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Resources and Governance Scrutiny Committee

Date: Tuesday, 11 January 2022
Time: 2.00 pm
Venue: Council Chamber, Level 2, Town Hall Extension

This is a **Supplementary Agenda** containing additional information about the business of the meeting that was not available when the agenda was published

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Membership of the Resources and Governance Scrutiny Committee

Councillors - Russell (Chair), Ahmed Ali, Andrews, Clay, Davies, Hacking, Hitchen, Kirkpatrick, Lanchbury, B Priest, Robinson, Rowles, Simcock, Wheeler and Wright

Supplementary Agenda

Further Information

For help, advice and information about this meeting please contact the Committee Officer:

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This supplementary agenda was issued on **Friday, 7 January 2022** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 2, Town Hall Extension , Manchester M60 2LA

Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 11 January 2022 Executive – 17 January 2022
Subject:	Provisional local government finance settlement 2022/23 and budget assumptions
Report of:	Deputy City Treasurer

Summary

This report updates on the main announcements from the provisional local government finance settlement 2022/23 announced 16 December 2021, with a focus on the impact on Manchester City Council and its budget for 2022/23. It also outlines the main budget assumptions behind the Medium-Term budget position 2022/23 to 2024/25.

Recommendations

The Resources and Governance Scrutiny Committee is recommended to note the report

The Executive is recommended to note the report.

Wards Affected: None directly

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home grown talent sustaining the city's economic success	

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report sets out the announcements in the provisional local government finance settlement 2022/23 and the impact on Manchester City Council.

Financial Consequences – Capital

None directly 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.

Executive – 17 February 2021 Subject: Revenue Budget 2021/22
Resources and Governance Scrutiny Committee – 9 November 2021 Subject: Spending Review and budget update
Provisional local government finance settlement: England, 2022 to 2023

1. Introduction

1.1. The finance settlement is the annual determination of funding for local government from central government. The provisional 2022/23 settlement was announced 16 December, following the three-year Spending Review announced in October 2021. The settlement has been front loaded and includes a number of one-off distributions of funding. It is also a one-year settlement. Therefore, considerable uncertainty remains in relation to the position after 2022/23.

1.2. The Local government funding reform work will be restarted in the Spring. This means that the Fair Funding Review and baseline reset are both going to be under consideration again, for possible implementation in 2023-24. This will potentially impact on how funding between different local authorities is distributed.

1.3. A prudent estimate was made of the funding available following the Spending Review and reported to Scrutiny Committees and Executive in November 2021. Whilst a balanced budget was proposed for 2022/23 the Council was facing a budget gap of £63m in 2023/24 rising to nearly £80m in 2024/25. The strategy was to use any additional funding from the Finance Settlement to help close the budget gap in future years and reduce the need for very significant cuts in 2023/24 and beyond.

1.4. This report sets out the key elements of the Provisional Finance Settlement and confirms that the c£7.7m savings and mitigations, as reported to Resources and Governance committee on 9 November, are sufficient to deliver a balanced budget next year.

1.5. The final budget position for 2022/23 and beyond will be confirmed at February Executive. This will be after the key decisions confirming the Collection Fund position and Council Tax and Business Rates base have been made and the Final Finance Settlement is received. It is unlikely that there will be any significant changes to the Provisional Settlement.

1.6. This report is in two parts. The first focuses on the forecast financial impact of the provisional finance settlement on the Council's budget. The second outlines the impact on the Council's budget and the next steps.

Part One: Provisional Finance Settlement Announcements

2. Summary of key announcements

2.1. The key points are as follows:

- It is a one year settlement with a more fundamental review of local government funding starting in 2022.
- The headline announcement was an additional £3.5bn of funding would be “made available“ to councils, a 4% real terms increase. Of this £1.4bn

relates to Council Tax and assumes that every local authority will raise their council tax by the maximum permitted.
- The council tax referendum thresholds are largely as expected: 1.99% maximum "core" increase, 1% adult social care precept, £5 maximum for district councils and £10 maximum for Police and Crime Commissioners. There is a new £5 maximum precept increase for the lowest-funded fire authorities.
- The £3.5bn also includes £1.6 billion of the additional grant funding announced at the Spending Review. Of this £70m will be used to apply inflation to Settlement Funding Assessment (SFA), £636m for additional social care grants, and £822m for a new one-off "Services" Grant.
- The distribution of the Adult Social Care grant takes into account the ability of the local authority to raise council tax via the precept.
- The "Services" Grant has been created to fund general responsibilities including the national insurance increase. This is likely to be redistributed from 2023-24 in line with the planned "fair funding review". The remaining £100m is for cyber resilience and supporting families with the details yet to be announced.
- The 2022-23 settlement rolls forward many aspects of the current year's settlement and all existing social care grants have been baselined.
- There is a further New Homes Bonus payment (Year 12, £333m), on top of the final "legacy" payment of £221m. This is now the final year.
- Compensation for under-indexing the business rates multiplier of £375m.
- The 100% Business Rates growth retention pilot will continue for a further year.
- The first £162m of the National Insurance / levy funded support from Department of Health to support Market Sustainability and Fair Cost of Care has been announced. This is distributed using the existing Adult formula and is for the Fair Pricing reforms with some conditions attached on its use.
- The Better Care Fund has been uplifted for inflation.
- Whilst it is anticipated the Public Health Grant will receive a real-term uplift; this is yet to be confirmed.

2.2. This report goes onto outline the impact of the funding announcements on:

- the aligned budget with the Manchester Local Care Organisation (MLCO).
- Ongoing funding that can be built into the budget model
- The proposed use of one-off resources, including that to help close the budget gap in future years.
- The updated position regarding budget savings options and the funding of budget pressures

2.3. The second part of the report details:
- The overall Medium-Term budget position and main assumptions
- The strategy to close the remaining budget gap
- Budget Process for Health and Social Care
- The next steps

3. Implications for the MLCO Budget

3.1. It is proposed that the additional funding via the 'social care levy' or Market Sustainability and Fair Cost of Care Fund and the uplifting of the Better Care Fund for inflation are passed directly to the aligned budget for the MLCO. These are **£1.8m** and **£0.9m** respectively, totalling £2.7m.

3.2. The 2022/23 Market Sustainability and Fair Cost of Care Fund is designed to ensure local authorities can prepare their care market for reform and move towards paying providers a fair cost of care, as appropriate to local circumstances. The Government expects local authorities will carry out activities including:

- conduct a cost of care exercise to determine the sustainable rates and identify how close they are to it;
- engage with local providers to improve data on operational costs and number of self-funders to better understand the impact of reform on the local market;
- strengthen capacity to plan for, and execute, greater market oversight and improved market management to ensure markets are well positioned to deliver on our reform ambitions; and
- use this additional funding to genuinely increase fee rates, as appropriate to local circumstances.

3.3. A further £600m is available for distribution in 2023/24 and another £600m in 2024/25. This is conditional upon the conclusion of the cost of care exercise, a publication of a provisional 3-year market sustainability plan on how councils intend to move to a sustainable rate fee and a grant spending report.

3.4. The Market Sustainability and Fair Cost of Care funding is only a small proportion of that which will be raised via the £5.4bn 'social care levy'. The table below shows the latest information available on how this will be utilised including the which £3.6bn will be directed through Local Government and the £1.7bn for wider reform.

