

Manchester City Council Report for Information

Report to: Resource and Governance Scrutiny Committee – 7 September 2023

Subject: 2024/25 Budget Process

Report of: Deputy Chief Executive and City Treasurer

Summary

This is a short report on the current position of the Medium-Term Financial Plan and the planned approach to the 2024/25 budget process.

Recommendations

The committee is requested to consider the content of this report and comment on the proposed approach to updating the Medium-Term Financial Plan.

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.	
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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

With the scale of funding pressures and future resource constraints, it is important that the Council takes action to ensure financial stability. This includes holding a robust position on reserves and maintaining 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.

Executive 15 February 2023: [Medium Term Financial Strategy and 2023/24 Revenue Budget](#)

Executive 31 May 2023: [Global Revenue Outturn 2022/23](#)

Executive 26 July 2023: [Revenue Monitoring to the end of May 2023](#)

1. Introduction

- 1.1. This report provides an update on the outlook for the Council's medium term financial strategy (MTFS) to support the Scrutiny Committee in its duty to provide oversight and challenge to the council's process for developing the 2024/25 budget. It represents the first opportunity for the Committee to engage with the budget setting process and outline expectations for future Scrutiny.
- 1.2. The Council has a well-established, robust process for annual budget setting and medium-term forecasting including recognition of demand and inflationary pressures and the development of deliverable savings plans. This gives the foundation for setting a balanced and sustainable budget. The allocation and prioritisation of resources provides the framework that enables the achievement of the organisation's key ambitions as set out in the Our Manchester Strategy and Corporate Plan.
- 1.3. This report sets out the framework for how the council will approach budget setting for 2024/25. Unlike in recent previous years, as part of the 2023/24 financial settlement, the government produced a Policy statement on the 2024/25 financial envelope outlining the likely size of a number of key funding streams. Despite this, uncertainty remains around some other key funding sources. This report sets out details of a proposed budget planning process for 2024/25. It recognises that there is a need for some flexibility to respond to these risks and uncertainties and sets out a summary of key considerations to enable the setting of a balanced budget.
- 1.4. This report should be considered in the context of the 2022/23 outturn position reported to Executive 31 May 2023, reporting an overspend of £4.5m and the second monitoring report of 2023/24 which will be considered by Executive on 13 September, the draft position is a forecast overspend of £9.6m.

2. Current Medium Term Financial Plan Approved February 2023

- 2.1. The final 2023/24 settlement included funding allocations for 2023/24 and the policy direction for 2024/25. The Council's February 2023 MTFS identified that the Council, in common with other upper tier local authorities, needed to address a material budget shortfall in 2024/25 and beyond. Simultaneously there remains some uncertainty about the level of funding for 2024/25 and the potential for additional pressures to emerge during the budget setting process.
- 2.2. Table One sets out the high level MTFS position as presented in February 2023, which has been updated to reflect the addition of a further financial year to the planning period in order to maintain the Council's usual three year MTFS reporting horizon. As part of last years budget setting process savings of £36.2m were identified and approved, to be achieved over three years. Officers estimated the scale of the remaining funding gap by 2025/26 at £58m, which would reduce to £40m after the use of £17m smoothing reserves.

- 2.3. Extending the MTFS for an additional year, 2026/27, based on the same broad assumptions, adds a further £13.7m to the gap to be addressed, resulting in a total revised gap of £71.9m for the MTFS. This could be reduced to £54.2m with the application of £17.8m smoothing reserve. This would fully utilise the balance of smoothing reserve available and potentially create a very large funding gap in 2027/28, prior to the expected return of commercial income.
- 2.4. These forecasts were based on reasonable assumptions around the likely level of resources available and forecast spending requirements. As always, the assumptions are subject to change as more up to date and robust information becomes available.

