demographic growth but also a combination of socio-economic pressures, increased complexity of needs, and systemic factors such as poverty, mental health challenges, and safeguarding concerns. Currently there are 785 Looked after children in Leicestershire – this represents a 7.5% increase over the last 12 months. Families often present with multiple, interlinked issues requiring coordinated interventions across health, education, and social services. Additionally, safeguarding concerns are becoming more nuanced, with risks linked to online exploitation, substance misuse, and coercive control. These dynamics demand greater professional expertise, multi-agency collaboration, and tailored support plans, making case management significantly more challenging than in previous years.

43. As a result, investment in additional front-line social care staff capacity is required to ensure appropriate caseload levels and to continue to meet statutory duties, sustain safe effective services, and deliver the outcomes expected for children and families. Failure to secure this investment risks service instability, inability to meet statutory and safeguarding responsibilities, increased reliance on high-cost agency staff, and poorer outcomes for vulnerable children.

44. This growth is to provide for increases in demand in relation to largely the Family Safeguarding Service. The service has experienced an increased demand and complexity of cases. The current caseloads are no longer sustainable, and failing to address the capacity need will have several adverse effects, but in particular;

   a. **Failure to meet statutory and safeguarding responsibilities to vulnerable children by not having capacity due to increased workload**: The current staff will continue to have unrealistically high caseloads, leading to an inability to meet statutory and safeguarding responsibilities to children, burnout and decreased job satisfaction. Experience shows that this results in higher turnover rates, further exacerbating the staffing shortage and cost increase of recruiting agency staff.

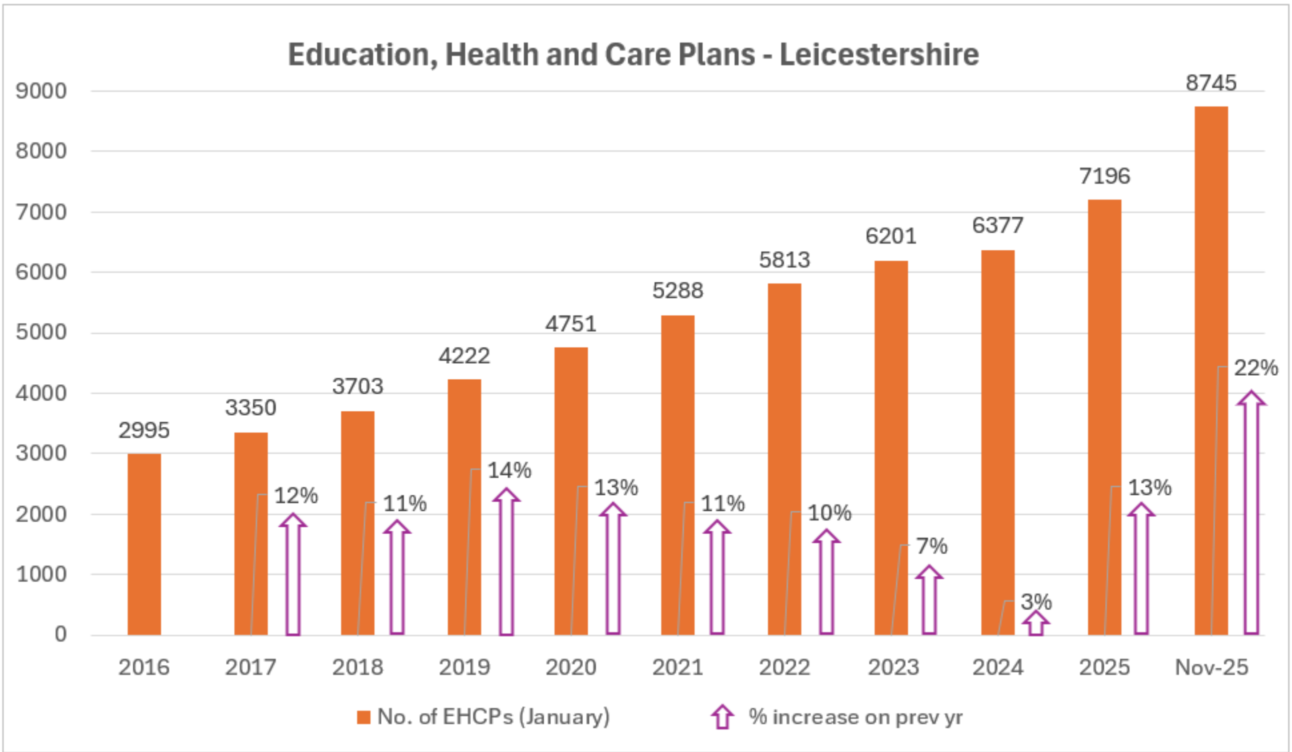
b. **Reduced Quality of Service**: With the existing staff stretched thinly, the quality of service provided to families will inevitably decline. This can lead to the Local Authority failing to meet its safeguarding responsibilities, key performance indicators not being met, quality of support not being to the standard expected, and ultimately, poorer outcomes for the families of Leicestershire.

45. Recent data and audits reveal higher numbers of child protection plans, looked after children, and court proceedings, indicating a growing workload and complexity in cases. Weighted caseload modelling since November 2024 shows several teams operating above capacity. An audit of incoming referrals has been undertaken and the number of cases being accepted into the service is higher than this time last year - this indicates that the Council is increasingly supporting children with more complex needs and higher levels of vulnerability. Although the overall number of caseloads held is meeting average targets, the complexities of cases are increasing.

<u>G3 – Post Transforming SEND and Inclusion in Leicestershire (TSIL) sustainability - £1.85m 2026/27 and ongoing</u>**

46. Overall demand through the front door in terms of EHCP demand has continued to rise, which is further illustrated in the chart below and shows active EHCPs over time by calendar year. At the end of November 2025 there were 8,745 EHCPs, a 22% increase since January 2025, and a 192% increase in EHCPs since January 2016. Recent increases in demand are being seen nationally and are likely a result of uncertainty on future SEND reform caused by the anticipated Government Schools White Paper.

<u>Number of children and young people with Education, Health and Care Plans (EHCPs) in Leicestershire</u>



47. The TSIL programme had considered workload and performance within the Special Educational Needs Assessment (SENA) Service. The service is responsible for delivering the local authority's statutory duties under the SEND Code of Practice to carry out statutory assessment and review of children and young people who have an EHCP from age 0 – 25, write Education Health and Care Plans (EHCPs) and identify and secure the provision to meet the needs. They are key contributors to meeting the 20-week statutory timeline for assessments but are also dependent upon other advice givers to do so.

48. The review identified that the current model was failing to achieve statutory duties, particularly regarding the timeliness of the assessment process for EHCP requests which has been a considerable challenge for the Council for a number of years - with the authority only finalising 4.3% of assessments within the 20-week statutory timeline in 2024.