Table One: Adult Social Care Reform Funding

<table>
<tr><td colspan="9">Adult Social Care Reform Funding</td></tr>
<tr><td colspan="9">£5.4bn over 3 years on adult social care reform</td></tr>
<tr><td colspan="2">£3.6bn over 3 years directly to local government for the cap, means test, and fair cost of care</td><td colspan="7">£1.7bn over 3 years to improve wider social care system</td></tr>
<tr><td rowspan="2">£2.2bn over 3 years for the cap and means test 22/23: £0m 23/24: £800m 24/25: £1.4bn</td><td rowspan="2">£1.4bn over 3 years for fair cost of care: 22/23: £162m 23/24: £600m 24/25: £600m</td><td colspan="7">Funding commitments made in the People at the Heart of Care adult social care reform white paper:*</td></tr>
<tr><td>At least £300m to integrate housing</td><td>At least £150m for technology and digitisation</td><td>At least £500m for workforce training and qualifications</td><td>Up to £25m to support unpaid carers</td><td>£30m for innovation of support and care</td><td>At least £5m to help people understand care and support available</td><td>More than £70m to improve the delivery of care and support services</td></tr>
</table>

4. <u>Implications for the Council's Budget</u>

Additional Ongoing Funding

4.1. Following the Provisional Finance Settlement an additional £18.5m per annum is available on an ongoing basis to that assumed (rising slightly each year). This has been built into the budget position, along with a risk allowance of £3m for the impact of the likely funding reforms. This includes:

Share of additional £1.6bn announced in the Spending Review

4.2. An additional £1.6bn a year was announced in the Spending Review, starting in 2022/23, although only £1.5bn has been distributed as part of the Settlement. As the method of allocation was unknown, a prudent assumption of an extra £16m for MCC had been assumed, based on the Adult Social Care Formula. The settlement has the Council is receiving £22.2m, an improvement of **£6.2m**.

4.3. The £22.2m is allocated over three grants as follows:

- A new one off 2022/23 Services Grant - £12.3m
- Additional Social Care Funding - £8m
- Inflation to Settlement Funding Assessment - £1.9m

4.4. The one-off Services Grant of £12.3m is allocated based on the Settlement Funding Assessment and is unringfenced, including funding for the increase in employer National Insurance Contributions. The funding will remain in the national funding total for local government in 2023/24 and 2024/25, but the allocation methodology is likely to change. Given the risks associated with the Fairer Funding reforms a reduced amount of £8.3m has been built into the budget on an ongoing basis.

4.5. The distribution of the £8m social care grant is allocated using the adult social care relative needs formula, with 12.6% used to adjust for the funding that could potentially be raised through the adult social care precept in 2022/23. This will help fund the additional funding of £13.4m for demography, increases to the National Minimum Wage, inflation, pay award and the National Insurance increase, that has already been added to the adult social care budget.

4.6. The final £1.9m for inflation to Settlement Funding Assessment (SFA) will be added to the Revenue Support Grant (RSG) and can be used for any purpose.

Continuation of the 2021/22 Adult Social Care Grant

4.7. In addition, all the existing Social Care funding received up to 2021/22 has been baselined. This includes the **£6.3m** Adult Social Care grant the Council received in 2021/22 which can now be built into the budget on a permanent basis.

Section 31 Business Rates Grants

4.8. The government has announced the freezing of the business rates multiplier in 2022/23. Local authorities will therefore be compensated via a section 31 grant. This and associated changes to other Section 31 grants total **£6m**, rising to £6.7m in 2023/24. There are emerging signs of potential pressure on business rates collection with the latest Omicron wave, and the likely need to pay a 2021/22 share of business rates to fund Greater Manchester wide initiatives funded from business rates as part of the 100% Business Rates Growth Retention Pilot. It is therefore recommended the 2022/23 allocation is used to offset these future risks and held in the business rates reserve. Future years funding has been built into the budget position.

One off funding (£8.1m)

4.9. There are two sources of funding which will end after 2022/23. These are:

- The New Homes Bonus grant 2022/23 of £333m of which Manchester's receipt is **£6.8m.** This was due to be reformed, however a further one-year payment is being made based on the October council tax return for new housing and houses being brought back into use, with the threshold over which the bonus is paid remaining at 0.4% growth in the Council Tax base. The Government has not yet responded to its consultation on new homes bonus reform.
- The **£1.3m** Lower Tiers services grant is set to continue for one more year.

4.10. As these are one-off there is a need to avoid creating additional pressures for 2023/24 when they drop out of the funding base. In line with the strategy outlined in the November budget report, it proposed to add the £8.1m to the budget smoothing reserve to be applied equally to help close the budget gap in 2024/25 and 2025/26.

Summary position

4.11. The tables below show the impact of the provisional settlement and proposed use of additional funds, as set out in the preceding paragraphs.

Table Two: Summary of additional funding

	National Total	**Forecast Additional Income**		
	2022/23	**2022/23**	**2023/24**	**2024/25**
	£,000	**£,000**	**£,000**	**£,000**
Share of £1.5bn announced in the Spending Review:				
2022/23 Services Grant	822,000	12,324	12,324	12,324
Additional Social Care Funding	636,400	8,047	8,047	8,047
Settlement Funding Assessment Increase	72,500	1,795	1,795	1,795
Less increased resources already assumed following Spending Review £1.5bn announcement		(16,000)	(16,000)	(16,000)
Settlement risk adjustment			(3,000)	(3,000)
Sub total	***1,530,900***	***6,166***	***3,166***	***3,166***
Other Ongoing Funding:				
Continuation of £300m 21/22 social care grant	300,000	6,313	6,313	6,313
Compensation for under-indexing the business rates multiplier	375,100	6,022	6,730	7,128
Sub total	***675,100***	***12,335***	***13,043***	***13,441***
One Off Funding:				
New Homes Bonus Scheme	333,000	6,774	0	0
Lower Tier Services Grant	111,000	1,302	0	0
Sub total One	***444,000***	***8,076***	***0***	***0***
Total additional income	**2,650,000**	**26,577**	**16,209**	**16,607**

4.12. The Provisional Finance Settlement and the proposals set out above, if approved, will reduce the 2023/24 budget gap from £57m to £38m and 2024/25 from £78m to £59m.

Table Three: Impact of settlement on budget gap

	Forecast Impact on budget position		
	2022/23	2023/24	2024/25
	£,000	£,000	£,000
Forecast Shortfall / (surplus) reported to Resources and governance 9 November	**(60)**	**57,139**	**78,204**
Additional resources following settlement	(26,577)	(16,209)	(16,607)
Transfer to Business Rates reserve (Collection fund risk)	6,022	0	0
Transfer one off funds to smoothing reserve to support future years budget	8,076	(4,076)	(4,000)
Spreading of additional funding to support pressures over three years	8,000	(4,000)	(4,000)
Budget to support known budget pressures	4,000	4,000	4,000
Revised forecast Shortfall / (surplus)	**(539)**	**36,854**	**57,597**

Investment proposals – additional pressures and priorities

4.13. The figures in this note are provisional and may change as further work is completed. The position will need to be updated again in January. This will include for the most up to date position for business rates and council tax collection and the key decisions made on the collection fund position and the council tax and business rates base for 2022/23. In addition, the final Finance Settlement, once received in February may change slightly.

4.14. Further considerable uncertainty remains around the position after the next financial year as consultation on the long-planned reforms to Local Government Funding will resume in Spring 2022. Expected changes include:

- Implementation of the 'fair funding' review of local authority financing. This will update the assessment of need and change the distribution of funding across Local Authorities. With the total funding envelop for Local Government remaining at 2022/23 levels, despite proposals for a transition to any new formula there will inevitably be gainers and losers from the changes.
- The Business Rates Reset will revise baselines for Business Rates income. This means all growth from 2013/14 will be removed from individual Local Authorities and redistributed on a basis yet to be determined.
- Review of New Homes Bonus – the scheme could be revised or ended completely with funds added back to Settlement Funding Assessment.

- Social Care Reform and the adequacy of the £3.6bn of funding to be made available across three years for implementation.

4.15. The funding announced for 2022/23 makes available £12m to fund additional pressures and emerging risks. Given the scale of the remaining budget gap for 2023/24 and 2024/25 and the risks set out above it is recommended that this is not all committed in 2022/23. Creating recurrent spending commitments for 2023/24 would increase the ongoing gap that would have to be closed by further saving. It is therefore recommended that this is used across a three-year period, for example at £4m a year.

4.16. Full detail of suggested priorities for funding will be presented to the Executive in February 2022. This could include priorities such as anti-poverty measures, waste and street cleaning. The suggested approach to funding over three years initially would give sufficient time to consider how any ongoing commitments could be mainstreamed into the base funding position.

