Leicestershire County Council

SCRUTINY COMMISSION – 11 MARCH 2026

2025/26 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to provide members with an update on the 2025/26 revenue budget and capital programme monitoring position as at the end of Period 10 (the end of January 2026).

Policy Framework and Previous Decisions

2. The 2025/26 revenue budget and the 2025/26 to 2028/29 capital programme were approved by the County Council at its budget meeting on 19 February 2025 as part of the Medium Term Financial Strategy (MTFS).

3. The four-year capital programme was reviewed over the summer and an updated programme was approved by the Cabinet on 12 September 2025.

Background

4. The Period 10 revenue budget monitoring exercise shows a net projected underspend of £0.7m.

5. The Period 10 capital programme monitoring exercise shows net projected slippage of £28.5m.

6. The monitoring information contained within this report is based on the pattern of expenditure to the end of January 2026 and projected to 31 March.

2025/26 REVENUE BUDGET MONITORING – PERIOD 10

7. The Period 10 revenue budget monitoring exercise shows a net projected underspend of £0.7m, compared to the position previously report to Scrutiny of a net overspend of £2.9m as at period 6. A summary of the position on the revenue budget is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2025 TO JANUARY 2026

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-5,910	-5,910	
Schools Budget – High Needs	0	43,110	43,110	
Net Total	0	37,200	37,200	
Children & Family Services (Other)	145,335	150,935	5,600	3.9
Adults & Communities	252,610	250,860	-1,750	-0.7
Public Health	-2,746	-2,746	0	0.0
Environment & Transport	123,154	117,844	-5,310	-4.3
Chief Executives	17,429	16,959	-470	-2.7
Corporate Resources	41,341	40,401	-940	-2.3
Capital Financing	14,633	13,033	-1,600	-10.9
Contingency for Inflation	7,655	105	-7,550	-98.6
Other Areas	-3,022	-8,192	-5,170	n/a
Contributions to earmarked reserves	22,600	34,200	11,600	51.3
Contribution to General Fund	1,000	1,000	0	0.0
Contribution from budget equalisation reserve to balance 2025/26 revenue budget	-4,653	0	-4,653	-100.0
Total	615,335	614,398	-937	-0.2
Funding	-615,335	-615,055	280	0.0
Net Total	0	-657	-657	

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

Children and Family Services – Schools Budget

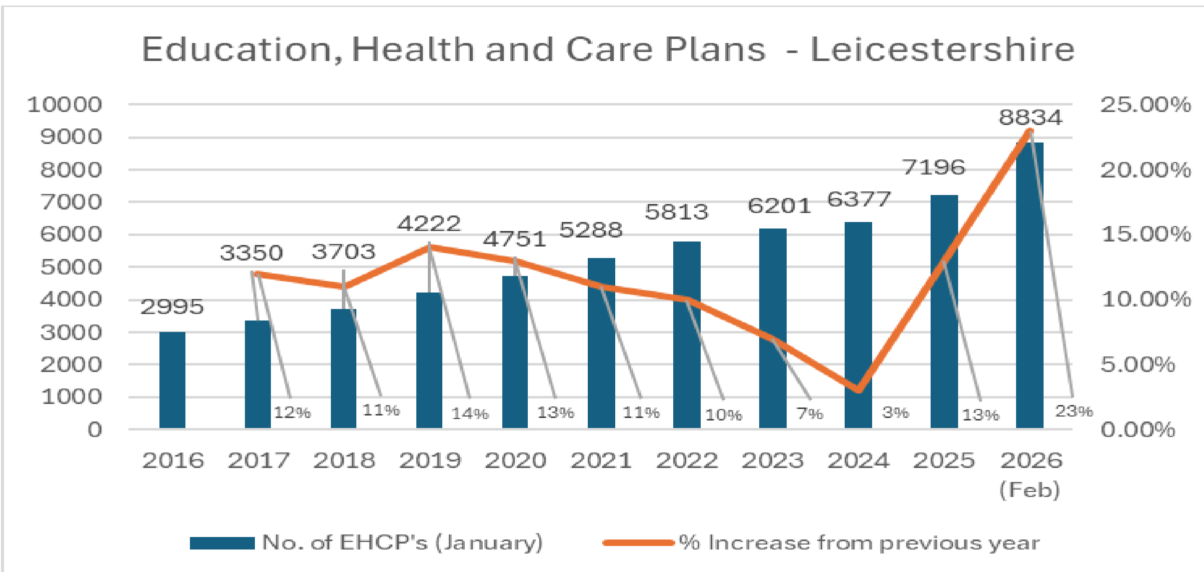
9. Overall there is a net projected overspend of £37.2m on the Dedicated Schools Grant (DSG). This comprises an overspend of £43.1m on the High Needs Block (HNB), offset by a projected underspend of £5.9m on the Early Years Block.