49. The work of the TSIL programme has succeeded in slowing growth in demand for Education, Health and Care Needs Assessments (EHCNAs) and reduced the overall High Needs deficit position. TSIL changes to ways of working, processes and an inclusive practice ethos have become embedded in business as usual. Ongoing performance and financial monitoring of changes made during the programme will be undertaken using embedded performance frameworks to ensure early visibility of changes in demand and tracking of sustained process improvements. Of note – this includes the current overall improving position for EHCNA assessment process – at the end of November 25, the overall average time to issue is continuing to reduce and is now close to the 20-week target at 22.9 weeks, a significant improvement on the 62 weeks in December 2024.

50. While the TSIL programme has now been concluded, recent unanticipated rises in demand reinforce that the SEND system remains unsustainable, and continued uncertainty around what might be included within the Government's White Paper, proposed for release in early 2026, is expected to continue to fuel demand in the short to medium term.

51. There are still significant opportunities for improvement to be made both to internal service performance and to support inclusive practice across the education system. Building on the work of the TSIL programme and an expected emphasis of the White Paper on mainstream inclusion, the Council will be working to embed 'belonging' in schools and other educational settings.

52. Belonging focuses on children and young people feeling personally accepted, respected, included, and supported by others in their local education social environment. Children and young people who feel safe, valued and cared for within their educational setting are much more likely to experience academic success, positive social connections and a confident perception of their connection within the community.

53. The authority is developing a *Belonging in Education* strategy, co-produced with system partners, school leaders, parents, carers and young people with SEND. This work commenced in September 2025, with the aim to have a draft of the strategy in the Spring of 2026. The strategy will set out how Leicestershire will deliver the ambition of belonging for every child and young person in all educational settings across Leicestershire and will provide the framework for all areas of the Council's SEND and

Additional Needs improvement work so that children and young people can *live their best life*.

54. Other new areas of improvement are continuing to be developed which will support the achievement of existing and planned savings targets, contributing towards a more sustainable High Needs Block position and support children and young people to feel they belong. These include initiatives such as:

    a. Developing a series of new support offers for mainstream schools and children with social, emotional and mental health (SEMH) needs. These offers have been co-produced with schools and will include training, specialist outreach support and clinics for school staff, a directory of support and advice for school staff and for parents and carers of children with SEMH needs, and a pilot of in-school alternative provision leading to a GCSE qualification for young people with SEMH needs struggling to access standard mainstream classroom learning.

    b. The introduction of a banded model for EHCPs, which gained approval from the Cabinet in July 2025 to consult with schools on transitioning from EHCP funding based on Learning Support Assistant hours to a more flexible model of banding based on an assessment of the child's needs.

    c. More efficient processing of requests for assessment and improved communication using additional digital process improvements and an activity-based model allowing as many tasks as possible to be allocated to support staff at lower grades, supporting those at higher grades to focus on specialist tasks and reducing the need for growth in specialist staff to meet the increased demand.

    d. Improvements to the EHCP review process to ensure all children with EHCPs receive an annual review and offer evidence-based support to SENA staff on prioritisation of their caseloads.

    e. Improvements to placement recording processes, changing the way the Council captures placement financial information to enable more efficient processing of contracts and invoices. This will drive tighter management of sufficiency linked to finances that will better control the financial monitoring for the service area.

    f. Extending the Commissioning offer for Education, SEND and Inclusion services to improve the department's ability to broker specialist placements and work more closely with providers to shape the market – rather than relying on spot purchasing.

    g. Improving the overall quality of EHCPs through monthly multiagency audits and ongoing quality sign-off processes.

    h. Working with Primary Schools across the County to develop enhanced educational provision for children with SEND transitioning from Early Years settings into their first year at Primary School. Four new Early Years Foundation Stage (EYFS) enhanced resource bases were introduced in 2024 and another four are due to accept new pupils during the 2025/26 academic year. Further discussions are underway with a number of schools to develop additional enhanced resource bases for 2026/27 school starters.

i. A School Place Planning Strategy currently out for consultation sets out the strategy for delivering additional school places for the future, including specialist school places. This will enable the avoidance of high cost placements in Independent Special Schools due to a lack of places within the Council's existing maintained Area Special Schools.

j. A review of the SENA service considered 'ways of working', in addition to capacity. A new operating model has created three specialist teams focusing on assessments, reviews and placements. This will improve productivity by creating expert teams in each of these areas.

55. The growth in budget will ensure sufficient budgeted capacity exists across the relevant services to manage this increased demand and subsequent impact on caseload capacity within services but also provide the capacity to support on all the activities and improvement work outlined above. Workflow tracking will allow the effective management of staffing levels to respond to peaks and troughs in service demand, as well as changing trends with a clear link between staffing needs and service volume.

56. In summary, the increasing demand for Education, Health and Care Plans (EHCPs) is placing significant pressure on caseload management within the Special Educational Needs (SEN) service. As more children require tailored support, case complexity and administrative workload are rising, making it harder to maintain timely assessments and interventions. This surge also impacts the wider infrastructure of support services, including Educational Psychology services, given that psychologists play a critical role in statutory assessments and ongoing reviews. The growing volume of requests will therefore require additional capacity and strategic planning within those wider services to ensure compliance with statutory timelines and the delivery of high-quality support for children and families.

57. Under the Schools and Early Years Finance (England) 2025 regulations, the costs of the services such SEN assessment and Educational Psychology fall to the local authority budget. However, the financial benefit is through reduced placement costs which, under the same regulations, are met from High Needs DSG. Whilst local authorities cannot directly contribute to DSG without the permission of the Secretary State this position clearly sets out the contradictory nature of the SEN funding system.

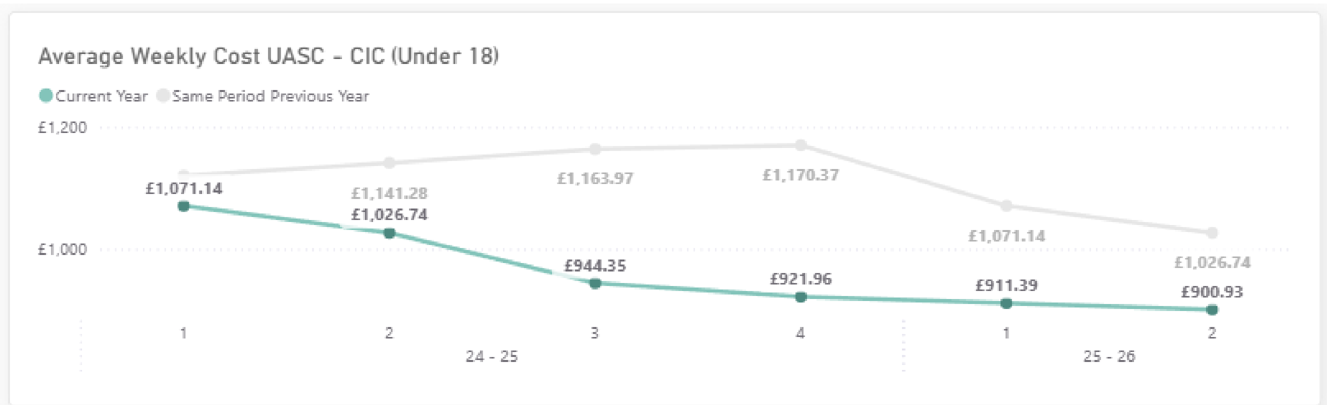
<u>G4 – Unaccompanied Asylum-Seeking Children (UASC) – Increased demand and cost £0.8m 2026/27 rising to £4.45m by 2029/30</u>**

