

**Manchester City Council
Report for Resolution**

Report to: Executive – 9 December 2020

Subject: Revenue Budget Monitoring to the end of October

Report of: Deputy Chief Executive and City Treasurer

Summary

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

Recommendations

The Executive is recommended to:

1. Note the global revenue monitoring report and a forecast outturn position of a breakeven position.
 2. Approve additional COVID-19 grants to be reflected in the budget, see section 3.
 3. Approve the use of budgets to be allocated, in Appendix 1, Slide 11.
 4. Approve the use of unbudgeted external grant funding (non COVID-19) in Appendix 1, Slide 11.
 5. To recommend to the Council the approval of a proposed budget transfer of £1m from Corporate Core directorate to Collection Fund to offset council tax discounts (funded through the specific Hardship Fund grant). Also £.675m within Adults Social Care for the mpower savings delivery partnership See Appendix 1 Slide 11.
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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.

Manchester Strategy outcomes

Summary of the contribution to the strategy
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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

Financial Consequences – Revenue

The report identifies a projected balanced budget for 2020/21, based on the financial implications of COVID-19, government funding confirmed to date and other identified changes, in year efficiencies and mitigations.

This report focuses on 2020/21, however it is anticipated the implications of COVID-19 will have a significant impact on the Council's 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.

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Name: Janice Gotts
Position: Deputy City Treasurer
Telephone: 0161 234 1017
E-mail: janice.gotts@manchester.gov.uk

Name: Sam McArdle
Position: Corporate Finance Lead
Telephone: 0161 234 3472
E-mail: sam.mcardle@manchester.gov.uk

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 – 11 November 2020 Report to update on the Council's MTFP focusing on the financial position and strategy from 2021/22
Executive - 14 October 2020 P5 Revenue Budget Monitoring 2020/21 and Budget Position 2021/22

1 Introduction

- 1.1 This report provides an overview of the Council's current financial position for 2020/21. It should be noted that the COVID-19 related forecasts included in this report are based on the draft 8th monthly return submitted to MHCLG in December. The figures will continue to be refined as costs crystallise and income implications become clearer.
- 1.2 The forecast budget shortfall including COVID-19 pressures is £55.3m this financial year, after allowing for identified efficiencies, mitigations and other changes to the end of October. The forecast overall position for 2020/21 is a balanced budget after taking account of confirmed government funding and mitigation through the Council's share of the sales, fees and charges emergency funding.
- 1.3 Whilst the position for the current year looks manageable through funding and mitigations this is not the case next year and there remains a significant shortfall in future years. The position for 2021/22 is assisted by the recent Spending Review announcements which are provided in a separate report elsewhere on this agenda, but there will still be a need to deliver the planned budget cuts.

2 Overview of COVID-19 Financial implications

- 2.1 The round 7 return to MHCLG will be submitted 11 December. At the time of writing it is expected this will show the anticipated financial cost of COVID-19 to the Council is currently £152.9m of which £23.8m relates to additional expenditure and £129.1m to loss of income.

Table One: COVID-19 Forecast Financial Impact

	COVID-19 Financial impact
	£000
2020/21 forecast cost pressures	23,858
Forecast Income Shortfalls	129,090
Total	152,948

- 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 usually reflected in the year following that in which the income is (or is not) collected. Note the government has mandated that any 2020/21 deficit is smoothed over 3 years 2020/21 to 2023/24.
 - The Council has an airport dividend reserve which means that a significant proportion of the income (£56m) is used a year in arrears.

- The budget shortfall has been adjusted for bus lane and parking lane enforcement income as this affects the level of the available reserve to fund future commitments.

2.3 This has resulted in the financial effect of COVID-19 for 2020/21 and 2021/22 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 in 2021/22, particularly in adult social care and homelessness.

Table Two: Summary of COVID-19 Impact across 2020/21 and 2021/22 (excluding funding announcements)

	2019/20 £000	2020/21 £000	2021/22 £000
Additional Costs (MCC only)	389	23,858	24,941
Income:			
Loss of Income (MCC only)		129,860	103,164
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		(34,576)	34,576
2020/21 Council Tax shortfall relating to 2019/20 deficit impact a year in arrears*		(3,081)	3,081
Bus Lane and Parking Income - impact on reserves capacity		3,912	0
Budget impact of lost income	0	31,482	132,092
Total Costs and Net income losses	389	55,340	157,033
Mandated smoothing of collection Fund deficit over 3 years			(23,051)
Forecast Budget Impact of COVID-19	389	55,340	133,982

**This element of the deficit is not eligible to be spread as it relates to an increase in the 2019/20 bad debt provision*

Total forecast COVID-19 cost pressures

2.4 Dealing with the immediate impact of COVID-19 has resulted in major spending pressures, particularly in social care and homelessness. There are also additional costs arising from 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 £23.9m by directorate.