10. Due to sustained year-on-year growth in demand for funded Education, Health and Care Plans (EHCPs) since they were introduced in 2014, a £15m overspend on the HNB budget was anticipated after mitigations for the 2025/26 financial year based on a 7%

increase in EHCPs from the previous year. The current HNB projected overspend is circa £28m more than the budgeted £15m nominal drawdown as the planned in-year overspend. This is largely due to increased volume/demand on the placement budget compared with the budgeted assumptions based on Autumn 2024 data and intelligence.

11. Since that position, overall demand through the front door has continued to rise, which is further illustrated in the chart below, which shows active EHCPs over time by calendar year. Currently there are 8,834 EHCPs at the end of February 2026, a 23% increase since the previous year, and 195% increase in EHCPs since 2016. It is anticipated that demand for funded packages will reach 9,000 EHCP's by March 26 (c.20% increase to the budgeted position). Recent increases in demand are being seen nationally and are likely a result of uncertainty on government SEND reform.

Number of children and young people with EHCPs in Leicestershire



12. Whilst there are still several variables and uncertainties which may result in changes in either demand and costs, this is all under constant review and challenge with the appropriate governance and oversight in place. At the end of 2024/25 the accumulated High Needs deficit stood at £64m and is now projected to rise to £108m 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. As part of the Final Local Government Finance Settlement in February, the government confirmed that they would fund 90% of DSG deficits as at 31st March 2026 (based on the net position). This is due to be paid in the autumn, subject to a SEND Reform Plan being submitted and approved by DfE. Further detail is given at paragraph 19 below.

13. The Transforming SEND and Inclusion in Leicestershire (TSIL) change programme was established in August 2022 with partners across the SEND system supported by a third-party partner, Newton Impact. While the programme has now formally concluded, it has played a crucial role in helping the County Council manage the financial pressures of supporting children and young people with SEND and has been a key enabler in

delivering a forecasted MTFS saving/cost avoidance of £34m by March 2029. Without such impact, the financial pressure would be significantly larger than currently forecast this financial year.

14. The rising demand for EHCPs places increasing pressure not only on direct provision but also on the broader service infrastructure that supports children and young people with additional needs. Services such as Educational Psychology Services (EPS), Special Educational Needs Assessment (SENA), and Specialist Teaching Services are experiencing heightened caseloads and resource strain. This surge in demand has a consequential financial impact that spans both the DSG funded blocks—particularly the HNB—and local authority funded services, creating sustainability challenges across the system.

15. The DSG funding allocated for high needs is not keeping pace with the rising demand for services, placing additional financial strain on such budgets, and combined with increased demand on the service is resulting in a projected overspend position of £0.5m across the HNB-funded Specialist Teaching services.

16. Despite current planned mitigations, at the levels of expected and/or projected growth, the financial position is unsustainable. As such it is essential that the planned measures to contain ongoing growth are successful, and further mitigations and actions are actively considered to reduce the projected financial burden on the DSG HNB. In developing additional mitigations, consideration is being given to aligning actions to anticipated changes beginning to come through linked to the Schools White Paper.

17. The Early Years block is currently projecting a net underspend of £5.9m across all age group entitlements. For 2025/26 funding for universal and additional 3 and 4 year-olds and 2 year-olds of families receiving additional support will continue to be calculated using the existing methodology based on the January census data taking 5/12ths of the January 2025 census and 7/12ths of the January 2026 census. The funding mechanism for children 2 years old and under of working parents continues to be different and will be based on termly headcounts in the summer 2025 and autumn 2025 terms, and the January 2026 census.

18. It is estimated that pupil numbers on the January census and termly headcounts will be higher than the annual average uptake, which will benefit Leicestershire resulting in more funding being received than being paid out. From September 2025 the entitlement of 9 month olds and older children of working parents has been extended to 30 hours. The expansion of working parent entitlements, having different approaches to calculating entitlement allocations and funding allocations being determined by future counts adds complexity to forecasting and thus current forecasted financial position is subject to change. However, £4.6m of this balance is expected to be adjusted through the July 2026 funding reconciliation, reflecting the finalisation of participation data used to calculate entitlement allocations. As a result, the majority of the current projected position on the Early Years block is considered timing-related rather than recurrent, and the final outturn for 2025/26 is subject to this adjustment.

19. The final Local Government finance settlement for 2026/27 to 2028/29 announced government support to local authorities with DSG deficits as below:

- Phase 1 - Local Authorities with DSG deficits at the end of 2025/26 will be eligible to receive a High Needs Stability Grant covering up to 90% of their DSG deficit subject to each authority submitting and securing the Department for Education's (DfE) approval of a local SEND reform plan. The DfE will commission local area partnerships to develop these plans during 2026. Payments will then be made in autumn 2026.
- Phase 2 – the Government will confirm the detail on further support for deficits arising in 2026/27 and 2027/28 before the end of the statutory override (31 March 2028), stating 'we will continue to take an appropriate and proportionate approach, although it will not be unlimited'.
- From 2028/29 – SEND spending will be covered by the DfE's central budget meaning that local authorities will not be expected to fund future SEND costs from general funds, but no funding has yet been included in the DfE's budget for this.

20. The DfE has also advised that it will scrutinise local authority DSG accounts on an ongoing basis to identify discrepancies and significant fluctuations, as well as potential ineligible spend, which will be deducted from the total net DSG balance before calculating the 90% grant.

