

**Manchester City Council  
Report for Information**

**Report to:** Executive - 16 January 2019  
**Subject:** Updated Financial Strategy 2019/20  
**Report of:** The City Treasurer

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**Summary**

This report sets out the budget position for 2019/20 based on the outcome of the Provisional Local Government Finance Settlement and the issues which need to be taken into account prior to the Council finalising the budget and setting the Council Tax for 2019/20.

**Recommendations**

The Executive is requested to:

- Note the report;
  - Note that the financial position has been based on the provisional Local Government finance settlement issued on the 13 December 2018;
  - Note that there has been a review of how the resources available are utilised to support the financial position to best effect, including the use of reserves and dividends, consideration of the updated Council Tax and Business Rates position and the availability and application of grants;
  - Note that budget reports from individual Directorates will detail the savings proposals and these were considered by scrutiny committees in early December;
  - Agree the proposals in this report as the basis for the 2019/20 and invite comments on it from residents, businesses and other stakeholders;
  - Note that the full suite of budget reports will be presented to the Executive in February 2019.
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**Wards Affected:** All

<b>Manchester Strategy outcomes</b>	<b>Summary of the contribution to the strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	This report considers the financial strategy for 2019/20 that will underpin all of the Council's priorities as determined through 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

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### **Financial Consequences – Revenue**

The City Council remains committed to the three-year budget strategy established in 2017/18. This report sets out a number of proposals which are subject to consideration by Executive following scrutiny committee meetings. The implications for the Council's revenue budget in 2019/20 are set out within the report.

### **Financial Consequences – Capital**

The revenue budget includes funding to meet the capital financing costs of the Council. Changes in the capital programme can affect the budget to meet such costs.

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### **Contact Officers:**

Name: Carol Culley  
Position: City Treasurer  
Tel: 0161 234 3406  
E-mail: c.culley@manchester.gov.uk

Name: Janice Gotts  
Position: Deputy City Treasurer  
Telephone: 0161 234 1017  
E-mail: j.gotts@manchester.gov.uk

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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.

Suite of budget reports to Executive, 7 February 2018-

<https://secure.manchester.gov.uk/meetings/meeting/2997/executive>

Update on Revenue Financial Strategy and Business Plan Process 2019/20 to

Resources and Governance Scrutiny Committee Thursday, 6th December

<https://democracy.manchester.gov.uk/ieListDocuments.aspx?CId=137&MId=121&Ve>  
[r=4](#)

Provisional local government finance settlement: England, 2019 to 2020:

[https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020?utm\\_source=89354b3a-3865-4051-9175-8247e58aeba8&utm\\_medium=email&utm\\_campaign=govuk-notifications&utm\\_content=immediate](https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2019-to-2020?utm_source=89354b3a-3865-4051-9175-8247e58aeba8&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate)