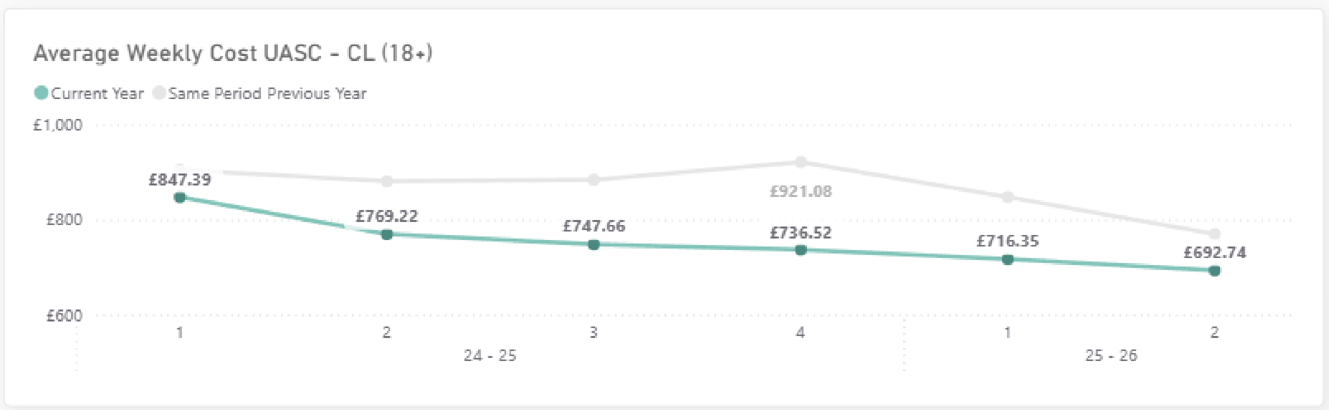
58. The projected financial pressure in relation to the Unaccompanied Asylum-Seeking Children (UASC) budget is largely due to the continued increase in UASC in care and care leavers, which has required a greater resource requirement to meet their needs. The impact of the development of dispersal hotels 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. 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. Based on the latest ONS population estimates, the Council has approximately 147,000 children aged 0–17. Applying the 0.1% threshold means the county is expected to accommodate around 147 UASC under 18.

59. No consideration is given to the number of UASC care leavers aged 18+, which means the Council continues to have more demand for care leaver services and the current funding for care leavers decreases, but the demand grows. The Council is working with the East Midlands Council's Strategic Migration Partnership which continues to challenge the situation with the Home Office. Without additional funding, the Council faces a substantial risk of overspend and reduced capacity to meet statutory duties and safeguard vulnerable young people.

60. The number of UASC care leavers is forecast to rise to over 200 by the end of the current financial year, which will have included a number of in care UASC who will have turned 18 and become eligible UASC care leavers within the next six months. Based on current trend analysis, this cohort could exceed 400 by March 2030. Alongside this growth, the Council is expected to receive additional referrals through the National Transfer Scheme (NTS) as the number of looked-after children is likely to fall below the 0.1% threshold of 147. Collectively, this represents a significant demand and financial challenge. Although weekly unit costs have reduced (see charts below), the sustained increase in demand—particularly for UASC care leavers—will create mounting budget pressures over the refreshed MTFS period, as funding drops to around £270 per week per care leaver compared to approximately £1,000 per week for those still in care.

61. Home Office funding covers £1,000 per week for UASC children in care and £270 per week for UASC care leavers. This funding is for both any direct placement cost plus associated service costs. The sharp decrease in funding when children transition from UASC in care to care leavers presents a significant financial risk. This is amplified by the disproportionate numbers in Leicestershire, where projected care leavers far exceed those currently in care, creating a sustained budget pressure that is not matched by Home Office contributions. However, through cost reduction activities linked to the department's MTFS Smarter Commissioning programme of work, the unit cost of provision has reduced significantly compared to the position 12 months ago. This is illustrated in the charts below.





62. This improvement reflects a stronger strategic approach to market engagement and contract management, delivering better value without compromising quality. As a result, the projected budget growth requirement is now considerably lower than it would have been had unit costs remained at last year's levels. Whilst recognising there is still further potential to reduce costs further, with specific commissioning activity planned for 2026 to reduce costs further, this demonstrates the impact of effective commissioning in mitigating financial pressures and ensuring sustainability within the service.

<u>G5 – New – Disabled Children Service £1.38m 2026/27 rising to £2.35m by 2029/30</u>

63. Demand for services supporting disabled children continues to rise, driven by increasing complexity of needs and a growing expectation for personalised support. This trend, both locally and nationally, places significant pressure on budgets and workforce capacity, as families seek tailored interventions to maintain stability and improve outcomes. One area of notable growth is the provision of direct payment packages, which enable families to arrange care and support flexibly according to individual needs. Current projections indicate a circa 40% increase in direct payment packages over the course of the financial year 2025/26.

64. While direct payment packages represent an increasing cost pressure, they can however be a highly cost-effective intervention when managed correctly. For example, a typical direct payment package might cost £250–£400 per week, compared to £6,500–£7,500 per week for a residential placement. By applying robust eligibility thresholds and maintaining regular reviews, these packages can prevent escalation into more intensive and costly forms of provision, delivering both better value for money and improved outcomes for children and families.

<u>G6 – New – Oakfield Expansion – Increased Transport Need / Demand £1m from 2026/27</u>

65. The expansion of Oakfield is being driven following the ending of the Secondary Education Inclusion Partnership arrangements, which requires a different target operating model to ensure statutory duties continue to be met. The Secondary Education Inclusion Partnerships (SEIPs) were collaborative arrangements designed to support secondary schools in managing pupils at risk of exclusion and promoting inclusive practice. They operated on a model where funding was devolved to schools, enabling them to commission interventions locally. However, schools determined that this model was not sustainable due to increasing demand and financial pressures, collectively deciding to end the arrangements. This decision passed responsibility back

to the Local Authority to design an alternative delivery model that ensures compliance with statutory duties, particularly under Section 19 of the Education Act 1996, which requires suitable full-time education for children unable to attend mainstream school.

66. In response, the Council developed a revised operating model, including the expansion of Oakfield, to maintain inclusive provision and meet legal obligations effectively. Expanding Oakfield enables the Council to provide education for those children who would otherwise not receive it (otherwise known as the Section 19 duty) locally, reducing reliance on unregistered alternative provision and costly out-of-county placements, whilst improving outcomes for pupils.

