

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 30 November 2020

Subject: Spending Review impact on Council Finances

Report of: Deputy Chief Executive and City Treasurer

Summary

This report updates on the main announcements from the Spending Review 25 November 2020 with a focus on those impacting the City Council's budget.

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	
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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 Spending Review that relate to local government funding and the potential impact on Manchester City Council. The detail and actual levels of funding will not be known until at least the Finance Settlement expected mid to late December.

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.

Spending Review on 25 November treasury release

1 Introduction

- 1.1 On 25 November 2020, the Chancellor of the Exchequer, Rishi Sunak MP, delivered the Spending Review 2020 to the House of Commons. The review was originally due to be a Comprehensive Spending Review setting out three years of expenditure for revenue and four years of capital but was reduced to one year due to uncertainty around COVID-19. Some of funding has been previously announced in the 2020 Summer Statement and with trailed announcements prior to the Chancellor's formal statement. The Chancellor stated his intention to focus on "jobs, businesses and public services".
- 1.2 Although there was no individual local authority level information provided this note sets out how the announcements may impact on the City Council's budget position and gives an overview of other public spending announcements.
- 1.3 This note focuses on the forecast financial impact of the announcement on the council's budget position.

2 Economic Context

- 2.1 Spending Review 2020 is dominated by the effects of COVID, however a change in fiscal policy is also evident. The Chancellor said that there will be "no return to austerity", and that public spending would rise "significantly". Higher expenditure will mean larger public sector net borrowing (with lower taxation receipts being the other contributory factor) which is likely to impact on future spending plans. The deficit is expected to spike in 2020-21, at almost £400bn. The deficit is on a completely different scale from previous years, including following the financial crash in 2008-09.
- 2.2 As a result levels of public debt will be significantly higher than usual, relative to GDP, and will continue to grow after 2020-21. Public sector debt will exceed 100% of GDP from 2019-20 and will remain at that level for the foreseeable future. It is forecast to peak at 109.4% of GDP 2022-23 before starting to decline slowly.
- 2.3 September's Consumer Price Index (CPI) was low at 0.5%, and the expected full-year CPI is 0.8%. It is expected to increase in future years but does not reach its target (2%) until 2025-26.

3 Local Government Finance Announcements

- 3.1 The main announcements impacting Local Government Funding can be summarised as follows:
 - Core spending power is to rise by 4.5% next year which equates to an estimated additional £2.2bn in funding as follows:
 - 3% increase in Council Tax Adult Social Care precept (the referendum limit for the Council Tax precept remains at 2%);
 - £300m social care grant (£150m of this is new funding);

- New Homes Bonus scheme will continue for 2020/21 for additional homes delivered, this will not attract legacy payments;
 - An inflationary increase (0.55%) to Revenue Support Grant
- All other existing social care funding will continue at 2020/21 level including IBCF. Better Care Fund will rise in line with NHS settlement 5.5%
- Additional support for COVID-19 losses:
 - £1.5bn unringfenced grant for expenditure pressures (tranche 5)
 - Continuation of the Sales, fees and charges reimbursement scheme for first 3 months of next year
- Council Tax and Business Rates
 - Unringfenced £670m in relation to Council tax losses including the impact of the increase in numbers receiving Council Tax Support
 - 75% of irrecoverable 2020/21 Collection Fund losses will be reimbursed treasury resulting in a smaller deficit to be smoothed over three years. The details of this are not yet available, will be based on actual losses and not cover the whole Collection Fund deficit.
 - The 100% Business Rate Pilots will continue for another year (including Greater Manchester).
 - There will be no Business Rates reset in 201/22
 - The Business Rates multiplier will be frozen with Local Authorities compensated through Section 31 grant.
 - There are currently no plans to extend the Business Rates Extended retail relief scheme beyond this year.
- Other
 - Funding for Troubled families scheme of £165m will continue on a roll over basis
 - Funding of £254m was announced to reduce rough sleeping and homelessness. Of this £103m had been announced earlier this year for accommodation and substance misuse support.
 - Levelling up - this is a bidding process and must be spent within this parliament term.
 - The government will reform the Public Works Loan Board (PWLB) lending terms, ending the use of the PWLB for investment property bought primarily for yield, which the paper states is a risk for both national and local taxpayers. The government will therefore PWLB lending rate cut back to 100 basis points from 26 November but with additional restrictions.

