

**Manchester City Council
Report for Information**

Report to: Health Scrutiny Committee - 30 January 2018

Subject: Updated Financial Strategy and Directorate Budget Reports and Business Plans 2018-20

Report of: The Chief Executive and City Treasurer

Summary

This report provides an update on the Council's financial position and sets out next steps in the budget process, including scrutiny of the draft Budget proposals and Directorate Budget and Business Plan reports and accompanying delivery plans by this Committee.

Recommendations

The Committee is asked to consider and make recommendations to the Executive on the budget proposals which are within the remit of this Committee and to comment on draft Directorate Business Plans and Delivery plans which have been designed to ensure the Council invests in the services that are valued by its residents achieving both high quality services and outcomes for residents, as well as a balanced budget.

Wards Affected:

All

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Autumn Budget 2017, 22 November 2017 - <https://www.gov.uk/government/topical-events/autumn-budget-2017>

Provisional local government finance settlement: England, 2018 to 2019, 19 December 2017 - <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

1 Overview

- 1.1 At its meeting on 8 February 2017, Executive agreed a three-year budget strategy for 2017-20 that was subsequently presented to Resources and Governance Scrutiny Committee on 20 February and approved by Council on 3 March 2017.
- 1.2 The three-year budget strategy followed consultation with Manchester people on what services matter most to them and on the options to identify £35m of savings. The budget set reflected what Manchester people valued most, which was:
- care and support for vulnerable people including older people and those with learning disabilities and mental health needs;
 - taking action on family poverty and giving young people the best start in life;
 - tackling homelessness;
 - supporting people into jobs and training;
 - keeping roads and neighbourhoods in good shape; and
 - parks and leisure to keep people active and happy.
- 1.3 The 2017-20 budget also set out the changes required to make the savings and deliver what was agreed by:
- bringing health and social care services together,
 - supporting people earlier and more thoroughly so they will avoid more costly help later,
 - safely reducing the cost of children in care by finding more foster carers, and
 - changing the waste disposal arrangements to reduce costs.
- 1.4 The original revenue budget for 2017/18 totalled £534m (this subsequently increased to £546m, mainly as a result of the additional £12m Adult Social Care grant). Of this, around 53% was invested in caring for our vulnerable adults and children; 13% for waste management including recycling, as well as looking after neighbourhoods including tackling fly-tipping, maintaining grass and trees, trading standards and licensing; 11% to support the costs of investment in major projects; 7% on transport, roads and street lighting; 3% for supporting people in to work and training; 3% for libraries, culture, leisure, parks and open spaces. The remaining 10% is invested in supporting services that keep the City running such as customer services, elections and IT and making sure that benefits and other payments are handled properly.
- 1.5 The Council also delivers major projects through a separate longer term (five-year) capital strategy which is refreshed each year. The investment priorities are aligned to Our Manchester and also recognise the priorities that residents have identified; making Manchester an attractive place to live and further improving the quality of life for its residents - increasing their overall social and economic prospects and enabling them to fully participate in the life of the City. The priority areas are:

- driving forward the City Council's Residential Growth Strategy for housing;
- delivering a Schools Capital Programme that will support new and expanded high quality primary and secondary school facilities for a growing population;
- supporting businesses and residents to create thriving district centres with appropriate retail, amenities and public service offer;
- promoting investment to secure a cultural and sporting offer and sustain key lifestyle assets such as parks, leisure facilities and libraries;
- continuing the growth of the city centre as a major regional, national and international economic driver;
- supporting investment in the transport and highways infrastructure; and
- employment growth through a strengthening and diversification of economic base and efficient use of land.

1.6 The priority areas of investment agreed for 2017-20 include:

- £6m improving housing with care for older people over the next three years
- £24m on building and refurbishing leisure centres (£50m from 2014)
- £3m on supported housing for adults with learning disabilities; and
- £22.8m over three years to help join up health and community services in East Manchester.
- £100m to improve roads in every neighbourhood over five years

2 The Provisional Local Government Finance Settlement 2018/19

2.1 The Provisional Local Government Finance Settlement was released on 19 December 2017. Whilst the multi-year settlements that were announced in 2016/17 were broadly confirmed there were some further technical and other changes which increased the Council's overall resources by £5.4m in 2018/19 and £4.8m for 2019/20.

