

Manchester City Council Report for Resolution

Report to: Executive – 13 February 2019
Resources and Governance Scrutiny Committee – 25 February 2019

Subject: Budget 2019/20 – Covering Report

Report of: Chief Executive and City Treasurer

Purpose of the Report

The 2019/20 Budget is the last of the current three year financial plan and also covers the final year of the four year financial settlement. This report sets out the context including:

- The priorities that shaped the three year Strategy
- Progress to date, building on the recent State of the City analysis
- A summary of the financial position
- The required statutory assessment of the robustness of the proposed budget

Recommendations

The Executive is requested to:

- (i) Consider the Revenue Budget Reports 2019-2020 and Capital Strategy 2019-2025 elsewhere on the agenda in the context of the overarching framework of this report.
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Wards Affected: All

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.	This report sets out the Strategic Framework for the delivery of a balanced budget for 2019/20. The Framework is aligned to the priorities of 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 and work.	
A connected city: world class infrastructure and connectivity to drive growth.	

Implications for:

Equal Opportunities Policy – there are no specific Equal Opportunities implications contained within this report.

Risk Management – The risk management implications are set out in an accompanying report later on the agenda.

Legal Considerations – The legal implications are set out in an accompanying report later on the agenda.

Financial Consequences – Revenue and Capital

This report provides the framework for Revenue and Capital planning from 2017/18.

Contact Officers:

Name: Joanne Roney
Position: Chief Executive
Tel: 0161 234 3006
E-mail: j.roney@manchester.gov.uk

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

Name: Fiona Ledden
Position: City Solicitor
Tel: 0161 234 3087
E-mail: f.ledden@manchester.gov.uk

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

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

None

1 **Introduction**

1.1 The 2019/20 Budget is the last of the current three year financial plan and also covers the final year of the four year Finance Settlement. This report sets out the context including:

- The priorities that shaped the three year Strategy
- Progress to date on delivering the Our Manchester Strategy, building on the recent State of the City analysis
- A summary of the financial position
- The required statutory assessment of the robustness of the proposed budget

2 **Priorities and Context**

2.1 The priorities for the City are set out in the 'Our Manchester' Strategy, the long-term vision for the city. The underpinning principles of the budget strategy have been developed to support a change in the way that services are delivered and in the relationship between the Council and the people of Manchester.

2.2 The three year budget strategy was agreed at a time when the City and the Region had additional powers devolved for transport, skills, health and housing which provided significant opportunities. But whilst there continues to be progress in growing the Manchester economy there is still a long way to go to tackle the legacy of deprivation that remains. The need to restructure the City's economy and eliminate the level of exclusion which a still high proportion of residents experience through unemployment, low skills and low paid unstable work helped shape the Our Manchester Strategy and remains the priority.

2.3 The Our Manchester ten year ambitions are the touchstone when decisions are taken about what to prioritise, and set the framework for the Medium Term Financial and Capital Strategies. Our Manchester seeks to make Manchester a City that is:

- Thriving - creating jobs and healthy businesses
- Filled with talent- both home grown talent and attracting the best in the World
- Fair - with equal chances for all to unlock their potential
- A great place to live - with lots of things to do
- Buzzing with connections - including world class transport and broadband

2.4 The priorities have also been informed by the extensive budget consultation with residents carried out in 2016. The areas that mattered most and were reflected in the budget decisions are as follows:

- 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.

2.5 The 2017-20 budget set out the changes required to deliver the above by:

- bringing health and social care services together;
- supporting people earlier so they will avoid more costly help later;
- safely reducing the cost of children in care by finding more foster carers; changing the waste disposal arrangements to reduce costs; and
- creating the capacity to invest in the City's roads and transport network.

2.6 2019/20 is the last year of the Medium Term Financial Plan (MTFP) and there is no change in direction proposed. The challenge remains to continue to provide services when the population is increasing and the resources available to the Council are reducing. The State of City Report published in 2018 set out the progress made against Our Manchester. In Summer 2018 a Corporate Plan was agreed that set out the actions the Council needed to deliver Our Manchester. This has provided the framework for the refresh of the budget and business plans.

2.7 Finally the MTFP and Capital Strategy have been updated to reflect the 2018/19 budget position. There has also been additional one off funding, particularly for social care, made available through the Autumn Statement, Finance Settlement and the GMCA Budget Setting process. Whilst the Government may have listened and provided some additional funding to address the pressures local authorities are facing for social care, this is insufficient to meet the underlying increases in need and there is no longer term solution beyond 2019/20. The Council has therefore had to use a number of one-off resources alongside Government funding to provide sustained investment over a longer, three-year, period; recognising that the funding remains uncertain from 2020/21 when the next Spending Review period starts.

2.8 The fact remains that this is a period of austerity and significant funding reductions. The original three year budget strategy required the delivery of £35m of budget cuts with £9m to be delivered in 2019/20. The 2019/20 figure has increased to £15m with the additional demand for services experienced in 2018/19. The need to make budget cuts is expected to continue over the next four years. The LGA is estimating that by 2025 Local Government Services face a funding gap of at least £7.8bn, just to stand still, much of this relating to social care. For the Council this gap has been estimated at £75m.

