



CABINET – 26 MAY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PROVISIONAL REVENUE AND CAPITAL OUTTURN 2025/26

PART A

Purpose of the Report

1. The purpose of this report is to set out the provisional revenue and capital outturn for 2025/26.

Recommendations

2. It is recommended that:
 - (a) The 2025/26 provisional revenue and capital outturn be noted;
 - (b) The prudential indicators for 2025/26 as shown in Appendix E to this report be noted;
 - (c) The net revenue underspend is used for the additional commitments as specified in paragraph 86 of the report;
 - (d) The EMSS Partnership Agreement addendum as set out at Appendix G to this report be approved.

(KEY DECISION)

Reasons for Recommendations

3. To inform the Cabinet of the provisional revenue and capital outturn for 2025/26 and seek agreement to the use of the net revenue underspend to fund future commitments.
4. To ensure the EMSS Partnership Agreement remains relevant and fit for purpose.

Timetable for Decisions (including Scrutiny)

5. A report on the provisional revenue and capital outturn will be considered by the Scrutiny Commission on 10 June 2026.

Policy Framework and Previous Decisions

6. The County Council approved the 2025/26 to 2028/29 Medium Term Financial Strategy (MTFS) in February 2025. The key aim of the Strategy is to ensure that the Authority has appropriate resources in place to fund key service demands over the next few years. The Strategy includes the establishment of earmarked reserves and the allocation of ongoing revenue budget and capital resources for key priorities.
7. The 2025-29 capital programme was reviewed over the summer of 2025 and an updated programme was approved by the Cabinet on 12 September 2025.

Resource Implications

Revenue Outturn

8. A summary of the revenue outturn for 2025/26, excluding schools grant, is set out below:

	£000
Updated budget	615,335
Provisional outturn	608,013
Net underspend	-7,322
Reduced funding	299
Net underspend	-7,023
Additional commitments	7,023
Net position	0

9. Overall there has been a net underspending of £7.0m, which will be used to meet additional commitments detailed later in the report. A more detailed summary is given in Appendix A. Details of the variances for departments and central items are included in the report and in Appendix B.
10. The General Fund reserve stands at £26m as at 31 March 2026, which represents 4.2% of the 2026/27 revenue budget (excluding schools' delegated budgets), in line with the Council's approved reserves policy target range of 4% to 7% of net expenditure. As this is at the lower end of the approved range, the MTFS 2026-30 includes contributions of £1m per year to increase the General Fund. These will be reviewed as part of updating the 2027-31 MTFS. It is necessary to increase the General Fund to reflect increasing uncertainty and risks over the medium term and to avoid a reduction in the percentage of the net budget covered given the overall budget increase arising from service and cost growth.

Capital Outturn

11. A summary of the capital outturn for 2025/26 is set out below:

	£000
Updated budget	205,364
Less provisional outturn	140,213
Net Variance	-65,151

12. Overall, there has been a net rephasing of expenditure of £65m compared with the updated budget. This funding will be carried forward to 2026/27 to fund schemes that were not completed in 2025/26.

13. Details of the variances and key projects delivered in 2025/26 are included in the report, and in Appendix D.

Circulation under the Local Issues Alert Procedure

14. None.

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PART B

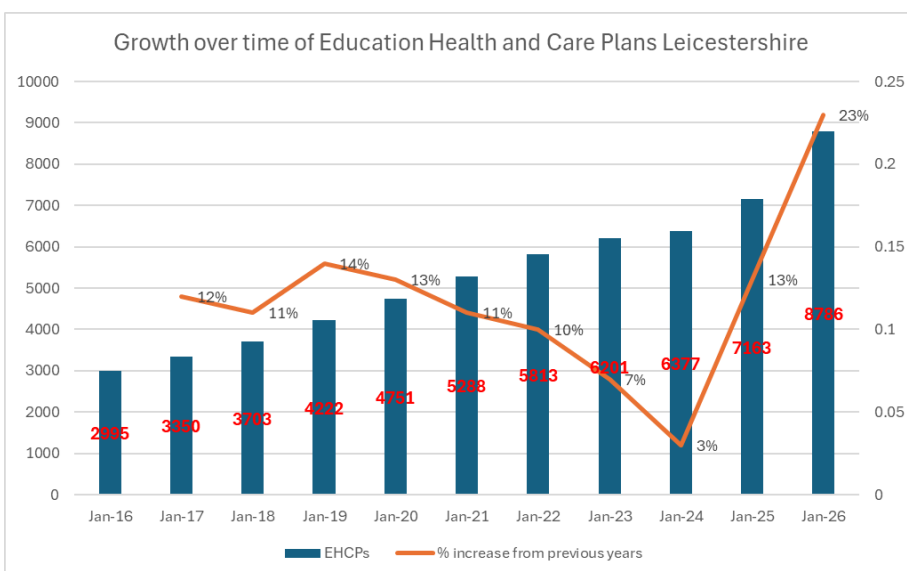
Overall Position - Revenue

15. Appendix A shows the provisional outturn position for 2025/26. This compares the actual net expenditure incurred with the updated budget. The original budget has been updated for transfers between services and from central contingencies.
16. Appendix B gives details of significant variances by departmental revenue budgets for 2025/26.

Children and Family Services – Schools Budget

17. Overall there is a net overspend of £30.9m on the Dedicated Schools Grant (DSG). This comprises an overspend of £34.7m on the High Needs Block (HNB), offset by an underspend of £2.9m on the Early Years Block and £0.9m on the Schools Block.
18. Due to sustained year-on-year growth in demand for funded Education, Health and Care Plans (EHCP's) since they were introduced in 2014, the original 2025/26 budget anticipated a forecast £15m overspend on the HNB after mitigations, based on a 7% increase in EHCP's from the previous year. The High Needs Block outturn overspend is largely due to increased volume/demand on the placement budget compared with budgeted assumptions based and set on Autumn 2024 data and intelligence.
19. Since the original budget was set, overall demand has continued to rise which is further illustrated in the chart below – active EHCP's over time by calendar year. At January 2026 there were 8,786 active EHCP's representing a 23% increase since January 2025, and an 193% increase in EHCPs since 2016. At the beginning of April 2026 there were 8,983 EHCP's. Further on-going analysis of both demand and costs are actively underway as part of MTFS planning.

Number & Growth of children and young people with EHCPs in Leicestershire



20. At the end of 2024/25 the accumulated High Needs deficit stood at £64.4m and is now £99.1m 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 (which is expected to be 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 the Department for Education (DfE) and means that the Council will continue to cashflow the deficit until the payment is received. Further details are provided below.
21. Whilst the Government's Schools White Paper is expected to result in systemic changes to the national SEND system such changes will take several years to deliver. It is uncertain at this stage whether and how such changes will directly address the current and forecast funding issues in the short to medium term.
22. 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 Leicestershire 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 higher.
23. 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, Special Educational Needs Assessment, and Specialist Teaching Services are experiencing heightened caseloads and resource strain. This surge in demand has a consequential financial impact that spans the DSG funded blocks, particularly the High Needs Block, and the Local Authority funded services, creating sustainability challenges across the system.
24. The DSG funding allocated for high needs is also not keeping pace with the rising demand for these services placing additional financial strain on such budgets. This has resulted in an overspend of £0.5m on Specialist Teaching services, within the High Needs block.
25. Despite current planned mitigations the level of projected growth means that 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 High Needs funding block. This work is currently underway and will be reflected in the wider MTFs planning work over the coming months. In developing additional mitigations consideration is being given to aligning actions to changes coming through linked to the Schools White Paper and SEND reforms.