67. Linked to this, under Section 508B of the Education Act 1996, the Local Authority (LA) is required to provide free transport for eligible children of compulsory school age who cannot reasonably walk to school due to distance, disability, or safety concerns. This duty extends to children placed in Pupil Referral Units (PRUs) and specialist provisions such as Oakfield, particularly when:

   a. The child is placed by the LA under Section 19.
   b. The child is not on roll at a mainstream school and the PRU or specialist provision is the designated placement.

68. Transport costs for these pupils are not chargeable to the Dedicated Schools Grant (DSG) and are required to be absorbed by the Council's general budget. As Oakfield's intake increases, so too does the pressure on the transport budget, creating a significant ongoing cost that must be factored into financial planning.

69. Under the new target operating model, the necessary expansion of Oakfield and associated inclusion strategies are a key mitigating action aimed at reducing placement spend by keeping more pupils within local provision rather than costly out-of-county settings. While this approach delivers long-term financial benefits, its impact is primarily seen against the Dedicated Schools Grant (DSG) High Needs Block, helping to reduce the projected deficit. By increasing local capacity and improving commissioning efficiency, the model supports compliance with statutory duties while contributing to a more sustainable financial position for the DSG.

Savings

70. Details of proposed savings for the CFS local authority budget are set out in the table below and Appendix C and total £6.7m in 2026/27 and £20.3m over the next four years.

71. Additionally, the MTFS aims to ensure sustainable services for children and young people with Special Educational Needs (SEN) within the High Needs Block of the Dedicated Schools Grant (DSG). Cost reductions of £47.627m are forecast over the period of the MTFS but an annual deficit continues.

	References			2026/27	2027/28	2028/29	2029/30
				£000	£000	£000	£000
			SAVINGS				
References used in the following tables							
* items unchanged from previous Medium Term Financial Strategy							
** items included in the previous Medium Term Financial Strategy which have been amended							
Eff - Efficiency saving							
SR - Service reduction							
Inc - Income							
			CHILDREN & FAMILY SERVICES				
**	CF1	Eff	Innovation Partnership - Creation and investment in Internal Residential provision	-750	-1,250	-1,500	-1,500
*	CF2	Eff	Defining CFS For the Future Programme - Phase 2 - Social Care Workforce Startegy (Recruitment and Retention)	-250	-650	-650	-650
*	CF3	Eff	Reduced Care Costs through growth of internal family based placements	-300	-600	-850	-850
**	CF4	Eff/Inc	Smarter commissioning, Procurement and Demand Management - Social Care Placements and externally commissioned services				
			Strand 1 - Contain & Minimise impact of market cost pressures for children placements - external providers	-1,000	-2,250	-3,700	-5,470
			Strand 2 - Review of care packages /cost (Pro-active and Reactive) ensuring value for money and effectiveness	-200	-400	-650	-955
			Strand 3 - Development of a wide range of other accommodation and support options	-3,600	-5,950	-8,150	-10,250
	CF5	Eff	Departmental Service Efficiency Review	-630	-630	-630	-630
			TOTAL	**-6,730**	**-11,730**	**-16,130**	**-20,305**

The following paragraphs provide the detail of each savings item;

<u> CF1 (Eff) Children's Innovation Partnership - Residential re-design – Creation and investment in Internal Residential provision - £0.75m in 2026/27 rising to £1.5m by 2028/29</u>**

72. The overall ambition of the Children's Innovation Partnership (partnership with Barnardo's) was to create 8 homes providing 23 child placements servicing a wide range of different need types. The aims are to reduce over-reliance on the private sector, address overprovisioning (driven by the private market) and profiteering, and providing support to children and young people in a holistic way, keeping the number of children and young people requiring residential care within Leicestershire, close to their families and services like school, CAMHS and their social workers.

73. Seven of the eight homes are open and operational with children living in them and mechanisms in place to monitor utilisation and cost effectiveness based on external market trends. And all of these provisions are subject to financial, quality assurance and contract management checks.

74. The homes that have been open for a full year or more have met the required projected MTFS contribution for financial year 2025/26.

75. The Overnight Short Break (OSB) residential home is the seventh home to open this year, which starts to bridge a significant gap in the market for families who have children with complex needs related to disability. The 8th home is awaiting the Ofsted registration visit prior to coming into operation.

76. To date, the current pipeline and progress with this programme is listed below:
    a. Three homes for children with emotional, behavioural and development needs – match funded by Department of Education – open.
    b. One Parent and Child residential home - open.

c. One Emotional and Behavioural Difficulties (EBD) Assessment residential home- match funded by the Department of Education – open.
d. One Child Sexual Exploitation/Child Criminal Exploitation (CSE/CCE) residential home- match funded by the Department of Education – open.
e. One Overnight Short Breaks (OSB) residential home - match funded by Department for Education – open.
f. One complex need home - match funded by Department for Education – awaiting Ofsted registration.

77. Increasing numbers of children with complex needs, requiring residential care indicates that this should be the start of CFS residential redesign journey. Analysis is underway and will be the foundation of an options appraisal for the next phase of residential redesign in 2026.

***CF2 (Eff/SR) Defining CFS for the Future Phase 2 (DCFSF2) – Social Care Workforce Strategy (Recruitment and Retention) £0.25m in 2026/27 increasing to £0.65m by 2027/28**

78. As part of the Defining Children and Family Services for the Future Programme 2 (DCFSF2), a comprehensive review of the social care workforce strategy was undertaken. One of the key outputs from this review is a stronger focus on attracting experienced staff to Leicestershire increasing the number of newly qualified social workers, recruiting suitably experienced international social workers and ensuring that Leicestershire offers a fit-for-purpose and attractive employment package for social workers.

79. This approach is complemented by recent social care reform announcements introducing new rules for agency employment. These reforms aim to reduce the over-reliance on the agency market, which has historically driven higher costs and instability in workforce planning. In line with these changes, the savings plan within the refreshed Medium Term Financial Strategy (MTFS) will target a 50% reduction in the number of agency social workers over the MTFS period. This reduction will help deliver cost efficiencies while supporting a more stable and sustainable workforce model.

***CF3 (Eff) Reducing Care Costs through growth of internal family-based placements - £0.3m in 2026/27 rising to £0.85m by 2028/29**

80. This savings programme is focused on delivering outputs that prevent children's placements from entering more costly provision, particularly within the external market. The key areas of activity include:
a. Increasing internal fostering placements to strengthen local capacity.
b. Maximising utilisation of internal foster placements to ensure efficiency.
c. Expanding the number of Special Guardianship Orders (SGOs) to provide long-term stability for children.

81. The Service continues to work towards ambitious targets for the recruitment of foster carers. The underlying principles of this activity are to ensure that children remain within or close to their communities, have access to local resources, and benefit from continuity of care. This approach also reduces expenditure on more costly services provided through Independent Fostering Agencies (IFAs), supporting both improved outcomes for children and financial sustainability.

82. In addition, this programme will support sufficiency and seek to avoid any unnecessary escalations to higher-cost provision, ensuring that children receive the right support at the right time without resorting to expensive external placements.

