

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee –
7 January 2020
Health Scrutiny Committee - 7 January 2020
Children and Young People Scrutiny Committee –
8 January 2020
Neighbourhoods and Environment Scrutiny Committee –
8 January 2020
Economy Scrutiny Committee - 9 January 2020
Communities and Equalities Scrutiny Committee –
9 January 2020

Subject: Updated Financial Strategy and Budget Reports 2020/21

Report of: The Chief Executive and the Deputy Chief Executive and City
Treasurer

Summary

This report provides an update on the Council's overall financial position and sets out the next steps in the budget process, including scrutiny of the draft Budget proposals and Budget report by this Committee. Each Scrutiny Committee will receive a budget report aligned to its remit, showing the main changes proposed to delivery and funding. The services to be considered by each scrutiny committee are shown at table four. The report also outlines the officer proposals for how the Council could deliver a balanced budget for 2020/21, the details of which will be discussed at the relevant scrutiny committees.

Recommendations

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

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The proposed 2020/21 budget will reflect the fact 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 how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	This report provides an update on the Council's overall financial position for 2020/21 which will underpin all of the Council's priorities as determined through 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	

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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.

Suite of budget reports to Executive, 13 February 2019-
<https://democracy.manchester.gov.uk/ieListDocuments.aspx?CIId=147&MIId=292&Ver=4>
Spending Round Announcement 2019 report to Resources and Governance Scrutiny Committee – 8 October 2019

<https://democracy.manchester.gov.uk/documents/s10560/Spending%20Round%20Announcement%202019.pdf>

1 Overview

- 1.1 At its meeting on 13 February 2019 Executive agreed the 2019/20 budget, which was the final year in the three year budget strategy for 2017-20. It was envisioned that there would be a spending review in 2019, resulting in a new multi-year settlement from 2020/21. Due to national priorities this has not happened and a one year spending round was announced on 4 September 2019 instead.
- 1.2 The provisional settlement was originally expected 5 December however due to the dissolution of parliament on 6 November, following the general election announcement, this was not possible. The technical consultation for the provisional settlement was published 3 October and contained more information than usual, this has been used as the basis for the government funding expectations in the 2020/21 budget. Further details have been released on the budget, however there remain a number of areas which require clarification, these will all be picked up in the report to February committees.
- 1.3 The proposed 2020/21 budget will reflect the fact we have declared a climate emergency and will also continue to reflect the priorities identified in the three-year budget strategy. These were developed following consultation with Manchester people on what they valued most, which was:-
- care and support for vulnerable people, including older people and those with learning disabilities and mental health needs;
 - taking action on family poverty and giving young people the best start in life;
 - tackling homelessness;
 - supporting people into jobs and training;
 - keeping roads and neighbourhoods in good shape; and
 - parks and leisure to keep people active and happy.
- 1.4 The 2020/21 budget will be a one year roll over budget. The strategic framework remains the Our Manchester Strategy, the Corporate Plan and the Locality Plan. Whilst the Council is publishing a one year budget in line with the one year spending round there is a need to plan for a three year position. This is critical to demonstrate forward planning and resilience, ensuring the Council is in a strong position to respond to the national funding changes. Work has begun on the budget requirements for 2021/22 and beyond. This is in the context of considerable changes to Local Government Funding including the outcome of the Spending Review, changes to how local government funding is distributed, changes to the Business Rates Retention scheme, and the future of Adult Social Care funding.

2 Budget Context

Our Corporate Plan

- 2.1 Our Corporate Plan sets out the Council's priorities for the next 2-3 years which will deliver the three-way push and contribute to the council's vision for

the city. A number of key activities will support delivery of a number of our corporate plan priorities including:

- Delivery of our approach to place-based reform in Manchester - Bringing Services Together for People in Places
- Integration of Health and Social Care through partnership arrangements with the NHS
- Delivery of the Local Industrial Strategy which will deliver inclusive and green growth for the city of Manchester
- Delivery of Our Transformation - a new Council-wide portfolio of programmes which has been set up with a view to changing how we work as an organisation to ensure we can deliver our corporate priorities and specifically ensure that we are a 'well managed council'
- Continuing to ensure that the 'Our Manchester' approach is the way we do things here, rather than a thing we do

