

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 12 January 2021

Subject: Provisional local government finance settlement 2021/22

Report of: Deputy Chief Executive and City Treasurer

Summary

This report updates on the main announcements from the provisional local government finance settlement 2021/22 announced 17 December 2020, with a focus on the impact on Manchester.

Recommendation

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 provisional local government finance settlement 2021/22 and the impact on Manchester City Council.

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 release
Settlement 17 December release
COVID related funding announcements

1 Introduction

- 1.1 As a result of additional demand for services and impact on the Council's income linked to the COVID-19 pandemic (as set out in the November reports to Executive and scrutiny committees) the Council is facing a significant budget gap for 2021/22 onwards. Prior to the Spending Review the 2021/22 gap was forecast at around £100m. The Spending Review announced 25 November recognised the COVID-19 pressures continuing to impact on next year and announced support for losses in local tax collection. As reported to this committee on 30 November it was expected that following the funding announcements, savings in the region of £50m, as previously identified, would be sufficient for 2021/22.
- 1.2 The provisional local government finance settlement 2021/22 announced 17 December provided Local Authority level allocations for the majority of funding announcements. This was slightly better than expected and confirmed that the c£50m savings options is sufficient to deliver a balanced budget next year. It should be noted the announcements only cover 2021/22 and are for one year only.
- 1.3 As previously reported, the Spending Review included proposals for a 2% Council Tax referendum threshold and a 3% precept to fund the pressures in Adult Social Care. In advance of confirming the level of Council Tax increase to be included in the 2021/22 budget a short consultation was carried out to seek feedback from residents on the proposed increases. The consultation closed on 24 December and the outcome will be reported to Executive 20 January.
- 1.4 This note focuses on the forecast financial impact of the provisional finance settlement on the Council's budget.

2 Core Spending Power

- 2.1 At the national level the settlement proposals confirm an increase in Core Spending Power (CSP) for local authorities of 4.5% (£2.2bn). The stated increase for Manchester is 5%. Core Spending power is the government's preferred measure of the resources available to Council's. It should be noted the Core Spending power assumes all Council's take up the maximum Band D increases, and that tax base growth in line with average (by LA) since 2016/17. The funding streams included are listed below and the Council's allocations are detailed in the paragraphs which follow.
- 2.2 The following funding streams are included within Core Spending power:
- Settlement Funding Assessment
 - Compensation for under indexing the business rates multiplier
 - Council Tax Requirement
 - New Homes Bonus
 - Rural Services Delivery Grant (Not applicable to MCC)
 - Social Care Grant

- Improved Better Care Fund
- Lower Tier Services Grant

- 2.3 **Settlement Funding Assessment (SFA)** is made up of Revenue Support Grant, Baseline Funding Assessment and tariffs and top-ups. Revenue Support Grant will increase by £13m nationally for a 0.55% inflationary increase. Government are not proposing to change the distribution of RSG from that used in 2020/21. As the Council is part of a 100% business rates retention pilot this is reflected in a reduced tariff being payable to government. This is a benefit of **£320k** to the Council.
- 2.4 **Compensation for under indexing the business rates multiplier** - The government will freeze the business rates multiplier in 2021/22. Local authorities will be compensated for the shortfall in income from freezing the multiplier, via the section 31 grant. This and associated changes to other Section 31 grants total **£0.752m**.
- 2.5 **Council Tax Requirement** – The settlement confirmed a core council tax referendum principle of up to 2% for shire counties, unitary authorities, London boroughs, the Greater London Authority (GLA) and fire authorities and a bespoke council tax referendum principle of up to 2% or £5, whichever is higher, for shire district councils. This equates to £3.4m for the Council, which had been assumed in the base budget.
- 2.6 In addition, the settlement confirmed an Adult Social Care (ASC) precept of 3% for authorities responsible for ASC, with the option to defer some or all of its use into 2022/23. This is worth **c£5.1m** to the Council. The potential Council Tax increases totalling 4.99% were subject to consultation which closed 24 December, the outcomes will be reported to Executive 20 January 2021. If the 3% precept increase is approved it is proposed the **£5.1m** raised is added to the Adult Social Care Pooled budget.
- 2.7 A referendum principle of £15 was set for police and crime commissioners. There are no council tax referendum principles for Mayoral Combined Authorities.
- 2.8 **New Homes Bonus (NHB)** - The Government is proposing a new round of NHB payments (year 11 payments) in 2021/22 which will not attract new legacy commitments in future years. The allocations for 2021/22 will be funded through a £622m top slice of RSG. The methodology will be the same as in 2020/21 with payments calculated as new housing and houses brought back into use (above a payments baseline of 0.4%), multiplied by the average band D council tax payment, with an additional payment made for affordable homes. Legacy payments associated with year 8 (2018/19) and year 9 (2019/20) will also be paid. The base budget reflected the expected legacy payments (£4.7m) the unanticipated 2021/22 grant is **£4.1m**. The Government is inviting views on a replacement for NHB.
- 2.9 **Social Care Grant** - There is an additional £300m grant for social care. £240m of this has been equalised to account for each authority's ability to

generate income from the ASC Council Tax precept. The Council will receive **£6.3m** and it is proposed this is included in the Adult Social Care pool. This is one-off and will not be included in the base for the next Spending Review. All other existing social care funding will continue at 2020/21 level including Improved Better Care Fund.