26. At year end there was a net underspend of £2.9m across Funded Early Education (FEE) entitlements within the Early Years DSG block. The position is largely driven by timing differences between funding and delivery. Funding is allocated by the DfE on a standard 38-week basis and paid in line with the FEE delivery timetable, which does not always align precisely with the April to March financial year. In 2025/26, fewer delivery weeks fell within the financial year than were funded and this is further exacerbated by stretched entitlements where hours are delivered over a longer period. Given the scale of the expanded entitlement offer, small variations in the number of funded weeks recognised within the financial year can have a materially significant financial impact. From 2026/27, the move to a termly funding mechanism is expected to improve alignment between funding and delivery, simplifying year-end reporting and reducing the scale of timing-related variances.
27. The underspend on the DSG Schools Block of £0.9m in 2025/26 primarily reflects the combination of lower-than-anticipated costs in relation to schools' copyright licences, alongside a reduced call on the Schools Growth Fund. The latter is due to revised forecasts for pupil growth and the timing of planned school expansions resulting in lower revenue costs being incurred in year than originally assumed.
28. The overall net cumulative DSG deficit across all blocks at year end was £79.2m. (31 March 2025 net deficit £48.3m). This is expected to be the basis for the calculation of the 90% grant, and not the £99m deficit on the High Needs Block itself.
29. The 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 net DSG deficit subject to each authority submitting and securing the 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.
30. 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.
31. Based on the above year-end position, an initial estimate is that approximately up to £71.3m of government grant could be received by the Council in respect of its cumulative

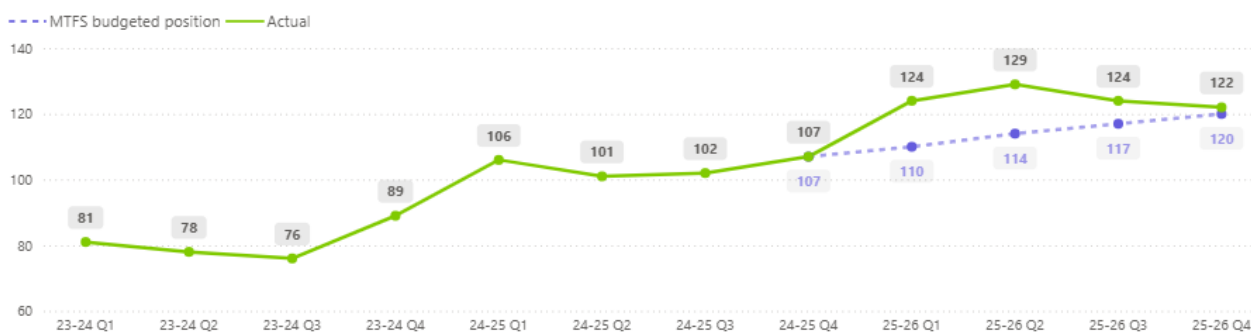
DSG deficit as at 31 March 2026, subject to the DfE approval process. However, given the scrutiny process above, the Council's previous estimate was based on 85% of grant being received, which would reduce the amount to £67m. On this basis, the Council would be required to fund the remaining £28m to 32m from reserves or other resources, which may also include consideration of whether the underspends across the other DSG blocks could be used, although that would reduce the grant available to fund schools and early years services in the future.

32. 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. This will be considered as part of the MTFS refresh later in the year.

Children and Family Services – Local Authority Budget (Other)

33. The Local Authority budget is overspent by a net £2.6m (1.8%), mainly relating to financial pressures on the Children's Social Care Placements budget, Disabled Children's Service and Education Psychology / Special Education Needs Assessment Service.
34. The net overspend on the Children's Social Care Placement budget (£5.1m) – comprising both of Unaccompanied Asylum Seeking Children (UASC) and non-UASC placement costs is largely due to a small but financially significant change in demand and numbers in relation to children in residential provision in comparison to budgeted assumptions. The MTFS for 2025/26 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 to the end of the 2024/25 financial year showed demand remaining relatively stable.
35. However, and as illustrated in the graph below, numbers to the end of the 2025/26 financial year have risen and are continually above the budgeted profile projection. At the end of 2025/26 numbers in residential provision were 122, (1.6% increase although for much of the financial year the demand was significantly higher). The year end position was an improvement on what had previously been projected earlier in the year. The latest position and stabilisation of numbers is a key contributing factor for the reduced overspend position that had been forecast in prior months. This has been driven by the progression of the Children and Family Services Smarter Commissioning programme, including a marked reduction in activity within high-cost and unregulated placement types.

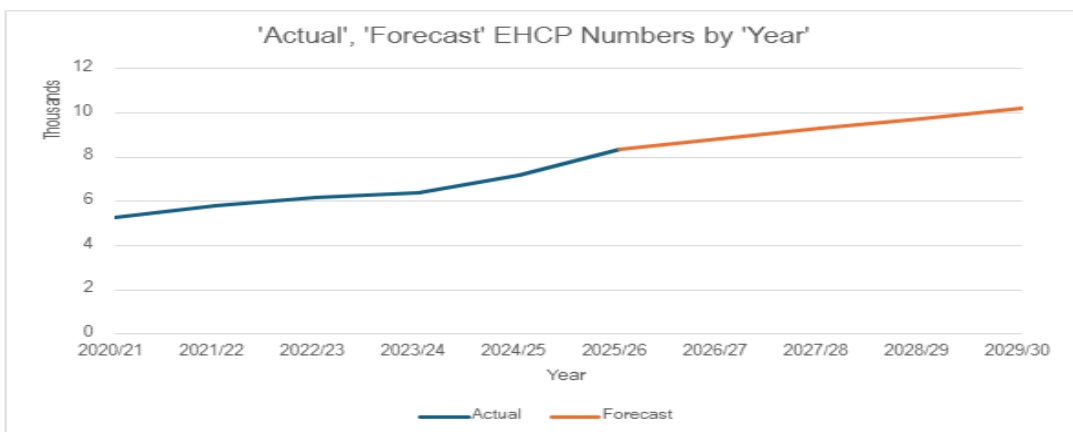
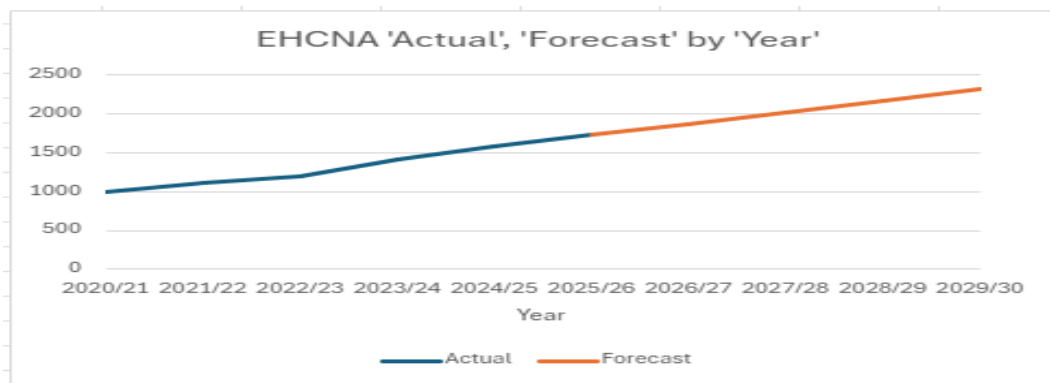
Number of unique mosaic ID's requiring a residential placement at the end of the period