2.2 As such, our Corporate Plan priorities have been refreshed for 2020/21 to reflect the city's zero carbon ambitions and declaration of the climate emergency, the launch of the local industrial strategy for the city, the headlines from the 2019 State of the City report, and the planning for internal transformation. The eight Corporate Plan priorities, in no order of importance, are shown below:

- Zero carbon Manchester: Deliver the ambition for Manchester to become a zero carbon city by 2038 at the latest, achieving the science-based carbon budget for the city
- Young people: From day one, support Manchester's children to be safe, happy, healthy and successful, fulfil their potential, and make sure they attend a school graded 'good' or better
- Healthy, cared-for people: Work with partners to enable people to be healthy and well. Support those who need it most, working with them to improve their lives
- Housing: Ensure delivery of the right mix of good-quality housing so that Mancunians have a good chance of quality homes. Accelerate and sustain the delivery of more housing, ensuring the provision of enough safe, secure and affordable housing for those on low and average incomes.
- Neighbourhoods: Work with our city's communities to create and maintain clean and vibrant neighbourhoods that Mancunians can be proud of
- Connections: Connect Manchester people and places through good-quality roads, sustainable transport and better digital networks
- Growth that benefits everyone: Boost the city's productivity and create a more inclusive economy that all residents can participate in and benefit from, and contributing to reductions in family poverty, as set out in the Our Manchester Industrial Strategy
- Well managed Council: Support our people to be the best and make the most of our resources

Our Business Plan

2.3 Our Council Business Plan 2020-21 describes in more detail the action being taken to deliver the corporate plan this year. The plan is structured around the

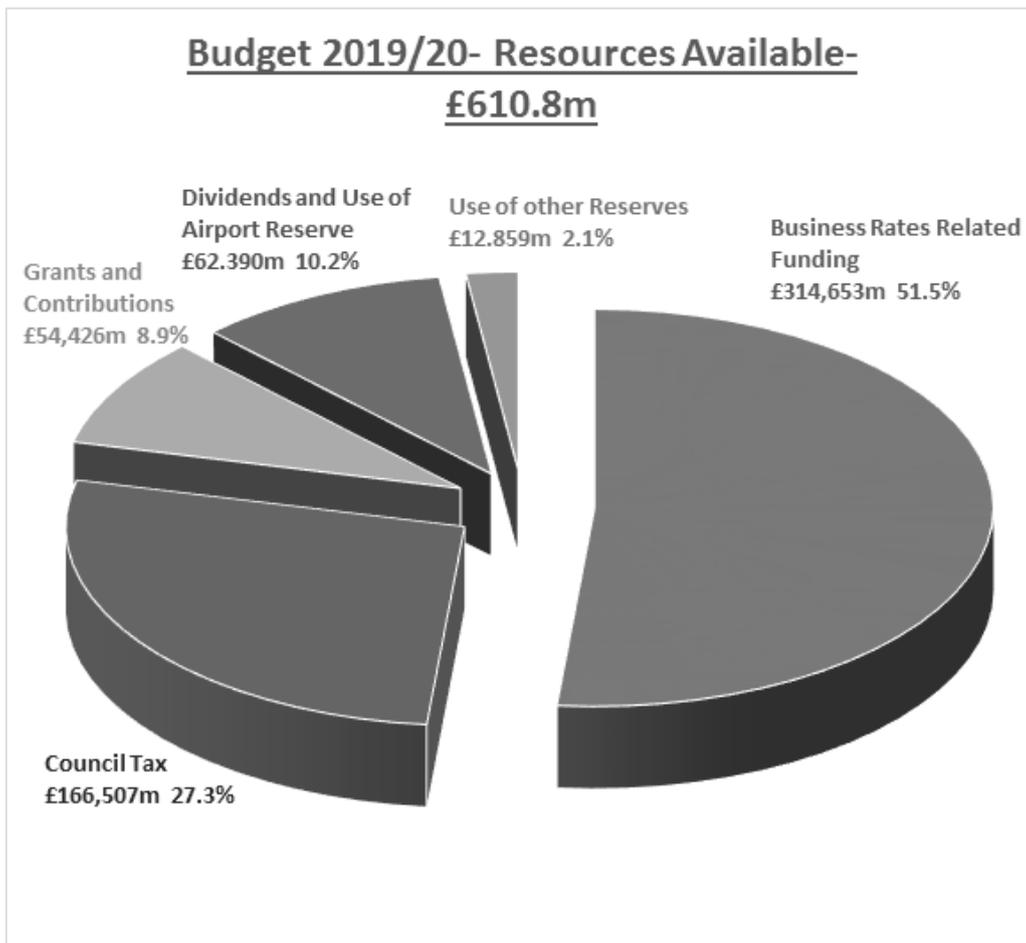
eight priority themes and has been produced following the development of 41 service plans which describe in more detail the achievements, priorities and activities of the 41 services which collectively make up Manchester City Council. The plan also describes the Council's key workforce and technology considerations for 2020-21 as key enablers to delivering our Corporate Plan. Equalities implications are also described as well as our approach to risk management.

