Manchester City Council
Report for Resolution

Report to: Executive – 17 February 2021

Subject: Medium Term Financial Strategy and Budget 2021/22

Report of: Chief Executive and City Treasurer

Summary

This report sets the strategic and financial context which supports the 2021/22 Budget. The 2021/22 Budget will be a one-year budget, following the Government's decision to announce a one-year spending review 25 November 2020 followed by a one-year Provisional Local Government Finance Settlement, 2020/21 released on 17 December 2020 and (confirmed as final on 4 February 2021). The proposed 2021/22 budget will continue to reflect the priorities set out in the Corporate Plan. The full detail for 2021/22 can be found in the accompanying 2021/22 Revenue Budget Report.

This report sets out the Strategic Framework for Our Manchester Strategy and Corporate Plan priorities. It also provides the financial context for the budget and the required statutory assessment of the robustness of the proposed budget

Recommendation

The Executive is requested to consider the Revenue Budget Reports 2021/22 and Capital Strategy 2021-2025 elsewhere on the agenda in the context of the overarching framework of this report.

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The proposed 2021/22 budget will reflect 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.

Our 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.	This report sets out the Strategic Framework for the delivery of a balanced budget for 2021/22. The Framework is aligned to the priorities of 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 and work.	
A connected city: world class infrastructure and connectivity to drive growth.	

Implications for:

- Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report.
- Risk Management – as detailed in the report.
- Legal Considerations – as detailed in the report.

Financial Consequences – Revenue and Capital

This report provides the framework for Revenue and Capital planning from 2020/21.

Contact Officers:

Name: Joanne Roney
Position: Chief Executive
Tel: 0161 234 3006
E-mail: j.roney@manchester.gov.uk

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

Name: Fiona Ledden
Position: City Solicitor
Tel: 0161 234 3087
E-mail: f.ledden@manchester.gov.uk

Name: Helen Seechurn
Position: Interim Deputy City Treasurer
Tel: 0161 234 1017
E-mail: helen.seechurn@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 – 20 January 2021 - Provisional Local Government Finance Settlement 2021/22

1. Introduction

1.1. The economic impacts of COVID-19 are profound and will fundamentally change the financial landscape for years to come. There has already been a huge impact on residents, businesses and the economy, as evidenced through data on health inequalities, employment and furlough trends, retail performance and footfall. There have been significant additional costs faced by the Council in supporting residents through the pandemic, and an associated reduction in budgeted income. The latest position is set out in the Period 9 Global monitoring report elsewhere on this agenda.

1.2. Prior to COVID-19 there was an underlying budget gap of c£22m for 2021/22 rising to c£80m by 2024/25. This was a result of cost pressures including inflationary increases and demography. This was to be addressed in the Medium-Term Financial Planning process. There has been a significant financial impact from the COVID-19 pandemic, which is in addition to this underlying gap.

1.3. It was expected that there would be a national spending review in 2020, resulting in a new multi-year settlement from 2021/22. However due to the COVID-19 pandemic this did not happen, and a further one-year spending review was announced on 25 November 2020. The provisional Local Government Finance Settlement 2021/22 was released on 17 December 2020. The final Finance Settlement was announced on 4 February and made no changes for Manchester.

1.4. As reported to Executive 20 January 2021 the settlement recognised the COVID-19 pressures continuing to impact on next year and announced additional emergency funding and support for losses in local tax collection. There are also additional resources through the continuation of New Homes Bonus and increased Social Care Grant, alongside increased referendum limits for Council Tax increases. The additional funding announced, alongside the proposed savings options of £41m will enable a balanced budget to be delivered in 2021/22.

1.5. The Medium-Term Financial Plan and Capital Strategy have been updated to reflect the 2020/21 budget position and the current and anticipated financial impacts of the COVID-19 pandemic. Whilst the Government has provided some additional funding to address the pressures local authorities are facing for social care, this is insufficient to meet the underlying increases in need and there remains no longer term solution beyond 2021/22.

1.6. The Our Manchester Strategy ambitions, and Corporate Plan are the touchstone for decisions taken about what to prioritise and set the framework for the Medium Term Financial and Capital Strategies.

1.7. There continues to be progress in growing the Manchester economy however there is still a long way to go to tackle the legacy of deprivation that remains. The need to restructure the City's economy and eliminate the level of exclusion which a high proportion of residents still experience through unemployment, low skills and low paid unstable work helped shape the Our Manchester Strategy and remains the priority.

1.8. The report elsewhere on the agenda 'Revenue Budget 2021/22' sets out the position in more detail. The Directorate Budget Reports include the detail on the savings proposals and budget pressures.

1.9. This report sets out the strategic and statutory context for setting the budget including:

- The Our Manchester Strategy
- Progress to date on delivering the Our Manchester Strategy, building on the recent State of the City analysis
- The Corporate Plan
- A summary of the financial position and context
- The required statutory assessment of the robustness of the proposed budget and adequacy of proposed reserves
- Other fiduciary and statutory duties
- Financial Governance

2. The Our Manchester Strategy

2.1. The priorities for the city are set out in the Our Manchester Strategy. In May 2020, the Executive agreed for a reset of the Our Manchester Strategy 2016 - 2025 to be undertaken as part of the Council's COVID-19 recovery planning. The Our Manchester Strategy was developed in 2015 and launched in 2016 as the city's overarching 10-year vision.

2.2. Over the first five years of the Strategy, Manchester has made significant progress against some of its aims. However, some challenges remain, and the city now finds itself in a very different place due to the impact of COVID-19. Whilst the strategic objective for Manchester to be in the top flight of world class cities by 2025 remains, it is necessary to reset the Strategy's priorities for the next five years, acknowledging but looking beyond the current challenges to ensure we can still achieve our ambition for the city. A mixed methods approach to the reset has been undertaken, including considerable engagement activity with over 3,800 people to establish key priority themes.

2.3. The reset has been overseen by the Our Manchester Forum, a partnership board of 40 leaders from Manchester's public, private and voluntary sectors from across the city who oversaw the creation of the original Strategy in 2015 and have been monitoring its implementation.

2.4. A draft of the reset, *Our Manchester Strategy – Forward to 2025,* was presented to the Council's six Scrutiny Committees in January and the final version is elsewhere on this agenda to be recommended for adoption by Full Council in March 2021.

2.5. To achieve our vision, our communities want to see a renewed focus on:

- Our young people - providing investment, support, opportunity and hope for the future of the city
- Our economy - fulfilling opportunities for our residents to create and attract a talented, globally competitive and diverse workforce
- Our health - tackling physical and mental inequalities and ensuring fair access to integrated services
- Our housing - creating a choice of housing in liveable neighbourhoods across all of the city
- Our environment - pioneering zero carbon solutions and improving green space
- Our infrastructure – active, integrated, affordable and green transport system and improved digital connections

2.6. The above has been reflected in the refreshed Corporate Plan.

3. Progress on Delivering the Our Manchester Strategy

3.1. The reset Our Manchester Strategy retains the original Strategy's five themes, with the new priorities streamlined under them. Progress will continue to be annually reported in the State of the City report. The following section is structured in terms of the five themes of the Strategy:

- A Thriving and Sustainable City
- A Highly Skilled City
- A Progressive and Equitable City
- A Liveable and Low Carbon City
- A Connected City

A Thriving and Sustainable City

3.2. Manchester's population has continued to grow over the past year with an estimated 579,600 residents in 2020[1] , projected to reach upwards of 666,900 by 2030. According to the ONS 2019 mid-year estimates the city's population has grown twice as fast as the national rate from 2018-2019. This growth has been concentrated in and around the city centre and particularly strong amongst 25-39 year olds. International migration continues to be a key driver of the city's growing population. However, there are significant uncertainties for how this will be affected by the UK existing the European Union, including impacts on key sectors of the economy, such as social care and hospitality.

3.3. Manchester's ambitions for a strong recovery from COVID-19 are set out in the city's *Powering Recovery: Manchester Economic Recovery and Investment Plan* published in November 2020, including support for key sectors and business case propositions. The Council is working with key partners and with Government to implement the plan. This builds on the priority of developing a more inclusive economy set out in the 2019 '*Developing a More Inclusive Economy – Our Manchester Industrial Strategy'*.

[1] MCC Forecasting Model W2020

3.4. Manchester's economy was on a strong and consistent trajectory of growth prior to the economic impacts of COVID-19 from March 2020. The numbers of jobs and businesses in the city had both grown significantly since 2015. Employment in the city had risen by 15% since 2015, reaching 410,000 in 2019. The city continued to diversify its economy towards knowledge-intensive sectors, with a fifth of the workforce employed in the financial, professional and scientific sectors. Pre-COVID, the sectors with high recent growth included business, finance and professional services; science, and research and development; cultural, creative and digital sectors; and wholesale and retail. COVID-19 is now dramatically changing the economic landscape of the city, with sectors such as digital and construction proving resilient, and significant challenges to overcome in the hospitality, retail, leisure, culture and tourism sectors.

3.5. Major developments in the city centre include Mayfield, St John's, The Factory, Great Jackson Street, Piccadilly, First Street, and Circle Square. Key successes include the Oxford Road Corridor, which continues to attract new occupants to the cohesive cluster of science and technology businesses, academics, clinicians and world-leading health institutions.