3 **Progress on Delivering the Our Manchester Strategy**

A Thriving City /Buzzing with Connections

3.1 Manchester's population has grown rapidly over the past year with an estimated 566,650 residents in 2018 projected to reach upwards of 660,000 by 2028. This growth has been concentrated in the city centre. The number of children living in Manchester has also grown, leading to an increased demand

for primary and secondary school places and this is reflected in the investment in the expansion of and new schools. International migration continues to be a key driver of the city's growing population. However, the extent of this future growth will depend upon a range of external factors, including the position of the United Kingdom (UK) outside the European Union. The potential impact of a no deal Brexit on sectors such as social care and hospitality is a real concern.

- 3.2 Manchester is continuing to work to shape the future, particularly in terms of transport, skills, health and housing, with new powers devolved to the city region. Over the next ten years a number of global and national issues such as changing patterns of international trade as a result of Brexit and the enduring impacts of Climate Change will impact. There will continue to have be a focus on developing international trade and investment - local and national investment in infrastructure such as High Speed Rail across the North and to London with the Capital Strategy having investment in the drivers of growth such as the City Centre, the Oxford Road Corridor and the Airport City Enterprise Zone as one of its priorities. Airport City continues to be delivered as part of an £800m joint venture which has seen the creation of 3,000 jobs.
- 3.3 An integrated, attractive and affordable transport network is needed to enable residents to access jobs and improve their health through increasing levels of active travel. There continues to be an increasing demand for travel in the city centre using sustainable travel modes. The city centre has recently seen a number of improvements, such as the Metrolink Second City Crossing and the opening of the Ordsall Chord.
- 3.4 Manchester's economy has continued to grow, with its performance exceeding that of both Greater Manchester and the UK as a whole. This has been driven primarily by growth in three sectors: business, financial and professional services; cultural, creative and digital; and science, research and development. Cultural, creative and digital industries continue to make a significant contribution to the local economy.
- 3.5 The creative industries across the UK are the fastest- growing economic sector and are recognised as being vital to the success of Manchester. A top-class cultural offer is vital to the international positioning and profile of the city. The significant government and Council investment in The Factory will provide an international arts venue that is unmatched outside of London and should see GVA, visitors and jobs increase.
- 3.6 Key developments in the city centre include St John's, Great Jackson Street, Piccadilly/Piccadilly Basin, First Street, Circle Square, and the Medieval Quarter as well as investments into life sciences to secure high quality jobs for the future.
- 3.7 Digital connectivity continues to improve for residents and businesses. Despite this, there is still a need to increase broadband coverage and deliver full-fibre coverage across Manchester at a faster pace to secure the city's status as a

leading digital centre. The ICT Strategy will include investment to support the roll out of Full Fibre.

A City that is Filled with Talent

- 3.8 A highly skilled workforce is fundamental to Manchester's economic growth. Upskilling the city's population is also vitally important in reducing levels of dependency by ensuring that more people have the opportunity to access jobs and share in the city's economic growth.
- 3.9 The city's employment offer has continued to increase and diversify; in 2017, there were 392,400 employees working in the city, an increase of 10% since 2015. This growth has been driven by success in a number of the city's key growth sectors: science and research and development; cultural, creative and digital; and business, financial and professional services. However whilst Manchester has a higher than national average proportion of residents qualified to degree level and above, Manchester also has a disproportionate number with no qualifications; 11.1% compared to a national rate of 8%. The £69 gap between resident and workplace gross weekly wage is the largest of English core cities. In 2018 an estimated 18% of employees working in Manchester were paid less than the Living Wage Foundation Real Living Wage of £8.75 an hour. For employees living in Manchester that percentage was estimated to be 28%. The Family Poverty Strategy (2017-2022) was developed to address poverty in Manchester, which is a major challenge affecting many of the city's families.
- 3.10 Enabling all residents, which include the City's children, young people and their families to share in the City's economic success by getting good jobs will require further improvements in early years services, schools and skills and employment programmes. Primary schools continue to perform well but despite this, Manchester still has a lower number of pupils achieving GCSEs in English and Maths.
- 3.11 The number of schools judged to be good or better is increasing. Work continues to improve schools results. KS2 results, while improving are still below national average, the Attainment 8 score is improving at a faster rate and starting to close the gap. Work is taking place to ensure that education and training is aligned with the skills needed by business in and around the City. Apprenticeships and action to tackle youth unemployment, particularly in the most deprived neighbourhoods, and for Children Leaving Care continue to be a top priority. Capital investment in schools will continue with investment in the primary and secondary estate to create new places and to provide permanent accommodation where schools are currently using temporary facilities.
- 3.12 There are some direct links between low skills and a low- wage economy, and this is an area where some progress is being made in ensuring that everyone is paid at least a living wage. The Council is currently progressing the work to be a Living Wage accredited employer and is supporting Manchester College

to provide a city centre campus that will support residents to achieve the skills required to match the jobs being created.

