Manchester City Council
Report for Resolution

Report to: Executive – 14 December 2022

Subject: Revenue Monitoring to the end of October 2022

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.

Recommendations

The Executive is requested to:

(i) Note the global revenue monitoring report and forecast outturn position which is showing a £7.6m overspend.
(ii) Approve the release of reserve funding to support residents through the Cost of Living (para 2.18)
(iii) Approve the use of unbudgeted external grant funding (para 3.2).
(iv) Approve the request for contingency funding (para 3.3)
(v) Approve the allocation of budgets to fund the pay award (para 3.4), electricity increases (para 3.5) and price inflation (para 3.6)

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 £7.6m for 2022/23, based on activity to date and projected trends in income and expenditure, and includes the ongoing financial implications of COVID-19, government funding confirmed to date and the impact of inflation and the agreed pay award on the financial position.

This report focuses on 2022/23, however, the implications of COVID-19 and record levels of inflation on the Council's cost base 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.

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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

1 Introduction

1.1. This report provides an overview of the Council's current financial position for 2022/23. The Council is forecasting to overspend against its budget for 2022/23 by c£7.6m. The main drivers of the overspend remain the pay award, utility cost increases, contractual uplifts and the reductions in car parking and Christmas markets income. This is an improvement of £12.5m from Period 4, which was the last report to Executive.

1.2. The above is a substantial change from the position reported to Executive in September 2022, where a potential in year overspend of £20.1m was likely if no corrective action was taken. Measures to reduce the pressures and mitigate the position were set out in the last report as follows:

- 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.
- 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

1.3. The previous forecast included the provisional impact of the higher pay offer for local government and was during an extremely volatile period for energy prices, predating the additional government support announced for the public sector. Since then the actual impact of the pay award has been costed, taking into account the current level of vacancies reducing the cost by £2.2m to £7.3m, there has been the decision to reverse the employer 1% national insurance increase (saving £0.6m). Energy prices have settled at a lower level along with some government compensation together (saving £3m) and price inflation has been mitigated where possible, reducing the budget requirement by £2.7m to £5.4m.These amount to a £8.5m reduction in the inflation overspend. This is coupled with some improvements in the departmental position, many of which are one off and only impact the 2022/23 financial year.

1.4. These actions alongside government announcements have enabled the forecast position to be improved significantly to the current £7.6m, although it should be noted volatility remains.

1.5. As well as the current year overspend there remains a significant budget gap over the course of the medium term financial plan. Budget cuts and savings options have been developed by officers and considered by scrutiny committees in November. Whilst the Autumn Statement presented highlighted targeted increases in funding for social care, much of this has spending assumptions associated with it. The exact funding allocations are unknown and the Council awaits the Local Government Provisional Finance Settlement, due on 21 December, to understand the longer-term position and the scale of the remaining budget gap. It should be noted that the Autumn Statement pushes the difficult decisions on public sector spending back to after 2025. A report will be brought back to the Executive in January 2023 to summarise the finance settlement and assess its implications.

2. Financial position 2022/23

2.1. As stated above, the current forecast is a £7.6m overspend, an improvement of £12.5m since the last report to Executive in September. It is positive that the main demand led services of Adults, Children's and Homelessness are underspending or breakeven, which puts us in a better position than many other councils and reflects the investment in prevention strategies over the last few years.

2.2. 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. Risks are managed by holding a corporate contingency budget and reserves for specific risks. The funds are made available when the budget requirements are clearer.

2.3. The 2022/23 budget recognised that inflation would be higher than previous years and therefore included £22.4m for pay, utilities and price. For context, in the years to 2019/20 the annual pay and prices inflation budgets averaged £8m per annum.

2.4. The pay award has been agreed at a flat £1,925 per employee regardless of grade. For Manchester this equates to an average increase of c7%. The original budget assumed 3%, which was considered a reasonable estimate at the time the budget was set, after several years of pay restraint. The 2021/22 pay offer was not settled until March 2022, after the 2022/23 budget was set, and was 1.75% against a budgeted 1%. The impact of both awards is an additional £7.3m in year pressure.

