

Manchester City Council Report for Resolution

Report to: Resources and Governance Scrutiny Committee - 4 February 2020
Health Scrutiny Committee - 4 February 2020
Children and Young People Scrutiny Committee - 5 February 2020
Neighbourhoods and Environment Scrutiny Committee - 5 February 2020
Economy Scrutiny Committee - 6 February 2020
Communities and Equalities Scrutiny Committee - 6 February 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 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 five. The report also outlines the 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

- Spending Round Announcement 2019 report to Resources and Governance Scrutiny Committee – 8 October 2019
- Updated Financial Strategy and Budget Reports 2020/21 to Resources and Governance Scrutiny Committee 7 January 2020
- Provisional local government finance settlement: England, 2020 to 2021, 20 December 2019
- Budget Update report to Executive 15 January 2020

1. Introduction and Approach

- 1.1. This report updates on the overarching revenue budget for 2020/21. The direction for the budget is underpinned by the Our Manchester Strategy for the City, with the Council's updated Corporate Plan setting out the priorities for the Council. The Locality Plan 'Our Healthier Manchester' is also set within the context of the Our Manchester Strategy.
- 1.2. The full suite of budget reports to be presented to February Executive and Resources and Governance Budget Scrutiny will include:
- the Budget 2020/21 Covering Report;
 - the Revenue Budget 2020/21;
 - the Directorate Business Plans;
 - the Housing Revenue Account;
 - the Dedicated Schools Grant;
 - the Capital Strategy and Budget; and
 - the Treasury Management Strategy and Borrowing Limits and Annual Investment Strategy.

These reports together underpin the detailed financial spend of the Council for the coming year and provide a framework for Revenue and Capital planning from 2020/21. A Single Council Business Plan has also been developed, which replaces the individual directorate business plans produced previously. This will also be considered by the Executive in February.

- 1.3. At its meeting on 13 February 2019 Executive agreed to the 2019/20 budget, which was the final year in the three year budget strategy for 2017-20. At this point it was expected that there would be a spending review in 2019, resulting in a new multi-year settlement from 2020/21. However, the review did not take place and a one year Spending Round was announced on 4 September 2019. Following this the Provisional Local Government Finance Settlement 2020/21 was released on 20 December 2019.
- 1.4. The budget proposals for 2020/21 will continue to reflect the priorities identified in the three-year budget strategy and as set out in the Corporate Plan. These have been updated to include action required to address the climate emergency declared by the Council. The priorities are:
- Zero carbon Manchester - Lead delivery of the target for Manchester to become a zero carbon city by 2038 at the latest, with the city's future emissions limited to 15 million tonnes of carbon dioxide.
 - 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.

- 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.

1.5. Due to the announcement of a one year Spending Round by government the Council will publish a single year budget for 2020/21, however, it will continue to plan for a three year position based on the best information available. This is critical to demonstrate forward planning and support resilience, ensuring the Council is in the best position to respond to the national funding changes. Work has begun on the budget requirements for 2021/22 and beyond 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.

1.6. This report will provide an update on:

- the position reported to January Scrutiny Committees including the proposed savings and efficiencies
- Council Business Plan feedback and updates
- changes since the January Scrutiny meetings and further updates on funding
- the budget setting process and next steps

2. Position reported to January Scrutiny Committees

2.1. As set out in the budget strategy report to the January Scrutiny Committees the forecast 2020/21 budget position was a small surplus of £256k. This was based on the best information available to date, including:

- Government funding announcements in the September Spending Round and the technical provisional settlement consultation released early October.
- Forecast changes to spend including the impact of expected increases to the National Living Wage, pension contribution costs, the waste levy and other pressures outlined in the scrutiny budget reports.
- Identification of savings and/or efficiencies to support the overall financial position including meeting current budget pressures through the realignment of budgets.

2.2. Savings totalling a net £2.837m, once cost pressures have been met, have been identified in Corporate Core, Neighbourhood Services and Growth and Development Directorates. These are being found through a combination of

efficiencies, income generation and innovation and should not impact on frontline services to residents. In recognition of the challenges faced by Adults and Children’s Social Care and the Homelessness Service, any efficiencies identified in these areas will be used to help achieve a balanced budget in 2020/21, with a focus on stabilising the position and preparing for possible changes from 2021/22 onwards.

- 2.3. With regard to homelessness, the service has identified a potential increase in income of £1m in 2020/21 relating to Housing Benefit for temporary accommodation which will be available from DWP based on a small scale transfer of existing properties to be managed by Registered Providers (RPs) by end of March 2020 and increasing incrementally throughout 2020/21, this will reduce the net cost to the Council. The option under consideration would target a transfer of properties outside of the city boundaries and the approach has been agreed in principle with registered providers. The financial due diligence is being undertaken to achieve the first transfer of 100 properties by the end of March 2020.
- 2.4. All proposals were presented to the relevant Scrutiny Committees in January for comment and the table below summarises these by Directorate.

