Manchester City Council
Report for Resolution

Report to: Resource and Governance Scrutiny – 6 September 2022
Executive – 14 September 2022

Subject: Revenue Monitoring to the end of July 2022 and Budget update 2023/24 to 2025/26

Report of: Deputy Chief Executive and City Treasurer

Summary

The report outlines the projected outturn position for 2022/23, based on the latest expenditure and income activity as at the and future projections. It also outlines the updated forecast position for 2023/24 and beyond following a full review of income and emerging pressures.

Recommendations

The Resources and Governance Scrutiny Committee is recommended to note the report.

The Executive is requested to:

(i) Note the global revenue monitoring report and forecast outturn position which is showing a £20.1m overspend.
(ii) Approve the use of unbudgeted external grant funding (Appendix 2).
(iii) Approve the use of budgets to be allocated, (Appendix 2).
(iv) Approve the use of reserves (Appendix 2)
(v) Note that an urgent key decision has been published in relation to agreeing the energy contracts (para 2.8)

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 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.

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.	The effective use of resources underpins the Council's activities in support of its strategic priorities.
A highly skilled city: world class and home grown talent sustaining the city's economic success.	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities.	
A liveable and low carbon city: a destination of choice to live, visit 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 – there are no specific legal considerations contained within the report.

Financial Consequences – Revenue

The report identifies a forecast overspend of £20.1m for 2022/23, based on activity to date and projected trends in income and expenditure, and includes the financial implications of COVID-19, government funding confirmed to date and the impact of inflation and the proposed pay award on the financial position.

The first part of this report focuses on 2022/23, however, the implications of COVID-19 and record levels of inflation on the Council's cost based will have a significant impact on the Council's finances for a number of years. With the scale of funding pressures and future resource constraints, it is important that the Council holds a robust position on reserves and maintains the ability to deal with issues that arise during the financial year.

Financial Consequences – Capital

There are no capital consequences arising specifically from this report.

Contact Officers:

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

Name: Tom Wilkinson
Position: Deputy City Treasurer
Tel: 0161 234 1017
E-mail: tom.wilkinson@manchester.gov.uk

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

Background documents (available for public inspection):

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

Revenue Budget Report - Executive Meeting February 2022
Medium Term Financial Strategy 2022/23 to 2024/25 - Executive Meeting February 2022

1. Introduction

1.1. This report provides an overview of the Council's current financial position for 2022/23. The forecast overall position for 2022/23 is an overspend of £20.1m.

1.2. Since the budget was set, there have been several significant changes that are impacting on the Councils financial position including:

- Global supply shocks;
- tax increases,
- interest rate rises,
- unprecedented levels of inflation growth,
- a higher than expected pay offer for employees,
- a forecast significant economic downturn
- instability in the political leadership in the UK government and
- a potential emergency budget as early as September, which could lead to policy changes and a change the funding outlook for Local Government.

1.3. This is feeding through into the Council's cost base through contractual uplifts, new contract prices and the pay award, as well as potential pressure on our resource base and commercial activities. It is considered unlikely that there will be further support from the Government to support the Council's position this financial year.

1.4. As well as the current year overspend there remains a significant and increasing budget shortfall for 2023/24 onwards. Budget cuts and savings options are being developed by officers to be considered by scrutiny committees in November. The position will be brought back to the Executive in December to consider the longer-term position and proposed cuts and savings to ensure financial sustainability.

2. Financial position 2022/23

2.1. The current forecast is a £20.1m overspend, a deterioration of £15.6m since the last report to Executive in July. This is mainly due to the announcement of a higher than expected one year pay award offer for 2022/23 (£9.5m), additional utilities inflation (£3.9m), higher than expected price inflation (£3.6m) and other pressures, largely relating to income shortfalls (£3.4m).

2.2. It is positive that the main demand led services of Adults, Children's and Homelessness are projecting to outturn at or below budget – which puts us in a better position than many other councils and reflects the investment in prevention strategies over the last few years.

2.3. The budget is prepared on the basis of the best information available at the time and a robust consideration of the risks which may emerge. This results in a

corporate contingency and reserves for specific risks being made available which are allocated to directorates in year, once the requirements are clearer.