A Highly Skilled City

3.6. A highly skilled workforce is fundamental to creating an inclusive economy in Manchester. Upskilling the city's population is also vitally important in reducing levels of dependency by ensuring that more people have the opportunity to access high quality jobs and share in the city's economic growth.

3.7. There remains a significant gap between resident and workplace wages, representing a real challenge to achieving a more inclusive economy. In 2019, an estimated 13.1% of employees working in Manchester were paid less than the Living Wage Foundation's Real Living Wage of £9.00 an hour. For employees living in Manchester, that percentage was estimated to be 21.8%. Progress is being made with that proportion reducing in recent years and the gap between resident and workforce closing.

3.8. There is a direct link between low wages and low skills. Manchester has a higher than national average proportion of residents qualified to degree level and above. However, an estimated 10.7% of our residents had no qualifications in 2019. This has improved since 2015 (12.4%) and very significantly improved since 2005 (25%), but still higher than the national rate of 7.5%. An example of progress being made is that Manchester now has 95 accredited Living Wage employers headquartered in the city, including Manchester City Council. The Council is also supporting The Manchester College to provide a city centre campus that will support residents to achieve the skills required to match the jobs being created.

3.9. Improving the education and attainment of young people is key to making longer-term progress towards a more inclusive economy. After a number of years of sustained improvement, primary schools have seen a slight dip in attainment outcomes, with the percentage of pupils achieving the expected standard in combined reading, writing and maths at Key Stage 2 reducing from 62% in 2018 to 61% in 2019, compared to the national average of 65%. However, the Key Stage 1 to 2 progress made by Manchester pupils in reading, writing and maths in 2018/19 was statistically significantly above the national average. At Key Stage 4, compared to the national average, Manchester still has a lower number of pupils achieving GCSEs in English and Maths, and the English Baccalaureate, and a lower Attainment 8 score and Progress 8 level. Through strategic partnership working, there is a continued focus on bringing all outcomes for Manchester children at all levels of education to be at least in line with national results, including a particular focus on closing the gap between boys and girls, ensuring pupil progress stays above national average, and continuing work on improving outcomes in reading.

3.10. The number of schools judged to be good or better has improved significantly in recent years and is now above the national average for both primary and secondary schools, with 90% of Manchester schools judged to be ‘Good’ or better in August 2020. The closure of schools due to COVID-19 has hugely affected young people in the city. Despite remote learning and home schooling, there are likely to be attainment setbacks in future years.

3.11. Work is taking place to ensure that education and training is aligned with the skills needed by businesses in and around the city. As outlined below, digital exclusion is a significant issue, with estimated at least 27,000 adults digitally excluded for a variety of reasons. Employers continue to report significant digital skill shortages in the city; this has been highlighted with the increased need for digital activity during COVID-19. A number of projects are in place to tackle digital exclusion issues. Apprenticeships and action to tackle youth unemployment, particularly in the most deprived neighbourhoods, and for Children Leaving Care continue to be a top priority. Capital investment in schools will continue with investment in the primary and secondary estate to create new places and to provide permanent accommodation where schools are currently using temporary facilities.

A Progressive and Equitable City

3.12. Manchester’s aspires to be a truly equal and inclusive city, where everyone can thrive at all stages of their life and can quickly and easily reach support to get back on track when needed. Inclusion and equality were consistently a top priority for respondents to the Our Manchester Strategy reset engagement activity.

3.13. Despite the strong progress made connecting more Manchester residents to the opportunities of economic growth in recent years, COVID-19 has exacerbated existing inequalities in the city in terms of the economic and social impacts, as well as health impacts. The claimant count of Manchester residents out of work and claiming benefits doubled between March and August 2020. Young people aged 16-24 and older people aged 50+ have been disproportionately affected, as have those from Black, Asian and Minority Ethnic backgrounds, and people with disabilities. Over 62,000 residents were furloughed and over 16,000 were in receipt of self-employment support (equivalent to one-third of our working age population) at the worst of the pandemic.

3.14. Poverty is a very significant issue across the city. Over 45,000 Manchester children are living in poverty, after housing costs are considered, which is an increase of more than 10,000 since 2015. While the city's Family Poverty Strategy is taking some practical steps to mitigate the effects of poverty, the drivers are national welfare reforms, and national Government decisions to make ten years of cuts to public services and the voluntary and community sector. Digital exclusion is also linked to poverty; for example, the affordability of purchasing broadband at home and data on mobile devices presents a hurdle.

3.15. Manchester's vision is for children and young people to have a safe, happy, healthy and successful future. Strong progress has been made to improve Children's Services in recent years, and there has been a significant reduction in referrals made over the last two years due to improvements in partnership working across the city. However, there is still a high number of Looked After Children in the city, with poor outcomes for many, despite improvements in the offer for Care Leavers. Children's Services continues to be an area of significant budget pressure for the Council.

3.16. Economic improvements have not been matched by similar improvements in health outcomes. People living in Manchester experience higher levels of ill health and early death than other major cities and local authorities in England. Rates of premature death from cancer, heart and lung diseases are amongst the highest in the country. Healthy life expectancy is below 58 years for men and women. Life expectancy is 7.7 years lower for men and 7.6 years lower for women in the most deprived areas of Manchester than in the least deprived areas. The Manchester Population Health Plan[2] describes how the Council will work with partners to deliver improved health outcomes and reduced inequalities. Some recent improvements have been made, including earlier diagnosis of more cancer cases and significant reductions in smoking during pregnancy. However, COVID-19 has reinforced existing health inequalities in Manchester and nationally, with particularly high rates of deaths among Black, Asian and Minority Ethnic communities.

3.17. The Our Healthier Manchester Locality Plan was originally produced in 2016 and has recently been refreshed, setting the ambition to significantly improve outcomes for residents and reduce health inequalities within a financially sustainable system. Plans are now being developed to significantly accelerate integration of health and social care, including 'supercharging' of the Manchester Local Care Organisation. The city's health and social care infrastructure has been hugely challenged by the pressures of COVID-19, but there have also been significant improvements made to how health and social care teams work together that will help to advance integrated working in future.

[2] http://www.manchester.gov.uk/healthplan

3.18. Manchester has experienced an increase in homelessness presentations over the last five years, as per national trends. 2,178 households were in temporary accommodation in March 2020 compared to 406 in March 2015, and by December 2020 this figure had risen to 2,446 households. Welfare reforms have affected many families and single people, alongside high levels of demand for social housing in the city and a lack of good quality, affordable private rented sector housing. The Council's homelessness services have successfully prevented 1,178 individuals and families becoming homeless during 2019/20, and a further 542 individuals and families between April and December 2020 through a range of interventions.

3.19. During COVID-19, the 'Everyone In' initiative provided safe and supported accommodation for over 330 people who had been sleeping rough in the city. Using funding from the Rough Sleeper Initiative in 2019/20, 1,278 people were relieved from rough sleeping in Manchester and a further 525 people avoided rough sleeping due to effective prevention. The 2020 single-night snapshot of people sleeping rough counted 68 people in Manchester, compared to 123 in 2018. This represents a decrease of 45% and provides some evidence of positive outcomes from the ongoing work of the homelessness service and partners in the city to tackle rough sleeping and move people away from a street lifestyle.

A Liveable and Low Carbon City

3.20. Manchester's future success is dependent on the city being a great place to live and visit. The city's different neighbourhoods need the right mix of housing that people can afford, good schools, parks, sports and cultural facilities, roads and transport links, and streets and public spaces free of litter and antisocial behaviour. This will be brought together in the development of the next Manchester Local Plan which is currently under way. Residents have identified through the Our Manchester Survey that they value their local assets with satisfaction with services mirroring the quality of available shops and amenities, green spaces, libraries and health services.

3.21. The housing pipeline is continuing to deliver new homes at scale across the city with over 4,100 new homes completed in 2019/20 (up from c.3,000 in 2018/19), more than in any London borough. An additional 4,000 new homes are expected to be completed in 2020/21. This success is expected to continue with investment in the Northern Gateway (a joint venture between the Council and the Far East Consortium) providing an opportunity to unlock large scale, high volume, multi-tenure housing sites with the potential to deliver up to 15,000 new homes over the next 15 years, 20% of which will be affordable.

3.22. The Residential Growth Strategy includes a housing growth target of 32,000 new homes between April 2015 and March 2025, including a minimum of 6,400 affordable homes. In total, over 13,200 new homes have been built since 2015/16, including 1,519 affordable homes. A further 9,939 are currently under construction, including 867 affordable homes.

3.23. Manchester has world class galleries, museums and cultural venues, many of which are supported directly and indirectly by the Council. Our cultural offer attracted substantial numbers of visitors prior to COVID-19. Manchester Central Library was the most visited UK public library in 2019/20 with over 2 million visits. HOME and Manchester Art Gallery each received over 750,000 visitors in the year. An example of how the city's institutions have changed their offer in response to COVID-19 can be seen in the 60% increase in online library lending since March 2020.

3.24. In November 2018, following analysis by the Tyndall Centre for Climate Change Research, the Council adopted a science-based carbon budget for Manchester of 15 million tonnes of CO2 between 2018 and 2100, and committed the city to becoming zero carbon by 2038 at the latest. The Council declared a Climate Emergency in July 2019 which recognised the need for the Council, and the city as a whole, to do more to reduce CO2 emissions and mitigate the negative impacts of climate change. It also demonstrated the Council's commitment to be at the forefront of the global response to climate change and to lead by example.