Part Two: Impact on the Council's Budget

5. Summary position

5.1. The table below summarises the Medium-Term budget position after the impact of the settlement announcements and a full review of all the resources available and expenditure commitments.

Table Four: Summary budget position

	Revised 2021 / 22 £'000	**2022 / 23 £'000**	**2023 / 24 £'000**	**2024 / 25 £'000**
Resources Available				
Business Rates Related Funding	156,416	337,398	324,082	342,441
Council Tax	176,857	205,528	204,116	214,567
Grants and other External Funding	120,243	104,533	87,374	85,374
Use of Reserves	184,667	41,783	26,811	11,573
Total Resources Available	**638,183**	**689,242**	**642,383**	**653,955**
Resources Required				
Corporate Costs	123,097	140,794	113,378	118,016
Directorate Costs	515,086	547,909	565,859	593,536
Total Resources Required	**638,183**	**688,703**	**679,237**	**711,552**
Shortfall / (surplus)	**0**	**(539)**	**36,854**	**57,597**

6. Underpinning Financial Assumptions

6.1. This section of the report sets out the main assumptions which underpin the forecast medium term budget.

Local Resources

6.2. Local resources include Council Tax, Business Rates and commercial income, the main assumptions are as follows:

- Significant commercial income does not resume until after 2024/25 at the earliest.
- After the 2021/22 budget was set the estimated business rates appeal requirement was reduced due to the change in policy not to allow appeals related to the impact of COVID-19 (material change in circumstances) and fully refunded retail reliefs were extended. This has led to a one-off (2022/23) business rates surplus, estimated at £10.2m.
- Council Tax has been assumed to increase in line with the Provisional Finance Settlement referenda limits of 1.99% for core council tax and 1% for the Adult Social Care precept in each of the next three nears.
- An estimated Council Tax surplus of £6.9m (one off 2022/23) due to growth in the tax base with the delivery of new homes in Manchester, a lower number of student exemptions and fewer Council Tax Support claimants than originally estimated. The ongoing impact of the growth in the council tax base is forecast at c£4.2m a year.

2021/22 Estimated Impact of COVID 19 on Service Delivery

6.3. As part of the 2021/22 budget setting process £24m additional ongoing funding was included in the budget for the ongoing impact of COVID-19. The budget monitoring process has identified that the following amounts were not required due to either an overestimation of the impact of alternative funding being available. These have now been removed from the budget on a permanent basis:

- Adults Personal protective equipment (PPE) (£2.5m) as it has been agreed the anticipated costs are being covered by the Clinical Commissioning Group.
- Children's Services (£1.2m) recurrently due to a positive reduction in demand. This is linked to the preventative actions and investments targeted on the front door, edge of care and approach to permanency.

Inflation and Oncosts

6.4. Inflation is continuing to rise and the following provisions have been made within the draft Revenue Budget:

- The ongoing impact of the potential 2021/22 pay award (£0.8m) and assumed 3% increase per year (£7.5m a year).

- An uplift to National Living Wage of 6.6% to £9.50 per hour was announced as part of the Spending Review. An additional £2.5m in 2022/23 has been allowed for over the £3.1m already included in the 2022/23 budget.
- National Insurance increase of 1.25% (£1.5m).
- The full year effect of electricity price increases forecast at £7.2m next year reducing to £5.5m thereafter.
- Increased allowance to cover general contract inflation and gas of £4m (above existing £4m per year). This is net of additional income which could be achieved through a review of Sales, Fees and Charges. A 2.5% increase would raise around £2m and reflect the increases in costs of providing the services charged for.

Proposed measures to deliver a balanced budget

6.5. As set out in the reports to Scrutiny Committees in November 2021 a range of measures were identified to ensure a balanced budget for 2022/23 and to put the Council on as firm a footing as possible for 2023/24 and beyond. The reports set out emerging pressures of £3.2m and proposed mitigating measures of £7.7m. These are subject to formal approval as part of the 2022/23 budget setting process and are set out below.

Budget Pressures

6.6. The pressures of £3.2m are summarised in table five and detailed in the paragraphs which follow:

Table Five: Budget Pressures

	2022 / 23	2023 / 24	2024 / 25
	£'000	£'000	£'000
Core Pressures Identified	2,319	2,352	4,134
Neighborhoods Pressures Identified	464	464	464
Children's Centre's Maintenance	400	400	400
Total pressures	**3,183**	**3,216**	**4,998**

6.7. Corporate Core £1.264m net pressure (Gross pressure of £2.319m less savings £1.055m). As part of the work to review the budget the directorate has identified budget pressures, some offsetting savings measures and the need to reallocate some resources to reflect the changing priorities in the Directorate. There is a net budget increase of £1.264m which largely reflects two areas of cost which cannot be absorbed from within Corporate Services namely the reduction in court summons fees of £0.5m due to the reduction in summons due to the reduction in levels of Council Tax support residents had to pay in 2021/22 and changes to debt collection, and the additional costs associated with Gorton Hub. Full details are available in the budget report to Resources and Governance committee 9 November 2021.

6.8. Neighbourhood Services £464k pressures relating to CCTV (£264k) to cover increased contract costs for monitoring arrangements and Winter Services (£200k) for increased costs of service provision.

6.9. Childrens centres maintenance of £400k - In 2012, the Council took the decision to withdraw from the direct provision of day-care services to move to a new model, with the Council acting as commissioner of day-care services. As the estate is not in good condition maintenance costs are higher than day care providers anticipated and can afford. A review of the current arrangements with tendered day-care has been concluded and Executive have agreed a capital investment of £3m to improve the condition of these buildings. However, this is a 3-year programme and current projections indicate an ongoing budget shortfall. It is proposed that this pressure is funded going forward.

Budget Mitigations

6.10. The mitigations of £7.8m are summarised in table six and detailed in the paragraphs which follow:

Table Six: Budget Mitigations

	2022 / 23	2023 / 24	2024 / 25
	£'000	**£'000**	**£'000**
Proposed savings and mitigations:			
Core Savings	1,055	1,055	1,055
Adults	2,000	2,000	2,000
Homelessness demand management	1,716	3,765	6,237
Staffing budgets	2,000	2,000	2,000
Corporate Budgets	1,000	1,000	1,000
Total proposed mitigations	**7,771**	**9,820**	**12,292**

6.11. The mitigations of £7.8m are as follows:

- **£2m** from Adult Social Care that has not been needed is released on a permanent basis. This still leaves an additional £9m in the budget to deal with ongoing demand from COVID-19 which is deemed to be sufficient to meet the ongoing impact and demographic changes.
- £7m was added to the Homelessness budget in 2020/21. In addition, a £1.5m contingency remains and further funding has been announced as part of the Spending Review. It is unlikely that the further planned **£1.7m** per annum increase that was originally budgeted for 2022/23 will be required and this has now been removed from the budget assumptions, although the position will be kept under review.
- Core savings to mitigate pressures **£1.055m** as follows:

    - 1% increase in vacancy factor across Corporate Services to reflect actual levels of staff turnover £463k.
    - Capital Programmes **-** increased fee income and increased efficiencies from shared management arrangements with Northwards £230k
    - A reduction in supplies and services, printing, and mobile telephony costs £230k
    - Legal services increased fee income for works undertaken £82k
    - Registrars and Coroners **-** increased income from increased ceremonies £50k
- Review staff budgeting and vacancy factors. A 1% increase to the vacancy factor would more accurately reflect the fact that many employees are not at the top of the grade and the current levels of turnover and would generate budget savings of c.**£2m**
- Historic pension costs are continuing to reduce. In addition, there are some legacy financing charges which are no longer required. The relevant corporate budgets can be reduced by **£1m.**

6.12. A full breakdown of how the above will be allocated will be included in the February Scrutiny and Executive budget reports.