National Context

- 2.4 The budget for 2020/21 is being set in a period of austerity which began with the 2011/12 Budget. The Local Government Association (LGA) have calculated that by 2020 Local Government will have delivered £16bn in savings to the Treasury, whilst also absorbing inflationary increases, maintaining the delivery of services to communities and facing increasing Social Care demands. Public health grant funding will have reduced by £531m between April 2015 and April 2020. Between 2010/11 to 2019/20 the City Council's Spending Power (as defined by government) has reduced by £179m (29%) compared to an England average reduction of 16%. This has resulted in required budget cuts of £372m from 2010/11 to 2019/20 inclusive, after taking into account inflation and rising demand, and a reduction of almost 4,000 FTE (around 40% of the workforce). Recent years cuts have been less severe but local government spending is still much lower in real-terms than it was in 2010.
- 2.5 The need to make budget cuts is expected to continue over the next four years. The LGA is estimating that by 2025 Local Government Services face a funding gap of at least £7.8bn, just to stand still, much of this relating to social care.

2019/20 Baseline Budget

- 2.6 The Council's net revenue budget is funded from five main sources which are Council Tax, Business Rates, government grants, dividends and use of reserves. In recent years as central government funding has reduced and business rates retention has been introduced the ability to grow the amount of resources raised locally has become even more important for financial sustainability and planning.
- 2.7 The Council has been part of the Greater Manchester Business Rates pilot since 2017/18 which has enabled retention of 100% of business rates growth (rather than sharing 50/50 with the government). Continuation of the pilot has been confirmed for 2020/21, however from 2021/22 it is currently anticipated that arrangement will be in line with the rest of the country, which is expected to move to 75% retention.



2.8 As reported to Executive 19 December an in-year overspend of £4.2m is forecast for 2019/20 of which £6.8m relates to Adults services and £2.6m to Children's, offset by underspends in the remaining directorates. The full-year effect of the position in 2019/20 has been reflected in the 2020/21 proposals.

2.9 Other important elements of the council's budget include:

- The level of usable reserves which need to be appropriate to the amount of risk faced. The majority are earmarked for specific purposes; the only unallocated reserve is the General Fund Reserve of £22m. This is held to meet costs arising from unplanned events, acts as a buffer to help mitigate against the financial risks the Council faces and is used to smooth expenditure across years.
- The Capital budget totals £356m in 2019/20, including projects totalling £70m on behalf of the GMCA
- The Treasury Management Strategy ensures effective management of the council's cash and determines the required levels of borrowing to fund capital spend and the most effective method of borrowing.

3 The Revenue Budget Position 2020/21

3.1 This report sets out the main assumptions used to build up the City Council's budget options for 2020/21. These underpin the budget reports which will be presented to all Scrutiny Committees in January, before going to January

Executive for consideration, taking into account the comments from Scrutiny. The full details of the assumptions supporting the final budget proposals will be set out in the budget report to Executive on 12 February 2020 and will form part of the suite of budget reports presented to Committee. However, it should be noted that this timeline is subject to the timing of the Finance Settlement from the Government.

