

**Manchester City Council
Report for Resolution**

Report to: Executive – May 31 2023
Audit Committee – 25 July 2023

Subject: Revenue Outturn Report 2022/23

Report of: Deputy Chief Executive and City Treasurer

Summary

The report sets out the final outturn position for the Council’s revenue budget in 2022/23. It also highlights the movements from the previous forecast for the year, which was reported to the Executive in February 2023.

Recommendations

The Executive is requested to:

- (i) Note the 2022/23 outturn position of £4.5m overspent.
 - (ii) Approve budget increases following grant notifications (para. 3.2 to 3.9).
 - (iii) Approve the carry forward request totalling £674k (para 3.10).
 - (iv) Approve the use of reserve funding (para 3.11 to 3.16).
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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

This report sets out the year end position for the council's revenue budget which is an overspend of £4.5m. The report and accompanying appendix set out the reasons for the variations. The overspend will be funded from reserves which reduces the reserves available to the Council. The overspend will be met from the General Fund revenue reserve. In order to ensure that the General Fund reserve is maintained at a prudent level there will be a transfer from the Budget Smoothing Reserve to the General Fund reserve of £7.266m.

Financial Consequences – Capital

There are no capital consequences arising specifically from this report.

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Background documents (available for public inspection):

None

1. Introduction

- 1.1. The report updates the Executive on the final budget outturn position for 2022/23. It summarises the main variances, changes since the last report and seeks approvals for new funding that was received toward the end of the financial year. It also sets out the proposed movements to or from reserves as a result of the final outturn position.
- 1.2. The 2022/23 financial year saw a number of challenges as the Council continued its recovery from the impact of the pandemic, with the majority of services returning to normal. However, the Russian invasion of Ukraine in February 2023 came just after the budget had been set and had an immediate impact on energy costs and in turn fed through to broader levels of inflation, which impacted on both the Council's budget and on our residents through the cost of living crisis.
- 1.3. When the budget was set the Bank of England was expecting inflation to peak at around 5% in the spring of 2022¹ and average 2.3% for the year. Inflation peaked at 11.1% in October 2022 and has remained above 10% since. A higher than expected pay award, worth an average of 7% and a more than doubling of energy costs placed significant pressure on the council's budget. In July a forecast overspend of more than £20m was reported.
- 1.4. During the summer period the UK had three prime ministers and a period of significant economic turmoil. Markets have since calmed and energy prices subsided from their peak levels, reversals to the NI increase helped to reduce some of the pressures and officers have worked hard to take actions to reduce the overspend.
- 1.5. As a result of these factors, the Council overspent against its budget for 2022/23 by c.£4.5m. As previously reported, the main drivers of the overspend are the higher than budgeted for pay award, pressures on Children's safeguarding services, Home to School Transport demand and price pressures, and lower than budgeted for parking income, driven by changes to commuter behaviour post-pandemic. An overachievement of investment income and underspends across the Corporate Core partly offset these pressures.
- 1.6. Since the last reported position to Executive in February 2023, based on information to the end of December, the overspend has increased by c£1m. This increase is largely made up of emerging pressures in both Adults and Children's services which are set out in this report, offset by improvements in other Directorates.
- 1.7. This report includes the following appendix
 - Appendix 1 - Revenue Outturn report

¹ Bank of England Monetary Policy Report - November 2021 <https://www.bankofengland.co.uk/monetary-policy-report/2021/november-2021>

