

**Manchester City Council
Report for Information**

Report To: Executive – 24 November 2010

Subject: Comprehensive Spending Review – analysis of impact on residents

Report of: The Chief Executive

Summary

This report provides the Executive with an initial assessment of the potential impact on Manchester residents of the key funding and policy announcements in the 2010 Comprehensive Spending Review (CSR).

Recommendations

The Executive is requested to note the contents of the report.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report looks at the implications of the Comprehensive Spending Review Announcement on the overall funding position for the next four years and the impact that it may have on Manchester residents. It therefore cuts across all the spines of the Community Strategy.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Implications for:

Equal Opportunities Policy – the government has produced an assessment of the impact of the Spending Review on different groups, including a distributional analysis of how spending is allocated across income groups. The full impact of the Spending Review on particular groups will only be known when detailed decisions about departmental budgets have been set out. We will need to address the impacts of spending decisions within the context of the demographic pattern of Manchester. A similar exercise will be conducted by AGMA.

Risk Management – n/a.

Legal Considerations – there are no specific legal considerations contained within the report

Financial Consequences – Revenue and Capital

The Comprehensive Spending Review announcement sets out funding reductions for revenue and capital across local government. At a headline level this would appear to be consistent with our planning. The detail behind the headlines is not yet clear and further information is required to enable more scrutiny alongside understanding some of the implications for grant funding such as Area Based Grant. The specific implications for the City Council will not be known until after the financial settlement which is due in early December.

Contact Officers:

Name: Geoff Little
Position: Deputy Chief Executive, Performance
Telephone: 0161 234 3280
E-mail: g.little@manchester.gov.uk

Name: Jacquie O'Neill
Position: Head of City Policy
Telephone: 0161 234 1021
E-mail: j.oneill1@manchester.gov.uk

Background documents (available for public inspection):

Comprehensive Spending Review Report to Executive 27th October 2010

HM Treasury Spending Review 2010

1. **Introduction**

- 1.1 At its meeting on 27th October, the Executive discussed a report summarising the Comprehensive Spending Review (CSR) announcement of 20th October. That report provided an initial analysis of how the proposed changes in public spending at national and local level, including a reduction of 28% in central government funding for local government, will impact on Manchester. The Chief Executive was asked to prepare a further report for this meeting on the impact of the announcements on the people of Manchester. This report responds as far as is possible to that request.
- 1.2 For Manchester, it is particularly important to assess how the impact on residents will be influenced by the extent to which the City Council is able to support the conditions for private sector led economic growth and to enable more Manchester residents to contribute to and benefit from that growth.
- 1.3 The Council, through its leadership of AGMA, has been working for some time to promote stronger sub-regional governance to better support the conditions for growth. The CSR contains a number of key decisions which go some way to allowing us to take forward this work. This includes a new approach to economic development focused on sub-regions. Local Enterprise Partnerships will provide strategic leadership and the Regional Growth Fund has been increased from £1bn to £1.4bn over three rather than two years; a total sum still significantly less than the existing RDA budget, and now having to cover Housing Market Renewal as well as economic development. Since the CSR, Ministers have approved the creation of the Greater Manchester Combined Authority which will enable policies to be co-ordinated on transport, planning, regeneration and economic development.
- 1.4 Core Cities have been lobbying for some time for Accelerated Development Zones and Tax Increment Financing (TIF) and the CSR trailed new powers for local areas to promote growth through implementing TIF. This has now been confirmed in the Local Growth White Paper. This will allow growth in local business rates income to be factored into assessments of affordability of borrowing for specified projects. This approach builds on the success of Greater Manchester in establishing the Evergreen Fund supported by JESSICA (European Regional Development Funds) and leveraging £300m private funding to support projects to promote growth over the next decade.
- 1.5 The CSR also contains proposals for public sector reform which we have been promoting through our work with this and the previous government to enable a more locally flexible approach to connecting more Manchester people to the opportunities created by growth. The CSR covers the removal of all ringfencing of local government revenue grants (except schools grants and public health funding transferred to local government) and the creation of Community Budgets in 16 local areas, including Greater Manchester, to pool or align budgets for families with complex needs. However, as many formerly ring-fenced grants will now be distributed by formula, this could lead to a further reduction in resources coming to the city.