36. Of the overall increase in numbers a small but financially significant increase during the financial year in the number of unregistered and activity placements from May 2025. 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 placement budget allowed funding for up to 5 children in this provision type over the financial year. However for the majority of the financial year actual numbers in this provision type have exceeded that (to a peak of 15 in the autumn) and its impact is a key contributing factor for the overall overspend position on the budget.
37. 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.
38. 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.
39. Also, of note and of financial significance due to a unique set of challenges and issues (sufficiency and need), is the need to place a small number of children in secure provision 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 year end overspend.
40. As part of the direct actions being taken to mitigate against these financial pressures on the placement budget 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.

41. Other departmental variances include an overspend on the Disabled Children's Service of £1m. 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 many children already in receipt of overnight short breaks through this home.
42. The Education Psychology/SENA service was overspent by £0.8m 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 contributed to the overspend within these service areas due to increased caseloads. There has been a 25% increase in EHCNAs since January 2025.



43. There was a £0.8m overspend across Children's Social Care Family Safeguarding and First Response services driven by increased overall demand and case complexity. This has resulted in a higher reliance on agency staffing further increasing pressure on these budgets. The position has been mitigated through in-year and one-off underspends

across other Children's Social Care service areas including Safeguarding, Vulnerability Hub, Children in Care and Care Leavers budgets. These underspends primarily reflect natural staffing turnover and recruitment timescales which have created temporary capacity gaps and a reduced spend against budget. Collectively, this has resulted in an offsetting underspend of £0.9m.

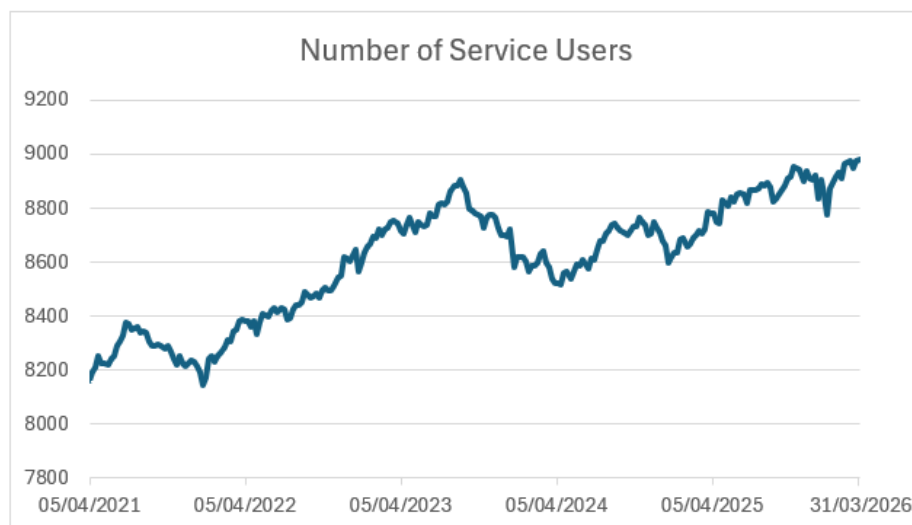
44. In response to financial pressures identified at the start of the financial year the departmental management team undertook a targeted review of primarily non-statutory services alongside the introduction of strengthened corporate-led financial controls. This was complemented by continued robust management of vacancies across the department. Together these actions resulted in a £3.5m reduction to the overall spend position and supported the early delivery of £0.7m of ongoing MTFs savings. Measures included delaying recruitment to non-essential posts where appropriate and maximising the use of available in-year grant funding to ensure prescribed outcomes were met in an efficient, effective and compliant manner. Further work is ongoing to assess the sustainability of these actions and their potential to deliver additional ongoing budget efficiencies in future years.

Adults and Communities

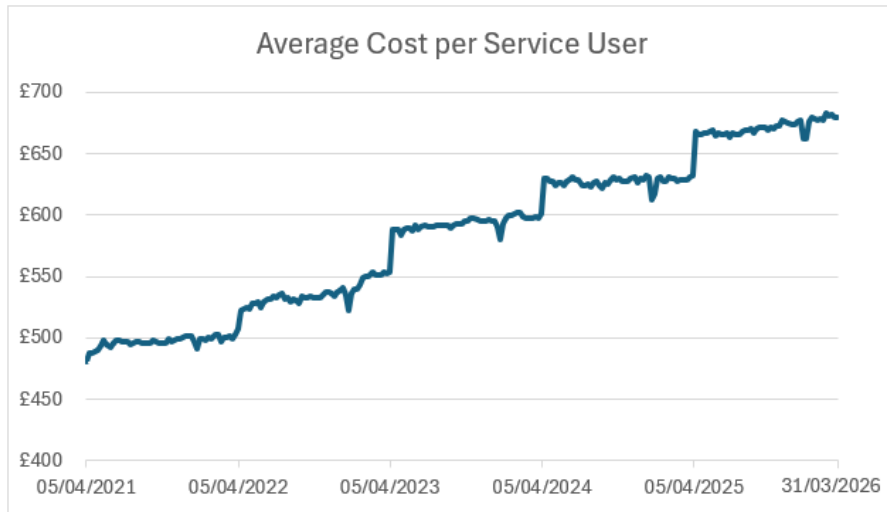
45. There is a net underspend for the departmental for 2025/26 of £3.9m (1.5%).

Overall Demand Trends

46. The chart below shows the overall number of service users being supported across Residential Care, Homecare, Supported Living, Direct Cash Payments and Community Life Choices from April 2021 through to March 2026. 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.



47. The average cost per service user rose over the same time period. The rise from April 2025 relates to the annual fee review uplift. Uplifts occur in April each year.



