

**Manchester City Council  
Report for Resolution**

**Report to:** Young People and Children Scrutiny Committee – 13 January 2015  
Neighbourhoods Scrutiny Committee - 13 January 2015  
Economy Scrutiny Committee - 14 January 2015  
Communities Scrutiny Committee - 14 January 2015  
Finance Scrutiny Committee - 15 January 2015  
Health Scrutiny - 15 January 2015  
Executive – 21 January 2015

**Subject:** Budget 2015/17 – A Strategic Response

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

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**Purpose of the Report**

This report sets out the implications for the City Council of the Provisional Local Government Settlement for 2015/16, and identifies a strategic framework which had guided the detailed development of a budget strategy for 2015/2017. This report should be read in conjunction with the 2015/16 Revenue Budget Report on the agenda.

**Recommendations**

The Executive is requested to:

- (i) Note the impact on the City as a result of the provisional Local Government Settlement as it affects Manchester
- (ii) Consider the Revenue Budget Report 2015/16 elsewhere on the agenda in the context of the overarching framework of this report
- (iii) Support the overall direction of travel for dealing with the challenges for 2015/16 and to request officers to produce an updated Medium Term Financial Plan which focuses on 2015/16 and the associated impact on 2016/17.
- (iv) Note the process for developing a Medium Term Financial Plan for 2016/17

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**Wards Affected:** All

<b>Community Strategy Spine</b>	<b>Summary of the contribution to the strategy</b>
Performance of the economy of the region and sub region	This report sets out the Strategic Framework for

Reaching full potential in education and employment	the delivery of a balanced budget for 2015/16 and an indicative budget for 2016/17. The Framework is aligned to the priorities of the Community Strategy.
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 2015/16 is elsewhere on the agenda. This report provides the framework for Revenue and Capital planning for 2015/16 and 2016/17.

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**Contact Officers:**

Name: Howard Bernstein  
Position: Chief Executive  
Telephone: 0161 234 3006  
E-mail: h.bernstein@manchester.gov.uk

Name: Richard Paver  
Position: City Treasurer  
Telephone: 0161 234 3564  
E-mail: r.paver@manchester.gov.uk

Name: Liz Treacy  
Position: City Solicitor  
Telephone: 0161 234 3087  
E-mail: l.treacy@manchester.gov.uk

Name: Carol Culley  
Position: Deputy City Treasurer  
Telephone: 0161 234 3406  
E-mail: c.culley@manchester.gov.uk

**Background documents (available for public inspection):**

None

### Introduction

1. In February 2014, the Council approved a Medium Term Financial Plan (MTFP) for 2014/15 and a Strategic Response Report which set out the financial and planning parameters for the preparation of the 2015/17 revenue and capital budgets. This report provides an update on that framework, the budget review work that has been carried out during 2014/15 to inform the development of the budget options and summarises what is included in the actual provisional financial settlement for 2015/16. The budget gap for 2016/17 has been estimated from overall control totals published in the last spending review. As the actual figures will be post a general election and part of the next Spending Review the information included is the best estimate of the position and will change.
2. This report sets out how the context of the provisional financial settlement for 2015/16 and how the Council intends to respond to these significant challenges in the context of the priorities for the City as set out in the Greater Manchester Strategy and the Community Strategy. It sets a framework for the difficult decisions that will need to be made.

### Financial Context

3. The Government published the provisional local government finance settlements for 2015/16, alongside a consultation on the settlement, on the 18 December 2014. The provisional settlement was first issued in December 2013 as part of the 2014/16 figures.
4. Overall there has been a reduction of £775k as a result of the changes in the Provisional Financial Settlement. This is due to reduction of £668k in the Settlement Funding Assessment as outlined below and a net reduction of £107k in specific grant funding – largely due to a reduction of £179k in the Council Tax Support New Burdens Funding grant.

### Settlement Funding Assessment

5. The announcements included the provisional Settlement Funding Assessment and the estimated Spending Power for the authority.

#### *Settlement Funding Assessment (SFA)*

6. The provisional SFA for 2015/16 was published as part of the 2014/15 financial settlement and reissued in the Summer for consultation. The SFA published as part of the provisional 2015/16 settlement has reduced by £486k for the following:
  - A reduction of £676k for the fall in RPI - In the July 2014 indicative figures the September RPI increase was estimated at 2.76%. The actual RPI was 2.3% resulting in a loss of rate income. This represents a real reduction in funding as there is no offsetting adjustment in Revenue Support Grant.

- A reduction of £676k for Business Rates - rather than increasing rates by the September RPI (2.3%) the increase is capped at 2% per the Autumn Statement. The reduction due to the cap will be compensated by Section 31 grant.
- An increase of £866k for the New Homes Bonus Refund– there is a top slice from RSG to fund the New Homes Bonus. Any unused allocation is returned to Local Authorities pro-rata to their SFA. The top slice has been reduced from £1bn to £950m with the balance of £50m been returned via RSG.

7. The net impact is a reduction of £668k

*Breakdown of SFA*

8. The table below shows the way government present the breakdown of SFA showing the grants which have been rolled in and comparing this with the restated amount for 2014/15.

	<b>Adjusted 2014/15 £'000</b>	<b>2015 / 16 £'000</b>
<b><i>Breakdown of Settlement Funding Assessment:</i></b>		
Formula Grant*	316,302	262,629
Council Tax Freeze grant 2014/15	1,524	1,524
Early Intervention Grant	20,294	18,485
Preventing Homelessness	1,185	1,180
Flood and Water Management Act Grant	132	131
Returned Holdback	466	
Learning Disability Grant	15,386	15,328
	<b>355,289</b>	<b>299,277</b>
<b>Reduction from 2014/15</b>		<b>(56,012)</b>
<b>Reduction from 2014/15</b>		<b>-15.77%</b>

\*Includes notional allocation for Local Welfare Provision

9. The provisional Settlement Funding Assessment figure for 2015/16 is £299.277m which is a cut of 15.8% from the adjusted 2014/15 amount.
10. This leaves local authorities with one of the greatest reductions in Department Expenditure Limit funding for 2015/16. The average reduction in SFA for local authorities is 12.7%. As this is topsliced from RSG, rather than taking into account the council tax base of the authority, it is the more deprived authorities that tend to be hardest hit.

