

**Manchester City Council
Report for Resolution**

Report to: Executive – 17 February 2016
Finance Scrutiny Committee – 25 February 2016

Subject: Budget 2016/17 Strategic Response

Report of: The Chief Executive, the City Treasurer and the City Solicitor

Purpose of the Report

This report sets out the implications for the City Council of the Final Local Government Settlement for 2016/17, and identifies a strategic framework which has guided the detailed development of a one year budget for 2016/17. This report should be read in conjunction with the 2016/17 Revenue Budget Report on the agenda.

Recommendations

The Executive is requested to:

1. Note the impact on the City as a result of the final Local Government Settlement as it affects Manchester.
 2. Consider the Revenue Budget Report 2016/17 elsewhere on the agenda in the context of the overarching framework of this report.
 3. Support the overall direction of travel for dealing with the challenges for 2016/17.
 4. Note that the Final Finance Settlement includes published figures for the four year period and the ability to agree a four year funding settlement on the production of an Efficiency Plan.
 5. Note the process for developing a Medium Term Financial Plan for 2017/20.
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Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report sets out the Strategic Framework for the delivery of a balanced budget for 2016/17. The Framework is aligned to the priorities of the Community Strategy.
Reaching full potential in education and employment	

Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Implications for:

- Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report
- Risk Management – The risk management implications are set out in an accompanying report later on the agenda.
- Legal Considerations – The legal implications are set out in an accompanying report later on the agenda.

Financial Consequences – Revenue and Capital

The more detailed Draft Revenue Budget Report for 2016/17 is elsewhere on the agenda. This report provides the framework for Revenue and Capital planning for 2016/17.

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Background documents (available for public inspection):

None

Introduction

1. This report sets out the context for the budget setting decisions for 2016/17. It is written in the context of the Final Finance Settlement which sets out the funding available to the Council, the overall budget position and the priorities for the City as set out in the Greater Manchester Strategy and the Manchester Strategy. In short it sets a framework for the budget decisions that will need to be made.
2. The proposal is for the Council to set a one year budget. The final Finance Settlement has included provisional figures for a four year period with the offer that councils can have a four year settlement on the production of an efficiency plan. The details on how this would operate are not yet available, however, authorities have been given until 14 October 2016 to accept the four year settlement. The potential for a four year funding settlement will be explored. This would provide a stable platform for resource and business planning and allow the development of a budget strategy for the length of the remaining Spending Review (SR) period.
3. There is a more detailed paper elsewhere on the agenda setting out the detail for the Revenue Budget.

Context – A Changing City

4. By 2025 the City will look very different. The population could be as high as 578,000 with significant increases in children of secondary school age. There will be a growing proportion of economically active adults and fewer children in low income households. A minimum of 25,000 new homes are due to be built in the next ten years. Growth in employment is expected to be at least 50,000.
5. The sustained investment in culture, transport, public realm, Universities and schools has paid dividends in terms of economic growth, making the City a major visitor destination and an attractive place to live. Around 50,000 people now live within the boundary of the extended city centre, an increase from around 800 in the city centre ward in the 1991 census, attracted by the jobs and lifestyle. In turn the City's labour market is attracting businesses to locate here. 20,000 students graduate from the Manchester universities each year. Across the City employment growth is keeping pace with population growth. The City's economy and neighbourhoods are dynamic and are continuing to change rapidly. However there remain considerable differences between areas of the City in terms of economic and social outcomes and demographic changes and some areas of intense deprivation remain.
6. The Greater Manchester city region is now the most important economic centre outside of London. Manchester is a key driver of economic growth and major employment centre and has recently experienced the biggest economic growth outside of London with over 390,000 jobs now within the City and a further 44,000 new jobs anticipated over the next ten years.

7. Although Manchester's employment rate is well below the national rate, the City's resident employment growth over the same period far outstrips that of comparators. The number of Manchester residents in employment rose from 179,000 in 2004 to 229,000 in 2014. This 28% increase is driven largely by working age population growth - Employment growth is keeping pace with population growth but 53,500 residents are out of work and claiming benefit. In order for the City to maximise the benefits from this growth, it will be crucial to ensure that residents who are not working and furthest away from the labour market are equipped with the right skills to be able to enter it as well as having a more highly skilled workforce capable of meeting the needs of new and growing sectors. Strategies need to focus on reducing dependency and to consider how the universal offer will need to be able to meet the needs of the growing population.
8. The vision for Manchester in 2025 is set out in the Manchester Strategy which outlines a vision of the City in the top flight of world class cities:
 - with a competitive, dynamic and sustainable economy that draws on our distinctive strengths in science, advanced manufacturing, culture, creative and digital business, cultivating and encouraging new ideas
 - with highly skilled, enterprising and industrious people
 - that is connected, internationally and within the UK
 - that plays its full part in limiting the impacts of climate change
 - where residents from all backgrounds feel safe, can aspire, succeed and live well
 - that is clean, attractive, culturally rich, outward looking and welcoming.
9. The high level aims to measure success against over the next 10 years are to:
 - have a strong sense of citizenship and pride in the City
 - create new jobs accessible to Manchester residents, reducing the number of people who are out of work
 - ensure everybody is paid at least a real Living Wage.
 - reduce the gap between our residents' wages and the average earned in the City
 - improve school results so that they are significantly better than the UK average
 - increase the proportion of graduates and number of apprentices in the City
 - collectively improve our health and wellbeing and be more active as adults and children
 - be a cleaner, litter free city
 - build well designed, energy efficient, and sustainable and affordable homes to rent and buy
 - maintain the balance between incomes and housing costs
 - be a city recognised for its high quality of life with improved green spaces and access to world class sports, leisure and cultural facilities
 - have an integrated, smart and affordable transport system
 - be on a path to being a zero carbon city by 2050
 - be a beacon for sustainable design