48. 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.
49. The main areas of budget variance forecast in 2025/26 are:

Supported Living - £1.7m overspend

50. The overspend reflects a combination of higher service user numbers (1%) and an increase in need in average package costs (2%). The budget was based on an average of 530 service users over the year and the average over the year was 1% higher than this (537), primarily from an increase in the mental health cohort. The budget was based on an average cost of £1,763 and the average cost over the course of the year was 2% higher than this (£1,797), primarily from an increase in the average hours of support. This resulted in an underlying overspend of £1.46m. In addition, one-off cost relating to flooding at Brookfield Gardens of £0.1m was incurred.

Direct Cash Payments - £1.3m overspend

51. The clawback of unspent funds which is conducted as an ongoing process over the course of the year was disrupted by issues with the Direct Payment Card Provider. Normal service has resumed but this had an impact on the overall monies clawed back and the final position for the year, and there was a shortfall of £0.9m for the financial year. A small increase in service user numbers and average package costs (<1%) from November onwards contributed to an additional £0.4m costs.

Home First - £1.5m underspend

52. 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. This is also a focus of the Council's Efficiency Review. Recruitment, however, remains difficult within the social care market.

Non-Residential Income - £1.4m underspend

53. Additional client income of £0.6m was received primarily from a 1% increase in chargeable service users and a 1.5% increase in the average chargeable amount. An additional £0.2m was due to a lower-than-expected contribution to the credit loss (bad debt) provision. Supported Living health income generated £0.4m over budget due to a higher number of service users observed since budget setting. Health Income relating to Home Care generated an additional £0.2m and Day Care £0.1m.

Residential and Nursing Care - £0.9m underspend

54. Gross residential expenditure was £2.6m overspent, largely due to the numbers of older people. Service user numbers were in line with the previous year in the first half of 2025/26 but increased in the second half, with a sharp rise in the final quarter. Long term packages for older people were 1% higher than budgeted and short term packages were 5% higher. The average cost per package for older people was slightly higher than budgeted (<1%).
55. Gross residential income was £3.5m higher than budgeted, comprising increases of £2.2m client income and £1.3m health income. Client income performance reflects higher than budgeted service user numbers (£1.7m) and a lower-than-expected credit loss provision contribution (£0.2m). Health income exceeded budget due to an upward trend in funded service users throughout the year resulting in a net increase of 50 users and £1m additional income. A further £0.3m was recovered following improved identification and recording of health funding representing early delivery of a 2026/27 MTFs savings target.

Better Care Fund (Balance) / Other NHS Income - £0.7m underspend

56. Better Care Fund income from the minimum contribution to the Council was £1.8m above the budgeted amount, offset by lower discharge to assess income of £1.1m (which can be used to support discharge-related costs from Hospitals) due to lower activity.

Homecare - £0.5m underspend

57. Over the course of the year, service user numbers were slightly above estimates at 0.7% which was offset by lower package costs of 2.1% on average leaving a net position of 1.4% underspend. There was an additional £220k worth of actuals that were paid for that

related to the previous financial year 24/25. Currently there are 2,770 homecare service users.

Shared Lives Residential - £0.5m underspend

58. Underspend due to a reduction in both long and short-term residential placements driven by a shortage of available carers to take on new placements.

Care Pathway - £0.6m underspend

59. 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 the Mental Health and Safeguarding where agency staff are required to ensure that statutory responsibilities are delivered.
60. The net underspends above are increased by a net £0.8m underspend mainly from staffing vacancies and other minor variations.

Public Health

61. The department has a net nil outturn. The department had a gross underspend of £0.7m which was reduced to nil after budgeted contributions from the Public Health earmarked reserve were not required, the departments services are mainly funded from the Public Health grant with variances managed through the earmarked reserve.
62. In year underspends related to sexual health services due to reduced contract activity, and a small underspend on health protection.

Environment and Transport

63. A net underspend of £5.7m (4.6%) is forecast, of which £3.2m relates to early achievement of future years savings and £1.4m has arisen from ongoing recruitment and retention difficulties across the department. Details behind the underspend position for each service is provided below.
64. Across Highways and Transport operations a net £2.1m underspend is reported as a result of:
- Social Care Transport - £0.9m overspend arising from increase in taxi spend as a consequence of insufficient service provision within Passenger Fleet.
 - Environment and Reactive - £0.5m overspend on gulley emptying and essential repairs to the road network.
 - SEN Transport - £1.2m 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 EHCP's.
 - Mainstream Transport - £0.2m underspend relating to savings generated following the summer contracts review, partly offset by increased bus operator costs.

- Network Management - £1.0m underspend arising from additional permitting income from utility companies.
- Passenger Fleet – £0.5m underspend due to difficulties in recruiting drivers and escorts, net of additional vehicle hire, maintenance costs and lower income.
- Street Lighting Maintenance - £0.5m underspend due to changes in approach to structural testing and recovery of insurance claims for knockdowns of street lighting columns.
- Highways Income -£0.1m underspend arising from increase in vehicle access income (dropped kerbs).

65. Development and Growth services are reporting a £1.3m underspend arising from additional S38 and S278 income (£0.7m), recruitment and retention difficulties amongst graduate engineers and technicians (£0.5m) and school crossing patrols (£0.2m), and reduced energy costs associated with traffic signals (£0.1m). This has been partly offset by an increase in Area Traffic Control (ATC) reactive faults resulting in additional traffic management costs (£0.2m).
66. A net underspend of £1.9m is reported for Environment and Waste Management services. Additional income from the sale of dry recyclable and trade waste (£0.7m), lower composting tonnage (£0.4m) as well as underspends arising from in-year staffing churn across commissioning teams (£0.3m) and changes to Waste treatment including diverting waste away from landfill (£0.5m) and associated haulage (£0.2m) is partially offset by a provision for the Charnwood Geopark (£0.1m) and increased property costs (£0.1m).
67. The remaining balance relates to an underspend on department and business management due to delays in implementation of a staffing restructure (£0.2m) and general underspends including a reduction in the credit loss (bad debt) allowance required (£0.3m).

Chief Executive's

68. There was a net underspend of £0.5m (3.0%) for the year, mainly due to staffing vacancies within the Growth Unit £0.3m and reduced casual staffing costs and additional income within the Registrars service £0.2m.

Corporate Resources

69. The outturn shows a net underspend of £0.9m (2.1%) for the year.
70. The underspend is largely driven by the early delivery of future savings across IT and Property Services £0.8m, and in-year staffing churn including managed vacancies across the department of £0.9m which is also partly due to early delivery of MTFs savings
71. Traded and Commercial services have ended the year with a shortfall against their target income (£0.8m in total), despite performance being better than anticipated. Throughout the year schools financial position impacted on demand for Commercial Services such as School Food, Bursar and LEAMIS services. This impact extended to school bookings at

Beaumanor Hall compounded further by its temporary closure during the late spring/early summer of 2025.