3.2 Public sector pay represents a very large part of overall public spending (£204bn annually for about 5.4m people). Pay rises in the public sector will be restrained and resources targeted as follows:

- Approve a pay rise to nurses, doctors and others in NHS
- Pay in the remainder of the Public Sector frozen next year
- Public Sector workers earning less than median pay (£24,000) will see an increase of £250 in 2021/22

- National Living Wage (NLW) to increase to £8.91 an hour (up 2.2%). previously expected to be £9.21
- The LGA's view is that the Government cannot automatically impose a pay freeze in local government unless it uses a legislative route to do so.

3.3 The changes impacting on the Councils budget can be considered over four areas as set out below. It is not possible to provide an accurate assessment of the impact as the individual authority allocations will not be known until the Finance Settlement is released. Due to the number of funding policy and allocation decisions required it is unlikely the Settlement will be received much in advance of the Parliamentary Recess on 17 December.

Core spending power and budget changes over and above those assumed

3.4 **Pay Awards** - If the pay freeze applies to local government the savings on the Council's budget would be c£7.5m alongside the lower than expected increase to the National Living Wage (£2.5m).

3.5 **Inflation** - This has two elements: inflation for Revenue Support Grant (RSG), and the effect of cap compensation on business rates income and baselines. These calculations have not been confirmed and remain provisional but are estimated to be worth c£0.4m. In addition, the Business rate multiplier will be frozen in 2021-22 with councils being compensated for the loss in business rate income. This and associated changes to Section 31 grant is expected to be in the region of £1.2m.

3.6 **New Homes Bonus** – This scheme will be maintained for a further year with no new legacy payments. The estimated 2021/22 receipt for Manchester is £4.7m based on new housing and houses brought back into use.

Business Rates and Council Tax

3.7 Tax Income guarantee scheme - £762m has been set aside to compensate local authorities for 75% of irrecoverable loss of council tax and business rates revenues in 2020/21. The government has already mandated that 2020/21 deficits must be spread over 3 years. The councils current forecast is a combined deficit of £34.6m, at £11.5m a year 2021/22 to 2022/23. The scheme is based on reimbursing actual irrecoverable income rather than the total deficit and until the detail of is available it is not possible to estimate how much this will be worth. If it was calculated on the basis of the full Collection Fund deficit this would reduce the annualised deficit amount by £8.6m to £2.9m.

3.8 In addition there will be an unringfenced in relation to Council tax losses including the impact of the increase in numbers receiving Council Tax Support. This will support the Council's overall budget position but until the detail of the scheme is known it is not possible to calculate how much will be received.

- 3.9 The government has decided not to proceed with a reset of business rates baselines in 2021-22. The fundamental review of the business rates system will report in the spring. The timescales for resuming the work on Business Rates reforms and the Fairer Funding review are not known.

Support to Adult Social Care

- 3.10 The Spending review announcements could result in a further c£8m to £9m to support Adult Social Care. The 3% Adult Social Care precept would raise around £5.1m. There is also an additional Social Care grant of £300m. No information has been provided yet on the distribution method. If this is based on the Adult Relative Needs Formula (as in previous grant rounds) the council should receive around £3.7m. The allocations will take into account the ability to generate additional income from the ASC precept.
- 3.11 The £300m increase in grant funding for social care is the lowest since 2016-17. The mix has started to shift from centrally-funded grants to locally increases in council tax which passes the burden directly to residents.
- 3.12 The additional £1bn of grant funding announced at SR19 for Adult and Children's Social Care will be continuing, along with all other existing social care funding. This is already reflected in the base budget at £48.4m.

One off COVID-19 costs support

- 3.13 Government is providing an additional £1.55bn of grant funding to local authorities to meet additional expenditure pressures as a result of Covid-19, for the first few months of 2021/22 (this is separate from Core Spending Power). If the funding is allocated using the COVID relative needs formula which was developed for tranche 4 of the COVID emergency funding and takes into account population and deprivation levels the Council would receive c£22m.
- 3.14 The Covid-19 sales, fees and charges reimbursement scheme will also be extended for a further 3 months until the end of June 2021.

4 Conclusion

- 4.1 Overall the position is better than expected. Not all of these announcements will be available to support the councils anticipated budget gap and as stated in the report it is not possible to accurately quantify what funding will be available until the Settlement is received. Even then it is possible some funding will be announced later in the year. The announcements could mean a further £8m to £9m support for adult social care and c£40m to £50m in other measures. This will be sufficient to remove the threat of S114 and should remove the need to come back for further cuts for 2021/22.
- 4.2 Due to the fact this is a one-year Settlement and many of the announcements are for one-off funding the position for 2022/23 is still extremely challenging

with an anticipated gap remaining of c£120m. Therefore, the Council will also need to deliver around £50m of cuts in for 2021/22 to achieve a sustainable position for the future.