Table Three: Forecast COVID-19 additional costs by Directorate

Service Area	MCC Forecast Cost 2020/21 £000
Children's Services	518
Adult Social Care	9,355
Public Health	528
Homelessness	4,919
Corporate Core	2,005
Neighbourhoods	4,236
Growth and Development	236
Community Hub	2,061
Total forecast additional costs	23,858

Forecast COVID-19 Income Shortfalls

- 2.5 The total income loss is forecast at £129.090m (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 is £30.5m as shown in table four.

Table Four: Forecast COVID-19 income shortfalls

Service Area	Income Loss reported 2020/21 £000	Timing Adjustments on budget impact £000	Impact on 2020/21 budget £000
Collection Fund	37,657	(37,657)	0
Corporate Budgets	71,619	(55,809)	15,810
Children's Services	537		537
Homelessness	34		34
Corporate Core	7,284	(3,912)	3,372
Neighbourhoods	7,007		7,007
Growth and Development	4,724		4,724
Total forecast additional costs	128,862	(97,378)	31,484

3 Additional Central Government Funding for COVID-19 response

- 3.1 Since the last monitoring report to Executive on 14 October there have been further government grant allocations to be reflected in the budget as follows:

- **Tranche four emergency funding (£24.330m)** The further package of

support for local government, of around £1 billion was announced on 12 October 2020 of which £0.9bn is for Council's ongoing work to support communities during the pandemic. Manchester will receive £24.330m.

- **Sales, fees and charges grant (£3.7m to date, FYE £6.4m)** A support package for losses from sales, fees and charges was announced in July. 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. The first claim relates to losses April to July and has been confirmed at £3.7m. Based on current forecasts the full year claim will be in the region of £6.4m.
- **Neighbourhood Services - Contain Outbreak Management Fund (£4.423m)** The Department of Health and Social Care announced £465m to fund activities such as enforcement, compliance and contact tracing with all authorities receiving £8 per head. This equates to £4.423m for Manchester.
- **Growth and Development - Clinically Extremely Vulnerable people (£286k).** £32m has been provided to upper tier councils in England to support Clinically Extremely Vulnerable (CEV) people during the 28-day period the restrictions are in force (to 2 December 2020). This is being used to provide support, such as access to food deliveries and signposting to local support services, to the most at risk and enable them to stay at home as much as possible over this period.
- **Children's Services - The Holiday Activities and Food programme (£2.581m)** A £170 million funding package was announced on 8 November to support families and the most vulnerable over winter. This will be ring-fenced, with at least 80% earmarked to children and families with support for food and bills and will cover the period to the end of March 2021. This will cover provision of food for children who normally would have access to a free school meal (FSM) during the school holidays including Christmas and February half term in 2021. The Council is working with schools and other education providers to deliver the programme.
- **Neighbourhood Services - Cultural recovery (£390k).** This is the first payment against a total of £0.780m awarded to Manchester Art Gallery for qualifying organisations that were severely financially impacted by COVID 19. The funding will be used to cover income losses and making the Gallery and ongoing exhibitions programme COVID secure.
- **Funding Announcement for rough sleepers - Protect programme (£454k)** This is from the £15m announced earlier this year for rough sleeper accommodation in ten areas of England. It will be used to provide accommodation for entrenched rough sleepers who are very complex in nature and will include Mental Health and Drugs/Alcohol misuse support with a dedicated worker to maintain the provision. Although this funding must be spent by 31st March it is expected that funding will continue into next year as part of the Rough Sleeper Initiative funding.

3.2 Further grant allocations expected shortly include the following:

- **Extended Contain Outbreak Management Fund.** The Covid-19 Winter Plan was published 23 November, this included an extension to the Contain Outbreak Management Fund of up to £900m to recognise the ongoing public health and outbreak management costs to Local Authorities of tackling COVID-19. For authorities under the highest level of restrictions, this will amount to £4 per head of population per month. It will be made available from the end of national restrictions and will be subject to review in January 2021.
- **Leisure Centre support** - c£0.1bn funding has been identified to provide support council leisure centres most in need. Further details on the scheme will be set out shortly by Government.

3.3 A full resourcing plan is being finalised which sets out the use of the different funding streams for the additional COVID-19 related responsibilities and associated workforce requirements'

Business Grant support

3.4 There have also been several announcements relating to support for businesses. The Council acts as agent to administer these government schemes so the payments are netted off the grant received and will not be shown gross in the budget. The exception is the Additional Restrictions Grant which will be reflected in the budget as the council has discretion on its application.