72. Other variances include; reduced utility costs across the corporate estate £0.2m, learning and development additional income and lower than anticipated demand for training provision £0.2m, offset by increased service charges for the Hinckley Hub and property disposal costs £0.4m.
73. Works to repair and reinstall the chimneys, gables and roof ridges to Beaumanor Hall is estimated to cost £0.5m over the next 12 months. No funding is available from Historic England. The improvement works are included within the capital programme funded from the Councils earmarked reserves.

Central Contingencies

74. The budget included a MTFS risk contingency of £8m which was held to cover any unforeseen in-year changes or slower savings delivery. This has not been needed in 2025/26. It is proposed to contribute the contingency to reserves to fund the Efficiency Review implementation in 2026/27 and beyond. Further details on the Efficiency Review are included in a separate report to the Cabinet on this agenda.
75. The inflation contingency was underspent by £7.6m after transfers of £26.8m to departmental budgets (original budget £34.4m). 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% was lower than the provision of 3.5% made in the MTFS.

Central Items

76. The Financing of Capital budget was £1.3m overspent. This comprises an underspend of £2.1m due to a reduction in interest payments (following the early repayment of £44m of external debt principal during 2025/26) offset by early repayment premiums of £3.5m charged in 2025/26. Following elevated gilt yields hitting 20 year highs caused by inflation remaining stubbornly above the Bank of England's target of 2% and the US-Israel-Iran conflict 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.
77. The Council's external debt as at 31 March 2026 was £130m, 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 was £63m underborrowed as at 31 March 2026, which can be funded using internal investment balances rather than more expensive external borrowing. Further debt repayment opportunities are being explored.
78. Bank and other interest has provided £4.8m 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 some market commentators forecasting base rate rises during 2026/27. Average balances remain strong due to earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance.

79. The central expenditure and other items budgets are overspent by a net £0.2m. The initial costs of £1.4m for the Council's Efficiency Review and a contribution of £0.5m to the Pension Fund to cover actual ill health retirement costs incurred in 2025/26 are offset by the cleansing of receipted aged purchase orders that are no longer required and other smaller underspends (£1.3m) and an increased forecast dividend from ESPO (0.4m).
80. Additional contributions to corporate earmarked reserves of £7.2m. This relates to additional contributions to the budget equalisation reserve to continue to provide cover for the increase in the 2025/26 High Needs Block deficit. The headroom in the reserve as at 31 March 2026 created by the government funding DSG deficits to that date has been released as part of the 2026/27 approved MTFS budget.
81. The approved MTFS projected a net gap in 2025/26 of £4.7m which was planned to be covered by a contribution from the budget equalisation reserve. Given the improved overall position, that contribution was not required in 2025/26 but is likely to be needed in future years, with the approved 2026/27 budget only being balanced with the use of reserves (£15.4m).

Business Rates

82. Reduced Business Rates Pool levy income of £0.3m is forecast for 2025/26. The latest forecast is based on data in the NNDR1 forms and updated forecasts from six of the seven district councils which 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. The actual levy position will be determined from the data in the district Councils NNDR3 returns due by the end of May.

Efficiency Review

83. In November 2025 the Council began a comprehensive review of its cost base and service delivery models, undertaken by Newton Consulting. The review has identified savings of £27m over the MTFS period, with the potential to stretch to almost £60m of savings by 20230/31 and these opportunities have been combined with the Council's existing MTFS savings plans to create a single, coherent Transformation Programme, which will be launched as the Better Leicestershire Programme.
84. To ensure the programme can deliver at pace and reach its full potential, upfront investment will be required which is expected to be a combination of internal and external resources. The Council approved the allocation of £10m towards implementation costs as part of the MTFS in February this year and a proposed £2m use of the 2025/26 underspend plus the allocation of the £8m risks contingency creates a £20m total allocation which will fund the net costs of the programme in the early years.

85. The full outcome of the review, including a breakdown of the savings and cost forecast, is included as a separate item on the agenda for this Cabinet meeting.

Overall Revenue Summary

86. Overall, there is a net underspend of £7.0m. It is proposed to allocate the funding as follows:
- Capital Financing / debt repayment, £2.5m. Continue to reduce capital financing costs by taking further opportunities to repay external debt early, where repayment rates are favourable, or by reducing the capital programme funding shortfall. The capital programme for 2026-30 includes new prudential borrowing of £65m.
 - Highway Investment Fund - £2.5m. Investment for priority services. This will be added to the 2026/27 E&T budget for priority schemes.
 - Efficiency Review - £2m to fund the investment costs needed to fund the revised Transformation Programme and deliver the savings identified in the review.
87. Many of the underspends are due to staff vacancies which by their nature are not on-going, and the significant additional income from bank and other interest is likely to be short-term too. Tight control over spending and reducing running costs where possible through ongoing financial controls has enabled the Council to produce a net underspend position, despite continued cost pressures, particularly on children's services.
88. However the current MTFS for 2026-30 is still extremely challenging and shows a gap of £84m by 2029/30. Monitoring of the 2026/27 budget position will be undertaken and reported throughout 2026/27 in the usual way and a review of 2025/26 underspends will also be completed before the summer to identify the potential for permanent savings.
89. A refresh of the MTFS for 2027 to 2031 will be undertaken over the summer and autumn with an update reported in September and a draft MTFS reported in December 2026. The MTFS refresh will incorporate the Efficiency Review opportunities that have progressed sufficiently with design and implementation to give reasonable confidence over timescale of delivery. The Efficiency Review, alongside SEND Reform, will be key to the future sustainability of the MTFS.

General Fund and Earmarked Reserves

90. The current balance of the General Fund is £26m, representing 4.2% of the 2026/27 net revenue budget, which is within the Council's approved Reserves policy target range of 4% to 7% of net revenue expenditure, but at the lower end of the range. The latest MTFS 2026-30 includes contributions of £1m per year to increase the General Fund by the end of the MTFS period to £30m. It is necessary to increase the General Fund to reflect increasing uncertainty and risks over the medium term and to avoid a reduction in the percentage of the net budget covered given the overall budget increase driven by increased service demand and cost.

91. The level of earmarked reserves held as at 31 March 2026 totals £257m including schools and partnership funding. They can be summarised as below:

Capital/Repairs	£158m
Risk	£109m
Revenue projects	£51m
Ring fenced grants etc	£17m
Schools DSG	-£79m
Partnerships	£1m
Total	£257m

92. Earmarked reserves are shown in more detail at Appendix C. This shows balances at April 2025 and as at the end of March 2026. The MTFS includes further analysis of the County Council's earmarked reserves including the reasons for holding them.
93. The risk-based reserves shown in the table above include the Budget Equalisation reserve which is held to support the MTFS and provide some level of cover for future funding gaps in case adequate savings are not identified or delivered. This reserve also provides some mitigation for the High Needs deficit. Given that the budget gap in 2027/28 is expected to be in the region of £34m, in addition to a planned contribution of £15m to fund the MTFS in 2026/27, it is important that this reserve is held at a reasonable level.
94. The main earmarked reserves are set out below.