2.2 This report goes on to set out the challenges to the budget position since the three year budget was set. The attached budget and business plans provide the detail of the proposed changes for scrutiny committees to comment on prior to the reports going to the Executive.

2.3 The main changes from the Provisional Settlement are:

- **Changes to how the business rates tariff has been calculated following the revaluation.** This follows a review by the Valuation Office Agency (VOA) of the rateable value included for each Local Authority and the Authority's ability to raise revenue from business rates. This has seen a reduction in the tariff (or charge) for Manchester. The impact is a net increase to the council's resources of £4.2m in 2018/19.
- **Compensation for under-indexing the business rates multiplier -** Changes to the business rates multiplier are offset by reduced business rates income, with no net impact on the Council's position.

- **Business Rates Retention** - Agreement of a further 10 business rates pilots, mainly in two tier areas. Confirmation that from 2020/21 there will be a national move to 75% business rates growth retention. The existing pilots will continue in 2018/19 but there is no confirmation of what will happen in 2019/20.
- **Council Tax** – The council tax referendum limit has increased by 1% and Council's may increase their council tax in line with this uplift, if they wish to do so.
- **Improved Better Care Fund** - This includes additional Social Care Grant announced in the Spring Budget of March 2017. This is already built into the Council's budget.
- **New Homes Bonus** - The settlement has a minor increase of £64k above that budgeted for.
- **Housing Benefit and Council Tax Admin Grants** have reduced by £364k.

2.4 The above changes to resources bring a net benefit of c£3.9m in 2018/19 and £2.8m in 2019/20. The summary for 2018/19 is as below:

| | |
|--------------------------------------|------------------|
| Tariff adjustment | £4.212m |
| New Homes Bonus | £0.064m |
| Housing Benefit Administration Grant | <u>(£0.364m)</u> |
| Net Increase | £3.912m |

The figures generated take into account the fact 50% of the benefit from piloting the 100% rates retention scheme for 2018/19 will go to the Greater Manchester Combined Authority (GMCA).

- 2.5 Subsequently the VOA revised the data on the change in rateable value between rating lists. As a consequence of the revised data issued by the VOA on 18 January 2018, the tariffs and top ups published in the Provisional Settlement were amended. This resulted in a gross reduction of £633k (net £493k) to the original tariff adjustment with the assumption that this will be met by additional business rates income. Once all adjustments have been included there is an overall net increase of £3.419m.
- 2.6 The Dedicated Schools Grant (DSG) notification for 2018/19 was received alongside the Provisional Finance Settlement on 19 December 2017 and totalled £518.57m, £20.58m higher than 2017/18. This is in line with expectations.

Dedicated Schools Grant Settlement 2018/19 and 2017/18

| Financial Year | Funding Block | | | | Total |
|-----------------|---------------|-------------------------|-------------|-------------|--------------|
| | Schools | Central School Services | High Needs | Early Years | |
| | £m | £m | £m | £m | £m |
| 2018/19 | 398.47 | 3.99 | 73.38 | 42.73 | 518.57 |
| 2017/18 | 386.79 | | 70.93 | 40.27 | 497.99 |
| Increase | | 15.67 | 2.45 | 2.46 | 20.58 |

- 2.7 Schools block and central schools service block allocation has increased by £15.67m in 2018/19, the majority (£12.79m) relates to an additional 2,408 pupils in primary and secondary schools between October 2016 and October 2017. The Department for Education has also allocated Manchester's primary and secondary schools a 0.5% per pupil led increase in school budgets in 2018/19.
- 2.8 Whilst Manchester has been allocated £2.45m for High Needs the position remains challenging due to demands on additional special school places, increases in number of education, health and care plans and additional duties around 19-25 year olds. In line with the Local Authority's medium term financial plan extra Local Authority budget will be provided in order to meet demand from 2018/19 onwards.
- 2.9 The early years allocation is provisional and will be updated in July 2018. It has been adjusted to reflect full year impact of the additional 30 hours of free early education and childcare to working parents introduced in September 2017, the 2018/19 adjustment reflects the part of the year that was unfunded during April – August 2017.

