

**Manchester City Council
Report for Resolution and Information**

Report To: Executive – 27 July 2016
Resources and Governance Scrutiny Committee – 21 July 2016

Subject: Approach to Budget Setting 2017/18 – 2019/20

Report of: Chief Executive and City Treasurer

Summary

This report sets out the proposed approach for developing the Capital Strategy and Medium Term Financial Strategy and the associated engagement and consultation process.

Recommendations

The Executive is requested to:

- Note the contents of the report
- Endorse the proposed approach to the budget consultation and setting process for 2017/18 -2019/20

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report looks at the development of a budget approach for 2017/20 that will underpin all of the council's activities
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Implications for:

- Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report
- Risk Management – there are no specific implications contained within this report
- Legal Considerations – there are no specific legal considerations contained within the report

Financial Consequences – Revenue

There are no revenue consequences arising directly from this report

Financial Consequences – Capital

There are no capital consequences arising from this report.

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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.

Introduction

1. This is a short report to set out the approach and broad financial parameters for the budget process for 2017/18 to 2019/20. The report will cover the development of the Medium Term Financial Strategy and the accompanying Capital Strategy.
2. Attached to this report is the Communications and Engagement Approach for Budget Setting 2017-20 which outlines the proposed communication and engagement approach, building on the success of last year with a variety of different options to support increased engagement, taking an Our Manchester approach.

Context

3. The priorities for the City are set out in “Our Manchester”. This will set the planning framework for the Council and how it works with residents, stakeholders and partners. To deliver the changed relationships alongside the ambition for the City will require a different approach, including to how decisions about the planning and allocation of resources are made.
4. The Council has a key role to play in shaping this agenda and connecting the needs of the city to the opportunities that investment in infrastructure, the devolution of functions such as work and skills and health and social care and access to new investment streams bring. Within this there are the following challenges and opportunities over the next three years:
 - Further budget reductions over the next three years and changes to how local government and schools are funded as defined in the Local Government Financial Settlement and subsequent related consultations;
 - Potential changes in the Autumn Statement where the review of the fiscal position post the referendum decision to exit the EU
 - Involvement in the 100% business rates growth retention pilot for GM which could provide an opportunity to rebalance spend and incentivise the growth of the business rates base via investment in growth;
 - Tackling the still significant levels of deprivation, poor health outcomes and residents disconnected from the opportunities of growth;
 - Refocusing public service reform in line with the Our Manchester asset based approach, using the total resources across the City and GM to achieve key outcomes and as a result reducing the level of spend;
 - The opportunities from devolution and the potential for stronger collaboration, for example in areas such as the integration of health and social care and Services for Children;
 - The need for continued investment in economic growth to support a growing and diverse economy;
 - The need to ensure that high quality services are delivered be it children’s social care, street cleaning or highways;
 - The importance of creating attractive places to live and work and good quality universal services. This requires a rethink of the housing market – the role of the socially rented sector, securing wider home ownership and access to new forms of finance for land assembly and remediation;

- The importance of a high level of educational achievement within schools and how this can be delivered through a place based and schools system approach and a new approach to leadership;
5. In the light of the above the following will need to be considered in designing the budget process.
- The development and implementation of Our Manchester
 - The significant programmes of work underway that will impact on how the budget process is managed including for example the development of the Health and Social Care Locality Plan
 - The opportunity for longer term financial planning with the offer of a four-year financial settlement to 2019/20.
 - The continued need for the council to make significant savings, particularly for 2017/18.
6. The budget process is also in the context of the vote to leave the European Union. Prior to the result the Chancellor had highlighted a consensus among economists that leaving the EU would damage Britain's economy, both in the short term, due to uncertainty, and in the long term as a result of less trade and investment. Following the result the Chancellor announced that due to the delay in triggering Article 50 and the decision by the Prime Minister to stand down he would not issue an emergency budget but would wait until the Office of Budget responsibility (OBR) assessed the economy in autumn and the new Prime Minister was in place. On 1 July he stated the Government would continue to be tough on the deficit while being realistic about achieving a surplus by the end of the decade and there is a move away from adhering to strict austerity targets. A new Chancellor is now in place and the position is unlikely to become much clearer until the publication of the Autumn Statement.
7. The impact is unlikely to be felt immediately on a macro level given the timescales for negotiations and the lack of information on how those negotiations will look in terms of trade deals, freedom of movement and the impact on the economy.

