

**Manchester City Council
Report for Information**

Report To: Executive – 22 December 2010
Subject: Provisional Local Government Settlement
Report of: City Treasurer

Summary

This report informs Executive of the key funding announcements in the 2010 Provisional Settlement and make a preliminary assessment of the impact for the City Council.

Recommendations

The Executive is requested to:

- note the contents of the report and authorise the City Treasurer, in consultation with the Executive Member for Finance and Human Resources, to respond to the consultation paper and take whatever steps are necessary to represent the City Council's interests.
- Advise the Chairs of Overview and Scrutiny Committees that, in the light of the changes to Business Plans now necessary, these will be unavailable for scrutiny in early to mid January

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 preliminary implications of the provisional settlement on the overall funding position for the next two years. It cuts across all the spines in 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 full impact of the Provisional Settlement 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.
- Risk Management – A reduction in funding to the levels announced will inevitably bring with it risks. These will be identified through the business planning process and where possible mitigating actions identified
- Legal Considerations – there are no specific legal considerations contained within the report. The legal basis for setting the Council budget for 2011/12 will be reported to Executive as part of the Budget process.

Financial Consequences – Revenue and Capital

This has been an extremely complex financial settlement and the full detail behind the headlines is still being worked through to enable more scrutiny alongside understanding some of the implications. Further detail on the implications on departmental budgets and Manchester City Council residents will be reported at a later Executive as part of the Budget and Business Planning process.

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Background documents (available for public inspection):

None

INTRODUCTION

1. The purpose of this report is to summarise the key announcements made in the Local Government Provisional Finance Settlement announcement on 13th December. It will focus on the financial implications and the potential impact on Manchester residents.

LOCAL AUTHORITY FUNDING

2. The provisional settlement consultation was announced on 13th December 2010. It provides Local Government with provisional funding allocations for the two years 2011/12 and 2012/13. The consultation will close on Monday 17th January 2011 with the final settlement expected to be confirmed in early February. A further two year settlement is expected for the remainder of the Comprehensive Spending Review (CSR) period (2013/14 and 2014/15) after the outcome of the Government review of financing local government.
3. Figures included within the provisional settlement are based upon the Comprehensive Spending Review (CSR) cash limits outlined in the October report where formula grant cuts were identified at 28% (average 7% per annum) over the CSR period. The CSR report data for local government inferred significantly front loaded cuts for local government and this has been confirmed in the provisional settlement.
4. National formula grant funding for councils will reduce by 12.1% in 2010/11.
5. Over £4bn of grants have been rolled into formula grant. Largely these will be allocated using the funding formula. £2.03bn grants will be introduced using a tailored distribution. Revenue funding streams have been reduced from over 100 to approximately a dozen. Only the Direct Schools Grant remains ring fenced for local authorities and a new public health grant from 2013.
6. There will be four main non ring fenced grants, Early Intervention Grant for Children's Services, a grant to reflect the transfer of responsibilities from NHS to local authorities for learning disability services (the Learning Disability and Health Reform Grant), the Preventing Homelessness Grant and the Housing and Council Tax Benefits Administration Grant. These all replace existing grants, rather than representing additional funding.
7. Government have developed a new definition "Revenue Spending Power" by which to identify the level of cuts experienced by authorities. The spending power is the aggregate of an authority's council tax requirement, formula grant, the non ringfenced grants referred to above and a further transfer of funding due from the NHS for social care. There are a number of exclusions from this definition such as the Direct Schools Grant.
8. Based upon the spending power the Secretary of State announced average local authority grant reductions of 4.4% with no authority to experience reductions of more than 8.9% in 2011/12. For those authorities experiencing cuts beyond this level an £85m Transition Grant has been introduced for 2011/12 and £14m in 2012/13. Manchester is one of the local authorities with a reduction of over 8.9%.

with the second highest reduction in the country at 11%, and will receive one-off Transition Grant in 2011/12.