CF4 (Eff) Smarter commissioning, Procurement and Demand Management – Social Care Placements and externally commissioned services - £4.8m in 2026/27 rising to £16.7m by 2029/30

83. The sufficiency duty (section 22G of the Children Act 1989) requires local authorities to do more than simply ensure that accommodation be 'sufficient' in terms of the number of beds provided. They must have regard to the benefits of securing a range of accommodation through several providers. The accommodation must also meet the needs of children. In addition to this, there is a duty to delivery statutory services either through internal provision or through commissioned services.

84. CFS delivers these duties through the CFS Commissioning Service in relation to the children's social care external market. Functions include brokerage (search for, match and procurement of placements on and off framework for children in foster care, residential provision, supported accommodation, domiciliary care and residential independent special schools), quality assurance of these provision, stimulating the market through an annually produced Market Position and Sufficiency statement and related activity to secure beds and other services e.g. ongoing analysis of demand and need, provider events, through mini competitions, block contracts, invitations to tender. (The service is also developing its offer for the Education, Inclusion and Additional Needs directorate within the department through implementation of a dedicated commissioning resource). At a broader level the Commissioning Service is also responsible for ensuring compliant spend throughout the department, achieving value for money and compliance of delivery of all these contracts.

85. The most significant area of growth in children's services is in the cost of residential placements. This issue is reflected nationally because of the spiralling costs of placements for children in residential provision. This issue is in part linked to the increased complexity of children for whom the department needs to find placements, but in the main is linked to market pressures including fixed models of delivery and profiteering.

86. To impact and mitigate future growth in the CFS department there is an ongoing need to obtain a clearer focus on how the Council plans and procures placements and exploration of other commissioning models, alongside the development of in-house provision. This also includes the need for continued development of an approach to brokerage/negotiation, quality assurance and contract management.

87. As such, this savings workstream can be broken down into three main different strands:

    a. Strand 1 to deliver £5.47m savings – This is to be achieved through containing and minimise impact of market cost pressures for children placements that are with external providers (residential, IFA and 16+ Supported Accommodation). One of the key activities to achieve is a robust and consistent process for annual fee reviews, this includes appropriate governance that can interrogate and challenge the appropriateness of any annual provider uplift requests. The interrogation is based on data-driven decision, informed by fair pricing tools and internal analysis of provider costs by provision type.

b. Strand 2 to deliver £0.955m savings – This is to be achieved through a regular review of care packages and cost, ensuring value for money, need driven commissioning and effectiveness (impact and outcomes for children). This will include both a pro-active and reactive review of all residential and supported accommodation child placements, to identify opportunities to reduce placement cost, facilitate appropriate transition from residential care, or review of support based on children and young people needs.

c. Strand 3 to deliver £10.25m savings – This is to be achieved through development of a wide range of other accommodation and support options. For example, work to ensure that accommodation and support models meet current and forecast demand and need. This includes considering if there are alternative (and potentially more cost-effective) models that could be commissioned, continuing to refine internal commissioning processes (and to reflect any changes to ways of working with the market) and ensuring that sufficiency needs are reflected in priority procurement planning and activity.

88. In terms of work being undertaken to date, and the successes achieved, significant progress has been made in reducing the unit cost of supported accommodation placements through a series of targeted actions. These include comprehensive reviews of all 16+ supported accommodation packages and residential placements, proactive negotiations with providers to eliminate over-provisioning, and the introduction of a robust Quality Assurance Framework within commissioning processes. The use of cost benchmarking tools (also known as fair pricing tools) such as Care Cubed has strengthened brokerage and negotiation at the point of placement, ensuring fairer pricing.

89. Additionally, commissioning has adopted more agile approaches to market development, including block contracting and mini tenders, to secure better value and sufficiency. As a result of these measures, there has been measurable reduction in overall unit costs, alongside improved alignment of support packages to actual need, avoiding unnecessary escalation to higher-cost provision. For example, 2025 also saw the award and opening of a residential home through Keys Group (providing care for 3 children), and the ambition to open a second home in 2026. This was delivered as a discrete procurement exercise – a mini-competition as part of the overarching Gateway2Resources Dynamic Purchasing System (DPS). This was with the aim to develop more of the Council's own provision and alternatives to existing ways of delivery care, accommodation and support.

90. Within the current Medium Term Financial Strategy (MTFS), £4 million of cost reductions are projected to be achieved by the end of the financial year 2025/26. The outputs of current and planned future work have been reflected within the refreshed MTFS up to March 2030. Active work is underway and embedded into business-as-usual processes to ensure that planned activities deliver the expected benefits. In addition, there is an

ongoing review to assess whether any activities can be stretched further to maximise savings and improve efficiency.

CF5 (Eff) Departmental Service Efficiency Review - £0.63m from 2026/27

91. This initiative was introduced as a direct response to the financial pressures experienced across service areas during the current year. The departmental management team has led a comprehensive review of non-statutory services, supported by the implementation of corporate-led financial controls. Through robust vacancy management and targeted actions, the programme has already delivered net one-off in-year efficiencies and budget opportunities totalling circa £0.9 million within the financial year 2025/26. These savings have been achieved by delaying recruitment to some posts where appropriate and maximising the use of grant funding to ensure prescribed outcomes are delivered in the most efficient, effective, and compliant way possible.

92. This work also includes a detailed review of non-staff expenditure against current budget allocations to identify areas where costs can be reduced or controlled. By comparing actual spend with budgeted provision, the department is ensuring that resources are used efficiently, and any variances are addressed promptly to maximise savings opportunities. The outputs of all this work have indicated £0.63m of efficiency savings can be achieved on-going.

Savings Under Development

93. To help bridge the gap several initiatives are being investigated to generate further savings. This work was already underway as part of the Council's strategy to address the MTFS gap and does not include any of the findings from the Efficiency Review, which is discussed in more detail below. Outlines of the proposals have been included as Appendix D, Savings under Development. Once business cases have been completed and appropriate consultation and assessment processes undertaken, savings will be confirmed and included in a future MTFS. This is not a definitive list of all potential savings over the next four years, just the current ideas and is expected to be shaped significantly as the Efficiency Review progresses.

Future Financial Sustainability and the Efficiency Review

94. The Efficiency Review was initiated by the new Administration in response to a then-projected £90m budget gap by 2028/29, alongside mounting pressures on capital funding and special educational needs budgets. To address these financial challenges, the Council commissioned a comprehensive, evidence-led review of all services and spending, aiming to explore ways to accelerate existing initiatives and identify new opportunities. The review will identify opportunities to redesign services, optimise resources, and embed a performance-driven culture across the organisation.

95. Key elements of the review include:

- Reviewing all Council activities for cost reduction, service redesign, and income generation (excluding commercial ventures).
- Assessing existing MTFS projects and savings ideas to prioritise or redesign them, identify where savings targets could be stretched or accelerated.

- Strengthening governance, data management and resource mobilisation within the current Transformation Strategy.
- Reviewing the County Council's approach to delivering change to ensure it is well placed to support implementation and future Council change initiatives.

96. The review is being undertaken by Newton Impact and commenced in early November, with detailed recommendations due early 2026 to inform future financial planning and Cabinet decisions.