2. Overview of Outturn position 2022/23

- 2.1. The final outturn position is an overspend of £4.5m for the year. Full details on the budget, outturn and variances by Directorate are provided at Appendix 1 and summarised below.
- 2.2. Corporate Budgets overspent by £5.3m, mainly due to the pay award being £6m higher than budgeted for (7% vs 3% budget). This was partially offset by the release of contingency and lower than expected historic pension liabilities.
- 2.3. Children's Services overspent by £2.2m, although the service had returned £2m of funding to the Budget Smoothing Reserve at the start of the year. There has been a worsening of the position in the final quarter of £1.6m due to an increase in the number of placements in high-cost settings as well as inflationary pressures on some of the allowances paid to carers. The remainder of the overspend was driven by increased costs of Home to School Transport which has been affected by an increase of eligible children, as well as driver shortages and fuel inflation increasing costs.
- 2.4. Adults Services reported a small overspend of £127k. This includes a total of £1.9m of increased pressures which have emerged in the final quarter of the year. The pressures are driven by a significant increase in the (cost or volume) of placements for people with a Learning Disability placements, an increased number of providers accepting the fee uplift and agreeing to pay the real living wage (partly in reflection of the inflationary pressures in the market), and an increase in the bad debt provision as the cost of living crisis impacts people's ability to pay for care. A full review of long term care budgets to reflect the outturn position will be carried out to understand the impact and realign the budgets for 2023/24.
- 2.5. Neighbourhoods, overspent by £2.1m largely due to shortfalls of parking income as driver habits have changed since the pandemic; market income was also down, reflecting the cost of living impact and reduced space for the Christmas markets. These pressures were partly offset by staff underspends.
- 2.6. Growth and Development underspent by £1.5m, mainly due to higher than expected rental income from the commercial estate, partially helped by a one off return of back dated rents following the acquisition of Wythenshawe Shopping Centre. This was an improvement of £0.9m since the last report. Manchester Creative Digital Assets (MCDA) offset some of these benefits with an overspend of £0.659m as income levels continue to be impacted following the pandemic.
- 2.7. Corporate Core underspent by £1.7m overall an improvement of £0.9m since the last report. Underspends were across all services, with the exception of ICT, which had to respond to an increased threat and prevalence of cyber attacks, following Russia's invasion of Ukraine. The main reasons for the improved position include lower than predicted energy costs as inflationary pressures reduced and increased fee income from the capital programme.

- 2.8. The Directorate savings for 2022/23 totalled £7.8m. All savings were either achieved as planned or mitigated in year. Any ongoing implications have been reflected in the 2023/24 budget.
- 2.9. A balanced budget for 2023/24 was approved by Council 3 March 2023, an early update on the forecast position will be reported to the July Executive meeting. There remains a budget shortfall of over £40m for 2025/26, after the application of c£18m of smoothing reserves and alongside uncertainty about the future funding settlement. The scale of the gap was set out in the Medium Term Financial Strategy report to Executive February 2023. The Council continues to follow a prudent budget strategy of utilising any unused resources to smooth the impact on future years and reduce the level and severity of cuts required.

Dedicated Schools Grant (DSG) Outturn

- 2.10. The Dedicated School Grant (DSG) in-year position underspent by £1.092m and after taking account of the deficit carried forward from 2021/22 of £2.509m the overall deficit at the end of the year was £1.417m.
- 2.11. There are on-going DSG pressures relating to the grant that supports vulnerable children, the high need block (HNB). The HNB on-going gap is estimated to be £5.690m in 2023/24 and £16.631m 2024/25 pre recovery plan actions. The service is working through a three-year HNB recovery plan, focusing on managing demand and identifying efficiencies to help combat these pressures.

Housing Revenue Account (HRA) Outturn

- 2.12. The ringfenced HRA revenue budget had planned to draw down £13.2 from reserves to contribute to the costs of the capital programme, however, the outturn position only required that £10.3m was drawn down from reserve due to a net underspend of £2.9m. The overall total HRA reserves are c£104.4m, of which £36.5m are ringfenced and £68m is the general reserve. Going forward there continues to be pressures in respect of ongoing inflationary increases that are higher than rent inflation, and increased costs of works to assess and alleviate damp and mould.

3. Approval requests

- 3.1. The forecast position includes the recommended virements and budget increases for additional funding set out below for the consideration and approval of Executive.