- increase productivity for the benefit of the City and the UK as a whole
10. The delivery of the Manchester Strategy and the budget proposals being developed are also set in the context of the recent Greater Manchester (GM) Devolution announcements. Manchester has led the way in making the explicit link between investment in growth and skills and a focus on reducing dependency. This was driven initially through the Community Budgets work which has established Public Service Reform as a key priority. The further announcements as part of the Autumn Statement included further devolution to the Greater Manchester Combined Authority and directly-elected Mayor and reiterated the commitment to building a Northern Powerhouse. The key elements included:
- Public Service Reform –
 - a reiteration of the support to the devolution of health and social care as outlined in this report.
 - proposal for a fundamental review of how all services for children are delivered and how more integrated and efficient ways of delivery could be achieved including for preventative services for children and young people by April 2017.
 - to explore the establishment of a Public Service Reform Investment Fund, with appropriate levels of matched funding from central and local government.
 - Skills and Employment
 - Work to ensure the Area Review of Further Education colleges delivers outcomes which meet the the economic and educational priorities of GM, to ensure that the totality of further education provision and 16-18 vocational education meets the needs of the Greater Manchester economy and a discussion on the further devolution of responsibility for 19+ funding.
 - How the opportunities presented by the introduction of the apprenticeship reforms (including the levy) can be maximised with public sector partners collaborating to take full advantage of the apprenticeship programme to support new ways of working in the public sector.
 - The Department for Work and Pensions and Greater Manchester will commence detailed discussions on how GM can shape the commissioning process - from strategy to service design, managing provider relationships and reviewing service provision, to ensure support to get people back into work meets the needs of GM residents and economy.
 - Business Rates – to review how Manchester and GM can retain the benefits of growth achieved which is currently being offset by the volatility in the appeals system. In the future the GM Mayor will have the power to introduce a Business Rates supplement to support economic growth in the region with the agreement of the local business community through the Local Enterprise Partnership.

- Transport - the proposals include work to get the proposed investment in the electrification of the TransPennine Express railway line back on track, support for the local franchising of bus services, the development of a joint investment platform to improve the resilience and management of the highways network and a continued commitment to the reformed Earnback deal with the envelope of £30 million a year for 30 years to enable delivery of the Trafford Park Metrolink extension and the SEMMS road link.
- Further proposals:
 - The GM Mayor will have the power to implement a Community Infrastructure Levy to support development and regeneration in Greater Manchester. Alongside this a business case for a Land Programme, overseen by the Greater Manchester Land Commission will be developed to ensure that strategic sites for housing and employment use can be brought forward by the private sector more quickly
 - Further proposals on work with the British Business Bank on how they and GMCA will support small and medium sized enterprises to access the finances they need, consideration on how the design and delivery of national energy policies can be better aligned and integrated in areas such as energy efficiency, community energy and business energy tax reform and to support the development of support for science and innovation within GM.

Health and Social Care Devolution

11. The Devolution Agreement of November 2014 established the principle of a transformation fund for health and social care. In February 2015 it was agreed that GM would bring forward a Strategic Plan, based upon the Five Year Forward View, which would set out how GM would achieve clinical and financial sustainability during a five year period. How this will be achieved was set out in the SR submission which identified that in order to close the £2bn gap and achieve fiscal neutrality the following key elements need to be in place:
 - A fair share of the £8bn Five Year Forward View (FYFV) Money
 - Protection of the Social Care baseline
 - Bringing forward access to the fair share of the £8bn FYFV funding to create the capacity for one-off transformation funding of £500m to support the delivery of the savings opportunities
 - Access to capital funding to support both the enablers such as development of a single patient record and for the reconfiguration of the estate required.
12. Of the core components of the Spending Review asks:
 - NHSE have a five year settlement and are proposing to publish three years of firm allocations followed by two years of indicative allocations for commissioners (with some caveats for circumstances in which they might change the figures).
 - A Transformation Fund of £450m has been secured which represents a unique opportunity to transform how health and social care is delivered

within GM and to make significant progress towards clinical and financial sustainability.

- An Estates Strategy is being developed.
 - Additional funding has been secured for social care with the ability to raise an additional 2% in council tax over and above the referendum limit and the additional Better Care Fund monies announced. The latter will start to come on stream from 1 April 2017 with it being predominately backloaded to the last two years of the SR settlement. Whilst the BCF is designed to support transformation and integration towards the end of the SR period the work is beginning now and there remains significant challenges in how the local authority budget gap will be addressed in the first two years.
 - The principle is accepted that GM will still be able to access other national funding opportunities as they arise over the next few years which have relevance to health and social care programmes.
13. Overall the recent announcements have provided a financial platform that enables GM to progress the work on the devolution and integration of health and social care to the next stage. A detailed financial plan for GM underpinned by robust locality plans will all need to be in place for the next financial year. The GM Strategic Plan 'Taking Charge of our Health and Social Care in Greater Manchester' has now been published. The Manchester Locality Plan and Pooled Budget reports form part of the overall suite of budget reports.
14. The challenge for the Council is to maximise the opportunities from devolution and to continue to drive economic growth in the City, ensuring that there are opportunities for residents to benefit from that growth whilst continuing to improve the quality of services provided and to do this in a climate of reducing resources.
15. This report goes on to set out the main elements of the Finance Settlement and its impact and to set out the framework for how budget decisions are made.

The Finance Settlement

16. The Finance Settlement sets out the level of central government funding that Local Authorities will receive. It also includes other key issues such as the level that council tax can be increased by before a referendum is required. The key issues are set out below:
- The referendum cap for the council tax increase has been confirmed at 3.99% (including 2% for Social Care) for 2016/17.
 - The method for allocating government grant funding has been amended with the introduction of an element of equalisation by taking account of Council tax receipts when apportioning cuts. There remains a government commitment to the phasing out of government grant to be replaced by the 100% retention of local business rates (with an element of national redistribution to reflect the differing levels of funding requirement in different local authorities) by the end of the current Parliament.