- 1.6 Taken together with the previously announced removal of many national targets and some central inspection regimes (notably the Comprehensive Area Assessment), the changes described above represent some movement towards a more locally driven approach to reform. However, this approach is not consistent across all government departments and it needs to be seen in the context of some centralising aspects, for example, the creation of a National NHS Commissioning Board and a new National Crime Agency.
- 1.7 The CSR and subsequent policy announcements create some opportunities for us to take a more integrated approach to commissioning, which is focused on improving levels of skills in families with complex needs and histories of worklessness, alongside tackling associated problems such as offending, drug and alcohol misuse. The challenge is for us to demonstrate how Local Government can use a local approach to public sector reform to both promote private sector led growth and connect people to growth by improving skills and reducing worklessness and therefore deprivation.
- 1.8 The spending reductions in the CSR have a particular impact on those in receipt of benefits. As well as supporting such residents to cope with these impacts, the Council will seek to use the reforms in the CSR to reduce the proportion of residents in need of benefits.
- 1.9 In many cases, as the report explains, there is insufficient information to properly assess the impact on Manchester residents. Officers will continue to assess the impact of these and further announcements as more detail emerges and will provide advice to Members on how residents might be supported through this period.

2. Welfare Reform

- 2.1 The CSR introduced 16 major changes to benefit entitlements and confirmed roughly 29 changes outlined in the June Budget. The total reduction in payments to Manchester residents, annually from 2014-15, is estimated at £62m¹, however this figure is based on current levels of benefit claimants and does not take into account the projected growth in jobs outlined in paragraph 3.5 or the longer term impact of welfare reform.
- 2.2 The proposals outlined in the CSR, together with details of the Universal Credit will impact on both in-work and out-of-work residents. These reforms, if successfully implemented, confirm a clear policy direction from the government to provide stronger financial incentives to ensure a transition back into work. In Manchester it is imperative we continue with our work to influence the local implementation of the Single Work Programme and ensure that our skills offer reflects the changing demands of employers. (See also para 3.1)
- 2.3 The new Universal Credit will combine all out-of-work income-related benefits with tax credits to form one integrated source of help for all households that

¹ Commission for the New Economy

qualify. This will include Housing Benefit but exclude Council Tax Benefit. Universal Credit will be introduced for new claims from 2013, and the transition period for existing cases will last until April 2017. A Welfare Reform Bill will be introduced in January 2011, and further analysis of the impact on individual households in Manchester will be undertaken once more details are available.

- 2.4 The biggest impact on welfare spend will result from the re-indexation of benefits. From 2011 all benefits (excluding the state pension and pension credit) will be indexed to the Consumer Price Index (CPI) not the (usually higher) Retail Price Index (RPI). This change will save more than £5bn by 2014-15 nationally. It is not yet possible to model the impact of this change on individual or household income in Manchester.
- 2.5 The CSR announced a cap on household benefit payments at around £500 per week for a couple and single parent households, and £350 per week for single adult households. The reform only applies to workless working age households and is designed to ensure that no household receives more than the median after tax income of working families. The interaction of this reform with other caps and cuts depends on individual circumstances and entitlements.
- 2.6 At February 2010, there were 33,975 people in Manchester claiming Incapacity Benefit /Employment Support Allowance (IB/ESA). Reassessment of existing IB claimants will begin in Manchester from February 2011. DWP estimate that the process of reassessing claims will have the following outcomes:
- 25% assessed as fit for work
 - 50% placed in the Work Related Activity Group
 - 25% move to the support group (long term ESA)
- 2.7 Applying this breakdown to Manchester's existing numbers on IB/ESA, could result in around 8,500 people being reassessed as fit for work and moved onto JSA, with a consequent reduction in benefits of approximately £30 per week, if claimants fail to move into work.
- 2.8 From 2012/13, a time limit will be placed on contributory ESA for those in the Work Related Activity Group (WRAG). The WRAG will cover those claimants who are judged to have a medical condition which affects or limits to work, but who are still able to take active steps towards employment. After 12 months ESA will be means tested and only those with lower household incomes who qualify for income-based ESA will continue to receive ESA. This will affect ESA recipients with a household income above the means-tested threshold – likely to be those with savings, other income such as a pension, or a working partner. It is not yet possible to quantify how many people this is likely to affect, but the average reduction in benefit will be at least £100 per week per household, and using population statistics, this would be expected to reduce the income of Manchester residents by around £26 million².

² Commission for the New Economy

- 2.9 Currently 69,184 households in Manchester are in receipt of Council Tax Benefit, representing a third of all households in the city. Funding for Council Tax Benefit will be cut by 10%, and in April 2013 it will be withdrawn completely and replaced with a grant given to local authorities. It is therefore excluded from the proposed Universal Credit. These grants will be lower than current spending on council tax benefit. The government has yet to announce the parameters within which councils can design their own rebate scheme. The city can expect to lose about £5m because of this change. As above, Local Authorities will need to manage the impact of the 10% cut – it does not mean that all households will automatically have 10% cut from their benefit.