Grant notifications 2022/23

- 3.2. The following grant notifications have been received since the last monitoring report to February Executive:
- Supplementary Substance Misuse Treatment and Recovery Grant (SSMTRG) £40k. This is to improve the service offer for Manchester citizens who have both a substance misuse and housing related support need. The majority of the funding will be invested into existing commissioned services which support people with a substance

misuse/housing need and to build on existing structures and pathways that already exist to support Manchester residents.

- Adult Care Assessment Grant - £260k. This grant was announced on 30 March 2023 and is to support LA's with the cost of funding a dedicated productivity lead to review local systems and implement some or all the following approaches: procure and implement digital efficiency tools already available on the market, embed transformation or business process experts to improve operating models, supplement social worker vacancies with higher ratios of assistant or trainee roles which can be easier to recruit to.
- New Burdens - £0.721m. This funding is in respect of the New Burden costs associated with the implementation of the government's Council Tax Rebate Scheme. Following a more detailed assessment by Government of these costs, the following additional funding was made available in 2022/23 to support the additional requirements relating to;
 - Council Tax Energy Rebate at £360k
 - Electoral Integrity Programme £79k
 - Business Rates Relief - £143k
 - New Licence checks (Taxis and Scrap Metal) - £6.6k
 - Redmond Review Local Audit Costs - £83k
 - New Burdens 7 Post Payment Assurance, Reconciliation and Debt Recovery - £49k

3.3. Where it has not been possible to spend the grants in full due to their late notification in 2022/23, they are automatically carried forward into 2023/24 as part of the reserves for revenue grants over more than one financial year.

Grant notifications 2023/24 and the ICB Locality Budget

- 3.4. Notification of the Public Health grant for 2023/24 was received 14 March 2023, after the budget was set. Manchester's allocation is £57.048m, an additional £1.802m (3.26%) from the £55.246m allocation in 2022/23. It is recommended that this is passported to the Public Health Budget. The position of the Public Health reserve has also improved by £1.1m since the forecast at period 9.
- 3.5. The 2023/24 budget for the Manchester Locality Structure for health was provisionally set at £8.3m, which is lower than the existing cost of the locality structure. The budget and structures are currently subject to consultation prior to a final agreed position with the ICB. To avoid losing capacity that is essential to the provision of NHS services in Manchester and to ensure there is a managed transition to reducing costs the Council have agreed to fund the public health, population health and equality, inclusion and engagement teams, and to contribute towards the cost of the Deputy Place Based Lead, recurrently by applying £0.5m of public health grant. It is important that these skills and capacity are retained within Manchester. The remaining balance of the increased grant will be required to increase Public Health budgets to reflect the Agenda for Change increased costs of contracts.
- 3.6. In addition, a one off £1m has been set aside from the Public Health reserve to smooth the transition from the CCG to the locality place based budgets and

underwrite any potential shortfall. When the locality budgets are formally agreed the updated position and any required drawdown from the reserve will be reported back to Executive.

- 3.7. Further work is being undertaken to reduce costs and ensure their 2024/25 budget is within the resources available. This is focused on further aligning health and care within Manchester creating a more integrated model for the locality focused on delivering the right outcomes for Manchester's population in a financially sustainable way.
- 3.8. The additional funding for the locality budget outlined above is conditional on an agreed budget position being reached with the Integrated Care Board of the ICS and a commitment to working with the Manchester Partnership Board to enable activities to accelerate and enhance integration that will deliver the bigger financial and service benefits. It is important the budget position reflects the £8.3m originally discussed and agreed.

Carry forward requests

- 3.9. Requests have been made for £0.674m to be carried forward to support the following priorities in 2023/24:
 - The 2022/23 Local Infrastructure Fund ward budgets underspent by £366k and the carry forward will be used to meet the costs of planned 2023/24 projects where resources are committed but not yet delivered.
 - £208k carry forward from the Corporate Core underspend in Legal Services is requested to support further development in the Legal case management system, this will include enabling DocuSign and commissioning bespoke reports. The proposed changes will provide further opportunities to increase automation and reduce manual interventions and help with increased efficiency. The additional supplier spend proposed does not exceed the agreed contract value.
 - A £100k underspend in Revenues and Benefits is requested to be carried forward to support foodbanks in 2023/24 as part of the Council's response to the Cost of Living crisis.

