

Manchester City Council Report for Information

Report to: Economy and Regeneration Scrutiny Committee – 3 December 2024
Communities and Equalities Scrutiny Committee – 3 December 2024
Children and Young People Scrutiny Committee – 4 December 2024
Health Scrutiny Committee – 4 December 2024
Resources and Governance Scrutiny Committee - 5 December 2024
Environment, Climate Change and Neighbourhoods Scrutiny Committee – 5 December 2024

Subject: Revenue Budget Update 2025/26

Report of: City Treasurer

Summary

The Council is forecasting an estimated budget shortfall of £101m in 2025/26, £126m in 2026/27, and £164m by 2027/28. Mitigations approved in previous budget rounds include approved savings of £32m, the use of c£18m smoothing reserves in each of the three years, and a Council Tax increase of 4.99% (c£11m) a year. After these mitigations the gap reduces to £29m in 2025/26, £41m in 2026/27 and £77m by 2027/28.

This report provides a high-level overview of the latest position. Each scrutiny committee is invited to consider the officer developed options which are within its remit and to make recommendations to the Executive before it agrees to the final budget proposals in February 2025.

Recommendations

To consider the content of this report and comment on the proposed budget changes which are relevant to the remit of this scrutiny committee.

Wards Affected: All

<p>Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city</p>	<p>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</p>
<p>Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments</p>	<p>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.</p>

<p>Manchester Strategy outcomes</p>	<p>Summary of how this report aligns to the Our Manchester Strategy/Contribution to the Strategy</p>
<p>A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities</p>	<p>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.</p>
<p>A highly skilled city: world class and home grown talent sustaining the city's economic success</p>	
<p>A progressive and equitable city: making a positive contribution by unlocking the potential of our communities</p>	
<p>A liveable and low carbon city: a destination of choice to live, visit, work</p>	
<p>A connected city: world class infrastructure and connectivity to drive growth</p>	

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 changes included within this report will, subject to the final Local Government Finance Settlement, Member comments and consultation, be included in the final 2025/26 revenue budget set by Council on 28th February 2025.

Financial Consequences – Capital

None directly arising from this report.

Contact Officers:

Name: Tom Wilkinson
Position: City Treasurer
Tel: 0161 234 1017
E-mail: tom.wilkinson@manchester.gov.uk

Name: Samantha McArdle
Position: Head of Corporate Finance 9(Deputy City Treasurer)
Telephone: 0161 234 3472
E-mail: Samantha.McArdle@manchester.gov.uk

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.

[Medium Term Financial Strategy and budget 24.25 Executive 14 February 2024](#)

[Revenue Monitoring P6 2024/25 - Executive 13 November 2024](#)

[Revenue Budget Process 2025/2026 - Resources and Governance Committee 10 October 2024](#)

1. Introduction

- 1.1. An indicative 2025/26 budget was set out in the February 2024 Medium-Term Financial Strategy (MTFS), including the planned use of reserves, delivery of savings, and an assumed council tax increase of 4.99%. The Council's February 2024 MTFS identified that even after these actions, the Council, in common with other upper tier local authorities, needed to address a material budget shortfall in 2025/26 and beyond. The MTFS showed a forecast 2025/26 budget shortfall of £29m, which increased to £41m by 2026/27. An additional financial year has been added to the financial strategy which shows the gap to 2027/28 widening to £77m, as cost pressures continue and the availability of smoothing reserves diminishes.
- 1.2. As reported to Resources and Governance committee in October, the current years pressures and updated resource forecasts meant that the position had to be reviewed. This report updates on the refreshed position including progress in reaching a balanced budget, reflecting preliminary additional savings options.
- 1.3. The summer general election, later than usual Autumn Statement and implementation of a new approach to public sector finances by the new government mean that the level of funding available for Local Government will not be known until the provisional finance settlement, which is expected to be announced prior to Christmas. Despite the overall uncertainty, the Council still has to plan to set a balanced budget for 2025/26, and officers have been developing a number of options for consideration by the Executive. These options outlined in this report, will be reviewed again in the new year, following the announcement of the finance settlement, with member endorsed options being presented to scrutiny committees in February 2025.