## 1. Introduction and Approach

- 1.1. The direction for the budget is set by the Our Manchester Strategy for the City and Executive Priorities for Manchester, with the Council's new Corporate Plan setting out the priorities for the Council. This report updates on the overarching revenue budget, the full suite of budget reports will go to February Executive including: the Revenue Budget 2019/20; the Directorate Business Plans; the Housing Revenue Account; the Dedicated Schools Grant; the Capital Strategy and Budget; and the Treasury Management Strategy and Borrowing Limits and Annual Investment Strategy. These reports together underpin the detailed financial spend of the Council for the coming year and provide a framework for Revenue and Capital planning from 2019/20.
- 1.2. In February 2017, Executive agreed a three-year financial strategy for 2017-20. This followed consultation with Manchester people on what services matter most to them. The budget set was aligned to the Our Manchester Strategy and reflected what Manchester people valued most, which was:
  - 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;
  - supporting people into jobs and training;
  - keeping roads and neighbourhoods in good shape; and
  - parks and leisure to keep people active and happy.
- 1.3. At its meeting on 7 February 2018, the financial position for 2018/19 and 2019/20, years two and three of the strategy, were adjusted to reflect changes arising since the previous year which included growing our resource base through the financial benefits achieved from the city's economic growth, increasing population and housing growth. It also included the impact of pressures arising from continued austerity and increasing demand, particularly in areas such as social care and homelessness.
- 1.4. This was in the context of significant budget reductions. Between 2010/11 to 2018/19 the Councils Spending Power (as defined by government) has reduced by £183m (30%) which compares to an England average reduction of 18%. This resulted in a savings requirement of £357m up to 2018/19, after taking account of inflation and rising demand.
- 1.5. The 2019/20 position is now looking marginally more favourable than expected prior to the provisional settlement largely due to short term measures, as set out later in this report. However longer term there are likely to be further reductions in available resources. It is therefore the intention to smooth additional investment, for example in social care, over three years to offset a potentially significant financial 'cliff edge' in 2020/21.
- 1.6. The underlying funding available is insufficient to meet the costs of services, and the ability to grow our own resource base is becoming increasingly important to enable the protection of services for the most vulnerable.

1.7 Further work has taken place to update the budget requirements and available resources for 2019/20. This was set out in the Updated Financial Strategy and Directorate Business Plans 2019/20 reported to the various Scrutiny Committees between 4 December to 6 December 2018. The updated position for 2019/20, as detailed in this report, represents a continuation of the planned strategy.

1.8 This report will provide an update on:

- the position reported to December Scrutiny
- changes since December Scrutiny
- the Children's Services Review
- the proposed investment priorities
- the budget setting process and timeline
- the conclusions and next steps

## 2. Position reported to December Scrutiny

2.1 The original budget for 2019/20 identified a funding gap of £8.967m. The February 2018 report to Executive noted that this would need to be met from a combination of changes to business rates and commercial income, commissioning decisions, efficiencies and a further review of budget requirements.

2.2 As set out in the budget strategy report to the Scrutiny Committees, after taking account of the full-year effect of the recovery plan measures, increased need to spend particularly on homelessness and social care, officer proposals to bridge the gap, and the updated position on resources the gap was projected to be in the region of £1.2m as summarised below.

**Table One: Shortfall 2019/20 as reported to Scrutiny Committees December 2018**

	<b>2019/20 £m</b>
Original 2019/20 Budget Gap	8.967
Additional Pressures	12.686
<b>Initial Shortfall</b>	<b>21.653</b>
Resource Review	(4.930)
Officer Recovery Proposals	(12.508)
Further support for LAC Investment	(3.000)
<b>Revised Shortfall as at December 2018</b>	<b>1.215</b>

2.3 The most significant risk to the budget position is the additional needs arising from services such as Social Care and Homelessness, together with the non-

achievement of planned savings, accepting that some savings may be delayed into future years. At present the full year effect of these budget pressures for 2019/20 is estimated at £12.686m which increased the original budget gap from £8.967m to £21.653m.

- 2.4 To support the budget position and meet the identified pressures, there was a full review of resources available, which identified an additional £4.930m of resources.
- 2.5 Further officer recovery proposals totalling £15.508m have been developed and were discussed at the relevant Scrutiny Committees in December, the table below summarises these by Directorate. The proposals put forward alongside the feedback from the Scrutiny Committees are summarised in Appendix 1. The recovery proposals are being managed by careful application of the Council's resources (£6.1m) including £3m additional funding into the Looked After Children Investment Fund; risk share contribution from the pooled budget (£4m); and revised savings proposals (£5.4m). The joint funding for commissioning as part of the pooled budget for Health and Social Care will need to be formally agreed at MHCC Board as part of finalising the budget.

