

## **Manchester City Council Report for Resolution**

**Report to:** Resources and Governance Scrutiny Committee - 21 July 2020  
Executive - 29 July 2020

**Subject:** Global Revenue Budget Monitoring Report to the end of May 2020

**Report of:** Deputy Chief Executive and City Treasurer

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### **Summary**

The report outlines the projected outturn position for 2020/21, based on spend and income as at the end of May 2020 and future projections.

### **Recommendations**

The Resources and Governance Scrutiny Committee is recommended to note the global revenue monitoring report and a forecast outturn position of a £5.476m deficit, which it is anticipated will be balanced by government funding.

The Executive is recommended to:

1. Note the global revenue monitoring report and a forecast outturn position of a £5.476m deficit, which it is anticipated will be balanced by government funding.
2. Approve the use of budgets to be allocated in Appendix 1 Slide 8.
3. Approve the use of grants in addition to that already planned, as detailed in Appendix 1 (slide 9).
4. Approve the proposed virements in Appendix 1 (slide 9).
5. Approve an increase in Growth and Development Directorate budget of £0.957m for the Local Welfare Assistance Fund as referenced in paragraph 3.2.
6. Approve an increase in the Corporate Core Directorate budget of £225k for New Burdens funding in respect of the costs associated with administering the business rates grants schemes (Small Businesses Grant Fund and Retail, Hospitality and Leisure Grant Fund), see paragraph 3.2.
7. Delegate the allocation of the COVID-19 tranche 3 grant funding to individual services to the Deputy Chief Executive and City Treasurer in consultation with the Executive Member for Finance and Human Resources, see paragraph 3.3.

To recommend that the Executive approve, under the emergency provision of the Council Decisions on 25 March 2020 - "Constitutional Amendments and Other Matters for Council Business Continuity - Part 7", the following changes to the revenue budget:

8. The use of reserves, in addition to that already planned, of £1.000m for Adults Social Care as shown in Appendix 1 Slide 9.

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**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.

| <b>Manchester Strategy outcomes</b>   | <b>Summary of the contribution to the strategy</b>  |
|---|---|
| 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. |
| 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

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### **Financial Consequences – Revenue**

The report identifies a projected deficit for 2020/21 of £5.476m, based on the financial implications of COVID-19, government funding confirmed to date and other identified changes, in year efficiencies and mitigations. It is anticipated this can be met through the Council's share of the third tranche of emergency funding for income loss (yet to be allocated).

This report focuses on 2020/21, however it is anticipated the implications of COVID-19 will have a significant impact on the councils finances for a number of years. With the likely scale of funding pressures and future resource reductions, it is important that the Council holds a robust position on reserves and maintains the ability to deal with issues that arise during the financial year.

### **Financial Consequences – Capital**

The revenue budget includes funding to meet the capital financing costs of the Council. Changes in the capital programme can affect the budget to meet such costs.

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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 on 12 February 2020 - Medium Term Financial Plan  
Meeting of the Executive 3 June 2020 - Revenue Budget - Update for COVID-19 Funding 2020/21  
Resources and Governance Scrutiny committee 23rd June 2020 - COVID-19 update  
Meeting of the Executive 3rd July 2020 - COVID-19 Monthly Update Report

## 1 Introduction

- 1.1 This report provides an overview of the Council's current financial position and the work underway to develop a balanced budget for 2020/21. It should be noted that the COVID-19 related forecasts included in this report are based on the return to MHCLG submitted on 19 June. The next return deadline is 31 July and the figures will continue to be refined as costs crystallise and income implications become clearer.
- 1.2 The forecast budget shortfall relating to COVID-19 pressures is £64.5m this financial year, after allowing for confirmed funding to date and Period 2 identified efficiencies, mitigations and other changes. The forecast overall position for 2020/21 is a deficit of £5.476m after taking account of confirmed government funding and other corporate mitigations, changes, and the councils estimated share of the third tranche of emergency funding. It is anticipated this can be mitigated through the councils share of the third tranche of emergency funding (yet to be allocated)
- 1.3 This report includes the following sections:
- Overview of COVID-19 financial implications
  - Additional Central Government funding for COVID-19 response
  - Overview of the overall forecast financial position 2020/21
  - Measures taken to balance the budget in 2020/21
  - Conclusion and recommendations

## 2 Overview of COVID-19 Financial implications

- 2.1 The anticipated financial cost of COVID-19 to the Council is currently £166.26m, including £0.39m in 2019/20. Of the remaining £165.87m, £31.35m relates to additional expenditure and £134.52m to loss of income.