3.25. The Council's Climate Change Action Plan 2020-25 was developed to ensure that all aspects of the Climate Emergency Declaration were converted into clear actions with tonnes of CO2 savings included where applicable. The Plan builds on over a decade of previous activity which has seen the Council's direct CO2 emissions reduce by 54.7% between 2009/10 and 2019/20. A report to Neighbourhoods and Environment Scrutiny in February 2021 outlines the progress made to date and the challenges ahead; the paper can be accessed here: https://democracy.manchester.gov.uk/ieListDocuments.aspx?CId=148&MId=3393&Ver=4

A connected city

3.26. An integrated, attractive and affordable transport network is needed to enable residents to access jobs and stay healthy through active travel. Prior to COVID-19, there had been increased use of public transport for travel, including a 73% increase in Metrolink trips and 13% increase in rail trips between 2015 and 2019. During that period, there was a 9% reduction in trips made by car and a 50% increase in cycling trips into the city centre. These developments will be further supported by the new City Centre Transport Strategy, the Greater Manchester Transport Strategy 2040, and the *Climate Change Action Plan 2020 - 2025*. While usage levels have been down by as much as 95% at certain points during COVID-19, these are expected to recover effectively as the country emerges from lockdown restrictions later this year. COVID-19 has seen an increase in journeys made by walking and cycling; respondents to the Our Manchester Strategy engagement activity stressed the importance of this being sustained in the future.

3.27. Air quality has substantially improved during the lockdown period, including reductions of up to 75% in travel volumes and emissions of NO_2. The Greater Manchester Clean Air Zone Plan aims to accelerate emissions reductions associated with transport, including encouraging users to switch to less polluting vehicles.

3.28. Manchester Airport is a key asset for the future growth of the city and the wider Greater Manchester, North West region and beyond. The Airport received 11.6 million more passengers in 2019 (29.4 million in total) compared to 2010, and its future growth is being supported by a £1 billion transformation programme. Reducing carbon emissions associated with the airport is built into the Climate Change Action Plan 2020 - 2025. COVID-19 has had a devastating impact on the UK's aviation sector since March 2020; the Council has supported the Airport to continue to function and work towards an effective recovery in 2021.

3.29. Digital connectivity continues to improve for residents and businesses. However, there is still a need to increase broadband coverage and deliver full fibre to premises across Manchester at a faster pace to secure the city's status as a leading digital centre. Digital exclusion remains a significant challenge for many, partly due to digital infrastructure issues, as well as digital skills and affordability.

4. Corporate Plan

4.1. Our Corporate Plan priorities have been refreshed for 2021-22 to align with the reset of the Our Manchester Strategy and to further strengthen the Council and city-wide focus on the importance of Equality, Diversity and Inclusion. The plan also reflects the priorities for the Council's internal transformation, including new work on the Future Shape of the Council that will support the delivery of future budget savings and managing pressures.

4.2. Our Corporate Plan priorities going forward are, in no particular order of importance:

<table>
<tr><th>Theme</th><th>Priority</th></tr>
<tr><td rowspan="2">1. Zero carbon Manchester
Lead delivery of the target for Manchester to become a zero carbon city by 2038 at the latest, with the city's future emissions limited to 15 million tonnes of carbon dioxide</td><td>Support the citywide Climate Change Framework 2020-25 including the Council's roles in reducing citywide CO_2 emissions and improving air quality</td></tr>
<tr><td>Deliver activities to reduce the Council's own direct CO_2 emissions by at least 50% by 2025, as set out in the Manchester Climate Change Action Plan 2020-25</td></tr>
<tr><td rowspan="2">2. Growth that benefits everyone
Boost the city's productivity and create a more inclusive economy that all residents participate in and benefit from, and contributing to reductions in family poverty, as set out in</td><td>Deliver the Economic Recovery Plan, supporting the protection and creation of good-quality jobs for residents, enhancing skills, and effective pathways into those jobs. Includes support to Manchester's residents affected by challenges to the international, national and local economy.</td></tr>
<tr><td>Facilitate economic growth and recovery in different sectors of the economy, which supports the creation of a more inclusive economy.</td></tr>
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the Our Manchester Industrial Strategy	Support residents in order to mitigate the impact of poverty and take actions to reduce the number of people experiencing poverty, in particular given the effects of COVID-19. Including young people, older people, BAME groups and people with disabilities
3. Young people *From day one, support Manchester's children to be safe, happy, healthy and successful, fulfilling their potential, and making sure they attend a school graded 'good' or better*	All children to have access to a high-quality education, which is provided in an inclusive way. Children's school attendance to be achieved and sustained at or better than historic levels.
	Support more Manchester children to have the best possible start in life and be ready for school and adulthood. This includes ensuring that the voice of children and young people is heard, and that they have access to youth, play, leisure, and cultural opportunities.
	Reduce number of children needing a statutory service.
4. Healthy, cared-for people *Work with partners to enable people to be healthy and well. Support those who need it most, working with them to improve their lives*	Take actions to improve population health outcomes and tackle health inequalities across the city.
	Support the next phase of health and social care integration in the city, including plans to supercharge Manchester Local Care Organisation.
	Enable delivery through the MLCO of the Adult Social Care transformation programme – 'Better Outcomes, Better Lives' – focused on taking a strengths-based approach, supporting independence, building on the ASC improvement programme and embedding this into the MLCO Operating Model.
	Reduce the number of people becoming homeless and enable better housing and better outcomes for those who are homeless
5. Housing *Ensure delivery of the right mix of good-quality housing so that Mancunians have a good choice of quality homes*	Support delivery of significant new housing in the city, including through an effective recovery from COVID-19.
	Ensure inclusive access to housing by the provision of enough safe, secure and affordable homes for those on low and average incomes. This includes strategically joining up provision, and the improved service to residents enabled by direct control of Council owned housing in the north of the city.
6. Neighbourhoods *Work with our city's communities to create and maintain clean and vibrant neighbourhoods that Mancunians can be proud of*	Enable all our diverse neighbourhoods to be clean, safe and vibrant.
	Embed neighbourhood working across the whole Council and our partners, and deliver services closer to residents.

7. Connections *Connect Manchester people and places through good-quality roads, sustainable transport and better digital networks*	Improve public transport and highways, and make them more sustainable, whilst increasing walking and cycling.
	Facilitate the development of the city's digital infrastructure, to enable delivery of transformed public services and a more economically inclusive and resilient city.
8. Equality *Deliver on our equality, diversity and inclusion commitments to support Manchester's vision to be a progressive and equitable city.*	Work together with Manchester's citizens and our partners to understand our diverse communities, improve life chances, and celebrate diversity.
	As an employer, ensure a fair and inclusive working environment which recognises, values and responds to the dynamics and opportunities of a diverse workforce.
9. Well-managed council *Support our people to be the best and make the most of our resources*	Delivery of the Future Shape of the Council change programmes, along with budget reductions and savings.
	Effectively manage our resources, via budget management and planning, support to managers and performance management.
	Carry out the work required to transform our Corporate Core.

4.3. The Single Council Business Plan 2021/22 describes in more detail the action being taken to deliver the Corporate Plan. The plan is structured around the eight priority themes above and has been produced following the development of 41 service plans which describe in more detail the achievements, priorities and activities of the services which collectively make up Manchester City Council. The plan also describes the Council's key workforce and technology considerations for 2021/22 as key enablers to delivering our Corporate Plan, Equalities implications and the approach to risk management.

5. Financial Context

5.1. The Council's net revenue budget is funded from five main sources which are Business Rates, Council Tax, government grants, dividends and use of reserves. In recent years as central government funding has reduced and business rates retention has been introduced. The ability to grow and maintain the amount of resources raised locally has become even more important for financial sustainability and is integral to the Council's financial planning.

5.2. The budget for 2021/22 is being set in a period of austerity which began with the 2011/12 Budget. The Local Government Association has calculated that by 2020 Local Government will have delivered £16bn in savings to the Treasury, whilst also absorbing inflationary increases, maintaining the delivery of services to communities and facing increasing social care demands.

5.3. From 2010/11 to 2021/22 the Council's Spending Power (as defined by government) has reduced by £129m (21%) compared to an England average reduction of 7%. The drop in spending power per head, (based on the ONS

2019 Mid-Year Estimate population data), is £234 per head (compared to an England average reduction of £71 per head).

5.4. Manchester and similar authorities were disproportionately impacted by the central government grant cuts due to the methodology applied pre 2016/17 which did not take account of the ability to raise council tax penalising local authorities with a low council tax base who are more dependent on government grant funding. Manchester has over 90% properties in council tax bands A-C which constrains the ability to raise funds from this source. If between 2010/11 and 2021/22 Manchester had had the average level of funding reductions it would now have c£85m more a year available.