3.2 The Spending Round announcements were reported to the Resources and Governance Scrutiny Committee on 16 October 2019. The technical provisional settlement consultation released early October gave confirmation of a 'roll forward' settlement for 2020/21 and set out more detail on the Government's plans for allocating resources to local authorities.

3.3 The government funding announcements impacting on the budget available to the Council are as follows:-

- Increase in Settlement Funding Assessment for inflation (c1.7% - CPI as at September) which equates to £3.9m for the council.
- Continuation of existing social care funding at 2019/20 levels, using the same methodology as 2019/20. The Council receives £35m, including improved Better Care Fund (iBCF) of £24.4m, additional iBCF £3.8m, winter pressures £2.7m and social care grant £4.6m.
- Indicative allocation of the £1bn additional Social Care Grant for adult and children's services using Adults Relative Needs formula plus an element of equalisation for the relative ability to increase Council Tax income. There are no ring fencing or reporting requirements relating to this funding. The Council's indicative allocation is £13m of which £7m is expected to support Adults services and £6m for Children's as set out in more detail in the respective reports.
- The NHS contribution to adult social care, through the Better Care Fund, will increase by 3.4% in real terms in 2020/21. For the Council this is an estimated c£0.8m in 2020/21 in addition to £0.9m additional in 2019/20.
- The Spending Round announced a real terms increase to the Public Health Grant budget, expected to be 2.7%, an increase of £1.363m. For the City Council Public Health expenditure is not currently grant funded but is now met from retained business rates. The Councils business rates tariff payment to government should be reduced accordingly. The funding announcements made assume that the city council will fund this out of the devolved budget, which is a council decision. Without this increase inflationary increases for NHS and non-NHS contracts will not be affordable and there will be insufficient capacity for sexual health, drug and alcohol and school nursing.
- This additional grant will be recognised through an adjustment to the business rates top-up/tariff as the Council continues to be in the Greater Manchester 100% Business Rates pilot.
- The proposed referendum principles for council tax are a core increase of 2% and an adult social care precept of 2%. For the Council each 2% equates to around £3.2m additional income.
- It is expected that there will be a redistribution of the surplus held in the national levy account in 2019/20, which should be confirmed in the provisional settlement. The national amount has been estimated at £45m

which would equate to £675k for Manchester. This included in the budget a year in arrears to recognise the risk as the final amount is dependent on the national position in relation to safety net and levy payments and receipts.

3.4 Where indicative City Council amounts are quoted these are based on an assumption that the distribution will be in line with current methodologies, therefore are subject to change when the settlement is received.

3.5 In relation to expenditure budgets there have been updates relating to the impact of expected increases to the National Living Wage (on both Council Staff and commissioned contracts), pension contribution costs, the waste levy and other pressures outlined in the budget reports. The Council's budget position has been updated for known changes and likely changes based on the best information available to date. The main underlying assumptions are as follows:

- Council Tax - 1.99% general precept increase, collection rate c95.5%, base growth c2.4%.
- The council has agreed to consult on the 2% Adult Social Care precept increase, which would raise an additional £3.3m. If agreed it is proposed to prioritise this to support adults with Learning Disabilities to meet increased need and complexity of citizens.
- Business Rates - growth assumed in line with the most recent data and developments; the final budget for 2020/21 will be based on the December 2019 business rates figures
- Additional commercial income of £8m - this has a one-year time lag which will assist with the 2021/22 position
- GMCA return/refund relating to Business Rates and Waste Disposal of £7.2m. This is a non-recurring payment spread equally across 2020-22.
- Allowance for continued increase in need based on detailed external advisory work carried out for Children's Services, review of the Adults Social Care budget including the application of the DAS demographic model; and the current upward trend in the demand for Homelessness Services.
- Pay award assumed to be in line with the Chancellor's commitment of national living wage of £10.50 by 2024/25 - aligned to the Local Government pay scale
- Increase to reflect national living wage (statutory) increases related to Adult Social Care (note move to the real living wage will continue to be phased).
- c£4m (or c2%) for non pay inflation to offset pressures in this area, notably utilities and care costs
- Change in the Employer Pension Contribution rate following completion of the Pensions Actuarial Review. Notification has recently been received that the City Council's contribution rate will decrease slightly, reducing by 0.4% from 19.1% to 18.7%, which is estimated to save c£0.8m per year.
- The Waste Levy estimate for disposal costs has been updated in line with the latest information from the Greater Manchester Combined Authority.