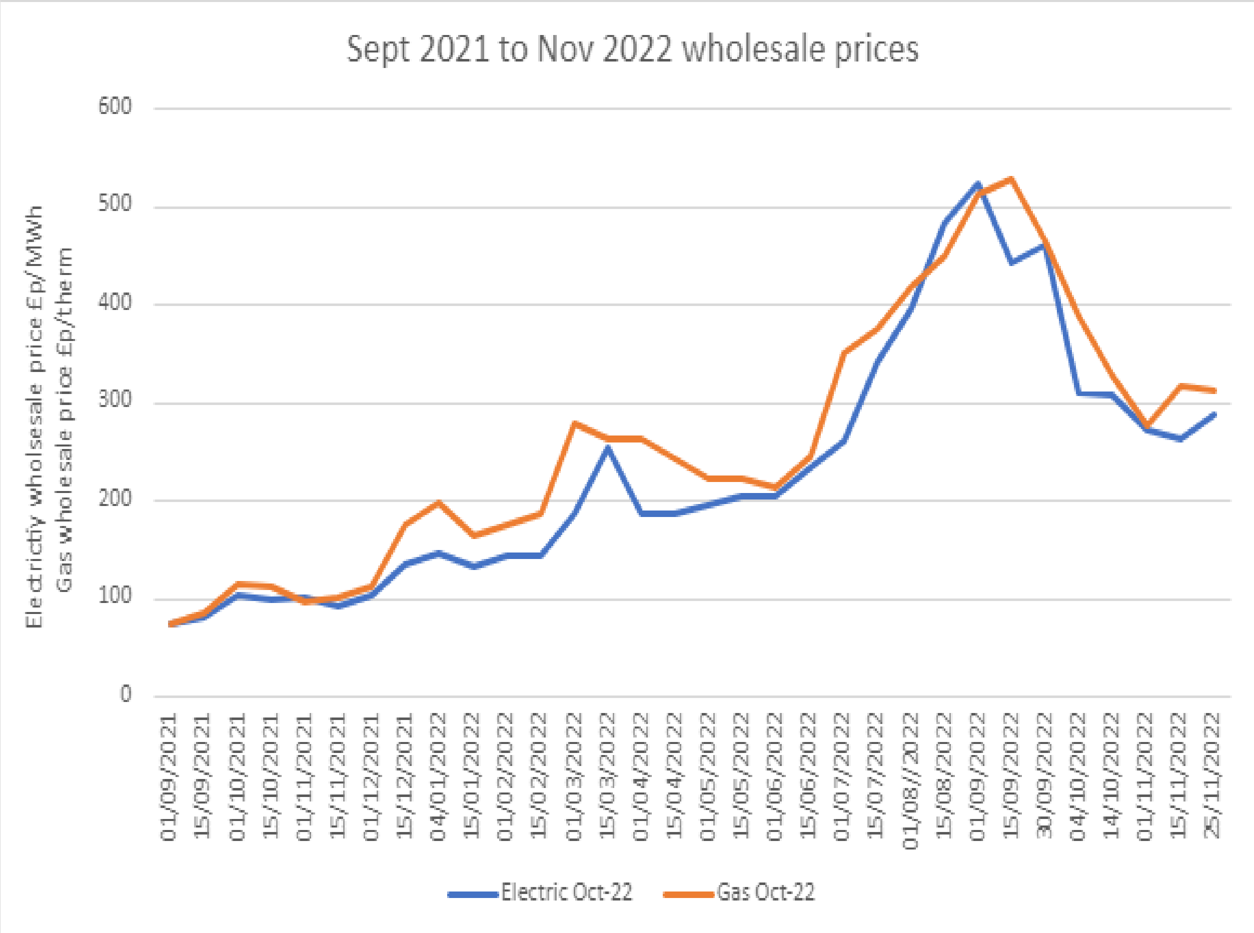
2.5. The Council's main electricity contracts expired in October 2022. At the end of August, it was forecast that market prices would be around 145% higher than the previous contract for electricity. Gas prices were projected to be very high for the winter, with a forecast 450% increase compared to 2021/22 levels. At that point there was no additional government support planned for businesses and the public sector.

2.6. On 21st September the government announced an Energy Bill Relief Scheme for non domestic customers. Wholesale prices also started to reduce from an August 2022 high point. The original budget allowed for £11.5m of anticipated utility cost increases. The latest forecast is £12.4m of which £9.1m relates to electricity and £3.2m relates to gas. This is an overspend of £0.9m which has reduced by £3m since the last report for the reasons set out above.

2.7. Whilst the main contract electricity price is now fixed until October 2023, gas supply is on a flexible contract and the final cost is still subject to market fluctuations, and this estimate may change up or down.

2.8. The following chart shows the day-ahead prices of gas and electricity on the wholesale market over the last year. It can be seen there was a considerable spike in both at the time the previous forecasts were made.

