Manchester City Council
Report for Information

Report to:	Resources and Governance Scrutiny Committee – 11 January 2022
Subject:	Revenue Budget Modelling – budget assumptions focussing on inflation and demand growth
Report of:	Deputy City Treasurer

Summary

This report updates on the latest inflation and demand growth estimates which are included in the Medium-Term Financial Plan.

Recommendations

The Committee is recommended to note the report.

Wards Affected: None directly

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
The budget reflects the fact that the Council has declared a climate emergency by making carbon reduction a key consideration in the Council's planning and budget proposals.

Manchester Strategy outcomes	Summary of the contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	

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

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

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The report sets out the announcements in the provisional local government finance settlement 2022/23 and the impact on Manchester City Council.

Financial Consequences – Capital

None directly arising from this report.

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

Executive – 17 February 2021 Subject: Revenue Budget 2021/22

1. Introduction

1.1. The Committee has requested a report into the assumptions that support the revenue budget setting process, with particular regard to inflationary and demand or demographic pressures that are required to be funded as part of the budget process.

1.2. This report should be read in conjunction with the report on the impact of the Provision Finance Settlement on the 2022/23 budget setting process, also on the agenda.

1.3. The Council operates a medium term financial planning process and has developed a budget model to forecast the likely budget position for the current and next three years.

1.4. The assumptions take into the account the likely resources that will be available to fund the budget, including government grant funding, council tax and business rates income.

1.5. The Local Government Finance Settlement, provisionally announced before Christmas each year, makes assumptions at the national level on levels of both Council tax and business rates collection and uses these when setting the level of grant funding it provides for local government. It then applies a formula to distribute the grant funding to give each local authority a cash amount.

1.6. Councils in turn need to make local decisions about the actual rate of Council tax and business rates income that will be collected that can be used. The budgeted amount each year is calculated on the likely number of householders or business liable to pay, the expected collection rate and any increases to rates charged and the adult social care precept. All income raised from local taxation is paid into and accounted for within the Collection Fund. The amount of Council Tax and Business Rates to be drawn down from the Collection Fund are based on these key assumptions and are used to fund the Council's budget. Any surpluses or deficits from previous years also have to be adjusted for and added to (surplus) or taken away from (deficit) the budgeted amount.

1.7. The Council also makes assumptions around its use of reserves and whether it needs to add to or use its reserves.

1.8. On the expenditure side all spending assumptions are reviewed and updated, including corporate budgets such as levy payments and contingencies. The full detail is set out each year in the Revenue Budget Report.

1.9. This report focuses on the Directorate budgets for the provision of services to residents and the assumptions that are made on rising costs and levels of demand that the Council has a statutory duty to fund. It does not cover changes to the budget made due to policy decisions to invest more or less in particular services.

2. Inflationary Pressures

2.1. Inflation is a key pressure and provisions for general pay and price increases are made each year. The Council has already seen significant in year pressures around prices, particularly on energy, and the inflationary environment is much stronger than it has been in previous years. The following provisions have been made within the draft Revenue Budget:

Table 1 – Inflationary Pressures Assumptions 2021/22 to 2024/25

	Original 2021/22 £'000	Revised 2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Non-Pay Inflation	1,981	437	10,437	14,437	18,437
Sales Fees & Charges Inflation	0	0	(2,000)	(2,000)	(2,000)
Electricity Inflation	0	0	7,200	5,500	5,500
Pay Inflation	0	0	7,451	15,133	23,053
1.25% NI Increase	0	0	1,550	1,550	1,550
Pension Contribution Increase 1% estimate	0	0	0	0	2,200
Total	**1,981**	**437**	**24,638**	**34,620**	**48,740**

Non-Pay inflation

2.2. The Council tries to proactively manage inflationary pressures through its procurement approach on non-pay items, with Directorates expected to find efficiencies through changes in contract specifications and absorb wherever possible the impact of rising prices. However, not all inflationary pressures can simply be absorbed by services and the Council has traditionally made a non-pay allowance for inflation of £4m per annum, which has been held corporately, with Directorates requesting a drawdown when prices rises are unavoidable. In 2021/22, £3.563m has been allocated, leaving £0.437m available to roll into 2022/23. In light of the current high rates of CPI (5.1%) and RPI (7.1%) the 2022/23 budget assumes an increase in this allowance to £10m, before reverting to £4m a year from 2023/24, as inflation returns to its longer-term trend rate.

2.3. The Council trades a number of services and in setting its fees and charges, will need to cover the increased costs of delivering these services, an allowance of 2.5%, raising £2m, has therefore been made to offset the cost increases and to neutralise wherever possible the increased costs of trading on the general tax payer.

2.4. A key component and well publicised element of general inflation is in relation to energy prices, and in particular gas and electricity costs. The Council, as a big user of energy has already seen a large increase in electricity with the full year effect of the October 2021 electricity contract being £7.2m in 2022/23. This represented an 87% increase on the previous contract price (which was negotiated when prices were at an all-time low during the first phase of the pandemic). Prices are expected to reduce as prices fall from their peak, but the ongoing impact is expected to be £5.5m thereafter. Energy prices are currently extremely volatile and the increase in general inflation provision of £10m partially reflects this.