2.4. The budget was approved in February 2022, prior to the Russian invasion of Ukraine. When the budget was set, inflation was expected to peak at 5% in the summer. It is currently 10.1% (CPI July 22) and the OBR are predicting it could be in excess of 13% later this year. The 2022/23 budget recognised that inflation would be higher than previous years and therefore included £22.4m for pay, utilities and price. Inflationary pressures in 2023/24 are currently forecast at £39.3m, a further £16.9m pressure in addition to the £22.4m built into the 2022/23 budget. For context, in the years to 2019/20 the annual pay and prices inflation budgets averaged £8m per annum.

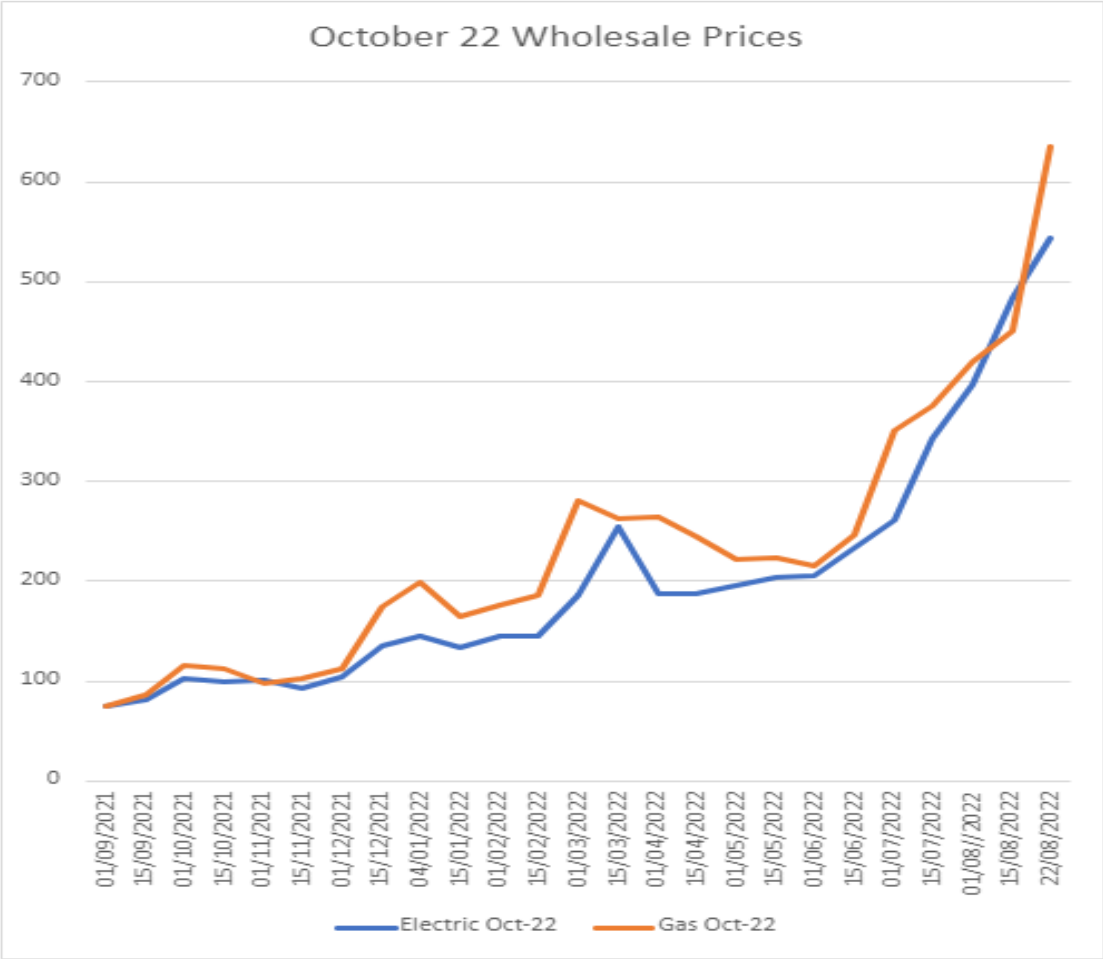
2.5. The pay offer proposed from the National Employers is a flat £1,925 per employee regardless of where they are on the salary structure. For Manchester this equates to an average increase of c7%. The original budget assumed 3%, which was considered a prudent estimate at the time the budget was set, after several years of pay restraint. Additionally, the 2021/22 pay offer was settled in March 2022, after the 2022/23 budget was set at 1.75% against a budgeted 1%. The impact of both awards is an additional £9.5m in year pressure.

