

Manchester City Council Report for Information

Report to: Resource and Governance Scrutiny – 16 January 2025
Executive – 22 January 2025

Subject: Revenue Budget Update and Provisional Local Government
Finance Settlement 2025/26

Report of: City Treasurer

Summary

This report updates on the revenue budget position and outlines the main announcements from the provisional local government finance settlement 2025/26, which was published 18 December 2024. This report updates on the grant notifications and the implications for the Council's position. The outcome of the provisional settlement will be considered in light of the consultation results and final options brought forward for decision in February to enable the setting of a balanced budget for 2025/26, and updated forecasts for 2026/27 and 2027/28.

Recommendations

The Resources and Governance Scrutiny Committee is recommended to consider the content of this report and comment on the Provisional Finance Settlement announcements.

The Executive is recommended to:

- (1) Endorse the report
 - (2) Note that if the identified savings of £18.232m for 2025/26 are progressed, alongside the provisional settlement grant increases, it is expected that a balanced budget can be set for 2025/26
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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	Before the 2025/26 budget is set consideration will be given to how any proposed changes could impact on different protected or disadvantaged groups. Where applicable saving 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 contents of this report outline the full revenue budget consequences of the provisional finance settlement 2025/2026.

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.

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

[Revenue Budget process 2025/26 Resources and Governance Committee 10 October 2024](#)

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

[Revenue Budget Update 2025/26 Resources and Governance Committee 5 December 2024](#)

[Provisional Local Government Finance Settlement announcement 18 December 2024](#)

[Provisional local government finance settlement: England, 2025 to 2026 - GOV.UK](#)

1. Introduction and background

- 1.1 As outlined in previous reports the Council continues to face significant financial pressures in the current year which are forecast to continue and must be addressed in the budget. The 14 November 2024 update to Executive reported a forecast £20m overspend for 2024/25. This level of overspend is unprecedented and is in the context of significant recurrent financial stresses being faced across the Local Government sector, reflecting in particular the national pressures in the health and social care sector.
- 1.2 The provisional 2025/2026 finance settlement was announced 18 December 2024, this is the annual determination of funding for local government from central government. The final settlement is due to be announced in early February 2025, this does not usually change significantly from the provisional settlement.
- 1.3 This report sets out the key elements of the provisional finance settlement, the impact on the Council's budget and the next steps to achieve a balanced budget for 2025/26 and forecast shortfalls for 2026/27 and 2027/28. The recommended final budget position for 2025/26 will be reported to the February 2025 Executive meeting following consideration by the relevant scrutiny committees in early February. By then, the outcome of the budget consultation, key decisions confirming the Collection Fund position for Council Tax and Business Rates base will have been made, final levy amounts will be confirmed by GMCA and the Final Finance Settlement received.
- 1.4 Subject to the outcome of the budget consultation, it is expected that the proposed savings of £18.232m, alongside the provisional settlement announcements, will be sufficient to allow a balanced budget to be set for 2025/26.

2. Update on the Council's budget position

- 2.1 When the Medium-Term Financial Plan (MTFP) was approved in February 2024 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, added a further £37m to the gap to be addressed, resulting in a total revised gap of £77m for the MTFP. The budget gap was based on an assumption that the 2024/25 budget would remain balanced and outturn on budget; any overspend would therefore increase this gap.
- 2.2 In line with Government assumptions, verified by the Office for Budget Responsibility (OBR) the February 2024 MTFP assumed that government grant funding would be broadly flat in 2025/26 (i.e. essentially a rollover of 2024/25 funding levels). The exceptions were the planned end of New Homes Bonus, potential end of Social Care funding allocated in February 2024 and a business rates reset and redistribution of resources nationally.

- 2.3 A review of the Council's overall position has been carried out, to take account of:
- The impact of pressures causing the 2024/25 forecast overspend, including the need to replenish the general fund reserve.
 - The ongoing impact of those pressures and the rate of growth of demand on 2025/26 and future years.
 - Additional demand for universal services caused by being a growing city.
 - Changes to resources including the provisional settlement announcements.
 - Savings options identified to date.

Forecast pressures

- 2.4 Manchester has seen an increase in children's external residential placement numbers and costs as well as further significant pressures across Adult Social Care budgets, as the number and cost of residents needing care has increased. The result is a forecast 2024/25 overspend of £20m. Whilst this is in line with national trends, other core cities and GM authorities all reporting similar issues, it will still need to be financed. Further pressures include those associated with being vibrant and growing city placing pressure on the need for universal services such as waste collection, disposal and street cleansing. The impact of the employers national insurance contributions and uplifts to the national and real living wage is also placing additional pressures on the Council's suppliers and the voluntary sectors, which needs to be recognised.
- 2.5 These increasing pressures mean that the gap in 2025/26 and beyond will widen with the full year effect of the increased numbers of residents requiring care and support this year. Whilst extremely challenging it is important that a realistic and deliverable budget is set. The table below sets out the pressures in addition to those assumed in the February 2024 MTFP that will need to be funded and explained in the following paragraphs. It is estimated that these additional pressures will come to more than £60m.

