

Manchester City Council Report for Information

Report to: Economy Scrutiny Committee – 9 December 2021

Subject: Comprehensive Spending Review, Funding and Budget Update

Report of: Deputy Chief Executive and City Treasurer

Purpose of the report

This report updates on the main announcements from the Spending Review 27 October 2021 with a focus on the thematic areas relevant to Economy Scrutiny and the impact of the budget on Manchester. The report also provides an update on key funding programmes announced by government and the action Manchester is taking to access this funding.

Recommendations

The committee is recommended to note the relevant spending review announcements and their impact on Manchester.

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 availability of direct funding from government and will be critical to delivering the Council's Climate Change Action Plan. The Council's budget will be set after the local government settlement in December and 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.

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		Spending Review and Autumn Budget announcements impact on all areas of the Our Manchester Strategy.	
A highly skilled city: world class and home-grown talent sustaining the city's economic success		Accessing funding will enable us to deliver significant programmes of activity against all themes.	

A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report sets out the announcements in the Spending Review that relate to local government funding and the potential impact on Manchester City Council. The detail and actual levels of funding will not be known until at least the Finance Settlement expected mid to late December 2021.

Financial Consequences – Capital

None directly arising from this report.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- The full suite of Autumn Budget and Spending Review documents can be found online at [Autumn Budget and Spending Review 2021: documents - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/collections/autumn-budget-and-spending-review-2021)
- [*Spending Review and Budget Update*](#) - Resources and Governance Overview and Scrutiny Committee, 9 November 2021

1. Introduction

- 1.1. On 27 October 2021, the Chancellor of the Exchequer, Rishi Sunak MP, delivered the Spending Review and Autumn Budget 2021 to the House of Commons. The Spending Review sets the level of funding available for local government whilst the Finance Settlement (expected in December 2021) sets out the distribution to individual local authorities.
- 1.2. Although there was no individual local authority level information provided in the budget, this report focuses on the economic impact of the spending review and relevant spending and funding announcements.

2. Economic Context

- 2.1. The overall economic picture is one of an improving fiscal position, albeit from a very difficult place as the economy emerges from the pandemic. The Office for Budget Responsibility's (OBR) economic forecasts show an improvement compared to those in March 2021. They are now forecasting that the pandemic will result in economic scarring equivalent to 2% of GDP (rather than the 3% forecast in March 2021). The main features of the wider economic context include:
 - Economic growth is now forecast to be 6.5% in 2021, followed by 6.0% in 2022, 2.1% in 2023. However, from 2024 onwards, GDP is forecast to grow below its long-term trend of 2%.
 - Inflation in September was 3.1% and is likely to rise further, with the Office of Budgetary Responsibility (OBR) expecting Consumer Price Inflation (CPI) to average 4% over the next year.
 - Real terms wage growth has sat at around 3% since February 2020.
 - There is still an exceptionally large budget deficit with high levels of debt, however this has also improved since the March forecast. The budget deficit is expected to reduce by almost half to £183bn in 2021/22 (£51bn lower than in the March forecast). Borrowing reached £320bn (15.2% of GDP) in 2020/21.
 - The Consumer Price Index (CPI) dropped significantly in 2020 (during the pandemic), and has now bounced-back, with an expected peak of over 4% in the next 6 months. The OBR is expecting CPI inflation to reach 4.4% next year. The OBR forecasts that CPI will have returned to its target level (2%) by 2023 or 2024.
 - Total departmental spending is set to grow in real terms at 3.8% a year on average over this Parliament – a cash increase of £150 billion a year by 2024/25 (£90 billion in real terms).
- 2.2. The Chancellor also set out a new Charter for Budget Responsibility. The Charter sets out two fiscal rules:
 1. Public sector net debt must, as a percentage of GDP, be falling.

2. The state should only borrow to invest in our future growth and prosperity. Everyday spending must be paid for through taxation.