- Indicative allocations for the local government Better Care Fund totalling £1.5bn by 2019/20. The allocation methodology takes account of amounts raised through the 2% council tax increase. The funding will be directly allocated to local authorities to fund social care.
 - The New Homes bonus 2016/17 allocations have been announced – the scheme will continue indefinitely but with changes. The scheme is funded by a top slice from central government grant that is redistributed on the basis of housing growth. Historically Manchester has always lost out as whilst above average housing growth has been achieved, the high dependency on central government grant has meant that funding received is less than lost through the top slice. A technical consultation paper has been published.
 - The extension of the 100% Small Business Rate Relief scheme.
 - The Spending Power measure used to measure the level of resources a council has overall has been revised and renamed 'Core Spending Power'. This no longer includes the Better Care funding that is received by the NHS, or Public Health funding, and is a more accurate reflection of the resources available to a local authority.
 - Specific grant funding for the implementation of the Care Act funding and 2015/16 Council Tax freeze grant have been rolled into the overall government grant and the comparative 2015/16 figures adjusted.
 - The final settlement announced a transitional grant to provide substantial additional funding to ease the pace of central government funding reductions during the most difficult first two years of the settlement. This grant will be worth £150 million in both 2016-17 and 2017-18. Manchester will receive no transitional funding.
17. The Spending Review confirmed that the Department for Communities and Local Government will consult on changes to the local government finance system to pave the way for 100% business rates retention by the end of this Parliament. As part of these reforms, the main local government grant (RSG) will be phased out and additional responsibilities devolved to local authorities, for example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners, and Attendance Allowance, and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.
18. Figures for the four years of the SR period have been published and 'the government will offer any council that wishes to take it up a four year funding settlement to 2019/20..... should councils choose to accept the offer and if they have published an efficiency plan'. The detail of what is required is not available yet but it is anticipated that this will be fairly light touch. Whilst government does not expect the amounts published to change, if this was to be the case due to the impact of the reductions in Revenue Support Grant (RSG) included in the settlement, there will be adjustments via the business rates tariff and top up system.
19. The following terms are used in the Settlement:

- *Settlement Funding Assessment* – The Local Authorities share of the local government spending control total which will comprise its Revenue Support Grant for the year in question and its baseline funding level.
- *Settlement Core Funding* - Council Tax income (at 2015/16 levels) and Settlement Funding Assessment (comprising estimated business rates and Revenue Support Grant)
- *Core Spending Power* – This is a measure of revenue finance available to local authorities which is used by CLG to compare cuts to authorities and includes Settlement Funding Assessment, Forecast Council Tax, improved better care fund (from 2017/18) and New Homes Bonus. Unlike the previous spending power measure it does not include original Better Care fund or Public Health Grant.

20. The overall impact of the Finance Settlement is a reduction in government funding to the Council of £29.3m. Of this £27.7m relates to the Core SFA (which is £9.1m less than anticipated), £1.3m to the reduction in Public Health Grant and £0.3m to a reduction in Education Support Grant.

National Position for Local Authorities

21. After taking into account the full range of ways councils can raise money it is claimed this is a 'flat cash' settlement over four years. Using the government's measure of 'Core Spending Power' the government calculate this will fall by an average of 0.4% over the four year period. The equivalent percentage calculated by CLG for Manchester is 0.9%. This includes the impact of inflation on council tax and business rates with an assumed 1.75% increase in council tax each year alongside growth in the council tax base. The figures also include the additional Better Care Fund monies and assume local authorities will raise the council tax by a further 2% each year for social care.
22. The national reduction to Settlement Funding Assessment over the four years is 31.1%. The equivalent percentage calculated by CLG for Manchester is 23.2%.
23. *Distributional changes* - A key change from recent settlements is that central funding is allocated in a way that ensures councils delivering the same services receive the same percentage change in 'Settlement Core Funding'. This starts to address some of the concerns that Manchester has raised in consultation responses since 2013/14 as previously reductions have been pro-rata to the amount of government grant funding received, failing to take into account the ability to raise resources locally and penalising local authorities with a low council tax base who are more dependent on government grant funding.
24. The methodology calculates the 2015/16 Settlement Core Funding, applies the relevant percentage reduction then deducts the 2016/17 estimated Business Rates income and Council Tax income (At 2015/16 level) to get to the required Revenue Support Grant. Taking council tax into account when calculating the reductions is a significant change to central government policy.

The Council Tax requirement figure used in the calculation will be as declared for 2015/16 to provide an incentive to increase the council tax base.

25. *Top Slices* have been made to Revenue Support Grant at a national level for the New Homes Bonus (£1.275bn) and Business Rates safety net (£50m).

Settlement Funding Assessment (SFA)

26. Appendix One shows the Settlement Funding Tables for England and for Manchester over the four years.
27. As in previous years government has adjusted the current year SFA to make it comparable with the elements included going forwards. The table below shows Manchester's 2015/16 SFA, the grants included within it and the adjustments that have been made.

2015/16 Settlement Funding Assessment				
	2015-16 Provisional (Dec 2014)	2015/16 Final (Jan 2015)	2015-16 Adjusted (Dec 2015)	Transfers into the settlement
	£,000	£,000	£,000	£,000
Council Tax Freeze	4,998	4,998	6,530	1,532
Early Intervention	18,485	18,485	18,485	0
Homelessness	1,180	1,180	1,180	0
Flood	131	131	187	56
Learning Disability	15,328	15,328	15,328	0
Care Act	0	0	2,816	2,816
Local Welfare	2,446	3,780	2,446	-1,334
Upper Tiers Funding	212,528	212,528	213,862	1,334
Lower Tiers Funding	44,181	44,181	44,181	0
Sustainable Drainage System	0	0	14	14
Carbon Monoxide / Fire	0	0	1	1
TOTAL	299,277	300,611	305,029	4,418

28. The following grants have been rolled into the Settlement Funding Assessment (SFA):

- Council Tax Freeze Grant 2015/16. Manchester's allocation was £1.546m (including other small grants).
- Funding for lead local flood authorities, Manchester received £56k in 2015/16
- Care Act 2014 (excluding social care in prisons which is funded through a separate grant). The national transfer is £307.7m. Manchester's allocation in 2015/16 was £1.811m however they have included a notional element and have built in £2.816m.

29. The SFA figures for Manchester are as follows:

2015/16	2016/17	2017/18	2018/19	2019/20
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	£,000	£,000	£,000	£,000	£,000
SFA per settlement	305,029	277,373	256,974	245,484	234,275
Decrease £,000		-27,656	-20,399	-11,490	-11,209
Decrease %		-9.07%	-7.35%	-4.47%	-4.57%

New Homes Bonus (NHB)

30. The Spending Review announced that government will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from six years to four years. This includes a preferred option for savings of at least £800m, which can be used for social care, which is assumed to mean that this will fund the increase in the Better Care Fund for local authorities.
31. Final NHB allocations for 2016/17 have been announced. The figure for Manchester (including the top slice adjustment grant) is £13.5m which is in line with what was expected. It has been confirmed that the NHB scheme will continue indefinitely but with changes which are subject to consultation.
32. From 2017/18 significant reductions are expected reflecting the government's intentions. The technical consultation has now been published and indicates two potential options, a phased introduction which would see six years drop to five then four or an immediate reduction to four years, for Manchester the loss of the first two year's grant equates to c£4.7m.
33. The grant is distributed according to Band D equivalent homes making it almost impossible for authorities with a low taxbase to recoup their contribution to the topslice. due to the NHB scheme, when comparing funds received to the SFA lost due to the top slice. By 2016/17 (the final year of the original six year scheme) Manchester will have lost out be over £22.0m.