2.6. Utility prices are also increasing significantly. Previously the expertise in the Energy Unit has meant that the Council has benefitted from low prices for its utilities. However, these contracts expired in 2022 with the retendering coming in at much higher prices and the council facing steep increases in energy costs earlier than some other local authorities whose contracts run to different timescales.

2.7. The Council's main electricity contracts expire in October 2022. As at the end of August it is forecast that market prices will be around 145% higher than the current contract for electricity, this is incredibly volatile and changing by the day. Gas prices are still projected to be very high for the winter, with a forecast 450% increase compared to 2021/22 levels. For 2022/23 the council increased its energy budgets by £11.5m. The continued steep increases in prices will mean that c£3.9m more will be required based on current estimates, a total of £15.4m more than the normal budgeted level. There is currently no additional government support planned for businesses and the public sector.

2.8. An urgent key decision has been published in relation to the award of electricity supply contracts. This is urgent due to the very significant "within day" volatility taking place to the extent that normal renewal routine is not feasible. In order for the suppliers trading desk to be able to "lock in" an accepted offer, the decision to accept and instruct the supply to go ahead needs to be by immediate return of offer receipt.

2.9. The graph below illustrates the volatility seen in the gas and electricity markets since September 2021.



2.10. In addition, other price inflation pressures total c£3.6m, as our contractors struggle to contain costs and maintain prices. Again, this is subject to change as contracts renew and discussions with suppliers take place to seek mitigations. Services reporting inflationary pressure include Children's Social Care, Homelessness Accommodation, Waste collection, Facilities Management and ICT.

2.11. The remaining overspend is £3.4m. This includes the ongoing covid legacy issues affecting income, mainly in Neighbourhood Services, and pressures on SEN transport. The main areas of pressure are off street parking income due to continued reduction in car park users; market income as custom levels struggle to return to pre-pandemic along with an increased vacant stall rate; a reduced Christmas Market footprint with the temporary closure of Albert Square and lack of alternative sites; and Home to School Transport pressures due increased to fuel costs.

2.12. In relation to the delivery of the required £13.4m of net savings, £3.2m are forecast to be delivered and £4.7m considered at medium risk. £5.5m have been

mitigated through the use of reserves, as delivery against the original plan in Adults services was delayed due to the on going pandemic in 2021/22. Officers are working to address these to ensure all savings are achieved or mitigated on recurrent basis.

2.13. Full details about of the key budget forecasts and variances by Directorate are provided at Appendix 1. The forecast position includes the recommended budget increases and virements set out in section 4 for the consideration and approval of Executive.

2.14. At this stage there is no indication of any financial support from central government. Officers are working to reduce the pressures where possible and mitigate the position. This includes:

- Daily monitoring of wholesale prices for gas and electricity to inform the best time to take up new contracts
- Rigorous procurement practices and ongoing discussions with suppliers to contain inflationary increases where possible
- Review of Sales, Fees and Charges income to reflect increased pay awards and other costs where possible. Note there are limitations to what can be achieved in year due to the impact on users and the scale of inflation puts pressure on level of charging for 2023/24.
- All directorates to review budgets and identify in year savings and mitigations to support the current year position. This will include:
    - Bringing forward savings options being developed for next year
    - Rightsizing the workforce, only filling vacancies where necessary for service and savings delivery
    - Discretionary spend to be reduced or delayed

2.15. Longer term the development of a parking strategy is underway to support the overall city centre transport strategy and rebase budgets to reflect the reduced level of off-street parking income.

2.16. Any remaining overspend which cannot be mitigated in year will be a call on the smoothing reserve or the general fund reserve. The smoothing reserve has been established to assist with timing differences between savings plans being developed and delivered. Any unplanned use in the current year would reduce capacity to support future years savings programme and reduce the Council's overall resilience.

2.17. As well as impacting on the Councils position the current levels of inflation and associated cost of living crisis will have a significant impact on our residents and the services, we provide to support the most vulnerable residents. Work is underway to assess the likely level of additional support needed, any funding implications will be reported back to Executive in December.

2.18. Since the last report to Executive there have been a number of new grant announcements and reserve drawdowns which required Executive approval to add to the budget. These are detailed in Appendix 2 for consideration.