3. Employment, Skills and Training

- 3.1 Alongside welfare reform, the second major aspect of the government's approach to combating worklessness is the introduction of a single work programme. This will replace existing employment programmes (such as Pathways to Work), and deliver comprehensive support to help longer-term benefit customers into work. The programme has yet to be finalised, but it is likely that it will be paid on sustainable job outcomes, based on savings in benefits with a higher proportion paid for harder to support clients.
- 3.2 In our response to the 21st Century Benefits welfare reform consultation, we stressed that stronger recognition needed to be given to the role that Manchester City Council and partners locally can play in the development and delivery of the Work Programme. We are working with DWP to try to build local flexibility into the commissioning and delivery of the work programme, to ensure that the prime contractors work in an integrated way with other local partners and service providers to give the best chance of creating and sustaining work opportunities for our residents. Our knowledge of local areas and of what works for our communities can make a substantial difference to the effectiveness of the Work Programme.
- 3.3 Manchester has 35.1% of residents aged between 25 and retirement without a Level 2 and 52.7% without a Level 3 qualification, compared to national averages of 31.1% and 50.4% respectively. Entitlement to free training for a first full level 2 qualification, for those over 25 is to be removed and Further Education students aged 24 and over studying for a level 3 qualification will be asked to pay fees.
- 3.4 7,944 young people in Manchester receive Education Maintenance Allowance, which is paid to 16-19 year olds to support them in continuing their education. The scheme will close to new applicants from January 2011. Those currently in receipt will continue to receive it for the rest of the academic year. Details of the targeted support expected to replace EMA are yet to be announced, but is currently expected to be an increase in Learner Support funding, with a 90% cut in funding compared to existing expenditure.
- 3.5 In 2008/9 1299 Mancunians aged 18 or 19 entered Higher Education. Universities will be able to increase student fees to a maximum of £9000 per annum. Legislation enabling this change is to be brought forward as soon as

the parliamentary timetable allows. Students from families with the lowest incomes will be supported through higher education via a National Scholarship fund of £150 million a year by 2014/15.

- 3.6 Government announced an increase in adult apprenticeship funding by £250m a year by 2014-15. We will need to work locally to engage businesses with the new opportunities created, and to ensure apprenticeships are aligned with potential growth sectors such as creative, financial and professional services. In Manchester, this could benefit some residents by strengthening non-academic routes to work.
- 3.7 The CSR projected public sector job losses of 490,000 and Pricewaterhouse Coopers have suggested that a further 400,000 private sector jobs will be lost at companies that do business with the government. Assumptions made by the Office for Budget Responsibility indicate that 5,100 jobs will be lost across Manchester in public administration, education, and health over the next five years. The Greater Manchester Forecasting Model forecasts that there is potential for significant private sector job growth to more than offset this, with 28,800 new jobs forecast in the private sector in Manchester over the same period, although, the evidence suggests that the number of jobs will only return to pre-recession levels in Greater Manchester by around 2013.

4. Housing

- 4.1 A consultation on the New Homes Bonus was published on the 12th November. £900 million has been set aside to fund the bonus, which will be taken from the abolished Housing Planning Delivery Grant, topped up from the Local Authority Revenue Support Grant. The Bonus will match fund Council Tax for 6 years, with additional premiums for affordable homes. Estimates for likely new homes completions are difficult due to housing market conditions but we estimate this measure may provide £10 million pounds in Manchester, over the 6 year period which could be applied to support housing development. The New Homes Bonus is also intended to apply to empty homes brought back into use.
- 4.2 We are still waiting on further details on some of the housing announcements in the CSR. For example, £100m has been allocated to bring empty homes back into use; Government will continue to provide £200m to retain the Mortgage Rescue Scheme.
- 4.3 The CSR announced the introduction of intermediate rental contracts. Full details of this scheme, whereby social housing rents for new tenants will rise to 80% of the market rent, will be available in January 2011. We will want the ability to influence the application of this policy locally. Initial analysis demonstrates a wide gap between the level of social rents and market rents in Manchester. Depending on property size, the percentage increase from a social rent to an 80% of market rent would be between 80 and 128%. For example a 3 bedroom home would increase from £65.14 (council rent) to £120