A Fair City

- 3.13 The vision is to build a safe, happy, healthy and successful future for children and young people. Progress has been achieved in Children's Social Care services, characterised by the Ofsted judgement in December 2017 that services to children and young people looked after and those in need of help and protection are no longer inadequate. However the increasing number of children and young people being looked after and the rate of referrals to Children's Services is putting a significant strain on the council's budget. Manchester has recently refreshed its approach to early help which can enable children, young people and their families to achieve their potential and reduce demand on more reactive and expensive services. Some of the additional one-off funding the council has received will be used to increase the budget in these areas.
- 3.14 Tackling homelessness is fundamental to the Our Manchester Strategy. There has been a significant increase in the numbers of households who are homeless in Manchester including families, single people, young people, and people who are rough sleeping. This trend is also reflected nationally. The rollout of Universal Credit, welfare reform, the capping of the Local Housing Allowance and the Homelessness Reduction Act 2017 which came into force in April 2018 have all led to further demand on services. The demand for social housing in the city and the lack of good quality, affordable private rented sector housing has led to many people being trapped within homelessness and poverty.
- 3.15 Changes in the national funding regime with the introduction of the Flexible Homelessness Support Grant to replace Temporary Accommodation funding did not recognise the scale of growth in homelessness seen in the city and reduced the level of funding available. Officers have been working to transfer the management of temporary dispersed accommodation properties to an alternative provider through a procurement process to enable the full amount of housing benefit to be claimed, as well as improving the standard of accommodation. As part of the 2019/20 budget the council is committing an additional £1.1m funding for discretionary housing support and other welfare related payments to take a pro-active approach to preventing homelessness and protect the most vulnerable. The council has also committed to ensuring where families have to be placed in bed and breakfast accommodation this is of an appropriate standard.
- 3.16 Economic improvements have not been matched by similar improvements in health outcomes. People living in Manchester experience higher levels of ill health and early death than other major cities and local authorities in England. There are 3.5 times as many premature deaths (deaths under the age of 75) in the most deprived parts of the city compared with the least deprived parts. The

[Manchester Population Health Plan](http://www.manchester.gov.uk/healthplan)¹ describes how the council will work with partners to deliver improved health outcomes and reduced inequalities.

- 3.17 A single commissioning system with a single line of accountability is in place. In April 2018, the new Manchester Local Care Organisation (MLCO) – a partnership between the Council and a range of health organisations – took over the running of statutory community health and social-care services. The organisation will deliver integrated and accessible out-of-hospital services across the city's 12 neighbourhoods, providing integrated services that will improve outcomes at a reduced cost. The Winter Pressures funding is being used to prevent inappropriate admissions to and facilitate timely discharge from hospital and some of the one off funding the council has will be invested into adult social care to ensure that timely access to services is available for those who need them.

A Great Place to Live

- 3.18 Manchester's future success is inextricably linked to whether it is a great place to live. The City's different neighbourhoods need the right mix of housing that people can afford, good schools, parks, sports and cultural facilities, roads and transport links and streets and public spaces free of litter and antisocial behaviour. Residents have identified through the Our Manchester Survey that they value their local assets with satisfaction with services mirroring the quality of available shops and amenities, green spaces, libraries and health services. The Capital Strategy includes the further planned investment in the city's parks, leisure facilities and libraries as well as the £100m investment programme to improve the condition of the city's roads and footpaths. Further investment to reduce litter and fly tipping is prioritised in the updated MTFP.
- 3.19 There has been a notable increase in housing supply from 2017/18 with over 3,000 new homes expected to complete in 2018/19. Manchester is now delivering a nationally significant level of house building (more than any Inner London Borough in 2017/18). The Northern Gateway project (a joint venture between the Council and the Far East Consortium) has the potential for up to 15,000 new homes over the next 15 years.
- 3.20 The Housing Strategy includes a housing growth target of 32,000 new homes between April 2015 and March 2025 including 6,400 affordable homes. Of the latter 3,000 are either delivered, on site or committed to be delivered by March 2021 with a further minimum of 3,400 to be delivered by March 2025 through use of council land, Registered Social Landlord (RSL) partner resources and investment capacity in the Housing Revenue Account (HRA). Achieving this target is dependent on the government funding in these areas being available. The city's overall annual housing target will continue to be met in the short-term but maintaining supply will require ongoing investment in key infrastructure in, for example, the Eastern and Northern Gateways in order to unlock housing sites.