Renewals of Vehicles and Equipment (£2.1m)

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

Trading (£5.8m)

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

Insurance (£17.2m)

97. Earmarked reserves of £12.2m are held to meet the estimated cost of future claims to enable the Council to meet excesses not covered by insurance policies and smooth fluctuations in claims between years. The levels are informed by advice from independent advisors.
98. The uninsured loss fund of £4.9m is required mainly to meet potential liabilities arising from Municipal Mutual Insurance (MMI) that is subject to a run-off of claims following liquidation in 1992. The fund also covers the period before the Council purchased insurance cover and any other uninsured losses.

Children and Family Services

99. Children and Family Services Developments (£1.8m). This provides funding to support service improvements, including enhanced management information, data access and retention, and to respond to Ofsted and legislative requirements. This will also enable targeted, proportionate support to time limited projects, such as the department's School Sustainability Programme.

Adults and Communities

100. Adults and Communities Developments (£1.2m). This earmarked reserve is held to fund a number of investments in maintaining social care service levels and assisting the Department in achieving its transformation.

Public Health

101. Public Health (£5.4m) – to fund Public Health initiatives within Leicestershire.

Environment and Transport

102. Commuted Sums (£2.3m). This funding, received from housing developers, is used to cover future revenue costs arising from developer schemes where the specifications are over and above standard developments. For example, block paving, bollards, or trees adjacent to the highway. These liabilities can arise many years after the funding is received and therefore the balance on this earmarked reserve has built up over time.
103. Pan regional transport model (PRTM) £2.3m. Each year the income arising from the PRTM contributes to this reserve, which is used to fund the highways commissioning staffing budget for Network Data Intelligence. This reserve is built up to refresh the model on a regular basis, and as and when new DfT guidance and requirements are released.

Corporate

104. Budget Equalisation (£90.4m). This reserve manages variations in funding across financial years and potential one-off funding for future MTFS gaps.
- MTFS Gaps - £15m has been allocated to fund the 2026/27 MTFS and a further £34m is earmarked to fund the current 2027/28 MTFS funding shortfall if new savings are not identified. This reserve will also need to be of sufficient level to cover the next two years of gaps (2027/28 and 2028/29) when the MTFS is refreshed in the autumn.
 - High Needs Deficit - £32m for funding the net deficit on the High Needs element of the DSG, after the estimated DfE High Needs Stability grant.
 - Highways Investment Fund / Capital Financing Debt Repayment - £5m, including a proposed addition of £2.5m from the 2025/26 provisional outturn.
105. Change and Improvement (£39.4m), including funding for Local Government Reorganisation. To achieve the level of savings within the MTFS and the Efficiency

Review potential, the Council needs to change significantly and this will require major investment, including in some of the core 'building blocks' such as improvements to data quality, and improvements to digital services enabling more self-service. This reserve includes funding for:

- Local Government Reorganisation, £12m.
- Efficiency Review, £20m, subject to approval of £10m from the 2025/26 outturn (£8m MTFS risks contingency and £2m from the net revenue underspend).
- Existing transformation and improvement projects, £7m.

Capital

106. Capital Financing (£142.8m). This earmarked revenue reserve is used to hold MTFS revenue contributions required to fund the approved capital programme in future years. When financing actual capital expenditure incurred, capital funding is used first and this revenue reserve is used last (as revenue funding is less restricted than capital funding, the latter of which can only be used to fund new capital expenditure). This reserve is fully committed to fund the 2026-30 MTFS capital programme and will be used before any of the planned £65m new unsupported borrowing included in the 2026-30 programme is used.

Other / Partnerships Earmarked Reserves

Dedicated School Grant (DSG Reserve)

107. DSG (overall deficit of £79.2m). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations. This reserve is earmarked to meet the revenue costs of commissioning places in new schools, early years and to support pressures on the High Needs block. A summary is shown below:

	Schools Block	Early Years Block	High Needs Block	Total
	£m	£m	£m	£m
As at 31 March 2025	14.2	1.9	-64.4	-48.3
Changes 2025/26	0.9	2.9	-34.7	-30.9
As at 31 March 2026	15.1	4.8	-99.1	-79.2

108. As explained earlier in the report the Government has announced support to local authorities with DSG deficits. Based on the outturn position an initial estimate is that between £67m and £71m of government grant could be received in respect of the net DSG deficit as at 31 March 2026, subject to the DfE approval process. The Council

would then need to fund the balance of between £28m and £32m (of the £99m High Needs deficit) as at 31 March 2026.

Partnership Reserves

109. The main partnership reserve held is the Health and Social Care Outcomes (£10.2m) which is used in conjunction with Health partners across Leicestershire.

CAPITAL PROGRAMME

110. The updated capital programme for 2025/26 totals £205m. This follows a review of the programme undertaken over the summer and approved by the Cabinet in September 2025. A total of £140m has been invested during 2025/26.

111. A summary of the capital outturn for 2025/26 is set out below:

Programme Area	Updated Budget £000	Actual Expenditure £000	Net Variance £000	%
Children and Family Services	52,318	31,389	(20,929)	60%
Adults and Communities	6,099	6,099	0	100%
Environment and Transport	124,028	87,514	(36,514)	71%
Corporate Resources	4,170	1,710	(2,460)	41%
Corporate Programme	18,749	13,501	(5,248)	72%
Total	205,364	140,213	(65,151)	68%

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

Programme Area	Underspend £000	Overspend £000	Rephasing of expenditure £000	Accelera- tion £000	Total £000
Children and Family Servs.	(98)	98	(22,214)	1,285	(20,929)
Adults and Communities	0	0	0	0	0
Environment and Transport	(101)	101	(36,514)	0	(36,514)
Corporate Resources	(257)	124	(2,373)	46	(2,460)
Corporate Programme	(41)	41	(5,248)	0	(5,248)
Total	(497)	364	(66,349)	1,331	(65,151)
	(133)		(65,018)		

113. The net underspend has been added to the capital financing reserve to reduce the level of internal borrowing required for the new MTFs capital programme. The net rephasing of expenditure of £65m has been carried forward to the capital programme 2026-30 to fund rephased projects.

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

115. Appendix E compares the provisional prudential indicators with those set and agreed by the Council at its budget meeting in February 2025. These are all within the limits set except for the 'actual capital financing costs as a percentage of net revenue stream' indicator – increase due to premiums on the early repayment of debt, reducing future interest costs, explained earlier in the report.
116. A review of the new 2026-30 MTFS capital programme will be undertaken during the summer 2026 in light of the outturn. An updated capital programme will be reported to the Cabinet in September 2026.

Children and Family Services

Key Projects Delivered

117. During 2025/26, 1,165 additional school places have been created within the County at 10 different schools across all phases of Education. A total of 420 new primary school places at Greenstone Primary School, our first Forest School in the County. For Secondary, work started in year on 450 new school places across 2 schools. This involves expansions at existing schools which will conclude early in the 2026/27 and 2027/28 financial years. In year, 1,145 secondary places were delivered at 5 secondary schools. The SEND programme saw the completion of 40 places across 4 primary schools by creating Enhanced Resource Bases. A further 20 places were delivered at an existing Special School.