Table One: Net Savings Options 2020/21

| | 2020/21 Savings/ Income Options Identified | 2020/21 Pressures/ Priorities Identified | Net savings options supporting budget |
|------------------------------|---|---|--|
| | £'000 | £'000 | £'000 |
| Homelessness | (1,000) | 1,000 | 0 |
| Corporate Core | (3,449) | 2,872 | (577) |
| Neighbourhood Services | (2,324) | 754 | (1,570) |
| Growth and Development | (690) | 0 | (690) |
| Total Savings Options | (7,463) | 4,626 | (2,837) |

3. Council Business Plan Feedback and Updates

- 3.1. Our Council Business Plan replaces individual directorate business plans produced in previous years. The plan is structured around the eight priority themes of our corporate plan 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 Council.

- 3.2. Each priority theme section describes:
- The priority theme, including key strategies and plans which are helping to drive delivery
 - Key achievements driving delivery of this priority theme in the last year
 - Planned activities and initiatives across council services which will drive delivery of the priority theme in 2020-21
 - The key measures which will determine whether the activities have been successful
- 3.3. The full draft document was presented to all Scrutiny Committees for comment and feedback in January. A number of minor changes have been made to the document following the meetings, many of which were as a result of the queries and feedback which focused on:
- areas requiring clarification/further detail
 - specific comments on a number of the metrics included in the document, and
 - queries relating to the approach to Equalities, Diversity and Inclusion.
- 3.4. The Equalities, Diversity and Inclusion section in the Council Business Plan includes detail of the approach taken to meeting the Council's obligations under the Public Sector Equality Duty, building on successes at fostering good relations between Manchester's communities of identity and maintaining fair and equal access to Council functions.
- 3.5. The changes made to the plan are as follows:
- In the 'measures of success' section in each priority section, the illustrative outturn figures from 2017/18 and 2018/19 have been removed to enable focus on future performance.
 - Some wording updates have been made to the Young People and Neighbourhoods sections to ensure accurate read-across and reference to other strategies and plans.
 - Notes and changes have been added to some of the metrics to clarify the availability of data, to better articulate trends in the narrative, and for metrics which were previously described as only a 'rate per 1,000' the actual number is now also referred to.
 - The 'Healthy, Cared for People' section now includes reference to a number of metrics and has been restructured to more clearly align to the wider health and social care partnership planning arrangements.
- 3.6. The final document will be presented to the meeting of the Executive on 12th February.
- 4. Changes to budget position from the January Scrutiny meetings to the current date**
- 4.1. The position shared with Scrutiny Committees in early January was an expected 2020/21 budget surplus of £256k. A balanced budget is now

proposed and the changes are shown in the table below. The details will be set out in the February reports to individual Scrutiny Committees, the Executive and Resources and Governance Budget Scrutiny Committee.

Table Two: Impact of changes since January scrutiny meetings

| | 2020/21 £000 |
|--|-------------------------|
| Estimated Surplus (reported to Scrutiny Committees early January) | (256) |
| Additional New Homes Bonus Grant | (662) |
| Revised Inflation on Settlement Funding Assessment | 165 |
| Revised Inflation on Public Health Funding | 36 |
| Updated Statutory National Living Wage from 1 April 2020 | 550 |
| Increase to Waste budget to reflect reduction in trade waste disposed through the Levy | 283 |
| Application of waste contingency | (134) |
| Reduction in Council Tax Support Admin Subsidy | 18 |
| Additional pressure - Children's Services | 1,701 |
| Increase in Business Rates income - final NNDR | (3,780) |
| Contribution to Business Rates Reserve | 2,079 |
| Net Budget | 0 |

Local Government Provisional Finance Settlement

4.2. The 2020/21 Local Government Provisional Finance Settlement was announced on 20 December 2019, delayed from the expected date of 5 December due to the December general election. With the delay in both the Fair Funding Review and reform of business rates, combined with a one-year spending round, the 2020/21 funding is largely a roll-over settlement with some inflationary increases and specific increases for Social Care as announced in the Spending Round. The provisional settlement confirmed all announcements in the 2020/21 Spending Round including:

- Increasing Settlement Funding Assessment (SFA)¹ in line with inflation from £14.6bn to £14.8bn
- Confirming the proposals for Council Tax referendum limits for 2020/21

¹ Settlement Funding Assessment (SFA) consists of: local share of retained business rates, plus Revenue Support Grant plus top-up or less tariff.

