

**Manchester City Council
Report For Resolution**

Report to: Young People and Children Scrutiny Committee – 26 January
Neighbourhoods Scrutiny Committee – 26 January 2016
Economy Scrutiny Committee – 27 January 2016
Health Scrutiny Committee – 28 January
Finance Scrutiny Committee – 28 January
Executive 17 February 2016

Subject: Financial Context of the 2016/17 Budget

Report of: The Chief Executive and the City Treasurer

Summary:

To provide Members with further information on the financial context of the budget and the reductions the Council needs to make.

Recommendations

Members are asked to note the report.

Financial Consequences for the Revenue Budget

This report provides information on the financial context of the budget.

Financial Consequences for the Capital Budget:

There are no direct consequences for the Capital Budget.

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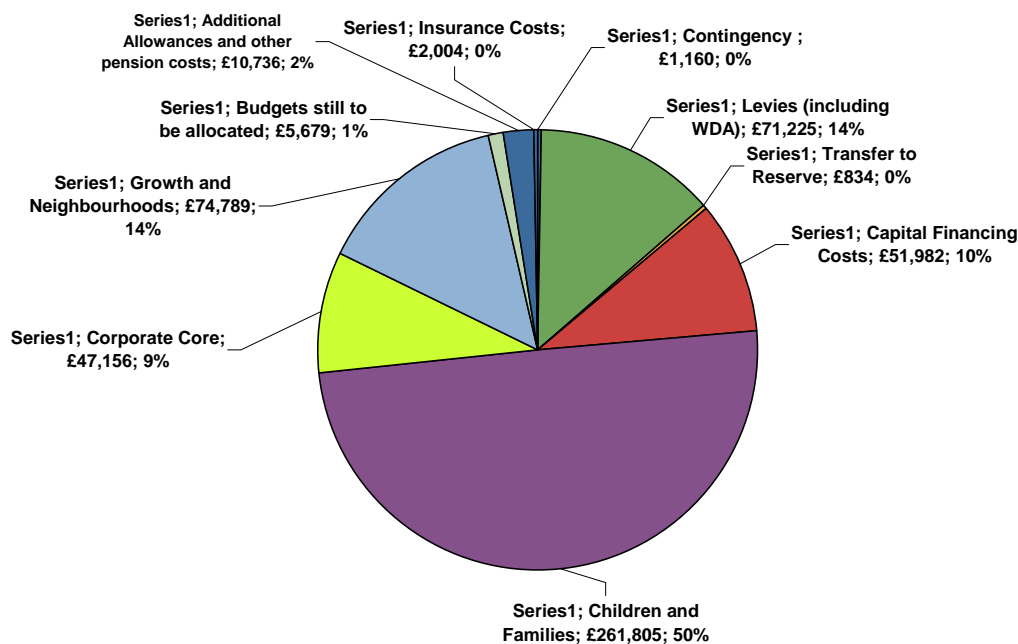
Background Papers

Local Government Financial Settlement from CLG December 2015 (all papers available on the DCLG website).

1. Introduction and Context

1.1. This report sets out the financial context for the Directorate Budget and Business Plan reports that are going to Scrutiny Committees in January 2016.

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



1.3 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 will be covered in more detail in the full Revenue Budget Report which is due to be published on 9th February 2016. The focus is therefore on the Directorate budgets for Growth and Neighbourhoods, Children and Families and the Corporate Core.

The Financial Position for 2016/17

1.4 The Council is facing a significant funding gap for 2016/17. The provisional funding settlement combined with a review of all of the budget assumptions has indicated a budget shortfall of £30.9m.

1.5 The draft budget contains cost pressures of £26.8m, including £2.6m residual cost pressures in Children and Families carried forwards 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 £26.8m. 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 £1.8m.

- 1.6 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 agreed that, 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:

Table One: Financial Position

	2015 / 16 £'000	2016 / 17 £'000
Resources Available		
Settlement Funding Assessment	300,611	277,373
Public Health Funding	48,303	43,987
Public Health 0-5 Funding	5,441	10,613
Other non ring fenced Grants	25,577	23,525
Business Rates Section 31 Grants	5,619	5,778
Business Rates Increased / (reduced) Income	1,654	(728)
Council Tax	122,338	131,679
Dividends, Use of Reserves and other Income	17,827	31,337
Total Resources Available	527,370	523,564
Resources Required		
<i>Corporate Costs:</i>		
Levies/Charges	71,225	69,930
Contingency	1,160	2,700
Capital Financing	51,982	51,982
<i>Sub Total Corporate Costs</i>	<i>124,367</i>	<i>124,612</i>
<i>Directorate Costs:</i>		
Directorate Budgets	383,499	387,357
Additional Allowances and other pension costs	10,736	10,736
Insurance Costs	2,004	2,004
Unfunded pressures	0	11,065
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>403,003</i>	<i>429,858</i>
Total Resources Required	527,370	554,470
Total Shortfall / (Surplus)	0	30,906
2016/17 Savings approved as part of 2015/16 budget setting process	0	(12,205)
Revised Shortfall after deducting previously agreed savings	0	18,701

- 1.7 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.
- 1.8 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.