Further Budget Pressures

6.13. The £3.2m budget pressures identified did not include provision for any of the other known pressures and commitments facing the Council. The Provisional Finance Settlement does give some limited capacity to consider the priorities of improving the cleanliness of neighbourhoods, support to the anti-poverty agenda and tackling climate change. Further work is being carried out in advance of the February budget committee cycle on the expenditure required in these areas.

7. Strategy to close the remaining budget gap

7.1. As outlined above a significant budget gap of £36.9m remains in 2023/24, rising to £57.6m in 2024/25 and considerable uncertainty on funding after 2022/23. The potential delay in the return of significant commercial income until after 2024/25 also leaves the City Council in a weaker financial position unless proactive action is taken.

7.2. The above factors, along with the large number of risks facing local government as a whole, mean early work on the 2023/24 budget is required and has been planned. This will include:

- As part of the Future shape change programme work has started on defining the financial and operational benefits that each workstream will deliver. This work will inform a programme of savings to be developed. The move to a ‘digital first’ approach within the Council will be one of the areas where further savings will be identified.
- The continued work on Public Service Reform and management of demand / prevention will be important, particularly in limiting future demand growth.

- Work to identify invest to save approaches and budget efficiencies.

7.3. A programme of work will be developed around the above to enable the presentation of a balanced set of options early in the next municipal year. The work will target budget cuts and savings of c£40m per annum for 2023/24 and 2024/25.

8. Budget Smoothing Reserve

8.1. As part of the 2021/22 budget setting process £50m of reserves were ring-fenced to support the medium-term budget, although as this would have reduced the amount of unringfenced reserves to £98m, they would need to be replenished in future years. The £50m was to smooth the impact of funding reductions and loss of commercial income and had not been specifically applied to the revenue budget. It included the use of all the service transformation reserve and most of the capital fund.

8.2. The improved settlement position means consideration should be given to reducing the amount held to support the revenue budget to £30m and putting the reserves into a more sustainable position. It is recommended that £30m is still held given the scale of the remaining budget gap from 2023/24 and the uncertainty that remains around commercial income and dividends.

9. Budget Process for Health and Social Care

9.1. The section 75 agreement between MCC and Manchester Foundation Trust (MFT) includes a Financial Framework which sets out the approach to the management of an 'aligned' budget across MCC and MFT for the services in scope of the Manchester Local Care organisation (MLCO). The MLCO is hosted by MFT. The Adult Social Care (ASC) budget constitutes the Council's contribution to the aligned budget.

9.2. In April 2022 Manchester Health and Care Commissioning (MHCC) – the CCG in Manchester, will cease to exist with responsibility for health commissioning moving to the newly formed Greater Manchester Integrated Care System (ICS). ASC within the MLCO will be working with colleagues to ensure that this change is beneficial for Manchester residents and that we are continuing to strengthen the MLCO and maximise opportunities for integration including in our collective commissioning of the external market. The NHS funding regime is also going to look substantially different with a move away from the old payments by results system.

9.3. Ideally there would be a fully integrated budget process to support the MLCO position. Due to the uncertainty around the NHS reforms, the move to the Integrated Care System, what this means for existing CCG funding and responsibilities, alongside the fundamental changes to the NHS planning round, this is not going to be possible for 2022/23. The intention is to move to a fully integrated budget process for 2023/24 when funding streams should be clearer.

9.4. For 2022/23 a workshop will be held in January to review the following areas of work:

- Community Health - Confirm options for 2021/22 Waste Reduction Programme (WRP) and look at the impact of measures on urgent care, primary care, long term conditions and population health. Start discussion on the 2022/23 WRP target.
- Adult Social Care – To carry out a detailed review of how pressures can be met, the position on Better Outcomes Better Lives (BOBL) and the fair price for care work.
- Cross cutting – to consider options for corporate costs and the evaluation of care models

10. Next Steps

Budget Consultation

10.1. It is not anticipated that formal consultation on specific proposals will be required for 2022/23. There is a statutory requirement to consult with business rates payers. In addition, a public consultation on the proposed council tax increases will open 11 January and close on 8 February. The responses will be reported to Executive alongside the budget papers on 16 February.

Formal budget approval

10.2. 2022/23 budget will be subject to further scrutiny and formal approval as follows:

- 8-10 February 2022 - February Scrutiny Committees (see below)
- 16 February 2022 - Executive Proposed budget
- 28 February 2022 - Resources and Governance Budget Scrutiny
- 4 March 2022 - March Council 2022/23 Budget approval
- New Municipal Year – early options around 2023/24 and 2024/25 discussed with Executive members

10.3. At the February meetings all scrutiny committees will receive a short update on the Council's budget and a high-level update on the three-year position. The reports will be tailored to the remit of each scrutiny as shown in the table below.

Date	Meeting	Services Included
8 February 2022	Resources and Governance Scrutiny Committee	Chief Executives Corporate Services Revenue and Benefits / Customer and Welfare Support Business Units

8 February 2022	Communities and Equalities Scrutiny Committee	Sport, Leisure, Events Libraries Galleries and Culture Compliance and Community Safety Housing Operations including Homelessness Neighbourhood teams
9 February 2022	Health Scrutiny Committee	Adult Social Care and Population Health
9 February 2022	Children and Young People Scrutiny Committee	Children and Education Services
10 February 2022	Environment and Climate Change Scrutiny Committee	Waste and Recycling Parks Grounds maintenance
10 February 2022	Economy Scrutiny Committee	City Centre Regeneration Strategic Development Housing and residential growth Planning, Building Control, and licensing Investment Estate Work and skills Highways

11. Conclusion

11.1. Overall the settlement announcements were towards the positive end of expectations, although the collection fund position is still to be finalised. It is expected that mitigations in the region of £7.7m, as previously identified, will be sufficient to balance the 2022/23 budget.

11.2. The funding outlined in this provisional settlement confirms that the 2022/23 budget can be balanced without additional savings in addition to those already approved. It also brings some one-off capacity for the funding of emerging pressures and some smoothing of future years.

11.3. The pandemic and planned funding reforms make it difficult for government to set out a multi-year settlement, however this is the fourth one-year settlement in a row for councils which continues to hamper longer term financial planning. The one-off nature of the £12.3m services grant and the future of New Homes Bonus increase the uncertainty.

11.4. Officers have estimated the future resources available based on the information available. This results in forecast gap of £37m in 2023/24 increasing to £58m in 2024/25.

11.5. The focus will now be on identifying savings and mitigations to keep the council on a sustainable financial footing. It is proposed that budget cuts and savings of £40m per annum for 2023/24, 2024/25 and 2025/26 are developed for member consideration. £40m equates to just under 8% of 2022/23 directorate budgets. In addition, £30m of risk-based reserves have been identified as available to manage risk and timing differences.

Manchester City Council
Report for Information

Report to: Resources and Governance Scrutiny Committee – 11 January 2022

Subject: Revenue Budget Modelling – budget assumptions focussing on inflation and demand growth

Report of: Deputy City Treasurer

Summary

This report updates on the latest inflation and demand growth estimates which are included in the Medium-Term Financial Plan.

Recommendations

The Committee is recommended to note the report.

Wards Affected: None directly

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	

A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report sets out the announcements in the provisional local government finance settlement 2022/23 and the impact on Manchester City Council.

Financial Consequences – Capital

None directly 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.

Executive – 17 February 2021 Subject: Revenue Budget 2021/22

1. Introduction

1.1. The Committee has requested a report into the assumptions that support the revenue budget setting process, with particular regard to inflationary and demand or demographic pressures that are required to be funded as part of the budget process.

1.2. This report should be read in conjunction with the report on the impact of the Provision Finance Settlement on the 2022/23 budget setting process, also on the agenda.

1.3. The Council operates a medium term financial planning process and has developed a budget model to forecast the likely budget position for the current and next three years.

1.4. The assumptions take into the account the likely resources that will be available to fund the budget, including government grant funding, council tax and business rates income.

1.5. The Local Government Finance Settlement, provisionally announced before Christmas each year, makes assumptions at the national level on levels of both Council tax and business rates collection and uses these when setting the level of grant funding it provides for local government. It then applies a formula to distribute the grant funding to give each local authority a cash amount.

