Manchester City Council
Report for Information

Report to: Resource and Governance Scrutiny Committee – 6 December 2022

Subject: Autumn Statement 17 November 2022

Report of: Deputy Chief Executive and City Treasurer

Summary

On 17 November 2022, the Chancellor of the Exchequer, Jeremy Hunt MP, delivered an Autumn Statement to the House of Commons. This report updates on the main announcements from the Statement with a focus on the implications for local government funding. The position will be clearer in late December 2022 when the Local Government Finance Settlement is received.

Recommendations

Resources and Governance Committee are recommended to consider the content of this report and comment on the Autumn Statement announcements.

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.

Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
Consideration has been given to how the proposed savings could impact on different protected or disadvantaged groups. Where applicable proposals will be subject to completion of an Equality Impact Assessment (EqIA) and an Anti-Poverty Assessment.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS/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 main announcements in the Autumn Statement, with a focus on those which 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 2022.

Financial Consequences – Capital

There are no capital consequences arising specifically 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.

Revenue Budget Report - Executive Meeting February 2022
Medium Term Financial Strategy 2022/23 to 2024/25 -Executive Meeting February 2022
Revenue Budget Update - Resource and Governance Scrutiny – 8 November 2022

1. Introduction

1.1. On 17 November 2022, the Chancellor of the Exchequer, Jeremy Hunt MP, delivered an Autumn Statement to the House of Commons. He noted that in the face of “unprecedented global headwinds”, people are worried about the future, and he is delivering a plan that seeks “to tackle the cost-of-living crisis and rebuild our economy”. The statement provides a plan for the short term and guidelines for the medium term.

1.2. A total of £55bn was announced in either public spending cuts or tax rises within the statement. Pensions and benefits were increased by the September 2022 inflation rate of 10.1%, coming into place in April 2023. The triple lock on pensions will be preserved and there will be continued support for energy costs. Government department spend will increase more slowly than planned, below the current inflation rate. The exceptions are health and education, which have had increases in their budgets. Departments will have to "make efficiencies to deal with inflationary pressures in next two years".

1.3. The Chancellor’s new fiscal rules are looser than those they replace, only requiring debt as a percentage of GDP to be falling by year-5 (2027-28). Even then, debt is barely falling by that point, and the plans still assume annual borrowing of around £70-80bn. The statement was accompanied by an independent economic forecast from the Office of Budget Responsibility (OBR). The Statement and the OBR forecast can be found here and here.

1.4. This short paper provides a summary of the key announcements, structured over four areas:

- Announcements with a direct impact on MCC funding
- Stability
- Growth
- Public Services and Finances

1.5. Further detail on the Local Government related announcements is expected in early December when a policy document will be released by DLUHC in relation to local government finance position, and the provisional settlement with LA allocations is expected to be published late December.

2. Announcements with an impact on the Councils revenue funding

2.1. There were several announcements which will have a direct impact on the funding available to the Council. The financial impact on the Councils position will not be known until the finance settlement is received, expected late December. It should be noticed there are several key funding sources which were not mentioned, there remains a risk they could be lower than anticipated in the current MTFP.

2.2. There will be no cuts to the funding allocations announced in Spending Review 2021. Growth in spending from 2025-26 will increase at a lower rate than previously anticipated (“grow more slowly than the economy”).

Adult Social Care

2.3. Nationally resources for adult social care will increase by £2.8bn in 2023-24 and by £4.7bn in 2024/25, through a combination of;

- new money (£1bn in 2023-24 increasing to £1.7bn),
- the postponement of the adult social care charging reforms (£1.3bn in 2023/24 increasing to £1.9bn in 2024/25)
- an assumed 1% increase in the Adult Social Care precept (£0.5bn in 2023-24 increasing to £1.1bn in 2024/25),

2.4. An additional £1bn of new grant funding will be provided in 2023/24 and then rise to £1.7bn in 2024/25. Of this additional new money, £600m in 2023/24 and £1bn in 2024/25 will be allocated through the Better Care Fund to "get people out of hospital on time". The remainder will be allocated through a ringfenced grant within the local settlement (£400m in 2023/24 and £690m in 2024/25).