3.5 Support prior to 5 November and the national restrictions is over three categories as follows:

- **Pre 5 November - Local Restriction Support Grant (Open) (£7.665m)** - Local authorities in Tier 2 and Tier 3 in any period from 5 August to 4 November received an allocation to pay Local Restrictions Support Grant (Open) grants for the period they spent in these tiers. This was a formula based allocation for each full or part four-week period in these tiers. Whilst discretionary the formula was based on support to specific businesses that remained open but were significantly impacted and with the funding levels per business suggested. This forms the basis of the Manchester scheme. The Council received £7.665m with grant payments of up to £2,100 for every four-week period, pro rata if appropriate.
- **Pre 5 November - Local Restrictions Support Grant (Closed)** - Local authorities will receive an allocation to pay LRSG (closed) grants for the time they have been in Tier 3. Local authorities must make grant payments to businesses that had to close between 23 October to 4 November, with grants of up to £3,000 per four-week period, pro rata. Further funding will be available should grant payments exceed the allocation.
- **Pre 5 November - Local Restriction Support Grant (Sector)** - Businesses that were required to close in March and which have never been able to re-open (for example nightclubs) will be paid grants of up to £3,000 for every

four-week period that they have to remain closed. There is no back-dating of the scheme, it began 1 November 2020. The Council's allocation is still to be confirmed and further funding will be available should grant payments exceed this allocation.

3.6 Support made available following the national restrictions introduced 5 November:

- **Local Restrictions Support Grant (Closed Addendum) (£11.187m).** The LRS (Closed Addendum) is a mandatory grant for businesses that have a rateable value (thresholds in the rating system are used to set different grant rates rather than this being based on eligibility for business rates reliefs). A single grant for the four-week period will be paid. The amounts are fixed and businesses with more than one qualifying property will receive more than one grant. The grants are: for properties with a rateable value of £15k or under, £1,334; for properties with a rateable value of over £15k and below £51k, £2,000 ; and for properties with a rateable value of £51k or over, £3,000. The Council's allocation is £11.187m and further funding will be available should grant payments exceed this allocation.
- **Corporate Core - Additional Restrictions Grant (£11.698m).** This is a single allocation based on £20 per head of population (ONS 2019 Mid-Year Population Estimates) for each local authority to run a discretionary grant scheme, for example to closed businesses that do not have a rateable value, or for those who are severely impacted rather than closed and are not eligible for other forms of support such as supply chain businesses. The ARG is a one-off payment and is for 2020/21 and can be used in 2021/22. The Council's allocation for this grant scheme is £11.698m.
- **£1k grants for 'wet-led pubs'** - On 1 December an additional £1,000 Christmas grant for 'wet-led pubs' in tiers 2 and 3 was announced. This will be a one-off for December and will be paid on top of the existing up to £3,000 monthly cash grants for businesses. This will cover those in tiers 2 and 3 forced to reduce their operations as a result of the latest regional measures put in place. Local authorities will be responsible for distributing the grants.

3.7 The COVID-19 related grants notified to date are summarised in Appendix 2. Note only the confirmed emergency funding of £65.2m (of which £0.4m has been applied to 2019/20) and £6.4m, forecast for Sales Fees and charges losses 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.

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

4 Measures taken to balance the budget

- 4.1 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 £55.3m, increasing to £134m next year. This figure was previously £157m but now allows for the mandatory spreading of the Collection Fund deficit over three years.
- 4.2 The unringfenced support for 2020/21 now totals £64.8m plus the funding to support sales, fees and charges income losses estimated at £6.4m. In addition £19m of in year savings and mitigations have been identified to support the current year's position.
- 4.3 The tranche four funding announcement and other changes have provided an additional £34.8m to offset COVID related pressures some of which will impact Manchester in 2021/22, subject to any further in-year costs arising from COVID-19. This will leave a balanced budget for 2020/21.

Table Five: Measures taken to offset the underlying gap in 2020/21

	Revised 2020 / 21 £000
Original Gap (pre COVID)	0
In year COVID-19 budget impact of additional costs and net income losses	55,340
Gross Underlying Gap (incl COVID-19)	55,340
Confirmed COVID-19 Emergency Funding	(64,782)
COVID-19 Sales, fees and charges support (full year estimate)	(6,400)
Savings, mitigations and other changes	(18,993)
Budget shortfall after expected funding/mitigations	(34,835)
Use of reserves to fund remaining smoothed Collection fund deficit and loss of income impacting in future years	34,835
Total - Potential Budget Gap	0