**Table Two: Officer Recovery Proposals by Directorate**

<b>Directorate</b>	<b>Proposed Savings £000</b>	<b>Grant income and other resources £000</b>	<b>Total 2019/20 Recovery £000</b>
Children's Services	776	3,000	<b>3,776</b>
Adult Social Care	1,625	5,382	<b>7,007</b>
Homelessness	440	1,400	<b>1,840</b>
Corporate Core	1,189	0	<b>1,189</b>
Neighbourhoods Directorate	376	300	<b>676</b>
Strategic Development	1,020	0	<b>1,020</b>
<b>Total Directorate Budgets</b>	<b>5,426</b>	<b>10,082</b>	<b>15,508</b>

- 2.6 The recovery proposals of £15.508m are over and above the savings already included in the approved Medium Term Financial Plan of £9.022m bringing the total 2019/20 proposed savings to £24.530m, these are listed in Appendix 2.

### **3. Changes since December Scrutiny meetings**

#### *Additional Social Care Funding announced in the Autumn Budget*

- 3.1 On 2 October 2018, the Department of Health and Social Care announced £240m of additional funding for councils to spend on adult social care services to help councils alleviate winter pressures on the NHS, getting patients home quicker and freeing up hospital beds across England. The allocation to the City

Council, which is based on the Adults Relative Needs Formula, totals £2.67m. The October 2018 budget announced a further £650m of funding for social care (Adult and Children's Services) in 2019/20 of which £240m is a continuation of the resilience stream, which has been extended to cover winter 2019, and again Manchester's allocation is £2.67m. The remaining £410m can be applied to both Adult and Children's Social Care, and of this Manchester will receive £4.555m in 2019/20.

- 3.2 A report to Executive on 12 December outlined proposals to deploy the 2018/19 allocation of £2.67m of winter pressures grant funding into priorities to support the health and social care system to manage winter pressures. The proposals for deployment have been aligned with other funding and developed jointly with partners across the health and social care system. The report detailed the planned programme over 2018/19 (£2.106m) and 2019/20 (£0.560m) and noted there is a need to retain flexibility to scale upwards or downwards to reflect emerging intelligence on what is working most effectively.
- 3.3 Following Executive consideration is being given to where posts can be deployed permanently using the 2019/20 funding. There is a risk that a large volume of temporary staffing and associated short term appointments would be challenging to manage and could impact on the cost and quality of the service. Work is in progress to assess what a sustainable establishment should be, smoothing use of funding over 2-3 years.
- 3.4 Proposals are being drawn up with partners for the most effective use of both sources of additional social care funding and will be reported back to the relevant Scrutiny Committees and Executive in February.

#### *Local Government Provisional Finance Settlement*

- 3.5 The 2019/20 Local Government Provisional Finance Settlement was announced on 13 December 2018. 2019/20 represented the final year of the four-year settlement provided by Government, and was largely as expected. However, there have been a number of additional funding announcements, which have impacted on the financial position for the Council which are detailed in the paragraphs which follow.
- 3.6 There were two announcements relating to the Business Rates Levy and New Homes Bonus which will have a positive impact on the Council's financial position.
- 3.7 For 2018/19 the Government has reported that its Business Rates Levy account is £180m in surplus. This is the first time a surplus has occurred and it will be distributed to all councils on the basis of "need" as per the Settlement Funding Assessment. The City Council's indicative allocation is £2.699m and it is expected this will be received in the current financial year.
- 3.8 The Budget Update report for 2019/20 which was presented to the December Scrutiny Committees noted that the New Homes Bonus grant was estimated at c£7m based on the number of new properties as at October 2018. This

assumed the Government's baseline threshold requirements before growth would be increased as indicated in the July technical provisional settlement consultation. However, the Government has now confirmed an additional £20m in 2019/20 which will enable the baseline threshold to remain at 0.4% and provide the City Council with an allocation of £8.202m, £1.202m higher than budgeted. This would be an ongoing benefit, however, it is likely that the New Homes Bonus will be reformed post 2019/20.

