

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee – 8 October 2019
Executive - 16 October 2019

Subject: Spending Round Announcement 2019

Report of: Deputy Chief Executive and City Treasurer

Summary

This report provides an overview of the one year Spending Round announcements made by the Chancellor of the Exchequer on 4 September 2019, and the potential financial implications for the City Council.

Recommendations

Members are asked to note the report.

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 Spending Round announcement by the Chancellor on 4 September covers the funding proposals for a range of public sector services. Whilst there is reference to some specific initiatives in respect of reducing carbon emissions, the details are not yet available. It is expected that these will be provided as part of the Local Government Finance Settlement which is expected in December 2019.

| Manchester Strategy outcomes | Summary of how this report aligns to the OMS |
|---|---|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities | This report considers the impact of the Government's recent Spending Round announcements on the Council's budget strategy for 2020/21. The budget will underpin meeting the Council's priorities in support of the Our Manchester Strategy. |
| A highly skilled city: world class and home grown talent sustaining the city's economic success | |

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| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities | This report considers the impact of the Government's recent Spending Round announcements on the Council's budget strategy for 2020/21. The budget will underpin meeting the Council's priorities in support of the Our Manchester Strategy. |
| 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 | |

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Background documents (available for public inspection): None

1 Introduction

- 1.1 On 4 September 2019 the Chancellor announced the spending plans for the next financial year in the 2019 Spending Round. Whilst the announcement does not provide any detail on individual local authority changes, this note sets out those commitments which may impact on the City Council's budget position and gives an overview of some of the other public spending pledges which may impact on Local Government.
- 1.2 The full details of the specific funding allocations to each local authority will be detailed in the provisional Local Government Finance Settlement which is expected to be announced in December. Where indicative City Council amounts are quoted below these are based on an assumption that the distribution will be in line with current methodologies, therefore are subject to change.

2 Background

- 2.1 Over the past decade the Government has reduced public funding significantly. Local authorities have been particularly adversely affected by the level of funding cuts, the Local Government Association (LGA) estimates that between 2010 and 2020 councils will have lost almost 60p out of every £1 the Government had provided for services.
- 2.2 Further to this, the EU referendum has meant that, since 2016, much of the focus of Government has been diverted to Brexit and consequently many anticipated reforms have been delayed such as the Social Care Green paper, the business rates system reforms and the Fair Funding review which has led to significant uncertainty of future funding beyond 2020/21. Indeed, the original expectation was that in 2019 there would be a three-year spending review to provide an indication of likely spending for 2020-2023, however, this has been reduced to a one-year spending round, with the multi-year review now expected to take place during 2020.
- 2.3 Underpinning the position, the Chancellor announced that government borrowing had reduced and is down to 1.1% of gross domestic product (GDP), enabling the government to spend more on the UK's public services in a sustainable way. This has led to this spending review being the first since 2002 where no department faces a cut to its day to day budget. The benefits of this increased spending varies widely between departments, the total uplift in departmental spending over previous plans is worth about £13.4bn of which the local government settlement totals c£3.5bn.
- 2.4 However, the scale of extra funding announced for 2020/21 means that it is possible that Treasury will break the fiscal rules to keep borrowing below 2% of GDP next year. The fiscal forecasts produced by the Office for Budget Responsibility will be announced as part of the Autumn budget (expected early November). This will give the Chancellor the opportunity to revisit the fiscal rules and future borrowing and spending plans and may lead to further announcements.

- 2.5 Whilst this report sets out the headline announcements and possible implications for Manchester, it is acknowledged that funding still remains uncertain after 2020/21 due, predominantly, to the government's spending and policy priorities, fair funding and business rates reforms, the Brexit position and whether there is a general election.

3 Impact on Local Government Finance

Brexit

- 3.1 This Spending Round confirms £2bn of core funding provided to departments for Brexit in 2019/20 will be continued into 2020/21 to be used to help pay for the costs of establishing a new relationship with the EU. The announcement brings the total spent on planning for and delivering Brexit since the 2016 referendum to more than £8.3 billion.
- 3.2 To date (up to the announcements made in August), Manchester has been allocated £0.6m to prepare for leaving the EU which includes specific funding for authorities with a local port. Alongside this a further £0.2m has been made available to support the GM Local Resilience Forum. In line with the requirements of the funding Manchester now has a nominated Brexit Lead Officer.