¹ <http://www.manchester.gov.uk/healthplan>

- 3.21 In respect of Climate Change, Manchester is on track to reach a 38% reduction in CO2 emissions by 2020 against the target of 41% but this means that to stay within the carbon budget a further 56% reduction is required. This can only be achieved through a combination of local action and national policy on energy and transport. The Capital Strategy and the development of new policy frameworks in areas which are Green and Blue Infrastructure, Residential Design and, at a Greater Manchester level, through the GM Transport Strategy 2040, will drive forward the local actions. The council is also investing on an investment to save basis in making its estate more carbon efficient and in increasing the amount of waste that is able to be recycled. Whilst there has been an overall improvement in air quality in recent years parts of Manchester are still exceeding the legal limits for nitrogen dioxide (NO2). An Air Quality Action Plan for Greater Manchester is being developed to tackle these issues.
- 3.22 The **Corporate Plan** which was agreed in Autumn 2018 sets out the 15 areas which the Council will focus on from its final year of the three-year budget strategy and which provide the framework for the budget and business plans. They are as follows:

Theme	Priority
Young people <i>From day one, support Manchester's children to be safe, happy, healthy and successful, fulfilling their potential, and making sure they attend a school graded 'good' or better</i>	• Ensure all children have high-quality education
	• Support more Manchester children to have the best possible start in life and be ready for school and adulthood
	• Reduce the number of children needing a statutory service.
Healthy, cared-for people <i>Work with partners to enable people to be healthy and well. Support those who need it most, working with them to improve their lives</i>	• Support Mancunians to be healthy, well and safe
	• Improve health and reduce demand by integrating neighbourhood teams that are connected to other services and assets locally, delivering new models of care.
	• Reduce the number of people becoming homeless and enable better housing and better outcomes for those who are homeless.
Housing <i>Ensure delivery of the right mix of good-quality housing so that Mancunians have a good choice of quality homes</i>	• Accelerate and sustain delivery of more housing, with enough affordable housing for those on low and average incomes, and improved quality of housing.
Neighbourhoods	• Enable clean, safe, vibrant neighbourhoods

<i>Work with our city's communities to create and maintain clean and vibrant neighbourhoods that Mancunians can be proud of</i>	• Reduce greenhouse gas emissions and improve air quality.
Connections <i>Connect Manchester people and places through good-quality roads, sustainable transport and better digital networks</i>	• Improve public transport and highways, and make them more sustainable
	• Facilitate the development of the city's digital infrastructure, to enable delivery of transformed public services and support a thriving digital economy.
Growth that benefits everyone <i>To support our priorities, we need to continue to promote and drive sustained economic growth and job creation that benefits everyone</i>	• Support good-quality job creation for residents, and effective pathways into those jobs.
	• Facilitate economic growth of the city
Well-managed council <i>Support our people to be the best and make the most of our resources</i>	• Enable our workforce to be the best they can be through the Our People Strategy and Our Manchester behaviours
	• Balance our budget, including delivering savings, reducing demand through reform, and generating income.

4 **Financial Context**

- 4.1 The budget for 2019/20 is being set in a period of austerity which began with the 2010/11 Budget. The Local Government Association (LGA) have calculated that by 2020 Local Government will have delivered £16bn in savings to the Treasury, whilst also absorbing inflationary increases, maintaining the delivery of services to communities and facing increasing Social Care demands. Public health grant funding will have reduced by £531m between April 2015 and April 2020. Between 2010/11 to 2019/20 the Manchester City Council's Spending Power (as defined by government) has reduced by £179m (29%) compared to an England average reduction of 16%. This has resulted in required budget cuts of £372m from 2010/11 to 2019/20 inclusive, after taking into account inflation and rising demand, and a reduction of almost 4,000 FTE (around 40% of the workforce).

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£,000
Savings Planned	107	61	36	30	55	26	17	25	15	372

4.2 During the earlier years (pre 2016/17) the central government grant cuts did not take into account the ability to raise council tax and cities such as Manchester with over 90% properties in council tax bands A-C were disproportionately impacted. If between 2010/11 and 2019/20 Manchester had had the average level of funding reductions it would now have c£83m more a year available.

4.3 In order to become more resilient and self-reliant the Council has had to maximise the revenues available to it including the below:

- Manchester has been a business rates growth retention and 100% retention pilot. The latter means that the Council retains 100% of the additional business rates growth achieved during the 3 year pilot period 2017 - 20. Additional retained growth was £8m in 2017/18 and is estimated at £9.1m in 2018/19 and £8.1m in 2019/20. Additionally there is a £6m proposed return from GMCA in 2018/19, subject to GMCA approval at its meeting on 15 February, which has been made available to support the budget.
- The Council's commercial investments have generated: dividend income of £62.3m in 2018/19 (predominantly but not exclusively from the Airport), net income from the commercial estate of c£12m per annum both of which are supporting the revenue budget. Proceeds from loans to the airport advanced in 2018/19 are contributing a net £5m each year to support capital financing costs
- The success in encouraging housing growth, particularly in the City Centre has seen an average growth in council tax base of over 3% for the past 5 years. Over 60% of the new city centre housing is at a council tax band of C or above compared with 20% in the rest of the city, contributing to increasing the council tax base which is essential to the longer term financial sustainability of the council. As an example the 2% council tax precept levied to fund social care would generate around £7.4m in a typical shire and c£3m in Manchester.

4.4 Local authorities are also in a state of considerable uncertainty regarding future funding and facing increasing pressures. The LGA is estimating that by 2025 Local Government Services face a funding gap of at least £7.8bn, just to stand still, much of this relating to social care. For the Council this gap has been estimated at £75m.