3. Financial position 2023/24

National position

3.1. A three-year Spending Review (setting high level departmental limits) was announced October 2022. This showed that an increase in funding for local government was 'front loaded' to 2022/23, with no further increases for inflation or demographic pressures for the following two years. It was accompanied by a one-year finance settlement for 2022/23. At that stage the plan was for a two-year settlement (covering 2023-24 and 2024-25), with a consultation to follow.

3.2. This technical consultation paper on the future settlement had been due before the Summer Recess. The ministerial changes and political instability have meant that this has not happened. There may be an emergency budget following the appointment of a new Prime Minister in September, however, it is not clear whether this would provide any further funding information in advance of the Finance Settlement that is usually announced late December.

3.3. Longer term there is no guarantee that ministers will proceed with the proposals that were under development. The major reforms planned included the Fair Funding Review, new formulas for Public Health and Social Care Grants, a business rates baseline reset and the end of the New Homes Bonus scheme. In addition, the 2021 census will update the population figures used to allocate funding. Both politics and the characteristics of local government finance have changed since the last census and the Levelling up agenda may see a change in funding distribution. Nationally, there has been a growing reliance on council tax to fund services with half of the growth in Spending Power since 2019/20 driven by Council Tax increases which increases the burden on the local taxpayer.

3.4. There is also uncertainty around the Health and Social Care reforms with the impact of the restructure of the NHS, and the Fair cost of Care to be paid to care providers, and the Care Cap which puts some limits on what residents pay for their care due to be implemented over the next 18 months. A government consultation on the funding options for the social care reforms is underway which officers will respond to.

3.5. Despite this uncertainty, local authorities must produce their budget plans and have a legally approved balanced budget agreed by full council by 11 March. This will need to include a longer-term strategy for financial resilience and a multi-year financial plan. The delays in funding reform, and political instability make it incredibly difficult to predict the funding available and it is likely there will be changes that have to be managed at short notice. The council will continue to

press for continuity in our funding position and recognition for the unprecedented cost pressures faced.

Local position

3.6. The Medium-Term Financial Strategy (MTFS) recognised that significant budget cuts would need to be delivered over the Spending Review period to set a balanced budget in future years. When the three-year MTFS was presented in February 2022 the budget gap was forecast at £37m in 2023/24, increasing to £58m by 2024/25. To keep the council on a sustainable financial footing, it was proposed that budget cuts and savings of £60m were developed for member consideration (just under 12% of 2022/23 directorate budgets).

3.7. A review of the Council's budget assumptions has been undertaken in August 2022. In the absence of any firm information a rollover settlement has now been assumed for 2023/24 with the impact of funding reforms being moved to 2024/25. The MTFS assumed that any redistribution of local government funding was likely to be detrimental to the Council. In addition, it is now assumed the current business rates regime and 100% retention pilot will continue for a further year which again means resources could be higher than budgeted for. This pushes the settlement risk in our financial plans from 2023/24 to 2024/25.

3.8. The Council is still facing the impact from the pandemic with income levels yet to fully recover, particularly in relation to parking income, which has been affected by the different office working patterns. In addition, there are unprecedented levels of inflationary pressures as outlined in section 2 of this report. The ongoing impact of this year's pay award and inflationary pressures and the need to increase estimates in future years is adding a further estimated £26m to our cost base in 2023/24, with a further £25m for 2024/25 budget. This is over and above the levels provided for in the February 2022 MTFS, and therefore increases the budget gap overall.

3.9. All budget proposals are subject to the political decision-making process, the main working assumptions include:

- The Fairer Funding reforms are delayed to 2024/25 and all current government grants continue, including New Homes Bonus.
- Business rates – continuation of 100% pilot for a further year.
- Council tax – 2023/24 growth in base of 2.0% and increase in council tax of 2.99% in line with the current referendum limit, and Adults Social Care Precept.
- Demographic pressures for social care are funded.
- Inflation for utilities, pay and prices is included at £58m in in 2023/24 and £69m in 2024/25.

3.10. The updated position reflects Collection Fund surpluses totalling £13.4m which will be available to support the 2023/24 position. This is linked to collection levels

being higher than anticipated in 2021/22. Collection Fund accounting requires this to be recognised a year in arrears.

3.11. The above are subject to more detailed work and political decision making. It is also subject to change both in terms of the level of resources from central government and for the continuing impact of inflation. Finally, it does not yet include any potential new pressures associated with the impact of the cost-of-living crisis on our residents.