Public Health

34. The ringfence on Public Health will remain in place for 2016/17 and 2017/18. A review is being carried out by Government to look at which services should be mandated and which further 'non spending' powers should transfer to local authorities. There is a growing emphasis on supporting priorities such as reducing obesity and supporting people into employment.
35. The spending review announcement made it clear that savings must be found in local authority public health spending. It has been confirmed that the 6.2% 2015/16 in year cut is ongoing and that further savings will be phased in at 2.2% in 2016/17, 2.5% in 2017/18 and 2.6% in the following two years. Based on the current grant received this equates to £1.3m in 2016/17 rising to £5.3m by 2019/20.
36. For Manchester, the 2016/17 allocation is £54.596m which is in line with assumptions. During 2016 the government plans to consult on options to fund local authorities' public health spending from 100% retained business rates receipts.

Better Care Fund (BCF)

37. Additional funding for social care has been announced in the form of a Better Care Fund grant that will be paid direct to local authorities, using a methodology which provides greater funding to those authorities which benefit less from the additional council tax flexibility for social care. This has been calculated using the Adult Social Care relative needs formula and adjusted to take account of how much can be raised from the 2% Council Tax increase for social care. This will start to come on stream from 1 April 2017 and predominately be backloaded to the last two years of the SR settlement.
38. The provisional allocations for Manchester are £3.3m (of £105m) for 2017/18, £14.8m (of £825m) for 2018/19 and £24.4m (of £1.5bn) for 2019/20.

Independent Living Fund

39. The Independent Living Fund (ILF) was a division of the 'The Disability and Carers Directorate' within the Department for Work and Pensions (DWP). From 30 June 2015 ILF closed and the funding was devolved to local authorities who now have sole responsibility for meeting the eligible care and support needs of people in their area. From 1 July Manchester has been making four weekly payments of c£170k to c140 individuals. Anticipated spend until the end of the 2015/16 financial year is c£1.7m in line with the allocated funding.
40. A consultation on the ongoing funding has been release on 10 February 2016, Manchester's indicative 2016/17 allocation is £2.185m, a reduction of £115k when compared to the full year 2015/16 allocation.

Social Care Additional 2% from Council Tax

41. The Section 151 officer had to declare, by 15 January, whether their local authority is 'minded' to accept the 2% additional precept. The documentation included a template that s151 officers had to complete. The 2% precept has to be shown separately on the face of the Council Tax bill, and information on spend on adult social care must be provided in the demand notice. S151 officers have to certify the increase in Band D equivalent rate for social care, the cash amount this will raise and what the authority's Adult Social Care budget would have been before and after the flexibility is included.

Education Services Grant

42. The Spending Review reinforced the government's goal of ending local authorities' role in running schools and all schools becoming academies. The local authority role will reduce and a number of statutory duties will be removed. The next step has been announced with the phasing out of Education Services Grant (ESG) which is £582m nationally, with a consultation on ESG policy and funding proposals in 2016.

43. Forecast allocations for 2016/17 have been published. These show an estimated grant of £5.3m for Manchester, however once adjusted for known and expected Academy conversions the estimated receipt is £5m.
44. The general funding rate has reduced from £87 to £77 per pupil as a first step towards achieving the savings announced in the spending review, the ESG retained duties rate is maintained at £15 per pupil. It was noted there is continued protection to limit reductions in academy budgets as a result of changes to the ESG for 2016 to 2017.
45. The impact on the Council's budget is a reduction of £0.3m

Dedicated Schools Grant (DSG)

46. Dedicated Schools Grant is to be protected in cash terms. From 2017/18 the first ever national funding formula for schools, high needs and early needs will be introduced. The new formula sets out to redress imbalances in funding under the current system, exhibited in the fact areas with similar characteristics can receive very different levels of funding. As Manchester is currently relatively highly funded, it is likely to lose funding, with some estimates indicating the better-funded authorities could lose up to 15% of grant. However, there have been assurances that the new funding formula will take into account the needs of disadvantaged pupils. It is likely that these changes will be phased in over the course of this Parliament. The government will launch a detailed consultation in 2016 and will implement the new formulae from 2017 to 2018. There is a detailed report on DSG elsewhere on the agenda.
47. The DSG settlement for 2016 to 2017 includes:
 - the DSG schools block allocated on the basis of the schools block units of funding 2016 to 2017 announced in July 2015
 - a minimum funding guarantee of -1.5% per pupil remains in place for 2016 to 2017
 - the DSG high needs block increased by £92.5 million above the 2015 to 2016 baseline due to an increase in population.
 - the rates per child for the DSG early years block maintained at their 2015 to 2016 levels
48. Manchester's DSG for 2016/17 is £471m before academy adjustments. The settlement is £1.3m higher than expected due to:
 - An adjustment relating to the inclusion of new academies by (£0.5m)
 - Additional high needs funding (£0.9m) - this has been calculated on 2-19 year old population projection
 - Technical deduction to high needs block (£0.1m) based on residency of place.
49. It had been expected the Early Years unit figures would be adjusted however the DSG announcement has confirmed the per pupil amount will remain the same.

50. Pupil Premium - Per pupil rates for pupil premium in 2016/17 will stay the same as 2015/16.
51. The impact of moving to a national formula is not yet known and nearly £9m of council services are funded by DSG which remains a significant risk. There is a separate report on the agenda with the details on the use of the DSG.

Housing and Council Tax Benefit Admin

52. Confirmation of the Housing Benefit grant has been received from DWP at £3.359m, a reduction of £0.740m from 2015/16. The Council Tax Benefit Administration grant allocation has not yet been received for 2016/17. It was £0.953m in 2015/16.

