

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee – 7 December 2023

Subject: Autumn Statement - Budget Impact

Report of: Deputy Chief Executive and City Treasurer

Summary

On 22 November 2023, the Chancellor of the Exchequer, Jeremy Hunt MP, delivered the Government's Autumn Statement (mini-budget) to the House of Commons. This report focuses on the announcements from the Statement which have a direct implication for local government funding next year and future years.

Recommendations

The Committee is recommended to:

- (1) Consider the content of this report and comment on the Autumn Statement announcements.
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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.
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 budget changes 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 for 2023/24 will not be known until the Finance Settlement expected late December 2023.

Financial Consequences – Capital

None directly arising 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 Update - Resource and Governance Scrutiny – 9 November 20223](#)

[Autumn Statement 2023 - GOV.UK \(www.gov.uk\)](#)

[Economic and fiscal outlook – November 2023 - Office for Budget Responsibility \(obr.uk\)](#)

1. Introduction

1.1. On 22 November 2023, the Chancellor of the Exchequer, Jeremy Hunt MP, delivered the 2023 Autumn Statement to the House of Commons. The statement was structured around the following areas:

- Reducing debt;
- Cutting tax and rewarding hard work; and
- Backing British business

1.2. The Government's Autumn Statement and its main Spring Budget announcements do not provide exact funding updates for Local Government, but provide important indicators as to the outlook for council funding and allow this information to be used to inform the medium term financial plan and budget process.

1.3. Further detail on the Local Government position is expected in early December when a policy document will be released by the Department for Levelling Up, Housing and Communities (DLUHC), and the provisional settlement with LA allocations is expected to be published late December (w/c 18th December).

2. Economy Overview

2.1. The Office for Budget Responsibility (OBR) published its economic and fiscal forecasts alongside the Statement. The fiscal forecasts have improved since the Spring Budget 2023. Forecast borrowing will be around £26.8bn lower by 2027/28 than the OBR's March forecast. New fiscal rules introduced by the Chancellor in the Autumn Statement 2022 require debt to be falling as a percentage of GDP by 2027/28 (between years 4 and 5 of the fiscal plan). There was a supplementary target that public sector borrowing must be under 3% of GDP. It is expected this will be achieved, with public sector borrowing falling to 1.1% of GDP by 2027/28.

2.2. Other key updates include:

- The economy has proved more resilient to the pandemic and energy crisis than predicted in March 2023. However, while the economy is larger, it is now expected to grow more slowly, leaving output largely unchanged by the late 2020s. Growth of 0.6% compared to last year and 0.7% forecast for next year.
- While inflation is falling (now at 4.6%), the OBR expect it to be more persistent and domestically driven. Inflation is expected to return to the 2% target in the middle of 2025, a year later than assumed in March 2023.
- Living standards are forecast to be 3.5% lower in 2024-25 than pre-pandemic. This would be the largest reduction in living standards since records began in the 1950s but only half of the fall expected in March 2023.

- High average pay outturns, stronger than expected inflation and continuing tight labour market conditions mean average earnings growth of 6.8% is expected in 2023. It is then forecast to ease back to 3.7% in 2024 and 2.2% in 2025 as inflation falls further, labour market conditions will continue to loosen as unemployment rises. Nominal earnings growth is then expected to be broadly steady until 2028, when it rises to 2.8% as the output gap closes.
- Financial markets expect the Bank Rate to peak at 5.4%, more than 1 percentage point higher than the March Bank Rate forecast of 4.3%.
- There is forecast to be c£27bn fiscal improvement by 2027/28 compared to March 2023 forecast. The Autumn Statement has committed the majority of this to the 2% cut in employee National Insurance Contributions, permanent tax write-offs for business investment, and welfare and health reforms aimed at boosting employment.