3 The Financial Position 2018/19 to 2019/20

- 3.1 The original budget for 2018/19 as reported to Executive in February 2017 has been restated for the implications of changes within 2017/18 including:
- the allocation of budgets originally held centrally for inflation (non-pay and pay, including meeting the minimum wage requirements), growth items and funding set aside for high risk areas to Directorate budgets;
 - funding announced in the Spring Budget 2017 of an additional £2bn nationally over three years 2017-20 towards adult social care. The grant focussed on meeting adult social care needs, reducing pressures on the NHS and stabilising the social care provider market. For Manchester the allocations were £12.92m in 2017/18, £7.64m in 2018/19 and £3.78m in 2019/20 and has been allocated to Adults Social Care in line with the report to Executive on 28 June 2017.

3.2 The updated position is as follows:

Updated Original Budget Position 2017-20

| | <i>2017/18 Revised</i> | <i>2018/19 Original</i> | <i>2018/19 Rebase d</i> | <i>2019/20 Rebase d</i> |
|--|----------------------------|-----------------------------|---------------------------------|---------------------------------|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Resources Available: | | | | |
| Revenue Support Grant | - | - | - | - |
| Business Rates Baseline | 309,747 | 319,711 | 319,711 | 331,086 |
| Business Rates Top Up / (Tariff) | 600 | (21,738) | (21,738) | (44,976) |
| Public Health Funding | - | - | - | - |
| <i>Baseline Funding Level</i> | <i>310,347</i> | <i>297,973</i> | <i>297,974</i> | <i>286,110</i> |
| (Reduced) / Additional Business Rates Income | (11,952) | (5,189) | (5,190) | (3,154) |
| Business Rates Grants | 19,160 | 19,778 | 19,778 | 20,463 |
| Council Tax | 146,507 | 153,272 | 153,272 | 160,140 |
| Other Non-ringfenced Grants | 35,869 | 27,780 | 35,424 | 40,932 |
| Dividends and Use of Reserves | 44,471 | 44,471 | 44,471 | 44,471 |
| Use of other Reserves | 2,525 | 3,493 | 3,493 | - |
| Total Resources Available | 546,927 | 541,578 | 549,222 | 548,961 |
| Resources Required: | | | | |
| <i>Corporate Costs:</i> | | | | |
| Levies/Charges | 69,177 | 72,567 | 71,186 | 68,776 |
| Contingency | 1,537 | 2,337 | 2,600 | 2,100 |
| Capital Financing | 44,582 | 44,882 | 44,582 | 44,582 |
| Transfer to Reserves | 7,400 | 3,050 | 3,050 | 3,409 |
| <i>Sub Total Corporate Costs</i> | <i>122,696</i> | <i>122,836</i> | <i>121,418</i> | <i>118,867</i> |
| <i>Directorate Costs:</i> | | | | |
| Additional Allowances and other pension costs | 10,283 | 10,236 | 10,183 | 10,183 |
| Insurance Costs | 2,004 | 2,004 | 2,004 | 2,004 |
| Directorate Budgets | 408,133 | 379,664 | 401,519 | 393,759 |
| Inflationary Pressures and budgets to be allocated | 3,811 | 26,838 | 14,098 | 24,148 |
| <i>Sub Total Directorate Costs</i> | <i>424,231</i> | <i>418,742</i> | <i>427,804</i> | <i>430,094</i> |
| Total Resources Required | 546,927 | 541,578 | 549,222 | 548,961 |
| Balance | 0 | 0 | 0 | 0 |