*Spending Power*

11. The Spending Power is the government measure of revenue finance available to local authorities. In 2014/15 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. The detail is included in the table below. Based on these figures Manchester's Spending Power for 2015/16 is £524.3m, which represents a cut of 5.1%, compared to a national average reduction of 1.8%.

	<b>2014-15 adjusted £,000</b>	<b>2015-16 £,000</b>
Council Tax Requirement excluding parish precepts	115,103	116,750
Settlement Funding Assessment	355,289	299,277
SFA: Adjustment to reflect Section 31 grants for business rates initiatives	1,690	2,366
Lead Local Flood Authorities	84	56
Community Right to Challenge	9	0
Community Right to Bid	8	0
Council Tax Freeze Grant 2015-16	0	1,546
New Homes Bonus	8,963	10,264
New Homes Bonus: returned funding	532	526
Council Tax Support New Burdens Funding	353	174
Local Council Tax Support and Housing Benefit Admin Subsidy	5,590	5,053
Social Housing Fraud	86	0
Department of Health Revenue grant	482	521
Public Health Grant (Ring-fenced)	44,116	48,303
Adult Social Care New Burdens	1,811	1,811
Better Care Fund	18,305	37,638
<b>Provisional Revenue Spending Power</b>	<b>552,419</b>	<b>524,285</b>
<b>Change in Revenue Spending Power 2015-16 £,000</b>		<b>-28,134</b>
<b>Change in Revenue Spending Power 2015-16 %</b>		<b>-5.09%</b>

12. There are fundamental concerns with how the Spending Power has been calculated, in particular that it includes new burdens monies and that this masks the real and significant reductions in current spending. These include:
- For Manchester Public Health grant is presented as having increased by £4.187m. The allocation has actually remained at the same level as 2014/15 as the £4.187m reflects an adjustment to the original allocation which has been agreed locally in 2014/15 and transferred by the Clinical Commissioning Groups to Manchester. This is not additional funding and the 2014/15 baseline figure should have been restated at the higher amount.
  - Last year, the 2015/16 spending power included an increase of £1.8 billion for the Better Care fund. Manchester and many other commentators challenged its inclusion since the fund was under the joint control of Clinical Commissioning Groups and local authorities, requiring approval by the Department of Health for its use. Despite this, the government have continued to include this and other ringfenced grants in Spending Power. The Manchester allocation of the BCF increased by £19.3m between 2014/15 and 2015/16 with an increase in the allocation to support integrated care and whilst a major element of this funding will be spent on

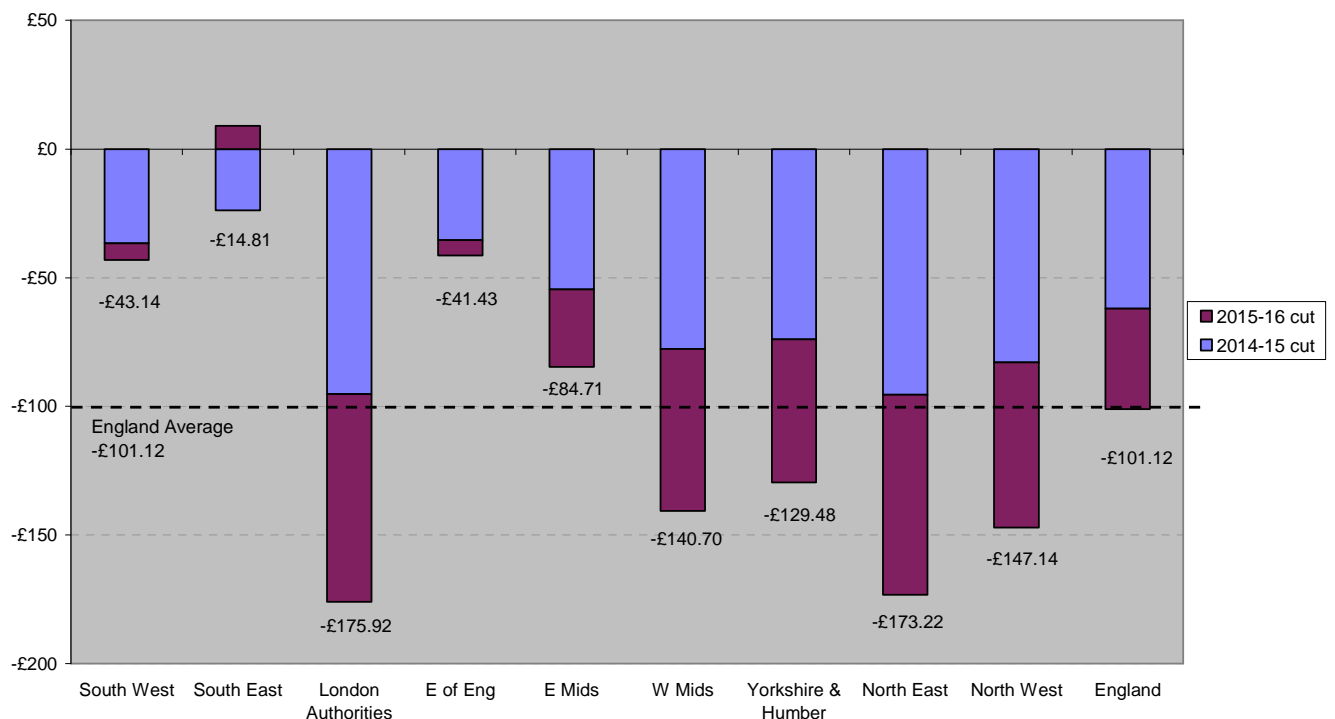
community health services it is represented in full as an increase in Manchester's spending power.