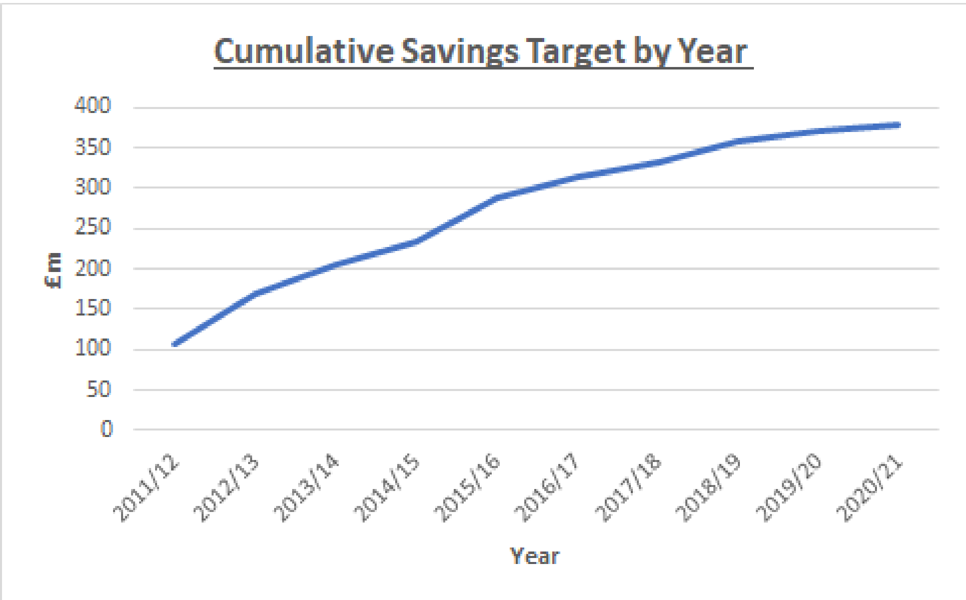
5.5. At the national level the settlement proposals confirm an increase in Core Spending Power (CSP) for local authorities of 4.6% (£2.2bn). The stated increase for Manchester is 5%. Core Spending power is the Government's preferred measure of the resources available to Councils. It should be noted the 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.

Impact on Council finances

5.6. This has resulted in required budget cuts of £379m from 2010/11 to 2020/21 inclusive, after taking into account inflation and rising demand, and a reduction of almost 4,000 full time equivalent staff (around 40% of the workforce). Recent years' cuts have been less severe but local government spending is still much lower in real terms than it was in 2010.

Table 1: Savings target by year

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Savings Planned	107	61	36	30	55	26	17	25	15	7	**379**



5.7. Prior to the COVID-19 pandemic the growth in the City was starting to generate significant additional revenues. In order to become more resilient and self-reliant the Council has adopted an approach through its strategic planning to maximise the revenues available to it. These include:

- **Business Rates -** Manchester has been part of a business rates 100% retention pilot since 2017/18 and it has been confirmed this will continue for 2021/22. This means that the Council retains 100% of the additional business rates growth achieved since the start of the Business Rates Retention scheme in 2013. Additional retained growth to date was £10.4m in 2017/18, £9.8m in 2018/19 and £9.7m in 2019/20. Additionally, there was a £6m return from GMCA in 2018/19, and £4.8m for 2019/20. A further £3.9m return is proposed for 2020/21 (subject to GMCA approval at its meeting on 12 February) which has been made available to support the budget next year.

- **Council Tax -** The success in encouraging housing growth, particularly in the City Centre, has seen an average growth in the council tax base of around 3% a year for the past 5 years. Over 60% of the new city centre housing is at a council tax band of C or above compared with 20% in the rest of the city, contributing to increasing the council tax base which is essential to the longer-term financial sustainability of the Council. The impact of the COVID-19 pandemic is still evolving however demand for housing in the city continues to be strong. The temporary closure of construction sites last spring initially disrupted development however the impact was temporary, and all major residential developments are back on site, albeit many are working to extended timetables.

- **Investment Income -** The Council has always been prudent in accounting for dividends and has limited share holdings. The shareholding in Manchester Airport Group has allowed significant regeneration, both directly in the south of the city, but also across the city region. Where Council's have such long-term, well established interests, the dividend inevitably forms part of the revenue base and therefore any market changes, such as COVID-19, which impact on the dividend income have a subsequent impact on the Council's financial position. This is not irresponsible or speculative investment and should not be considered as such when the government is supporting income losses. A regional thriving Airport is vital to the "levelling up" of Greater Manchester and beyond.

- The Council's investments generated dividend income of £71m in 2019/20 (predominantly but not exclusively from the Airport), this is not expected to resume until at least 2023/24. Proceeds from loans to the airport advanced in 2018/19 and 2020/21 are contributing a net £12m each year to support the revenue budget. Net income from the commercial estate is budgeted at c£12m per annum, the majority of this is considered secure.

Update on the Finance Settlement and the Three-Year Financial Position

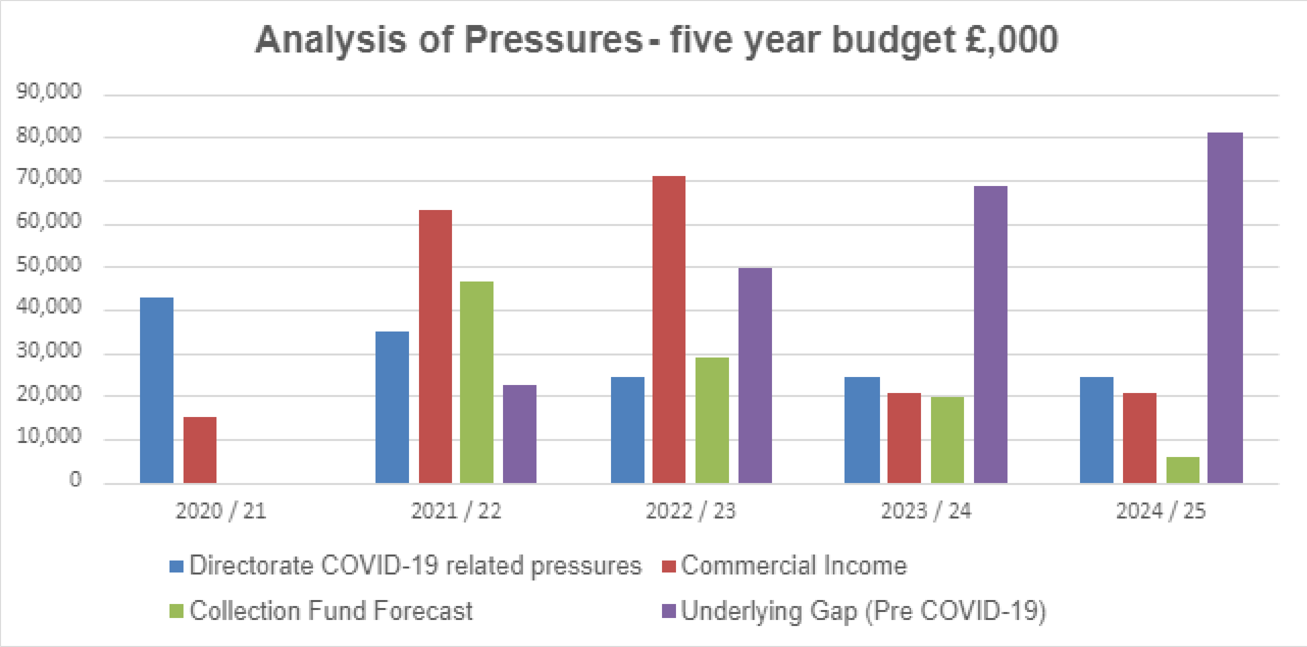
5.8. As stated above, prior to Covid-19 there was an underlying budget gap of c£22m for 2021/22 rising to c£80m by 2024/25. In July this year, there was a forecast budget gap of £162.5m for 2020/21 which was reported to the Executive. This incorporated the underlying budget shortfall and the impact of COVID-19, partially offset by the £22.4m measures agreed in year to support the budget position. These included the use of income returned from the GMCA, in year savings measures and using interest from loans such as to Manchester Airport Group to support the revenue budget position.

5.9. The impact of COVID-19 is set out in detail in the Council's Global Monitoring Report and included in the 2021/22 Revenue Budget Report. The latest return to MHCLG submitted in January summarises the position, prior to any government support, as follows:

Table 2: 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**	**23,235**	**25,532**
Income:			
Loss of Income (MCC only)		140,812	111,677
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		(41,449)	13,816
*2020/21 Council Tax shortfall relating to 2019/20 deficit impact a year in arrears**		(3,072)	3,072
Bus Lane and Parking Income - impact on reserves capacity		(5,757)	(1,430)
Budget impact of lost income	**0**	**34,725**	**118,406**
Total Costs and Net income losses	**389**	**57,960**	**143,938**

5.10. The graph below neatly summarises the combined financial challenge faced by the Council over the period 2020-25.



5.11. The pressures are presented over four blocks as follows:

- Purple bar – the underlying local authority budget pressures of c£22m for 2021/22 rising to c£80m by 2024/25.
- Blue bar - the forecast additional ongoing directorate C19 costs and income losses. For 2021/22 the cost are estimated at c£25.5m including the impact on Adult Social Care (£13.5m), Homelessness (£6.8m) Children's Services (£3.8m), Leisure £1.2m and Core £0.2m. Additionally there is c£9.2m anticipated from loss of sales fees and charges income (£5.4m) and investment income £(2.7m)
- Red bar - the loss of commercial income, in particular dividend income generated through our economic approach for regeneration.
- Green bar - shows the forecast impact on council tax and business rates which is expected to be a pressure over the five years.