9. Damping will continue but with four banded floors for Education / Social Service authorities ranging from -11.3% to -14.3% in 2011/12 and in 2012/13 ranging from -7.4% to -10.4%. Authorities are ranked based upon the extent to which they are reliant on Government funding and then placed in one of the bands.
10. Scaling to fund authorities below the floor has been set at -71.4% in 2011/12 and -71.7% in 2012/13.
11. Government decisions made following the Formula Grant consultation will also have a distributional effect on funding across councils from data changes, adjustments to the weights of the blocks within the grant model and decisions on transfers such as concessionary fares and social care funding.
12. It appears likely from the settlement that government would like the capping limit for council tax to be very close to 2.5%. This will be published with the final settlement in February. However there is a grant that will be paid to compensate local authorities for having a zero council tax increase in 2011/12, based on the difference between 2.5% and 0%. There is currently only a commitment to pay this grant for the 4 year period of the CSR.
13. The redistributive amount of business Rates will be £19bn in 2011/12 compared with £21.5bn in 2010/11.

ABG FUNDING

14. Of the £2.8bn ABG distributed nationally in 10/11 £1.3bn has rolled into the formula grant base, £757m has rolled into Early Intervention grant, £693m has ended and the home Office element totalling £77m nationally are to be reviewed in January 2011.
15. Supporting People Grant totalling £1.6bn was previously received via ABG but will be rolled into formula grant. This has decreased nationally by £11m. The way in which this funding is now distributed has changed. This change has caused a significant shift in funding between authority areas. London Council's see an increase of almost £39m whilst Metropolitan and Shire authorities see reductions of £29m and £21m respectively. Locally, Manchester has seen a reduction of 35% next year.

SCHOOLS AND CHILDREN'S SERVICES

16. There will be a pupil premium nationally of £625m, £430 per pupil for Looked After Children. Schools with service children will receive £200 per child.
17. Minimum Funding Guarantee set at negative 1.5% so no school will lose more than 1.5% in per pupil funding before applying the pupil premium.
18. Early intervention grant will include £64m to prepare for extending free early education to disadvantage two year olds by 2013.

19. £198m has also been included for short breaks for disabled children.
20. Grants for home to school transport and music have ended.
21. £148m and £265m in 2011/12 and 2012/13 respectively, is being removed from formula grant to pay for central education functions for academies.

ADULT SOCIAL CARE

22. The specific grant Learning Disability and Health Reform amounting to £1.325bn in 2011/12 and £1.357bn has been introduced to transfer learning disability funding from health to social care.
23. All other funding relating to adult social care including preserved rights, supporting people and the extra personal social services funding announced in the CSR has been rolled into formula grant.

HOUSING

24. The Localism Bill has been announced and details of the reform of the housing finance system are contained within it.
25. Landlord Councils are to be given financial independence from April 2012. There will be a one off debt settlement with most councils taking on higher levels of debt from this point. The control of 75% of the Right to Buy receipts will remain with the Treasury. PFI payments will remain in the subsidy system.

IMPLICATIONS FOR MANCHESTER

26. With all the changes to the different funding streams and amendments to the formula and damping arrangements, this has been an extremely complex financial settlement and the full implications on the budget are still being worked through.
27. Using the figures in the settlement, Manchester would have received an 11% funding reduction in its 'Revenue Spending Power' as defined in paragraph 6 above, for 2011/12. In reality this figure will be higher as not all of the funding streams have been included in the baseline published in the settlement. There will be a one-off transition grant of £13.3m in 2011/12 to cap the reduction in 'Revenue Spending Power' at 8.9%.
28. Due to the new method of distributing supporting people funding within formula grant, Manchester's supporting people funding has reduced by £12.6m 35%.
29. Manchester will also receive an ongoing grant of £3.445m (only currently guaranteed for the 4 years of the CSR) if it freezes council tax for 2011/12. This is already included in the revenue spending power figures.
30. There will be a further funding reduction of 6% in 2012/13, bringing the overall reduction across the two years to 16.4%. However as stated above, when all of the changes to all government grants are taken into account the budget reduction could be nearer 25%.
31. Overview and Scrutiny Committees have recently been selecting those Business Plans they wish to subject to detailed scrutiny at their January meetings. In the

light of the financial settlement, these will now need to be redrafted and will be unavailable for scrutiny at the normal January meetings. Strategic Directors will need to liaise with Scrutiny Chairs to re-timetable this work for either February meetings or, possibly, special meetings in late January/early February.

CONCLUSION

32. The Local Government Provisional Finance Settlement represents an extremely difficult and complex settlement for Local Authorities at a time of increasing cost pressures in areas such as adult social care, child protection and waste management together with shifting burdens from health to local government. Detailed impacts for the city need to be further evaluated over coming months. This will be the subject of further reports to the Executive.