97. The first stage of work was focused on any immediate opportunity to accelerate existing MTFS savings. The first of these, included in the draft MTFS position, is reablement in Adult Social Care. The initial saving included in the MTFS is £1m, building on an existing saving in this area of £1.9m.

98. The further initiatives that will be developed over the next few months are expected to be a combination of i) ideas that had not progressed due to resource availability, ii) existing initiatives that can be expanded due to greater insight, iii) new initiatives to the Council.

99. In the Department, further opportunities under discussion include:

    a. Enabling more children and families to be together and safe outside of care through early intervention and prevention.
    b. Enabling more children and young people to be in a family-based environment through increased internal foster care capacity.
    c. Preventing carer breakdown and enabling more children and young people to be supported in a family-based environment, so reducing reliance on residential provision. Ensuring that residential provision that is used meets need, is cost effective and is used only for those children who require such provision. This will be achieved through the identification of families supporting children and young people in care (through SGO, adoption or as foster carers) who are at risk of a carer breakdown and wrapping the appropriate support around them and having the right capacity in the market to support families with children and young people who might have more complex needs.
    d. Enabling more CYP, where it is safe to do so, to achieve reunification and leave care back to a family environment.
    e. Getting a better value from commissioned market through strategic commissioning.

100. The review is still in its early stages and is progressing as expected. If further initiatives can be developed to a satisfactory level of confidence they will be included in the MTFS report to the Cabinet in February.

101. The County Council is taking decisive action to close the budget gap and build a financially resilient organisation. The Efficiency Review will result in a revised Transformation Programme underpinned by strong governance and innovation to accelerate delivery and embed new ways of working. With significant uncertainty and change linked to Local Government Reorganisation, the coming year will be critical in driving high-impact change, engaging stakeholders, and preparing the organisation for future challenges.

102. There will need to be a renewed focus on these programmes during the next few months to ensure that savings are identified and delivered to support the 2026/27 budget gap.

Given the scale of the financial challenge, focus will be needed to prioritise resources on the change initiatives that will have the greatest impact, and work is already underway to do this.

Dedicated Schools Grant

103. For 2026/27 the Dedicated Schools Grant (DSG) continues to be calculated in four separate blocks as set out below;

Funding Block	**Areas Funded**	**Basis for Settlement**
Schools Block Est £583.9m	Individual budgets for maintained schools and academies. Growth funding for the revenue costs of delivering additional mainstream school places and to meet the local authority's duty to ensure a sufficient number of school places. This funding meets pre opening costs and the cost of the revenue budget for the first 7 months of opening, at that point funding is within school formula funding. DSG is notionally allocated to Leicestershire for all maintained schools and academies. A locally agreed funding formula is applied to this to determine school budgets. Leicestershire fully replicates the NFF. For maintained schools, budgets are allocated directly by the local authority, for academies the funding is recouped from the DSG settlement by the Education and Skills Funding Agency (ESFA) who then directly funds academies.	The NFF continues to attribute units of funding to pupil characteristics. The grant settlement is based on: • the aggregate of pupil led characteristics for each individual school: • a block allocation for school led factors. These allocations are required to be fully delegated to schools, the only exception being any elements of de-delegated funding for maintained school agreed by the Schools Forum following consultation with schools. The NFF means that all local authorities receive the same amount of funding for a number of pupil related characteristics. Differences in funding levels relate to the incidence and proportion of pupil characteristics within schools rather than differing funding levels. The allocation of funding to support new school growth will be retained to meet the future costs of new and expanding schools.
Central School Services Block £4.81m	This funds historic financial commitments related to schools such as premature retirement costs, some	This is distributed through a per pupil allocation basis and is retained by the local authority.

	budgets related to schools that are centrally retained e.g. admissions, servicing the Schools Forum and school copyright licences. This block now includes funding from the retained duties element of the former Education Services Grant for the responsibilities that local authorities have for all pupils such as school place planning and asset management.	The funding allocation for some historic financial commitments is being reduced by 20% annually as the DfE have an expectation that these financial commitments will naturally expire. Local authorities will continue to receive sufficient funding to meet school historic premature retirement costs.
High Needs Block provisional allocation £124.1m	Funds special schools and other specialist providers for high needs pupils and students, the pupil referral unit and support services for high needs pupils including high needs students in further education provision. As with the Schools Block this includes funding for special academies and post 16 providers which is recouped by the ESFA who then directly fund academies. Confirmation of the 2026/27 grant is not expected until March/April 2026.	The high needs NFF, used to calculate allocations of the high needs block of the DSG from the 2018 to 2019 financial year to the 2025 to 2026 financial year, is not being used for the calculations of high needs funding allocations for the 2026 to 2027 financial year. Instead of using the NFF, allocations for 2026 to 2027 are based on the 2025 to 2026 DSG allocations. The 2026 to 2027 allocations also include funding equivalent to that of various received grants in the 2025 to 2026 financial year.
Early Years Est £128.6m	Funds the Free Entitlement to Early Education (FEEE) for 2, 3 and 4 year olds and an element of the early learning and childcare service. The grant is based on the universal hourly base rate plus additional needs measured with reference to free school meals, disability living allowance and English as an additional language.	The allocation is based on individual pupil characteristics and converted to a rate per hour of participation. Leicestershire receives the lowest rate of £6.20 per hour for 3- and 4-year-olds. The rate of £7.90 per hour for 2-year-olds and £10.67 per hour for under 2’s, whilst is not the lowest rate received, is still significantly lower than most for these cohorts.

	For all early years funding streams (except DAF), allocations for these funding streams will be adjusted 3 times for the 2026 to 2027 financial year as termly census numbers become available. The final grant/funding position for 26/27 will not be confirmed until July 2027.	
£841.5m	**2026/27 Estimated DSG**	

104. The 2026/27 MTFS continues to set the overall Schools Budget as a net nil budget at local authority level. However, an annual projected funding gap remains on the High Needs Block which will be carried forward as an overspend against the grant.

Schools Block

105. School funding continues to be delivered through the National Funding Formula (NFF), which applies nationally consistent funding rates for all pupils, irrespective of the local authority in which they are educated. Within the NFF, only the basic per-pupil entitlement is universal; all other elements reflect additional needs such as deprivation, low prior attainment (LPA), English as an additional language, and mobility. Nationally in 2026/27, 74.3% of NFF funding is allocated through the basic entitlement, 18.1% through additional needs, and 6.4% through school-led factors.

106. For 2026/27, there are no structural changes to the NFF. However, the DfE has rolled the Schools Budget Support Grant (SBSG) and National Insurance Contributions (NICs) Grant into the NFF. These have been incorporated through uplifts to the basic entitlement, free school meals (FSM), lump sum, Minimum Per-Pupil Levels, and each school's baseline for the funding floor. A further 2.11% increase has been applied to most pupil-led and school-led factors, with the FSM factor increasing by 1.66%. Local authorities are required to move their local funding formulae at least 10% closer to the NFF compared with 2025/26, unless they already fully mirror the national formula. Local authorities must operate a Minimum Funding Guarantee (MFG) between 0% and 0.5%, in line with the national funding floor, which is set at 0%, ensuring no school receives a reduction in its per-pupil funding compared to 2025/26 once rolled-in grants are accounted for. This has required Leicestershire to seek permission to continue to fund rental costs in some small schools. With these exceptions, assuming approval from the DfE, the Leicestershire funding formula remains fully in accordance with the NFF.