Other Specific Grants

53. Confirmation is awaited for Council Tax New Burdens Funding (£174k in 2015/16) and the Community Voices grant (£359k in 2015/16)

Core Spending Power

54. Appendix Two shows the Core Spending Power Tables for England and for Manchester over the four years.
55. This is a measure introduced by government in 2013/14 to measure revenue resources available to an Authority and aid comparisons. In 2015/16 Spending Power was defined as the sum of: Council Tax; Settlement Funding Assessments; specific grants; New Homes Bonus; NHS funding for social care; and the ring-fenced public health grant.
56. The measure has now been redefined and excludes Public Health and the NHS funded element of the Better Care Fund. This is helpful as previously the adjustment to Public Health Grant of c£4.2m for Manchester (which was correcting the baseline) had been presented as an actual budget increase. More significantly c£1.8bn National Better Care Fund increase (MCC share c£19.3m) is now excluded. The inclusion of this figure had been widely criticised because the use of the funding was under the joint control of Clinical Commissioning Groups and Local Authorities requiring approval by the DoH for its use.
57. The table below shows the components for Manchester which is a reduction of 3.58% from 2015/16.
58. Note this makes assumptions around Council Tax income, namely that the base increases at the rate of 2014/15 and the Band D charge is increased in line with CPI.

2015-16 (adjusted)	2016-17
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	£,000	£,000
Settlement Funding Assessment	305,029	277,373
Council Tax of which;		
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	118,808	125,705
additional revenue from 2% referendum principle for social care	0	2,482
additional revenue from £5 referendum principle for lower quartile districts Band D Council Tax level	0	0
Improved Better Care Fund	0	0
New Homes Bonus and returned funding	10,790	13,501
Rural Services Delivery Grant	0	0
Core Spending Power	434,627	419,061
Change £,000		-15,566
Change %		-3.58%

Greater Manchester Spending Power

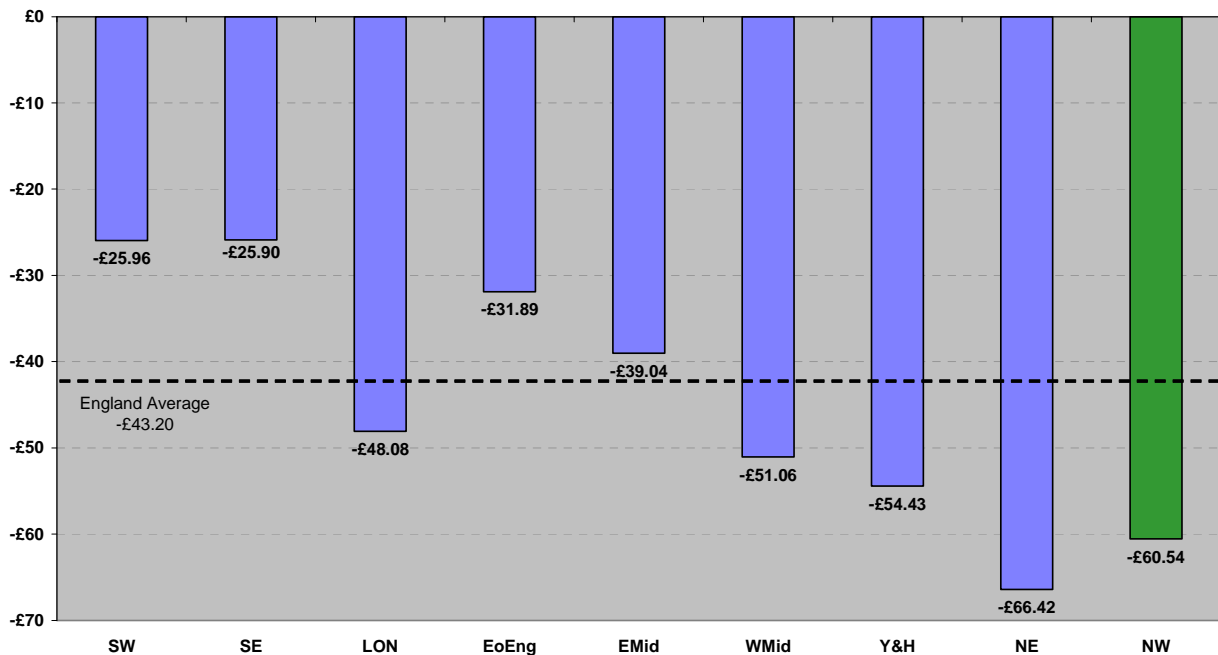
59. Amongst Greater Manchester authorities there are differences in the impact of the reduction in Spending Power as shown by the reduction in Spending Power per dwelling. Between 2014/15 and 2016/17, the cut per dwelling ranges from £59.68 in Trafford to £189.28 in Manchester as shown in the table below. The table also shows the impact equalisation has had on various authorities with Manchester receiving a £119.75 cut in 2015/16 reduced to £69.54 in 2016/17 whilst Trafford have seen an increased cut under the revised methodology from £9.96 to £49.72.

	<u>2014-15 to 2015-16</u>		<u>2015-16 to 2016-17</u>		<u>2014-15 to 2016-17</u>	
	Change in Sending Power £m	Change in Spending Power per Dwelling £m	Change in Sending Power £m	Change in Spending Power per Dwelling £m	Change in Sending Power £m	Change in Spending Power per Dwelling £m
Bolton	-9.0	-£73.18	-9.4	-£76.05	-18.4	-£149.23
Bury	-3.5	-£42.02	-5.7	-£68.86	-9.2	-£110.88
Manchester	-26.8	-£119.75	-15.6	-£69.54	-42.4	-£189.28
Oldham	-9.9	-£104.45	-6.7	-£70.43	-16.7	-£174.88
Rochdale	-9.2	-£99.34	-8.0	-£86.85	-17.2	-£186.19
Salford	-9.6	-£84.59	-6.8	-£59.91	-16.3	-£144.51
Stockport	-2.4	-£18.77	-6.4	-£49.93	-8.7	-£68.71
Tameside	-7.5	-£74.43	-6.8	-£67.49	-14.3	-£141.91
Trafford	-1.0	-£9.96	-4.9	-£49.72	-5.8	-£59.68
Wigan	-6.6	-£46.27	-8.7	-£61.45	-15.3	-£107.72
GM Totals	-85.4	-£71.30	-78.9	-£65.83	-164.3	-£137.13

Regional Summary

60. There is a similar picture across England as the chart below shows. The cut per dwelling across 2015/16 and 2016/17 is as little as £25.90 in the South West, whereas for the North West, it is £60.54 per dwelling.
61. However there is less regional variation then in previous years. For example across 2014/15 and 2015/16 the reduction was an average of £20.14 in the South East, whereas for the North West, it was £112.58 per dwelling.