- 3.9 Housing Benefit (HB) Administration Subsidy Grant allocation is confirmed at £2.514m; a reduction of £122k from the current year due to the following:
- The national allocation for 2019/20 is 10% less than 2018/19, which is partly relating to efficiency savings and partly the impact of Universal Credit.
  - A change in the methodology for allocating HB Administration Subsidy from 2019/20.
- 3.10 Council Tax Support Administration Subsidy Grant was announced on 21 December. Manchester's grant is £881k, a £63k reduction from the current grant of £944k. The grant is allocated based on the most recent quarterly Local Council Tax Support benefit caseload data and factors in labour and accommodation costs. These may be subject to amendment before the final allocations in April/May 2019, to reflect the most up to date case load data.

#### *Manchester Airport Group Dividend Announcement*

- 3.11 The majority of the airport dividend is used a year in arrears to support the Council's revenue budget. This is not a guaranteed income stream and amounts may increase or reduce in future years. The December 2018 announcement provides a further £1.667m which can be used to support the 2019/20 budget and close the £1.215m gap.

#### *Council Tax Base*

- 3.12 The City Treasurer, in consultation with the Executive Member for Finance and Human Resources, agrees under her delegated powers to set the tax base for Council tax setting purposes in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.
- 3.13 This calculation has to be based on data available at 30 November 2018 and the decision must be made between 1 December 2018 and 31 January 2019. The City Council has to notify the precepting authorities of its calculation for 2019/20 by 31 January 2019. Currently, the tax base for tax setting purposes for the year 2019/20 is 116,015. This increase to the Council tax base since the previous estimate will generate additional income of £0.734m in 2019/20.
- 3.14 Details of a proposed consultation for changes to the current council charges levied on empty properties have been submitted to Resources Governance and Scrutiny Committee and the Executive. The proposals are:
- changes to the Long Term Empty premium



- removing the 100% discount for the first month a property is left unoccupied and unfurnished
- removing the 50% discount for properties undergoing major repairs or structural changes

3.15 The outcome of the consultation will be reported back to the Executive on 13 February 2019 along with the revenue implications and confirmation of the proposals for use of the additional funding should the decision be to progress this. The proposed changes cannot therefore be reflected in the 2019/20 taxbase and resource assumptions.

*Council Tax referendum principles*

3.16 The budget assumes that the City Council will increase the council tax precept by 3.49%, as presented last year; made up of a general precept element of 1.99% and the specific social care precept element of 1.5%. It should be noted that Local Authorities are able to increase the general precept element by a further 1% to 2.99% within the current referendum limits set by Government.

3.17 The overall increase to Manchester residents may be higher as the total council tax payable will also include any changes to the Greater Manchester Mayoral precept and the Police precept.

*Return of funds from Greater Manchester Combined Authority (GMCA)*

3.18 In line with the GMCA budget process there is a likelihood of returned funds in 2018/19 relating to a part return of the Combined Authority's share of the benefit of the 100% Business Rates retention pilot and a part return of transport reserves. The amounts are yet to be finalised.

**4. Impact of changes on the Budget position 2019/20**

4.1 The impact of the settlement announcements and other changes outlined above is a net improvement for 2019/20 of £3.4m as set out in the table below. As noted in paragraph 3.11, the funding from the airport dividend will be used, in part, to meet the existing budget gap of £1.215m as reported in December.

**Table Four: Impact of recent budget announcements**

	<b>2019 / 20 £000</b>
Additional New Homes Bonus Grant	(1,202)
Additional airport dividend	(1,667)
Increased Council Tax Base	(734)
Reduction in Housing Benefits Admin Grant	122
Reduction in Council Tax Administration Grant	63
Reduction in Education Services Grant	62
<b>Total Changes</b>	<b>(3,356)</b>

4.2 Additionally, as previously referenced, the Council has recently received notification of further funds to be released in 2018/19 in respect of the GMCA return and the allocation of the business rates levy surplus from Government which will be applied from 2019/20.