5.12. The Finance Settlement contained measures which significantly improved the budget position and provided additional funding to support COVID-19 related costs and loss of sales fees and charges and collection fund income. However, they did not provide any support for the loss of commercial income and the Council is having to make significant budget cuts in 2021/22. The Spending Review measures can be summarised as follows:

- **Headline measures**
  - Confirmation that the national **Core Spending Power (CSP)** will increase by 4.6% (£2.2bn).
  - The CSP assumes maximum Band D increases, and tax base growth in line with average (by LA) since 2016-17.
  - **Settlement Funding Assessment** (SFA) increases by £13m – i.e. by the inflationary increase in Revenue Support Grant.
  - **New Homes Bonus** (NHB) allocations of £622m will be made in 2021-22. There is no NHB Returned Surplus in 2021-22. The Government is

inviting views on a replacement for NHB (where housing most needed, where councils most ambitious).

- **£111m lower tier services grant**. Distribution is based on the SFA but also includes an element that ensures "no council will have less funding available in 2021-22 than 2020-21".
- **£300m grant for Children's and Adults social care**, allocations have been equalised for each authority's ability to generate income from the ASC precept (limited to £240m). All other social care grant funding in 2020-21 continues unchanged into 2021-22.
- **£1.55bn Tranche 5 COVID-19 funding –** Allocated based on the COVID RNF which was developed for Tranche 3

- **Collection Fund:**
  - Confirmed **Band D council tax** - 2% council tax referendum limit, 3% ASC precept.
  - **Local Council Tax Support grant (£670m)** is a new grant outside core settlement which will fund authorities for the expected increase in local council tax support payments in 2021-22 (£5.7m). This is supporting Council's bottom line to compensate for reduced levels of Council Tax. Can also be used to provide further targeted support to those unable to pay.
  - **Local Tax Income guarantee scheme** – 75% support scheme methodology announced.

- **Other Announcements:**
  - **Homelessness Prevention Grant -** this replaces Flexible Housing Support Grant and the Homelessness Reduction Grant, allocations totalling £310m 2021/22 were announced 21 December 2020
  - **Pay Awards** - Pay freeze announced in the Spending Review alongside the lower than expected increase to the National Living Wage
  - £165m is available for troubled families programme.
  - £15m has been allocated to implement the **Redmond Review**.
  - The Government will seek to find a new consensus for broader reforms for local government (including BRRS and FFR) when the post-COVID future is clearer.

5.13. The expected impact of the settlement on the council's budget was estimated at £58.9m next year, as reported to Executive 20 January 2021. Since then, the collection Fund position has been finalised and the estimated receipt for the Local Tax income guarantee scheme updated. The total impact on budget is now estimated at £58.7m as shown in Table 3 below.

Table 3: Spending review - impact on budget

	2021 / 22 £'000	2022 / 23 £'000	2023 / 24 £'000
Spending Power Changes:			
Revenue Support Grant inflation	320	320	320
Business Rates Adjustments	752	1,100	1,056
New Homes Bonus Scheme	4,104	0	0

	2021 / 22 £'000	2022 / 23 £'000	2023 / 24 £'000
Lower Tier Services Grant	1,236	0	0
One off COVID-19 support:			
COVID-19 Emergency funding-Tranche 5	22,229	0	0
Collection Fund Announcements:			
Local Council Tax Support grant	5,709	0	0
Local Tax Income guarantee scheme	10,288	10,288	10,288
Continuation of the 100% Business Rate Pilot	5,131	0	0
Other Announcements:			
Remove pay award assumption in 2021/22	6,403	7,702	8,502
Reduced contract cost of min wage	2,529	3,558	3,012
Total Impact on council budget	**58,701**	**22,968**	**23,178**

5.14. In addition to the above there is £11.3m of Social Care resources including £5.1m from the 3% ASC Precept, and £6.2m one-off social care grant, which are assumed to go into the Pooled Fund, aside from £0.3m which will support Childrens services.

5.15. Without any further savings or actions this would leave a budget deficit of £46m in 2021/22, rising to £92m from 2022/23.

Strategy for Delivering a Balanced Budget

5.16. Despite the pressures being faced the Council remains determined to deliver the agreed priorities for Manchester. The budget is not just about how to manage within available resources but also on where funding should be invested to deliver on resident priorities and working with partners to jointly develop new ways of delivering services such as prevention and early help, giving families strengths and self-reliance so they will benefit from greater self-determination and improved life chances - and in so doing reducing the need for more costly support in the future. The difficult balance has to be maintained between protecting investment to generate growth (and grow the revenues available to the Council), provide high quality universal services and to protect the most vulnerable.

5.17. Underpinning the budget strategy is a prudent approach to investment income and the use of fortuitous or one-off grants and income received. This has been used to support investment in key services over a longer time frame to avoid sudden budget cliff edges in funding leading to the requirement to make budget cuts. Key to this has been:

- Income from the 100% Business Rates Growth Retention Pilot and one-off grant funding has been smoothed other typically a three-year period to enable on going investment into core services such as social care.

- Loan interest received has been used to directly offset the costs of borrowing, with any additional income used to establish a Capital Financing Reserve as part of the capital fund. The ambitious capital programme, including the refurbishment of Our Town Hall as well as the need to deliver priorities such as the affordable housing strategy will require additional borrowing of £915m over the next three years. The Capital Financing Reserve will be deployed to ensure there are no additional pressures on the revenue budget as a result of this activity.

- 67% of airport dividend income is used a year in arrears with a further 12% used two years in arrears. Smoothing reserves are also in place to support volatile income such as planning fees. These measures are designed to withstand economic shocks and recessions.

- Risks are regularly reviewed, and mitigations put in place. As an example, an additional risk reserve has been created to mitigate against the potential impact of Brexit.

5.18. However, the above has not been sufficient to deal with the impact of COVID-19 and further action is required to deliver a balanced budget in 2021/22 and to place the Council on a more sustainable footing over the three-year period. The proposed approach is as follows:

- To use the balance sheet risk reserves to smooth the underlying budget position and remove the ongoing financial impact of COVID-19 experienced in 2021/22 and 2022/23. The planned use of the airport dividend reserve in 2023/24 will reduce the spike in the budget deficit seen in that year.

- To deliver a significant programme of budget cuts. These been weighted towards the Corporate Core in order to protect front line services where possible. A programme of £50m cuts has been agreed over the three years. The level of budget cuts to be delivered in 2021/22 have now been reduced from £50m to £40.7m with the use of the proposed 3% social care precept and social care grant to reduce the target budget cuts for Adult Social Care. The budget proposals first went to Scrutiny Committee for consideration in November 2020 and are now out to Consultation as part of the Council's Budget Consultation which opened on 20 January.

- To instigate a major whole Council transformation programme which will take into account the impact of COVID-19, significant planned changes in health and social care and the overall financial position. This will have the objectives of improving the council's longer-term resilience, providing a framework for future cuts decisions, changing and modernising how we work and improving outcomes for residents. A report setting out this work is due to come to March Executive.

- The further planned use of reserves to support the budget position and mitigate any future budget risks.

5.19. Table Four below sets out the budget gap after the Finance Settlement and proposed budget cuts. Table Five beneath sets out the draft budget position.

Table 4 Budget Position Post Settlement

	Revised 2020 / 21 £'000	2021 / 22 £'000	2022 / 23 £'000	2023 / 24 £'000
Original Gap (pre COVID)	0	22,554	49,508	68,714
COVID-19 Budget impact of Additional Costs and Net income losses	57,960	143,938	123,759	64,639
Gross Underlying Gap (inc Covid-19)	**57,960**	**166,492**	**173,267**	**133,353**
COVID-19 Emergency Funding - Confirmed	(64,782)	0	0	0
COVID-19 Sales, Fees and Charges grant - forecast	(10,200)		0	0
Savings, mitigations and other changes	(18,205)	(2,327)	(1,941)	(1,503)
Corporate measures	0	(55,382)	(17,897)	(16,102)
Reprofile use of reserves to part offset loss of income impacting future years	34,835	(11,803)	(11,516)	(11,516)
Budget position pre-Spending Review	**(392)**	**96,980**	**141,913**	**104,232**
Spending Review / settlement	0	(58,701)	(22,968)	(23,178)
COVID-19 Sales, Fees and Charges grant - forecast		(4,481)		
Reprofile use of reserves to part offset loss of income impacting future years	392	11,803	(23,711)	11,516
Budget position after Spending review	**0**	**45,601**	**95,234**	**92,570**
Savings Proposals	0	(40,717)	(45,537)	(48,409)
Savings target being met by ASC precept and Social Care Grant	0	(8,700)	(5,077)	(5,077)
Reprofile use of reserves to part offset loss of income impacting future years		3,816	(3,816)	0
Forecast revised budget gap	**0**	**0**	**40,804**	**39,084**

5.20. The resulting three-year budget position is set out in the table below.

Table 5 Three year budget position

	Proposed 2021 / 22 £'000	2022 / 23 £'000	2023 / 24 £'000
Resources Available			
Business Rates Related Funding	155,537	304,726	314,678
Council Tax	176,857	186,145	195,813
Grants and other External Funding	120,243	64,040	55,957
Dividends	0	600	50,600

	Proposed 2021 / 22 £'000	2022 / 23 £'000	2023 / 24 £'000
Use of Reserves	184,667	53,423	14,380
Total Resources Available	**637,304**	**608,934**	**631,428**
Resources Required			
Corporate Costs:	112,363	112,760	113,452
Directorate Costs:	524,941	536,978	557,060
Total Resources Required	**637,304**	**649,738**	**670,512**
Shortfall / (surplus)	**0**	**40,804**	**39,084**

5.21. It should be noted that considerable uncertainty remains beyond 2021/22. In particular, the fact the current Finance Settlement and Spending Review are for 2021/22 only, the main sources of local authority funding in business rates and council tax are volatile and the potential reforms to local authority funding. These are outlined below.