Table One: Forecast pressures

	2025 / 26 £'000	2026 / 27 £'000	2027 / 28 £'000
Addressing the 2024/25 position	20,000	20,000	20,000
2024/25 overspend - Top up general fund	20,027	0	0
Sub-total impact of 2024/25	40,027	20,000	20,000
Changes to 2025/26 position			
2025/26 demographic and demand pressures	3,800	11,800	11,800
Social Care Provider NI increases	6,000	6,000	6,000
Supply chain NI and RLW increases	1,500	1,500	1,500
Children's Prevention Grant Spend	5,700	5,700	5,700
Inflation and Capital Programme Financing Costs	3,500	8,000	13,000
Updated GMCA levy forecasts	(463)	(112)	40
Committed spend against rolled in Grants	256	256	256
Total Pressures	60,320	53,144	58,296

Addressing the 2024/25 position

2.6 Updating the baseline to reflect the impact of the 2024/25 in year position will cost £40m next year, reducing to £20m per annum ongoing. This is driven by the following pressures:

- **Adult Social Care** – There continues to be substantial financial risk in this area with demand continuing to increase, despite the efforts and investment in prevention and demand management. Increased demand is linked to increased complexity in younger working age adults and increased demand into homecare, linked to average package size.
- Homecare hours have increased by 10% and the average package cost has increased 6%, compared to 2023/24. The latter demand is due to several complex variables including demand flowing through the hospital system, the impact of stable numbers entering into care homes (meaning that citizens are being supported to stay at home for longer) as well as changes in demand due to the longer-term impact of the covid pandemic.
- Substantial work continues in ASC to manage demand building on the success of Better Outcomes, Better Lives which has ensured significant avoided costs. This includes expansion of reablement to support complex working age adults and targeted work on homecare including Trusted Assessor and Moving and Handling (further detailed has been reported to Health scrutiny).
- The recurrent budget would need to increase by £10m to fund the current level of demand.
- **Children's Social Care** budgets are also under considerable pressure, related to the complexity and cost of supporting the needs of Children who are in external residential settings. External residential placements have seen a continued rise reaching 125, which is 20 above budget. Just

over half of the Children's placement costs relate to c9% of Children and Young people who are looked after. The budget would need to increase by £8m to fund the current level of activity.

- **Home to School Transport** costs have also increased in 2024/25, due to the growth in the number of Children in receipt of an Education, Health and Care Plan (EHCP) and being eligible for support in travelling to school. This is costing an additional £2m on a recurrent basis.

- 2.7 The elevated cost base in Adults and Children's Services which is causing the current year overspend, needs to be managed down. Whilst it is necessary to set a balanced budget that funds all expenditure, both Directorates are being challenged on the actions and mitigations they are taking to reduce this level of expenditure. It will therefore be necessary to set aside £20m corporately, in recognition of the current high cost base. Whilst it may be necessary to allocate some of this to Adults and Children's to cover existing costs, this will be subject to a full business case and action plan around demand reduction and costs in these services.
- 2.8 Finally in relation to funding the 2024/25 overspend, it will be necessary to replenish the General Fund reserve for the expected level of overspend of £20m, the details were reported to the Executive in November 2024. When the budget was approved the General Fund reserve balance at 31st March 2025 was forecast at £23.4m. The current overspend would reduce this to £3.4m. This brings additional pressure to the 2025/26 budget as the reserve will need to be topped back up to maintain at a robust level.

Changes to 2025/26 position

- 2.9 **2025/26 demographic and demand pressures increase of £3.8m** to recognise part of the full year impact of the pressures faced this year in 2025/26 and beyond. There is considerable work underway to invest in prevention and manage demand to mitigate the full impact, however, there remains a risk that the upwards trajectory of demand may continue. There are also increasing universal costs incurred by Neighbourhood Services, linked to the success and growth of the City. The allocation of these budgets will be finalised as costs become more certain.
- 2.10 The Autumn Statement included a decision to increase employer **National Insurance Contributions** (ENICs) by 1.2% points to 15%, coupled with lowering the secondary threshold on which NICs are paid from £9,100 per year to £5,000 per year. Funding of £515m for the increase will be made available to local government, allocations will be notified at the final settlement. The Council share of the £515m is estimated at £6m which will be sufficient to cover the increased MCC staff costs which are directly funded by Council budgets. The provisional allocation do not provide for staffing funded from non-core income streams, such as fees and charges. This is estimated at £2m and will be recovered through revising charges and income generation.

