

Manchester City Council Report for Information

Report to: Executive– 11 November 2020

Subject: Report to update on the Council's MTFP focusing on the financial position and strategy from 2021/22

Report of: Deputy Chief Executive and City Treasurer

Summary

The report will set out the impact of COVID-19 and other pressures and changes on the Council's budget for the period 2021-2025. It will summarise the savings options under consideration from 2021/22 as well as set out the approach to Equality Impact Assessments and consultation as part of the budget setting process. It also sets out next steps in the budget process, including scrutiny of the draft budget options by scrutiny committees.

Separately the report sets out the impact of COVID-19 on the capital programme and the implications for the budget.

Recommendations

The Executive is recommended consider the officer cuts and savings options, considering the feedback from the six scrutiny committees.

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 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	

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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 14 October - Revenue Budget Monitoring 2020/2 and budget position 2021/22

1 Introduction and Context

1.1 The approved 2020/21 budget reflected the priorities below:

- care and support for vulnerable people, including older people and those with learning disabilities and mental health needs;
- taking action on family poverty and giving young people the best start in life;
- tackling homelessness;
- tackling the climate emergency and achieving zero carbon;
- supporting people into jobs and training;
- keeping roads and neighbourhoods in good shape; and
- parks and leisure to keep people active and happy.

1.2 The Council's net revenue budget is funded from five main sources which are Council Tax, Business Rates, government grants, dividends and use of reserves. In recent years as central government funding has reduced and business rates retention has been introduced the ability to grow and maintain the amount of resources raised locally has become even more important for financial sustainability and is integral to the Council's financial planning.

1.3 The budget for 2020/21 was a one-year roll over budget. The strategic framework which underpins this is the Our Manchester Strategy, the Corporate Plan and the Locality Plan. Whilst the Council published a one-year budget in line with the one-year spending round announced by the Government, this was supported in the background by a longer-term financial plan over five years, including spreading the use of one off resources through reserves to support longer term investment in areas such as social care. This was critical to demonstrate forward planning and resilience, ensuring the Council was in a stronger position to respond to the national funding changes.

1.4 The medium-term financial plan remains challenged by uncertainty. These include the outcome of the Spending Review. After 2021/22 there are potential changes to how local government funding is distributed, the Business Rates Retention scheme, and the future of Adult Social Care funding.

1.5 Prior to COVID-19 there was an underlying budget gap of c£20m for 2021/22 rising to c£80m by 2024/25. This was to be addressed in the Medium-Term Financial Planning process. The impact of COVID-19 outlined in this report is in addition to this. At this stage no COVID-19 related funding has been confirmed beyond 2020/21 any additional support for 2021/22 will not be announced until the outcomes of the Comprehensive Spending Review.

2 Position reported to October Executive

Impact of COVID-19 on Council revenue finances

2.1 Dealing with the impact of COVID-19 has resulted in major spending pressures, particularly in social care, but also across all Directorates. There are costs arising from a number of new functions such as providing the

community hub and services for shielding residents as well as sourcing and supplying personal protective equipment (PPE) for other organisations. At the same time there has been a significant reduction in income received, particularly in relation to commercial income and local tax income.

- 2.2 The forecast budget shortfall relating to COVID-19 pressures is £55.6m this financial year increasing to £160.1m next year as shown in the table below.

Table One: Summary of COVID-19 Impact across 2020/21 and 2021/22 (excluding funding announcements)

	2019/20 £000	2020/21 £000	2021/22
Additional Costs (MCC only)	389	25,108	24,994
Income:			
Loss of Income (MCC only)		126,129	107,840
Adjustment for element of dividends not budgeted to use in year		(55,809)	(8,729)
2020/21 Council Tax and Business Rates shortfalls which impact a year in arrears		(36,571)	36,571
Bus Lane and Parking Income - impact on reserves capacity		(3,274)	0
Budget impact of lost income	0	30,475	135,681
Total Costs and Net income losses	389	55,583	160,675

- 2.3 A £100m gap broadly equates to 20% of the Council's budget used to support the delivery of services. This would be on top of the cumulative reductions of £379m and workforce reductions of c4,000 fte or 40%, that have had to be delivered over the past decade.
- 2.4 The additional government funding and in year measures taken (which have included holding a number of vacancies and the use of some reserves) should enable a balanced budget to be delivered in this financial year. An additional £24m for Manchester has been announced in the fourth tranche of government funding and the Council is likely to receive up to £6.4m additional support for lost fees and charges income (this does not cover loss of commercial or rental income). Any capacity this creates in 2020/21 will enable the Council to defer and reprofile the use of reserves that were planned to support the budget and which can now be applied to reduce the gap in 2021/22.