Budget Smoothing Reserve

- 3.10. The Budget Smoothing reserve has been created through underspends in previous years. It is used to smooth the impact of budget shortfalls whilst savings are developed and implemented. As reported to Executive throughout 2022/23 any remaining overspend which could not be mitigated in year would be a call on the General Fund Reserve and that this would need to be replenished from the Budget Smoothing Reserve to retain it at a prudent level. The overspend was forecast at £3.538m at period nine and built into the planned use of the smoothing reserve.
- 3.11. The reserve strategy approved by Executive in February 2023 built the use of the smoothing reserve into the revised medium term financial plan. The anticipated reserve balance at the end of 2022/23 was £48.7m. This was expected to be fully applied by 2026/27.

- 3.12. Since then, further transfers to smoothing reserve are proposed and are subject to approval as follows:
- Costs related to supporting vulnerable residents have been eligible for funding through the remaining balance of the government's Contain Outbreak Management Fund (COMF) grant rather than core budgets. This has enabled £1.9m of earmarked reserve to be released to the Budget Smoothing Reserve.
 - A £1.8m refund has been received from GMCA relating to the waste disposal levy. As this is a one-off amount of funding it is recommended that this is used to support the budget position.
- 3.13. These adjustments bring the 2022/23 transfer to the smoothing reserve to c£25m, an additional £3.7m from when the budget was set, as shown in the table below.

	Opening Balance 01/04/22	Contribution approved to support investment	Transfer from other reserves	Transfer from SR to fund 22/23 overspend	Closing Balance 31/3/23
	£'000	£'000	£'000	£'000	£'000
Original forecast (Feb 23 MTFP)	21,964	9,000	21,305	(3,538)	48,731
Revised position (May 23 Outturn)	21,964	9,000	25,033	(4,543)	51,454
Change since MTFS approval	0	0	3,728	(1,005)	2,723

General Fund Reserve

- 3.14. The General Fund Reserve is the only un-ring-fenced reserve and is held to meet costs arising from any unplanned event. It also acts as a financial buffer to help mitigate against financial risks and can be used to a limited degree to “smooth” expenditure across years. The General Fund must be held at an adequate level to protect the Council from the financial risks inherent within the proposed budget strategy. Any under or overspends at the end of the financial year are transferred to or drawn down from the General Fund reserve. The increased overspend from that reported in February 2023 was £1.005m and will reduce the balance on the General Fund Reserve as at 31 March 2023 to £22.122m.
- 3.15. The Council’s reserves strategy recommends that the General Fund is maintained in the region of c£25m to provide sufficient resources to mitigate for unforeseen budget risks. Therefore, it is recommended the general fund is replenished from the surplus balance of £2.723m from the Budget Smoothing Reserve to give a closing 2022/23 General Fund reserve balance of £25.850m and a balance of £48.731m on the smoothing reserve. The requests to carry forward £0.674m, as detailed at paragraph 3.9 will be a first call on the General Fund reserve in 2023/24, and if approved, reduce the balance to **£25.176m**, back in line with the required level.

4. Conclusion

- 4.1. As detailed in the accompanying report, the final year end position is an overspend of £4.5m. This has decreased from the £20.1m reported in September (based on the July position) and reflects both actions taken by the Council to manage the budget pressures, and the reduction in utility costs from the higher levels forecast during summer 2022.
- 4.2. In order to maintain the General Fund reserve at the recommended level of around £25m a transfer from Smoothing reserve is proposed as set out in the previous section.
- 4.3. In summary, the in year overspend and carry forward requests can be contained within available resources without significantly changing the overall position as set out in the Medium Term Financial Strategy approved in February 2023.
- 4.4. The ongoing implications of the 2022/23 outturn position are being reviewed and will form part of the Global Monitoring report to Executive in July 2023.