- An additional £1 billion Social Care Grant for both adult and children's services and maintaining improved Better Care funding at 2019/20 levels
 - £900m top slice to pay for New Homes Bonus in 2020/21 and maintaining the growth threshold at 0.4%
- 4.3. New Homes Bonus (NHB) will continue for another year, however the government intends to phase it out by 2023/24. There is no change in the operation of the scheme in 2020/21 and the threshold has been retained at 0.4%.
- 4.4. The impact of the announcements on the Council's budget position are:
- New Homes Bonus is £0.662m higher than budgeted following the baseline threshold remaining at 0.4%.
 - Settlement Funding Assessment is £165k less because Government have inflated by 1.63% rather than 1.7% originally assumed as per the CPI announcement
 - Public health (CPI + 1%) has not yet been confirmed within the figures, however, bearing in mind the level of inflation used above, it is considered prudent to include an increase of 2.63% (rather than 2.7%) which is £36k lower than originally assumed. For the Council Public Health expenditure is not currently grant funded but is now met from retained business rates. The Council's business rates tariff payment to the government should be reduced accordingly. The funding announcements made assume that the Council will fund this out of the devolved budget, which is a council decision.
- 4.5. The Council has submitted a response to the settlement consultation which was published alongside the settlement, and closed on 17 January 2020.

Statutory National Living Wage

- 4.6. On 31 December 2019, the Government announced the new statutory National Living Wage of £8.72 per hour to apply from April 2020. This was slightly higher than the original hourly rate assumptions within the budget and resulted in a further budget requirement of £0.550m.

Council Tax referendum principles

- 4.7. The budget assumes that the Council will increase the council tax precept by 3.99%, made up of a general precept element of 1.99% and the specific social care precept element of 2%. The Council is consulting on the 2% Adult Social Care precept increase.
- 4.8. The overall council tax increase to Manchester residents may be higher as the total council tax payable will also include changes to the Greater Manchester Mayoral precept and the Police precept. No referendum limit is proposed for Mayoral Combined Authorities in 2020/21.

Council Tax Base

- 4.9. It is to be noted that the Deputy Chief Executive and City Treasurer, in consultation with the Executive Member for Finance and Human Resources, has agreed under her delegated powers to set the tax base for Council tax setting purposes in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.
- 4.10. This calculation has to be based on data available on 30 November 2019 and the decision must be made between 1 December 2019 and 31 January 2020. The Council has to notify the precepting authorities of its calculation for 2020/21 by 31 January 2020. The tax base for tax setting purposes for the year 2020/21 was agreed on 8 January 2020 at 118,864.8. This is in line with the existing assumption.

Decisions for Council Tax Surplus and Business Rates Surplus

- 4.11. The Council Tax surplus of £5.988m for 2019/20 has been declared, of which Manchester will retain £5.028m. The Business Rates surplus is £12.202m and Manchester will retain £12.080m. These are reflected in the budget as set out in table three below. All budget changes will be detailed in the reports to the Executive and Resources and Governance Budget Scrutiny Committee later in February.

5. Revised budget position 2020/21

- 5.1. The changes outlined above would enable a balanced budget to be achieved for 2020/21 as shown in the table below. As requested by Resources and Governance Scrutiny Committee both the original and revised budget for 2019/20 are shown.
- 5.2. The provisional cash limit budget for each directorate is shown in the table below

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

| | 2019/20 Original | 2019/20 Revised | 2020/21 Proposed |
|--------------------------------------|-----------------------------|----------------------------|-----------------------------|
| | £000 | £000 | £000 |
| Resources Available: | | | |
| Business Rates Related Funding | 314,653 | 314,653 | 339,547 |
| Council Tax | 166,507 | 166,507 | 174,465 |
| Other non-ring fenced Grants | 54,426 | 65,752 | 66,717 |
| Dividends and Use of Airport Reserve | 62,390 | 62,390 | 62,890 |
| Use of other Reserves | 12,859 | 12,859 | 21,481 |
| Total Resources Available | 610,835 | 622,161 | 665,100 |
| Resources Required | | | |
| Corporate Costs: | | | |

| | | | |
|--|----------------|----------------|----------------|
| Levies/Statutory Charge | 69,990 | 69,990 | 71,327 |
| Contingency | 1,600 | 850 | 860 |
| Capital Financing | 44,507 | 44,507 | 44,507 |
| Transfer to Reserves | 7,067 | 18,393 | 18,338 |
| Subtotal Corporate Costs | 123,164 | 133,740 | 135,032 |
| Directorate Costs: | | | |
| Additional Allowances and other pension costs | 10,030 | 10,030 | 9,580 |
| Insurance Costs | 2,004 | 2,004 | 2,004 |
| Inflationary Pressures and budgets to be allocated | 9,945 | 1,764 | 10,271 |
| Directorate Budgets | 465,692 | 474,623 | 508,213 |
| Total Directorate Costs | 487,671 | 488,421 | 530,068 |
| | | | |
| Total Resources Required | 610,835 | 622,161 | 665,100 |
| | | | |
| Shortfall / (surplus) | 0 | 0 | 0 |