3. Local Government Finance Announcements

3.1. Core spending power for local authorities is estimated to increase by an average of 3% in real terms each year over the three-year period. Core Spending power is the Government's preferred measure of the resources available to councils and includes the estimated level of Council tax assuming the full precepts are taken.

3.2. The spending power increase includes:

- £4.8bn extra for Local Government over the spending review period, with £1.6bn of new grant funding in 2022/23 followed by flat cash thereafter. This includes an additional £200m for the Supporting Families programme, and £37.8m funding to tackle cyber security challenges and invest in cyber resilience. It will also be expected to fund the increased national insurance costs that councils will face as an employer. It is not yet known how the funding will be allocated to individual councils.
- £3.6bn for the previously announced adult social care reforms including the proposed cap on the cost of care.
- A council tax referendum limit of 2% and Adult Social Care precept of 1% per year.

3.3. The other main announcements impacting Local Government Funding can be summarised as follows:

- Spending on rough sleeping increased to £639m per annum by 2024/25.
- Specific announcements for Children and Families, the most significant being 'Start for Life' hubs.
- £34.5m has been allocated to further strengthen local delivery and transparency. This funding will help strengthen local government's procurement and commercial capacity, establish the Audit Reporting and Governance Authority as the new local audit systems leader, and help local councils meet new transparency requirements.
- £4.7bn for school's core budget and £2.6bn (capital) for Special Educational Needs and Disabilities to help councils provide places locally, rather than children having to travel to get the support they need.

3.4. The Chancellor announced that the Government would provide a package of business rates measures to support businesses in England. For 2022/23 this includes:

- A new relief for eligible retail, hospitality, and leisure properties with 50% relief on rates bills up to £110,000 per business

- A freezing of the multipliers at 49.9p (small business multiplier) and 51.2p (standard multiplier)
- The extension of the current Transitional Relief and Supporting Small Business schemes
- The scope of the discount for 2022/23 will return to pre-COVID-19 eligibility for retail properties. Hospitality and leisure properties will continue to remain in scope.

Local Government will be reimbursed for the reliefs through Section 31 grant.

3.5. The final report for the Review of Business Rates was also published at the Budget. The Budget and the Review commits, in the longer term, to making improvements to the business rates system, including:

- More frequent revaluations, moving to a three yearly cycle starting from the next revaluation in 2023
- New changes to support delivery of the more frequent revaluations, including new duties on ratepayers to provide the VOA with information
- A new relief to support investments in property improvements
- New exemption and relief to support green technologies.

3.6. The Spending Review was also silent on whether local government will receive a three-year financial settlement and whether and when local government finance reforms, such as the fair funding review and changes to business rates retention will be implemented. As individual local authority funding allocations will not be known until the Finance Settlement is received, expected in mid-December, several assumptions on how they may impact on Manchester have been made. A separate report has been taken to November Resources and Governance Scrutiny Committee setting out the changes to local government funding and the potential impact for the Council.

4. Announcements impacting household incomes

4.1. Changes which directly impact on household income for Manchester residents include:

- National Minimum Wage will increase to £9.50 per hour.
- The public sector pay freeze will end.
- Universal Credit uplift – by reducing the taper from 63% to 55%, UC claimants will be able to keep an additional 8p for every £1 of net income earned. A £500 per year increase to the amount that households with children or a household member with limited capability for work can earn before their Universal Credit award begins to be reduced (known as Work Allowances).
- Government will continue the temporary increase in the surplus earnings threshold to £2,500 for UC claimants until April 2023, when the threshold will reduce to £300.

- Workers leaving the furlough scheme and making a UC claim will be prioritised through the Job Finding Support scheme.

In many cases inflationary pressures and rising cost of living will reduce the impact of any increase in incomes.