Table One: Forecast MTFS reported to Executive 15 February 2023

	2023 / 24	2024 / 25	2025 / 26	2026 / 27
	£'000	£'000	£'000	£'000
Resources Available				
Business Rates / Settlement Related Funding	374,725	380,005	386,872	391,309
Council Tax	217,968	228,087	237,279	246,840
Grants and other External Funding	126,439	127,968	116,055	116,055
Use of Reserves	16,014	15,003	10,522	9,222
Total Resources Available	735,146	751,063	750,728	763,426
Resources Required				
<i>Corporate Costs</i>	111,502	115,570	114,753	116,982
<i>Directorate Costs</i>	640,113	677,919	730,387	754,536
Total Resources Required	751,615	793,489	845,140	871,518
Budget Gap	16,469	42,426	94,412	108,092
Savings options identified	(15,396)	(25,568)	(36,170)	(36,170)
Gap after approved savings	1,073	16,858	58,242	71,922
Use of Smoothing Reserves	(1,073)	(16,858)	(17,850)	(17,758)
Remaining Gap	0	0	40,392	54,164

- 2.5. The main assumptions underlying the position forecast in February 2023 were as follows:
- Government grant funding would be broadly flat in 2024/25 (i.e. essentially a rollover of 2023/24 funding levels) other than known increases to Social care grants and the planned end of New Homes Bonus from 2024/25.
 - Business Rates Multiplier uplift in line with September 2023 CPI, estimated at 7.4% when the budget was set. This also impacts the tariff/top up arrangement. There is a risk the government may freeze Business Rates. They usually compensate LA's when this happens.
 - Increases in council tax over the MTFS period, including an assumed 4.99% increase in 2024/25 for planning purposes as agreed by Full Council in

- February 2023 and shown in the above table. It should be noted that every 1% change in council tax assumptions increases or decreases the budget gap by approximately £2.2m in 2024/25.
- Delivery of an approved savings programme of £36.2m over three years
 - Use of smoothing reserves of c£17m a year for three years
 - Cost pressures including:
 - 6% for pay inflation in 2023/24 and 4% thereafter.
 - Non-pay inflation in line with contractual rates or CPI forecasts where appropriate totaling £14.5m in 2024/25.
 - Demographic growth pressures for Adults and Childrens, totaling £6.7m in 2024/25

2.6. It is important to note the medium-term position set out in February 2023 included significant use of smoothing reserves at c£17m a year for three years. Whilst this is a sound strategy to give time to develop longer-term savings or increased income, it does represent a managed risk for future years. An ongoing reliance on reserves would not represent a sustainable long-term approach.

3. Context

- 3.1. Local Government Funding declined by nearly a third between 2010 and 2021, according to a February 2022 Public Accounts Committee¹ report on the Local Government Finance System. The report found that council income was £8.4bn lower in real terms than it had been a decade before. In recent years the significant and sustained reductions experienced in Central Government funding to Local Government have lessened, with more reasonable funding settlements being provided since 2021/22. However, much of the new funding was initially for adult social care reforms and was accompanied by an increasing expectation that local authorities will raise resources locally (through council tax increases). Recent analysis from the BBC states that Local Government faces a collective £5bn funding gap by 2025/26.²
- 3.2. In addition to dealing with the legacy of over ten years of austerity there are increasing service pressures driven by a complex mix of factors including demographic changes, unfunded burdens such as the National Living Wage, the needs of the people who draw upon social care services becoming increasingly complex, and by the wider economy including the abnormally high levels of inflation and the impact this has on council contracts and services.
- 3.3. This position is becoming increasingly unsustainable nationally, resulting in a number of local authorities reporting significant financial difficulties and becoming subject to government intervention.

¹ <https://committees.parliament.uk/publications/8682/documents/88208/default/>

² <https://www.bbc.co.uk/news/uk-66428191>

3.4. The Council still has some financial resilience, despite receiving a disproportionate share of the national cuts. This is due to strong financial scrutiny and governance, robust annual budget setting and savings programmes and smoothing the use of one-off income and grants over 2-3 years. This is supported by the reserves strategy and controls around borrowing. However, the Council must not be complacent and continued vigilance and forward planning is vital to continue delivering balanced budgets and protect critical services for residents.

4. Proposed budget approach

4.1. As has been the case in recent years, it is anticipated that the Council will not receive any detailed information about funding allocations for 2024/25 until autumn 2023 at the earliest (and probably December 2023). The Government's planned reform of local government funding has been delayed until at least 2025/26 and it is therefore unlikely that the 2024/25 Settlement will provide any sort of multi-year allocation which would support the Council to develop its financial strategy with greater planning certainty. As a result, the overall level of uncertainty means that budget setting for 2024/25, and the wider financial environment for local government, is set to remain highly challenging. The potential delay in the return of significant commercial income until after 2027/28 also leaves the City Council in a weaker financial position unless continued proactive action is taken.