Development of a Capital Strategy

8. The development of a longer term Capital Strategy forms a critical part of the City Council's strategic and financial planning required over the next three months. Alongside the priorities outlined at the start of the report the Strategy will need to recognise:
- Investment that will support continued economic growth in the City in a period of uncertainty following the EU referendum decision;
 - The need for an appropriate balance between commercially driven investment that will deliver a longer term return and strategic asset base, investment to maximise use of operational estate that maximises opportunities from One Estate approaches and delivers revenue savings and the need for investment in core infrastructure such as ICT and the highways network; and

- The financial position and available resource, including in the context of the Debt Deal and risks, uncertainties and challenges associated with the recent EU referendum decision and significant potential investment commitments for priorities such as the Town Hall
9. The last 12 months have witnessed a number of significant developments that have had, and will continue to have, a major influence on the future shape and approach to capital investment within the City Council. These include:
- the “Our Manchester” Strategy and the emerging asset based approach;
 - the ongoing work to review and determine a preferred approach to refurbish the Town Hall;
 - decisions taken to invest City Council resources to strengthen a series of commercial development opportunities, for example, St Johns (with the Factory) and our existing digital asset base (with the expansion of the Space Project);
 - the adoption of the Manchester Residential Growth Strategy and Action Plan;
 - the implications for Manchester of the devolution to Greater Manchester of Health and Social Care budgets and the new approaches to service delivery that will flow from this;
 - the ongoing review of the Highways Estate and the new arrangements that will be brought forward as a result of this work to manage and improve this estate; and what this means for the Corporate Core; and
 - the strengthening of our approaches to investment into both our ICT and our Operational Built Environment Estates
10. The above, alongside affordability, will be key considerations in developing a Capital Strategy for the next five years as a minimum. Drawing the above strands together and setting them out in a clearer framework is important for the development of a credible Capital Investment Strategy. It’s development will need to be underpinned by a set of clear principles to guide decision making and enable investment requests to be appropriately considered. These will need be based around:
- An assessment of strategic fit, and whether the proposed capital investment is in line with the priorities in Our Manchester;
 - An assessment of affordability and prioritisation of the use of limited capital resource;
 - An assessment of risk and deliverability;
 - The borrowing limits put in place following the debt deal negotiated with Treasury in return for lower borrowing costs.

Development of the Revenue Medium Term Financial Plan

11. To develop a budget strategy will require different levels of approach, what should be driven from the top down, and where co-designed bottom up pieces of work with partners and stakeholders will start to inform the work and a longer term way of managing resources (financial, people, information and buildings).

12. Developing a budget for the next three years in the context of Our Manchester is an opportunity to take a more strategic approach and to include all public service partners in helping people and communities to connect to growth. Instead of cutting services at the margins. There should be a focus more on the whole of the budget and what is helping and what is not.
13. Setting a three year budget also gives greater scope to take an investment led approach. This means seeing high quality public services as investment in helping people to live successful lives instead of seeing public spending as a negative.
14. An investment-led approach also means fully integrating the capital strategy into the budget process. As well as commercial investment to support growth, there will be significant capital implications for many of the propositions in this report to improve the way in which services connect people to growth and to reduce the revenue cost base.
15. The work is in the climate of continued reductions in resources and growing pressures. It must be emphasised that any figures around resources and unavoidable cost pressures are indicative based on the best information available at the time of writing.
16. Table 1 below shows the figures for Manchester from the final Finance Settlement published on 9 February 2016.