5. Funding announcements which benefit Manchester

5.1. Investment funding announced was framed as part of the wider levelling up agenda with focus on regions outside London and the Southeast. As with previous announcements, much of the funding made available appears to be piecemeal and allocated via competitive application process. A Levelling Up White Paper is planned for later in the year. Announcements included:

- Manchester made two successful bids into the £4.8 billion **Levelling Up Fund**. The successful bids were 'The Culture in the City Project', providing almost £20m to transform the Upper and Lower Campfield Market and development of four railway arches at the back of HOME arts centre. Unfortunately the bid for Withington Village was unsuccessful.
- The **City Region Sustainable Transport** awarded £1.07bn to Greater Manchester over five years to transform local transport networks, for schemes such as next generation Metrolink tram-train vehicle and creation of the "Bee" active travel network.
- GMCA (Greater Manchester Combined Authority) have been awarded £4.3m over eight projects from the **Community Renewal Fund**. Six of the eight schemes have activity in Manchester, including two which are wholly in Manchester. These are ONE Manchester's Green Economy Employment (£661,775), and the Growth Company's Good Jobs Project in North Manchester (£582,050). The funding has to be spent by end of June 2022, a 3 month extension to reflect the late approval of the programme.

5.2. A 3-year budget for the **Shared Prosperity Fund** has been announced and as expected shows a "ramping up" to European levels of funding by year 3. The revenue/capital split is also as expected and differentiates from the Levelling Up fund which is capital.

	2022-3 £Billions	2023-4 £Billions	2024-5 £Billions
Revenue	0.4	0.7	1.5
Capital	0.0	0.1	0.3

5.3. Supporting local priorities, the UKSPF (UK Shared Prosperity Fund) will include a new initiative ('Multiply') to help hundreds of thousands of adults across the UK improve their numeracy skills. All areas will receive access to a learning platform and funding to improve adult skills. £560 million is being allocated to this scheme

as part of the SPF, however there are no current details whether this is included or in addition to the above figures.

6. Employment and Skills

6.1. Given Manchester's increasing focus on fair pay and good conditions, particularly to reduce the cause of poverty in the city, the announced increase in the National Living Wage (NLW) by 6.6% to £9.50 an hour for people aged 23 and over is particularly welcome.

6.2. The government has also committed to increasing skills spending by £3.8bn, an increase of 42%, over the parliament. The Budget looks to meet the government's commitment to the National Skills Fund by providing 29% real terms increase in adult skills funding from 2019-20 to 2024-25.

6.3. Other announcements include:

- £3 billion for post-16 education and adult education and training. including quadrupling the number of skills camps in areas such as artificial intelligence, cybersecurity and nuclear.
- £2.6bn has been allocated for the UK Shared Prosperity Fund to help people access new opportunities UK-wide, including through the Multiply adult numeracy programme, which will receive £560 million of funding. All local areas in the United Kingdom will receive funding to deliver bespoke adult numeracy programmes in their area from April next year supported by a Digital Platform to access training.
- An additional £1.6 billion by 2024-25 has been set aside for 16–19-year-olds' education in England, maintaining funding rates in real terms per student.
- Increasing apprenticeships funding to £2.7 billion by 2024-25 and continuing to meet 95% of the apprenticeship training cost for employers who do not pay the Apprenticeship Levy and will also deliver apprenticeship system improvements for all employers.
- The £3,000 apprentice hiring incentive for employers will be extended until 31 January 2022 and the government will invest approximately £10 million a year in the Sector Based Work Academy Programme (SWAPs) for work experience, new skills, and retraining.
- Expansion of Plan for Jobs schemes taking the total DWP (Department for Work and Pensions) spend on labour market support to more than £6 billion over the next three years.
- £68 million (by 2024-25) to "level up" the adult skills system.
- £1.5 billion capital investment to improve the condition of the Further Education (FE) estate in England.
- Funding to open 20 Institutes of Technology (IoTs) throughout England.