Settlement Funding Assessment

- 3.3 The Business Rates baseline funding level¹ is to increase by CPI inflation in 2020/21, based on the September 2019 percentage increase. This is expected to be 1.8% and would provide £0.3bn nationally with Manchester's increase estimated at £3.2m from 2020/21. It is also expected that Revenue Support Grant (RSG) will be inflated, which would equate to a further £1m for Manchester.
- 3.4 Devolution Deals are to continue in 2020/21 and 100% business rates retention pilots, which include Greater Manchester, have been confirmed for next year. The Greater Manchester pilot has been in place since 2017/18 with 50% of the benefits transferred to GMCA for specific approved purposes benefiting the wider region. The 75% pilots which commenced in 2019/20 have been discontinued. The City Council no longer receives RSG as this was rolled into Business Rates as part of the 100% retention pilot, therefore, it is expected that there will be a reduction to the tariff payment to Government to recognise the additional funding.
- 3.5 Both the Fair Funding review which will set out the revised resource allocations for each Local Authority and the proposed business rates reset and reform proposals are to be delayed by one year from 2020/21 to 2021/22.

¹ Baseline Funding Level is the government's estimate of the amount of business rates required to be retained by the Local Authority. This is compared to the government's estimate of the authority's business rates baseline, with the difference determining the authority's top up or tariff.

Health and Social Care

- 3.6 The Chancellor announced significant increases in funding to health and social care, raising their resources by 3.1% in real terms. Elements of the settlement are set out below.
- 3.7 An additional £1.5bn will be provided for adult and children's social care. This will be made up of £1.0bn of new grant money for adult and children's social care as well as the ability for Local Authorities to raise £0.5bn through a 2% Council Tax precept. This is in addition to the existing £2.5bn of social care grants which will continue.
- 3.8 Should the new grant funding be allocated based on the Adults Relative Needs Formula, which is in line with allocations in 2019/20, this would provide Manchester with estimated funding of c£11m. However, the distribution methodology has not yet been confirmed, and may consider alternatives such as taking into account the ability of each Local Authority to raise Council Tax through the adults precept or including, in part, the Children's Relative Needs Formula. It is likely that both of the latter would benefit Manchester.
- 3.9 Government will consult on the 2% precept referendum principle that will enable councils to access the further £0.5bn for adult social care. This could raise an estimated £3.3m in Manchester if applied in full.
- 3.10 Local authorities will receive additional resources through an increase in the NHS contribution to adult social care via the Better Care Fund, which will increase by 3.4% in real terms, in line with the overall NHS long-term settlement, resulting in an additional c£0.8m Better Care Fund allocation for Manchester. Additionally, the Public Health Grant is due to increase by 1% in real terms next year, it is not clear at this point how it will be applied. The City Council no longer receives a separate Public Health Grant as this was rolled into Business Rates as part of the 100% retention pilot, therefore, it is expected that there will be a reduction to the tariff payment to Government to recognise the additional funding.

Homelessness

- 3.11 An additional £54m to reduce homeless and rough sleeping in 2020/21, including improving the use of support services to address the significant needs of rough sleepers, has been announced. This brings the total funding to £422m. There is no information currently available regarding individual allocations. If the additional funding was provided on the same basis as the allocation of the 2019/20 Rough Sleepers Initiative Grant, Manchester would receive £0.8m, being 1.46% of total funding.

Education

- 3.12 Schools are to receive a three-year resource settlement, which will be more in line with previous Local Government Finance Settlements. The Spending Round announced that Education funding will increase by £7.1bn by 2022/23. In

2020/21 education funding is to rise in line with the CPI rate of inflation, expected to be c1.8% and funding per pupil is to rise to a minimum of £5k for secondary school pupils and a minimum of £4k for primary schools pupils. Manchester pupils already receive funding above these levels.

- 3.13 £1.5bn of funding is to be made available to compensate schools for the increased cost of employer pensions contributions; (including compensation payments). An additional £700m (11% increase) Special Education Need and Disability (SEND) funding is to be provided to support children and young people with special educational needs to ensure all receive a high-quality education and reach their potential. Based on current DSG allocations, Manchester would receive £7.2m additional funding in 2020/21.
- 3.14 Early Years funding is to rise by £66m to fund the increase in the hourly rate paid to childcare providers through the Government's free hours offers. Manchester is expected to receive £0.66m to fund the c1.8% increase in hourly pay.
- 3.15 Troubled Families funding, which transforms the way public services are delivered to support families with complex needs, is set to continue in 2020/21. If the current funding levels continue Manchester is expected to receive £2.0m.
- 3.16 Other announcements include a new youth investment fund which will help deliver more youth centres, £400m investment in 16-19 education funding and £10m additional funding for English as a second language provision.