Chart 1: Electricity and Gas wholesale prices October 21 to November 22



2.9. Non-energy price inflation pressures total c£5.4m, as contractors struggle to contain costs and maintain their prices. The original budget provision was £4.5m and is currently forecast to overspend by £0.9m. Inflationary pressures include Children's Social Care, Waste collection, Facilities Management and ICT. Forecast costs have reduced by £2.7m since period 4 as requests have been reduced where possible. The most significant change relates to the costs of paying the Real Living Wage being less than budgeted, due to lower than expected take up in 2022/23.

2.10. The service directorates are forecasting an overall small underspend of £128k. An overspend in Neighbourhoods (£3.2m) is partly offset by underspends in Adults (£1.7m), Core (£1m), and Growth and Development (£0.5m). The pressures include the ongoing covid legacy issues affecting income, mainly in Neighbourhood Services (off-street parking), as well as pressures on SEN transport.

2.11. The Directorate savings and cuts for 2022/23 total £7.8m. Of these £1.3m (17%) are medium risk and £6.5m (83%) are low risk and on track to be achieved.

Work is ongoing to find alternative savings where original plans may not be achieved.

2.12. 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.

2.13. Since the last report to Executive there have been a number of new grant announcements and inflation drawdowns that require Executive approval to add to the budget. These are detailed in Section three for consideration.

2.14. Full details about of the budget forecasts and variances by Directorate are provided at Appendix 1. The forecast position includes the additional grant funding, recommended budget increases and virements set out in section 3 for the consideration and approval of Executive.

Cost of Living support

2.15. As well as impacting on the Council's position, the high inflation and associated cost of living crisis will have a significant impact on our residents. c £1.8m has been identified to provide additional support in this financial year, increasing to a proposed £3.55m in 2023/24. This is in addition to Government funding of £6.4m for the third round of the Household Support Fund (HSF) with the Autumn Statement signally that the HSF will continue in 2023/24. Existing staffing resources have been reprioritised to support this work.

2.16. The following investment in 2022/23 is proposed:

- £0.6m to Invest in our food response infrastructure to ensure supply of food meets demand. Working with the Community Food Partnership the majority of this will be invested in longer life, non-perishable stock and storage which all food providers in the city can access.
- £0.6m to increase the Discretionary Housing Payments budget and targeted to support people to remain in their accommodation to reduce homelessness.
- £380k Increased funding to discretionary local welfare provision to meet increased demand, helping to cover essential costs of households in crisis
- £200k - to invest in CHEM (COVID Health Equity Manchester) to support Communities Experiencing Racial Inequality and other inequalities, more likely to be impacted by the cost-of-living crisis.

2.17. The total cost of the above is £1.780m and will be met from the £700k revenues and benefits budget growth allocated as part of the 2022/23 budget to provide welfare related support to Manchester residents, £200k from Public Health reserve to support the Marmot action plan and £880k from residual Contain Outbreak Management Fund (COMF) reserve resources to protect vulnerable people.

2.18 Executive are recommended to note the allocation of resources to support vulnerable residents and approve the £1.080m planned reserve drawdowns to support.

3. Budget changes for consideration

3.1. Executive are asked to consider the following additional budget increases and adjustments.

New Grants announced in year

3.2. Since the 2022/23 budget was approved there have been additional grant notifications as follows:

- **Revenues and Benefits** - Covid Household Support Fund - £6.453m – this is for the second half of the year. The grant is to provide support to households who would otherwise struggle to meet essential living or housing costs in exceptional cases of genuine emergency.
- **Adult Social Care** – 2022/23 additional grant of £2.2m with a further £1.8m provisionally allocated. On the 16th November, the Adult Social Care Discharge Fund: local authority and Integrated Care Board (ICB) allocations were announced. The local authority element of the Adult Social Care Discharge Fund is being distributed using the established Adult Social Care Relative Needs Formula and Manchester will receive £2.2m. This will support additional care packages over the winter period. The GM ICS received a further £19.6m and have provisionally allocated £!.8m to Manchester and schemes to deploy are progressing. This allocation may increase.
- **Manchester Public Health Team** – Independent Placement Support (IPS) 1022/23 £84k 2023/24 £162k 2024/25 £162k. The funding will be invested into existing services commissioned by the Council to maximise the resource available to support people with a substance misuse need and enhance existing structures and pathways to support Manchester residents.
- **Homelessness** – Rough Sleeping drug and alcohol treatment - Youth Justice Grant – 2022/23 £246k and 2023/24 £1.114m. The funding aims to meet the needs of people experiencing rough sleeping or at imminent risk of rough sleeping and who require support from the substance misuse community treatment service.
- **Highways** – City Region Sustainable Transport settlement development funding - £407k a year for two years. As part of the CRSTS settlement, an allocation has been provided to develop projects in a number of key areas of the City (Ancoats, Deansgate, Victoria North/Rochdale Road Corridor, City Centre key corridors and bus improvements, City Centre bus plan). The development funding will be used to get projects up to business case submission for the full capital funding to deliver the final designs of each project.
- **Revenue and Benefits** – New Burden's funding £0.500m – This is for the council tax rebate, bringing the total amount up to £0.795m.