3.12. Whilst the delays to the funding regime changes have meant the cost pressures have to a certain extent been offset in 2023/24, the £20m overspend will need to be met and the position for 2024/25 is considerably worse. This has led to an increase in the forecast gap, from an original £58m to £73m by 2024/25.

3.13. The table below shows the forecast medium term position. Before any application of smoothing reserve, the gap is £47m next year increasing to £92m the year after. The increase in 2024/25 reflects the cumulative impact of inflation and the expected impact of the funding reforms.

3.14. As set out in the February 2022 MTFS it is proposed that smoothing reserves are applied to manage the level of savings to be identified each year. This includes the remaining balance of airport dividend income received prior to the pandemic.

	Forecast 2022 / 23 (p4) **£'000**	**2023 / 24** **£'000**	**2024 / 25** **£'000**
Resources Available			
Business Rates / Settlement Related* Funding	235,553	345,996	341,840
Council Tax	208,965	209,450	219,348
Grants and other External Funding	104,625	98,974	87,374
Dividends	0	0	0
Use of Reserves*	113,701	11,128	4,092
Total Resources Available	**662,844**	**665,548**	**652,654**
Resources Required			
Corporate Costs	140,338	110,229	114,867
Directorate Costs	570,470	602,803	629,461
Total Resources Required	**710,808**	**713,032**	**744,328**
Shortfall	**47,964**	**47,484**	**91,674**
Proposed use of smoothing reserves	(27,821)	(14,382)	(18,399)
Reprofiled Shortfall	**20,143**	**33,102**	**73,275**

*2022/23 Business Rates reflects a deficit from the prior year relating to reliefs granted to the retail, leisure and hospitality sectors as a result of the COVID-19 pandemic. These were fully funded by section 31 grant, received in 2021/22 and carried forward in reserve to offset the deficit in 2022/23.

3.15. Work has already started to develop options for balancing the 2023/24 and 2024/25 budgets, based on the anticipated shortfall as set out in the MTFP at February 2022. Given the level of volatility and uncertainty as set out earlier in this report, at this stage it is considered reasonable to continue to work to achieving the £60m target and developing realistic and deliverable options for member consideration. Once the settlement is announced this position will be updated further and savings proposals flexed accordingly.

3.16. The Council's robust reserves strategy has proven successful in managing risk and timing differences to deliver balanced and sustainable budgets and provide the time necessary to deliver on its planned savings. It is proposed to continue with this strategy and use smoothing reserves to manage the uncertainty around the funding position.

3.17. Reserves should not be used to mitigate the requirement to make ongoing savings, they can only be a temporary support to enable permanent savings to be implemented effectively.

3.18. The modelling of the assumptions will continue to be refined throughout the process as more clarity around the funding position and inflationary pressures emerges, alongside further work on the budget cuts and savings options during September with options due to go to the November Scrutiny cycle. The draft budget would then go to February Scrutiny and Executive prior to approval by Full Council in March. The process is being kept under review, particularly with the potential for a government Emergency Budget in September.

4. Conclusion

4.1. This report sets out the significant risks faced this year and over the medium term, which mainly relate to external factors around inflationary pressures and continued income shortfalls following the pandemic. Service departments are largely managing within approved budgets and savings delivery is on target. The pressures are resulting in a forecast overspend of £20.1m this year increasing to £33m next year and £73m by 2024/25.

4.2. The inflationary pressures outlined in this report are expected to continue into future years. This coupled with funding uncertainty increases the risks associated with setting a balanced and sustainable long-term financial plan and represent a deterioration of our financial position if no action is taken.

4.3. It is therefore vital that the Council continues with its programme of innovation and reform and develops its operating model to help tackle these challenges and keep the Council's finances stable and sustainable. A programme of savings totalling £60m is being developed and will be reported to scrutiny committees in November 2022.

4.4. To support and mitigate against the high levels of uncertainty a full review of reserves has been undertaken to enable a realistic and resilient budget to be set.

4.5. Taking into account the inflationary pressures affecting pay, fuel and utility costs, confirmed and anticipated government funding and any other known budget changes the budget forecast is an overspend of £20.1m for 2022/23. It is early in the financial year and vigilance is needed given there are significant uncertainties and risks to the position and inflationary pressures could increase further.

4.6. Officers are working to reduce the overspend through identifying in year efficiencies and working with suppliers to reduce and mitigate inflation requirements. Progress will be reported back to Executive in December 2022.