7. Welfare and benefits, unemployment

- 7.1. As expected, the impact of the ending of the Universal Credit uplift has been softened by reducing the taper rate by 8% from 63% to 55%, meaning Universal Credit claimants will be able to keep an additional 8p for every £1 of net income they earn. There will also be a £500 per year increase to the amount that households with children or a household member with limited capability for work can earn before their Universal Credit award begins to be reduced (known as Work Allowances).
- 7.2. The government will continue the temporary increase in the surplus earnings threshold to £2,500 for Universal Credit claimants until April 2023, when the threshold will reduce to £300.
- 7.3. Workers leaving the furlough scheme and making a Universal Credit claim will be prioritised through the Job Finding Support scheme, and older workers who will benefit from additional support to return to, or remain in, work. In addition, young people will continue to benefit from the extension of existing schemes, and jobseekers with disabilities will benefit from extra work coach support.
- 7.4. The government announced the £500 million Household Support Fund on 30 September, which will provide £421 million to local authorities in England. Local Authorities are best placed to direct help to those who need it most, and at least 50% of the funding will be used to support households with children.

8. Housing

- 8.1. An additional £1.8 billion for housing supply consisting of:
 - £300 million locally led grant funding for Mayoral Combined Authorities and Local Authorities to unlock smaller brownfield sites for housing
 - £1.5 billion to regenerate underused land and deliver transport links and community facilities
 - Reconfirmation of £11.5 billion investment through the Affordable Homes Programme (2021-26) of which £7.5 billion is over the SR21 period. 65% of the funding will be for homes outside London.
- 8.2. An announcement particularly relevant to Manchester is the allocation of £5bn to remove unsafe cladding from highest-risk buildings, partly funded by Residential Property Developer Tax charged at 4% on profits exceeding an annual allowance of £25 million.

9. Transport

Greater Manchester has been awarded £1.07bn in capital funding for the infrastructure elements of the Bee Network integrated transport plan, however detail on wider regional rail improvements and HS2 was notable in its absence.

- 9.1. In addition, £2 bn of investment in cycling and walking is expected over the Parliament, including £710m of new active travel funding. £620m of additional investment to support the transition to electric vehicles, including public charge points in residential areas and targeted plug-in vehicle grants.
- 9.2. While not announced with the CSR and budget, the government's Integrated Rail Plan (IRP) has now been published. The plan cancels the eastern leg of HS2 to Leeds. Northern Powerhouse Rail has been significantly changed, moving away from providing new lines and towards upgrading existing infrastructure with some limited new high speed rail on short sections. The IRP favours a combined HS2 & NPR surface station at Manchester Piccadilly rather than an underground station. The plan also includes £360m to roll out integrated ticketing and contactless payments. The rationale for the new approach is that some similar improvements can be made cheaper and more quickly. However journey times and capacity increases in the NPR are generally worse than originally expected.

10. Culture

10.1. Announcements relevant to economy scrutiny include:

- £14 million in each year to support creative industries, including supporting SMEs to scale up and providing bespoke support for film and video game industries.
- £850 million for cultural and heritage infrastructure to safeguard national treasures and boost culture in local communities and on high streets.
- £52 million in new funding for museums and cultural and sporting bodies next year to support recovery from COVID-19 and an additional £49 million in 2024-25 thereafter.

11. Climate and Net Zero

- 11.1. While climate change and net zero did not feature heavily in the Chancellor's speech and initially attracted criticism for some changes to Air Passenger Duty and roads funding, there are several relevant announcements for local government. Many of the announcements concern large scale national infrastructure and investment, however there are several announcements relevant to economy scrutiny given their potential impact on the wider economy and labour market in terms of driving demand for green interventions.