4.5 2019/20 is the last year of the four year Finance Settlement. There is no certainty over either the quantum or distribution of local government funding after that date and with an unprecedented level of uncertainty which includes:

- the economic and service impact of any Brexit decision and the fact that the Government has reserved the right to have a further Spring Budget should a no deal scenario occur.

- There is no clarity on the Spending Review (SR) timeline and process and it is rumoured any subsequent Finance Settlement may only be for 1-2 years. The SR sets the quantum of funding available for local government whilst the Finance Settlement sets out the distribution to individual local authorities.
- The Adult Social Care Green Paper is expected to set out a more sustainable longer term funding solution for adult social care but has been delayed until at least April 2019. The adult social care funding streams which technically end after 2019/20 include the Better Care Fund (£24.3m), improved Better Care Fund (£3.7m) and Winter Pressures Funding (£2.7m).
- Funding for each local authority is predicated on a funding formula. Funding is largely comprised of retained business rates and either a government top up is received or a surplus of business rates is paid back for redistribution based on the formula. The Fairer Funding Review is looking to establish a new formula with proposals out to consultation (closes 21 February). Of concern is the suggestion the current use of deprivation factors to allocate funding maybe reduced. This is a key driver of spend and Manchester will be significantly disadvantaged if this goes ahead.
- Finally, it is also likely that Greater Manchester will no longer be a 100% retention pilot from 2020/21. The work to move to 75% business rates retention across all Local Authorities will lead to a 'hard reset' in 2020/21 which means that Manchester will lose the benefit of the additional growth generated since 2013 and during the Greater Manchester pilot 100% retention period as the baseline for growth is reset.

Update of the 2019/20 Budget

- 4.6 Despite the pressures being faced the Council is determined to deliver the agreed priorities for Manchester. The budget is not just about how to manage within reducing resources but also on where funding should be invested to deliver on resident priorities and working with partners to jointly new ways of delivering services such as prevention and early help, giving families strengths and self-reliance so they will benefit from greater self-determination and improved life chances thus reducing the need for more costly support in the future. The difficult balance has to be maintained between protecting investment to generate growth (and grow the revenues available to the council), provide high quality universal services and to protect the most vulnerable.
- 4.7 The report to Executive in January 2019 set out the current budget position based on the Officer proposals to address the £21.6m budget gap for 2019/20 which went through the December Scrutiny Committee process and updated for the Local Government Finance Settlement received in December 2018.

The proposals included further savings of £6m from 2019/20. These will be in addition to the £9m already included in the original budget plan.

4.8 There has also been additional one off funding, particularly for social care, made available through the Autumn Budget, Finance Settlement and the GMCA Budget Setting process, the latter to be finalised at the GMCA meeting on 15 February. The report to January Executive did not set out how the following would be used:

- The additional grant funding for Social Care agreed as part of the Autumn Statement and confirmed in the Finance Settlement - £2.67m to support winter pressures and £4.55m for children's and adults social care.
- The return of £2.7m in 2018/19 from the unused central business rates revenue account surplus
- The subsequent proposed return of funds from Greater Manchester Combined Authority (GMCA) - GMCA will propose the return of c£6m of retained business rates and c£1m of transport resources to the City Council and this will formally be considered at the meeting of the Combined Authority on 15 February.
- The key decisions taken later in January to set the Council Tax and Business Rates Base and Collection Fund surpluses

4.9 An additional £12.6m one off government funding has been allocated to the Council since the Autumn Budget. The late announcement and one off nature of the funding allocated has made effective longer term planning more difficult and whilst central government have recognised the pressures local authorities are facing in these areas, the funding does not continue beyond 2019/20 and is insufficient to meet the increases in demand for services. When taken alongside the proposed return of revenues from the GMCA, the Council is relatively cash rich in the short term but is facing uncertainty and budget reductions in the future.

4.10 It was therefore recommended at the January Executive meeting that any one-off funding is used over a 2-3 year period and prioritised to the following areas:

- 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
- 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.

4.11 The budget includes the following proposals for additional investment above that originally planned as part of the 2018 budget setting process, with the full details being available in the relevant Business Plans:

- £4.6m additional investment into Children's Services to address budget pressures due to the increased number of placements for looked after children as well as seeking to release resource for early help and prevention and a further £150k for Youth Services. This is in addition to the £6m agreed in the January Executive Report and £2.8m agreed as part of the original budget set last year for 2019/20, bringing the total investment for 2019/20 to £13.6m.
- £7.6m rising to £8.0m for years 2 and 3 into adult social care to ensure service stability and that residents can access services on a timely basis. This includes the £2.8m included in the January Executive report and is in addition to the £3.8m agreed as part of the original budget for 2019/20, bringing the total investment for 2019/20 to £11.4m.
- £500k to support further action to tackle littering, fly-tipping and poor business waste management
- £255k to support food inspections
- £500k for enhanced enforcement activity in the private rented sector, as part of the homelessness budget. This is in addition to the £3.8m agreed for homelessness in the January Executive Report and £250k agreed as part of the original budget for 2019/20 set last year, bringing the total additional investment for 2019/20 to c£4.6m.
- £1.1m for welfare related support funded from additional council tax revenues in 2019/20. In future it proposed these costs will be met from additional Council Tax income relating to the proposed changes to empty property reliefs, if approved and subject to the outcomes of the consultation.