107. In November 2025, the Cabinet decided not to approve a transfer of funding from the Schools Block to the High Needs Block of the Dedicated Schools Grant (DSG). Instead, it agreed to explore a per-pupil contribution from schools to support pupil outreach support and seek a financial commitment from schools to supporting ongoing mainstream inclusion.

108. The December 2025 allocation is £583.9m based on updated October 2025 census information. This is an increase of 4% from the latest 2025/26 allocation. As in previous years, changes in pupil characteristics (e.g., increased deprivation or additional needs) between census points may impact affordability for local authorities. Adjustments to the MFG and capping/scaling arrangements may therefore be required to ensure affordability within the Schools Block DSG allocation.

109. Whilst the NFF for schools is based upon the 2025 school census, funding for local authorities is based upon the pupil characteristics recorded in the 2024 school census. Any increase in pupils eligible for additional funding, i.e. free school meals, is unfunded and as for 2026/27 may result in it not being possible to meet the cost of fully delivering the NFF from the Schools Block DSG. This impact will be reviewed once data from the 2025 census has been received. The national regulations allow for an adjustment to the MFG which can be used in conjunction with capping and scaling within the school funding formula to ensure the budgets for schools are affordable within the Schools Block DSG.

110. Minimum per-pupil levels have increased due to the rolled-in grants and are set at £5,115 for primary and £6,640 for secondary pupils. These levels are mandatory for all local funding formulae. As the funding floor and MFG protection operate at a per-pupil level, schools experiencing reductions in pupil numbers will see corresponding decreases in overall budget allocations.

111. Additionally, the Government has confirmed that free school meal entitlement will expand to all children in households receiving Universal Credit from September 2026. This expansion will be funded through a separate grant, not through the DSG or NFF in 2026/27, and further details will be published by the DfE in due course.

<u>Central Services Block</u>

112. The central services block funds a number of school-related expenditure items such as existing school-based premature retirement costs, copyright licences under a national DfE contract for all schools and other historic costs. For 2026/27, the central schools block will incorporate the SBSG and NICs grant elements relating to centrally employed staff. The updated Settlement is £4.8m for 2026/27.

113. The annual 20% reduction to historic commitments continues in 2026/27. Reductions will now be applied against the 2025/26 baseline rather than the immediately preceding year. Protections remain in place for pre-2013 termination of employment costs. The DfE expects that, subject to further review, only residual protected elements will remain by 2030.

<u>Early Years Block</u>

114. The entitlement to Early Years Education for 2026/27 is;

    a. 30 hours for eligible working parents for children aged nine months to two years. (this has been extended from 15 hours from September 2025)

    b. 15 hours for two years olds for families requiring additional support, this was formally disadvantaged 2-year-olds

    c. Universal offer of 15 hours for three- and four-year-olds

d. An additional 15 hours extended entitlement for working parents for three- and four-year-olds

115. The Early Years DSG settlement is estimated to be £128.6m and based on funding rates of £6.20 per hour for the 3 – 4-year-olds, £7.90 for 2-year-olds and £10.67 for under 2's. Local authorities are required to pass through 97% of the settlement to providers, the remaining 3% meeting the cost of the Early Learning and Childcare service.

<u>High Needs</u>

116. The High Needs Block allocation is estimated to be £124.1 million in 2026/27. Confirmation of the 2026/27 grant is not expected until March/April 2026. For financial year 2026/2027 the DFE announced they were temporarily suspending the high needs national funding formula (NFF), which in previous years has been used to calculate local authorities' high needs allocations. Instead, local authorities' allocations will be based on their 2025 to 2026 allocations, with some adjustments - including the annualisation of historic grant funding. Whilst it is challenging to compare the 2026/27 allocation with 2025/26 on an exact like-for-like basis due to the change in funding methodology, the 2026/27 allocation reflects a net real-term increase of 1.2% in funding, compared to an assumed 3% increase which had been assumed for financial planning, which adds an additional financial burden for the following financial year. Following wider reforms to the SEND system, which the government will set out in early 2026, the DFE will review the methodology for allocating high needs funding for future years so that it supports the SEND reforms.

117. On the basis that high needs funding allocations for 2025/26 are significantly below projected spend levels, and with the 2025/26 allocation being used to calculate 2026/27 allocations, it is expected that the current unsustainable financial position will continue into 2026/27, pending any further updates to funding linked to SEND reform announcements anticipated early in 2026.

118. At the end of 2024/25 the accumulated High Needs deficit stood at £64.4m and is now projected to rise to £110.5m at the end of 2025/26. If future demand remained on a similar trajectory to 2025/26, the cumulative DSG deficit could increase to around £460m by March 2030, as shown in the projection below (although projections/supporting mitigations will require refreshing early into 2026 aligned with outputs and impact of any announcement around SEND reforms and projections of current demand – with any feasible updates to be reflected in the final MTFS report to Cabinet in February):

	2026/27 £,000	2027/28 £,000	2028/29 £,000	2029/30 £,000
Annual Funding Gap Pre- Mitigation	76,996	98,935	122,865	149,575
Total Savings	-4,817	-15,810	-30,064	-47,627
Annual Revenue Funding Gap Post Mitigations	**72,180**	**83,125**	**92,801**	**101,948**
2019/20 High Needs Deficit	7,062			
2020/21 High Needs Deficit	10,423			
2021/22 High Needs Deficit	11,365			
2022/23 High Needs Deficit	6,683			

2023/24 High Needs Deficit	5,650			
2024/25 High Needs Deficit	23,215			
2025/26 High Needs Deficit forecast	46,040			
Cumulative High Needs Funding Gap	**182,618**	**265,743**	**358,544**	**460,492**

119. Although it is understood from 2028/29 the Government will take over responsibility for SEND costs, it has not specified how this will be achieved and how it will be funded. This may mean that local authorities would not build up further DSG deficits from 2028/29. However, based on current policy, local authorities would then be required to recognise the historic DSG deficits, which are expected to reach £14 billion nationally, on their balance sheets. This would be very likely to result in many local authorities issuing Section 114 Notices – effectively declaring that they are unable to set a balanced budget. The Government has not set out how it will address this issue other than to state that support to deal with SEND deficits will not be unlimited. Plans to support Councils with historic and accruing deficits and conditions for accessing such support is expected later in the settlement process but no date has been given.

120. With the High Needs Block continuing to face significant financial pressures, with allocations falling well below projected demand, to mitigate this, a whole-system approach is being implemented through six key actions: strengthening early intervention and mainstream inclusion, applying robust EHCP gatekeeping and reviews, expanding local specialist provision, reducing early years specialist placements, and improving commissioning and demand management. These measures aim to slow cost growth and improve sustainability, but given the scale of demand, the financial position remains challenging and will require ongoing review alongside national reform developments.