13. Once these anomalies have been removed, the cut in Spending Power for Manchester is 9.4% in 2015/16.

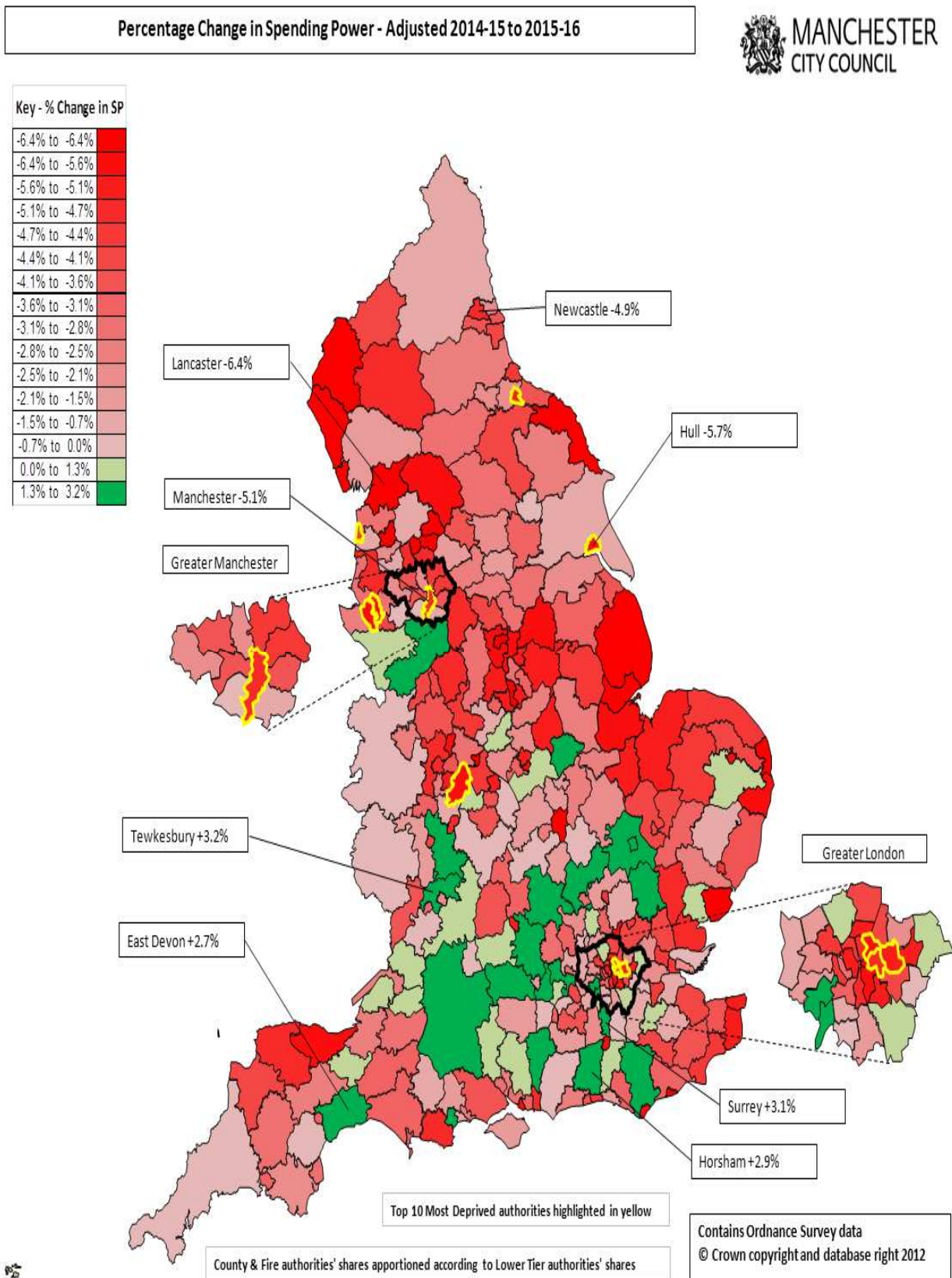
	2014-15 adjusted £,000	2015-16 £,000
Provisional Revenue Spending Power as above	552,419	524,285
Adjustment for Public Health Grant		(4,187)
Adjustment for Better Care Fund		(19,333)
<b>Revised Provisional Revenue Spending Power</b>	<b>552,419</b>	<b>500,764</b>
Revised Change in Provisional Revenue Spending Power 2015-16		(51,655)
Revised Change in Provisional Revenue Spending Power 2015-16		(9.4%)

14. Amongst Greater Manchester authorities, there are differences in the cut in Spending Power per dwelling. The analysis is based on the Government figures. Between 2013/14 and 2015/16, the cut per dwelling ranges from £62.57 in Trafford to £253.76 in Manchester. Across England the reductions vary considerably with the cut per dwelling across 2014/15 and 2015/16 is as little as £14.81 in the South East, whereas for the North West, it is £147.14 per dwelling. The reduction in the 2015/16 figures has been masked by the inclusion of the increase in Better Care Fund funding.

2 Year Cut In Spending Power Per Dwelling 2013-14 to 2015-16



15. The heat map below shows the percentage change in spending power over local districts (Per the CLG's calculations). This shows the wide variation in impact across the country.



16. The spending power calculation is misleading. The table below sets out the national control total changes for funding previously distributed through formula grant and specific grants rolled into the SFA. This shows a reduction in total funding of 12.4% in 2015/16 which is significantly higher than the reduction in Spending Power of 1.8% quoted by the Minister. This is because the funding streams below exclude projected Council Tax income, the Better Care Fund and Public Health Grant, all of which are shown to be increasing for 2015/16.