- 3.6 All existing savings targets are assumed to be delivered in 2020/21 unless they have been identified as not achievable in which case alternative options and/or funding arrangements are being proposed. All directorates have been working to identify new savings proposals and/or efficiencies to support the position including meeting current budget pressures through the realignment of budgets. In recognition of the challenges faced by Adults and Children's Social Care and the Homelessness Service, any savings identified in these areas will be used to achieve a breakeven position in 2020/21, with a focus on stabilising the position and preparing for savings in 2021/22 onwards. In total savings and efficiency options of £2.9m have been identified, as summarised in the table below; these are further detailed in the relevant Directorate reports to Scrutiny.

Table 1: Net Savings Options 2020/21

	2020 / 21 Savings Options Identified	2020 / 21 Pressures/ Priorities Identified	Net savings options supporting bottom line
	£'000	£'000	£'000
Homelessness	1,000	(1,000)	0
Corporate Core	3,450	(2,873)	577
Neighbourhood Services	2,324	(754)	1,570
Growth and Development	690	0	690
Total Savings Options	7,464	(4,627)	2,837

- 3.7 The changes outlined above would enable a balanced budget to be achieved for 2020/21, with a small contribution to the General Fund reserve of £0.3m as shown in the table below.

Table 2: Budget Position 2019/20 (Latest) and 2020/21 (Proposed)

	Latest Budget 2019/20	Proposed Budget 2020/21
	£'000	£'000
Resources Available:		
Business Rates Related Funding	314,653	328,067
Council Tax	166,507	169,852
Other non-ring fenced Grants	65,077	65,398
Dividends and Use of Airport Reserve	62,390	62,890
Use of other Reserves	12,859	21,481

Total Resources Available	621,486	647,688
Resources Required:		
Corporate Costs:		
Levies/Charges	69,990	71,327
Contingency	850	994
Capital Financing	44,507	46,907
Transfer to Reserves	17,718	920
Sub-Total Corporate Costs	133,065	120,148
Directorate Costs:		
Additional Allowances and other pension costs	10,030	9,580
Insurance Costs	2,004	2,004
Directorate Budgets	474,124	505,180
Inflationary Pressures and budgets to be allocated	2,263	10,520
Total Directorate Costs	488,421	527,284
Total Resources Required	621,486	647,432
Transfer from / (to) general fund	0	(256)

3.8 The provisional cash limit budget for each directorate is shown in the table below.

Table 3: Cash Limit budgets 2019-21

	2019/20	2020/21
	£'000	£'000
Children's	119,933	128,120
Adults	197,907	220,703
Homelessness	13,933	15,285
Corporate Core	69,554	69,960
Neighbourhood Services	66,981	63,468
Growth and Development	5,816	7,644
Total	474,124	505,180

3.9 There remains volatility in the final position for 2020/21 and further changes are anticipated following the publication of the provisional Local Government Finance Settlement (delayed from 5 December), the updated council tax and

business rates position based on the latest information, and formal notifications of any contributions or rebates from the Greater Manchester Combined Authority.

4 Risks and Mitigation

- 4.1 All savings options have been risk rated and each Directorate will maintain their own monitoring arrangements alongside the corporate assurance process. The detailed savings tracker is sent to Senior Management Team on a monthly basis and reported to Executive Members.
- 4.2 Reporting has developed over the last three years and the council has now integrated finance, performance, workforce and risk information into one report supporting a move to advising leaders of the organisations challenges and successes in a single regular summary.
- 4.3 The Council needs to be satisfied that it can continue to meet its statutory duties and meet the needs of vulnerable young people and adults. Options have been drawn up on the basis that Strategic Directors are satisfied that this requirement will be met.