1.6. Councils in turn need to make local decisions about the actual rate of Council tax and business rates income that will be collected that can be used. The budgeted amount each year is calculated on the likely number of householders or business liable to pay, the expected collection rate and any increases to rates charged and the adult social care precept. All income raised from local taxation is paid into and accounted for within the Collection Fund. The amount of Council Tax and Business Rates to be drawn down from the Collection Fund are based on these key assumptions and are used to fund the Council's budget. Any surpluses or deficits from previous years also have to be adjusted for and added to (surplus) or taken away from (deficit) the budgeted amount.

1.7. The Council also makes assumptions around its use of reserves and whether it needs to add to or use its reserves.

1.8. On the expenditure side all spending assumptions are reviewed and updated, including corporate budgets such as levy payments and contingencies. The full detail is set out each year in the Revenue Budget Report.

1.9. This report focuses on the Directorate budgets for the provision of services to residents and the assumptions that are made on rising costs and levels of demand that the Council has a statutory duty to fund. It does not cover changes to the budget made due to policy decisions to invest more or less in particular services.

2. Inflationary Pressures

2.1. Inflation is a key pressure and provisions for general pay and price increases are made each year. The Council has already seen significant in year pressures around prices, particularly on energy, and the inflationary environment is much stronger than it has been in previous years. The following provisions have been made within the draft Revenue Budget:

Table 1 – Inflationary Pressures Assumptions 2021/22 to 2024/25

	Original 2021/22 £'000	Revised 2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Non-Pay Inflation	1,981	437	10,437	14,437	18,437
Sales Fees & Charges Inflation	0	0	(2,000)	(2,000)	(2,000)
Electricity Inflation	0	0	7,200	5,500	5,500
Pay Inflation	0	0	7,451	15,133	23,053
1.25% NI Increase	0	0	1,550	1,550	1,550
Pension Contribution Increase 1% estimate	0	0	0	0	2,200
Total	**1,981**	**437**	**24,638**	**34,620**	**48,740**

Non-Pay inflation

2.2. The Council tries to proactively manage inflationary pressures through its procurement approach on non-pay items, with Directorates expected to find efficiencies through changes in contract specifications and absorb wherever possible the impact of rising prices. However, not all inflationary pressures can simply be absorbed by services and the Council has traditionally made a non-pay allowance for inflation of £4m per annum, which has been held corporately, with Directorates requesting a drawdown when prices rises are unavoidable. In 2021/22, £3.563m has been allocated, leaving £0.437m available to roll into 2022/23. In light of the current high rates of CPI (5.1%) and RPI (7.1%) the 2022/23 budget assumes an increase in this allowance to £10m, before reverting to £4m a year from 2023/24, as inflation returns to its longer-term trend rate.

2.3. The Council trades a number of services and in setting its fees and charges, will need to cover the increased costs of delivering these services, an allowance of 2.5%, raising £2m, has therefore been made to offset the cost increases and to neutralise wherever possible the increased costs of trading on the general tax payer.

2.4. A key component and well publicised element of general inflation is in relation to energy prices, and in particular gas and electricity costs. The Council, as a big user of energy has already seen a large increase in electricity with the full year effect of the October 2021 electricity contract being £7.2m in 2022/23. This represented an 87% increase on the previous contract price (which was negotiated when prices were at an all-time low during the first phase of the pandemic). Prices are expected to reduce as prices fall from their peak, but the ongoing impact is expected to be £5.5m thereafter. Energy prices are currently extremely volatile and the increase in general inflation provision of £10m partially reflects this.

Pay Related Costs

2.5. The pay related costs include the following.

- An assumed amount to cover the cost of the pay award. As this is not yet known this has been assumed at a 3% increase per year (£7.5m a year) but does not in any way pre-empt the negotiation process. When budgeting for pay inflation, the Council looks across the public sector and compares confirmed pay awards for the NHS, teachers and police to assess the reasonableness of its assumptions
- Budgets have been updated to reflect the employers National Insurance increase of 1.25% (£1.5m) to fund the 'social care levy'.
- An assumed 1% increase to the employer pension contribution rate from 2024/25. This has been factored in for prudence, and will be informed by the actuarial valuation and updated when this is known in late 2023.

3. Demand and Demographic Pressures

3.1. Demand pressures included in model with inflation drives the majority of budget gap, so the management of early help, preventative and demand management strategies will play a central role to the balancing of future years budgets. The remainder of this section updates the Committee on the key assumptions applied in proposing a balanced budget for 2022/23 and work is going in all these areas to accurately predict and model these demand changes and the mitigating actions that the strategies produce.

3.2. The assumed levels of demographic and demand growth for 2022/23 to 2024/25 are illustrated in Table 2

Table 2 – Demand and Demographic Growth 2021/22 to 2024/25

	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Adult Social Care National Living Wage	1,870	5,731	5,590	5,983
Market Sustainability and Fair Cost of Care Fund	0	1,800	0	0
Adult Social Care Demography	2,962	2,222	2,329	2,636
Children Services	2,227	2,293	2,357	2,419
Total Demand and Demographic Growth	**7,059**	**12,046**	**10,276**	**11,038**

Adult Social Care

3.3. Each year an additional amount is allocated to the Adult Social Care budget to ensure that the additional costs of meeting the national minimum wage can be met. An uplift to National Living Wage of 6.6% to £9.50 per hour was announced as part of the Spending Review. This is an increase of £2.6m over the £3.1m already included in the initial 2022/23 budget assumptions. This will be passed through to our providers through our contracts. The total cost for the National Living Wage (NLW) increase is estimated at £5.7m 2022/23, £5.6m in 2023/24 and £6.0m in 2024/25. This will be reviewed annually.

3.4. The Council is a Living Wage employer and is moving towards ensuring that all social care contracts allow providers sufficient funding so they can pay the national living wage to their staff. This was achieved for home care providers with the retender in July 2019 when the fee rate paid was £15.89 per hour.

3.5. The recently announced Social Care Levy, (national insurance increase), has earmarked funding for Councils to pass onto social care providers to ensure social care workers are paid a "fair" rate of pay, which is linked to the "fair cost of care" for care home residents. Initial funding of £1.8m has been made available in 2022/23 as part of the provisional settlement. This is to local authorities to prepare their care market for reform and move towards paying providers a fair cost of care, as appropriate to local circumstances. More work is required to ensure that this can be achieved across all care home providers.

3.6. An allowance is also made for the increased demand associated with population growth and increasing demand for care (£2.3m 2022/23, £2.3m 2023/24, £2.6m 2024/25). Demographic calculations use MCCs Short and Long Term Return (SALT) data as the key activity data source and applies the population projections by age and gender which uses data derived from the Manchester City Council Forecasting Model (MCCFM). MCCFM projections are based on a combination of local and national data sources. The output represents deviations from changes driven purely by population change.

3.7. In 2020, we worked with a consultancy (IMPOWER) to carry out an in-depth analysis of Manchester's adult social care. Our current practices were reviewed and how our demand was expected to change over the next few years. Significant opportunities were identified to improve practices in order to reduce, prevent and delay demand on services, while also improving outcomes for people in Manchester. Better Outcomes Better Lives (BOBL) is the Manchester Local Care Organisation's (LCO) programme to transform the way that we deliver adult social care and is expected to deliver around £18.4m of savings a year by 2023/24.

Children's Services

3.8. Children's Services deliver the Council's statutory duties in relation to children in need, child protection, looked after children (LAC) and young people with care experience (leaving care service). It includes a range of services targeted to support families and help to avoid the need for children to come into care. It also provides short breaks and respite care services for disabled children and their families as well as Youth Justice Services.