Budget Position 2021/22 to 2024/25

- 2.5 The budget assumptions that underpin 2021/22 to 2024/25 include the commitments made as part of the 2020/21 budget process to fund ongoing demand pressures and the Adult Social Care Improvement Plan as well as provision to meet other known pressures such as inflation and any pay awards (estimated at 2%). In addition, there are ongoing costs of c£25m as a result of COVID-19 including £13.5m for Adult Social Care, £7.5m for Homelessness Services and £3.8m for Children's services. Whilst this contributes to the

scale of the budget gap it is important that a budget is not set that does not adequately reflect ongoing cost and demand pressures.

- 2.6 The current budget shortfall for 2021/22 is £135m rising to £146.8m in the following year. The government announcement that the Collection Fund deficit can be smoothed over three years will improve the position by c£34.4m next year but worsen the two subsequent years by £12m. As set out above, the recent funding announcements have also meant that the planned additional use of reserves can now be deferred to help the position in 2021/22. This then reduces the 2021/22 gap to £105m as shown in the table below.

Table Two: The budget gap 2020/21 to 2024/25

	Revised 2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
P5 Budget shortfall after confirmed funding/ mitigations	271	135,958	146,801	110,143	123,391
Sales, fees and charges support (estimate)*	(6,400)	0	0	0	0
Smooth Collection Fund over 3 years:	0	(24,381)	12,190	12,190	0
Defer planned use of reserves to balance the budget	6,129	(6,129)			
Total - Potential Budget Gap	0	105,448	158,991	122,333	123,391

*subject to MHCLG confirmation of eligibility

3 Addressing the Budget Gap

- 3.1 On 21 October the government announced the Spending Review will be published at the end of November and will be for one year only, in order to prioritise the response to COVID-19 and the focus on supporting jobs. Detailed funding allocations for the Council will only be made available as part of the provisional Local Government Finance Settlement, normally late in December. This again means that effective long-term financial planning is more difficult.
- 3.2 Prior to COVID-19 the Council had established a Medium-Term Financial Plan and Balance Sheet strategy with capacity to offset shocks and provide investment where necessary. This had included for example using most of the dividend income in arrears and smoothing budget investment in social care. However, the depth and breadth of this pandemic could not have been foreseen and the Council, like many other Authorities across the Country, is facing a significant and long-term financial challenge.
- 3.3 As outlined above the main financial impact from Covid-19 falls in 2021/22. Due to the scale of the budget gap some decisions will be required in advance

of the Spending Review and the Local Government Finance Settlement to enable the budget to be balanced next year. A programme of c£50m cuts are therefore being put forward by officers for consultation now so they can be fully delivered in time for 2021/22. Where possible these are designed to protect front line services.

- 3.4 It is likely there will be some further support in the Spending Review although due to the extent of the financial gap further cuts will be required in the future. It is not known what funding the Council will get after 2020/21 and work will be required to ensure that where possible further cuts are carefully planned as part of the Future Shape of the Council work.
- 3.5 Given the scale and complexity of changes now facing the Council, a piece of work is being carried out until the end of December to review the future shape of the Council, in order to best deliver the priorities for the city and develop how the Council needs to operate in the future. The context for this work is the current re-set of the Our Manchester Strategy, the ongoing embedding of the Our Manchester approach and behaviours, development of a new Organisational Development strategy, the further integration of health and social care, and the decisions regarding the future of the Northwards Housing Arms' Length Management Organisation.
- 3.6 The scale of the changes required to deliver all of the above are so significant that this will require a fundamental review of the future size, shape and purpose of the Council. This work will start by developing the design principles that in turn frame the future shape and priorities of the organisation.
- 3.7 However, if there is no further support through the Finance Settlement the Council will have to act quickly to make more severe cuts for next year. The individual scrutiny committee papers set out the areas where tough decisions may have to be made but that the Council is working hard to avoid. If required, they will be brought forward in more detail to Scrutiny Committees once the Finance Settlement has been announced. It should also be noted the capacity to effectively deliver a programme of cuts of £100m in one year is limited and this is an important consideration when looking at the sustainability of the budget position for next year.
- 3.8 All the options for budget cuts have been risk rated and are contained within the individual scrutiny committee reports. The savings options which align to this Scrutiny Committee are provided in that report which includes the workforce impact. The Committee is invited to consider the options within its remit and to make recommendations to the Executive.
- 3.9 Broadly the £52m, which will be subject to consultation, breaks down into:
 - Health and Social Care integration: The planned Improvement Plan investment of £2.150m, funding for inflation, demographics and any increases in the national living wage will be maintained along with the estimated £13.5m ongoing impacts of Covid-19. £20m savings are planned through a reduced Council contribution to the pooled health and