2. Background

- 2.1. The funding outlook for Local Government remains extremely challenging. The Autumn Statement submission from the Local Government Association¹ estimated that Inflation, wage pressures and growing demand and complexity of need mean that councils face a funding gap of £6.2 billion over the next two years. This is in the context of an estimated £24.5 billion in cuts and efficiencies in service spending that councils made since 2010/11.
- 2.2. Over the same period the Council has delivered over £440m of savings. The 2023/24 outturn position reported to Executive 5 June 2024, reported an overspend of £5.3m. The second monitoring report of 2024/25 was considered by Executive on 13 November, reporting a forecast overspend of £20m. The ongoing implications of this overspend must be considered as part of the budget setting process.

3. Autumn Statement

¹ [Autumn Budget and Spending Review Submission 2024 | Local Government Association](#)

- 3.1. On 30 October 2024, the Chancellor of the Exchequer, Rachel Reeves MP, delivered the Government's Autumn Statement to the House of Commons. Alongside the latest forecast from the Office for Budget Responsibility, the Chancellor announced the Government's new fiscal rules, revealed changes to the current tax system, and set a new path for spending on public services and broader capital investment. The budget completes Phase 1 of the Spending Review which resets budget for 2024/25 and sets budget for 2025/26. Phase 2 of the Spending Review will complete in spring 2025.
- 3.2. A key headline for Local Government is that Core Spending Power will increase by 3.2% in real terms in 2025/26. This includes assumed increases in Council Tax, as well as grant increases. Grants within Core Spending Power will increase by £1.3bn, this includes £600m specific to Social Care and £700m to support essential services. There will also be a £233m increase in funding for homelessness pressures and £1bn to extend Household Support Fund and Discretionary Housing Payments to 2025/26. It is not yet known how the additional amounts will be allocated across Local Authorities.
- 3.3. Ministers have indicated additional funding will be targeted through a deprivation-based approach. Whilst it is positive that the relative cost of delivering services is recognised, this makes it more difficult to forecast what the Council may receive, as it is likely new formulas will be developed.
- 3.4. Local authorities will also receive additional income from the Extended Producer Responsibility (EPR) packaging scheme, starting in January 2025. This charges a levy on producers of packaging to encourage more environmentally friendly and recyclable packaging, with the proceeds being passed to councils who collect and disposal of that waste. Authorities will receive an estimated £1.1bn in new funding from this income stream (with amounts guaranteed by the Treasury in 2025/26). It is not clear yet how this income will be allocated or the extent to which it will have to be used to fund additional costs.
- 3.5. There was also a £2.3bn increase to funding for the school's budget, £1bn of which relates to SEND, estimated at c£7.6m for Manchester, an additional £1.0m more than expected (+6% compared to an expected +5%). The £1.3bn balance will cover the teacher's pay award, increase central budgets and support recruitment of 6,500 new teachers in England.
- 3.6. The decision to increase employer National Insurance Contributions (NICs) by 1.2% points to 15%, coupled with lowering of the secondary threshold on which NICs are paid (from £9,100 per year to £5,000 per year) will have a significant impact for the Council's pay bill. It is expected that the cost relating to directly employed staff will be funded by central government although the mechanism is yet to be confirmed. It is expected that the NI increases, alongside that of the National Living Wage, will impact key suppliers to the Council, especially in the social care market. It is unclear whether the Council will receive any additional funding to enable the compensation of social care providers at this stage.

3.7. The budget announcements will result in additional resources compared to that assumed in the MTFS, however offset against this are several increased pressures which must be considered as part of refreshing the 2025/26 budget.

4. Summary Budget Position

4.1. The final budget position for 2025/26 will be confirmed at February 2025 Executive. This will be after the Finance Settlement is received and key decisions confirming the Council Tax and Business Rates tax base to be used to determine the collection fund position have been made in January.