Element	2014/15 (£m)	2015/16 (£m)
Business Rates Retention	11,111	11,323
Revenue Support Grant	12,675	9,435
<b>Settlement Funding Assessment</b>	<b>23,786</b>	<b>20,759</b>
Plus:		
S31 Grant (2% RPI cap) – 2014/15	118	118
S31 Grant (2% RPI cap) – 2015/16		47
New Homes Bonus plus Refund	950	1,200
2014/15 Council Tax Freeze Grant	142	
Rural Areas Funding	2	0
Local Welfare Provision	172	0
Efficiency Support Grant	9.4	
Safety Net / Capitalisation	125	50
<b>Total Funding</b>	<b>25,305</b>	<b>22,174</b>
<b>Total Funding % change</b>		<b>-12.40%</b>

17. The Provisional Settlement does not provide an equitable distribution of local government funding. The ambitions for the City and aspirations for greater fiscal devolution across Greater Manchester need to be set alongside a fair funding process for local government that promotes growth and does not disadvantage authorities with a heavier reliance on government grant. These concerns have been raised again as part of the response to the Commission on Local Government Finance and are summarised below.
18. *The Move Away From the Equalisation Principle* - The reduction in grant has been applied pro-rata to the level of SFA that an authority receives. A well established principle in local government finance previously was that the allocation of government grant reductions take into account the whole resource base of the local authority, including the size of the council tax base and the ability to raise council tax income locally (Resource Equalisation). This was seen as a more equitable means of distributing funding and of avoiding Councils with a low resource base taking a disproportionate share of the reductions.
19. *Impact On Funding For Authorities With A Large Student Population* - The resource equalisation formula previously used included an element to recompense authorities for loss of funding arising from the council tax exemption given to students. This protection is worth c£9m (although this is being mitigated slightly by a reduction in student exemptions due in part to the



growth in purpose built accommodation). That protection is being eroded with the year on year cuts to formula funding and the move away from the Equalisation Principle. Additionally the Education Sector including Academies and Universities only attract 20% business rates which means there is less of a financial incentive for growth in this area even though it is critical to the success of the overall economy.

20. *Partial Relocalisation of Business Rates* - There are a considerable number of significant risks associated with the Business Rates appeals process such as:- the poor quality of information received from the Valuation Office Agency and how this is interpreted, the level of appeals; and how the provision should be calculated and accounted for. A significant opportunity to promote growth within the region has been missed due to how the policy approach has been implemented.
21. *The New Homes Bonus Scheme (NHB)* - The majority of the funding for NHB grant is topsliced from the Settlement Funding Assessment. Therefore those authorities such as Manchester which are most reliant on government grant contribute a greater proportion of their overall funding to the New Homes Bonus topslice. As the grant is distributed according to Band D equivalent additional homes in the area, authorities such as Manchester with a low taxbase will find it difficult to recoup their contribution to the topslice let alone gain any additional benefit from building new homes. Over the last four years, Manchester has had its SFA topsliced by c£20.3m to fund the New Homes Bonus. Over the same time period, the average growth in occupied housing nationally has been 0.7% per year. Manchester has, on average, grown its occupied housing stock by 0.81% per year, 15% above the national average. However, in the first four years of the scheme, Manchester has received back c£11.9m of topsliced funding.
22. The Council is continuing to lobby to get these inequities addressed.

2015/16 Budget Position

23. Based on the current assumptions the table below shows a high level summary of the budget gap of £59m in 2014/15 rising to £91m in 2016/17.

	2015 / 16 £'000	2016 / 17 £'000
<b>Resources Available:</b>		
Settlement Funding Assessment	299,277	276,831
Public Health Funding	48,304	48,304
Public Health 0-5 Funding	5,441	5,441
Other non ring fenced Grants	37,802	39,515
Business Rates Section 31 Grants	5,815	5,815
Business Rates Increased Income	1,552	5,876
Council Tax	118,808	120,590
Dividends	8,750	8,750
<b>Total Resources Available</b>	<b>525,749</b>	<b>511,122</b>

	2015 / 16 £'000	2016 / 17 £'000
<b>Resources Required:</b>		
<i>Corporate Costs:</i>		
Levies	71,196	72,693
Contingency	2,082	2,033
Capital Financing	51,982	51,982
Additional Allowances and other pension costs	10,886	10,886
Insurance Costs	2,004	2,004
Transfer to General Fund Reserve	29	
<i>Sub Total Corporate Costs</i>	<i>138,179</i>	<i>139,598</i>
<i>Directorate Costs:</i>		
Directorate Budgets	422,996	421,979
Inflationary Pressures	14,292	23,894
Budget Pressures	9,100	16,636
<i>Sub Total Directorate Costs</i>	<i>446,388</i>	<i>462,509</i>
<b>Total Resources Required</b>	<b>584,567</b>	<b>602,107</b>
<b>Total Shortfall</b>	<b>58,818</b>	<b>90,985</b>

24. In 2015/16 this includes:
- a reduction in government funding of £51m
  - increased resources from grants, council tax, business rates and dividends of £7m
  - unavoidable cost pressures of £15m (including costs of inflation and demographic funding)
25. The 2016/17 position is an estimate. Whilst the Autumn Statement provides no further specific information on Local Authority funding it does make clear that further major reductions in spending on public services are to continue.
26. At the beginning of December, Manchester Airport Holdings announced their interim dividend for 2014/15. Manchester City Council's share will be £11m. It is proposed that the dividend is applied to support the revenue budget. This will reduce the level of savings required for 2015/16 and 2016/17. This is on the top of significant funding cuts which saw the Directorate budgets reduce by 27% between 2010/11 and 2014/15.
27. The report elsewhere on the agenda 'Draft Revenue Budget 2015/16' sets out the position in more detail.
28. Notwithstanding the perverse incentives and impacts presented by the Settlement on places like Manchester, the Council is working with partners and government to seek to create a platform for fiscal self-reliance that empowers local authorities to undertake their place-shaping role to create high quality places that attract and retain more productive people and businesses.

The challenge is to do this whilst managing significant funding cuts at the same time.

29. 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.