social care budget under devolution arrangements. Accelerating and extending the integration of the health and social care system will support a healthier population, which in turn will unlock savings. Earlier detection and prevention of problems can stop them escalating into long-term care needs and costs and help people to live more independently for longer.

- Resources and Governance - £7.1m from the Corporate Core with reductions in capacity across all support services, how the Corporate Core provides support to residents and changes to the model for supporting residents and a review of access channels which will include the Customer Service Centre. These will be clearly set out in the report to Resources and Governance Scrutiny Committee and Executive with the changes to the Customer Service Centre forming the basis of a separate scrutiny report, consultation and engagement process.
- £6.9m cost avoidance and revenue generation from business units which will also be contained within the Resources and Governance Scrutiny Report. The proposed options envisage that this will largely be achieved through income generation for example an extra £4.5m in 2021/22 through the council taking over running the city's car park operation and £1.3m through increased advertising income. There is also the proposal to withdraw from being a provider of school catering services reflecting the continued reduced demand for these services which mean a substantial Council subsidy is now required.
- Neighbourhood Services: £1.4m which mainly relates to Highways (£0.6m) and parks and leisure income generation (£0.6m). There will be additional investment of £7.5m for the ongoing support for the homeless and rough sleepers after the pandemic. As part of the ongoing changes to the Homelessness Service as well as the need to make cuts across all areas of the Council, there are also cuts planned of up to £3.6m in Homelessness Services. These will be achieved through working with voluntary and community sector and registered housing provider partners to reduce costs; a service restructure which will particularly focus on reducing layers of management and improving prevention and move on initiatives which should reduce the need for more expensive B&B accommodation.
- Economy Scrutiny: £2.3m through a combination of efficiencies, such as reducing the number of buildings occupied because of new ways of working developed during the pandemic and deleting/not filling vacant posts and income generation such as increased surveyors' fees.
- Children and Young People: Much of the Children's Services budget is devoted to caring for looked after children and safeguarding and will be protected. In addition to the anticipated additional demand due to increases in numbers of children in the City, estimated at 3% and totals £2.2m is still contained within the budget along with a further £3.8m to support the likely increase in children and young people requiring support post the pandemic. The average growth in Looked After Children is the last

three years has been 6.8% per year. However, almost £11.3m of other potential cuts have been identified. These will be partly achieved by reducing escalation and need for external residential placements by working with partners to prevent placement breakdowns and expand the availability of more local good quality foster placements and support. Other savings will be made through service reductions such as targeted support for early years. Additional grant and charging schools for services are also part of the Directorate's plan to achieve the cuts.

4 Equality Impact Assessment and Setting the Budget

- 4.1 Many of the options put forward will require an Equality Impact Assessment (EIA) to be undertaken, in particular those that involve impacts on services for residents and reductions in the Council's workforce. A streamlined EIA template has been developed during the response to COVID-19, which has received positive feedback so far, and will continue to be used in relation to EIAs for the budget. Communities and Equalities Scrutiny Committee have an important role in reviewing the EIA process for the budget options put forward and the potential impact on any decisions on the VCSE and on cultural activity.
- 4.2 Equalities and inclusion are a key theme emerging from the reset of the Our Manchester Strategy and have been drawn into sharp relief by COVID-19 exacerbating existing inequalities within the city. A cumulative EIA of the total impacts of budget proposals will be undertaken starting in January 2021 once there is greater clarity about the proposals being taken forward. This will consider and build on the COVID-19 cumulative impact assessment that has been undertaken that has shown the impacts of the pandemic on groups across the city.