21. Based on the above, an initial estimate is that around £80m of government grant could be received by the Council in respect of its net DSG deficit as at 31 March 2026, subject to the DfE approval process. The Council would then need to fund the balance of £28m (of the £108m projected High Needs deficit) as at 31 March 2026 from the funding set aside by the Council in the budget equalisation reserve.

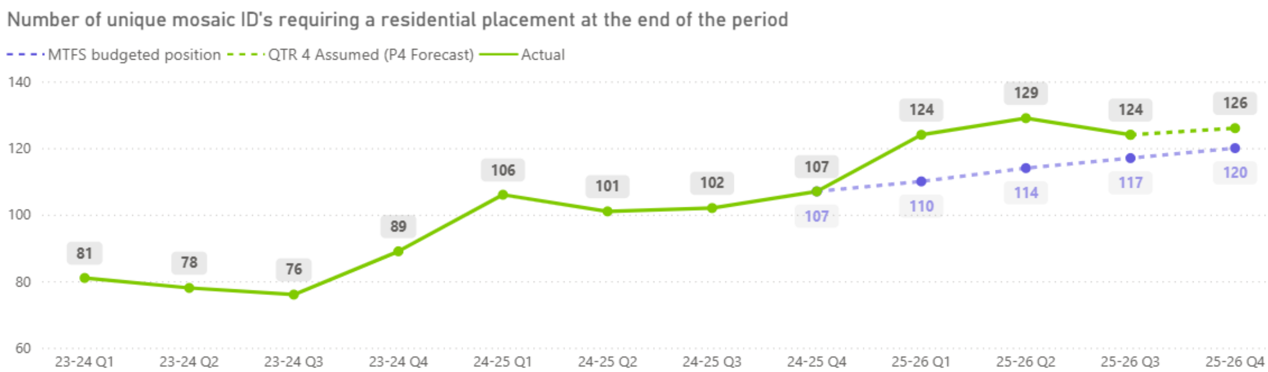
22. There are still ongoing financial risks with DSG deficits from April 2026 until responsibility transfers to the DfE from 2028/29. The level of government support for these deficits has not yet been confirmed and therefore the MTFS continues to set aside funding towards these deficits until the position becomes clearer.

Children and Family Services – Local Authority Budget (Other)

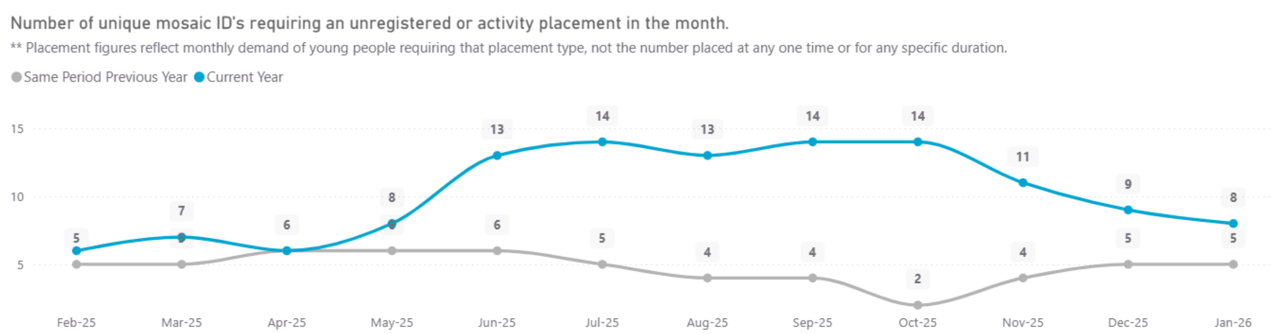
23. The Local Authority budget is projected to overspend by a net £5.6m (3.9%), mainly relating to financial pressures on the Children's Social Care Placements budget, Disabled Children's Service, and Education Psychology/SENA Service.

24. The projected net overspend on the Children's Social Care Placement budget (£6.3m) – comprising both Unaccompanied Asylum Seeking Children (UASC) and non-UASC placement costs is largely due to a small but financially significant change in demand in relation to children in residential provision, in comparison to budgeted assumptions. 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 four of financial year 2024/25, showed demand remaining relatively stable.

25. However, as illustrated in the graph below, numbers had risen sharply in the first half of the financial year. The numbers have now reduced and are forecast to be 126 by year end (5% increase versus budgeted mitigated position in terms of overall volume). This is an improved position compared with what had been projected earlier this financial year. The current position and stabilisation of numbers is a key contributing factor for the reduced overspend that had been forecast in prior months.



26. 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 £13,000 to £17,000 over the last 12 months. The current placement budget allows funding for up to 5 children in this provision type over the financial year.



27. 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 needs.