4.2. Whilst there are not any significant reductions in funding from central government expected, the demand and cost pressures being incurred are outstripping any growth in our resources, creating a widening financial gap which must be addressed.

4.3. The 2023/24 Budget and Medium-Term Financial Strategy agreed by the Council in March 2023 provides a sound foundation upon which to develop the 2024/25 Budget. The proposed principles are as follows:

- Working to a 5-year model behind the scenes to take a longer term view.
- For 2024/25 focus on reducing and mitigating pressures and managing within the existing envelope
- The requirement to take at least an additional £50m costs out of our base by 2025/26 to be sustainable.
- Ensure that use of government grants maximised
- Avoid the use of one-off income to fund ongoing costs as that creates a financial cliff edge – maintain principles of smoothing reserve
- Balance budget cuts with use of smoothing reserves to remain sustainable but not to make cuts which aren't required.
- Reserves are being used to help close the 2024/25 budget gap and the smoothing reserves applied over three years.

4.4. The Council's proposed strategy is to use any additional funding, after covering new priority investment requirements and demand pressures, to help close the budget gap in future years and reduce the need for significant cuts in 2025/26 and beyond.

5. Refresh of the 2024/25 position

5.1. A review of resources available is underway, taking account of the 2023/24 position and the trailblazer devolution deal for Greater Manchester announced 15 March 2023. This includes a single settlement from the next Spending Review and expanded responsibilities in several policy areas, including transport; skills and employment; and housing, regeneration and retrofitting. Of immediate significance to the Council's budget the announcement included confirmation that the GM 100% Business Rates retention scheme would continue for a further 10 years until 2034/35. The MTFs had assumed the Council would revert to 50% retention from 2024/25. The government has indicated a business rates system reset will happen in 2025/26 at the earliest but this is still to be confirmed along with the format and extent of the reset.

5.2. Business rates collection for 2022/23 and 2023/24 to date is better than expected and 2024/25 income should be uplifted in line with the September CPI. The business rates position will be clearer by late October once the September CPI is announced and there will be 6 months of current year performance to inform next year's forecast.

5.3. The MTFP included a holding assumption that the funding diverted from the planned Social Care reforms to Social Care grant might be redirected back to the reforms in 2025/26. This is no longer considered likely although significant risks remain around Social Care and the wider settlement funding announcements for 2025/26 and beyond.

5.4. The above changes should result in additional resources compared to that assumed in the MTFs, however offset against this are a number of increased pressures which must be considered as part of refreshing the 2024/25 budget. These include:

- Inflation peaked at 11.1% in October 2022 and remains higher than projected at 6.8% in July. The future allowance for inflation will need to be increased to manage the ongoing higher than budgeted impact and it is estimated that an increase of £3.7 in 24/25 and further £2m from 25/26 is required. This would give an allowance of £8m a year for 2024/25 then £5m a year from 2025/26.
- Adult Social Care reflects the national challenges facing health and social care in terms of numbers, complexity and cost. The national trend showing growth of 3-4% growth per year in the size of population needing long term care. There are also significant market supply pressures.

- Children's Social care numbers of Children Looked After remain relatively stable however the complexity of need of the current cohort is increasing and the external market is challenging. The reduced availability of fostering placements nationally has led to increased use of external residential placements, with placement cost in Manchester increasing by 44% in the current financial year. In addition, 15% of Manchester's Looked After Children are Unaccompanied Asylum Seeker children (UASC). The cost of supporting this cohort is expected to exceed the government funding available, particularly in relation to care leavers.
- Homelessness has made significant progress in successfully reducing the number of families in B&B accommodation, through investment in prevention services, and is bucking the national trend. However, the service is part funded by a number of significant grants which currently run through until the end of 2024/25, this must be kept under review.
- Demography requirements for waste disposal and collection have been forecast in line with the growth in housing stock and population increases.
- Due to the changing nature of ICT technology future investment requirements are more likely to be revenue in nature.