2.3. The table below summarises the OBR's key economic indicators:

OBR Forecast	2023	2024	2025	2026	2027	2028
GDP Growth	0.6	0.7	1.4	2.0	2.0	1.7
CPI Inflation %	7.5	3.6	1.8	1.4	1.7	2.0
Unemployment %	4.2	4.6	4.6	4.4	4.2	4.1
Public Sector net borrowing (% of GDP)	4.5	3.0	2.7	2.3	1.6	1.1
Public Sector net debt (% of GDP)	97.9	98.6	96.3	95.5	95.0	94.1

2.4. Inflation rates are important for Local Government. As well as impacting on the cost-of-service delivery they are also used to inform the Settlement Funding Assessment (SFA) which is critical to the funding forecast. The September 23 CPI (6.7%) will be used to index the 2024/5 business rates multiplier. The forecast for next September is for CPI to be between 2% and 3%.

3. Announcements with an impact on Local Government funding

3.1. Despite levels of inflation being significantly higher than forecast at the time of the Spending Review in October 2021, there will be no increase in the overall funding envelope over the Spending Review period. No additional funding has been announced for local authorities beyond the increases that were already expected. Departments will be required to make efficiencies to fund inflationary pressures and pay settlements.

3.2. Announcements with an indirect impact on the Councils financial position are set out below.

Residents

3.3. The National Living Wage (NLW) will increase to £11.44 an hour from April 2024, up £1.02 (+9.8%) from £10.42 per hour, accepting the Low Pay Commission's recommendations in full. The hourly rate for Council employees at the bottom point of the NJC local government pay scale is currently £11.59

per hour. Therefore, the gap will narrow to just 15p from 1 April 2024 until the 2024/25 pay deal is agreed. The Council is a Foundation Living Wage employer, the current hourly rate as set by the Living Wage Foundation will be £12 an hour from the 2024/25 financial year.

- 3.4. There was no direct reference in the Autumn Statement on the continuation of Household Support Fund (HSF). The 2023/24 allocation was £1 billion nationally with Manchester receiving £12.906m to support the most vulnerable residents who are facing difficulty due to the increased Cost of Living. DHLUC officials communicated on 24 November that Household Support Fund will not continue into 2024/25.
- 3.5. The Government has unfrozen Local Housing Allowance (LHA) and will reset in April 2024 at the 30th percentile of local market rates between October 2022 and September 2023. This is forecast to give 1.6 million households an average of £800 support next year. However, this will be a one-off increase then frozen in cash terms and so will again begin to fall relative to market rates over the following years. The rates for each LHA area are expected to be known in January, exact details on the calculation have yet to be released, so the impact on Manchester residents is not yet fully understood.
- 3.6. Several other measures were announced which may alleviate some of the Cost-of-Living difficulties residents are facing. These include:
 - Benefits will increase by September 2023 CPI at 6.7%, in line with recommendations
 - Government will protect the “triple lock” on pensions, with the State Pension to be increased by 8.5% to £221.20 a week.
 - Reduction in employees' standard rate of National Insurance (NI) by 2% from 6 January 2024. Note the rate applied to Employer NICs remains unchanged.
 - The self-employed will no longer have to pay Class 2 NI and their Class 4 NI contributions will be reduced from 9% to 8%

Planning and Infrastructure

- 3.7. The government has published its response to the National Infrastructure Commission's study on infrastructure planning reforms, with measures to return consent times to two and a half years on average, is designating low carbon infrastructure as a critical national priority in updated Energy National Policy Statements, and will consult on amending the National Planning Policy Framework to ensure that the planning system prioritises the rollout of electric vehicle charging infrastructure, including EV charging hubs, and also introduce new permitted development rights to end the blanket restriction on heat pumps one metre from a property boundary in England.
- 3.8. DLUHC will bring forward plans for authorities to offer guaranteed accelerated decision dates for major developments in England in exchange for a fee, ensuring refunds are given where deadlines are not met and limiting use of extension of time agreements. This will also include measures to improve

transparency and reporting of planning authorities' records in delivering timely decision-making. There is also additional funding to tackle planning backlogs in Local Planning Authorities (LPA).