28. Senior managers in the Department have oversight of all children in unregistered placements 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

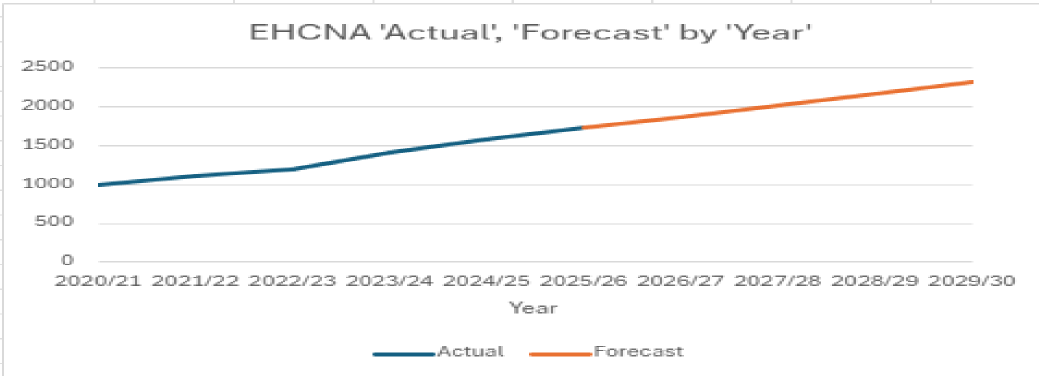
keep them there. In the last 12 months, nine of the children who were placed in either an activity placement or an unregistered placement for a period have now moved into a registered home at a lower weekly cost.

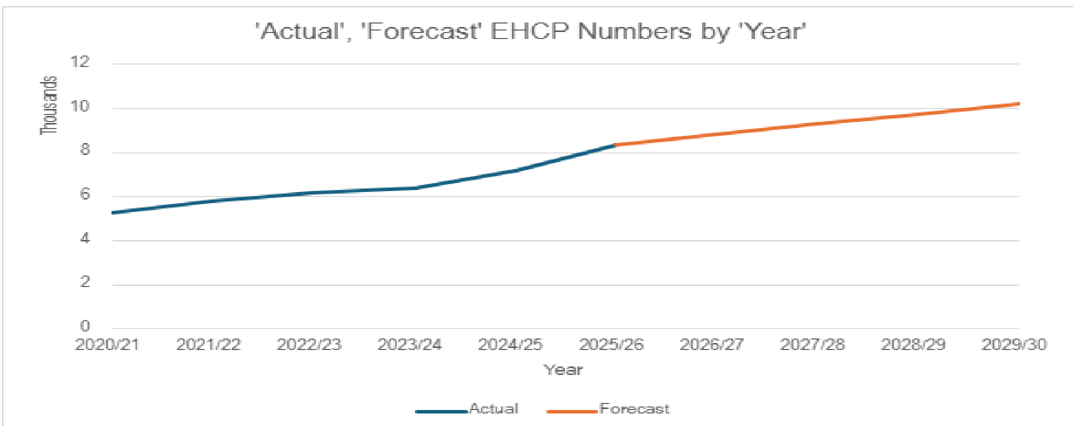
29. Also, of note and of financial significance due to a very unique set of challenges and issues (sufficiency and need), is the need to place a small number of children in secure provision this year, which is determined by the court. This provision has a very high weekly cost, with average costs in excess of £35,000 per week (historically the upper limit of costs of such provision type has been no more than £15,000 per week). Whilst this is a small number of cases it contributes disproportionately to the overall projected in year overspend position.

30. As part of the direct actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved alongside the Council's Social Care Investment Programme (SCIP) working in partnership with Barnardo's. This will have a positive impact through the creation of additional residential provision capacity for under 16's, over 16's and parent and children places. This programme will create capacity of up to 23 beds, of which 21 beds across multiple homes are now operational, with the remaining 2 beds to be operational within the coming months. In conjunction with the department's smarter commissioning programme, this is showing a positive trajectory in terms of current weekly unit costs compared with the budgeted position. This can be evidenced through a 15% reduction in average unit cost for UASC care leaver placement costs over the last 12-18 months.

31. Other departmental variances include a projected overspend on the Disabled Children's Service of circa £1.3m. This is linked to increased demand for support across both direct payments and commissioned services. The Children's Innovation Partnership with Barnardo's has seen the creation of an overnight short break unit, to support children with a disability, and ensure such demands in this area can be managed in the most appropriate and cost-effective manner. This unit opened at the end of January 2026, with around 20 children already in receipt of overnight short breaks through this home.

32. The Education Psychology/SENA service is projected to overspend by £0.9m in 2025/26. As illustrated in the graphs below, continued increased demand due to an increase in the number of EHCPs and EHCNAs (Education Health Care Needs Assessments) has further affected the overspend position within these service areas due to increased caseloads. There has been a 25% increase in EHCNAs since January 2025.





33. As a direct response to the financial pressures which are being seen in-year across the different service areas, the departmental management team undertook a review of non-statutory services supported by the introduction of corporate led financial controls. Together with continued robust management and review of vacancies within the department, this work has contributed to the early achievement of on-going MTFS savings of £0.7m. This includes delaying recruitment to non-essential posts where appropriate, as well as maximising any grant funding to ensure such prescribed outcomes can be met in the most efficient, effective and compliant way possible. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.