2.5. In addition, the government intends to delay adult social care charging reforms from October 2023 to October 2025 (the fair cost of care component was not specifically mentioned and remains an area of uncertainty). The funding allocated for implementation will be maintained within local government to enable local authorities to address current adult social care pressures. This is £1.3bn in 2023-24 and £1.9bn in 2024-25 and will be allocated at the Local Government Finance Settlement through the Social Care Grant.

2.6. With all these funding announcements it is expected that there will be new expenditure demands, it was purposedly assumed that the fair cost of care reforms would be cost neutral to the Council, whilst knowing that they would cost more than the government had allocated to them. The care market is expecting a movement towards the fair cost of care rates.

2.7. The Council's MTFP assumed an increase in BCF and IBCF grants of £2m. Whilst Local Authority allocations are not yet known the Autumn statement indicates significantly more than this may be received. However, some elements of this funding will be ringfenced and come with additional expenditure expectations, particularly in relation to the NHS and hospital discharge. In addition, the care market is fragile, and expectations have been raised in the care market in relation to financial support for the Fair Cost of Care work. In the absence of a direct policy framework, the 2023/24 care market uplift will need to be carefully considered.

2.8. Once the full impact of extra demands is known, it may mean that any additional funding could potentially offer more opportunity to further increase the pace of the resilient discharge programme and investment in supporting community infrastructure (including the Front Door redesign) and in proactive prevention. The funding could also bring some opportunity to consider the profile of the proposed adult's savings over the next three years and any supporting investment to deliver the significant change proposed.

Business Rates

2.9. Business rates related announcements include:

- The multiplier will be frozen in 2023/24 for the third year in a row. Local authorities "will be fully compensated for the loss of income as a result of these business rates measures". This could be better than expected for the Council's budget position if reimbursement is at the September 2022 CPI rate of 10.1%. This is yet to be confirmed.
- Business rates reliefs. There will be an extension and enhancement of the Retail, Hospitality and Leisure (RHL) reliefs scheme into 2023/24, plus a Supporting Small Business Scheme (SSBS). Local authorities will be compensated in the usual way through section 31 grants.
- The revaluation of business rates will go ahead in April 2023 but there will be a more generous transitional scheme, with additional Government support, this will dampen the impact of any downward and upward revaluations. This has no effect on billing authorities, it simply makes the transitional support scheme more generous. It does mean that businesses with increases in their valuations will be paying more business rates in future years, despite the multiplier freeze.

2.10. From a local authority perspective, the decision to freeze the multiplier in 2023-24 is the most important one. Freezing the multiplier will cost the Treasury £1.7bn in 2023-24 (rising in future years). Business rates income, baselines, and tariffs and top-ups are usually uprated in line with the multiplier. When the multiplier is capped or frozen, the Government pays compensation to local authorities via a section 31 grant. This grant has now become a very important part of funding to local authorities.

2.11. The Council's MTFP assumed a multiplier increase of 2.6% which was in line with expected inflation at the time of the Spending Review, October 2021. If the Council is compensated at the September 2022 CPI level of 10.1% there may be additional funding available. However, this needs to be considered alongside the overall settlement for the Council which will not be known until late December. In addition, the council's budget assumes the continuation of the 100% business rates pilot for a further year, 2023/24. This has not been confirmed.

Council Tax

2.12. The Government is giving local authorities extra flexibility in setting council tax by increasing the referendum limit for increases in council tax by 5% per year from April 2023, including the Adult Social Care precept. The core Council Tax threshold will increase from 1.99% to 2.99%, and the ASC precept will increase from 1% to 2% in 2023/24. There was no update on the cap for major preceptors. The Government argue this will allow councils greater flexibility to set council tax based on the needs, resources and priorities of their area.