4.12 The changes outlined above would enable a balanced budget to be achieved for 2019/20, with a contribution to General Fund reserve of £65k as shown in the table below.

	2018 / 19 £000	2019 / 20 £000
Resources Available		
Business Rates related funding	324,753	314,653
Council Tax	154,070	166,507
Other non ring fenced Grants / Contributions	38,735	54,426
Dividends and Use of Airport Reserve	53,342	62,390
Use of Reserves to support the budget	8,743	12,439
Total Resources Available	579,643	610,415
Resources Required		
<i>Corporate Costs:</i>		
Levies/Charges	68,655	70,090

	2018 / 19 £000	2019 / 20 £000
Contingency	3,103	1,600
Capital Financing	44,507	44,507
Transfer to Reserves	7,286	6,902
<i>Sub Total Corporate Costs</i>	<i>123,551</i>	<i>123,099</i>
<i>Directorate Costs:</i>		
Additional Allowances and other pension costs	10,030	10,030
Insurance Costs	2,004	2,004
Directorate Budgets	439,919	465,272
Inflationary Pressures and budgets to be allocated	4,139	9,945
<i>Total Directorate Costs</i>	<i>456,092</i>	<i>487,251</i>
Total Resources Required	579,643	610,350
Transfer (to) General Fund Reserve	0	(65)

4.13 The full detail of the Council's budget is set out in the following reports which are also on the agenda:

- The Medium Term Financial Plan (MTFP)
- Business Plans (Children and Young People; Health and Social Care; Neighbourhood Services; Strategic Development; and the Corporate Core)
- Capital Strategy and Budget
- Housing Revenue Account
- Dedicated Schools Grant
- Treasury Management Strategy
- The Business Plans have been considered at the following Scrutiny Committees prior to this Executive.

4.14 The table below shows which scrutiny committees have considered which scrutiny business plans.

Business Plan	Meeting
Manchester Health and Care Commissioning Pooled Budget 2019/20, including Adult Social Care	Health Scrutiny Committee - 8 February 2019
Homelessness Business Planning: 2019/20	Neighbourhoods and Environment Scrutiny Committee - 9 February 2019

Children and Education Services Business Planning 2019-2020	Children and Young People Scrutiny Committee - 8 February 2019
Neighbourhoods Directorate Business Planning: 2019-20	Neighbourhoods and Environment Scrutiny Committee - 9 February 2019
Strategic Development Business Planning: 2019-2020	Neighbourhoods and Environment Scrutiny Committee - 9 February 2019 Economy Scrutiny Committee - 9 February 2019 Resources and Governance Scrutiny Committee - 10 February 2019
Corporate Core Business Plan: 2019/20	Resources and Governance Scrutiny Committee - 10 February 2019

5 **Section 25 Report**

5.1 Section 25 of the Local Government Act 2003 also requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

5.2 In setting the budget the Council has a duty to ensure:

- it continues to meet its statutory duties
- Governance processes are robust and support effective decision making
- its Medium Term Financial Strategy reflects the significant challenges being faced and remains responsive to the uncertainties in the economy by continuing to deliver against its savings targets
- its savings plans are clearly communicated and link to specific policy decisions, with the impact on service provision clearly articulated
- it has the appropriate levels of reserves and that it closely monitors its liquidity to underpin its financial resilience
- it continues to provide support to members and officers responsible for managing budgets
- it prepares its annual statement of accounts in an accurate and timely manner

Legal Issues

5.3 In coming to decisions in relation to the revenue budget and Council Tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the council tax requirement and the setting of the overall budget and Council Tax. The amount of the council tax requirement must be sufficient to meet the

Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.

- 5.4 In exercising its fiduciary duty the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike a fair balance between the interests of council taxpayers and ratepayers on the one hand and the community's interests in adequate and efficient services on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. Officers have addressed the duty to strike a fair balance between different elements of the community and the interests of Council Tax and Business Rate payers in developing the proposals which are set out in the Directorate reports.

Duties of the City Treasurer

- 5.5 The Local Government Act 2003 requires the Chief Finance Officer to report to the authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council has a statutory duty to have regard to the CFOs report when making decisions about the calculations. The City Treasurer's report in relation to the reasonableness of the estimates and adequacy of the reserves is set out below.
- 5.6 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.
- 5.7 Under Section 114 of the Local Government Finance Act 1988, where it appears to the Chief Finance Officer that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the Chief Finance Officer has a duty to make a report to the Council.
- 5.8 The report must be sent to the Council's External Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Chief Finance Officer. Failure to take appropriate action in response to such a report may lead to the intervention of the Council's Auditor. Following well publicised difficult financial position of

some local authorities there is a growing scrutiny of the financial position of individual local authorities.