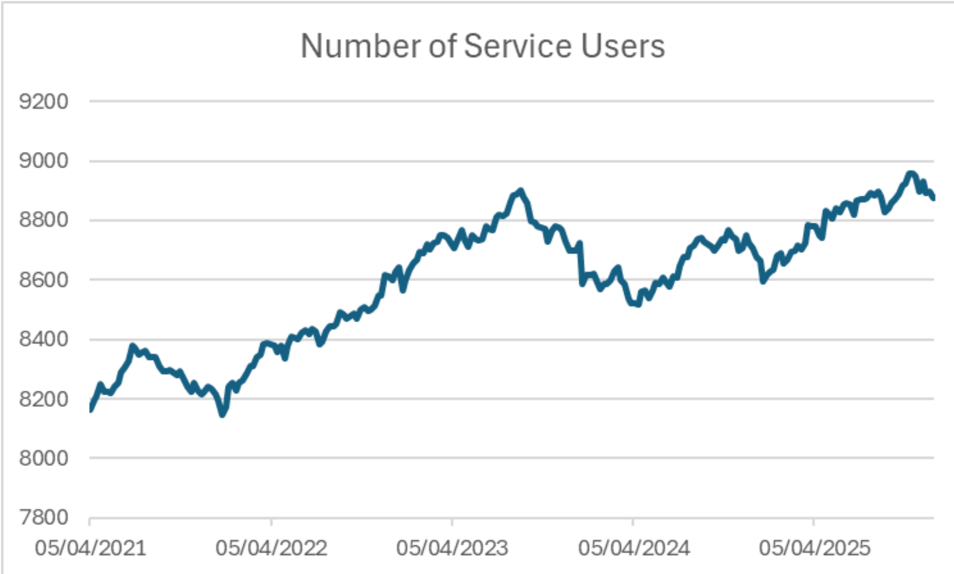
Adults and Communities

34. A net underspend of £1.7m (0.7%) is forecast for the revenue budget for 2025/26.

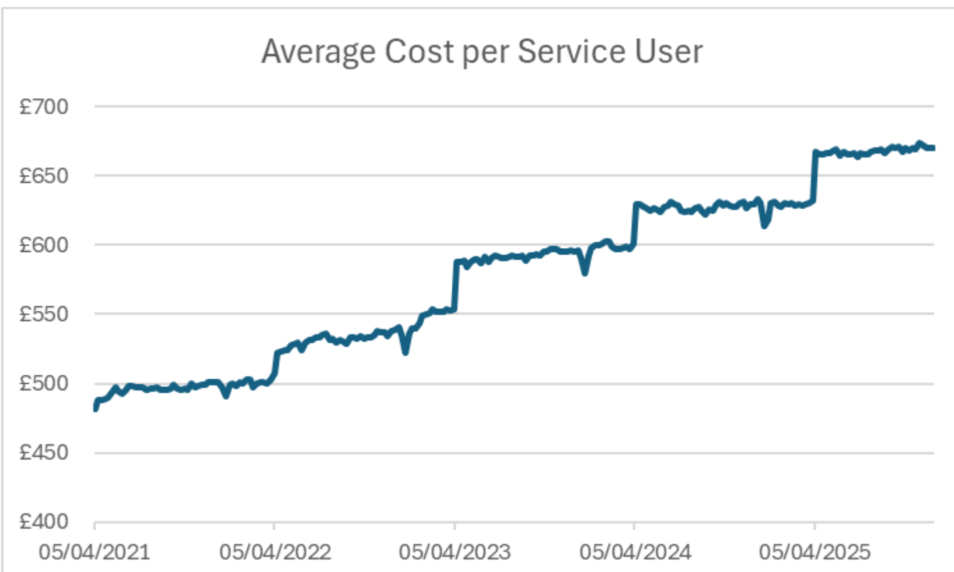
Overall Demand Trends

35. The chart below shows the overall number of service users being supported across Residential Care, Homecare, Supported Living, Direct Cash Payments and Community Life Choices from April 2021 through to December 2025. Prior to the introduction of the Fair Outcomes Panel in September 2023 annualised growth from April 2021 to September 2023 was approximately 3.5%. Since then, the department has worked to be more efficient with commissioning and the growth in service users supported has

decreased to an annualised rate of 1.9% over the whole period. Over the course of the next year there is expected to be additional demand from reducing the number of cases that are awaiting to be allocated to social care teams.



36. The average cost per service user rose over the same period. The rise in April each year relates to the annual fee review uplift.



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

38. The main areas of budget variance forecast in 2025/26 are:

Supported Living - £1.3m overspend

39. There are estimated to be additional service users over the course of the year compared to the budget. The budget was based on a total of 530 service users and currently there are around 540 service users at £1,780 per week with another 12 people forecast to move into Supported Living accommodation by the end of this financial year.

Direct Cash Payments - £1.2m overspend

40. The clawback of unspent funds which is conducted as an ongoing process over the course of the year was disrupted by issues with the Council's Direct Payment card provider. Normal service has now been resumed but this had an impact on delaying the overall monies clawed back and it is forecast that there will be a shortfall for the financial year.