## **5. Children's Services Review**

5.1 During December there has been a review of the Children's budget position and placement numbers including an independent benchmarking of resources and performance. This work was requested following budget discussions with Executive Members regarding the setting of a realistic and robust budget.

5.2 In February 2018 the 2018-20 approved budget for Children's Services estimated the level of need for children and young people required an additional £20m to be invested in 2018-20. Additional recurrent budget of £7m was provided and the Directorate continued to seek to reduce reliance on external residential and foster care provision and set itself a savings target of £13m over the 2018-20 period.

5.3 As reported to the Children and Young People Scrutiny Committee in December 2018, the position in 2018/19 was that a robust and regular review of placements has supported the progression of positive outcomes for children to have a stable, safe and secure placement. However, whilst there has been a significant reduction in external residential placements from 108 in 2011/12 to 78 in 2014/15 the number of placements have stabilised over the last few years and are currently 77. It should be noted, that during the same period there has been a significant reduction in the number of internal residential placements from 88 in 2011/12 to 13 in 2018/19.

5.4 In respect of external foster care placements there has been a significant reduction from an average of 646 in 2014/15 to 461 in 2018/19 following the investment in internal foster care. The impact of a reformed fostering service has led to increased need which is now largely being met through the internal foster care service as well as the number of Special Guardianship Orders (SGOs) increasing - this is positive as it means that children's needs are being met more effectively and efficiently.

5.5 An independent benchmarking of resources and performance for Children's Services took place to assess the current budget strategy. This confirmed that Manchester has a large child and young family population and the socio-economic characteristics are amongst the most challenging in England. Notwithstanding the investment since 2014/15, the targeted level of expenditure on Children's Services is unlikely to be met and the budget overspend is average against the comparative near neighbour group. This still reflects a journey from Manchester being a significant outlier in relation to the large number of Looked After Children, with associated above average spend and demonstrates the success of the strategy.

- 5.6 The analysis concludes that the comparative spend on Children's Services is reflected in the low proportion of children in residential settings and a high proportion in foster and other community settings, although the number of children placed for adoption is below average. The high numbers of foster placements is reflective of the investment and drive to expand this service which has seen an increase of 50% since 2015/16.
- 5.7 The benchmarking evidence suggests Manchester has a very high rate of referrals and assessments compounded by a high rate of re-referrals. Safely reducing unnecessary referrals and assessments will be critical to re-directing scarce staff resources in the future. The challenging nature of Manchester's progression from 'Inadequate' to 'Good' will require a sustained funding commitment. The evidence suggests that following a negative Ofsted inspection, Councils tend to significantly increase spend, with budget stability and a de-escalation of funding commitment only achieved following a sustained, multi-year period that is characterized by the features of a 'good' service.
- 5.8 The majority of the budget strategy for 2019/20 presented in December 2018 focuses on reducing the number of external residential and foster placements primarily through alternatives such as in-house fostering, adoption and special guardianship orders and demand management and practice efficiencies. Given Manchester's current spend on external provision and the gains already made in regards to reducing external fostering and residential spend a strategy based on reduction in placements is high risk. Notwithstanding this it was proposed that more effective market management should be a key priority in managing and reducing spend.
- 5.9 The analysis indicates the budget should not be set based on further reductions in external residential and external foster care placements and suggests that the proposed budget strategy should be re-visited to ensure a sustainable budget is set within the context of value of money and meeting need effectively. Subsequently there is a need to use one-off resource to support the delivery of children's services on a locality footprint and a three year budget strategy as described. The position is currently being finalised and is not yet reflected in the budget proposals within this report. It will be included within the revised set of draft budget proposals to be prepared for Scrutiny and Executive in February, which will include a review of planned savings and risks.