Further Proposals for 2018/19 to 2019/20

4 Revenue Budget Resource Implications from 2018/19

- 4.1 There are a number of technical and other adjustments for Manchester, following the Provisional Finance Settlement, which relate predominantly to Business Rates. Taken together with the general movement in the business rates forecast, there is an estimated further increase in business rate resources of £8.6m in 2018/19. This figure assumes that 50% of the additional growth is retained through the 100% Business Rates Growth Retention Pilot are passed to the GMCA as agreed as part of the 2018/19 budget process. It should be noted that the business rates base key decision is due at the end of January, which may lead to some minor amendments to the figures.
- 4.2 The original Budget Strategy 2017-20 includes a planned increase in council tax of 4.99% in 2018/19. This will generate an additional £7.2m. Taken with the increase in council tax base, and the 2017/18 in-year surplus on the Collection Fund, the additional council tax income for 2018/19 will be £9.7m if the full 4.99% increase is implemented.
- 4.3 The resources available have also been updated for the additional airport dividend announced in December 2017 of £8.9m, the Adult Social Care Reform Grant allocation for 2018-20 and the use of a limited amount of reserves to support the revenue budget. The net change to the original 2018/19 budget is an increase of £35m.
- 4.4 The above changes enable some additional investment to be made to meet unavoidable cost pressures such as the increasing costs from inflation and a pay award of 2% (£2.6m). It will also provide for some investment in priority areas, particularly adults and children's social care, homelessness and mitigating some of the impact of welfare reform. The spending requests, which remain subject to scrutiny and Executive consideration, include a proposed increase to Directorate budgets of £20.5m in 2018/19. The balance of £7m will support corporate costs such as pay award, meeting contractual commitments and replenishing general reserves.
- 4.5 It is proposed the additional resources are utilised for the priority areas agreed with residents. In order to help support these investment priorities and deliver a balanced budget Directorates have also had to put forward Budget Delivery Plans to reduce resource commitments in a number of areas. The proposed net increase in Directorate budgets is shown in the table below.

| Net Increase | 2018/19 £000 | 2019/20 £000 |
|--|-----------------|-----------------|
| Adults (exc Homelessness) | 5,759 | 15,115 |
| Adults (Homelessness) | 3,495 | 3,495 |
| Children's Services | 6,882 | 7,126 |
| Corporate Core (inc Highways) | 2,255 | 1,490 |
| Growth and Neighbourhoods | 2,105 | 2,105 |
| Strategic Development | - | - |
| Increase In Directorate Budgets | 20,496 | 29,331 |

- 4.6 The proposals are set out in full in the Directorate Budget and Business Planning reports for consideration by the Scrutiny Committee. The main areas are listed below.

Adult Social Care

- 4.7 Increased investment in services to vulnerable people including older people and those with learning disabilities and mental health needs.

Homelessness

- 4.8 For Homelessness, the additional investments include:

- £2.1m additional funding for Homelessness which is largely to compensate for the reduction in government funding for temporary accommodation following the introduction of the new Flexible Housing Support Grant;
- £0.5m towards the costs of the Homelessness Hub; and
- £0.9m for priorities for homelessness identified from the City Centre Review

- 4.9 Further work is being undertaken to look at the homelessness offer, to reduce costs pressures and provide capacity to meet demand.

Children and Families

- 4.10 Increased investment required to support looked after children and young people leaving care.

Corporate Core including Highways

- 4.11 The Corporate Core investment proposals include:
- Support for residents following the roll out of Universal Credit;
 - Increase capacity to provide Discretionary Housing or Hardship Payments;
 - Additional funding for food banks; and
 - Increased investment in the Contact Centre to meet the increasing demand and further capacity to optimise the collection of business rates.

Growth and Neighbourhoods

- 4.12 Growth and Neighbourhoods include proposed investment for:

- Waste collection and management,
- Tackling fly tipping, and
- Investment in City Centre priorities of tackling crime, anti-social behaviour and environmental issues.

5 Revised Position Budget Position 2018-20

5.1 Requests for additional funding to meet the spending proposals outlined in this report and detailed within Directorate Business and Budget Plans remain subject to scrutiny and Executive consideration. Should all the requests be agreed there will be a resource gap in 2019/20, and the revised financial position for 2018/19 and 2019/20 will be in line with the table below.