- 4.4 65,040 people claim Housing Benefit in Manchester, of whom the majority (75.9%) are in the social rented sector and will not be affected by the reform to restrict Local Housing Allowance payments to the 30th percentile. Social housing tenants of working age who are under-occupying properties will be affected by changes announced earlier this year to reduce housing benefits to match household size. We do not yet know how many people will be affected by this change. Overall, it is estimated that changes to Housing Benefit (including those announced in the Emergency Budget) will lead to a drop in almost £16m of payments to around 10,000 Manchester households, with those in the largest properties losing an average of £32 a week.
- 4.5 Manchester currently has 3,370 residents claiming JSA for 12 months or more, the Emergency Budget announced that from April 2013 these people will have their Council Tax Benefit and Housing Benefit cut by 10% if they remain on Jobseeker's Allowance for longer than 12 months. The interaction of this announcement with the changes set out in paragraph 2.9 is not yet clear.
- 4.6 Increases in non-dependent deductions will have a substantial impact on Housing Benefit claiming households. Further work is ongoing to establish the scale of changes for Manchester residents.
- 4.7 The shared room LHA age for single people will rise from 25 to 35 in 2012. The current weekly LHA rate for a 1 bedroom home is £107.01 and the single room rate is £65. Current estimates are that 1,150 Manchester residents will lose an average of just over £35 per week.

5. Families and Children

- 5.1 The Government has set a clear policy direction to focus on complex families, and to tackle the cycle of dependency characterised by inter-generational worklessness by moving people back into work. This is consistent with our approach in the City, and set out in the Greater Manchester Strategy, supporting our approach to public sector reform and integrated commissioning. Community Budgets focused on family intervention are being introduced, including in Manchester. The refocusing of Sure Start on the life chances of disadvantaged children will continue.
- 5.2 More than one in three children in Manchester is growing up in a household with parents who do not work. Manchester's child poverty rate stands at 44% - double the national figure. For low income families, a higher proportion of their overall income comes from child benefit, and as a result the freeze on child benefit levels will have a greater impact on their living standards. However this should be offset, at least until 2013, by the increases in child tax credit.
- 5.3 Almost 56,000 families in Manchester are in receipt of either Child Tax Credit or Working Tax Credit. From 2011 the per child element of the Child Tax Credit will go up by £30, then £50 in 2012.

- 5.4 The basic and 30 hour elements of Working Tax Credit are to be frozen from April 2011 for 3 years, saving £625m. Couples will be required to work a minimum of 24 hours between them, with one person working for a minimum of 16 hours (currently only the last of these conditions applies).
- 5.5 The Child Care element of Working Tax Credit will be reduced to 70% from 80%, saving £385m. At national level, 60% of people claiming childcare tax credit are single parents.
- 5.6 Measures in the Budget increased the rate at which benefit is withdrawn as income rises from 6.67% to 41% and lowered the income disregard from £25,000 to £10,000 in 2011-12 to £5,000 in 2013-14. This means that withdrawal of Tax Credits starts at a lower income level and more will be withdrawn progressively from all those on incomes above this threshold level.
- 5.7 The net impact of these changes to Manchester households is estimated at a £7.7m reduction³.
- 5.8 Although there is an apparent real term increase in schools expenditure this is insufficient to meet demographic pressures, and both the pupil premium and proposed national funding formula could lead to budget reductions for Manchester schools.

6. Pensioners

- 6.1 There are 50,420 people over 65 years of age in Manchester.
- 6.2 The basic State Pension is to be uprated by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from 2011. The date at which the State Pension Age will start to rise (for both men and women) to 66 will be brought forward to 2018. This will impact on eligibility for other entitlements including Winter Fuel Allowance which track state retirement age. However, the change in indexation of other pensions from RPI to CPI will hit thousands of pensioners, and future pensioners, in the city.
- 6.3 The Government is preserving key benefits for older and vulnerable people, including Winter Fuel Payments, free eye tests, prescriptions, TV licences, and statutory entitlement for concessionary bus travel. They have also made permanent the temporary increases to Cold Weather Payments provided in the past two winters, so that eligible households receive £25 for each seven day cold spell recorded or forecast where they live.
- 6.4 The Pension Savings Credit is to be frozen for four years from April 2011 – Savings Credit is a way of rewarding older people for saving for their old age, thereby encouraging financial planning, responsibility and resilience. This will also impact on HB/CTB awards for the 65+ age group as they will not be uprated by as much as they would otherwise have been.