**Table one: COVID-19 Forecast Financial Impact**

|                                      | <b>COVID-19 Financial impact</b> |
|--------------------------------------|----------------------------------|
|                                      | <b>£000</b>                      |
| 2019/20 cost pressures               | 389                              |
| 2020/21 forecast cost pressures      | 31,348                           |
| <b>Total forecast cost pressures</b> | <b>31,737</b>                    |
| Forecast Income Shortfalls           | 134,524                          |
| <b>Total</b>                         | <b>166,261</b>                   |

- 2.2 The financial impact of COVID-19 during 2020/21 will fall over two budget years (2020/21 and 2021/22) due to the following factors:

- Any surplus or deficit on the Collection Fund (which covers both business rates and council tax income) is reflected in the year following that in which the income is (or is not) collected.
- The Council has an airport dividend reserve which means that a significant proportion of the income (£56m) is used a year in arrears and therefore the impact on the budget is next year.
- Finally, the budget shortfall has been adjusted for bus lane and parking lane enforcement income as this impacts on the level of the reserve to fund future commitments.

2.3 This has resulted in the financial effect of COVID-19 for 2020/21 and 2021/22 being as per table two below. This also includes further financial pressures into 2021/22 from anticipated continuing income losses (council tax, business rates, dividend) and further costs from placements in areas such as Adult Social Care, Children's and homelessness.

**Table two: Summary of COVID-19 Impact across 2020/21 and 2021/22 (exc funding announcements)**

|  | <b>2019/20<br/>£000</b> | <b>2020/21<br/>£000</b> | <b>2021/22<br/>£000</b> |
|--|-------------------------|-------------------------|-------------------------|
| <b>COVID-19 Emergency Funding (Confirmed)</b>                              |                         | <b>33,756</b>           | <b>0</b>                |
| Additional Costs (MCC only)  | 389                     | 31,348                  | 24,965                  |
| <b>Income:</b>   |                         |                         |                         |
| <b>Loss of Income (MCC only)</b>   |                         | <b>134,524</b>          | <b>105,932</b>          |
| Adjustment for element of airport dividend not budgeted to use in year     |                         | (55,809)                | (8,729)                 |
| 2020/21 Council Tax and Business Rates shortfalls impact a year in arrears |                         | (40,249)                | 40,249                  |
| Bus Lane and Parking Income - impact on reserves capacity                  |                         | (5,358)                 | 0                       |
| <b>Budget impact of lost income</b>  | <b>0</b>                | <b>33,108</b>           | <b>137,452</b>          |
| <b>Total Costs and Net income losses</b>                                   | <b>389</b>              | <b>64,456</b>           | <b>162,417</b>          |

2.4 For the purpose of the June return to MHCLG, the guidance advised costs and income shortfalls should be estimated assuming that there was a return to the pre COVID-19 position at the end of July 2020, and costs thereafter should be using the local authority's own current planning assumptions for longer term annual impacts. Allowance has been made for costs that will continue past July (for example, the costs of social care placements and homelessness for example) and this includes assumptions on loss of income based on the best evidence available (eg airport dividend will be lost for the full year).

*Total forecast COVID-19 cost pressures*

- 2.5 Dealing with the immediate impact of COVID-19 has resulted in major spending pressures, particularly in social care, but also across all other Directorates. The Council has also worked closely with community partners to ensure vulnerable residents receive essential support in these unprecedented circumstances. This includes costs arising from a number of new functions such as providing the community hub and services for shielding residents as well as sourcing and supplying personal protective equipment (PPE) for other organisations. These all form part of the Government's expectations of local authorities in delivering the national response in individual communities. The table below shows the 2020/21 forecast additional spend of £31.3m by directorate.

**Table three: Forecast COVID-19 additional costs by directorate**

| <b>Service Area</b>                    | <b>MCC Forecast Cost<br/>2020/21<br/>£000</b> |
|--|---|
| Children's Services                    | 7,961   |
| Adult Social Care                      | 9,999   |
| Public Health                          | 546   |
| Homelessness                           | 7,110   |
| Core                                   | 1,487   |
| Neighbourhoods                         | 1,934   |
| Growth and Development                 | 250   |
| Community Hub                          | 2,061   |
| <b>Total forecast additional costs</b> | <b>31,348</b>                                 |

*Forecast COVID-19 Income Shortfalls*

- 2.6 The total income loss is forecast at £134.524m (with a further £0.040m against the HRA in respect of voids and the increased turnaround time). The net impact on the income budget for 2020/21 (allowing for reliefs announced as part of the budget and to support businesses through COVID-19) is as follows:

**Table four: Forecast COVID-19 income shortfalls**

| <b>Service Area</b> | <b>Income<br/>Loss<br/>reported<br/>2020/21<br/>£000</b> | <b>Timing<br/>Adjustments<br/>on budget<br/>impact<br/>£000</b> | <b>Impact on<br/>2020/21<br/>budget<br/>£000</b> |
|---------------------|--|---|--|
| Collection Fund     | 40,249   | (40,249)  | 0  |
| Corporate Budgets   | 71,619   | (55,809)  | 15,810   |
| Children's Services | 506  |   | 506  |
| Homelessness        | 34   |   | 34   |

|  |                |                  |               |
|--|----------------|------------------|---------------|
| Corporate Core                         | 8,919          | (5,358)          | 3,561         |
| Neighbourhoods                         | 6,383          |                  | 6,383         |
| Growth and Development                 | 6,814          |                  | 6,814         |
| <b>Total forecast additional costs</b> | <b>134,524</b> | <b>(101,416)</b> | <b>33,108</b> |

### **3 Additional Central Government Funding for COVID-19 response**

3.1 A report to the Executive on 3 June 2020 outlined the additional government funding to be built into the 2020/21 budget. In addition there will be £300m ring fenced funding nationally to support the rollout of the test and trace service, the Council will receive £4.837m as reported to Executive 3 July for inclusion in the budget.

3.2 Since the report on 3 July, details of individual Council allocations have been published for the following funding announcements and these will now be reflected in the Council's revenue budget:

- Local Welfare Assistance Fund - On 10 June 2020 the Prime Minister announced an additional £63m funding, Manchester's allocation was announced 9 July at £0.957m. It is proposed this is included in the Growth and Development Services budget to fund support for residents who are struggling to afford food and other essentials due to COVID-19
- Local Authority Business Rates Grant Administration (New Burdens funding). The value of grants awarded varied from £130k to £300k to reflect the different scale of local authorities small business and retail, hospitality and leisure programmes. The council received £225k on 7 July. It is proposed that this is included in the Revenue and Benefits budget to contribute towards the costs of administering both the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund schemes to provide support to businesses across the city.

3.3 Further support for Local Government was announced on 2 July 2020. The key features of the funding package were:

- Support for Expenditure - An unringfenced £500m grant for expenditure pressures in 2020/21 - the allocations to individual Councils were announced 16 July 2020 and Manchester is to receive £7.085m. MHCLG has used regression on the data from authorities in the monthly COVID returns to create the new formula which reflects population, deprivation (IMD) and area costs.
- Support for Income shortfalls - support package for losses from sales, fees and charges. 75% of these losses will be funded by the Government – but only where they exceed 5% of the Council's planned income from sales, fees and charges. There will be a separate process for collecting, calculating, and compensating for the relevant losses, and further guidance is still awaited on this.
- Tax Revenue - ability to spread the 2020/21 Collection Fund deficit over three years. The forecast 2020/21 deficit of £40m over 3 years would improve the position by £26.8m in 2021/22, but worsen the following two years by £13.4m each year.

- Commitment to consider the apportionment of irrecoverable Council Tax and Business Rates losses between central and local government as part of the Spending Review

3.4 The COVID-19 related grants notified to date are summarised in Appendix 2. Note only the confirmed emergency funding of £33.7m (of which £0.4m has been applied to 2019/20) and £7.1m, from the July announcements, are available to support the direct additional costs and income shortfalls faced by the council. The remaining grants are either directly passed on to businesses or residents or earmarked for specific priorities such as test and trace.

3.5 These grants and associated spend are now reflected in the revised budget shown in table five below.

#### 4 Overview of forecast Position 2020/21

4.1 The following table summarises the spend for 2020/21 by service. The supporting powerpoint outlines the main reasons for the variation to budget.