#### Context – A Changing City

30. The City has seen some significant changes since 2001.
31. The population of Manchester increased by 19% between 2001 and 2011 to 503,100. This is significantly ahead of the Community Strategy Target of 480,000 by 2015. During this period there has been a 40 per cent increase in children aged 0-4 and a 50.5% (19,000) rise in the 25-29 age group. In 2011 there were 100,140 more residents of working age in the city than in 2001 and the proportion of those who are economically active has increased by 7.7%. The population will be at least 522,000 by 2015 and 580,000 by 2025.
32. The patterns of housing tenure have changed with a 3.3% reduction in the number of owner occupiers and a 7.8% reduction in the number of households renting from social landlords but a 11.8% increase in the private rented sector.
33. More recently there has been significant investment into the City as set out below:
- Etihad Stadium - where the Manchester City Football Academy and the new sports and community facilities are transforming Beswick and laying a solid platform for an international visitor destination in the east of the city.
  - The Corridor - which is currently half way through a 10 year £3bn development programme, which by 2020 will deliver over 3 million sq ft of commercial, leisure, retail and residential space.
  - Spinningfields - which accounts for more than 35% of Manchester's prime office space and commands the highest office rents in the City. On completion of the masterplan there will be circa 20,000 jobs in the area.
  - NOMA - where 1 Angel Square is the new home of The Co-operative Group Head Office. Future phases will include 1 million sq ft of residential development, 300,000 sq ft of retail units and further Grade A office space.
  - Airport City Enterprise Zone - will provide the core opportunity for a high quality new business district, attracting global companies in high tech manufacturing and research with Grade A offices, a logistics hub and ancillary facilities (leisure, hotels, retail).
  - Significant impact in the transport network including the Metrolink tram network with further new lines completed to East Didsbury and connecting communities in Wythenshawe to employment opportunities at Manchester Airport
  - Investment of over £1bn to develop new housing in close proximity to areas of forecast employment growth around the city fringe. This will be driven by the Manchester Place Partnership with the Homes and Communities Agency. This function will also support the development of the Residential Growth Strategy at a Greater Manchester level.

34. Manchester has led the way in making the explicit link between investment in growth with investment in 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 experience in Manchester has demonstrated that by tackling the multiple, overlapping complex issues faced by some residents, it is possible, not only to reduce the number becoming Children in Need and on Child Protection Plans, but also help those families stabilise and then secure employment. Working with partners in the City, including Jobcentre Plus, housing, Probation, GMP, health and mental health services, education and advice providers, the troubled families way of working will be scaled up to other families in the City.
35. The Living Longer, Living Better programme is at the early stages of reforming health and social care services in Manchester to co-ordinate and deliver services in a way that delivers better outcomes and delivers efficiency savings. New place based delivery models with NHS providers are being developed and targeted at those people who would otherwise require expensive social care and to provide a stronger focus on supporting people back into work.
36. Overall:
- There are more people in work
  - People are better educated
  - Number of pupils attending good or better schools increasing but higher education participation rates still vary significantly
  - There are record numbers of graduates many choosing to live in city centre and fringe
  - An increasing demand for Level 3 and 4 skills across all sectors
  - A diversified economic base which has helped weather the economic storm
  - Total out of work benefit claimants decreasing
  - Overall trend of reduction in victim based crime
  - CO2 admissions falling and recycling has increased
37. But there remains:
- High levels of worklessness; complex dependency and pockets of deprivation
  - Below average earnings persist despite the upturn
  - High number of under 16's in low income families
  - Welfare reforms are changing neighbourhoods
  - Unprecedented pressure on school places
38. The ambition is for GM to be a self sustaining economic region and for the City and for the Council to be less dependent on government grant funding. This will be achieved through:
- Working with Whitehall to build on the Devolution arrangements with a roadmap for fiscal devolution
  - Leadership role to unlock City's growth potential
  - Strategy for development of new homes and tenure mix

- Skills – addressing significant skills deficit with a more customized approach linked to the types of jobs that will be available
- Public Service Reform - increasing productivity and economically active households and reducing demand for services
- Managing existing demand more effectively and safely whilst reducing the flow of future demand
- Supported by places where people want to live underpinned by high quality universal services and major attractions such as sport, culture and shopping.

39. The above is reflected in the development of strategic priorities for the City, centred around Growth, Reform and Place.

<b>Growth</b>	More jobs in Manchester Growth in key sectors New homes Skilled labour market Improved connectivity and infrastructure
<b>Reform</b>	Fewer people out of work Improved educational attainment Health improvements Fewer Looked After Children Better early years experience
<b>Place</b>	Clean and safe neighbourhoods Quality green space Vibrant local areas Major attractors – sport, culture and shopping

40. The challenge is delivering this in the context of the disproportionate impact of the local government finance settlement and the increasingly fragmented public service delivery landscape.

41. It is important to note that between 2009/10 and 2012/13 the totality of public sector expenditure across Greater Manchester (ie including DWP, the NHS and other major spending departments) public sector spending as a whole has remained constant at around £22bn. The cuts in local government funding have been offset by pressures elsewhere, most notably in the NHS and DWP. This demonstrates that a different approach is required which enables strong leadership across all public services in a place and a greater local control over the resources invested in the City Region.

#### The Roadmap to Greater Devolution

42. The Greater Manchester city region is now the most important economic centre outside of London. It generates over £44bn of GVA representing 5% of the national economy. It is the largest commercial and retail centre in the UK outside of London and forecasts suggest Manchester will gain an additional 39,000 jobs over the next 10 years.