Main Variances

118. Overall, the departmental outturn is net reprofiling of £20.9m to 2026/27. The main variances relate to the following programmes:

Provision of School Places Programme, £15.4m:

- Hinckley Redmoor - £0.8m acceleration. This project delivers a new science block, sports hall and refurbished catering facility. It is an academy delivered scheme, prudently profiled in the MTFS.
- Hallam Fields - £0.5m acceleration. Expansion to support nearby housing developments. Budget profiled prudently in MTFS.
- Ibstock School - £5.1m reprofiled. This complex scheme involves the relocation of a number of functions that operate from the school site in order to develop capacity for a further 175 school places, required as a result of housing development and age range change. The scheme has needed to overcome a number of issues in relation to planning and DfE requirements.
- Oadby Brocks Hill Primary - £4.7m reprofiled. Expansion by 1 form of entry. Planning issues have resulted in delays to the delivery timeline. Tenders now received and works to commence May 2026.
- Welland Park - £1.9m reprofiling. Works to provide additional teaching block and external facilities. Delays in finalising the funding agreement.
- Broughton Astley Primary - £1.5m delays due to planning issues.
- Lutterworth High School - £1.3m. Funding agreement delayed.

- Long Field Primary - £0.8m. Scheme to expand up to further 300 places. Timeline has been reprofiled since original budget allocation.
- Unallocated budget - £1m carried forward to 2026/27.

SEND Programme, £3.1m

- Husbands Bosworth Special School - £0.9m. Delays encountered regarding the land upon which the school was planned to be built.
- Oakfield South - £0.9m. Works reprogrammed, interdependencies with other parts of the site impacted by the works.
- Dorothy Goodman - £0.3m. Revised works programme resulted in final completion pushed into 2026/27.
- Various other smaller variances within the programme, £1m.

Adults and Communities

Key Projects Delivered

119. Disabled Facilities Grant of £5.9m passported to Leicestershire district councils to help people with the cost of adapting their homes to meet their essential needs. £0.2m was spent on refurbishments at Coalville and Shepshed Libraries and improvements at Bosworth Discovery Zone.

Main Variances

120. Overall, the departmental outturn is in line with the budget.

Environment and Transport

Key Projects Delivered

121. A total of £48.3m has been spent in year on the preparation and delivery of major projects including:

- Melton Mowbray Northeastern Distributor Road, £24.5m on the construction of the new distributor road to the north and east of Melton Mowbray to ease congestion in the town centre and facilitate growth. The road is expected to be opened in May 2026.
- A511 Major Road Network scheme, £2.4m in designing and preparing the full business case to the Department for Transport. Project to tackle long standing congestion and traffic related problems on the A511 between Leicester (M1 Junction 22) and the A42. Commenced in 2019/20 with completion anticipated in 2028.
- Zouch Bridge, £7.2m to replace the existing bridge which is at the end of its life. The bridge forms part of the A6006 which is strategically important in terms of transport infrastructure and regional economy. Construction commenced in 2024/25 and is expected to be completed by summer 2027.
- Zero Emission buses, £7.5m grant allocation passported to Bus operators to support the infrastructure for and acquisition of electric buses.

122. A total of £34.5m was invested in Highways Asset Maintenance:
- £26.7m on carriageways.
 - £3.0m on street lighting maintenance.
 - £2.1m on footways and rights of way.
 - £1.4m on traffic signal renewal.
 - £0.7m on flood alleviation.
 - £0.6m on bridge maintenance and strengthening.
123. A total of £0.7m has been invested in Environment and Waste improvement works, including Recycling and Household Waste Sites (RHWS):
- £0.5m on general improvements to RHWS locations.
 - £0.1m on food waste disposal.
 - £0.1m on developer funded capacity increases.

Main Variances

124. The outturn for the department is net reprofiling of £36.5m (29%). The main variances are described below.
125. Melton Mowbray Distributor Road, £13.4m reprofiling due to weather-related programme delays and outstanding construction activities into 2026/27. The scheme is expected to be complete in May 2026.
126. Advanced Design, £6m, investment in new major infrastructure programmes, reprofiled to ensure effective use of the funding available.
127. Zouch Bridge Replacement £20m project. Construction works of £2.8m have been reprofiled to 2026/27, primarily due to statutory undertaker works not progressing as anticipated when the 2025/26 forecast was prepared. The new bridge is still estimated to open to public traffic in July 2026, with demolition and final works completing later in 2026.
128. A511 Major Road Network, £0.9m reprofiling resulting from delays in early contractor involvement and deferral of land acquisition to 2026/27.
129. Vehicle Replacement Programme, £3.2m reprofiling due to procurement delays with delivery now expected in quarter 1 of 2026/27.
130. Other schemes:
- Bus Grant, £2.8m reprofiling due to works being rephased until completion of the passenger transport network review and rollout of revised bus network.
 - Externally funded schemes, £1.7m. Various smaller schemes reprofiled for delivery in 2026/27.
 - Safety Schemes, £0.9m net reprofiling caused by changes in scheme direction, contract lead-times and flooding-related impacts across several projects.

- The Parade, Oadby, Cyclops, £0.8m reprofiling following the exploration to rescope the scheme towards targeted corridor interventions (cycling and walkway improved at strategic locations).
- Property Flood Alleviation, £0.7m reprofiling driven by delivery-window constraints, outstanding grant approvals and claim sign-offs.
- Zero Emission Buses, £0.7m delays in claims from bus operators.
- Active Travel Improvements, £0.4m reprofiling due to pending approval of schemes from Active Travel England, with delivery now planned for 2026/27.
- Area Office Accommodation, £0.4m due to reprofiling of the Melton Depot Replacement. Ongoing work within the Council to identify a suitable site and design has delayed the start of the programme.
- Bridge maintenance, £0.4m underspend due to works delivery cost being lower than anticipated. Funding carried forward within the block allocation to 2026/27.

131. There are some variances on Environmental schemes (£0.9m):

- Recycling Household Waste Sites (RHWS) Waste Transfer Station: £0.2m
- RHWS Weighbridge: £0.2m.
- Food Waste Treatment Service Delivery: £0.2m reprofiling due to container procurement being phased in line with revised district council rollout plans.
- RHWS - General Improvements: £0.2m.

Corporate Resources

Key Projects Delivered

132. During 2025/26 £1.7m was invested, including the following:

- ICT end user devices, £0.6m, updating Council-owned computers.
- Hyper-Converged Infrastructure refresh, £0.3m, a refresh of the virtualised network datacentre servers along with associated network storage devices across both data centre sites.
- Cisco Network Replacement, £0.1m, replacing end of life data centre switches
- Property services, £0.6m, extending the life of council properties.