Pay Related Costs

2.5. The pay related costs include the following.

- An assumed amount to cover the cost of the pay award. As this is not yet known this has been assumed at a 3% increase per year (£7.5m a year) but does not in any way pre-empt the negotiation process. When budgeting for pay inflation, the Council looks across the public sector and compares confirmed pay awards for the NHS, teachers and police to assess the reasonableness of its assumptions
- Budgets have been updated to reflect the employers National Insurance increase of 1.25% (£1.5m) to fund the ‘social care levy’.
- An assumed 1% increase to the employer pension contribution rate from 2024/25. This has been factored in for prudence, and will be informed by the actuarial valuation and updated when this is known in late 2023.

3. Demand and Demographic Pressures

3.1. Demand pressures included in model with inflation drives the majority of budget gap, so the management of early help, preventative and demand management strategies will play a central role to the balancing of future years budgets. The remainder of this section updates the Committee on the key assumptions applied in proposing a balanced budget for 2022/23 and work is going in all these areas to accurately predict and model these demand changes and the mitigating actions that the strategies produce.

3.2. The assumed levels of demographic and demand growth for 2022/23 to 2024/25 are illustrated in Table 2

Table 2 – Demand and Demographic Growth 2021/22 to 2024/25

	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Adult Social Care National Living Wage	1,870	5,731	5,590	5,983
Market Sustainability and Fair Cost of Care Fund	0	1,800	0	0
Adult Social Care Demography	2,962	2,222	2,329	2,636
Children Services	2,227	2,293	2,357	2,419
Total Demand and Demographic Growth	**7,059**	**12,046**	**10,276**	**11,038**

Adult Social Care

3.3. Each year an additional amount is allocated to the Adult Social Care budget to ensure that the additional costs of meeting the national minimum wage can be met. An uplift to National Living Wage of 6.6% to £9.50 per hour was announced as part of the Spending Review. This is an increase of £2.6m over the £3.1m already included in the initial 2022/23 budget assumptions. This will be passed through to our providers through our contracts. The total cost for the National Living Wage (NLW) increase is estimated at £5.7m 2022/23, £5.6m in 2023/24 and £6.0m in 2024/25. This will be reviewed annually.

3.4. The Council is a Living Wage employer and is moving towards ensuring that all social care contracts allow providers sufficient funding so they can pay the national living wage to their staff. This was achieved for home care providers with the retender in July 2019 when the fee rate paid was £15.89 per hour.

3.5. The recently announced Social Care Levy, (national insurance increase), has earmarked funding for Councils to pass onto social care providers to ensure social care workers are paid a "fair" rate of pay, which is linked to the "fair cost of care" for care home residents. Initial funding of £1.8m has been made available in 2022/23 as part of the provisional settlement. This is to local authorities to prepare their care market for reform and move towards paying providers a fair cost of care, as appropriate to local circumstances. More work is required to ensure that this can be achieved across all care home providers.

3.6. An allowance is also made for the increased demand associated with population growth and increasing demand for care (£2.3m 2022/23, £2.3m 2023/24, £2.6m 2024/25). Demographic calculations use MCCs Short and Long Term Return (SALT) data as the key activity data source and applies the population projections by age and gender which uses data derived from the Manchester City Council Forecasting Model (MCCFM). MCCFM projections are based on a combination of local and national data sources. The output represents deviations from changes driven purely by population change.

3.7. In 2020, we worked with a consultancy (IMPOWER) to carry out an in-depth analysis of Manchester's adult social care. Our current practices were reviewed and how our demand was expected to change over the next few years. Significant opportunities were identified to improve practices in order to reduce, prevent and delay demand on services, while also improving outcomes for people in Manchester. Better Outcomes Better Lives (BOBL) is the Manchester Local Care Organisation's (LCO) programme to transform the way that we deliver adult social care and is expected to deliver around £18.4m of savings a year by 2023/24.

Children's Services

3.8. Children's Services deliver the Council's statutory duties in relation to children in need, child protection, looked after children (LAC) and young people with care experience (leaving care service). It includes a range of services targeted to support families and help to avoid the need for children to come into care. It also provides short breaks and respite care services for disabled children and their families as well as Youth Justice Services.

3.9. The budget recognises the costs associated with increased numbers of children requiring help, support and protection and the complexity of their needs. The Directorate's budget approach is built upon four themes:

- Cost avoidance – preventive, timely and edge of care intervention
- Care planning - and continuous practice improvement
- Commissioning - collaboration and partnerships
- Service improvement/efficiencies

3.10. Following Ofsted's inspection in 2017 which judged Manchester's Children's Services to no longer be inadequate, the service has continued to make progress and improvements in the experiences, outcomes and quality of services provided to children and their families. The trajectory of continuous improvement has been sustained as reflected in later Ofsted focused visits (in 2018 and 2019), Peer Reviews and a Local Government Association Peer Reviews.