Other Statutory Duties

- 5.9 In considering the budget for 2018/19 the Council must also consider its ongoing duties under the Equality Act 2010 to have due regard to the need to eliminate discrimination and advance equality of opportunity between all irrespective of whether they fall into a protected category such as race, gender, religion, etc. 128. Having due regard to these duties does not mean that the Council has an absolute obligation to eliminate discrimination but that it must consider how its decisions will contribute towards meeting the duties in the light of all other relevant circumstances such as economic and practical considerations.
- 5.10 The Council will continue to use its Equality Impact Assessment framework as an integral tool to ensure that all relevant services have due regard of the effect that their business proposals will have on protected groups within the City.

Reasonableness of the Estimates

- 5.11 Finally the Council has a duty to act reasonably taking into account all relevant considerations and not considering anything which is irrelevant. This Report together with the other budget related reports on the agenda set out a total picture of the proposals from which members can consider the risks and the arrangements for mitigation set out below.

Robustness of the Estimates

- 5.12 The future uncertainty regarding future funding for local authorities makes a robust and evidenced assessment of financial governance and future resilience critical.
- 5.13 *Leadership and Governance* - the council's governance arrangements are set out in full in the [Annual Governance Statement](#). Arrangements for revenue and capital budget planning, monitoring and delivery are believed to be robust. The council complies in full with the requirements set out in the CIPFA Statement on the role of the Chief Finance Officer. The S151 duties lie with the City Treasurer who is a full member of the Senior Management Team and fully involved in the council's governance and decision making processes.
- 5.14 *Longer Term Financial Planning* - It is recommended best practice that Local Authorities have a longer term strategy for financial resilience and a multi year financial plan. Whilst the suite of budget reports only cover 2019/20 to align with the central government four year Finance Settlement they are underpinned by longer term financial planning:
- Five year Capital Strategy (and financing arrangements) and asset management plans

- Five year reserve strategy with three years published in the MTFP
 - Financial and scenario planning over the next spending review period
 - Three-year investment proposals for the use of the additional one off funding.
- 5.15 Effective arrangements are in place to facilitate longer term financial planning however it is a priority that a set of clear scenarios and savings are developed for 2020/21 and beyond in advance of the Finance Settlement.
- 5.16 *Sustainable Service Plans over the Life of the MTFP* including tracking delivery and an assessment of success in delivery of savings - Directorates have put forward additional savings proposals in the Business Plans. The total savings required is £25.482m in 2018/19 and a further £14.798m in 2019/20. Officers have satisfied themselves with the robustness of the planned reductions and their broad deliverability. A detailed risk rated savings tracker is produced and monitored monthly and progress discussed at monthly Departmental Monitoring Meetings and Senior Management Team at its monthly budget focussed meeting. Updates are also provided monthly to Executive Members. For the areas within its remit the Manchester Health and Social Care Commissioning Board and Management Team have a detailed process to agree business plans and monitor progress on the delivery of savings which is also tracked on a monthly basis.
- 5.17 In 2018/19 46% of savings were considered high risk in terms of deliverability. These all related to Children's and Adult services and have been reassessed as part of the 2019/20 budget setting process. Full details are contained within the Business Plans.
- 5.18 *An assessment of value for money in the delivery of services* - The Council's external auditors are required to provide a Value for Money conclusion following the guidance issued by the National Audit Office November 2017 which specified the criteria for auditors to evaluate. The external auditors were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018. An unqualified Value for Money conclusion was issued.
- 5.19 During December 2018 there was a review of the Children's budget position and placement numbers including an independent benchmarking of resources and performance carried out by Grant Thornton. This work was requested following budget discussions with Executive Members regarding the setting of a realistic and robust budget. The results of this review are set out in the Children's Services Business Plan and has informed the proposals for 2019/20. In addition the Performance Management Framework contains annual reporting on benchmarking information and use is made of benchmarking data such as CFO Insights to inform decision making.
- 5.20 *Compliance with Prudential Code* - as detailed in the Capital and Treasury Management Strategies the Council is compliant with the requirements of the Prudential Code. The Council takes a highly prudent approach to investments,

both treasury and otherwise, with a view to minimising risk. External advice is taken on investments as required and the Council does not normally make strategic investments outside of the local authority boundary.

Assessment of Risk

- 5.21 The City Treasurer has examined the major assumptions used within the budget calculations and has carried out sensitivity analysis to ascertain the levels of potential risk in the assumptions being used. The key risks identified to the delivery of a balanced budget and their mitigation are set out in the table below.