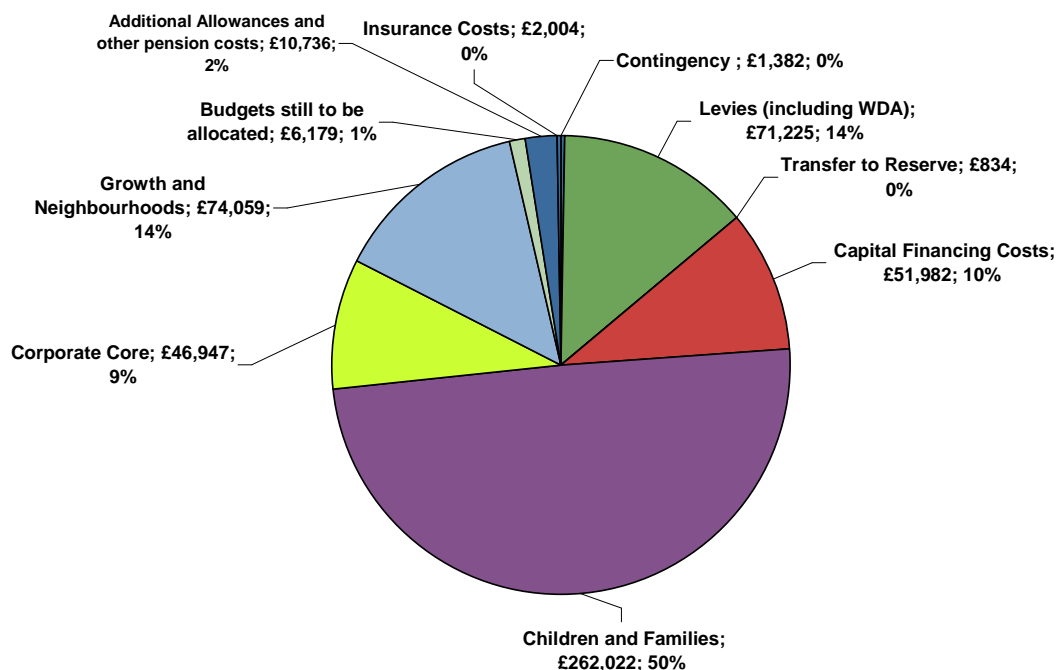
1 Year Cut In Spending Power Per Dwelling 2015-16 to 2016-17



62. In conclusion the settlement goes some way to addressing the concerns that have constantly been raised around equalisation and the ability to raise resources locally. The short term picture is more positive than previously forecast. However there is still a reduction in government grant of £27.7m in 2016/17 and there are still significant medium term risks around various funding streams such as Education Services Grant, New Homes Bonus and the elements of Dedicated Schools Grant supporting council services.

The Impact on the Budget Position

63. In 2015/16 the City Council has a net revenue budget of £527m as summarised in the pie chart below.



64. The levies cover services provided at a GM level particularly waste disposal and transport and there is limited flexibility to reduce either the levies, the capital financing costs or the historic pension liabilities. These are covered in more detail in the full Revenue Budget Report . The detail on the budgets for Growth and Neighbourhoods, Children and Families and the Corporate Core are in Directorate Budget and Business Plans.
65. The Council is facing a significant funding gap for 2016/17. The final funding settlement combined with a review of all of the budget assumptions has indicated a budget shortfall of £30.9m.
66. The draft budget contains cost pressures of £27.2m, including £2.6m residual cost pressures in Children and Families carried forward from 2015/16, the costs of inflation, the new national minimum wage and changes in population. All of these will be subject to thorough scrutiny in order to minimise demands on the budget but most if not all are likely to be unavoidable. The shortfall of £30.9m therefore includes a reduction in government funding of £27.7m and the changes to cost pressures of £27.2m. In addition there is a need to tackle fly-tipping and dumping of waste, pavement and highways repairs, street cleaning and other issues regularly raised by Manchester residents as a priority. It is proposed to allocate an additional £2.1m to these environmental improvements in 2016/17. The total shortfall is partly offset by increased resources from grants, Council Tax, Business Rates and dividends of £23.9m and other expenditure changes of £2.2m.
67. The 2015/16 Medium Term Financial Plan includes agreed savings of £12.205m for 2016/17. These include the full year effect of savings implemented during 2015/16 and additional proposals which, due to the lead

in time required, will be implemented in 2016/17. After these previously agreed savings have been taken into account the remaining budget gap is £18.7m. The position is set out in the table below:

Financial Position

	2015 / 16 £'000	2016 / 17 £'000
Resources Available		
Settlement Funding Assessment	300,611	277,373
Public Health Funding	48,303	43,983
Public Health 0-5 Funding	5,441	10,613
Other non ring fenced Grants	25,218	23,532
Business Rates Section 31 Grants	5,619	6,609
Business Rates Increased / (reduced) Income	1,654	(1,559)
Council Tax	122,338	131,679
Dividends, Use of Reserves and other Income	17,827	31,337
Total Resources Available	527,011	523,567
Resources Required		
<i>Corporate Costs:</i>		
Levies/Charges	71,225	68,832
Contingency	1,160	2,300
Capital Financing	51,982	51,982
<i>Sub Total Corporate Costs</i>	<i>124,367</i>	<i>123,114</i>
<i>Directorate Costs:</i>		
Directorate Budgets	383,140	388,486
Additional Allowances and other pension costs	10,736	10,736
Insurance Costs	2,004	2,004
Unfunded pressures	0	11,465
Environmental Improvements	0	2,100
Transfer to Reserves	834	0
Inflationary Pressures and budgets to be allocated	5,930	16,596
<i>Total Directorate Costs</i>	<i>402,644</i>	<i>431,387</i>
Total Resources Required	527,011	554,501
Total Shortfall / (Surplus)	0	30,934
2016/17 Savings approved as part of 2015/16 budget setting process	0	(12,205)
Revised Shortfall after deducting previously agreed savings	0	18,729

68. The remaining budget gap of £18.7m is £5.5m lower than the £24.2m reported in the Revenue Budget Report last February. This is predominately due to the fact the central government SFA funding reductions are £9.1m lower than anticipated.

69. The budget gap will increase significantly in 2017/18 with further reductions in government grant funding and additional cost pressures. It is estimated that it will be in the region of £58m.