2.13. The MTFP currently assumes a total increase of 2.99%. Manchester has a relatively low Council Tax base; each 1% increase raises c£2m additional income.

Summary impact of revenue funding announcements

2.14. Whilst it is expected the announcements outlined above will have a positive impact on the funds available to the council for the next couple of years there are still significant unknowns. There has been no announcement on the future of New Homes Bonus, the MTFP currently assumes this will continue for one more year with an MCC receipt of £5m. Another big risk is the Services Grant. In 2022/23 this is £822m nationally, £12.3m for MCC. This funded the National Insurance increase which has now been reversed therefore is expected to decrease nationally by £200m (24%). There is also a risk it could be distributed across Local Authorities on a different basis.

2.15. There was no update on the long-anticipated Fair Funding review, which will assess levels of ‘need’ across the country and redistribute funding accordingly. There was also no update on the Business Rates reset, which will redistribute growth in the business rates system since 2013, across all Local Authorities.

2.16. There were a number of other core announcements made in the Autumn Statement that could impact on Manchester as follows:

- **Social Housing rent cap**. The Chancellor announced there would be a rent cap on all social housing in 2023 of 7%. The inflation being experienced by the HRA is well in excess of this and the cap will increase pressure within the HRA.
- **Schools Budget increase**. The Government has increased the national Education and Skills Budget by £2.3bn in order to provide more financial support to schools. It is not yet clear how this will be allocated and how much, if any, will be directed to the High Needs Block.
- The Government is refocusing investment zones to what will be now called ‘**knowledge-intensive growth clusters**’, centred on, and working with, local universities.
- The **Levelling Up White Pape**r commitment to sign new “trailblazer” devolution deals with the Greater Manchester Combined Authority is set to be delivered by early 2023. The Statement noted that the Government is in discussions with the GMCA to devolve further powers such as skills, transport and housing through consolidating funding. The Government is also exploring the potential to provide single departmental-style settlements at the next Spending Review to give partners more flexibility and accountability over key economic growth funds.
- The Government has committed to a further £1.7 billion of funding for the second round of the **Levelling Up fund**. All successful bids will be announced before the end of the year.
- **National Living Wage (NLW)**. The Government has decided to increase the National Living Wage by 9.7%, from £9.50 to £10.42 per hour from April 2023. As a comparison - the Manchester Living Wage (MLW) will increase to £10.90 from April 2023 and reflects the Living Wage Foundation’s real living wage.
- **Low Pay Commission (LPC).** The LPC monitor and evaluate the National Living (NLW) Wage and recommend the rate that should apply each April. Within findings released alongside the Autumn Statement, the LPC are projecting a target of £11.08 for April 2024’s NLW (within a range that spans

£10.82 to £11.35). This is a significant increase and will again be a factor in determining the level of future local government pay awards.

3. Stability

3.1. The Office of Budgetary Responsibility (OBR) notes that over the past six months the global energy and food supply shocks emanating from Russia's invasion of Ukraine have intensified. European wholesale gas prices have risen ten-fold from pre-pandemic levels, and it is now expected energy prices are likely to remain four times higher in the medium term. Rising energy, food, and other goods prices have also pushed up interest rates in an effort to curtail inflation, which has hit its highest rate in the UK (as in much of Europe) for over 40 years. This has considerably affected the global and national economic recovery from the pandemic and increased the financial pressure on governments that emerged from it with higher debt. This places significant pressure on households and businesses at the local level.

3.2. The Autumn Statement seeks to both provide support to the most vulnerable and stabilise the position across the economy. This includes further cost-of-living payments to those in receipt of various benefits and cuts to business rates, as well as additional spending on health and social care, and schools (rising to £5.9 billion and £2.5 billion respectively in 2024/25). Support on paying energy bills is also provided by the government beyond April 2023 for a further 12 months. These are largely financed by windfall taxes on energy companies.