5 Consultation on Budget Options

- 5.1 All budget options will be reviewed in detail and where required formal consultation on the details of those options will take place. They will be subject to further refinement following feedback from public consultation and scrutiny committees. The figures may be subject to change following the contents of the Local Government Finance Settlement. Final budget proposals will be made to Scrutiny and Executive in February 2021.
- 5.2 Alongside the formal consultation requirements identified from the options put forward there is a statutory requirement to consult with business rates payers. A public consultation on any proposed council tax increases would take place in late January/early February.
- 5.3 The budget approval process key dates are outlined in paragraph 7.3, and the consultation will commence on 11 November 2020 and close on 6 January 2021.

- 5.4 As in previous years it is proposed that the business plans and saving options are summarised on the Council's website to ensure that the information being consulted upon is in plain English and easy to understand.
- 5.5 It is also proposed that residents are asked to comment on the plans/options via an online consultation form with a few short questions to gauge agreement and space to provide further comment via open text boxes. Paper copies of the form will also be sent to libraries. Again, this is in line with the approach in previous years.
- 5.6 Time will be required following the closing date to review the responses and analysis the information. As a result, consultation results will not be available for the Executive budget meeting on 20 January, however, a brief update will be prepared on the response rates and how the consultation is performing.
- 5.7 The full results will be issued in advance of the Executive meeting on 17 February for consideration.

6 COVID-19 and the Impact on the Capital Programme Budget

- 6.1 The Coronavirus pandemic has had a significant impact on a number of capital schemes during 2020/21. At the start of the pandemic in March there was a pause across construction activity whilst developers and contractors reviewed risk assessments and safety measures. Of the Council's major capital schemes only works on the Town Hall project, The Factory, Alexandra House and works to increase school provision remained on site, albeit with significantly reduced productivity as a result of COVID-19, such as social distancing measures being implemented.
- 6.2 Subsequently, the inflationary impact of COVID-19 has become more evident. Social distancing is reducing productivity leading to increased work programmes and creating cost pressures. Where possible these pressures will be contained within existing project-specific contingency budgets, but in some cases additional budget has been and may be required. Current estimates for inflation are between 4% and 7%, although this will vary between projects. There is also concern that there could be unforeseen impacts to the supply chains which would further exacerbate the inflation impacts already being observed.
- 6.3 It is in this context, alongside the Council's revenue position and based on the existing capital programme, that the Capital Strategy for 2021/22 will be set. Alongside the planned assurance work, the capital financing costs of the existing capital programme are being reviewed, and the programme will be reviewed to confirm that the existing allocated capital budgets are sufficient to complete each project.
- 6.4 Further work is also being undertaken to agree the investment priorities which will inform the Capital Strategy for 2021/22 and beyond. This will include how projects can support the revenue budget position, for example through income

generation, cost avoidance, or through supporting the delivery of revenue savings.

- 6.5 With the planned assurance work, noted above, it will be important to review how capital monitoring and capital decision making are undertaken, to ensure that the processes and outcomes are fit for purpose. A further report will be provided to the Committee within the existing work programme.

7 Next Steps

- 7.1 Following scrutiny, the Executive will consider the officer cuts and savings options at its meeting on 11 November, taking into account the feedback from the six scrutiny committees.

- 7.2 Consultation will start on 11 November and decisions can be assessed in the light of the Finance Settlement and the outcome of any consultation.

- 7.3 The proposed next steps are as follows:

- Officer Options will be presented to the November Scrutiny Committees (3-5 November) for comment and recommendations to Executive on 11 November. The options are being developed in collaboration with partners and will be subject to consultation.
- Spending Review expected by the end of November and the Local Government Finance Settlement usually follows in December. The outcome will be reported back to January Scrutiny Committees (12-14 January) and Executive (20 January) along with the proposed budget options and any required further cuts that will need to be consulted on.
- February Scrutiny Committees (9-11 February) and Executive (17 February) receive proposed budget
- Resources and Governance Budget Scrutiny - 1 March
- 5 March Council - approval of 2021/22 budget

8 Recommendations

- 8.1 The recommendations appear at the front of this report.