Council Tax and Dividends

70. In line with the principle agreed as part of the 2015/16 budget setting process additional airport dividend receipts confirmed during 2015/16 are being used to support the revenue budget. A final airport dividend for 2014/15 of an additional £7.090m was announced in July 2015 and an interim airport dividend for 2015/16 of £13.7m was announced in December 2015, both of which have been applied to support the revenue budget in 2016/17.
71. The budget gap can be further reduced by a proposal to increase Council Tax by 2% to provide £2.475m to partially fund a significantly greater requirement for adult social care, and given that government is now ending council tax freeze grant, a proposal to further increase council tax by 1.99% reducing the budget gap by a further £2.463m to £13.77m.
72. After taking account of the proposed new savings, cost pressures and additional council tax income the position is a small surplus as below.

Revised budget gap

	2016 / 17 £'000
Initial Shortfall	30,934
2016/17 Savings approved as part of 2015/16 budget setting process	(12,205)
Revised Gap after deducting previously agreed savings	18,729
Additional council tax revenue from increases	(4,938)
Revised Gap after additional Council Tax income	13,791
Total New Savings Identified	(13,780)
Deficit	11

73. The report elsewhere on the agenda 'Draft Revenue Budget 2015/16' sets out the position in more detail. The Directorate Budget Reports include the detail on the savings proposals and budget pressures. The next section of the report sets out the priorities for the City and the proposed approach to the funding cuts that are being faced.

The Development of Budget Priorities

74. If Manchester is to deliver the vision and objectives outlined in the Manchester Strategy and take in the full opportunities of the Devolution Agreement the Council needs strong leadership capacity. This leadership must support the City by securing more of the powers and influence which are needed to align

national resources to the City's priorities as well as ensuring the Council delivers a high standard of services to residents.

75. The budget principles, which have previously been used to guide decision making, are adhered to and set out below and are designed to ensure that there is a strong focus in taking forward the ambition for the City and on improving the quality of services from services to children to keeping the streets clean. They are as follows:
- Leadership for Reform – Economic Growth, reduce worklessness and dependency, promote private sector investment.
 - Targeted Services – Provide effective safeguarding and protect the most vulnerable, support effective integration of health and social care and integrated commissioning at neighbourhood level. Work to reduce dependency, manage demand effectively and support residents to be economically active.
 - Universal Services – ensure provision of high standard of services for residents from education to libraries; ensure services provide support to those most in need.
 - Neighbourhoods – Budgets should be neighbourhood focused, with a focus on supporting neighbourhoods with a good housing offer, that are clean and are places where people want to live and work, develop a community service focus.
 - Core – Centres of Excellence to drive reform, provide effective support services, protect customer facing services, and maintain the Council's leadership role within AGMA and the Combined Authority.
 - The above will be carried out in collaboration with partners and in consultation with our residents.
76. The Medium Term Financial Plan needs to be the vehicle to prioritise interventions to deliver the above outcomes, underpinned by a process that is smarter at evaluating the real impact of budget proposals and is not just focused on savings but on switching money around to meet priorities. In developing budget options the Council has considered the potential impact on local communities in Manchester and how the options align with the Council's priorities for Growth, Reform and Place.
77. MCC will need to ensure that there is capacity to continue to drive the growth and reform work that is fundamental to the future success for the City Region and to capture the benefits from potential arrangements for health and social care including how services for children are delivered.
78. There must also be a focus on continuing to improve the quality of social care services delivered to residents. On the whole performance is improving but not always at the pace needed. Positives include improvements in adoption timescales, Children and Family assessments being timelier and education outcomes are improving. However significant challenges remain and performance is mixed in some areas with, for example, too many people being delayed in hospital. The pressures on services for adult social care will continue to grow. There will only be a sustained difference to demand when

the poor health outcomes for Manchester have been tackled. There is a need for radical reform to capture the potential benefits from devolution and address the likely financial challenges.

79. For the Children and Families Directorate, the vision of the Manchester Strategy drives the continued reform of public services in order to improve outcomes with less resources. Whilst protecting the vulnerable the focus is on intervening earlier and to integrate services and focus on the strengths in people's lives to help people be as independent as possible. There is a leadership role for the Council for whole family working across the City. The Council will work with partners to understand who needs targeted services and ensure that appropriate interventions happen as early as possible. These reforms only work if the basics of service quality are being improved.
80. There will be some significant changes within the Directorate. In the future it is likely that specialist children's services will be commissioned from GM-wide Centres of Excellence and that Adult social care will have an integrated approach to assessment through neighbourhood care teams with health partners. Through integrated health and social care, there will be a 20% shift of resources from hospital to community services so that more people can be supported in their own homes.
81. The voluntary and community sector will continue to play a large role in creating neighbourhoods where people want to live and supporting communities that may be more dispersed but face particular challenges or exclusion. The Council will have a productive and reciprocal relationship with the sector. Policies and processes, such as for funding and for transfer of buildings to the sector, will reflect this and be flexible, streamlined and as light touch as possible.
82. Four key challenges underpinning the priorities and proposals for 2016/17 are:
 - Implementation of the Children's Services Improvement Plan and the fundamental review of all public services to children across GM
 - GM devolution of health and social care supporting integration of health and social care in the city, including Mental Health.
 - The future role of schools and the Council's leadership role
 - A shift to a strengths-based model of assessment which connects people with support available in and a strong relationship with the voluntary sector communities
83. The options relating to Growth and Neighbourhoods align more closely with the Place priorities: changes to waste collection, for example, are expected to bring significant improvements to neighbourhood cleanliness and resident satisfaction.
84. The City's population growth can only be sustained through the provision of new homes which will, in turn, place greater pressure on the provision of good quality universal services over the next 5-10 years. Population growth will

particularly impact on waste management which is already a significant element - around 50% - of the Directorate's net budget.