4. Growth

4.1. The Autumn Statement focuses on three core priorities for economic growth: energy, infrastructure and innovation.

4.2. Amongst the announcements made were:

- The building of new infrastructure such as roads, train lines and communities will be safeguarded by £600bn in capital investment over the next 5 years, including a recommitment to Northern Powerhouse Rail and the HS2 line going to Manchester.
- The second round of the Levelling Up Fund will allocate at least £1.7 billion to priority local infrastructure projects. Successful bids will be announced before the end of the year.
- The government aims to secure energy security through delivering new nuclear power, including a £700 million commitment to building the Sizewell C nuclear plant, and the roll out of more offshore wind and solar power schemes.
- There will be a refocus to the Government's Investment Zones programme and existing expressions of interest will not be taken forward. The revised programme will be used to catalyse the 'highest potential knowledge-intensive growth clusters' and leverage local research strengths.
- Spending on Research and Development projects is set to increase to £20bn by 2024/25.

- The government will review retained EU law in key growth industries (digital technology, life sciences, green industries, financial services, and advanced manufacturing) and will be reviewing how the UK can better regulate emerging technologies.
- The review of the Digital Markets, Competition and Consumer Bill will be brought forward to provide the Competition and Markets Authority with new powers to promote and tackle anti-competitive practice in digital markets.

5. Public Services and Finances

5.1. In terms of the state of the economy and public finances:

- The OBR predicts GDP will fall by 1.4% in 2023 but the UK will come out of recession in 2024. This is a shallower recession than the Bank of England forecast. However, this still means that the UK economy will not reach its pre-pandemic size until 2024.
- The OBR expects UK inflation to be 9.1% on average in 2022, and 7.4% in 2023.
- Unemployment is expected to raise by around 550,000 jobs over the next 12 – 18 months, before falling back in 2025.
- In addition, the OBR forecasts house prices to fall by 9.0% back to around Q3 2021 levels between Q4 2022 and Q3 2024.

OBR Forecast	2022	2023	2024	2025	2026	2027
GDP Growth	4.2%	(1.4%)	1.3%	2.6%	2.7%	2.2%
CPI Inflation	9.1%	7.4%	0.6%	(0.8%)	0.2%	1.7%
Unemployment	3.7%	4.1%	4.9%	4.7%	4.3%	4.2%
Net Borrowing	£177bn	£140bn	£84.3bn	£76.9bn	£80.3bn	£69.2bn

5.2. Government departmental funding set in 2021 Spending Review will be cash flat for the next 2 years with a rise of 1% in real terms over the 3 years that follow. The Government will protect the increases in departmental spending in cash terms already set out in existing plans, however departments will have to make efficiencies to compensate for inflation.

5.3. There were a considerable number of announcements on tax rates and allowances:

- Corporation tax to increase to 25% from 1 April 2023 up from 19% (raising £18bn pa), and the Bank Corporation Tax Surcharge will be charged an additional 3.0% on profits over £100m
- Threshold for higher income tax at 45% to be reduced from £150,000 to £125,140.
- Allowances and thresholds for income tax and national insurance contribution thresholds (including those relating to employers) will be frozen for a further two years, going to April 2028.
- Inheritance tax nil rate band to remain fixed to April 2028 at £325k and £650k for a couple (this would have been £428k had it been linked to inflation)

- Higher income tax threshold for 40% tax to be frozen at £50,270 until 2027/28, an additional 2 years, bringing an estimated 5.2m additional workers into the higher tax band
- The dividend allowance will be cut from £2,000 to £1,000 next year, and then to £500 in April 2024.
- Capital Gains tax annual exempt amount will reduce from £12,300 to £6,000 from April 2023, and to £3,000 from April 2024
- Married couples' allowance and Blind Persons allowance to be uprated by CPI (10.1%) for 2023/24.
- Stamp duty will remain at per the Growth Plan budget announcement until 31 March 2025 (up from £125k to £250k on residential property, nil rate threshold for First Time Buyer's Relief up from £300k to £425k, and First Time Buyer's Relief up from £500k to £625k)
- Electric vehicles to pay vehicle excise duty from April 2025 in the same way as petrol or diesel vehicles, with zero emissions liable to pay the lowest first year rate at £10, moving to the standard rates of £165 per year from year two.
- Electricity Generator Levy of 45% introduced temporarily
- Energy Profits Levy (EPL) a tax on energy companies will increase from 25% to 35% from 1 January to March 2028, raising £40bn over 6 years
- Freezing VAT thresholds for companies at £85,000 until 2026 which will mean thousands of more small businesses paying higher VAT.