## **6. Proposed Investment Priorities**

- 6.1 The above changes have resulted in additional one-off funding which should be used to further support resident priorities and front line services in a sustainable way over the coming three-year period. Priority areas include:
- Care and support for vulnerable people by ensuring there is a sustainable amount of funding for Adult Social Care that enables the move to a more permanent structure, despite the volume of one-off funding;

- Giving young people the best start in life through investment in Youth Services plus a need to invest greater amounts into Children's services as set out above.
- Taking action on family poverty including enhanced enforcement of the private rented sector and appropriate enforcement action;
- Tackling homelessness;
- Further action to tackle littering, fly tipping and poor business waste management.

6.2 Detailed proposals relating to the above will be reported back to Executive in February.

## 7. Next Steps

7.1 The Executive will agree its final budget recommendations on 13 February 2019 following the Scrutiny Committee meetings on the 5-7 February which will review the individual Directorate Business Plans.

7.2 These recommendations will be considered by the Resources and Governance Scrutiny Committee at its special budget meeting on Monday 25 February. Chairs of the other five Scrutiny Committees will be invited to attend this meeting to articulate the views of their Committee regarding the proposals. The Council will then make its final decisions and will set the budget on 8 March 2019.

7.3 The timeline is detailed below. It is aligned with MHCC funding announcements and approvals. The pooled budget for Health and Social Care must be formally agreed at MHCC Board as part of finalising the budget.

**Table Five: Budget Timeline**

Dates	Milestones
16 January 2019	Executive to consider draft budget proposals following December Scrutiny Committee meetings and Finance Settlement.
5-7 February 2019	Scrutiny Committees to consider the updated budget position and make recommendations to February Executive taking into account any consultation feedback
13 February	Executive - Suite of Budget Reports to be presented for approval
25 February	Resources and Governance Scrutiny Committee - Budget Meeting
8 March 2019	Council - Budget Approval and Council Precept Approval 2019/20 MHCC - Approve Final Budgets for the Pool (27 March)

- 7.4 Work will begin shortly on the budget requirements for 2020/21 and beyond. This is in the context of considerable changes to Local Government Funding including the outcome of the Spending Review, a review of local authorities relative needs and resources (also known as the Fair Funding Review) which will consider how local government funding is distributed, reform of the Business Rates Retention scheme, and the Green Paper on the future of Adult Social Care funding and interaction with the NHS 10-year long term plan.
- 7.5 Government have issued separate consultations on the review of local authorities relative needs and resources and business rates retention reform; both of which will come into effect from 2020/21. The City Council will be responding to both consultations for which the deadline is 21 February 2019.

## **8. Conclusions**

- 8.1 The Council remains committed to the priorities within the three-year strategy for 2017-20 and which followed consultation with Manchester people on what services matter most to them. The proposed 2019/20 budget has been adjusted to reflect changes arising following the first two years of the strategy, including increased service need, partly met by financial benefits generated from the City's growth.
- 8.2 The Local Government Provisional Finance Settlement for 2019/20 represented the final year of the four-year settlement from Government. Generally the settlement was in line with expectations and followed the technical consultation in July 2018 and subsequent announcements in the Autumn Budget 2018.
- 8.3 Together with the one-off Social Care grant funding announcements, there has been additional funding for Local Government this financial year following an allocation from the Government's surplus Business Rates Levy and a better than expected allocation of New Homes Bonus Grant next year, following the baseline threshold remaining at 0.4%.
- 8.4 Whilst the additional government funding for 2018/19 and 2019/20 is welcomed there are considerable challenges with forward financial planning given the late, short term announcements. The use of this funding and any rebate from the GMCA will be reported as part of the continuation of the Council's Budget Strategy for 2019/20 and incorporated into the February budget reports.
- 8.5 There are still a number of unknowns which may impact on 2019/20 including the roll out of welfare reforms and the outcome of BREXIT negotiations. As this is the last year of the four year settlement there is no certainty regarding future funding following the next Spending Review period commencing from 2020/21.

## **9. Recommendations**

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