85. The Directorate will continue to promote economic growth and address some of the inhibitors to growth such as having fit for purpose accommodation to meet the needs of different sectors and in relation to critical infrastructure such as digital, energy and transport, through the City's Growth strategy. The newly created Neighbourhoods Service will place a more integrated approach to the development and management of the city's neighbourhoods. Work with partners within the Council – e.g. in terms of Early Help Hubs and Health and Social Care Hubs – and with other public service organisations - such as GMP and housing providers - to ensure services are joined up in neighbourhoods. This will be ever more critical as public sector resources are further diminished.
86. It will be crucial to ensure that residents who are not working and furthest away from the labour market are equipped with the right skills to be able to enter it as well as having a more highly skilled workforce capable of meeting the needs of new and growing sectors and there will be a continued focus on work and skills.
87. Everything the Corporate Core does contributes both to the Council's objectives and the proposals have been developed in line with the four objectives below:
 - Drive Leadership and Reform - The Council's available resources have reduced by 40% since 2010/11, which has meant the organisation has had to transform to adapt and use its resources more effectively. The public service reform programme seeks to develop new investment and evaluation methods that make better use of the total resources for public services in the City. The Core also has to be able to support and respond to local government finance localisation opportunities.
 - Enable the Council to Function Effectively - The Core provides support services to enable other Council service areas to focus on delivering services to the highest quality standards. There will be a need to change how technology, systems and data are utilised to deliver further savings and efficiencies; this will involve both internal City Council systems and those of partners. Whilst progress has been made in relation to data and the use of data, further improvements are required. The data strategy will come together with the emerging ICT strategy and should be considered in the context of devolution, health and social care integration and the changing shape of back office support for Manchester and other GM authorities. Changing the internal operation of the Council's most commonly used systems and processes to increase productivity is a priority.
 - Ensure Good Governance and Accountability - The Council is committed to operate in a transparent, fair and accountable way. This means supporting decision makers to take decisions in accordance with the law, involving

communities and based on the best available data and intelligence. Effective governance and risk management arrangements which are proportionate and fit for purpose need to be in place and supported.

- Deliver High-Quality, Customer-Focused Services and Value for Money - the Core will deliver, and support others to deliver high quality services that meet the needs of residents, businesses and partners and demonstrate value for money.
88. Achievement of the Manchester Strategy objectives will require engagement with residents, stakeholders and staff on the approach being taken to their delivery. As part of this the council will be reviewing how support is provided managers alongside its commissioning and leadership capacity.
89. There is a fundamental review of the Core starting early in the new year which will consider the shape of the core required for the future taking into account the issues outlined above.
90. The Directorate Budget Reports build on the framework outlined above and include their priorities for 2016/17 alongside the full set of proposals to deliver a balanced budget.

Workforce and Skills

91. Robust workforce planning arrangements need to be developed to address future skills. Whilst the actual workforce required is comparatively small, development of the skills and capacity of the workforce is required to deliver the objectives of the Manchester Strategy which remains a high priority.
92. The delivery of the proposed changes will require a continuation of the shift in the types of roles and skills needed across the Council. This change will be managed in alignment with the ***m people*** principles, with a focus on developing the Council's existing workforce to meet future skills needs wherever possible. In support of this, it will be important that individuals continue to move flexibly across the organisation and the wider public sector. Robust workforce planning arrangements and a continued investment in the skills of the workforce are in place to ensure that, as functions and roles change, the workforce is effectively developed in alignment with this in both the short and long term.

Conclusion

93. This report sets out the implications of the recent Final Finance Settlement for Local Government and what it means for the Council's budget position. It sets out how the Council has responded to these challenges and the strategic framework which has been used to support the development of savings proposals.

Appendix One – Settlement Funding Assessment Tables

Settlement Funding Assessment England						
	2015-16 £,000	2016-17 £,000	2017-18 £,000	2018-19 £,000	2019-20 £,000	Reduction £,000%
Settlement Funding Assessment	21,249,938	18,601,462	16,623,891	15,558,856	14,652,578	-6,597,360 -31.05%
of which:						
Revenue Support Grant		7,183,929	4,981,794	3,573,308	2,283,950	
Baseline Funding Level		11,417,533	11,642,097	11,985,548	12,368,627	
Tariff/Top-Up		0	0	0	0	
Tariff/Top-Up adjustment		0	0	0	-152,879	
Safety Net Threshold						
Levy Rate (p in £)						

Settlement Funding Assessment Manchester						
	2015-16 £,000	2016-17 £,000	2017-18 £,000	2018-19 £,000	2019-20 £,000	Reduction £,000%
Settlement Funding Assessment	305,029	277,373	256,974	245,484	234,275	-70,754 -23.20%
of which:						
Revenue Support Grant		113,768	90,152	73,740	57,041	
Baseline Funding Level		163,605	166,823	171,744	177,233	
Tariff/Top-Up		7,575	7,724	7,951	8,206	
Tariff/Top-Up adjustment		0	0	0	0	
Safety Net Threshold		151,335	154,311	158,863	163,941	
Levy Rate (p in £)		0	0	0	0	

Appendix Two – Core Spending Power Tables

CORE SPENDING POWER					
England					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment*	21,249.938	18,601.462	16,623.891	15,558.856	14,499.699
Council Tax of which;	22,035.883	23,162.578	24,459.287	25,853.397	27,353.375
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	22,035.883	22,748.548	23,601.841	24,512.955	25,486.078
<i>additional revenue from referendum principle for social care</i>	0.000	392.755	820.870	1,289.796	1,803.954
<i>additional revenue from £5 referendum principle for all Districts' Band D</i>					
<i>Council Tax level</i>	0.000	21.275	36.576	50.646	63.343
Improved Better Care Fund	0.000	0.000	105.000	825.000	1,500.000
New Homes Bonus	1,200.000	1,485.000	1,493.000	938.000	900.000
Rural Services Grant	15.500	80.500	65.000	50.000	65.000
Transition Grant	-	150.000	150.000	-	-
Core Spending Power	44,501.321	43,479.540	42,896.178	43,225.253	44,318.074
Change over the Spending Review period (£ millions)					-183.2
Change over the Spending Review period (% change)					-0.4%

CORE SPENDING POWER					
Manchester					
Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
		£ millions	£ millions	£ millions	£ millions
Settlement Funding Assessment*	305.029	277.373	256.974	245.484	234.275
Council Tax of which;	118.808	128.187	138.977	150.819	163.829
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	118.808	125.705	133.660	142.258	151.557
<i>additional revenue from referendum principle for social care</i>	0.000	2.482	5.317	8.562	12.272
<i>additional revenue from £5 referendum principle for all Districts' Band D</i>					
<i>Council Tax level</i>	0.000	0.000	0.000	0.000	0.000
Improved Better Care Fund	0.000	0.000	3.266	14.762	24.374
New Homes Bonus	10.790	13.501	13.574	8.528	8.182
Rural Services Grant	0.000	0.000	0.000	0.000	0.000
Transition Grant	-	0.000	0.000	-	-
Core Spending Power	434.627	419.061	412.791	419.593	430.660
Change over the Spending Review period (£ millions)					-4.0
Change over the Spending Review period (% change)					-0.9%