5 Scrutiny of the Draft Budget Proposals and Budget reports

- 5.1 The service budget reports and Council Business Plan are attached for the Committee's consideration. These reports contain details of how services will support the delivery of the Council's priorities as set out in the Corporate Plan. The reports have been tailored to the remit of each scrutiny as shown in the table below.
- 5.2 The Committee is invited to consider the options which are within its remit, alongside the draft business plan and to make recommendations to the Executive before it agrees the final budget proposals.

Table 4: Scrutiny Reports

Date	Meeting	Budget Paper
7 Jan 2020	Resources and Governance Scrutiny Committee	Report covering the Corporate Core and the relevant parts of Growth and Development Directorate (Operational and Investment estate and facilities management)
7 Jan 2020	Health Scrutiny Committee	Adult Social Care and Population Health This is supplemented by: <ul style="list-style-type: none"> ● Draft MHCC Plan on Page, Joint Budget Report 2020/21 and

		refreshed Manchester Locality Plan <ul style="list-style-type: none"> • Summary of draft MLCO Operating Plan 2020/21
8 Jan 2020	Children and Young People Scrutiny Committee	Children and Education Services
8 Jan 2020	Neighbourhoods and Environment Scrutiny Committee	Report covering Neighbourhoods and Relevant services from Growth and Development (Housing and Residential growth)
		Homelessness report
9 Jan 2020	Economy Scrutiny Committee	Report covering Growth and Development and the relevant parts of Neighbourhoods (Business Units)
9 Jan 2020	Communities and Equalities Scrutiny Committee	Report covering relevant services from Neighbourhoods

6 Next Steps

- 6.1 Recommendations from the Scrutiny Committees will be considered by the Executive at its meeting in January 2020 when it considers the draft budget proposals. These will incorporate any changes arising from the Local Government Finance Settlement and other funding announcements which are expected in early January.
- 6.2 The Executive will agree its final budget recommendations on 12 February 2020. These recommendations will be considered by the Resources and Governance Scrutiny Committee at its special budget meeting on 24 February. Chairs of the other five Scrutiny Committees will be invited to attend this meeting to articulate the views of their Committee regarding the proposals. The Council will then make its final decisions and will set the budget on 6 March 2020.
- 6.3 There are no formal consultation requirements identified from the options put forward however there is a statutory requirement to consult with business rates payers. A public consultation on proposed council tax increases is planned from 6 January to 2 February 2020.
- 6.4 The timeline is detailed below.

Table 5: Budget Timeline

Date	Event
4 - 6 February 2020	Scrutiny Committees receive budget reports and associated savings proposals
12 February 2020	Executive - proposes budget - suite of budget reports (revenue and capital) Final Corporate Plan
24 February 2020	Budget Resources and Governance Scrutiny - Revenue and Capital
6 March 2020	Budget Council

7 Conclusions

- 7.1 The Council remains committed to the priorities within the Our Manchester strategy and the Council's corporate plan. The proposed 2020/21 budget reflects changes arising from the Spending Round announcements, forecast pay awards, notifications from GMCA and a robust review of all council service spend to realign budgets and identify savings options.
- 7.2 The draft budget is based on the best information available to date, however there will be changes arising from the outcome of the Local Government Finance Settlement, changes to Council Tax or Business Rates (when figures are finalised in January), and final notifications from the GMCA of the allocations to Districts.
- 7.3 Whilst the additional funding from the Government announced in the Spending Round is welcomed, it is not considered sufficient to address the underlying need, particularly following the austerity measures implemented since 2010/11. There remains no clear longer term national funding plan beyond 2020/21, with uncertainty in a number of key funding areas. Most notably, the outcome of the 2020 Spending Review (delayed from this year), the distribution of funding across local government (through the Fair Funding Review) and the impact of the anticipated business rates reforms and reset. Whilst the Council is publishing a one-year budget for 2020/21 in line with the single year spending round announcement from Government, work is ongoing to plan for a three year position based on the latest information available. This is critical to demonstrate the financial resilience of the Council and assist services in their future planning, ensuring the council is in a good position to respond to national funding changes.