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7. Adults

- 7.1 There are currently 46,000 adults in Manchester in receipt of a social care type service, including carers. Within an overall reduction in funding, grant funding for social care is to be increased by up to £1bn. Initially the government will allocate £530m in 2011/12, rising to £1bn in 2013/14 and further additional £1bn funding from the NHS budget to fund social care and promote joint working between the NHS and Councils.
- 7.2 There is some debate as to whether the funding for social care announced in the CSR will keep pace with demographic pressures. The government have used a figure of a 1.9% increase, whereas the LGA believe a 4% increase is necessary to match the country's ageing population
- 7.3 Nationally, £135m will be saved by cutting the Mobility Component of Disability Living Allowance for people living in residential care. There are 33,570 people in Manchester claiming Disability Living Allowance, of which 29,430 claim Mobility Allowance. We have 1,579 people in residential care, but do not currently keep data on whether these are in receipt of Mobility Allowance.
- 7.4 The CSR made a commitment to providing £6 billion for Supporting People. This represents a 12% budget reduction for Supporting People. This grant will be non-ring fenced. It will be important that Manchester influences the formula used for calculating payments going forward.

8. Transport

- 8.1 The government has made positive announcements on rail improvements, including a national high speed rail network. More detail is awaited on local schemes including cross city bus scheme, park and ride and others. A £560m local sustainable transport fund is being created, enabling local authorities outside of London to bid for funding packages that support economic growth and reduce carbon emissions in communities.
- 8.2 The statutory entitlement for concessionary bus travel for pensioners is confirmed, though there is also a commitment to reducing bus subsidies paid directly to operators by 20 percent. Along with the increase to the cap on regulated rail fares to three per cent above RPI for three years (to support investment in new rolling stock), this could mean an increase of 21% in the cost of rail travel as well as rises in the cost of bus travel.

9. Culture, Arts and Museums

- 9.1 Reductions have been announced in funding from the Department for Culture, Media and Sport of an average of 30% to national Cultural Bodies, 15% to National Museums and 14% to the Renaissance programme. The full implications will not be known until cultural organisations have considered how to accommodate these reductions. There will be some compensation through changes to the National Lottery programme which will come in to place in 2012 and other schemes which may benefit the city in the longer term.

- 9.2 The closure of the North West Development Agency has implications for the cultural sector, particularly the reduction in sponsorship for major events, festivals, tourism activity, museums world-class programming and contributions to capital developments. RDA funding for tourism and international programming will cease. Museums will not have access to regional funds to support the quality of the artistic programme and associated marketing, which impacts on the tourism economy. Levels of funding available to the LEP in Greater Manchester are unlikely to replace this scale of support.
- 9.3 The Arts Council faces a 29% reduction over four years, and has confirmed a reduction in funding for the Regularly Funded Organisations of 6.9% in 2011/12. This is a reduction of £670,000 of investment in Manchester. A number of arts organisations currently receive funding via AGMA, with these grants to be maintained at their current level to June 2011. A fundamental review to be completed by the end of February will determine which organisations will be funded beyond that date and at what level. The current level of AGMA funding to arts organisations in the City of Manchester is £2.28 million.
- 9.4 Free entry status will be protected to National Museums of which Manchester currently has one - MOSI. National museums will face a cut of 15% over 3 years, as will the DCMS allocations to the People's History Museum and National Football Museum. The Renaissance in the Regions programme will be subject to a 14% cut next year amounting to £107,000 in Manchester.
- 9.5 There will be a 33% reduction in funding to Sport England over 4 years - 30% revenue funding and 40% capital funding. Detailed impacts are not yet known, but our ability to leverage investment for sports development and future capital projects may be affected. UK Sport and Sport England are to merge and there will also be a further reduction in UK Sport funding of 28%. Again the impact of this on Manchester residents is not known at this stage. The Sports Minister has indicated that some lost exchequer funding will be replaced through National Lottery funding. Increasing the sports allocation from 16.6% to 18% would generate £50m in the next 3 years.
- 9.6 There has been a reduction in funding for School Sports Partnerships via the Youth Sport Trust, to commence in August 2011. The impact of this to Manchester is approximately £1.5 million per year. Some elements of the funding will be directed into direct grants to schools. The early indication is that in real terms it will mean a £1 million reduction in funding to Manchester schools.

10. Conclusion

- 10.1 The Spending Review represents a significant shift in spending priorities alongside unprecedented budget cuts. Detailed impacts for the city and its residents will continue to be evaluated as further detail becomes available over the coming months.