43. Nationally there is a growing recognition for the need for an economic counter balance to London and the South East if the country as a whole is to maximise its growth potential. Following the Scottish devolution debate, there will need to be significant change within England too. Because of Greater Manchester's unique position of having a clear economic geography, strong regional governance, initially through AGMA and now embedded in the Combined Authority (CA) and ability to link economic leadership with that of the reform of public services, significant progress has been seen in attracting investment in the North. This has culminated in the recent Devolution Agreement with Government.
44. The Growth Deal set out a multi-million pound investment programme to support further economic growth. This included:
- Transport - major investment in public transport and highways. The City Centre will now see more than £1 billion of investment in projects between now and 2017 which will lay the foundations for continuing success by 'future proofing' the city's transport infrastructure including; the Second City Crossing, The Northern Hub, Cross City, Bus Corridor and the redevelopment of Victoria Station.
  - Inward Investment - Securing GM and the North West's place as a major centre for Life Sciences with the launch of a £40m life sciences inward investment fund in partnership with Cheshire and Warrington Local Enterprise Partnership
  - Business Support - providing effective business support services with support to the delivery of a local growth hub model that joins up national, local, public and private business support
  - Skills - Enhancing further education facilities, creating more apprenticeships and maximising skills investment with a £13m investment programme for further education colleges and further education providers in GM
  - Public Service Reform – the development of a mental health and employment integration trailblazer including £2.6m of match funding
45. In August 2014, the Chancellor committed support to a £15bn, 15 year investment plan 'One North' to improve East to West connectivity with a commitment to make the plans a centrepiece of the Autumn Statement and part of the long-term economic plan for the country. The evidence points to poor interconnectivity between the cities of the North. HS2 will bring a huge connectivity benefit for the North and its connections with the Midlands and London but the gains that HS2 can bring could be doubled if this weakness is put right. One North set out a new strategic investment plan across all modes of transport to guide national and local investment decisions over the next twenty years, developed through a prioritisation process that maximises connectivity, productivity and GVA outputs. Treasury analysis published in August 2014 suggested that if the government could raise the growth rate of the north to the projected rate for the country as a whole between now and 2030, it would add £56 billion in nominal terms to the northern economy, or, in real terms, over £1,600 for each person living in the north.

46. The Devolution Agreement takes this a step further with the GMCA receiving additional powers, for business support, skills, complex dependency and health and social care. This includes devolved responsibility for business support budgets, to work with government to reshape and re-structure Further Education (FE) provision within Greater Manchester and for GM to be a joint commissioner with DWP for the next phase of the Work Programme. On reform of public services there is a commitment and resource to scale up the complex dependency and Working Well work to reach 50,000 who have struggled to access employment and work with the GM Clinical Commissioning Groups to develop a business plan for the integration of health and social care across Greater Manchester. The latter would allow the use of existing health and social care budgets to invest in the community based care needed to support change.
47. In return for strengthening the governance arrangements for Greater Manchester with a directly-elected Mayor in 2017 there will be further more significant devolution with new powers in relation to transport, planning, housing and policing, as follows:
- devolved responsibility for a joined up and multi-year transport budget, responsibility for franchised bus services, including powers over fares, routes, frequency and ticketing, the power to introduce integrated smart ticketing across all local modes of transport and the ability to shape local rail station policy and development across the Greater Manchester area;
  - powers over strategic planning, including the power to create a statutory spatial framework for Greater Manchester.
  - control of a new £300 million recyclable Housing Investment Fund;
  - control of a reformed Earn Back deal, within the current envelope of £30 million a year for 30 years; and
  - the role currently covered by the Police and Crime Commissioner.
48. The Autumn Statement, published in December 2014, set out the commitment to begin rebalancing economic growth between regions. It highlighted three key themes:
- The importance of great cities linking together - particularly with stronger transport connections.
  - A knowledge-based economy - cities are the crucial locations for science and innovation clusters.
  - The importance of strong civic leadership and a varied cultural offering - studies have shown that innovators and entrepreneurs are attracted to work in creative and cultural areas, which offer a high quality of life.
49. The Statement provides details on new investment under these three themes to support the creation of a northern powerhouse. Many of the UK's new science investments will be awarded to the North of England including £235 million of funding for the new Sir Henry Royce Institute for Advanced Materials Research and innovation, which will be based in Manchester and have satellites in cities including Leeds, Liverpool and Sheffield. This has been previously described as the 'Crick of the North'. In addition funding of £78

million will be provided towards a new theatre and exhibition space for the community, called The Factory Manchester on the former Granada site.

50. The ambition is to build on this progress in and see in the Chancellors 'Budget 2015' a commitment for further devolution and a roadmap to put the funding for cities onto a sustainable basis.

#### Budget 2015/17

51. If Manchester's economy is to remain resilient and the strongest opportunities for future growth are to be maintained, 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 targeted and universal services.
52. The Corporate Core has an important role to play. There is the leadership role through the Council's management team and specific responsibilities in driving the programme to support people to move from complex dependency to employment. The core is also the engine that has driven much of the progress in the Growth and Reform work through the strategic financial support, evaluation and analysis and focus on behaviour change. The Growth and Neighbourhoods directorate has a vital role in driving new opportunities for commercial, residential and other related development across the City encouraging new investment and development, and in doing so increase employment opportunities for local residents. The directorate is also responsible for many of the place based services that determine whether Manchester is a city where people want to live. The Children and Families Directorate have a leadership role in connecting people to the opportunities of growth and reducing dependency.
53. If the ambitions for the city are fulfilled it is important that capacity is maintained in the above areas and the budget principles, which have previously been used to guide decision making, are adhered to. 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.

54. An analysis of how effective the application of these principles has been has been carried out by reviewing 2013/15 budget delivery. The savings required for this period were £80m, and after allowing for factors such demographic funding and other unavoidable cost pressures such as pay awards, pension increases and inflation and the use of one-off measures / rephrasing of savings, the budgets actually reduced by £46m. During this period spend on Targeted and Specialist Services has actually increased from 47% to 49% of the total Directorate Budgets and the most significant budget reductions have fallen in Universal Services and the Corporate Core.