3.9. The budget recognises the costs associated with increased numbers of children requiring help, support and protection and the complexity of their needs. The Directorate's budget approach is built upon four themes:

- Cost avoidance – preventive, timely and edge of care intervention
- Care planning - and continuous practice improvement
- Commissioning - collaboration and partnerships
- Service improvement/efficiencies

3.10. Following Ofsted's inspection in 2017 which judged Manchester's Children's Services to no longer be inadequate, the service has continued to make progress and improvements in the experiences, outcomes and quality of services provided to children and their families. The trajectory of continuous improvement has been sustained as reflected in later Ofsted focused visits (in 2018 and 2019), Peer Reviews and a Local Government Association Peer Reviews.

3.11. Despite a 28% increase in the City's child population since 2011 the number of looked after children (LAC) has not increased at the same rate. In March 2011 there were 1,391 LAC and in March 2021 1,371 LAC. This has led to a reduction in the rate per ten thousand from 131 to 111. In terms of national comparisons between 2008 and 2020 Manchester saw a reduction of 2% in numbers of children and young people in care compared to a 35% increase nationally over same period.

3.12. Our rate of 'children in need' at 360 per 10,000 has decreased by 2.7% since March 2018/19 and is currently below that of statistical neighbours. 17% of children discharged from care in the last 6 months have gone onto be the subject of Special Guardianship significantly larger than our statistical neighbours and English average at 13%. In addition, and attributable to timelier and quality of intervention, over time there has been a significant decrease in the number of children subject to child protection planning, this has reduced by 123 in the last six months, at 45.9 per 10,000 this performance is better than statistical and northwest neighbours.

3.13. In addition, there has been a reduction in the number of children and young people subject to child protection plans from 787 at the end of 2018/19 to 731 at the end of 2019/20 and increased the percentage of child protection conferences held within 15 days of the start of the Section 47 enquiry from 78.4% in 2017/18 to 88% in 2019/20.

3.14. The assumptions which are included in the budget take into account the initial work carried out by Grant Thornton in June 2019 which concluded October 2019 and build on this using the latest trend and evaluation data from Performance Reform and Innovation (PRI). There continues to be a growing child population in Manchester with increasing need for a statutory intervention – as evidenced by the growth in SEND, requests for Social Care intervention and Short Breaks (17%, 12%, 69% respectively). Given this there is a need for the investment in edge of care and early intervention to continue alongside and a 3% demographic growth assumption, derived from the work completed with Grant Thornton and refreshed for the latest data. The Medium-Term Financial Plan currently includes demography estimates of £2.3m in 2022/23, £2.4m in each of the following two years.

3.15. Increasingly the right response is occurring at the right time, preventing pressure escalating higher up the social care system. Preventative and Edge of Care evaluations show that when focusing on edge of care services and making the right decisions for children. However, it is very difficult to predict whether the stability in looked after placement numbers will continue. It is likely the pandemic has delayed some growth, however this is complex due to the volatile nature of safeguarding pressures and complex interaction between demographics, socio-economic trends and Children's Services activity.

Homelessness Services

3.16. The Homelessness Services are undergoing a significant change and improvement programme. This is focused on preventing people from becoming homeless and supporting individuals and families who find themselves homeless, to secure new permanent homes and better outcomes.

3.17. Since 2014 the homelessness service has seen almost a 600% increase in residents housed in temporary accommodation, against a national increase of 63%, this drives the need for the improvement programme and revised strategy.

3.18. The revised priorities for the service include:

- Significantly increasing the prevention of homelessness in the first instance Improving the quality-of-service provision for people and families who find themselves homeless
- Reducing the cost of the service by creating more innovative and sustainable housing options in temporary and permanent accommodation
- Delivering better outcomes for families and single people

3.19. The Homelessness Transformation Programme will transform the delivery of homeless services and includes the workstreams below:

- Seeking to end the routine use of B&B for families (households with children or pregnant household member), by changing the way we work and bringing forward the move into longer term accommodation for families.
- Redesigning the Homelessness Service through mapping and redesigning existing pathways and processes with an emphasis on increased prevention, improved customer journeys and outcomes, and reduced administration and failure demand.
- Undertake a comprehensive review of the Council's Temporary Accommodation provision and implement recommendations for service improvements and significantly reduced costs.
- Redesign of the Private Rented Sector (PRS) incentive scheme to increase the supply of PRS properties with an emphasis on homes in MCC (Manchester City Council).

3.20. As part of the 2021/22 budget setting process ongoing demographic funding for Homelessness had been included for 2022/23 at £1.7m, increasing to £6.7m by 2024/25. In addition a further £7m was added to the start budget for 2021/22 to reflect the additional impact of covid-19 on demand for homelessness services, in anticipation of the impact of the removal of the universal credit uplift and the tenant eviction ban ending.

3.21. Whilst the £7m has been utilised, this has been in response to the pandemic and action taken in 2021/22. It is expected that the changes to the service and additional government grant funding around the rough sleeper initiative (yet to be allocated to Councils) will mean that the budget to be sufficient for 2022/23, and that demand reductions and therefore budget reductions will be possible in future years. Further details will be provided as the Transformation Programme progresses in the coming months.

3.22. To manage risk in this area a £1.5m homelessness contingency reserve remains.

4. Conclusion

4.1. This report sets out the current assumptions around pay and non-pay inflation across the council and the forecast cost of anticipated demand increases within Social Care. The settlement and budget report elsewhere on the agenda details the wider context for the revenue budget. As part of the strategy for setting a balanced budget for 2023/24 and beyond continued work on Public Service Reform and management of demand / prevention will be a key part of the strategy to reach a balanced budget.

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Manchester City Council
Report for Information

Report To: Resources and Governance Scrutiny Committee – 11 January 2022

Subject: Funding of the Capital Programme

Report of: Deputy Chief Executive and City Treasurer

Summary

This paper provides a summary of the Council's proposed capital investment priorities, which will be included in the Capital Strategy report to Executive in February.

Recommendations

The Committee is asked to note and comment on the report.

Wards Affected: Various

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
Under the governance process for capital expenditure decision making, zero and low carbon measures are a key component. Each project must set achievable carbon reducing targets before being approved. For some projects, the aim of the investment will be to reduce the City's carbon impact, for example the Civic Quarter Heat Network.

Manchester Strategy outcomes	**Summary of the contribution to the strategy**
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The capital programme contributes to various areas of the economy, including investment in public and private sector housing, education and children's social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	The capital programme includes substantial investment in education and also provides opportunities for the construction industry to bid for schemes that could provide employment opportunities at least for the duration of contracts.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The capital programme includes investment in adult and children's social care, education, housing and the environment, cultural and leisure services, all of which contribute towards

	the strategy.
A liveable and low carbon city: a destination of choice to live, visit, work	Investment in all areas of the capital programme contributes towards the strategy, notably investment in sustainable and affordable housing, building schools for the future, transport, environmental and major regeneration programmes.
A connected city: world class infrastructure and connectivity to drive growth	Through investment in areas such as ICT and the City's infrastructure of road networks and other travel routes

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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.

Report to the Executive 17 February 2021 (Capital Strategy and Budget 2020/21 to 2024/25)
Report to the Executive 17 November 2021 (Capital Programme Monitoring 2021/22)

1.0 Introduction

1.1 This report seeks to provide the Committee with an update on the Council's capital financing position, based on the existing approved capital programme, the future constraints, and the prioritisation approach to capital investment.

2.0 Background

2.1 The Council sets a capital budget each financial year. However, unlike revenue expenditure, capital expenditure by its nature is not cyclical as it relates to the creation of assets, so the capital programme is managed on a rolling basis with approved projects added when required. The budget report reflects the programme at a specific point in time and represents all the projects which have received funding approval.

2.2 On an annual basis the Council publishes a Capital Strategy as part of the budget process, which sets out the governance arrangements, details the existing approved programme, and indicates potential future investment requirements. The approved programme has to be affordable within the revenue budget in terms of capital financing costs.

3.0 Development of the Capital Strategy

3.1 The Capital Strategy sets out the longer-term context for future investment and is developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability, and affordability.

