

**Manchester City Council  
Report for Information**

**Report to:** Executive – 9 December 2020

**Subject:** Spending Review

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

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**Summary**

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

**Recommendations**

The Executive is asked to note the report.

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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 Council's 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.

Spending Review announcements directly linked to this priority are listed at section 8. It will remain important to have a well-developed pipeline of projects including those already set out in the Climate Change Action Plan and the recently launched Economic Recovery and Investment Plan.

| <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 as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy. |
| A highly skilled city: world class and home grown talent sustaining the city's economic success                   |  |
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities    |  |

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

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

### **Financial Consequences – Revenue**

The report sets out the announcements in the 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. The announcements could mean a further £8m to £9m support for adult social care and c£40m to £50m in other measures. This should be sufficient to remove the need to come back for further cuts for 2021/22, beyond the approximately £50m identified in the reports to Executive and Scrutiny in the last cycle.

### **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

<https://www.gov.uk/government/publications/spending-review-2020-documents>

## **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. The Chancellor stated his intention to focus on “jobs, businesses and public services”. Also published on 25 November were the Office for Budget Responsibility’s (OBR) Economic and Fiscal Outlook, Government’s new National Infrastructure Strategy and the refreshed Green Book.
- 1.2. No individual local authority level information has been provided; any figures quoted are officer estimates based on available intelligence. This report focuses on the economic context and forecast financial impact of the announcements on the council's budget position. This is followed by a summary of the wider policy announcements grouped by the following themes: COVID-19; public sector spending; levelling up; economic and social; environment and zero carbon; and Brexit and international. Where known at the time of writing, detail of the proposal and considerations for Manchester are given.

## **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 UK is now at its highest level of peacetime public borrowing. 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. The OBR have forecast the UK’s economy will contract by 11.3% this year, the largest fall in output in 300 years. Using the “central scenario” (the equivalent of Tier 3 until spring 2021), they predict GDP will then grow by 5.5% in 2021, 6.6% in 2022, 2.3% in 2023, 1.7% in 2024 and 1.8% in 2025. Despite this forecast recovery, it will take until Q4 2022 for the UK’s economy to return to its pre-pandemic size and it will be 3% smaller in 2025 than previously expected. 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 Announcement**

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:
  - £1.55bn 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 2021/22
  - 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 it 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 would receive around £3.3m. The allocations will take into account the ability to generate additional income from the ASC precept which will be beneficial to Manchester.
- 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 Local Government 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 launched alongside tranche 4 of the COVID emergency funding), 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.

## **Summary of Budget impact**

- 3.15. 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, beyond the approximately £50m identified in the reports to Executive and Scrutiny in the last cycle.
- 3.16. 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.

## **4. Other COVID-19 funding announcements**

- 4.1. The Chancellor confirmed further funding to continue to respond to COVID-19 and mitigate the effects of it. This included an additional £38bn for public services this year, and a further £55bn for 2021/22. COVID-19 related announcements included:

- Homelessness – an additional £254m of resource funding to support rough sleepers and those at risk of becoming homeless during COVID-19 (note this includes £103m of previously announced funding for accommodation support and substance misuse).
- NHS - an extra £3bn to support with the recovery from COVID-19, including tackling operations backlog and expanding mental health services.
- PPE - an additional £2.1bn to purchase and store.
- Test and Trace - £15bn in 2021/22, designed to enhance testing capacity. Note this will be kept under review subject to vaccination.
- Public transport – funding to support services during COVID-19, including train operator subsidies of £2bn for 2021/22.
- Justice – an additional £119m to help with the backlog in courts due to COVID-19 and to ensure courts are COVID secure.

## **5. Leveling Up**

- 5.1. Several policies related to the Government's 'levelling up' agenda were announced, underpinned by infrastructure investment. Announcements included:

- Levelling Up Fund – a new £4bn fund will be established and jointly managed by the Treasury, Department for Transport and the Ministry of Housing, Communities and Local Government. £600m will be available in



in 2021/22. Approximately £320m of unallocated money from the Towns Fund will be refunnelled into this scheme. Local areas will be able to bid for projects of up to £20m to drive local growth and regeneration; areas that have received less Government investment in recent years will be priorities. Proposal must command the support of local MPs, and has to be delivered by the end of this Parliament in 2024. Further details are expected in the new year.