121. Despite current and planned mitigations, the levels of projected growth mean that the financial position is unsustainable, and whilst the transfer of responsibility to government from 2028/29 is welcome, the historic deficit still presents a huge challenge and impacts the Council's General Fund in other ways, such as loss of investment income from cash-flowing the deficit. As such it is essential that the planned measures to contain ongoing growth are successful. Further mitigations and actions are actively being considered to reduce the projected financial burden on the DSG High Needs funding block. This work is currently underway, and its impact will be reflected as part of the wider MTFS planning work over the coming months.

122. In developing additional mitigations, consideration is being given to aligning actions to anticipated changes in the Schools White Paper. Whilst the actual content of this paper is unknown, through the work the authority is undertaking for the DfE as part of the Change Programme Partnership, the Council is aware there will be a key focus on 'mainstream inclusion'. This will include working with all mainstream schools to ensure there is a much stronger emphasis on children and young people with complex and significant needs attending their local mainstream school wherever possible. To deliver this new approach, it will require the full co-operation of school leaders and their close partnership working with the Council and each other.

Capital Programme

123. The proposed Children and Family Services capital programme totals £87.2m, for the majority (£46.5m) of which there is external funding or capital receipts expected, and

£33.7m prior years' external funding held in reserves, resulting in £7.0m call on LCC capital funding over the four year life of the proposed MTFS as per the summary table below and further details in Appendix E.

124. The programme continues to focus upon the delivery of additional primary and secondary school mainstream places and providing new places and improving existing provision for children with special educational needs and disabilities.

CFS Capital Programme '£000	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**Total**
Additional School Places	28,425	16,084	4,047	540	**49,096**
SEND Programme	7,158	18,900	900	0	**26,958**
Other Capital	3,023	2,700	2,700	2,700	**11,123**
Total	**38,606**	**37,684**	**7,647**	**3,240**	**87,178**

Provision of Additional School Places

125. The investment in additional school places totals £49.1m over four years including £28.4m next year. The programme is funded through the Basic Need grant from the DfE and section 106 developer contributions.

126. The programme is mostly funded by DfE capital grants and section 106 contributions. However, due to a combination of increased inflationary costs, legacy section 106 shortfalls and a change in DfE grant allocation methodology, discretionary funding from the Council of £6.7m is required to fund the additional school places programme. An initial increased allocation was included in the September 2025 refresh of the capital programme, and the report noted that further funding would still be required – expected to be in the region of a further £20m at that point. This has been reduced to £6.7m due to identifying further section 106 contributions that can be used, and some changes to schemes to reduce costs. The additional funding required can be financed from the corporate capital financing reserve and by reducing the allocation in the overall capital programme portfolio risk fund. This is possible because some schemes (across the wider capital programme) for which the risk is held have either progressed close to completion or because other funding has been identified. Use of funding towards this shortfall does mean however that the funding will not be available to reduce the Council's overall £84m capital programme funding gap and that borrowing may be more likely to be required.

SEND Programme

127. The four-year investment in the SEND programme is £26.9m and includes High Needs Capital Grant funding received from the DfE in previous years.

Other Capital

128. There is £11.1m "other capital" included comprising of:
- £8m Strategic Capital Maintenance (£2m assumed per annum subject to funding)
- £1.6m Schools Dedicated Formula (£0.4m assumed per annum subject to funding)

- £1.2m to invest in improvement in schools access and security
- £275k investment in residential properties within the Children's Innovation Partnership (CIP) with more details outlined in the savings section above.

Funding Sources

129. The majority of the capital programme is likely to be funded by external grant and developer section 106 contributions as follows:

Capital Resources '£000	2026/27	2027/28	2028/29	2029/30	Total
Grants	3,602	3,132	3,400	3,400	13,534
External Contributions / S106	12,003	16,700	3,507	0	32,211
Earmarked capital receipts	0	750	0	0	750
Discretionary Capital Funding	6,404	613	0	0	7,017
Prior Years' grant funding held in reserve	16,597	16,489	740	-160	33,667
Total Resources	**38,606**	**37,684**	**7,647**	**3,240**	**87,178**

130. <u>Basic Need Grant</u> – this funding is provided by the Department of Education (DfE) for the provision of additional mainstream pupil places. The funding is allocated based on the local authority's School Capacity (SCAP) return which is submitted on an annual basis. In March 2025 the DfE announced Basic Need grant allocations for 2026/27 and 2027/28 of £1.154m and £732k respectively. The methodology the DfE have used differs to previous years, and now incorporates funding thresholds for planning areas, below which grant funding will not be provided. This change in methodology has resulted in a significant reduction in the levels of funding LCC have received for 2026/27 and 2027/28. The Council has made representation to the DfE regarding this change in methodology and the impact it will have on enabling the Council to meet its statutory duty of providing sufficient mainstream places. A nominal estimate of £1m has been used for 2028/29 and 2029/30, which will be updated once the allocations are announced.

131. <u>High Needs Provision Capital Grant</u> – in early December 2025 the DfE announced that there will be at least £3bn of funding provided nationally to support children with special educational needs and disabilities in educational settings closer to their homes. However, no indication was given of the LA level allocations, and what conditions may be attached to the funding. Further details are expected in Spring 2026.

132. <u>Strategic Maintenance Grant</u> – is received from the DfE for the maintenance of maintained schools only. This grant is based on a formula that considers pupil numbers and the overall condition of the school estate. The grant reduces as schools convert to academies. Local authority allocations are yet to be confirmed. An assumption of £2m per annum has been included in the MTFS.

133. <u>Section 106 Contributions</u> – it is estimated that a total of £32.2m of section 106 contributions to fund the proposed programme, of which £12m is in 2026/27. Estimates

for the latter years of the MTFS are less certain and are dependent upon the speed of housing developments.

Background Papers

134. Report to the Cabinet 16 December 2025 – Medium Term Financial Strategy 2026/27 to 2029/30:
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7882&Ver=4

Circulation under local issues alert procedure

135. None.

Appendices

Appendix A – Revenue Budget 2026/27
Appendix B – Growth 2026/27 to 2029/30
Appendix C – Savings 2026/27 to 2029/30
Appendix D – Savings Under Development 2026/27
Appendix E – Capital Programme 2026/27 – 2029/30

Officers to Contact

Sharon Cooke, Interim Director of Children and Family Services
Tel.: 0116 305 5479
E-mail: Sharon.Cooke@Leics.gov.uk

Tim Browne, Interim Director of Education and Inclusion
Tel.: 0116 305 7429
E-mail: Tim.Browne@Leics.gov.uk

Declan Keegan, Director of Corporate Resources
Tel.: 0116 305 7668
E-mail: Declan.Keegan@leics.gov.uk

Nerinder Samaria, CFS Strategic Finance Manager
Tel.: 0116 305 7616
E-mail: Nerinder.Samaria@leics.gov.uk

This page is intentionally left blank