3.2 The current capital programme includes planned investment of c£1.1bn by 2024/25. The details can be found in the November Executive report. This represents current approved spend and does not yet include future grant programmes and any additional planned investment. An updated capital programme will be included in the suite of February Budget reports.

	2021/22 forecast	**2022/23 forecast**	**2023/24 forecast**	**2024/25 forecast**	**Total**
	£m				
Highways	48.0	34.8	2.3	0.0	**85.1**
Neighbourhoods	38.6	55.1	17.1	0.0	**110.8**
The Factory and St John's Public Realm	50.6	38.5	0.0	0.0	**89.1**
Growth and Development	83.2	69.7	36.2	5.0	**194.1**
Town Hall Refurbishment	60.4	83.5	65.6	40.7	**250.2**
Housing – General Fund	18.6	15.4	12.7	2.7	**49.4**

Housing – Housing Revenue Account	28.3	56.5	22.4	5.5	**112.7**
Children's Services (Schools)	33.7	35.3	24.3	0.0	**93.3**
ICT	6.4	8.5	7.3	0.0	**22.2**
Adults, Children's, and Corporate Services	14.5	14.2	2.8	0.0	**31.5**
Total (*exc. Contingent budgets)*	**382.3**	**411.5**	**190.7**	**53.9**	**1,038.4**
Contingency Budgets	45.0	6.0	2.5	0.0	**53.5**
Total	**427.3**	**417.5**	**193.2**	**53.9**	**1,091.9**

3.3 The table below sets out the proposed funding for the current programme, which includes over £650m of borrowing.

	Draft funding 2021/22	**Draft funding 2022/23**	**Draft funding 2023/24**	**Draft funding 2024/25**	**Draft funding all years**
			£m		
Grants	97.2	76.0	42.6	0.0	**215.8**
Contributions	27.5	26.5	0.0	0.0	**54.0**
Capital Receipts	17.7	12.0	14.1	2.7	**46.5**
Revenue Contribution to Capital	29.4	52.0	20.7	5.5	**107.6**
Capital Fund	7.8	1.7	1.3	0.0	**10.8**
Borrowing	247.7	249.3	114.5	45.7	**657.2**
Total	**427.3**	**417.5**	**193.2**	**53.9**	**1,091.9**

3.4 The Capital Strategy for 2022/23 and beyond will consider future investment in the context of the financial constraints that the Council faces and market forecasts for interest rates. This report does not focus on the future priorities for capital investment but sets out how the capital financing arrangements work and the affordability and implications of any increased borrowing activity.

3.5 In terms of funding, the Council seeks to maximise the use of external grants and contributions to fund capital expenditure. The funding strategy recognises that capital receipts can only be used once, and therefore cannot provide a sustainable funding source. Projects which can generate an income stream to support capital financing costs and could therefore be considered fully or part self-funded are preferable, with prudential borrowing used as a last resort.

4.0 The Approach to Borrowing

Capital Financing Requirement

4.1 The Council's overall underlying need to borrow is called the Capital Financing Requirement (CFR). The CFR represents the level of borrowing that is required to fund the Council's current capital asset base (not just the current capital programme). This will include all historic and current schemes where the borrowing or debt has not yet been repaid.

4.2 In the Capital Strategy the Council is required to forecast the CFR and ensure that the associated borrowing costs are affordable. At the end of March 21, the total capital financing requirement for the Council is £1.65bn of which £0.9bn is covered by existing long-term debt and liabilities and the balance of £0.75bn is met from utilising the Council's cash backed reserves (known as internal borrowing).

Capital Financing Costs

4.3 When a capital project is funded from borrowing the associated revenue costs include the interest cost on the debt and the Minimum Revenue Provision (MRP). MRP is an annual revenue cost and is created to reflect the repayment of the debt. It is incurred annually over the life of the asset created, and in total will equal the borrowing used to fund the scheme. MRP must be paid on all capital projects with the only exception being loans provided to organisations where there are financial guarantees from a third party.

4.4 Borrowing is either from the Council's own resources (see below – where the Council uses its own cash balances) or borrowing external debt. In both cases MRP is payable.

Internal Borrowing

4.5 The Council's useable reserves are 'cash backed' i.e., there is physical cash in the bank or invested to support them. The current useable reserves (as per the 2021/22 Budget Report including earmarked reserves, General Fund reserve, Schools reserves and HRA reserves) are £515m. These are scheduled to reduce substantially by 2024/25.

4.6 The Council can choose whether to borrow externally, and incur external interest costs, or use its existing cash reserves and forgo any interest on those balances in what is known as internal borrowing. As the interest that can be gained from holding cash balances is lower than the interest rate paid on debt, the Council is one of many local authorities that has sought to maximise internal borrowing by using these funds to support the capital programme. When those reserves are required, the cash will need to be replenished from external borrowing. The Council is therefore delaying the need to borrow externally until the reserves are needed.

4.7 It is worth noting that this approach has, based on the current internal borrowing position noted above, avoided c. £15m of interest costs in this financial year based on current long-term interest rates.

5.0 How Capital Financing Costs are Funded

5.1 The Council has a c.£39.5m annual revenue budget for net capital financing costs. This incorporates interest costs related to external borrowing, MRP and interest income received on investments. The budget has been at a constant level for a number of years as any underspend has been used to create the capital financing reserve.

5.2 The capital financing reserve is a specific reserve created to support future capital financing costs. This was to recognise the need to repay the internal borrowing in the future, including for the significant borrowing requirement for the Our Town Hall refurbishment, and to smooth the impact of the increased borrowing costs on the revenue budget. In short, a reserve has been created to meet the increased capital financing costs in future years so there will be no additional pressures on the revenue budget, for the completion of the current programme.

6.0 Capacity for Additional Borrowing

6.1 The existing capital financing revenue budget and reserve are sufficient to cover the planned additional borrowing to fund the current approved capital programme and the planned use of reserves which will unwind some of the Council's internal borrowing. The Capital Financing Reserve as at March 2022 is expected to stand at c. £34.7m, and is available to support the additional revenue costs incurred from the additional prudential borrowing required and provides some flexibility to support additional borrowing for new capital priorities.

6.2 Due to the inherent uncertainty on future borrowing costs and the level of reserves held, it is not possible to say how much more prudential borrowing to fund the capital programme could be supported. As a rough estimate the reserve could support c. £100m of borrowing over the next 3-to-5-year Capital Strategy.

6.3 Whilst this is a significant sum, there are a number of competing priorities, and the reserve would also need to mitigate any overspend risks within the existing capital programme as well as new schemes.

6.4 This reinforces the importance of continuing to access grant funding, to seek external contributions to capital works, to support schemes that generate a revenue income stream that can repay borrowing costs, and to review the Council's existing asset base for potential disposals which could raise a capital receipt.

6.5 There may be scope to fund further borrowing from the revenue budget. However, it should be noted that a common feature of local authorities that have had to issue S114 notices is that they have been heavily borrowed and face high capital financing charges. It is also a balance between supporting capital funding priorities and the delivery of day-to-day Council services.

7.0 Conclusion

7.1 Careful financial management over a number of years of the Council's capital financing position has allowed significant capital investment and has mitigated the risks of the level of internal borrowing that the Council has.

7.2 The capital financing reserves are expected to deplete over the next ten years, as the capital programme is delivered, which will act as a constraint on any significant additional capital investment. There is a risk that additional revenue funding will be required, either to fund the investment directly or to increase the revenue budget for financing costs.

7.3 The Council will also need to ensure that its capital financing requirement and borrowing costs are proportionate and affordable in the longer term, so its overall financial position is not weakened. The new Prudential Code will place increased emphasis on regularly monitoring and reporting on the affordability of borrowing costs.

7.4 It is important to note that the forecasts in this report are based on market forecasts for interest rates and the capital and revenue monitoring positions, and therefore are subject to change. Officers will continue to monitor the capital financing forecasts and borrowing capacity.