**Table five: Overall forecast position as at Period 2**

|   | Including COVID costs / Income shortfalls |                  |                  |                            | Memo: Breakdown of variance |                                |                         |                            |
|---|---|------------------|------------------|----------------------------|-----------------------------|--------------------------------|-------------------------|----------------------------|
| Period 2 monitoring   | Original Approved Budget                  | Revised Budget   | Forecast Outturn | Total P2 Forecast Variance | COVID related Expenditure   | COVID related income reduction | Other over / underspend | Total P2 Forecast Variance |
|   | £000                                      | £000             | £000             | £000                       | £000                        | £000                           | £000                    | £000                       |
| <b>Total Available Resources</b>                              | <b>(666,125)</b>                          | <b>(821,252)</b> | <b>(806,419)</b> | <b>14,833</b>              | 0                           | 15,810                         | (977)                   | 14,833                     |
| <b>Total Corporate Budgets</b>                                | <b>126,761</b>                            | <b>264,855</b>   | <b>264,479</b>   | <b>(377)</b>               | <b>0</b>                    | <b>0</b>                       | <b>(377)</b>            | <b>(377)</b>               |
| Children's Services   | 130,320                                   | 130,485          | 137,164          | 6,679                      | 7,961                       | 506                            | (1,788)                 | 6,679                      |
| Adult Social Care   | 221,253                                   | 229,213          | 237,578          | 8,365                      | 10,545                      | 0                              | (2,180)                 | 8,365                      |
| Homelessness  | 15,285                                    | 15,306           | 22,450           | 7,144                      | 7,110                       | 34                             | 0                       | 7,144                      |
| Corporate Core  | 69,958                                    | 76,918           | 80,136           | 3,218                      | 1,485                       | 3,561                          | (1,828)                 | 3,218                      |
| Neighbourhoods  | 93,802                                    | 94,306           | 102,802          | 8,496                      | 3,995                       | 6,383                          | (1,882)                 | 8,496                      |
| Growth and Development  | 8,746                                     | 10,169           | 15,701           | 5,532                      | 250                         | 6,815                          | (1,533)                 | 5,532                      |
| <b>Total Directorate Budgets</b>                              | <b>539,364</b>                            | <b>556,397</b>   | <b>595,831</b>   | <b>39,434</b>              | <b>31,346</b>               | <b>17,299</b>                  | <b>(9,211)</b>          | <b>39,434</b>              |
| <b>Total Use of Resources</b>                                 | <b>666,201</b>                            | <b>821,252</b>   | <b>860,310</b>   | <b>39,058</b>              | <b>31,346</b>               | <b>17,299</b>                  | <b>(9,587)</b>          | <b>39,058</b>              |
| <b>Total forecast over / (under) spend</b>                    | <b>0</b>                                  | <b>0</b>         | <b>53,891</b>    | <b>53,891</b>              | <b>31,346</b>               | <b>33,109</b>                  | <b>(10,564)</b>         | <b>53,891</b>              |
| COVID-19 Government grant income (tranche 1 and 2) -Confirmed |   |                  |                  | (33,367)                   | (33,367)                    |                                |                         | (33,367)                   |

|  |  |  |  |               |               |  |                 |               |
|--|--|--|--|---------------|---------------|--|-----------------|---------------|
| Proposed Corporate measures                    |  |  |  | (7,963)       |               |  | (7,963)         | (7,963)       |
| <b>Sub-Total Pre July Funding Announcement</b> |  |  |  | <b>12,561</b> | <b>31,088</b> |  | <b>(18,527)</b> | <b>12,561</b> |
| COVID-19 Government grant income (tranche 3)   |  |  |  | (7,085)       | (7,085)       |  |                 | (7,085)       |
| <b>Net forecast over / (under) spend</b>       |  |  |  | <b>5,476</b>  | <b>24,003</b> |  | <b>(18,527)</b> | <b>5,476</b>  |

4.2 The original approved Directorate budget was £539.3m, and this has increased by £17.033m to a revised budget of £556.3m which is due to:

- £1.140m virements between Directorates to reflect the movement of services and other changes.
- £1.492m allocations for inflationary pressures as follows:
  - £0.805m annual contractual inflationary increase on the waste collection and disposal contract;
  - £364k for a 2% inflationary increase on in house foster care allowance;
  - £200k inflationary uplift for external residential placements on the North West Regional Group network;
  - £91k annual inflationary increases on the Street Lighting PFI unitary charge;
  - £32k Budget increase for ongoing management costs of two landfill sites.
- £1.109m further reduction in the employer pension contribution rate to be applied across all Directorate budgets, which will support the bottom line position.
- £16.650m increase to resources and directorate budgets for specific grants and spend relating to COVID-19.

4.3 The increase in total available resources of £155.127m is due to:

- £16.650m increase to both resources and directorate budgets for specific grants and spend relating to COVID-19
- £138.477m section 31 grant to reimburse the council for loss of Business Rates income due to Extended Retail Relief. This will be held in a reserve to offset the associated collection fund deficit in 2021/22.

4.4 All variances to forecast outturn are measured against the revised budget.

## **5 Measures taken to balance the budget**

5.1 As shown in table two the impact of the COVID-19 additional costs and income shortfalls on the 2020/21 revenue budget is forecast at £64.5m. The first two tranches of government funding were less than 50% of this. The COVID-19 related budget shortfall increases to £162.4m next year.