Budget	2012/13 Budget		2014/15 Budget		Reduction	
	£m	%	£m	%	£m	%
Targeted and Specialist	233	47%	220	49%	-13	-6%
Preventative	62	13%	62	14%	0	-1%
Safeguarding	4	1%	4	1%	0	-1%
Universal Services	125	25%	111	25%	-13	-11%
Corporate Core	71	14%	52	11%	-19	-27%
<b>Total</b>	<b>495</b>	<b>100%</b>	<b>449</b>	<b>100%</b>	<b>-46</b>	<b>-9%</b>

55. Spend on the Corporate Core reduced the most significantly. Spend in this area can vary significantly but initial findings suggest Manchester is broadly in line with other authorities. Whilst it is important to challenge to ensure the Core is as efficient as possible there is a need to protect the capacity that has supported the progress that has been made to date for the City Region and for the Council.
56. The second most significant reduction has been in Growth and Neighbourhoods. In all areas where there is comparative information the level of spend is low. The Council's revenue spend in 2012/13 was substantially below Core City Average levels in Planning (including building control and development control), Highway Maintenance, Housing Strategy; Sports, Recreation and Open Spaces and Libraries.
57. Whilst the Council continues to perform well in process areas, for example data suggests Manchester is comparable on output measures such as the speed of processing major planning decisions, the impact on the City is being felt. Performance in areas such as recycling needs to improve (Manchester has the highest proportion of landfill of all the core cities). This is important as the waste levy is a significant proportion of the budget. Evidence suggests it will be difficult to reduce significantly further without starting to have a real impact on the City and making some very tough decisions about the universal services provided. There is also the need to protect the expertise and leadership for investment and development.

58. The two biggest areas of spend within Targeted and Specialist services are for Looked After Children and Services for People with a Learning Disability. The other significant area of spend is on services for Older People where the budget savings have been achieved. Early Years has been included with Universal Services for this analysis.
59. During the period 2011/12 to 2014/15, expenditure on looked after children (LAC) has actually increased slightly whilst that on people with Learning Disabilities has not reduced significantly. The implementation of the LAC strategy has been successful in reducing costs so that rising demand has been contained at a similar level of spend. Both areas have a national context of rising demand but the Council remains an outlier with higher levels of spend in comparisons with similar authorities and core cities. Whilst it will be challenging to significantly reduce spend in these areas, unless an impact can be made it will be difficult to deliver a sustainable budget whilst delivering on priorities other than social care. Note:
- In 2012/13 Manchester was spending over 10% more than comparator authorities and spend has increased by c3.8% between 2012/13 and 2013/14.
  - Adult Social Care spend was 9% higher than comparator authorities in 2012/13 but has reduced by 3.2% in 2013/14. Manchester was spending more than 10% more than Core City and Statistical Neighbour authorities on Services for people with Learning Disabilities, Mental Health needs and Homelessness. Older People spend was also higher on a unit cost basis, although lower overall reflecting Manchester's relatively young population.
60. Public Health is funded by a ring fenced grant. Manchester continues to have relatively poor public health outcomes. Life expectancy at age 65 continues to rise slowly to 15.8 years for men and 18.8 years for women (for 2010-12). However, the gap between Manchester and the England average has increased over the past decade to stand at 15% for men and 11% for women. Additionally, Manchester men aged 65 can only expect to live 33% of their remaining life disability free (compared to 47% nationally) and Manchester women can expect 30% of their future years to be free from disability (compared to 42% nationally). Whilst performance in areas such as the mortality rate from preventable causes, alcohol related admissions and under 18 conception rates are improving they remain worse than the national average.
61. The Children and Families Directorate needs to improve services which protect the most vulnerable children. This is a top priority for the City following an Ofsted inspection which has led to the Council's services for children in need of help and protection, children looked after and care leavers to be judged inadequate. Action has already been taken and will continue to be taken to rectify the shortcomings identified by Ofsted. There is a need to connect its work improving safeguarding and reducing the number of children looked after with work to scale up the troubled families way of working and help more families find good jobs. This will be important to both improve outcomes and reduce the level of spend.

62. The reality is that the strategy has not been progressed as strongly as intended or fully in accordance with the objectives that were set. This brings into sharper focus how the next round of budget reductions can be delivered in accordance with the re-stated priorities and the need for a more sophisticated process to support decision making. The Council is facing a number of constraints with the local government financing system and the speed and scale of funding reductions and a lack of real incentives at a national level to make integrated public sector working a reality. How the City responds to these challenges will be critical to achieving success for the city and financial sustainability for the Council.

#### Development of Savings Proposals

63. The priorities for the City and the Budget Principles continue to set the framework for budget decision making. 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 isn't just focused on savings but on switching money around to meet priorities. Action will need to be taken to ensure that stated objectives to develop a strong universal service offer and improve outcomes so spend and demand can be reduced in targeted and specialist services. This requires a more robust approach to budget decision making and the development of savings options.
64. 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. Due to the scale of the funding cuts some difficult decisions will have to be made that will include some real service reductions. Where possible though, it is important that the savings do not undermine the ability of the Council to deliver on its priorities for the city and where possible, maximise the levers and interventions available to the Council and make optimal use of resources to achieve the most impact on objectives.
65. The options put forward have been underpinned by a stress testing process against the budget principles that enables a Council wide view of savings proposals and identifies the impacts across services, in places and on particular groups. They will continue to be assessed against the following areas:
- Economic growth
  - Reducing dependency
  - Integration at a place level
  - How the proposal maximises use of all relevant resources in the City - not just focusing on the Council's element of the spend
66. To support the design and development of savings options, an analysis of local neighbourhoods has been developed which describes a set of characteristics for neighbourhoods across the city. The analysis will be used to

determine where the areas of greatest need are, to understand how different areas might be impacted by savings options and to inform how the Council's resources could be targeted most effectively. Initially this has been used to understand the current levels of service provision and particular issues facing neighbourhoods across the city. For example, maps have been constructed which show that whilst complex dependency households are found across the city, there are particular clusters evident in certain neighbourhoods.