Main Variances

133. The overall departmental position was a £2.5m reprofiling (rephasing of spend) and a net underspend of £0.1m. The main variances are:

- Beaumanor Hall Chimney Works - £0.5m rephasing of works
- MUGA Resurfacing - £0.2m delays to the tender process.
- Bassett Centre Window Replacement - £0.1m tendering delays.
- Aston Firs Living Block Replacement - £0.2m delays in the tendering process.
- Snibston Monument - £0.1m reprofiling as a result of a wider site review
- Ways of Working (WoW) - £0.6m reprofiling due to pausing of County Hall space leasing while future working arrangements are finalised.

- Electronic Vehicle Charge Points and Solar Car Port - £0.3m delays awaiting completion of the car park and a legal services contract review.
- Public Sector Decarbonisation Schemes - £0.1m reprofiling due to the scheduling of heating system upgrades in the spring.
- Rooftop Solar Photovoltaic (PV) - £0.2m finalising procurement route.
- Anstey Frith House County Hall - Replacement windows and roof beams - £0.1m overspend due to higher tenders than expected. Underspends elsewhere in the departmental programme are able to fund the additional costs.
- Romulus Court dilapidation costs - £0.2m underspend. Lower than budgeted dilapidation costs.

Corporate

Key Projects Delivered

134. During 2025/26, £14m was invested into the direct property estate, including £10.3m investment in Airfield Business Park, Market Harborough. Phase 3 completed in 2025/6 with phase 4 due to be completed later this year.

Main Variances

135. The overall programme requires rephasing of expenditure of £5.2m, mainly on the Investing in Leicestershire Programme (liLP). The main variances are:

- Airfield Business Park phase 4, £3.2m reprofiling; Construction mostly complete in February 2026. However, plot F2 has not yet been built as a tenant had not been identified and not wanting to build speculatively. At present the site is allocated for a “drive through” which may change subject to the tenant, and therefore works have been paused .
- Lutterworth Leaders Farm, £0.5m due to inclement weather delaying construction. Completion is expected in May 2026.
- Lutterworth East Planning and pre highway construction works programme, £0.3m. The scheme has progressed more slowly than originally envisaged due to delays in resolving planning issues resulting in the other consultancy work slipping into 2026/27.
- Other underspends of £0.5m across the liLP programme which has been reallocated to the balance held for new liLP investments and carried forward to 2026/27.

Capital Receipts

136. The requirement for new capital receipts to fund the capital programme for 2025/26 was £15.6m. The actual receipts were £7m due to delays in planned disposals. In all cases the sales are still proceeding but did not complete by the year end. The temporary shortfall can be managed due to the rephasing of spend across the capital programme and will be carried forward to 2026/27 to be replenished when the sales are completed.

Overall Capital Summary

137. The Council has delivered a number of key capital projects during 2025/26, including new school places and investment in a number of transport projects. Managing and delivering major capital projects is complex and the spend on some projects has been rephased into future years to match completion timescales.
138. The Capital Programme in future years is challenging, with a funding gap of £65m in the new MTFS. However, further opportunities to generate capital receipts or secure external funding will continue to be explored to reduce the gap and minimise any borrowing requirement.

Investing in Leicestershire Programme (liLP)

139. The Investing in Leicestershire Programme (liLP) 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 liLP Strategy is approved annually as part of the MTFS.
140. A summary of the liLP position at quarter four for 2025/26 is included within Appendix F and shows 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 as shown in the appendix. The position also includes a contribution to the sinking fund of £0.9m in 2025/26, £0.2m of which is as a result of the liLP's net income outperformance versus the budget. The current value of the sinking fund is £5.8m and is forecast to rise towards £10m by the end of the MTFS period.
141. The directly owned property estate ended the year with a £1.2m adverse variance. This is mainly due to voids in an increasingly competitive office market (lower occupancy) of £0.8m of the £1.2m adverse variance. The tougher office rental sector is expected to continue in 2026/27. The pressure on the direct property estate in 2025/26 has been offset by favourable variances within the diversifier investments.
142. The year end annual valuations of direct property investments is currently in progress and as such net income percentages will change, an update will be provided in the liLP Annual Performance Report to the Cabinet later in the year. The full year net income return percentage for the liLP is 5.8% when excluding the development assets still in construction, rural portfolio and contribution to the sinking fund. Including these asset classes reduces the forecast net income return to 3.5% for the year as a consequence of the low percentage returns against the rural and development portfolios which is expected. Assets are held not just for their income generation but also 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.
143. The diversifiers are pooled fund investments the Council holds alongside other investors. The purpose of these holdings is to reduce overall liLP 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 and two vintages of a bank risk share strategy. The aim is to provide diversified income from a variety of differing sources.

144. Two of the original four pooled property funds within the diversifier's portfolio have been largely liquidated over the last two financial years. The current carrying value of the two remaining pooled property funds is £7.8m. There are no plans at present to replace exposure at this time.
145. It is planned to commit to replace diversifier investments exposure which is returning capital, in particular private credit where capital invested is being returned alongside interest income. Due diligence on a number of suitable products will be conducted by an external consultant with any proposals brought to the relevant decision-making body in 2026/27. There are currently two private credit investments that are returning capital alongside providing regular income which at the end of 2025/26 are valued at £18.6m.
146. During 2025/26 there was a new investment to bank risk share where £9.7m was invested in the quarter ending 31 December 2025. This investment started providing income in the final quarter of 2025/26 with performance in line with expectations.

EMSS Partnership Agreement

147. Nottingham City Council and Leicestershire County Council have a shared service partnership agreement in place for transactional finance, payroll and other HR and recruitment services and manages a shared finance and HR system. The East Midlands Shared Services (EMSS) Joint Committee oversees the strategic direction of the EMSS and consists of two executive councillors from each council.
148. The Partnership Agreement gives provision for the Joint Committee to review the agreement either every two years or at other intervals if the Joint Committee consider it appropriate. At its meeting on 16 June 2025, the Joint Committee approved a review of the Partnership Agreement Approval to include:
 - the process for removing a joint shared service function;
 - the process if one partner wants the service to remain, and the other wants it removed;
 - the process for amending and existing shared service provision already in place.
149. The proposed addendum attached as Appendix G, is the result of the review, and the Joint Committee has approved the wording and recommend it to the Member Authority for approval through the Cabinet as required under the Council's constitution.
150. In addition, the Joint Committee has agreed changes to the frequency of meetings and work programme. This does not require Cabinet approval but has been included in the appendix for information and completeness.

Equality Rights Implications

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

Human Rights Implications

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

Appendices

Appendix A - Comparison of 2025/26 Expenditure and the Updated Revenue Budget

Appendix B - Revenue Budget 2025/26 – main variances

Appendix C - Earmarked Reserve balances 31/3/26

Appendix D - Capital Programme 2025/26 – main variances

Appendix E - Prudential Indicators 2025/26

Appendix F - Investing in Leicestershire Programme 31/3/26

Appendix G - EMSS Partnership Addendum

Background Papers

Report to the County Council on 18 February 2026 - Medium Term Financial Strategy 2026/27 – 2029/30

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=7862&Ver=4>

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