The Provisional Financial Settlement

- 1.9 The Financial 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 4% (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 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 local government Better Care Fund starting in 2017/18 and totalling £1.5bn by 2019/20. £800m will be funded from savings in the New Homes Bonus scheme. 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'. Previously this was distorted by the inclusion of the original Better Care funding that is received by the NHS, and of public health grant where there are additional allocations due to further transfers of responsibility. The new measure is seen as 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.
- 1.10 The settlement also includes an offer of a four year financial settlement if councils 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.
- 1.11 The overall impact of the Financial 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 lower than anticipated, £1.3m to the reduction in Public Health Grant and £0.3m to a reduction in Education Support Grant.
- 1.12 It should be noted that these figures may change once the Final Financial Settlement is published in February.

Health and Social Care Devolution

- 1.13 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 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.
- 1.14 Of the core components of the SR 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). The general allocative decision rules on pace of change etc have been published but not the individual allocations which are due early in the new year.
 - 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. This 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 remain significant challenges in how the local authority budget gap will be addressed in the first two years.

- The principle that GM will still be able to access other national funding opportunities as they arise over the next few years has been agreed.

- 1.15 Overall, the Spending Review, Financial Settlement and other recent announcements have provided a financial platform that enables GM to progress to the next stage. A detailed financial plan for GM underpinned by robust locality plans which 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 are on the agenda for the January Health and Wellbeing scrutiny committee and form part of the overall suite of budget reports.

Council Tax and Dividends

- 1.16 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.
- 1.17 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 £13.763m.

Budget Savings

- 1.18 As part of the 2015/16 budget setting process £12.205m savings were identified from directorate budgets and approved. As part of the 2016/17 process a further £13.780m of budget options have been identified as shown in the table below and detailed in the Directorate Business Plan and Budget reports.

Table Two: Total of new savings proposals across Directorates

	2016/ 17 £'000
Children and Families	8,862
Growth and Neighbourhoods	2,239
Corporate Core	2,679
Total	13,780

Cost Pressures

- 1.19 In addition to the reduction in resources outlined above the local government financial settlement does not provide for cost pressures. For 2016/17 these include:
- Residual cost pressures in Children and Families carried forwards from 2015/16 (£2.6m)
 - Pay inflation (£2.5m) and non pay inflation (£2.3m)
 - A further increase in employers pension contribution (£1.3m)
 - Costs of implementing the national living wage for commissioned and contracted services (£6.2m)
 - Demographic pressures as a result of a growing population (£1.9m).
 - Increased costs due to the end of National insurance contracting out (£3.4m)
 - Other net pressures, including additional waste disposal costs of £900k, street lighting PFI costs previously funded from the smoothing reserve of £1m, additional funding for Children and Families including increased capacity for pupil places planning and to improve progress on reading of £430k and additional remand placements costs of £300k.
 - Additional investment including essential investment in ICT resilience and capacity (£2.5m) and strengthening the Emergency Duty Service in Children and Families (£380k)
- 1.20 Full details of the budget pressures are included in the accompanying Directorate Business Plan and Budget reports.
- 1.21 As the corporate costs including levies and capital financing costs are largely fixed the majority of the shortfall has to be met from savings to Directorate Budgets.
- 1.22 After taking account of the proposed new savings, cost pressures and additional council tax income the position is a small surplus as below.

Table Three: Revised budget gap

	2016 / 17 £'000
Initial Shortfall	30,906
2016/17 Savings approved as part of 2015/16 budget setting process	(12,205)
Revised Gap after deducting previously agreed savings	18,701
Additional council tax revenue from increases	(4,938)
Revised Gap after additional Council Tax income	13,763
Total New Savings Identified	(13,780)
Remaining Surplus	(17)

2. Strategic Priorities and Budget Principles

- 2.1 In arriving at the recommended budget, the decision making process will need to be guided by the strategic priorities for the Council. These are set out in the Manchester Strategy and are summarised below.
- 2.2 The vision is for Manchester in 2025 to be 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
- 2.2 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
- 2.3 These, alongside the budget principles set out below, provide the framework within which budget decisions are made:
- 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 the aim of providing places where people choose to live and work that are clean and safe with a good housing offer and a range of accessible local services.
- 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.

3. Conclusion

- 3.1 This report sets out the financial context within the Directorate Budget and Business Plan reports should be considered.