8.0 Recommendations

8.1 The recommendations appear at the front of this report.

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Manchester City Council
Report for Information

Report to: Resources and Governance Scrutiny Committee – 11 January 2022

Subject: Budget Equality and Poverty Impact Assessments

Report of: Deputy Chief Executive and City Treasurer

Summary

This report provides details on how the approach to Equality Impact Assessments and Poverty Impact Assessments has developed over recent years and how these will be further embedded and strengthened in the Budget setting and business planning processes in the future. The report also covers the budget setting process for 2022/23 and the limited impact this will have on equalities and poverty.

Recommendations

The Committee is requested to note the contents of this report

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Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The production of an Equality Impact Assessment does not directly impact on the achievement of the city's zero-carbon target. However, it is recognised that some resident groups in Manchester will potentially particularly benefit from advancement on the zero-carbon agenda. Improving conditions for Manchester residents by tackling our climate change ambitions, helps create a more equal platform. More energy efficient housing, healthier households who are more active, safe and can access active travel and public transport will improve residents' lives. Reducing carbon emissions and improve air quality across the city will in turn help reduce health inequalities. Increasing and improving the quality, quantity and accessibility of green spaces and nature within the city, will enable all people to benefit from spending time in nature, resulting in improved physical and mental health and wellbeing of residents. Manchester City Council is mindful of a just transition to achieving its zero carbon ambitions and is conscious of not creating new forms of inequality and poverty and ensuring everyone benefits from the progress being made.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	EqIAs are a vital component of how the Council has due regard for equality and equitability in its decision making processes. Communities and customers are the focus of the EqIAs and the analysis allows the Council to safeguard and enhance community potential and wellbeing in the delivery of its business. This analysis is relevant across all service areas and functions, and covers a diverse range of resident groups. As such, the EqIA framework potentially connects with all of the Our Manchester Strategy outcomes. As the city's economy recovers post COVID-19, it is critical that our residents with protected characteristics will benefit from the opportunities created.
A highly skilled city: world class and home grown talent sustaining the city's economic success	Achieving good educational attainment for people with protected characteristics is needed, alongside fostering talent diversity, and enabling equality of opportunity amongst the city's workforce. All are needed to ensure we sustain the city's economic success.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Enhancing our understanding about our diverse communities and their inequalities will provide an overview of where further work needed to tackle inequality.
A liveable and low carbon city: a destination of choice to live, visit, work	Events and cultural activity that reflect and celebrate the diversity of the city are essential to making Manchester cohesive and a vibrant place to live and visit. And that we have a built environment that is accessible to all people with protected characteristics
A connected city: world class infrastructure and connectivity to drive growth	Transport and digital inclusion is a key driver of a connected city and essential to enable residents with protected characteristics to fully participate in the all the city has to offer and digital opportunities in jobs and skills.

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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.

Manchester's support for families living in poverty, Economy Scrutiny Committee – 9 September 2021; Executive – 15 September 2021

Spending Review and Budget Update, Resources and Governance Scrutiny Committee – 9 November 2021

1.0 Introduction

1.1 Manchester City Council has a long-standing commitment to promote equality, celebrate diversity and advance inclusion. This commitment has underpinned the Council's decision making and business planning processes for some years, with equality featured explicitly in business planning documents and Equality Impact Assessments (EqIAs) carried out for both budget proposals and business as usual changes to Council functions.

1.2 Funding announcements in the government's spending review on 27 October and provisional local government finance settlement on 16 December confirmed that the circa £7.7 million savings and mitigations, as reported to Resources and Governance committee on 9 November, are sufficient to deliver a balanced budget next year. The detail on these can be found in the report of the Deputy Chief Executive and City Treasurer elsewhere on the agenda which provides more detail on the Local Government Finance Settlement and budget position. The measures do not include any policy changes or measures that would require an EqIA.

1.3 This committee is asked to note the contents of this report, in particular the amendments being made to future years to ensure both Equality and Poverty impacts are considered during the development of any budget proposals.

2.0 Equality and poverty impact approach

2.1 The completion of equality analyses, to assess the implications of the business planning process for protected groups, is now a well-established approach and work has been continuing to ensure it is fully embedded and used effectively. As previously reported to this committee, the Council has a two-tiered equality analysis methodology:

- A brief Equality Relevance Assessment tool (ERA) helps services to assess whether there is any relevance to protected groups and / or the Equality Duty stemming from their functions, where this is not immediately clear.
- Where there is a demonstrable relevance to equality issues, services are required to complete a more detailed Equality Impact Assessment (EqIA), to establish the nature of any impacts arising and to help inform what action can be taken to avoid a disadvantageous impact.

2.2 The standard EqIA template was amended in 2020 to streamline the process and allow for swift decision-making whilst retaining due regard for equality. The Council took the opportunity to add several characteristics to the template, in addition to those protected by the Equality Act 2010 (the Act). These additional characteristics reflect a greater breadth of inequalities than those addressed by the Act, and touch upon the provisions of Section 1 of the Act, the Socioeconomic Duty (which was not enacted). The additional characteristics are:

- Ex-armed forces personnel and their families
- Children, families and other people living in poverty

- People with continuing health conditions
- People with caring responsibilities
- Trans people, non-binary people and other consideration of gender identity (a broader definition than ‘gender reassignment’ as protected by the Act)
- Homeless people
- Any other group identified as relevant to the activity (must specify)

2.3 The inclusion of poverty in the budget-related assessment template is particularly useful as it is recognised that some of the characteristic groups most likely to be impacted by budget reductions / service changes are also some of those most likely to be living in poverty. The EqIA template allows for a high-level assessment of poverty impact, and where it is identified that this is a distinct issue related to their proposals, a more in-depth analysis will be undertaken using a fuller Budget Impact on Family Poverty Assessment template. This tool assesses poverty in relation to place and service, as well as focusing on key groups, including workless families, people in receipt of Housing Benefit or Universal Credit and lone parents.

2.4 The Family Poverty Strategy and been recently reviewed, as detailed in Appendix One to Manchester’s support for families living in poverty, Economy Scrutiny Committee – 9 September 2021 and Executive 15 September 2021. In response to this, a new Poverty Strategy for the city will be developed in 2022 to include all households; those with and without children, and people with protected characteristics, in line with the evidence presented.

3.0 2023/24 onwards: future approach

3.1 The size of the budget gap over the medium term is significant and compounded by uncertainty around funding levels. The Council has developed a strategy to enable a balanced 2022/23 budget position. This enables a focus on the more sizeable challenge of balancing the budget over the medium term.

3.2 A programme of work will be put in place to develop a set of options to balance the budget in the next municipal year. At present the estimated budget gap is £37m in 2023/24, rising to c£58m by 2024/25. Initially the work will identify options for c£40m that can be achieved in 2023/24. £40m represents almost 8% of 2022/23 directorate budgets. Proposals will be supported by robust business cases. Importantly the business cases will include ERAs, EqIAs and Poverty Impact assessments which will be undertaken as the proposals are developed.

3.3 The budget setting process is also being further integrated with the Council’s Corporate Plan and Business Planning process. The work that will be carried out on individual business cases will be complimented by work to consider the collective impact of the options proposed and how the overall budget changes will impact on equalities, poverty and ultimately our residents. Each Directorate will need to review how the use of their budget as a whole, not just that of budget savings/reductions, might mitigate or positively impact on equality, anti-poverty, and how social value can be maximised.

4. 2022/23 Budget proposals

4.1 As stated above, the budget proposals for 2022/23 are minimal and are largely budget adjustments which do not directly impact on service delivery. There is no direct impact on any protected characteristic and / or any aim of the general equality duty. Equality and Poverty impact Assessments will not be required.

4.2 The budget will include a proposal to increase Council Tax in line with the Spending Power assumptions set by central government. This increase in Council Tax payable will directly impact on all Manchester residents, especially those already, or at risk of, living in poverty. As part of the budget setting process, a full Equality and Poverty Impact Assessment is being carried out. This will consider the impact of the council tax increase and the range of support provided to Manchester residents including discretionary support schemes, as well as support to manage the payments and repay debt.

5.0 Recommendations

5.1 Members are requested to note the contents of this report