New Homes Bonus

- 3.17 No changes to the scheme have been announced. The budget position assumes the continuation of the funding at the 2019/20 level of £8.2m.

Transport

- 3.18 There will be continued support for the development of major transport projects. This includes progressing work on the Leeds to Manchester route of Northern Powerhouse Rail and the East West rail links in the Oxford to Cambridge Arc.
- 3.19 An additional £200m allocation to transforming bus services, to deliver ultra-low emission buses and on demand services has been announced.

Department for Work and Pensions

- 3.20 There will be a 1.9% increase in real terms to the department's resource budget from 2019/20 to 2020/21. This includes an additional £40m funding for Discretionary Housing Payments to tackle affordability pressures in the private rented sector in England and Wales. If this is allocated on the same basis as the 2019/20 government contribution for Discretionary Housing Payments the council can expect to receive c£0.629m.

Council Tax

- 3.21 It has been confirmed that the core precept referendum limit for Local Authorities will be 2% for 2020/21, which is less than the 3% limit on increases to the Council tax in the previous year.
- 3.22 The ability to raise the adult social element of the council tax was only confirmed for 2019/20. It has now been announced that there will be a consultation to allow Councils to increase the adult social care precept element by 2% in 2020/21. This would equate to £3.3m for Manchester.

Health

- 3.23 The NHS is to receive an additional cash increase of £33.9bn a year by 2023/24 when compared to the 2018/19 budgets. There will be a 3.4% real terms increase in the Health Education England budget. This will include an additional £150m for Continuing Professional Development, providing a £1,000 central training budget for each nurse, midwife and allied health professional over three years, as well as increased funding for wider education and training budgets to support delivery of the NHS Long Term Plan.
- 3.24 Additional funding to deliver the government's commitment to upgrade outdated facilities and equipment in 20 hospitals – sharing an £854m pot of new funding. This is alongside a £1bn boost to NHS capital spending in 2019/20 to allow existing upgrades to proceed and to tackle the most urgent infrastructure projects.
- 3.25 The government will invest £250m in artificial intelligence, including £78m in 2020/21, to help solve some of healthcare's toughest challenges, including earlier cancer detection and discovering new treatments. The Department for Health and Social Care will receive a new multi-year capital settlement at the next capital review.

Other Grants

- 3.26 £24m additional funding has been announced for the Building Safety Programme to support the new building safety regime and help prevent a tragedy like Grenfell happening again.
- 3.27 A total of £241m from the Towns Fund in 2020/21 to support the regeneration of high streets, town centres and local economies has also been announced.

Public Value Framework

- 3.28 The Government is embedding a new Public Value Framework to maximise the value the government delivers with the money it spends, based on the recommendations of Sir Michael Barber's report "Delivering better outcomes for citizens". These reforms mean future government spending decisions, including the multi-year spending review next year, will be shaped by a greater focus on outcomes.

3.29 In addition, the government wants to ensure the public sector is set up to deliver better outcomes where those outcomes rely on more than one part of the public sector. This Spending Round confirms a fund of £0.2bn in 2020/21 to pilot innovative approaches to cross-public sector working. The aim is to build a better evidence base and test how joint working between two or more public sector organisations can improve outcomes and deliver better value for money.

4 Conclusion

4.1 This report sets out the main impact of the changes for Local Authorities announced in the Spending round for 2020/21. As stated in the introduction no details of individual local authority allocations have been released, a technical consultation is expected by the end of the month which will set out the policy choices around the distribution options. The proposed allocations will then be included in the provisional Local Government Finance Settlement which is expected in December.

4.2 Overall it is a more positive picture than it has been in recent years and the additional funding is welcomed, however the funding commitments are for one year only and uncertainty remains for longer-term planning. The proposed use of the funding will be reported as part of the Council's Budget Strategy for 2020/21. There remains considerable medium term risks around the levels of public spending overall (to be determined in the 2020 spending review - delayed from this year), the distribution of funding across local government (through the Fair Funding review) and the impact of anticipated business rates reforms and reset.