Resources and Investment

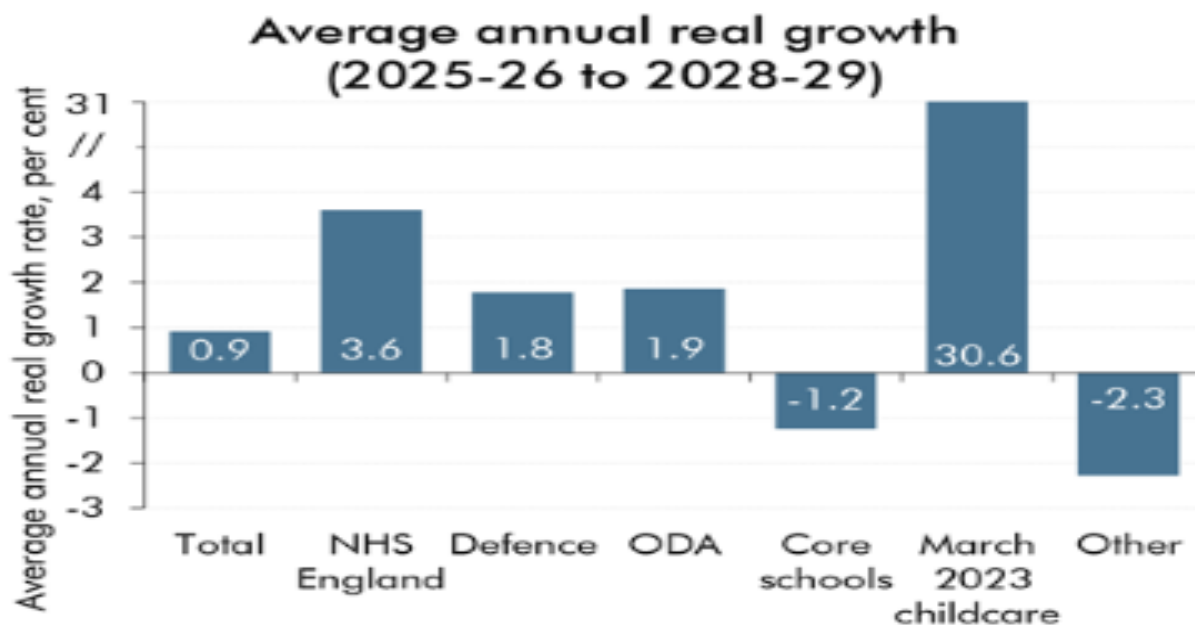
- 3.9. The government has agreed the detailed terms of the long-term business rates retention arrangements for the Greater Manchester and the Combined Authority following the trailblazer deal announcement at Spring Budget 2023. These arrangements will commence from 1 April 2024 setting out the retention of 100% of rates, estimated to be worth an additional c£80m per year across the region, subject to the system reset. The Council's forecast MTFP position already reflects the financial impact of this deal.
- 3.10. As expected, the Chancellor will use the new powers to de-couple the multipliers, and to freeze the small business rating multiplier, and to index the standard multiplier. This will complicate the settlement but will not significantly affect the funding that is received by local authority. Other business rates related announcements include:
- The small business multiplier will be frozen for another year at 49.9p, with the standard multiplier increasing by September's CPI level from 51.2p to 54.6p. Government commits to funding rates lost through this freeze through Indexation Grant
 - 75% Retail, Hospitality and Leisure relief on business rates will be extended for another year to 2024/25 with a £110k cap on relief award per business.
- 3.11. The previously announced Investment Zone for Greater Manchester was confirmed in the statement, focusing on advanced manufacturing and materials across several districts: Manchester, Bury, Rochdale, Salford and Trafford. Alongside GM the Chancellor announced Investment Zones in the West Midlands focusing on advanced manufacturing and East Midlands on advanced manufacturing and green industries.
- 3.12. The Investment Zones programme will be extended from five to ten years and the flexible funding envelope doubled from £80m to £160m for each Zone, from 2024/25 to 2033/34, which can be used flexibly between spending and tax incentives, subject to ongoing co-design of proposals and agreement of delivery plans.
- 3.13. Manchester will host one Investment Zone, the Manchester Smile, and Greater Manchester Combined Authority will award the uplifted £160m funding in line with Investment Zone policy, with proposals including Innovation District (ID) Manchester, Atom Valley (Northern gateway) and other developments across the GM region.
- 3.14. £150m Investment Opportunity Fund announced for Investment Zones and Freeports to catalyse investment into the programme and secure investment opportunities over 5 years.