5.4. The core changes for local taxation from the Autumn Statement includes:

- Business Rates multiplier frozen for 3rd year (from 2020/21), saving ratepayers £9.3bn over the next 5 years. Billing authorities will be funded by Government for this loss in income, although level of compensation is still to be confirmed.
- Business Rates Revaluation to go ahead from April 2023
- £13.6bn support through transitional relief scheme to support business facing large movements in bills following the revaluation
- Extended Retail Relief to be extended and increased to 75% with a cap of £110k, providing £2.1bn of support to businesses.
- Supporting Small Business Relief will support those no longer eligible for Small Business Rates Relief or Rural Relief so bill increases will be no more than £600 per year, providing £500m worth of support
- Improvement Relief for qualifying property improvements to be introduced from April 2024
- 2023/24 Council Tax core precept referendum limit increasing from 2% to 3%, with Adult Social Care precept increasing from 1% to 2%, resulting in an overall increase of 2%. A 1% increase in Manchester Council Tax raises c£2m, meaning this would raise an additional c£4m if adopted in full.

5.5. Energy and Climate Change. There was considerable focus on energy schemes, but little new commitments made on climate change and net zero policy. Key announcements made include:

- The Energy Price Guarantee (EPG) which will cap unit price of gas and electricity to an average of £2,500 for 6 months will increase to an average of £3,000 pa from April 2023.
- The Alternative Fuels Payment (AFP) will double support for households that use alternative fuels from £100 to £200 per household, along with a fixed payment of £150 to all UK non-domestic consumers.
- The Energy Efficiency Taskforce (EEFT) will provide £6bn from 2025-28 to reduce energy consumption by 15% by 2030, this is in addition to the £6.6bn provided.
- Beyond April 2024, the Government will work with consumer groups and industry to consider the best approach to consumer protection, including options such as social tariffs, as part of wider retail market reforms.
- The Government stated that it remains fully committed to the historic Glasgow Climate Pact agreed at COP26, including a 68% reduction in emissions by 2030.
- A new ambition was set for the UK's buildings and industry to reduce energy consumption by 15% against current levels. The Chancellor suggested this was equivalent to annual energy bill savings of £28bn.
- The Treasury will continue with plans to spend £6.6bn on energy efficient buildings in this Parliament, through schemes including the Public Sector Decarbonisation Scheme and the Social Housing Decarbonisation Fund. There was no mention as well of any changes to the Government's Affordable Housing Scheme.
- No mention was made about changes to fuel duty.
- As noted above, electric vehicles are subject to road tax for the first time, though at a lower rate, and from 2025.
- There was no new money provided for climate change measures between now and 2025.

5.6. Welfare and wages - The core announcements on additional welfare support and wage measures include:

- In 2023/24 an additional £900 per household will be provide to those on means tested benefits, £300 to pension households and £150 to people on disability benefits.
- Pension triple lock protected and welfare benefits to rise in line with inflation from April 2023 at 10.1% (CPI in September), giving benefit claimant an average £600 per year more, and commitment to link to inflation in 2024/25
- From April 2023 benefit cap to rise by 10.1% from £20,000 to £22,020 for families, and from £13,400 to £14,753 (with higher increases in Greater London)
- In work conditionality for UC claimants to support transition to work
- £1bn to extend Household Support Fund in 2023/24, and to be administered by local authorities (as was in 2021/22 and 2022/23)
- £280m DWP investment to tackle fraud, error and debt
- Social Housing rent cap of 7.0% in 2023/24
- As noted above, the National Living Wage (NLW) to increase by 9.7%, from £9.50 to £10.42 per hour from April 2023. As a comparison - the Manchester

Living Wage (MLW) will increase to £10.90 from April 2023 and reflects the Living Wage Foundation's real living wage.
- The Housing Benefit to Pension Credit merger date will now take effect in 2028-29.
- The retirement age for men and women will be reviewed.