- 2.11 In relation to the additional costs incurred by the Council's supply chain, there is national lobbying taking place to seek additional government support for key sectors, such as social care providers and the voluntary sector. However, this is not currently expected and the estimate of costs to support these sectors and contractual obligations are as follows:
- Increased costs faced by Adult Social Care providers. Discussions are underway around the appropriate level of uplift to framework rates to support the sustainability of the market. At this point it is estimated that £6m is required to be set aside for this purpose
 - Other key suppliers to the Council including the Voluntary sector, with an estimate that £1.5m should be earmarked to meet contractual obligations and support.
- Allocations and levels of support for the voluntary sector will be determined based on need, due to the financial constraints in this budget.
- 2.12 **Children's Social Care Prevention Grant spend £5.7m.** This is funded by a new grant, intended to boost local authority investment in early help and family support services. The grant conditions and expectations will be published as part of the Final Settlement in February. It is expected that any spend in this area will directly result in a reduction of demand and associated costs in future years.
- 2.13 **Increased Inflation and Capital Financing costs.** Whilst the CPI measure of inflation has reduced, the Council is still experiencing inflationary pressures through energy and the supply chain. There are also additional costs associated with the capital programme, including continued elevated construction prices driving budget increases, and high interest rates, the impact of this is estimated at £3.5m, increasing to £13m by 2027/28.
- 2.14 The forecast **GMCA levies** (waste and transport) have been updated, in line with the latest indications from GMCA. These will be finalised and formally confirmed in February 2025.
- 2.15 Several **small grants** which were previously received directly by departments have now been rolled into the Settlement Funding Assessment. These total £256k. It is proposed that directorate budgets are increased to reflect the commitments made against this funding

Changes to Resources

- 2.16 The settlement announcements were positive considering the unprecedented cost pressures being experienced. An additional £48.6m has been made available from within core spending power, when compared to assumptions made when the last MTFP was last reported in February 2024.
- 2.17 There will be a comprehensive spending review in Spring 2025 which will set the funding envelop for local government for the following two years to the end of 2027/28. This process will include a fundamental review of the funding distribution formulas, but it is expected that the various funding strands that currently make up core spending power will remain available for

local government. The Autumn statement saw a front loading of spending plans from which the council has benefited. However, it is expected that there will be funding constraints from 2026/27. The MTFP therefore assumes the cash total remains flat for futures years and will be revisited following the spring spending review, when more information is known.

- 2.18 Other resource changes as a result of reviewing the model and other grants are expected to result in a further £22.2m being available, as shown in the table below and explained in the paragraphs which follow.

Table Two: Forecast changes to resources

	2025 / 26 £'000	2026 / 27 £'000	2027 / 28 £'000
Grants within Core Spending Power:			
New Homes bonus (continued)	5,789	5,789	5,789
Social Care Grant continuation of late 2024/25 increase (continued)	5,555	5,555	5,555
Additional Social Care Grant (increase)	11,947	11,947	11,947
Children's prevention grant (New)	5,692	5,692	5,692
Recovery Grant (New)	19,658	19,658	19,658
Total changes to grants within Core Spending Power	48,641	48,641	48,641
Other resource changes:			
EPR Grant and waste rebates (new)	6,855	0	0
Business Rates - Green Plant and Machinery grant (continued)	500	0	0
Reprofile Business rates reset / Settlement risk (deferred)	15,000	0	0
Housing Benefit Admin subsidy (reduction)	(139)	(139)	(139)
Total other resource changes	22,216	(139)	(139)
	70,857	48,502	48,502

Grants within Core Spending Power

- 2.19 A further year of **New Homes Bonus** grant was confirmed for 2025/26 with the same methodology as 2024/25. The Council's forecast receipt is £5.8m.
- 2.20 **Social Care grants** – total £22.2m. The 2024/25 Social Care Grant allocation of £5.55m has been continued, and there is an additional £11.9m for 2025/26. In addition a new **Children's Social Care Prevention Grant** of £5.7m has been announced in the provisional settlement. Conditions placed on the grant will be published alongside the final settlement. These additional grants have been increased in part in recognition of the pressures being felt nationwide across the social care sector.
- 2.21 A new **Recovery Grant** of £600m was announced, targeted at places with greater need and demand for services and less ability to raise income locally. The Council's share is £19.7m.