- £950 million for the Home Upgrade Grant and £800 million for the Social Housing Decarbonisation Fund. It also allocates £1.4 billion to help decarbonise the public sector estate in England.
- £3.9 billion for energy efficiency improvements and clean heat installation in buildings, making the transition to net zero cheaper and easier for households, while making their homes warmer. This also support the decarbonisation of the public estate.
- £450 million to grow the heat pump market in England and Wales as part of the ambition to work with industry to reduce the costs of heat pumps by 25-50% by 2025. The Budget and SR continues support for heat networks in England with £338 million to encourage private investment.
- £620 million for public charging in residential areas and targeted plug-in vehicle grants, building on the £1.9 billion committed at SR20. The SR and Autumn Budget also announces an increase in capital support to £817 million over the SR21 period for the electrification of UK vehicles and their supply chains.

12. Innovation and connectivity

12.1. Several announcements include funding available to support advanced research and innovation

- £1.2bn of the previously announced £5bn Project Gigabit commitment to roll out gigabit speed broadband access which will reach Manchester in a future phase following regional supplier procurement.
- Increasing the funding target for public spending on R&D to £20bn by 2024/25 and £22bn by 2026/27.
- Increasing universities' core funding by £1.1bn by 2024/25, increasing core Innovate UK programmes' funding by £1bn per year by 2024/25, and investing £800m by 2025/26 in The Advanced Research and Invention Agency.
- £1.4bn for the Global Investment Fund to invest across UK in life sciences, automotive, offshore wind.
- £660m for the second Northern Powerhouse Investment Fund to invest in and grow small and medium sized enterprises.
- Though the exact funding levels were not announced, the statement confirmed the continuation of the Made Smarter programme to boost manufacturing and which is delivered by the Growth Company in Greater Manchester.

13. Other relevant announcements

13.1. Finally, there were a selection of policy announcements relevant to local authorities in some of the detail of the statement. These include:

- Continued funding for the places for growth programme, which aims to move 22,000 civil service roles outside London by 2030, to bring policymakers closer to the communities they serve.

- The Levelling Up White Paper will provide further information on the government's plans regarding devolution deals. The government has already committed to £7.5 billion of non-ringfenced 'gainshare' investment funding over 30 years, as part of nine city region devolution deals, including £750 million being delivered over SR21.
- Full funding for association to the European Union scientific research initiative Horizon Europe, enabling further collaboration with European partners in research and development.

14. Conclusion and next steps

- 14.1. This budget marks a shift from previous conservative governments with tax raises and increasing spending aimed at boosting growth contrasting with previous years' austerity. There were few Manchester specific announcements although many of the planned initiatives and changes will be particularly relevant to our recovery plans. As usual, detail on many announcements will arrive over the coming weeks and months.
- 14.2. The Institute for Fiscal Studies responded to the budget by stating that *"the story of this Budget is one of spending increases and a worrying outlook for living standards. The story of the fiscal year as a whole also encapsulates those historic tax increases...Mr Sunak has bowed to the demands created by public services which have suffered a decade of cuts, and to the inevitability of increased spending on the NHS."*
- 14.3. The Resolution Foundation's analysis noted that *"Rishi Sunak was right to acknowledge that many of the cost of living pressures in Britain...however, the Government has exacerbated this cost of living crunch with the biggest ever overnight benefit cut... put simply, families across Britain should expect a bumpy ride over the next six months, and the measures announced in the Budget today will soften, rather than tackle, the cost of living crisis millions of low-income families will be experiencing."*
- 14.4. The chairman of the Local Government Association commented that *"we are pleased that today's Spending Review has provided new government grant funding for councils over the next three years to support vital local services. This will help meet some – but not all - of the extra cost and demand pressures they face just to provide services at today's levels."*
- 14.5. While increases in funding will be welcome by public services, increases in inflation, living wage, public sector pay and normal council running costs mean that the impact of extra funding is unlikely to be very significant. Cost of living increases and tax rises mean that many families will be worse off, however the very poorest families should see small real terms increase in income.

14.6. Colleagues in Policy, Performance and Reform are now working to undertake more detailed analysis of the budget and its economic impact on Manchester's resident and businesses.