Adult Learning - £0.4m overspend

41. Reduction in grant funding of £0.2m and additional operational costs of £0.4m from restructure. Additional income of £0.2m has been obtained through an NI rebate and the Connect To Work grant, offsetting the overall overspend.

Home First - £1.5m underspend

42. The underspend is primarily from vacant support worker posts within the HART (reablement) Service that are in the process of being filled. Recruitment is ongoing as part of the department's plan to increase the HART workforce to enable more cases to be retained by the service thereby requiring fewer referrals to the external Homecare sector, which should generate better longer-term outcomes for the department. Recruitment, however, remains difficult within the social care market.

Non-Residential Income - £1.2m underspend

43. Additional health income; £0.7m relating to a higher number of supported living service users, £0.4m relating to Home Care due to a higher level of average funding per service user, and £0.4m relating to Direct Payments and Community Life Choices, some of which relates to previous years. The additional income is partly offset by a £0.1m increased contribution to the bad debt provision at year end.

Care Pathway - £0.6m underspend

44. Staffing vacancies both within the Cognitive and Physical Disability and Learning Disability and Autism care pathway teams reflect the current difficulties in recruiting the appropriate adult social care staff. This is offset by overspends within Mental Health and Safeguarding where agency staff are required to ensure that statutory responsibilities are delivered.

Better Care Fund (Balance) / Other NHS Income - £0.6m net underspend

45. Discharge to Assess income of £1.6m which can be used to support discharge-related costs from hospital are expected against a budget of £2.8m due to lower activity. Better Care Fund income from the minimum contribution to the Council is £1.8m above the budgeted amount.

Homecare - £0.5m underspend

46. Service user numbers have fluctuated broadly to near levels observed at the start of the financial year and have not yet increased as expected. In April 2025 service user numbers were 2,705. Currently there are 2,720 service users. The winter period may increase service user numbers reducing any underspend.

Public Health

47. The department is forecasting to be on budget.

Environment and Transport

48. A net underspend of £5.3m (4.3%) is forecast.

49. Across Highways and Transport operations a net £1.4m underspend is reported as a result of:

- Social Care Transport, £1.0m overspend arising from an increase in taxi spend as a consequence of insufficient service provision within Passenger Fleet.
- Passenger Fleet, £0.7m underspend due to vacant driver and escort posts, net of additional vehicle hire, maintenance costs and lower income.
- Environment and Reactive Maintenance, £0.5m overspend arising from additional costs to meet policy from continued deterioration of highways assets.
- SEN Transport, £1.0m underspend. Contract savings following the SEN transport summer refresh, partly offset by increased costs from additional transport users due to a rise in the number of pupils with EHCPs.
- Network Management, £0.4m underspend arising from additional permitting income from utility companies.
- Street Lighting Maintenance, £0.3m underspend.
- Mainstream Transport, £0.2m underspend relating to savings generated following the summer contracts review, partly offset by increased bus operational costs.
- Highways income, £0.2m underspend arising from increased vehicle access income.

50. Development and Growth services are reporting a £1.4m underspend arising from additional section 38 and section 278 income (£0.7m), vacancies across teams (£0.6m), and school crossing patrols (£0.2m). This has been partly offset by an increase in Area Traffic Control (ATC) reactive faults resulting in additional traffic management costs (£0.1m).

51. A net underspend of £2.2m is reported for Environment and Waste Management services. Additional income from the sale of dry recyclable and trade waste (£0.8m), lower composting tonnage (£0.4m) as well as underspends arising from staffing vacancies (£0.3m) and changes to Waste treatment including diverting waste away from landfill (£0.6m) and associated haulage (£0.3m), is partially offset by a provision for the Charnwood Geopark (£0.1m) and increased property costs (£0.1m).

52. The remaining balance relates to an underspend on department and business management due to staffing vacancies (£0.3m).

<u>Chief Executive's</u>

53. The Department is reporting a net underspend of £0.5m. (2.7%), mainly due to staffing vacancies within the Growth Unit (£0.3m) and reduced casual staffing costs and additional income within Registrars (£0.2m).

<u>Corporate Resources</u>

54. A net underspend of £0.9m (2.3%) is forecast.

55. Early delivery of future savings, totalling £0.8m across both Property Services and IT, together with underspends arising from staffing vacancies of £0.9m.

56. Traded and Commercial services continue to report a shortfall against their target income of £0.8m in total. Trading remains difficult mainly due to the financial position of schools, which is impacting on demand for Commercial Services such as School Food, Bursar and LEAMIS services. This has also affected school bookings at Beaumanor Hall, which are further compounded by its temporary closure during the late spring/early summer last year.

<u>Central Contingencies</u>

57. MTFS Risks Contingency: £8m. No release of the contingency has been assumed in the projection at this stage. If the contingency is not required it will be transferred to the budget equalisation reserve at year end to assist with addressing the projected MTFS budget gaps in future years.