Other Funding Changes

- 2.22 **Extended Producer Responsibility** packaging scheme will charge 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. The levy came into place on 1st January 2025 and authorities will receive an estimated £1.1bn in new funding from this income stream (with amounts guaranteed by the Treasury in 2025/26).
- 2.23 Local authorities were notified of their EPR allocations on 28 November 2024. Manchester will receive £6.8m in 2025/26 made up of MCC EPR grant (£3.616m) and a share of the GM EPR grant (£3.238m). The EPR grant is only guaranteed in 2025/26 and is based on Treasury estimates. It is anticipated that behaviour change is likely to reduce the amount of income in future years.
- 2.24 **Business Rates - Green Plant and Machinery grant** of £0.5m, was provided in late 2023/24 after the budget was set and will continue until the Business Rates system reset, now expected to be 2026/27.
- 2.25 **Reprofile Business rates reset / Settlement risk** - When the MTFP was set it was envisioned that reforms to local government funding, and the business rates retention system reset would take place in 2025/26. The MTFP included £15m to recognise the risk around the redistribution of resources following these funding reforms. The government has now indicated a business rates system reset will not happen before 2026/27 at the earliest, but this is still to be confirmed along with the format and extent of the reset. The risk has therefore been rolled back a year in the MTFP to 2026/27. A full assessment of the level of risk will be made following the Comprehensive Spending Review in Spring 2025.
- 2.26 As announced in the Autumn Budget, **funding for homelessness services** is increasing next year by £233 million compared to this year (2024/25). This brings the total grant supporting homelessness and rough sleeping to nearly £1 billion in 2025/26. For Manchester this reflects a net increase of funding of £4.7m which will enable the Homelessness service to deliver a balanced budget in 2025/26, recognising the budget pressure reported in 2024/25 due to a shortfall in Homelessness Prevention Grant and the increasing demand on services due to Asylum Dispersal.

Savings options

- 2.27 Officers were challenged with identifying £50m of savings options over the MTFP period for member consideration. Work on the 2025/26 budget started early and considerable progress was made with officers identifying £41.5m of savings options, to be delivered over the next three years. In December, all scrutiny committees received a short update on the Council's budget including a high-level update on the three-year position. Each Committee was invited to consider the proposed savings within its remit and make recommendations to the Executive before it considers the final budget

proposals in February 2025. The majority of savings are aimed at efficiency and income generation, with front line services protected as much as possible.

Table Three: Savings Options by Directorate

	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 - Services	5,992	529	328	6,849
Neighbourhoods	4,471	1,940	2,426	8,837
G & D	1,604	378	386	2,368
Total options	18,247	10,668	12,619	41,534

Summary Updated MTFP

- 2.28 Table four sets out the revised resource position, the assumed changes to spend and savings options. With the current proposals the Council will be able to fund the 2024/25 overspend and set a balanced budget for 2025/26. There is uncertainty regarding the resourcing allocations for 2026/27 and 2027/28, however, the government has made its intentions clear in terms of introducing a fairer funding system which better recognises deprivation and ability to raise funds locally through council tax. Whilst the outlook for the public finances generally continues to be challenging, greater funding certainty and a more transparent funding system is welcomed.
- 2.29 It is proposed that the MTFP is reviewed and updated in the summer following the Spring comprehensive spending review.

Table Four: High level potential change to budget gap

	2025 / 26 £'000	2026 / 27 £'000	2027 / 28 £'000
Original MTFP gap	28,748	40,622	77,370
Changes to resources	(70,857)	(48,502)	(48,502)
Changes to spend	60,320	53,144	58,296
	18,211	45,264	87,164
Savings options	(18,232)	(28,875)	(41,504)
Updated Gap	(20)	16,390	45,661

3. Longer term funding reform

- 3.1 A consultation on Local Authority Funding Reform was released alongside the Provisional Settlement which closes on 12 February 2025. This builds on

the previous Fair Funding Review (FFR) consulted on in December 2018 which recognised the existing system is unfair and based on outdated metrics. Government will look to revisit evidence-based factors within the new funding formulas, including deprivation, demand for services and council tax equalisation, as well as updating for levels of population.

- 3.2 There is widespread consensus that the current funding system for local government is outdated and unfair. The data underlying the funding assessment of each local authority has not been updated since around 2012. The Business Rates system has also become overly complicated and increasingly difficult to influence and forecast. The current government has announced it will resume the planned funding reforms and aims to implement new formulas from 2026/27. The funding reforms will include the Settlement Funding Assessment (SFA), the Business Rates Retention System (BRRS) and a replacement for the New Homes Bonus grant.

4. Next Steps

4.1 The proposed next steps are as follows:

- 16 January - RAGOS - update on the budget position, settlement outcome
- 22 January - Executive - update on the budget position, settlement outcome
- 31 January - Collection Fund decisions to set Council Tax level and Business Rates budget
- 11-13 February - Scrutiny Committees consider final proposals
- 19 February - Executive receive proposed budget
- 26 February - Resources and Governance Budget Scrutiny and report on budget consultation responses
- 1 March - Council approval of 2025/26 budget