- 5.2 As reported to June Scrutiny committees all directorates have reviewed budgets, and identified in year savings and mitigations to support the current year position. These figures have been updated for the period two forecast and currently total £9.211m across directorates, with a further £1.354m against corporate budgets, as shown in table five. This left a shortfall of £53.9m.
- 5.3 Emergency COVID - 19 funding (tranches 1 and 2) of £33.4m has been received and additional corporate mitigation of £8m further improved the position, leaving a shortfall of £12.6m this year. The corporate mitigations are as follows:
- Use of net income from the airport loan advanced in 2018/19, after allowing for the costs of interest and minimum revenue provision (MRP), to support the revenue budget rather than the capital programme. This is estimated at £5m in 2020/21.
  - Release from Capital fund of £2.763m
  - Savings from reduction in gas and electricity contract prices £0.2m in 2020/21
- 5.4 On 16 July 2020 the Council's share of the £0.5bn tranche 3 grant for spend pressures was announced at £7.085m, recognising deprivation as a key driver of spend. It is anticipated the remaining shortfall as shown in the table below can be bridged using the income element for loss of sales, fees and charges of the tranche 3 COVID-19 emergency funding (as referenced in paragraph 3.3). Neither the grant allocation or detailed methodology have been shared by the government therefore this is a significant risk. Should the grant not be sufficient any remaining shortfall must be met through further additional savings and the use of reserves.

**Table six: Measures taken to balance the budget 2020/21**

|  | COVID-19 Budget Impact |                 |
|--|------------------------|-----------------|
|  | 2020/21<br>£000        | 2021/22<br>£000 |
| <b>COVID-19 Budget impact of Additional Costs and Net income losses</b>            | <b>64,456</b>          | <b>162,417</b>  |
| P2 - Savings, mitigations and other changes  | (10,565)               | (440)           |
| <b>COVID - Budget shortfall after in year measures</b>                             | <b>53,891</b>          | <b>161,977</b>  |
| <b>COVID 19 Emergency Funding Tranches 1 and 2</b> (Note £389k applied in 2019/20) | (33,367)               | 0               |
| Corporate measures identified  | (7,963)                | (21,992)        |
| Original budget shortfall  |                        | 22,554          |
| <b>COVID - Budget shortfall after in year measures</b>                             | <b>12,561</b>          | <b>162,539</b>  |
| <b>Forecast COVID 19 Emergency Funding Tranche 3</b> (Confirmed to date)           | (7,085)                | 0               |

|   |              |                |
|---|--------------|----------------|
| <b>Budget shortfall after confirmed funding and mitigations</b> | <b>5,476</b> | <b>162,539</b> |
|---|--------------|----------------|

## **6 Conclusion**

- 6.1 Taking into account the forecast financial implications of COVID-19, the directorate work to date on identifying additional savings and any other known budget changes, and confirmed and anticipated government funding it is anticipated the budget will be balanced for 2020/21. Note this assumes the income element of the third tranche of emergency funding, announced 2 July, is sufficient. If this funding is lower than expected there will be an equivalent budget gap which will have to be met from the Council's reserves in lieu of further savings/underspends.
- 6.2 Whilst the position for 2020/21 looks manageable the financial position in 2021/22 becomes much more challenging. Over the next two years, the social care needs arising from COVID-19 are likely to be severe and will require an ever increasing share of Local Authority budgets. It is not reasonable to depend on Business Rates, Council Tax or commercial income to meet increased costs as these are also expected to decline over the same period. Whilst some fees and changes income is expected to recover later this financial year other income risks will go beyond this year such as airport dividend, business rates and Council Tax base and other commercial and fee income.
- 6.3 Given the high levels of risk and uncertainty the planned Spending Review will be important in determining the future needs and resource envelope for local government. Funding beyond 2021/22 also remains subject to the Fair Funding Review and business rates reforms, which have been delayed until April 2022. In the meantime work will continue to plan for a number of scenarios. There will be a longer term focus on the more strategic approaches to deliver differently to reduce spend and increase income, including access to external funding/grants. Inevitably this work will be dependent on further announcements from Government regarding funding and flexibilities, as well as the latest guidance on the approach to tackling and/or living with COVID-19 including any associated costs and income losses.
- 6.4 The consequences of COVID-19 are profound and local government finance is facing a daunting and difficult future with fundamental challenges to its ability to deliver essential services. A successful and swift economic recovery will only be possible if the short and medium term financial risks arising from COVID-19 can be resolved and some degree of certainty is established through a long term needs based funding settlement.

## **7 Recommendations**

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