- National Infrastructure Strategy – alongside the Spending Review, the long-awaited new National Infrastructure Strategy was published. It sets out plans to transform UK infrastructure in order to level up, strengthen the Union and achieve net zero carbon emissions by the UK's target of 2050. The Strategy confirms the Government's previous commitment to Northern Powerhouse Rail between Manchester and Leeds, but not the wider network needed across the whole of the North to drive true transformational change. The Strategy also confirms an intracity transport settlement of £4.2bn for Mayoral Combined Authorities (including Greater Manchester) is going ahead from 2022/23, plus £50m to develop in it in 2021/22. The full Strategy can be accessed here:  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/938049/NIS\\_final\\_web\\_single\\_page.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938049/NIS_final_web_single_page.pdf)
- Infrastructure investment – the Review stated that there will be £100bn of capital investment in infrastructure in 2021/22, although not all of this is new funding. Transport announcements included £58bn for roads and rail between 2021/22 and 2024/25, £300m for bus service transformation, and £120 million for 500 new zero emissions buses. Over £260m will be invested in digital infrastructure programmes including Local Full Fibre Networks and 5G Diversification and Testbeds and Trials Programmes.
- UK Infrastructure Bank – to support with the above, a new infrastructure bank will be established in spring 2021 and headquartered in the North. It will support and lend to local and combined authorities.
- Green Book reform – the Treasury also published its new Green Book, which has a greater focus on the strategic case, working across departmental silos and new guidance on the appraisal of transformational projects. However, for this to have the needed positive impact to deliver greater funding in the North, it will need to be reflected in updated departmental guidance which is under currently review.

5.2. Levelling up the UK's economy is much needed and Manchester could offer a number of opportunities to the Government to support them with this ambition. However, the announcements are weighted towards towns rather than cities. They also do not support the devolution agenda, with the funds being centrally administered and local areas having to competitively bid against each other for them. Before the Review, it was thought there would be further announcements about the move of Civil Servants out of London, including a new Northern Treasury office; however, these did not materialise beyond the Infrastructure Bank.

## **6. Other Public Sector Spending**

6.1. Announcements of note, outside Local Government, included:

- Departmental spending – will be increased by 3.8% in 2021/22, including £6bn core funding increase for Health and a £2.2bn increase for Education for schools. However, multi-year increases trailed prior to the formal statement - including a £24bn three year settlement for Defence – mean that there is likely to be reductions in other departments from 2022.
- Police - the Home Office settlement includes £400m of additional funding to fund the recruitment of an additional 6,000 officers in 2021/22.

6.2. Additional public sector funding is welcomed; however, these increases will not fill many of the gaps left by necessary COVID-19 expenditure. They are also predicated on reducing non-COVID public services spend by £13bn a year than previously planned from 2022 onwards; local authorities are likely to be hit by these decreases when they occur. Whilst there were no tax hikes announced to support borrowing in this Review, it is likely they will happen next year or as soon as economic recovery look more secure. Notably, the Chancellor did not announce a rise the public health grant or any funding specifically aimed at care homes beyond the social care grant, which need support following the impact of COVID-19.

## 7. Employment, Economic and Social Policy

7.1. The Chancellor made some announcements that focused on the next stage of his “Plan for Jobs” which was kicked off in the 2020 Summer Statement with the aim of increasing employment and addressing rising unemployment. There were also a number of policies which focus on existing economic and social manifesto commitments. Across these announcements, there was limited detail of how the funding will be targeted. Announcements included:

- ‘Restart’ programme – a three year £2.9bn programme to provide intensive and tailored support to 1m long term unemployed (over 12 months) people and help them back into employment. However, only £0.4bn of this is to be spent in the next 18 months.
- Kickstart – top up funding for the existing scheme to ensure it can support an increased total of 250,000 Kickstart jobs. It has not been announced what this funding will be used for within the scheme which relies on businesses coming forwards with appropriate placements.
- New housing – complimenting the Government’s current planning reforms, almost “20bn of investment to support new housing was announced from 2021/22, including the new £7.1bn National Home Building Fund (which included the previously announced Brownfield Housing Fund and the Single Housing Infrastructure Fund) and £12.2bn Affordable Homes Fund.
- Research and Development - £14.6bn of R&D funding, including increases for UK Research and Innovation core science and Innovate UK programmes and infrastructure. Whilst a long-term manifesto aim, specific reference to funding for clinical research to support the delivery of new drugs, treatments and vaccines suggests that this may be linked to COVID-19.