3.11. Despite a 28% increase in the City's child population since 2011 the number of looked after children (LAC) has not increased at the same rate. In March 2011 there were 1,391 LAC and in March 2021 1,371 LAC. This has led to a reduction in the rate per ten thousand from 131 to 111. In terms of national comparisons between 2008 and 2020 Manchester saw a reduction of 2% in numbers of children and young people in care compared to a 35% increase nationally over same period.

3.12. Our rate of 'children in need' at 360 per 10,000 has decreased by 2.7% since March 2018/19 and is currently below that of statistical neighbours. 17% of children discharged from care in the last 6 months have gone onto be the subject of Special Guardianship significantly larger than our statistical neighbours and English average at 13%. In addition, and attributable to timelier and quality of intervention, over time there has been a significant decrease in the number of children subject to child protection planning, this has reduced by 123 in the last six months, at 45.9 per 10,000 this performance is better than statistical and northwest neighbours.

3.13. In addition, there has been a reduction in the number of children and young people subject to child protection plans from 787 at the end of 2018/19 to 731 at the end of 2019/20 and increased the percentage of child protection conferences held within 15 days of the start of the Section 47 enquiry from 78.4% in 2017/18 to 88% in 2019/20.

3.14. The assumptions which are included in the budget take into account the initial work carried out by Grant Thornton in June 2019 which concluded October 2019 and build on this using the latest trend and evaluation data from Performance Reform and Innovation (PRI). There continues to be a growing child population in Manchester with increasing need for a statutory intervention – as evidenced by the growth in SEND, requests for Social Care intervention and Short Breaks (17%, 12%, 69% respectively). Given this there is a need for the investment in edge of care and early intervention to continue alongside and a 3% demographic growth assumption, derived from the work completed with Grant Thornton and refreshed for the latest data. The Medium-Term Financial Plan currently includes demography estimates of £2.3m in 2022/23, £2.4m in each of the following two years.

3.15. Increasingly the right response is occurring at the right time, preventing pressure escalating higher up the social care system. Preventative and Edge of Care evaluations show that when focusing on edge of care services and making the right decisions for children. However, it is very difficult to predict whether the stability in looked after placement numbers will continue. It is likely the pandemic has delayed some growth, however this is complex due to the volatile nature of safeguarding pressures and complex interaction between demographics, socio-economic trends and Children's Services activity.

Homelessness Services

3.16. The Homelessness Services are undergoing a significant change and improvement programme. This is focused on preventing people from becoming homeless and supporting individuals and families who find themselves homeless, to secure new permanent homes and better outcomes.

3.17. Since 2014 the homelessness service has seen almost a 600% increase in residents housed in temporary accommodation, against a national increase of 63%, this drives the need for the improvement programme and revised strategy.

3.18. The revised priorities for the service include:

- Significantly increasing the prevention of homelessness in the first instance Improving the quality-of-service provision for people and families who find themselves homeless
- Reducing the cost of the service by creating more innovative and sustainable housing options in temporary and permanent accommodation
- Delivering better outcomes for families and single people

3.19. The Homelessness Transformation Programme will transform the delivery of homeless services and includes the workstreams below:

- Seeking to end the routine use of B&B for families (households with children or pregnant household member), by changing the way we work and bringing forward the move into longer term accommodation for families.
- Redesigning the Homelessness Service through mapping and redesigning existing pathways and processes with an emphasis on increased prevention, improved customer journeys and outcomes, and reduced administration and failure demand.
- Undertake a comprehensive review of the Council's Temporary Accommodation provision and implement recommendations for service improvements and significantly reduced costs.
- Redesign of the Private Rented Sector (PRS) incentive scheme to increase the supply of PRS properties with an emphasis on homes in MCC (Manchester City Council).

3.20. As part of the 2021/22 budget setting process ongoing demographic funding for Homelessness had been included for 2022/23 at £1.7m, increasing to £6.7m by 2024/25. In addition a further £7m was added to the start budget for 2021/22 to reflect the additional impact of covid-19 on demand for homelessness services, in anticipation of the impact of the removal of the universal credit uplift and the tenant eviction ban ending.

3.21. Whilst the £7m has been utilised, this has been in response to the pandemic and action taken in 2021/22. It is expected that the changes to the service and additional government grant funding around the rough sleeper initiative (yet to be allocated to Councils) will mean that the budget to be sufficient for 2022/23, and that demand reductions and therefore budget reductions will be possible in future years. Further details will be provided as the Transformation Programme progresses in the coming months.

3.22. To manage risk in this area a £1.5m homelessness contingency reserve remains.

4. Conclusion

4.1. This report sets out the current assumptions around pay and non-pay inflation across the council and the forecast cost of anticipated demand increases within Social Care. The settlement and budget report elsewhere on the agenda details the wider context for the revenue budget. As part of the strategy for setting a balanced budget for 2023/24 and beyond continued work on Public Service Reform and management of demand / prevention will be a key part of the strategy to reach a balanced budget.