- 3.15. To deepen devolution, the government has agreed with local partners a Memorandum of Understanding outlining the approach to the single funding settlements which will be implemented at the next Spending Review for the West Midlands and Greater Manchester Combined Authorities. The Memorandum of Understanding was published alongside the Autumn Statement. The government is also publishing a new 'Level 4' of the devolution framework. Devolved institutions with a directly elected leader that meet eligibility requirements will be able to draw down from this framework, which delivers deeper powers alongside new scrutiny expectations.
- 3.16. On 20 November 2023 DLUHC announced Levelling Up Fund Round 3. The third round moves away from the competitive approach of rounds 1 and 2, and awards funding to high-quality bids that were submitted in Round 2. The total quantum of the selected Round 3 package is £1.105bn, supporting 55 projects across Great Britain. This includes four awards for Greater Manchester authorities:
- £20.0m for Manchester for the regeneration of Wythenshawe town centre
 - £20.0m for Bolton for the Bolton Town Centre North Regeneration Project
 - £16.8m for Tameside for Destination Denton
 - £11.4m for Wigan for Leigh Town Centre
- 3.17. Funding awards are provisional at the point of the announcement and subject to project validation, subsidy control checks, and departmental sign-off.

4. Medium term implications

- 4.1. Looking further ahead, prospects for funding settlements in the next spending review period do not look good. The next Spending Review is due to take place in Autumn 2024, to cover financial year 2025/26 onwards. The assumptions in this Statement are likely to form the basis of the election manifestos at the General Election next year.
- 4.2. In the Autumn Statement the Resource Departmental Expenditure (RDEL) increases annually by an average 0.9% in real terms. The Government will protect the increases in departmental spending in cash terms already set out in existing plans. These commitments relate to the NHS, Defence spending, Official Development Assistance, Schools and childcare.
- 4.3. As shown in the chart below this means real-terms cuts for unprotected services, including most of local government. Over the medium-term period to 2028/29 the OBR has forecast that the funding outlook for Local Government, as an unprotected service, is likely to be around 2.3% real terms cut. This compares to an inflation target of c2% meaning a broadly cash flat settlement, is a reasonable assumption.

Chart One: Implied post SR21 breakdown of RDEL spending and breakdown



Source: Office of Budget Responsibility economic and fiscal outlook November 2023

5. Conclusion

- 5.1. In summary, the statement brought no new funding for public services, the Chancellor has prioritised tax cuts over spending increases. The uplift to Local Housing Allowance should have a positive impact. The focus was on the government's economic priorities: to halve inflation, grow the economy and reduce debt. There is nothing in the Autumn Statement announcements that would cause the Council to significantly change its current budget assumptions. The provisional settlement expected late in late December will provide the funding allocations for 2024/25. In the next Spending review (2025/26) further real term cuts in the region of 2.3% a year are likely.
- 5.2. The provisional settlement outcome and revised position will be reported to RAGOS and the Executive in January to consider the longer-term position. They will also consider the additional savings proposals to ensure a balanced budget is set and the council remains financially stable. The challenge for the Council, therefore, remains as set out in the suite of November reports to RAGOS, which is forecasting a budget gap of £30m in 2025/26 increasing to £49m in 2026/27. The budget process for 2025/26 will start in March/April 2024 with Directorate budget priority conversations with a view to identifying cuts, efficiencies and savings to reach a balanced budget over the medium term.