58. Inflation Contingency: £7.6m underspend, after transfers of £26.7m to departmental budgets. The underspend mainly relates to forecast lower costs on social care fee reviews than anticipated in the MTFS along with lower forecasts on running costs, particularly regarding provision for the impact of National Insurance increases on supply chain costs. Also, the pay award for 2025/26 of 3.2% is lower than the provision of 3.5% made in the MTFS. A balance f £0,1m is forecast for some relatively minor final allocations to be finalised.

59. Service Investment Fund. This budget (£1.2m) has been transferred for 2025/26 purposes to the Environment and Transport budget, to be used for flood investigation and scheme development work to address flooding as well as bidding for funding for project

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

Central Items

60. The Financing of Capital budget is forecast to be underspent by £1.6m. This mainly relates to debt interest savings following the early repayment of £29m of external debt principal in September 2025. Following elevated gilt yields at historic highs caused by inflation remaining stubbornly above the Bank of England's target of 2% and the expectation of tax rises in the Autumn Statement there had been an increase in the discounts available for the premature repayment of Public Works Loan Board debt, which will then lead to annual savings in interest payments for the next 30 years in excess of the premiums paid. The Council's actual level of debt now stands at £146m, the lowest level for over 20 years. Compared with the capital financing requirement (the level of historic capital expenditure required to be funded) the Council is now forecast to be £48m underborrowed as at 31 March 2026, which can be funded using internal investment balances rather than more expensive external borrowing.

61. Bank and other interest, £4.5m forecast increased investment income. Due to the Bank of England base rate levels being higher and for longer than forecast, and higher than estimated average Council cash balances. The Bank of England base rate stands at 3.75% with market expectations for the base rate to reduce to 3.5% in March 2026.

62. Central expenditure budgets are currently forecast to underspend by £0.7m, mainly relating to the cleansing of receipted aged purchase orders that are no longer required and an increased forecast dividend from ESPO, net of the initial costs of £1.4m for the Council's Efficiency Review.

63. Additional contributions to corporate earmarked reserves of £11.6m. This mainly relates to an additional contribution to the Budget Equalisation reserve to provide cover for the increase in the forecast 2025/26 High Needs Block deficit.

64. The original MTFS projected a net revenue budget gap in 2025/26 of £4.7m which was planned to be covered by a contribution from the Budget Equalisation reserve. Given the current overall forecast position the contribution from the reserve can be removed and is currently not required.

Business Rates

65. Reduced Business Rates Pool levy income of £0.3m is forecast for 2025/26. The current forecast based on data in the NNDR1 forms and updated forecasts from six of the seven district councils shows a total of £23.0m, of which one third (£7.7m) will be allocated to the County Council, compared with the forecast of £8.0m included in the 2025/26 budget to fund the capital programme.

Overall Revenue Summary

66. At this stage the revenue budget is forecast to be underspent by £0.7m. This position assumes the use of £4.7m of reserves intended to balance the original budget for the financial year will not be required and that those monies can be retained to assist with addressing the projected MTFS budget gaps in future years.

67. The position is still subject to change with two months of the year remaining. The Provisional Outturn report to the Cabinet on 26 May 2026 (and the Scrutiny Commission on 10 June 2026) will include recommendations on the use of the final year-end net underspend.

CAPITAL PROGRAMME

68. The updated capital programme for 2025/26 totals £205.0m. This follows a review of the programme undertaken over the summer and approved by the Cabinet in September 2025 and changes in funding since then.

69. The latest forecast on the capital programme for 2025/26 shows overall net slippage of £28.5m. A summary is shown in Appendix C with details of the variances provided in Appendix D.

70. The main variances are reported below.

Children and Families

71. The department is forecasting net slippage of £5.9m compared with the updated budget. The major variances are described below.

- Ibstock Community College Expansion, £4.8m slippage due to delays in the planning process. Planning has now been approved and works have started.
- Broughton Astley Primary, £1.5m slippage due to planning issues.

Adults and Communities

72. The department is forecast to be on target to budget.

Environment and Transport

73. The Department is forecasting net slippage of £20.5m. The main variances are described below.

- Melton Mowbray Distributor Road: £8.3m slippage due to weather-related programme delays and outstanding construction activities rephasing into 2026/27. The scheme is expected to be complete in May 2026.
- Advanced Design: £4.7m slippage linked to both delays in Melton Mowbray Distributor Road (above) and Market Harborough improvement works.

- Vehicle Replacement Programme: £2.8m slippage due to procurement delays with delivery which are now expected in quarter one of 2026/27.
- A511 Major Road Network: £1.2m slippage resulting from delays in early contractor involvement and deferral of land acquisition to 2026/27.

74. Other schemes:
    - Externally funded (S106) schemes: £0.9m slippage due to revised scheme scopes and programmes reprofiled for delivery in 2026/27.
    - The Parade, Oadby CYCLOPS: £0.7m slippage following the exploration to rescope the scheme towards targeted corridor interventions (cycling and walkway improved at strategic locations).
    - Safety Schemes: £0.6m net slippage caused by changes in scheme requirements, contract lead-times and flooding-related impacts across several projects.