5.22. There is no certainty over either the quantum or distribution of local government funding after 2021/22. In 2021 the Government plans to carry out a Spending Review, there is no detail on the timeline, process or time period that the review will cover. The Spending Review sets the quantum of funding available for local government whilst the Finance Settlement sets out the distribution to individual local authorities.

5.23. The main funding streams available to local authorities are outdated and no longer fit for purpose. Calls are increasingly being made by the business sector to reform business rates. This income made up over half of the council's original net budget for 2020/21 and is increasingly volatile, reducing due to the economic situation as well as appeals and business reliefs being provided to support certain business sectors.

5.24. The potential reforms to local government finance could be the most significant changes to the funding of local authorities since 2013-14 when the business rate retention system was introduced. There is some intelligence around the changes the government plan to make however there is no certainty around impact; whether they will be implemented in 2022/23; or, deferred further due to lack of capacity in government.

5.25. The main funding reforms delayed from 2019/20 and potentially being implemented in 2022/23 include:

- Fair Funding Review - Reviewing the funding formula that determines settlement funding allocations for each local authority. This will give each authority an updated ‘needs assessment’. The current drivers were last updated in 2013 and whilst the review is long overdue, it could lead to significant redistribution of available funds. The outcome for the council is impossible to predict as it is dependent on a complicated interaction of factors including whether deprivation factors will continue to form a key part of the funding formula. It is expected that there will be time limited transition funding. However, at this stage, the Government is yet to announce its formal proposals.

- The government intends to carry out a full business rates reset to adjust baselines according to 'need'. This could have a significant re-distributional effect on business rates income. Re-setting business rates baselines in 2022-23 in a sustainable way would be made even more difficult as income is unlikely to have settled following the pandemic.
- There were plans to introduce reforms to the administration of the business rates system, with the intention of increasing stability and certainty. This is intended to remove the volatility of appeals from local authorities.
- The business rates revaluation is due in 2023.
- The New Homes Bonus incentive is due to end in 2021/22 with the consultation expected on its replacement.

5.26. Other national risks to the future funding position include:

- The economic and service impact of Brexit following the trade agreement and new partnership with the EU.
- The lack of a sustainable funding solution for adult social care - There is still no clear indication of the government's plans. There is no certainty on the future of the various social care grants including the £30.8m for the Improved Better Care Fund (incorporating winter pressures) and £23.9m Children's and Adults Social Care Support Grant. The pressures on adult social care will be increased by the ongoing impact of COVID-19. The residual impact of the pandemic may last many years and care providers will require ongoing support.

5.27. The future budget position is extremely challenging. The resilience of the Council has been eroded and the Council's reserves are significantly reduced.

5.28. The forecast impact on the Council's reserve position is set out below. This incorporates an indicative use of a further £51m in 2022/23 which is available to support the future budget position. The only unearmarked reserve is the General Fund reserve. This will be increased from £21m to £25m recognising the scale of the budget cuts being delivered and uncertainty facing the Council in the future.

Table 6 Summary reserves position

	Opening Balance 1 April 2020 £'000	**Forecast Opening Balance 1 April 2021 £'000**	**Forecast Opening Balance 1 April 2022 £'000**	**Forecast Opening Balance 1 April 2023 £'000**	**Forecast Opening Balance 1 April 2024 £'000**	**Forecast Opening Balance 1 April 2025 £'000**
Ring-fenced Reserves outside the General Fund:						
HRA Reserves	111,871	116,848	97,657	83,669	86,064	84,994

	Opening Balance 1 April 2020 £'000	Forecast Opening Balance 1 April 2021 £'000	Forecast Opening Balance 1 April 2022 £'000	Forecast Opening Balance 1 April 2023 £'000	Forecast Opening Balance 1 April 2024 £'000	Forecast Opening Balance 1 April 2025 £'000
School Reserves	15,993	15,734	15,734	15,734	15,734	15,734
Earmarked Reserves:						
Airport Dividend Reserve	55,806	43,953	39,040	0	0	0
Insurance Fund	18,589	18,089	17,589	14,089	13,589	13,089
Statutory Reserves	22,570	16,471	16,551	17,762	19,197	20,632
Balances Held for PFI's	2,116	2,204	1,906	1,800	1,661	1,463
Reserves directly supporting the revenue budget	55,258	36,113	9,166	3,481	3,481	0
Reserves held to smooth risk / assurance	41,952	212,538	50,385	15,561	3,751	2,732
Reserves held to support capital schemes	119,969	144,899	124,319	91,886	75,910	54,303
Reserves held to support growth and reform	19,243	21,766	11,364	7,605	3,097	1,386
Grants and Contributions used to meet commitments over more than one year	7,224	14,286	2,842	1,113	521	484
Small Specific Reserves	5,980	5,070	4,494	3,881	3,787	3,693
Sub-Total Earmarked Reserves	***348,706***	***515,389***	***277,655***	***157,178***	***124,994***	***97,782***
General Fund	21,353	25,000	25,000	25,000	25,000	25,000

The 2021/22 Revenue Budget

5.29. Taking into account all of the uncertainty above, the Council will be publishing a one-year revenue budget for 2021/22 which is aligned to the Spending Review and Finance Settlement. The report to Executive 20 January 2021 set out the draft budget position following the January Scrutiny Committee process and associated budget consultation. This has now been updated following the key decisions on the Council Tax and Business Rates base and position and all other changes since January and is shown in the table below:

Table 7: Budget Position 2020/21 (Latest) and 2021/22 (Proposed)

	Original Budget 2020 / 21 £'000	Revised Budget 2020 / 21 £'000	Proposed 2021 / 22 £'000
Resources Available			
Business Rates Related Funding	339,547	514,696	155,537
Council Tax	174,465	174,465	176,857
Grants and other External Funding	66,642	131,823	120,243
Dividends	15,810	900	0
Use of Reserves	69,661	37,405	184,667
Total Resources Available	**666,125**	**859,289**	**637,304**
Resources Required			
Corporate Costs:			
Levies / Statutory Charge	71,327	67,851	66,580
Contingency	860	300	4,719
Capital Financing	44,507	44,507	39,507
Transfer to Reserves	18,263	199,474	1,557
Sub Total Corporate Costs	*134,957*	*312,132*	*112,363*
Directorate Costs:			
Additional Allowances and other pension costs	9,580	9,066	9,066
Insurance Costs	2,004	2,004	2,004
Inflationary Pressures and budgets to be allocated	10,271	970	3,230
Directorate Budgets	509,313	535,117	510,641
Subtotal Directorate Costs	*531,168*	*547,157*	*524,941*
Total Resources Required	**666,125**	**859,289**	**637,304**
Shortfall / (surplus)	**0**	**0**	**0**

5.30. The full detail of the Council’s budget is set out in the following reports which are also on the agenda:

- The Revenue Budget Report 2021/22
- Budget Reports (Children and Education Services; Adult Social Care and Population Health; Homelessness; Neighbourhood Services; Growth and Development; and the Corporate Core)
- Capital Strategy and Budget
- Housing Revenue Account
- Dedicated Schools Grant
- Treasury Management Strategy and Annual Investment Strategy

5.31. The table below shows which scrutiny committees have considered which business plans. The reports have been tailored to the remit of each scrutiny as shown in the table below.

Table 8: Scrutiny Reports

Date	Meeting	Budget Paper
9 February	Resources and Governance Scrutiny Committee	Report covering the Corporate Core and the relevant parts of both Neighbourhoods Directorate (Operations and Commissioning and Growth and Development Directorate (Operational and Investment estate and facilities management)
9 February	Health Scrutiny Committee	Adult Social Care and Population Health
10 February	Children and Young People Scrutiny Committee	Children and Education Services
10 February	Neighbourhoods and Environment Scrutiny Committee	Report covering the relevant services from within the Neighbourhood Directorate (Compliance and Highways)
		Homelessness report
11 February	Economy Scrutiny Committee	Report covering Growth and Development Directorate (Planning and Building Control, Work and skills, Strategic Housing)
11 February	Communities and Equalities Scrutiny Committee	Report covering the relevant services from within the Neighbourhood Directorate (Parks, Leisure Youth and Events)

6. Budget Calculations: report on robustness of estimates and adequacy of proposed financial reserves

6.1. Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer (‘CFO’) of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council has a statutory duty to have regard to the CFO’s report when making decisions about the calculations. The Council’s CFO’s report in relation to the robustness of the estimates and adequacy of the reserves is set out below.

Robustness of the Estimates

6.2. The Council has a duty to act reasonably taking into account all relevant considerations and not considering anything which is irrelevant. This Report together with the other budget related reports on the agenda set out a total picture of the proposals from which members can consider the risks and the arrangements for mitigation set out below.