5 Overview of forecast Position 2020/21

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

Table Six: Overall forecast position as at 31 October 2020

Forecast as at 31 October 2020	Original Approved Budget	Revised Budget	Forecast Outturn	Total Forecast Variance	Movement from last reported to Exec	Memo: Breakdown of variance			
						COVID related Expenditure	COVID related income reduction	Other over / under spends	Total Forecast Variance
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Total Available Resources	(666,125)	(846,898)	(832,997)	13,901	(965)	0	15,810	(1,909)	13,901

Total Corporate Budgets	126,761	258,851	257,019	(1,832)	(264)	0	0	(1,832)	(1,832)
Children's Services	130,320	134,728	132,811	(1,917)	(2,575)	518	535	(2,970)	(1,917)
Adult Social Care	221,253	232,247	238,968	6,721	(153)	9,883	0	(3,162)	6,721
Homelessness	15,285	17,604	22,771	5,167	339	4,919	34	214	5,167
Corporate Core	69,958	91,354	93,178	1,824	529	2,005	3,372	(3,553)	1,824
Neighbourhoods	93,802	100,842	109,517	8,675	234	4,236	7,007	(2,568)	8,675
Growth and Development	8,746	11,272	15,079	3,807	(1,522)	2,297	4,724	(3,214)	3,807
Total Directorate Budgets	539,364	588,047	612,324	24,277	(3,148)	23,858	15,672	(15,253)	24,277
Total Use of Resources	666,125	846,898	869,343	22,445	(3,412)	23,858	15,672	(17,085)	22,445
Total forecast over / (under) spend	0	0	36,346	36,346	(4,377)	23,858	31,482	(18,994)	36,346
COVID 19 Government grant income (tranche 1 to 4) - Confirmed				(64,782)	(24,330)	(64,782)			(64,782)
COVID 19 Sales, fees and Charges grant income – Forecast				(6,400)	(6,400)	(6,400)			(6,400)
Reprofile the use of reserves				34,836	34,836	34,836		0	34,836
Net forecast over / (under) spend				0	(271)	18,994		(18,994)	0

- The original approved Directorate budget was £539.364m, and this has increased by £48.683m to a revised budget of £588.047m. This reflects a £42.245m increase to resources and directorate budgets for specific grants and spend relating to COVID-19. Note, this excludes funding for the business support grants schemes and the latest tranche of unringfenced support and the detail is in Appendix 2. As well as the covid funding this includes the budgets held corporately which have now been allocated as follows:
 - £5.252m for the 2020/21 pay award allocated across all Directorates.
 - £2.349m allocations for inflationary pressures :
 - £0.805m annual contractual inflationary increase on the waste collection and disposal contract,
 - £364k for a 2% inflationary increase on in house foster care allowances,
 - £200k inflationary uplift for external residential placements on the North West Regional Group network,
 - £190k annual inflationary increases on the Street Lighting PFI unitary

charge relating to 2019/20 and 2021/22,

- £32k increase for ongoing management costs of two landfill sites,
- £40k increase for Bereavement Services,
- £57k External Foster care inflationary uplift for increases of 1.5% on the North West framework applied to any new placements from 1 April 2020,
- £0.600m Security contract increase to support the commitment that the workforce should be paid the Manchester Living Wage as a minimum which has added 15% to the cost of the service for which there is no budget provision. This was agreed as part of the re-tender process and Mitie have agreed to work with the council to try to identify further savings; and
- £61k inflationary increase in business rates across the operational and investment estate.

- £100k investment in Domestic Violence services for a trauma informed response.
- £50k increased budget in the Neighbourhoods Directorate for Domestic Abuse Capacity Building Fund grant.
- Reductions of £1.109m relating to a change in the Employer Pension Contribution rate following completion of the Pensions Actuarial Review.
- Reduction of £204k following re-procurement of the Council's utilities provision.

5.2 There have also been previously approved virements between Directorates to reflect the movement of services and other changes which are reflected in the above table.

5.3 The increase in total available resources of £180.773m includes

- £138.478m section 31 grant to reimburse the council for loss of Business Rates income due to Extended Retail Relief. This has to be held in a reserve to offset the associated collection fund deficit that is required to be funded in 2021/22;
- £42.245m increase to both resources and directorate budgets for specific grants and spend relating to COVID-19 not yet allocated, see Appendix 2; and
- £50k Domestic Abuse Capacity Building Fund grant to help local authorities plan and prepare for their new duty to provide domestic abuse support in safe accommodation.

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

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.

6.2 Whilst the position for 2020/21 looks manageable the financial position in 2021/22 becomes much more challenging. An updated report will be going to January Executive that reflects the latest position on the budget and the impact of the Spending Review announcements and the Finance Settlement which is expected on 17 December 2020.

7 Recommendation

7.1 The recommendations appear at the front of this report.