Request for release from contingency

3.3. There is £600k set aside in corporate contingency for unexpected costs which arise in year. There is a request to release £307k to fund the additional costs to ensure that our ICT systems remain secure. The ongoing costs are c£461k per annum and this has been built into the 2023/24 revenue budget proposals.

Release of budget for pay award

3.4. The budget requirement is a total of £13.6m for 2022/23 which includes the planned budget allocation of £6.4m and the additional funding of £7.2m. It is recommended that directorate budgets are increased as follows:

- Children's Services - £3.151m
- Adult Social Care - £3.780m
- Population Health - £128k
- Neighbourhood Services - £2.074m
- Homelessness - £761k
- Growth and Development - £248k
- Corporate Core - £3.497m

Requests for release of electricity budgets

3.5. The budgets required to cover electricity increases total £9.129m as set out earlier in this report. At this stage there is no request to release gas budgets (estimated at £3.2m) as the position remains volatile and subject to change. The directorate electricity requirements are as follows:

- Children's Services - £156k
- Adult Social Care - £70k
- Neighbourhood Services - £1.757m
- Homelessness - £278k
- Growth and Development - £171k
- Corporate Core - £4.021m
- Street Lighting contract - £2.676m

Inflation requests

3.6. The 2022/23 budget allowed for inflationary budget increases of £4.5m. Inflationary pressures are estimated at £6m of which £0.6m has been covered within directorate budgets with a request for £5.4m funding from the Corporate Inflation budget. A budget shortfall of £0.9m has been reported in the budget monitoring to date.

3.7. At this point, approval to transfer budgets of £3.8m is sought. The remaining balance relates to contract variations still under negotiation and will be brought back to a future Executive meeting for consideration.

3.8. **Adult Social Care** – care market uplifts (£1.5m) – originally costs were modelled at £12.1m with £5.7m funded through the National Living Wage allocation, £2.6m from Adults existing budgets, £1m from Adults reserve and the balance of £2.8m from Corporate Inflation. Discussions are ongoing between commissioners and care providers to try and maximise take up. Based on discussions and agreements to date it is expected that £1.5m of the amount set aside in corporate inflation will be required. The proposed budget has addressed the on-going impact into 2023/24.

3.9. **Children's Services** has a budget request totalling £1.177m for 2022/23 as follows:

- Home to School Transport £1m - Relating to higher wage bills in response to driver shortages, in-year increase NI costs and increased fuel costs.
- Children's Residential placements - £158k - This is to fund the uplifts for 13 external residential placements. Most of the uplifts were c5% and increases above 5% were only agreed where they brought the weekly price in line with Public North West framework price.
- Short Breaks £19k - A 3.73% inflationary uplift on care spend from Reed (main provider within short breaks).

3.10. **Neighbourhood Services** are requesting £180k in relation to the contract to collect, recycle, and dispose of waste.

3.11. **Corporate Core** are requesting permanent budget uplifts of £0.910m for inflationary pressures as follows:

- Facilities Management contracts - £0.5m
- ICT Data Centre (UK fast) - £310k
- ICT Contracts - £80k
- Market Supplement £20k - to support recruitment and retention of key ICT posts

4. <u>Conclusion</u>

4.1. This report sets out the significant risks faced this year, 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 £7.6m this year.

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 £42m has been developed and reported to scrutiny committees in November 2022.

4.4. Since the last report officers have worked to reduce the overspend through identifying in year efficiencies and working with suppliers to reduce and mitigate inflation requirements. Alongside the government's Energy Bill Relief Scheme this has reduced the forecast overspend considerably. Most of the reductions are one off in nature, where known ongoing pressures have been reflected in the updated Medium Term Financial Plan. Vigilance is needed given there remain significant uncertainties and risks to the position and inflationary pressures, particularly gas, could increase further. Progress will be reported back to Executive in February 2023.