4.2. Table One sets out the high level MTFS position as presented in February 2024, which has been updated to reflect the addition of a further financial year to the planning period, to maintain the Council's usual three-year MTFS reporting horizon. A budget gap of £29m was forecast for 2025/26 increasing to c£41m by 2026/27. Extending the MTFP for an additional year to 2027/28, based on the same broad assumptions, adds a further £36m to the gap to be addressed, resulting in a total revised gap of £77m for the MTFP.

4.3. There was also considerable use of smoothing reserve of almost £18m a year and savings proposals identified as part of last year's budget setting process of £32m across two years. The budget gap was based on an assumption that the 2024/25 budget would outturn on budget; any overspend would therefore increase this gap.

Table One: Summary Budget position

	2024 / 25	2025 / 26	2026 / 27	2027 / 28
	£'000	£'000	£'000	£'000
Resources Available				
Business Rates / Settlement Related Funding	406,999	418,394	425,002	427,237
Council Tax	220,138	226,331	230,785	233,057
Grants and other External Funding	142,907	104,614	104,614	104,614
Dividends	195	390	390	390
Use of Reserves	11,522	13,003	8,222	7,222
Total Resources Available	781,761	762,732	769,013	772,520
Resources Required				
Corporate Costs	125,957	123,332	123,136	125,573
Directorate Costs	704,932	740,757	771,970	811,105
Total Resources Required	830,889	864,089	895,106	936,678
Initial Budget Gap	49,128	101,357	126,093	164,158
Savings approved	(21,374)	(31,976)	(31,976)	(31,976)
Use of Smoothing Reserve approved	(16,858)	(17,850)	(17,760)	(5,468)
Council Tax Increases	(10,896)	(22,783)	(35,735)	(49,344)
Gap after use of Smoothing Reserves and savings	0	28,748	40,622	77,370

- 4.4. The budget assumptions that underpin 2025/26 to 2027/28 include the commitments made as part of the 2024/25 budget process to fund known ongoing demand pressures. 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.
- 4.5. It is imperative that a long-term perspective of the Council's financial sustainability is maintained, and a three-year budget will be set out in the updated MTFs. However, the immediate priority is to reach a set of balanced budget proposals for 2025/26.
- 4.6. After taking account of increases Council Tax receipts, savings already approved and the use of smoothing reserve, the opening position is a forecast shortfall of £29m in 2025/26. In addition, a review of emerging pressures and budget assumptions has been completed and provision must be made to address these where they are unavoidable, including inflation, capital financing and demography. The impact of the National Insurance changes on service providers must also be considered. Whilst this contributes to the scale of the budget gap it is important that a realistic budget is set which reflects ongoing cost and demand pressures. Additionally, there is a need to maintain a robust level of General Fund reserve.
- 4.7. When the budget was approved the General Fund balance at 31st March 2025 was forecast at £23.4m. The current forecast £20m overspend would reduce this to £3.4m. This brings additional pressure to the 2025/26 budget as the reserve would need to be topped back up to maintain a robust level. In addition, any ongoing impact of the pressures faced this year must be addressed in next year's budget to arrive at a truly balanced position.
- 4.8. The current savings options for 2025/26, which scrutiny committees are asked to consider, amount to £18m. It is expected that the remaining gap for that year can be bridged following the announcements of the Autumn Statement, and once the following are quantified and reflected:
- The provisional finance settlement is expected by December, this will set out Manchester's share of the additional funds announced in the Autumn Statement.
 - Collection Fund position will be finalised in January
 - Confirmation of the final levy amounts from GMCA
- 4.9. The accompanying report sets out the priorities and officer proposals for the services within the remit of this committee. This includes a reminder of the savings proposals identified as part of last year's budget setting process (£32m across two years) and additional savings for consideration £41.5m across 2025/26 to 2027/28). As far as possible these are aimed at protecting the delivery of council priorities and represent the least detrimental options.