5.7. Health & Social Care - A summary of core announcements included:

- The Dilnott social care charging reforms due in October 2023 delayed for 2 years to October 2025.
- A review of Integrated Care Boards is to be launched led by former Health Secretary Patricia Hewitt.
- The NHS is to receive an additional funding of £3.3bn each year for the next two years.
- A NHS Workforce plan is to be published on measures to make the best use of medical staff and retention

5.8. Education

- Core Schools budget uplift of £2.3bn in 2023/24 and a further £2.3bn in 2024/25, bringing the core school's budget to a total of £58.8bn, after adjusting for the removal of employer costs of the Health and Social Care Levy, £2bn greater than the SR2021 levels.
- Adviser on skills reform appointed to advise Chancellor and Education Minister on maximising education commitments.

5.9. Housing – stamp duty - Previously announced stamp duty cuts remain but they will be time limited. Under Liz Truss's previous 'Growth Plan' the Government increased the nil-rate threshold of stamp duty land tax (SDLT) from £125,000 to £250,000 for all purchasers of residential property in England and increased the nil-rate threshold paid by first time buyers from £300,000 to £425,000. At the same time, the maximum purchase price for which first time buyers' relief can be claimed was increased from £500,000 to £625,000. This will now be a temporary SDLT reduction, which will remain in place until 31 March 2025; proposed legislation will be amended to reflect this.

5.10. Efficiency Savings Review - The Government will launch an Efficiency Savings Review to identify further savings in departmental budgets. The Review will target increased efficiency, reprioritise spending away from lower-value programmes, and review the effectiveness of public bodies; Government will report on progress in the spring.

6. Conclusion

6.1. This Autumn Statement has two important strands to it – to emphasise that the Government is taking seriously the significant challenges that global factors and recent economic instability has brought whilst supporting the most vulnerable. It puts off some of the more difficult issues off until 2025.

6.2. A significant amount of both ‘stealth’ tax rises and public spending cuts were announced, softened by support being given in a number of areas, particularly around the energy price and cost-of-living crisis.

6.3. The support provided around the Social Care levy and increases in Council Tax will need to be considered carefully given the wider crises that residents and businesses are enduring. The Statement does not adequately provide significant support that will alleviate local government finance in the short-term.

6.4. The ongoing challenges to the UK economy that has existed since 2008 on living standards has been particularly focused on by expert commentators. The forecast from the Office for Budget Responsibility suggests the crisis in living standards is only worsening. As the IFS note, this year the UK is set to see the largest fall in real household disposable income per head (4.3%) since the late 1940s. In 2023, it will see the second-largest fall (2.8%). Modest growth may return after that, but even by 2027/28 the UK is not expected to have had a single year of growth higher than the pre-2008 average since 2015/16. As a result, average household income per head is due to be the same in 2027/28 as it was in 2018/19, and it will be 31% below where it would have been if the pre-2008 trend had continued.

6.5. In relation to Local Government funding, it is positive that no additional cuts are proposed, however the significant existing and anticipated inflationary increases will not be funded and future spending will not keep pace with growth in the economy.

6.6. There could be additional resources available over and above current MTFP assumption. This includes Adult Social Care Funding, compensation for Business Rates indexation, and any decision to increase Council Tax over the amounts currently assumed. However, there remain a number of significant unknowns which may mitigate the above. This should become clearer when the policy statement by DLUC is provided in early December and with the full funding envelop announced in the provisional finance settlement expected late December.