6.3. The future uncertainty regarding future funding for local authorities makes a robust and evidenced assessment of financial governance and future resilience critical. The CFO has examined the major assumptions used within the budget calculations and has carried out sensitivity analysis to ascertain the levels of potential risk in the assumptions being used. The key risks identified to the delivery of a balanced budget and their mitigation are set out in the table below.

Risk	Mitigation
Non-Delivery of Savings	As outlined above robust monitoring arrangements are in place to enable early corrective action to be taken if savings are not deliverable as planned. Within Health and Social Care, the Better Outcomes Better Lives programme involved a robust independent review of demand management and developed a realistic savings and transformation programme alongside strengthened governance arrangements.
Increasing demand for social care, impact welfare reforms and rising homelessness is higher than budget assumptions	Additional government funding of c£6m in 2021/22 for social care and Council resources have been used to provide more funding in these areas based on a reassessment of demand. Funding received in 2019/20 has been smoothed over three years with a reserve to cover future demand. The profile of future demand has been reviewed and updated for 2021/22 including identifying and funding estimated ongoing impact of COVID-19.
Volatility of resource base including business rates	As the Council becomes more reliant on locally raised resources and dividend income it is more susceptible to any downturn in the economy. To mitigate the risk the majority of the airport dividend is used in arrears and a business rates reserve has been established. The position on all these income streams is closely reviewed each month and reported to the Senior Management Team and Executive Members. A thorough review of the Collection Fund has been carried out. For business rates the collection rates and appeals provisions have been reassessed in line with current risks. Additional government financial support has been provided via the Spending Review.
Delivery of a balanced budget beyond 2021/22	Longer term scenario planning has started to address the uncertainty beyond 2021/22. The Council will be implementing a full Transformation Programme to ensure delivery of the Corporate Plan, improve future resilience and provide the framework for future budget decisions. The estimated three-year position and approach is set out in the main body of this report. Given the level of future uncertainty and risk, £51m of earmarked reserves have been identified to smooth any future budget shocks.

Risk	Mitigation
Impact of Brexit	The potential effects of Brexit on the Council are currently un-quantified but could impact on revenue budgets, capital projects, treasury management and the pension scheme. As the risks associated with BREXIT are so difficult to quantify the approach, in line with a number of local authorities is to build up the level of the business rates reserve and protect the level of the General Fund reserve to help mitigate any adverse impact. More detailed planning and risk assessments for the different scenarios are being carried out within GM and Manchester.
Overspend on significant capital projects	The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. There are strong governance arrangements underpinning the decision-making process, all capital investment decisions have a robust business plan that set out any expected financial return alongside risk and deliverability implications. An independent review of the capital programmes function is also being carried out to provide further assurance around delivery and cost control. The scope of the review is on the agenda for the February Resources and Governance Scrutiny Committee. The capital programme is monitored monthly, with quarterly reports to Executive. There are specific programme and risk management arrangements in place to assess individual projects and to oversee their completion. The Strategic Capital Board receives monthly updates from each directorate board on each board’s part of the capital programme, detailing financial forecasts, risks, and expected outcomes. By reviewing projects regularly, such monitoring can be used to support future actions, including the estimation of future costs and mitigations as necessary.

6.4. The Council has a well-developed corporate risk register and a financial risk register that is reviewed monthly. Each Service Head has carried out an individual risk assessment of their budgets incorporated into the Risk Registers contained within the Business Plans.

6.5. It is the opinion of the CFO that any significant budget risks to the General Fund and the Housing Revenue Account have been identified and that suitable proposals are being put in place to mitigate against these risks where possible. The Council’s budget monitoring procedures are now well embedded and are designed to specifically monitor high level risks and volatile budgets. An assessment of anticipated business rates income has been carried out based on the information available and provision has been made for outstanding appeals. This is considered to be a prudent provision.

6.6. The CFO considers that the assumptions on which the budget has been proposed whilst challenging are manageable within the flexibility allowed by the General Fund balance. This and the fact that the Council holds other reserves that can be called on if necessary, means the CFO is confident the overall budget position of the Council can be sustained within the overall level of resources available. However, to the degree that the budget savings are not achieved in a timely manner and reserves are called on to achieve a balanced position, further savings will need to be identified and implemented in order to ensure the Council's future financial stability is maintained.

6.7. The Council has arrangements to fulfil its statutory duties particularly the needs of vulnerable young people and adults. Proposals have been drawn up on the basis that Strategic Directors are satisfied they can continue to meet their statutory duties and the needs of the most vulnerable.

Adequacy of the proposed Financial Reserves

6.8. The General Fund Reserve is held to meet costs arising from any unplanned event. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to "smooth" expenditure across years. It is currently estimated that the balance on the reserve at 1 April 2021 will be £25m, increased from the current £21m. The level of the un-earmarked General Fund reserve held has been risk assessed by the CFO and is felt to be prudent recognising earmarked reserves are held to mitigate specific risks such as the level of volatility in Council funding streams (such as business rates) and general uncertainty over the levels of funding available going forwards. There are a number of risks as set out previously in paragraph 6.3.

6.9. The expected level of the General Reserve is therefore seen as the minimum level required to be held to protect the Council from the financial risks inherent within the proposed budget strategy. The view of the Deputy Chief Executive and CFO is that it would be prudent in light of the higher level of risk being faced by the Council the reserve should be increased.

6.10. The Council also has a number of earmarked reserves which are detailed in the 2020/21 budget report elsewhere on the agenda and summarised in Table 6 of this report. They have a 2020/21 opening balance of £349m, as well as £112m relating to the HRA and £16m to Schools. The level of reserves required is robustly assessed as part of the budget setting process. Monitoring of these reserves takes place through the monthly reporting process to senior managers and members during the financial year and at the year-end as part of the closure of accounts. Based on the numbers alone it appears the Council is at the more resilient end of the reserve spectrum, however there are considerable risks within this position. The Council is an extremely complex organisation with a wide scale and diversity of assets, interests, liabilities and other responsibilities. By their nature many of the risks are unknown and cannot be quantified, particularly in the current challenging financial climate. It is therefore essential that the Council maintains adequate general reserves.

7. Fiduciary and Statutory Considerations

7.1. In setting the budget the Council has a duty to ensure:

- it continues to meet its statutory duties
- Governance processes are robust and support effective decision making
- its Medium-Term Financial Strategy reflects the significant challenges being faced and remains responsive to the uncertainties in the economy by continuing to deliver against its savings targets
- its savings plans are clearly communicated and linked to specific policy decisions, with the impact on service provision clearly articulated
- it has the appropriate levels of reserves and that it closely monitors its liquidity to underpin its financial resilience
- it continues to provide support to members and officers responsible for managing budgets
- it prepares its annual statement of accounts in an accurate and timely manner

7.2. In coming to decisions in relation to the revenue budget and council tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the council tax requirement and the setting of the overall budget and council tax. The amount of the council tax requirement must be sufficient to meet the Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.

7.3. In exercising its fiduciary duty, the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike a fair balance between the interests of Council taxpayers and ratepayers on the one hand and the community's interests in adequate and efficient services on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. Officers have addressed the duty to strike a fair balance between the different elements of the community and the interests of council tax and business rate payers in developing the proposals which are set out in the Directorate reports.

7.4. Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer ('CFO') of the authority must report to the Council on:

(a) the robustness of the estimates made for the purposes of the calculations; and
(b) the adequacy of the proposed financial reserves.

7.5. The Council has a statutory duty to have regard to the CFO's report when making decisions about the calculations.

7.6. Section 28 of the Local Government Act 2003 also imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.

7.7. Under Section 114 of the Local Government Finance Act 1988, where it appears to the CFO that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the CFO has a duty to make a report to the Council.

7.8. The report must be sent to the Council's External Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the CFO. Failure to take appropriate action in response to such a report may lead to the intervention of the Council's Auditor. Following well publicised difficult financial positions of some local authorities there is a growing scrutiny of the financial position of individual local authorities.

7.9. Guidance on when councils should issue section 114 notices has been temporarily modified to reduce "highly disruptive" spending freezes during the COVID-19 crisis. CIPFA announced that the statutory requirements on chief finance officers to set a balanced budget had not changed, but it has amended its guidance so that a s114 notice "should not normally be necessary" while informal discussions with government over funding are taking place. To this end, a CFO facing the prospect of issuing a s114 declaring that the council cannot balance its books should make informal contact with the MHCLG at the "earliest possible stage" and at the same time make the council's cabinet and auditor aware of the situation.

7.10. Unlike declaring a S114, which by law must be done publicly, this can all be done confidentially, with any report to Executive considered in private. This has the backing of central government as well as treasurers' societies and the Local Government Association and could remain in place for several months.

7.11. The CFO does not consider that Manchester City Council is in Section 114 territory.

Equalities Duties

7.12. In considering the budget for 2020/21 the Council must also consider its ongoing duties under the Equality Act 2010 to have due regard to the need to eliminate discrimination and advance equality of opportunity between all irrespective of whether they fall into a protected category such as race, gender, religion, etc. Having due regard to these duties does not mean that the Council has an absolute obligation to eliminate discrimination but that it must consider how its decisions will contribute towards meeting the duties in the light of all other relevant circumstances such as economic and practical considerations.