67. Many of the budget options relate to city-wide services which do not have a specific local delivery focus. However there is still a risk that they may indirectly impact on certain localities. The Council will therefore be reviewing the impact of the options, if taken forward, to monitor how local neighbourhoods are being affected on the ground.
68. Budget options have been designed to align with the Council's priorities of Growth, Reform and Place. The Budget Principles have been applied but due to the scale of the reductions there have had to be:
  - Some harder choices in order to protect capacity to support growth and universal services
  - A need to focus public service reform more on those cohorts who can be supported to be less dependent on Council services, whilst continuing to work with partners to achieve the benefits across public services
  - Robust action to ensure the quality of targeted services
69. Connecting people to the benefits of economic growth remains a priority and is important in reducing spend incurred by the Council and other public services on targeted and specialist services. The reforms that enable this are not a quick fix and more work is needed to see the budgets moving in the right direction. Troubled Families and Working Well are showing early signs that the public service reform principles are having an and the GM Devolution Agreement will provide added momentum to deliver the two priorities around scaling up complex dependency with a focus on employment and integrating health and social care.
70. In that context the Children and Families Directorate needs to scale up new integrated models of care to support those who can to rely less on reactive support services. The budget options for investment and spending reductions are designed to do this. This will be alongside a stronger focus on improving the quality of social care services. This is certainly the case with children's social care following the recent Ofsted inspection but will also feature in social care services to adults. The focus will remain on the new model of early intervention and prevention with 0 to 5 year olds and their families as this underpins success in the long term. Universal services such as schools and community and cultural services have an important role to play in providing early help and preventing problems from escalating.
71. 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.

72. The scale of the budget reductions required forces the Council to consider options that are less aligned to its priorities and these are expected to have a negative impact on the city as a whole. The Council will continue to use spatial analysis to model and review the impact of those options that are taken forward, in order to identify early on any potential risks and put in place mitigating actions. The analysis will also enable the Council to review how changes to the city are being felt in different neighbourhoods and align services accordingly.
73. Draft savings options have been set out in the Budget Savings Options reports that went to the November Scrutiny and Executive Meetings. Full public consultation and the required specific consultations started on 26 November when the savings options were taken to the Executive.
74. These options have been reviewed in the receipt of the financial settlement and other pertinent information such as the confirmation of the interim Airport Dividend. A draft budget is being submitted through the January scrutiny cycle and Executive. The draft budget proposals will be reviewed in the context of the outcomes of the budget consultation processes before the recommended budget is put to Executive on 13 February. There will be a Finance Scrutiny meeting on 23 February to review the budget prior to budget setting at March Council.
75. The Draft Budget elsewhere on this agenda includes the full set of proposals to deliver a balanced budget for 2015/16. 2016/17 will be the other side of a general election and will be informed by the next Government Spending Review so at this stage it is difficult to accurately estimate the likely resources available. The budget strategy for 2016/17 and beyond will be shaped by:
  - how national policy is affected by the outcome of the general election
  - how the unprecedented changes in the ability for GM to take more control of the leavers for growth and reform now unfold
  - in the light of both of the above, the work to create the next Manchester Strategy for the next ten years
76. Work will continue in 2015/16 to develop a full range of budget options for 2016/17. This will include evaluating all of the options put forward for 2015/16 that are not being progressed as part of the 2015/16 budget alongside alternative options which will be developed alongside the Community Strategy refresh. It is not yet known at what point in the year there will be further clarity on the level of resources that will be available to the Council but officers will be seeking to bring forward the best estimate of the position and the options to close the budget gap in the summer of 2015.

### Workforce and Skills

77. The Council has seen a reduction of circa. 3,400 FTE (34%) from the workforce in support of the budget reductions described above since 2010/11. This has included circa. 2,400 FTE through time limited incentivised voluntary severance schemes in 2011 and 2013. These reductions have supported the delivery of around £94M of workforce savings (£70M across 2011/13 and £24M across 2013/15), around 38% of the total savings required from the organisation, as well as further reductions aligned to areas of reducing grant and income funding.
78. In order to support the delivery of the required budget across 2015/17 there will be a need to deliver savings of a further £10.6m in 2015/16 and £2.2m in 2016/17 from the workforce, representing 18% of the options set out. This is estimated to require a reduction in workforce of approximately 450-550 FTE. This position should be seen in the context of further investment of £1.4m in the workforce to provide additional capacity in key critical areas which would reduce the total net required savings from workforce budgets to £11.4m and the approximate reduction in posts by 43 FTE.
79. In order to support the required reductions, Executive and Personnel Committee agreed a time limited incentivised Voluntary Severance and Voluntary Early Retirement scheme on 26 November 2014 which opened for applications between 27 November and 19 December. A considerable number of applications have been received and whilst these are subject to review it is likely that a significant element of the workforce savings should be achieved dependant on the numbers of staff accepting their offer and the ability to facilitate movement based on skills required for the effective operation of services. The progress of the scheme in achieving savings will be kept under review and any further required actions identified over the coming weeks.
80. The delivery of the proposed changes will not only require a reduction in workforce, but also 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.
81. The Council needs to consider all possible options open to it to ensure that the required reduction in posts can be made to achieve the budget savings required. The Council still intends to aim to avoid compulsory redundancies, however, if all other options do not offer or cannot deliver the required saving, the Council will be forced to reconsider its position, including in relation to compulsory redundancies, in order to ensure that it will have a balanced budget and robust medium term financial strategy.

Conclusion

82. This report sets out the Council's approach to how it will deliver its objectives and deliver better public outcomes across the City, and how this is achieved within significantly reduced resources in order to deliver a balanced budget for 2015/17.
83. As outlined above a recommended Revenue Budget for 2015/16 will be going to the February Budget Executive along with the estimated budget position for 2016/17 and the impact on that year of the decisions made as part of the 2015/16 budget setting process.
84. It is difficult to accurately estimate the likely resources available for 2016/17. There is also a need to ensure that all further budget decisions are shaped by the framework outlined in this report, progress in the devolution agenda for the region, the community strategy refresh and progress on delivering the strategy for 2015/16. Therefore work will continue in 2015/16 to develop a full range of budget options for 2016/17. This will include evaluating all of the options put forward for 2015/16 that are not being progressed as part of the 2015/16 budget alongside alternative options which will be developed alongside the Community Strategy refresh. It is not yet known at what point in the year there will be further clarity on the level of resources that will be available to the Council but officers will be seeking to bring forward the best estimate of the position and the options to close the budget gap in the summer of 2015.