Table 1: Final Finance Settlement for Manchester

Manchester				
	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Settlement Funding Assessment	277.37	256.97	245.48	234.27
of which:				
Revenue Support Grant	113.77	90.15	73.74	57.04
Baseline Funding Level	163.6	166.82	171.74	177.23
Tariff/Top-Up (included in baseline funding)	7.57	7.72	7.95	8.21
Safety Net Threshold – protection received if business rates income falls below this level	151.33	154.31	158.86	163.94
Reduction in Revenue Support Grant		(23.62)	(16.41)	(16.7)

17. There are a number of other factors which will influence the overall level of resources available to the Council. These include:
 - The level of government funding available and whether there will be any changes following an assessment of the economic position in the autumn

- The published reductions in public health grant funding which will reduce by a further c£4.1m by 2019/20
- Additional funding for social care in the form of the Improved Better Care Fund and the ability to raise council tax by an additional 2%. This is in part funded by reductions in the council's New Homes Bonus funding.
- Changes to the schools funding regime with a move to the national formula and the potential impact on the local authority funding elements for early years and special needs provision
- Continued volatility with business rates income and the likely impact of the 2017 revaluation on the volume of appeals
- Whether the Council decides to increase council tax by the referendum limit of 1.99% and by the further 2% which can be levied to pay for social care

18. The estimated level of resources that could be available over the three year period, as compared to 2016/17, are set out in the table below. The main reduction in resources occurs next year with an estimated £21m reduction in the overall funding available.

	2016 / 17 £m	2017 / 18 £m	2018 / 19 £m	2019 / 20 £m
Resources Available				
Revenue Support Grant	114	90	74	57
Business Rates*	162	157	162	167
Public Health Funding	55	53	52	51
Other non ring fenced Grants	24	25	31	40
Business Rates Grants	7	12	12	12
Council Tax*	137	140	147	157
Dividends and Use of reserves	31	31	29	29
Total Resources Available	529	508	506	513

* this is based on an actual assessment of the position which will vary from the settlement figure

19. The budget gap is also driven by continued unavoidable cost pressures such as inflation for pay and prices, providing services for a growing population and the implementation of the national living wage. The current assessment of the pressures is shown below:

	2017/18 £m	2018/19 £m	2019/20 £m
Unavoidable Cost pressures	1	1	1
Inflation	3	6	9
Pay Inflation, Pension and NI increase	5	9	12
Provisional estimate of costs of supporting growing population	5	10	15
Estimated loss of flexibility due to changes in Local Government Grant regimes	6	6	6
Previously agreed decant costs for Town Hall	1	1	1

Service Priorities	2	2	2
Contract Costs of Minimum Wage	4	9	13
Total Inflation, pressures and growth items	27	43	58

20. The larger increase in pressures in the first year is largely due to the assumed loss of flexibility around changes to government grants. The actual phasing of this could be different.
21. The culmination of the above factors means that the Council is likely to be facing a budget gap of between £45m and £75m by 2019/20 (based on the current local government finance regime).
22. It should be noted that the Government will offer any council that wishes to take it up, a four-year funding settlement to 2019/20, making a commitment to provide minimum allocations for each year of the Spending Review period. This is subject to councils choosing to accept the offer, and publishing an efficiency plan. The multi-year settlement offer includes the Revenue Support Grant and does not cover the other government funding sources. A yearly settlement process will continue to apply for those councils that chose not to accept the offer, or do not qualify. No further offers of a multi-year settlement are anticipated during the course of this Parliament.
23. To be considered for the multi-year financial settlement, Local Authorities must be able to provide DCLG with a link to a published efficiency plan by 5pm on 14 October. An Authority's efficiency plan does not need to be a separate document and be combined with its Medium Term Financial Strategy. The Council is proposing to take up the offer of the four year settlement with the development of a draft Medium Term Financial Plan to start consultation following the October Executive.

Next steps

18. A programme of engagement will be carried out over the Summer to inform the development of draft revenue and capital strategies which will be taken to October Scrutiny and Executive Committees. This will signal the move from engagement to the start of the more formal budget consultation processes on the options that have been developed.

Conclusion

19. This report sets out a suggested budget timeline and the key pieces of work that will need to be in place to support the development of the Medium Term Financial Strategy and Capital Strategy. The proposed approach to consultation and engagement is attached at Appendix One and is designed to promote a more open and transparent approach to the way that the budget is set. It must be noted that this continues to be in the climate of very challenging reductions in resources and growing unavoidable cost pressures.