7.13. The Council will continue to use its Equality Impact Assessment framework as an integral tool to ensure that all relevant services have due regard to the effect that their business proposals will have on protected groups within the City.

8. Financial Governance

Leadership and Governance

8.1. The Council's governance arrangements are set out in full in the Annual Governance Statement. Arrangements for revenue and capital budget planning, monitoring and delivery are believed to be robust. The Council complies in full with the requirements set out in the CIPFA Statement on the role of the Chief Finance Officer. The S151 duties lie with the CFO who is also the Deputy Chief Executive, is a full member of the Senior Management Team and fully involved in the Council's governance and decision-making processes.

Assessment of value for money in the delivery of services

8.2. The Council's external auditors are required to provide a Value for Money conclusion following the guidance issued by the National Audit Office November 2017 which specified the criteria for auditors to evaluate. The external auditors were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020. An unqualified Value for Money conclusion was issued.

Financial Management Code

8.3. The Financial Management Code (FM Code) sets out the standards of financial management expected for local authorities and is designed to support good practice and to assist local authorities in demonstrating their financial sustainability. The Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The FM Code was launched in 2019 to be implemented from April 2020 with the commencement of a shadow year. It is expected that by 31 March 2021 Local Authorities can demonstrate that they are working towards full implementation of the code with the first full year of compliance being 2021/22.

8.4. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the CFO and their professional colleagues in the leadership team. It is for all the Senior Management Team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority.

8.5. The FM Code applies a principle-based approach. It requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. The principles are:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.

8.6. The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

8.7. The Code is structured over seven sections as shown below:

- Section 1: The responsibilities of the chief finance officer and leadership team
- Section 2: Governance and financial management style
- Section 3: Long to medium-term financial management
- Section 4: The annual budget
- Section 5: Stakeholder engagement and business plans
- Section 6: Monitoring financial performance
- Section 7: External financial reporting

8.8. Section Three of the code is particularly important as it covers the need for a long-term approach to the evaluation of financial sustainability, recognising that short-termism runs counter to both sound financial management and sound governance. The following paragraphs set out the Financial Management standards in this area and demonstrate how the Council will meet requirements.

8.9. *Standard F - The authority has carried out a credible and transparent financial resilience assessment* - The CIPFA Financial Resilience Index has been developed to enable organisations to identify pressure points. It contains nine measures of financial sustainability to reflect risk including three which assess the adequacy of reserve levels, level of debt, interest payable, size of council tax base, level of business rates growth above baseline, fees and charges ratio and % budget spent on social care. The results show the Council to be relatively well placed on earmarked reserves and in a reasonably comfortable mid position on the others. The only ratio classed as high risk relates to the low council tax base which is well understood. This is mitigated by attempts to grow other income streams and highlighting the importance of council tax equalisation in all funding discussions and consultation with the government.

8.10. The index is not intended to represent the entire story on the financial sustainability of a Local Authority but provides some indicators of potential risk. In addition, the CFO has examined the major assumptions used within the budget calculations and associated risks as reported at Section 6.

8.11. *Standard G - The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.* - This report sets out the longer term financial strategy and how financial sustainability is being maintained. it is also demonstrated by the Section 25 statement within this report.

8.12. *Standard H -The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities* - as detailed in the Capital and Treasury Management Strategies the Council is compliant with the requirements of the Prudential Code. This includes information based on the proposed revenue and capital budgets, such as authorised and operational boundaries for debt and the maturity structure of the Council's borrowing. The Council takes a highly prudent approach to investments, both treasury and otherwise, with a view to minimising risk. External advice is taken on investments as required and the Council does not normally make strategic investments outside of the local authority boundary.

8.13. *Standard I - The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.* It is recommended best practice that Local Authorities have a longer-term strategy for financial resilience and a multi-year financial plan. Whilst the suite of budget reports are limited to 2020/21 to align with the central government one year Spending Review and Finance Settlement effective arrangements are in place to facilitate longer term financial planning including:

- Five-year Capital Strategy (and financing arrangements) and asset management plans
- Three-year financial position and strategy for delivering a balanced budget set out in this report
- Five-year reserve strategy with three years published in the MTFP
- Financial and scenario planning over the next spending review period
- Three-year Children's and Adults investment proposals for the use of additional one-off funding received in 2019/20.

8.14. Sustainable service plans have been produced over the life of the MTFP including tracking delivery and an assessment of success in delivery of savings - Directorates have put forward additional savings proposals in the scrutiny budget reports. The total savings identified for 2021/22 are £40.7m. Officers have satisfied themselves with the robustness of the planned reductions and their broad deliverability. A detailed risk rated savings tracker is produced and monitored monthly and progress discussed at monthly Departmental Monitoring Meetings and Senior Management Team (SMT) at its monthly budget focussed meeting. Updates are also provided monthly to Executive Members. The quarterly Integrated Monitoring to SMT also includes an assessment of the key financial risks and mitigations. For the areas within its remit the Manchester Health and Social Care Commissioning Board and Management Team have a detailed process to agree business plans and monitor progress on the delivery of savings which is also tracked on a monthly basis.

8.15. In 2020/21 20% of savings were considered high risk in terms of deliverability. These related to Homelessness, the Neighbourhoods Directorate and Growth and Development and have been reassessed as part of the 2021/22 budget setting process.

8.16. A new Senior Management Team Board is being established to oversee the Council change programme and delivery of the budget cuts which will provide added rigour to the process. The strengthening of the arrangements for the Manchester Local Care Organisation or MLCO, which has responsibility for community-based health care and adult social care, includes the establishment of the Accountability Board which will include the Council's Chief Executive and S151 Officer

8.17. Section Four of the code requires that *'the authority complies with its statutory obligations in respect of the budget setting process'* and *'the budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves'.* This is demonstrated by the Section 25 statement within this report.

8.18. Section Five requires that *'The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget'.* The priorities for the City are set out in the 'Our Manchester' Strategy, the long-term vision for the city. The underpinning principles of the budget strategy have been developed to reflect The Our Manchester ten year ambitions.

8.19. The second standard within this section is *'The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.'* The Council undertakes VFM analysis which includes annual benchmarking of outcomes and unit costs against authorities with defined similar characteristics. Given the scale of the financial challenges faced an independent analysis was commissioned in July 2020 and the evidence used to inform the budget planning. The analysis highlighted areas of strength for Manchester as well as similar authorities which have better outcomes for lower spend in certain areas. These instances provide scope for more detailed investigation in conjunction with the Service concerned and improvements to be identified where required.

8.20. Additionally, the governance process for investment and funding decisions for the Council’s capital programme requires a clear and detailed business case for any proposed investment, which must explain the benefits of the project to the organisation, both financial and otherwise, alongside the funding requirement. This allows senior officers and members to make decisions on proposals based on value for money and other concerns, for example statutory requirements.

Budget Scrutiny

8.21. The Scrutiny Committee meetings on the 9-11 February 2021 will review the budget proposals within their remit. The Resources and Governance Scrutiny Committee will meet on 1 March 2021 to look at the overall budget proposals and receive comments from other scrutiny committees prior to the Budget going to Budget Council 6 March.

9. Fiduciary and Statutory Considerations

9.1. The last few years have been challenging for the Council given the high proportion of cuts which have had to be made to the Council's budget at a time when the demand for services such as Children and Adults social care has been rising. This has been exacerbated by the disproportionate level of funding reductions the Council has taken.

9.2. Manchester continues to lead the way in terms of transformation, delivering efficient services and creating the conditions for all of our communities to benefit from economic growth. The Council has maintained its reputation for innovation and reform through a number of key mechanisms:

- Using the commitment to social value to ensure communities see the benefit from investments. This has included commitments from suppliers to employ staff who live locally, no use of zero hours contracts and agreements to reduce energy consumption and carbon emissions in the City.
- Working alongside partners in the Greater Manchester Combined Authority the Council has worked hard to make the most of the opportunities to focus on local priorities through the Spatial Framework, Local Industrial Strategy, digital opportunities and in tackling homelessness.
- focused on doing things differently for example developing the population modelling toolkit, creating a more meaningful definition of affordability to support the emerging Local Plan and Housing Strategy and supporting the implementation of the Manchester Living Wage across supply chains.
- Continuing with the integration of public services to improve the offer to residents. The benefits are already being seen of the approach to integrating health and social care through improvements in the number of years men in the city can expect to live in good health.

9.3. This set of budget and business plans is a continuation of commitment to the delivery of the Our Manchester Strategy and how it has been used as a framework for prioritising the deployment of resources.

9.4. This report also sets out the position and approach over the life of the Medium-Term Financial Strategy. Whilst a balanced budget for 2021/22 can be achieved the financial position is extremely challenging with significant budget gaps remaining for 2022/23 and 2023/24. Fundamentally, the government has not provided any support for the loss of dividend income that we would achieve through our economic strategy for Manchester, and this is a key factor in the requirement to make over £40m of cuts in 2021/22 and the ongoing budget gap. The likely depletion of reserves is also a cause for concern.

9.5. Finally, the report also sets out the approach to the management of risk and an assessment against the requirements of the Financial Management code. Whilst it concludes that a reasonable and prudent approach is being taken it again highlights the levels of risk the Council is facing and the reduced levels of resilience now in place.