5.5. In addition, General Fund reserve is held in the region of £25m to provide a buffer for risks that emerge in year and provide some smoothing of over and underspends across financial years. As at Period 4 the 2023/24 budget is forecast to overspend by c£9.6m. Work is in progress to mitigate this down. Any overspend will be a call on General Fund reserves, and there will be a requirement to top this back up in 2024/25 to maintain a prudent level.

5.6. Further work is underway to verify the amounts and identify actions to offset the pressures. Whilst there will be some additional capacity it is unlikely to be sufficient to meet the emerging pressures. The outcome of this exercise will be reported back to the November Scrutiny Committees.

6. Next Steps

6.1. An indicative balanced 2024/25 budget was set out in the February 2023 MTFs, including the planned use of reserves. The current years pressures and updated forecasts mean that the position will need to be updated and this work is underway and will be included in the November reports.

6.2. 2024/25 was planned to be a 'light touch' budget process, sticking to the budget position included in the MTFP. This report highlighted the need for early planning to address the 2025/26 budget gap. The pressures outlined in this report mean that work is even more essential and will start in the Autumn. There also remains considerable uncertainty around the longer-term funding for local government with all parties stressing the lack of financial resources available.

6.3. Work is continuing throughout September and October to increase understanding of the pressures and risks faced and identify mitigations where possible. The updated position will be brought back to this committee on 9 November and other scrutiny committees will be asked to review the proposals for the areas within their remit. Table Two outlines the planned activity to enable a balanced budget to be set at March Council.

Table Two – Budget Process Timetable 2024/25

Planned Activity	Timeframe
2022/23 Outturn reported to Executive	31 May 2023
2023/24 Period 2 budget monitoring report to Executive	26 July 2023
Resources and Scrutiny Committee input to development of 2024/25 Budget	7 Sept 2023
2023/24 Period 4 budget monitoring report to Executive	13 Sept 2023
Individual scrutiny committees review proposals within the remit of that committee	7 to 9 November 2023
Government Autumn Budget	TBC October / November 2023
Provisional Local Government Finance Settlement announced including provisional council tax and precept arrangements	TBC December 2023
Executive / RAGOS considers outcomes of settlement, service and financial planning, EQIA and consultation feedback and agrees revenue budget approach	January 2024
Confirmation of Council Tax and Business Rates Base	31 January 2024
Final Local Government Finance Settlement	TBC Feb 2024
Scrutiny Committees 2024/25 Budget scrutiny	Feb 2024
Executive recommends Medium Term Financial Strategy 2024-25 to 2026-27, revenue budget, capital programme and level of council tax for 2024/25	Feb 2024
Budget RAGOS	26 Feb 2024
Council agrees Medium Term Financial Strategy 2024/25 to 2026/27, revenue budget, capital programme and level of council tax for 2024/25	1 March 2024

6.4. At the November round of scrutiny meetings, the reports will be tailored to the remit of each committee as outlined in Table three.

Table Three – Scrutiny Committee Remits

Date	Meeting	Services Included
7 Nov 23	Communities and Equalities Scrutiny Committee	Sport, Leisure, Events Libraries Galleries and Culture Compliance and Community Safety Housing Operations including Homelessness Neighbourhood teams
7 Nov 23	Economy and Regeneration Scrutiny Committee	City Centre Regeneration Strategic Development Housing and residential growth Planning, Building Control, and licensing Investment Estate Work and skills Highways
8 Nov 23	Health Scrutiny Committee	Adult Social Care Public Health
8 Nov 23	Children and Young People Scrutiny Committee	Children and Education Services
9 Nov 23	Resources and Governance Scrutiny Committee	Chief Exec Corporate Services Revenue and Benefits / Customer and Welfare Support Business Units
9 Nov 23	Environment and Climate Change Scrutiny Committee	Waste and Recycling Parks Grounds maintenance

7. Conclusion

- 7.1. This paper sets out an outline timetable and approach to the Council’s budget planning process for 2024/25, while recognising that significant risks and uncertainties remain.
- 7.2. The economic and government spending position continues to be uncertain. An updated position will be provided at the 9 November Resources and Governance Scrutiny meeting.
- 7.3. The Council’s track record of delivering a balanced budget, coupled with a robust budget planning approach, provides a solid basis for development, but with the pressures that this council and others are facing this is becoming more difficult to maintain.