Risk	Mitigation
Non Delivery of Savings	A detailed review of social care related savings which were not delivered in 2018/19 and the impact for 2019/20 has been carried out with revised proposals contained within the budget. As outlined above robust monitoring arrangements are in place to enable early corrective action to be taken. Such action in 2018/19 has successfully reduced the overspend position.
Increasing demand for social care, impact welfare reforms and rising homelessness is higher than budget assumptions	2019/20 completes the three-year budget commitment Additional one-off government funding of c£12m and council resources have been used to provide more funding in these areas based on a reassessment of demand. Funding has been smoothed over three years with a reserve to cover future demand.
Volatility of resource base including business rates	As the Council becomes more reliant on locally raised resources and commercial income it is more susceptible to any downturn in the economy. To mitigate the risk the majority of the airport dividend is used a year in arrears and a business rates reserve has been established. The position on all these income streams is reviewed each month.
Delivery of a balanced budget beyond 2019/20	Longer term planning has started to address the uncertainty beyond 2019/20. In addition, the budget has established specific reserves to fund social care over a three year period to avoid cliff edges and provide time to plan dependant on the outcome of the national funding changes and BREXIT impact.
Impact of Brexit	The potential effects of Brexit on the Council are currently un-quantified but could impact on revenue budgets, capital projects, treasury management and the pension scheme.

Risk	Mitigation
	As the risks associated with BREXIT are so difficult to quantify the approach, in line with a number of local authorities is to build up the level of the business rates reserve and protect the level of the General Fund reserve to help mitigate any adverse impact. More detailed planning and risk assessments for the different scenarios is being carried out within GM and Manchester.
Overspend on significant capital projects	The Capital Strategy has been developed to ensure that the Council can take capital expenditure and investment decisions in line with Council priorities and properly take account of stewardship, value for money, prudence, risk, sustainability and affordability. There are strong governance arrangements underpinning the decision making process, all capital investment decisions have a robust business plan that set out any expected financial return alongside risk and deliverability implications. The capital programme is monitored monthly, with quarterly reports to Executive. There are specific programme and risk management arrangements in place to assess individual projects and to oversee their completion. The Strategic Capital Board receive monthly updates from each directorate board on each board's part of the capital programme, detailing financial forecasts, risks, and expected outcomes. By reviewing projects regularly, such monitoring can be used to support future actions, including the estimation of future costs and mitigations as necessary.

- 5.22 The Council has a well developed corporate risk register and a financial risk register that is reviewed monthly. Each Service Head has carried out an individual risk assessment of their budgets incorporated into the Risk Registers contained within the Business Plans.
- 5.23 It is the opinion of the City Treasurer that any significant budget risks to the General Fund and the Housing Revenue Account have been identified and that suitable proposals are being put in place to mitigate against these risks where possible. The Council's Budget Monitoring procedures are now well embedded and are designed to specifically monitor high level risks and volatile budgets. An assessment of anticipated business rates income has been carried out based on the information available and provision has been made for outstanding appeals. There is considered to be a prudent provision.

- 5.24 The City Treasurer considers that the assumptions on which the budget have been proposed whilst challenging are manageable within the flexibility allowed by the General Fund balance. This and the fact that the Council holds other reserves that can be called on if necessary means that the City Treasurer is confident that overall the budget position of the Council can be sustained within the overall level of resources available. However to the degree that the budget savings are not achieved in a timely manner and reserves are called on to achieve a balanced position, further savings will need to be identified and implemented in order to ensure the Council's future financial stability is maintained.
- 5.25 The Council needs to be satisfied that it can continue to meet its statutory duties and meet the needs of vulnerable young people and adults. Proposals have been drawn up on the basis that Strategic Directors are satisfied that this will enable them to continue to meet their statutory duties and the needs of the most vulnerable.

Budget Scrutiny

- 5.26 Overview and Scrutiny committees are holding special meetings to look at the Budget Proposals and their delivery, paragraph 4.14 sets out the detail of which Business Plan went to which Scrutiny Committee. Resources and Governance Scrutiny Committee will look at the overall budget proposals and receive comments from other scrutiny committees prior to the Budget going to Budget Council.

6 Conclusion

- 6.1 The last few years have been challenging for the Council given the high proportion of cuts which have had to be made to the Council's budget at a time when the demand for services such as Children and Adults Social Care have been rising. This has been exacerbated by the disproportionate level of funding reductions the Council has taken.
- 6.2 Manchester continues to lead the way in terms of transformation, delivering efficient services and creating the conditions for all of our communities to benefit from economic growth. The Council has maintained its reputation for innovation and reform through a number of key mechanisms:
- Using the commitment to social value to ensure communities see the benefit from investments. This has included commitments from suppliers to employ staff who live locally, no use of zero hours contracts and agreements to reduce energy consumption and carbon emissions in the City.
 - Working alongside partners in the Combined Authority the council has worked hard to make the most of the opportunities to focus on local priorities through the Spatial Framework, Local Industrial Strategy, digital opportunities and in tackling homelessness.
 - focused on doing things differently for example developing the population modelling toolkit, creating a more meaningful definition of affordability to

support the emerging Local Plan and Housing Strategy and supporting the implementation of the Manchester Living Wage across supply chains.

- Continuing with the integration of public services to improve the offer to residents. The benefits are already being seen of the approach to integrating health and social care through improvements in the number of years men in the city can expect to live in good health.

6.3 This set of budget and business plans is a continuation of commitment to the delivery of the Our Manchester Strategy and how it has been used as a framework for prioritising the deployment of resources.