- 2.10 **Lower tier services grant.** This is a new one off unringfenced grant which will allocate £111m to local authorities with responsibility for lower tier services. The proposed grant methodology is two-fold. £86m will be allocated based on relative needs (last assessed in 2013/14). The balance includes a one-off minimum funding floor to ensure that no authority sees an annual reduction in Core Spending Power (CSP). This funding is in response to the current exceptional circumstances and is a one-off. The Council will receive **£1.2m**.

3 One off support for COVID-19 related pressures in 2021/22

- 3.1 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). This will be allocated based on the COVID RNF which was developed for Tranche 3. This is unringfenced and one off, the Council's allocation is **£22.2m**.
- 3.2 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 Collection Fund

- 4.1 **Local Council Tax Support grant** (£670m) is a new unringfenced grant outside core settlement which will fund authorities for the expected Council tax losses, including the impact of the increase in numbers receiving Council Tax Support. The Council will receive **£5.7m**, it is expected this will support the Council's overall budget position.
- 4.2 **Local Tax Income guarantee scheme** – local authorities will be compensated 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 methodology has been released and officers are working through the implications. The Council's current forecast deficit is a combined deficit of £34.6m, at £11.5m a year 2021/22 to 2022/23. The 2021/22 budget impact at 75% of this would be in the region of **£8.6m**.
- 4.3 The compensation will be by way of a S31 grant within the General Fund. As the compensation relates to 2020/21 it is expected that such amounts will have to be accrued in 2020/21. This would be held in reserve to partly offset the deficits in the years they are recognised.

- 4.4 **Business Rates 100% Retention Pilot** - Local authorities in 100% business rates retention Devolution Deal areas (including Greater Manchester) will continue to benefit from the 100% business rates retention pilot in 2021/22. The baseline budget had assumed a move the 75% retention (as previously planned by government). Retention of the pilot improves the budget position by **£5.1m**.
- 4.5 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 Government will seek to find a new consensus for broader reforms for local government (including Business Rates Retention Scheme and Fairer Funding Review) when the post-COVID-19 future is clearer. -19 future is clearer.

5 Other announcements from the Spending Review and Settlement affecting the budget available to Local Government

- 5.1 **Pay Awards** - If the pay freeze announced in the Spending Review applies to local government the savings on the Council's budget would be **£7.5m** alongside the lower than expected increase to the National Living Wage (**£2.5m**).
- 5.2 **Homelessness Prevention Grant** - this replaces Flexible Housing Support Grant and the Homelessness Reduction Grant, allocations totalling £310m 2021/22 were announced 21 December 2020. The amount to be received by the Council in 2021/22 is £3.286m an increase of £723k from last year. This does not provide the Directorate with any additional responsibilities. It is proposed this is used to part fund the £7.5m 2021/22 increase to the Homelessness 2021/22 budget relating to ongoing COVID-19 costs. This will release **£723k** to support the Council's position.

6 Summary impact on budget

- 6.1 The changes impacting on the Council's budget are summarised below.

	2021 / 22
	£'000
Spending Power Changes:	
Revenue Support Grant inflation	320
Business Rates Adjustments	752
New Homes Bonus Scheme	4,104
Lower Tier Services Grant	1,236
One off COVID-19 support:	
COVID-19 Emergency funding - Tranche 5	22,229
Collection Fund Announcements:	
Local Council Tax Support grant	5,709
Local Tax Income guarantee scheme	8,637
Continuation of the 100% Business Rate Pilot	5,131

Other Announcements:	
Remove pay award assumption in 2021/22	7,500
Reduced contract cost of min wage	2,529
Homelessness Prevention Grant	723
Total Impact on council budget	58,870
Additional contribution to Adults pooled budget:	
Adult Social Care 3% precept	5,077
Social Care Grant (£300m)	6,313
Total impact on Adults pooled budget	11,390

- 6.2 The additional funding announced, alongside the proposed savings options will now enable a balanced budget to be delivered in 2021/22. In addition this will allow c£4.5m of planned reserves to close the budget gap to either mitigate the 75% Income Guarantee Scheme position (where the figure used is an estimate as the full detail is not available yet) or used to support the position in 2022/23 where there remains a significant budget gap.

	2021 / 22
	£'000
Forecast gap Pre-Spending Review/Settlement	103,830
Forecast impact of Settlement	(58,870)
Savings Options	(49,417)
Defer planned use of reserves to balance the budget	4,457
Remaining Gap	0

7 Conclusion

- 7.1 Overall the settlement announcements were towards the positive end of expectations, although the collection fund position is still to be finalised. It is expected that savings in the region of £50m, as previously identified, will be sufficient to balance the 2021/22 budget.
- 7.2 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£40m if the proposed savings are taken forward. Therefore work will continue to achieve a sustainable position for the future.