7.2. The OBR forecasts the UK’s unemployment rate to peak at 7.5%, the equivalent of 2.3m people out of work, whilst the Bank of England estimates

that an additional 1m people will be made unemployed in the next 6 months. Although the announced schemes and funding will support many, they will not support everyone who may lose employment due to COVID-19, those who were already long term unemployed and those who have not yet entered the labour market but were due to in the next few years. This is coupled with there being no commitment to keeping the additional £20 Universal Credit uplift into the next financial year, which will affect those not in work or with low earnings.

## 8. Environment and Climate Change

8.1. Given the Prime Minister's recently announced Ten Point Plan which aims to set out a vision for a green industrial revolution, there was arguably limited new spending or further detail announced for the environment and climate change. Further detail is now expected in the early new year. The Review states that total investment will be £12bn but some of this is existing funding. Announcements included:

- Zero emission vehicles - £1.9bn for electric charging infrastructure and consumer incentives, including £950m to support the rollout of rapid electric vehicle charging hubs at every service station, and £275m to extend support for charge point installation.
- Homes and buildings - £1.1bn to make homes and buildings net zero ready, including a further £60m to retrofit social housing and an extension of the Green Homes Grant voucher scheme with £320m in 2021/22.
- Carbon Capture and Storage (CCS) Infrastructure Fund – a £1bn fund to develop clean energy technologies. This also aims to establish four CCS clusters by 2030 in industrial areas of the North West, as well as the North East, the Humber, Scotland and Wales, to increase jobs and investment.
- Environment – a further £40m to the existing Green Recovery Challenge Fund for a second round of natural capital projects next year.
- Net zero R&D - £280m for research and development to achieve carbon neutrality, including £81m multi-year commitment for hydrogen heating trials. Note that much of this funding comes from the broader £14.6bn R&D figure.
- Climate-related finance - the Government is aiming to get the financial sector to support the management of climate-related financial risks. The Government will introduce mandatory reporting of climate-related financial information across by 2025, with most requirements to be in place by 2023.

8.2. Given the scale of the climate challenge faced and the potential to stimulate the economy via investment in labour-creating programmes, further investment in this area would have been welcomed, especially for retrofitting buildings. As the Government strongly favours competitive bidding for funds, it will remain important to have a well-developed pipeline of projects including those already set out in the Climate Change Action Plan and the recently launched Economic Recovery and Investment Plan.

## 9. Brexit and International

9.1. It was expected that there would be announcements related to future funding arrangements for when the UK's transition period ends at the end of December 2020; however, there was very little detail and notably no mention of Brexit in the Chancellor's statement to the Commons. Announcements included:

- UK Shared Prosperity Fund - the Fund will "at least" match receipts from the EU structural funding, reaching £1.5bn a year, with the funding profile to be set at the next Spending Review. However, it is not confirmed that regions (e.g. Greater Manchester) will receive the same amount of funding that they currently do, with the Review specifically referencing a portion of the Fund being targeted to "former industrial areas, deprived towns and coastal communities". Places receiving funding will need to agree specific outcomes to target within the UK-wide framework and will need to "develop investment proposals to be approved by the government". Areas for funding include clean growth, net zero and employment and skills, with further details now due to be set out in spring 2021. To help prepare for the introduction of the UKSPF, an additional £220m will be made available for pilot programmes in 2021/22 via the Ministry of Housing, Communities and Local Government and the Department for Work and Pensions; again, other further details will be published in the new year.
- International aid – the aid budget was decreased to 0.5% of national income in 2021 from 0.7%. The decision has been widely criticised by international charities, former Conservative frontbenchers and prompted the resignation of Baroness Sugg, Minister for Overseas Territory and Sustainable Development.

9.2. Given the UK is due to leave the European Union on 1 January 2021, the lack of detail on the UK Shared Prosperity Fund is disappointing. However, it appears that it will be weighted towards the Government's towns agenda when it is finally launched, which may limit opportunities for Manchester.

## 10. Conclusion

10.1. Whilst the Spending Review did announce a significant level of spending and investment, arguably some of the announcements do not go far enough to support services in their response to COVID-19 or radically galvanise the economy. There was a limited amount of detail on a number of the proposals, with further detail needed in the coming weeks. The announcements do align with the Government's focus on towns to date and remain highly centralised, with no mention of devolution beyond the devolved administration.

10.2. This report sets out the main impact of the changes announced in the Spending review for 2021/22 for Local Authorities and other public spending. As stated in the introduction no details of individual allocations have been released for any local authorities, this will be updated in the provisional statement which is usually released early December.