Table Two: Saving Options

	Identified Amount of Saving			
	2025/26	2026/27	2027/28	Total
	£'000	£'000	£'000	£'000
Children Services	2,021	3,068	2,904	7,993
Adults	1,125	4,300	6,575	12,000
Public Health	71	453	-	524
Corporate Core - resourcing	2,963	-	-	2,963
Corporate Core	5,992	529	328	6,849
Neighbourhoods	4,438	1,940	2,426	8,804
G & D	1,604	378	386	2,368
Total options	18,214	10,668	12,619	41,501

5. **Budget Consultation**

- 5.1. There is a statutory requirement to consult with business rates payers. Public consultation on proposed Council Tax levels and the savings and cuts measures put forward by officers will open on 25 November and run until 12 January 2025. The provisional results from the consultation will be reported to Executive in February. The full analysis and results, alongside comments from scrutiny committees, will be reported to the Budget Scrutiny meeting on 26 February to ensure they are fully considered before the final budget is set.

6. **Equalities Impact and Anti-Poverty Assessments**

- 6.1. Each saving option will be supported by a robust business case where consideration is given to how the savings could impact on different protected or disadvantaged groups. Where applicable proposals are subject to completion of an Equality Impact Assessment (EqIA) and a Poverty Impact Assessment as part of the detailed planning and implementation. Work is also underway on the way in which equalities data is collected across the Council, supporting the ability to be better informed on the impact of changes being made to services.

7. **Scrutiny of the draft proposals and the budget reports**

- 7.1. The reports have been tailored to the remit of each scrutiny as shown in the table below. Each Committee is invited to consider the proposed changes which are within its remit and to make recommendations to the Executive before it agrees to the final budget proposals in February 2025.

Table Three: Scrutiny Committee Remits

Date	Meeting	Services Included
3 Dec 24	Communities and Equalities Scrutiny Committee	Sport, Leisure, Events Libraries Galleries and Culture Compliance and Community Safety Housing Operations including Homelessness
3 Dec 24	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
4 Dec 24	Health Scrutiny Committee	Adult Social Care Public Health
4 Dec 24	Children and Young People Scrutiny Committee	Children and Education Services
5 Dec 24	Resources and Governance Scrutiny Committee	Chief Exec Corporate Services Revenue and Benefits / Customer and Welfare Support Business Units
5 Dec 24	Environment and Climate Change Scrutiny Committee	Waste and Recycling Parks Grounds maintenance Neighbourhood teams

8. Conclusion and Next Steps

- 8.1. The Autumn Statement grant announcements are welcome and are expected to provide the Council with more resources than previously forecast. However, the spending plans are front loaded, the current forecasts indicate Local Government will face tighter settlements in the medium term. Additionally, the Council is facing considerable pressures in this year and next. Therefore, it is still anticipated that a significant savings programme will be required to maintain the Council's financial sustainability.
- 8.2. Further details on the Local Government position are expected in a policy document which will be released by the Ministry for Housing, Communities and Local Government (MHCLG). In previous years this has been received in late November/early December, with the provisional settlement with individual Local Authority allocations published late December, prior to Christmas.

8.3. The outcome of the settlement will be reported to Executive and Resources and Governance committee in January.

8.4. The proposed next steps are as follows:

- 25 November to 12th Jan – Budget consultation
- 3-5 December - Scrutiny Committees consider budget options
- 5 December – RAGOS – Council Tax and Business Rates Key Decisions report
- w/c 16 December - The Local Government Finance Settlement expected
- 16 January - RAGOS -settlement outcome, update on the budget position and consultation responses.
- Collection Fund decisions to set Council Tax level and Business Rates budget
- 22 January - Executive - settlement outcome, update on the budget position
- 11-13 February - Scrutiny Committees
- 19 February - Executive receive proposed budget
- 26 February - Resources and Governance Budget Scrutiny
- 28 February - Council approval of 2025/26 budget

9. Recommendations

The Committee is recommended to consider the content of this report and comment on the proposed budget changes which are relevant to the remit of this scrutiny committee.