- 5.3. The provisional cash limit budget for each directorate is shown in the table below:

Table Four: Cash Limit budgets 2019-21

| | Original Budget 2019/20 | Revised Budget 2019/20 | Proposed Budget 2020/21 |
|--|--------------------------------|-------------------------------|--------------------------------|
| | £'000 | £'000 | £'000 |
| Children's and Education | 120,434 | 120,432 | 130,320 |
| MHCC Pooled Budget | 194,050 | 193,604 | 216,864 |
| Adult Social Care - Services out of scope of Pooled Budget | 4,213 | 4,303 | 4,389 |
| Homelessness | 13,375 | 13,933 | 15,285 |
| Corporate Core | 67,838 | 69,554 | 69,960 |
| Neighbourhoods | 60,267 | 66,981 | 63,751 |
| Growth and Development | 5,515 | 5,816 | 7,644 |
| Total | 465,692 | 474,623 | 508,213 |

6. Other budget Issues

- 6.1. There remains some potential movement in the 2020/21 position and further changes are anticipated following the publication of the Final Local Government Finance Settlement expected in February and other funding announcements, these include:

- Confirmation of the redistribution of the surplus held in the national levy account in 2019/20, which should be confirmed in the final settlement
- Confirmation of the allocations for the remainder of the government funding for homelessness support
- Public Health allocations are yet to be confirmed. The Spending Round announced a real terms increase to the Public Health Grant budget, expected to be 2.63%, an increase of £1.328m.
- The Spending Round announced an additional £40m funding for Discretionary Housing Payments to tackle affordability pressures in the private rented sector in England and Wales. The authority level allocations are yet to be announced. The Council currently receives £2.2m in Discretionary Housing Payments Grant.
- The Conservative Party manifesto announced £500m funding for a Potholes Fund. Local Authority level allocations have not yet been published.

7. Scrutiny of the Draft Budget Proposals and Budget reports

- 7.1. 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.
- 7.2. 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 Five: Scrutiny Reports

| Date | Meeting | Budget Paper |
|------------|--|---|
| 4 February | 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) Housing Revenue Account |
| 4 February | 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 |
| 5 February | Children and Young People Scrutiny Committee | Children and Education Services Dedicated Schools Grant |

| | | |
|------------|---|---|
| 5 February | Neighbourhoods and Environment Scrutiny Committee | Report covering Neighbourhoods and Relevant services from Growth and Development (Housing and Residential growth) |
| | | Homelessness report |
| 6 February | Economy Scrutiny Committee | Report covering Growth and Development and the relevant parts of Neighbourhoods (Business Units) and Housing and Residential growth |
| 6 February | Communities and Equalities Scrutiny Committee | Report covering Neighbourhoods |

8. Next Steps

- 8.1. Recommendations from the February Scrutiny Committees will be considered by the Executive at its meeting 12 February 2020 where it will agree its final budget recommendations. 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.
- 8.2. The timeline is detailed below.

Table Six: Remaining 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 |

9. Budget Position from 2021/22

- 9.1. Work is ongoing to establish 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, a review of local authorities relative needs and resources (also known as the Fair Funding Review) which will consider how local government funding is distributed, reform of the Business Rates Retention scheme, and the government proposals on the future of Adult Social Care funding and interaction with the NHS 10-year long term plan. The government is expected to make a budget announcement on 11 March 2020 which may give some clarity on the direction of funding for Local Government.
- 9.2. With regard to the Fair Funding review, little detail is, as yet, available on the potential impact. However, on 24 January 2020 the Local Government Association released an exemplification for adult social care funding based on research by the Personal Social Services Research Unit (PSSRU); and which is expected to inform the individual Local Authority allocations. This calculation has been widely reported and shows a potential reduction in funding of c14% overall for Manchester. At 2018/19 national spend levels (on which the exemplification is based) this would equate to a cut of around £22m, though it is noted the weighting of Adults in the 2021/22 formula is yet to be determined. It is recognised that this is just one element of the overall funding envelope for Local Government, but nevertheless is very concerning for Manchester. It is expected that there will be time limited transition funding. However, at this stage, the Government is yet to announce its formal funding proposals.

10. Conclusions

- 10.1. The Council remains committed to the priorities within the Our Manchester strategy and the Council's revised corporate plan. The proposed 2020/21 budget reflects changes arising from the Spending Round announcements, the Provisional Local Government Finance Settlement 2020/2, forecast pay awards, notifications from GMCA and a robust review of all council service spend to realign budgets and identify savings options.
- 10.2. The draft budget is based on the best information available to date, however there will be potential changes arising from the outcome of the Final Local Government Finance Settlement and other government funding announcements.

11. Recommendations

- 11.1. The recommendations appear at the front of this report.