75. Transport Asset Management programme – transfer of £3.9m (from the revenue budget) following a review of the grant conditions enabling the maximisation of the capital grant and reversing the previous substitution to the revenue budget.

<u>Corporate Resources</u>

76. The department is forecasting slippage of £1.1m and an underspend of £0.2m compared with the updated budget. The major variances are listed below:

    - Environmental improvements £0.6m slippage. Works to install electric vehicle car charging points rescheduled to coincide with completion of other car park improvements at some sites (£0.2m), public sector decarbonisation scheme delayed while contracts are reviewed (£0.3m), and rooftop solar slippage due to finalising the procurement route (£0.1m).
    - Beaumanor Hall repairs - £0.5m slippage. Works to repair and reinstall the chimneys, gables and roof ridges to Beaumanor Hall are estimated to cost £0.5m over the next 12 months. Historic England has confirmed there are no funding opportunities available to support these costs, which will need to be funded by the Council, from earmarked reserves.
    - Romulus Court Refurbishment, £0.2m underspend as the cost of capital works needed were less than originally anticipated.

<u>Corporate</u>

77. The programme is forecasting net slippage of £0.7m compared with the updated budget. The major variances are listed below:

    - Lutterworth East – Strategic Development Area (Planning and Preparatory works), Slippage of £0.3m due to delays with the procurement and construction programme process.
    - M69 J2 Strategic Development Site, Slippage of £0.2m from delays with the emerging Blaby Local Plan and the need to reschedule the project programme to avoid the need to repeat technical surveys.

Capital Receipts

78. The latest estimate of general and earmarked capital receipts in 2025/26 is £6.5m compared to the target (budget) of £15.6m, a shortfall of £9.1m. Forecasts indicate that the disposals will still be achieved but will now be later than planned. This position can be managed due to slippage on schemes across the capital programme.

Investing in Leicestershire Programme – Quarter 3, 2025/26 update

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

80. A summary of the IiLP position at quarter three of 2025/26 is included within Appendix E. This shows forecast total net income for the year of £8.6m which is in line with the budget for 2025/26. The total budget is split between direct core holdings and diversifier investments. The position also includes a budgeted contribution to the sinking fund of £0.7m in 2025/26. Any outperformance versus the budget will, like in previous years be taken to the sinking fund which is forecast to rise towards £10m by the end of the MTFS period. At present a £0.2m outperformance is expected in the year and will be taken to the sinking fund.

81. The directly owned office estate is under pressure and is forecasting a £0.3m adverse variance. This is due to voids which have been a headwind in an increasingly competitive office market. The headwinds are expected to continue into the new year. The pressure on the direct property estate is offset by favourable variances to full year income on the diversifier investments.

82. The forecast percentage full year net income return for the IiLP is 5.7% for 2025/26 when excluding the development assets still in construction, and rural estate. Including these asset classes reduces the forecast net income return to 3.0% for the year as a consequence of the low percentage returns against the rural estate which is expected. Assets are also held in order to benefit from capital appreciation. For example, external rural revaluations over the past few years have materially increased the carrying value of the overall rural estate.

83. The diversifiers are pooled fund investments alongside other investors. The purpose of holding is to reduce overall IiLP portfolio risk by investing in differing asset classes and geographies. Four separate types of investment are included: UK pooled property funds, a global infrastructure fund, three vintages of a pooled private credit strategy *private debt) and two vintages of a bank risk share strategy. The aim is to provide diversified income from a variety of differing sources.

84. One of the original four pooled property funds within the diversifier's portfolio is in the process of being liquidated after large investors requested redemptions. The process is nearly complete with just a small amount left to distribute to unit holders. The liquidation

decision came at a time when property prices had fallen as interest rates rose through 2022 and 2023 with the liquidation proceeds commencing in 2024. Another one of the original four investments has undergone restructuring and the IiLP received £7.3m of a £7.5m holding for all of its units in August 2025. Income was received every quarter from both pooled property investments representing the rental income less expenses from the underlying investments.

85. It is planned to commit to replace diversifier investments returning capital during 2025/26. The first of these was a new investment in bank risk share where £9.7m was invested in the quarter ending 31 December 2025. Investments replacing current private credit vintages will be presented for consideration. There are currently three private credit investments that are returning capital alongside providing regular income.

Recommendation

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

Circulation under the Local Issues Alert Procedure

87. None.

Equality Implications

88. There are no direct equality implications arising from this report.

Human Rights Implications

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

Background Papers

Report to County Council on 19 February 2025 – Medium Term Financial Strategy 2025/26 to 2028/29
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=7391&Ver=4

Report to the Cabinet – 12 September 2025– Medium Term Financial Strategy – Budget Monitoring and MTFS Refresh
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7879&Ver=4

Appendices

Appendix A: Revenue Budget monitoring statement (Period 10)
Appendix B: Revenue budget major variances
Appendix C: Capital Programme monitoring statement (Period 10)
Appendix D: Capital Programme – forecast main variances and changes in funding
Appendix E: Investing in Leicestershire Programme – 2025/26 Quarter 3 update

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