Proposed Revised Budget Position

| | 2017/18 Revised £000 | 2018/19 Proposed £000 | 2019/20 Proposed £000 |
|--|----------------------------|-----------------------------|-----------------------------|
| Resources Available: | | | |
| Revenue Support Grant | 0 | 0 | 0 |
| Business Rates Baseline | 309,747 | 314,212 | 241,901 |
| Business Rates Top Up / (Tariff) | 600 | (16,630) | 41,536 |
| Public Health Funding | 0 | 0 | 0 |
| <i>Baseline Funding Level</i> | 310,347 | 297,582 | 283,437 |
| (Reduced) / Additional Business Rates Income | (11,952) | 7,537 | 18,868 |
| Business Rates Grants | 19,160 | 19,778 | 15,535 |
| Council Tax | 146,507 | 156,239 | 161,690 |
| Other Non-ringfenced Grants | 35,869 | 34,142 | 39,662 |
| Dividends and Use of Reserves | 44,471 | 53,342 | 53,342 |
| Use of other Reserves | 2,525 | 7,983 | 4,490 |
| Resources to be Identified | | | 11,801 |
| Total Resources Available | 546,927 | 576,603 | 588,825 |
| Resources Required: | | | |
| <i>Corporate Costs:</i> | | | |
| Levies/Charges | 69,177 | 68,557 | 69,329 |
| Contingency | 1,537 | 2,600 | 2,100 |
| Capital Financing | 44,582 | 44,582 | 44,582 |
| Transfer to Reserves | 7,400 | 7,181 | 3,409 |
| <i>Sub Total Corporate Costs</i> | <i>122,696</i> | <i>122,920</i> | <i>119,420</i> |
| <i>Directorate Costs:</i> | | | |
| Additional Allowances and other pension costs | 10,283 | 10,183 | 10,183 |

| | 2017/18 Revised £000 | 2018/19 Proposed £000 | 2019/20 Proposed £000 |
|--|----------------------------|-----------------------------|-----------------------------|
| Insurance Costs | 2,004 | 2,004 | 2,004 |
| Directorate Budgets | 408,133 | 422,015 | 423,090 |
| Inflationary Pressures and budgets to be allocated | 3,811 | 19,481 | 34,128 |
| <i>Sub Total Directorate Costs</i> | <i>424,231</i> | <i>453,683</i> | <i>469,405</i> |
| Total Resources Required | 546,927 | 576,603 | 588,825 |
| Balance/Gap | 0 | 0 | 0 |

5.2 As stated previously, the final budget position will be subject to the agreement of the funding requests which have been put forward. Should there be a requirement for further resources to be identified as a result, these will need to be met from a combination of changes to business rates and commercial income, commissioning decisions, efficiencies and a further review of budget requirements.

6 Scrutiny of the Draft Budget Proposals and Directorate Budget and Business Plans, including Delivery Plans

6.1 The Directorate Budget and Business Plans and accompanying Delivery Plans are attached for the Committee's consideration. These reports contain details of the Directorate's draft investment and budget delivery plan proposals and how the Directorate will support the delivery of the Council's priorities as set out in the Our Manchester Strategy.

6.2 The Committee is invited to consider the proposals which are within its remit, as well as the draft Directorate budget reports and business plans and to make recommendations to the Executive before it agrees the final budget proposals on 7 February.

7 Next Steps

7.1 The Executive will agree its final budget recommendations on 7 February taking into account the feedback from the six scrutiny committees on the proposals.

7.2 These recommendations will be considered by the Resources and Governance Scrutiny Committee at its special budget meeting on Monday 19 February. Chairs of the other five Scrutiny Committees will be invited to attend this meeting to articulate the views of their Committee regarding the proposals. The Council will then make its final decisions and will set the budget on 2 March.

7.3 The timeline is detailed below:

| Dates 2018 | Milestones |
|----------------------------|--|
| 30 January – 1 February | Scrutiny Committees scrutinise the Executive's draft Budget proposals and make recommendations to the Executive's budget meeting on 7 February |
| 7 February | Executive agrees and recommends final budget proposals |
| 19 February | Resources and Governance Budget Scrutiny Meeting to consider recommendations from Executive |
| 2 March | Council sets the budget for 2018/19 |