

**Manchester City Council  
Report for Resolution**

**Report to:** Executive – 23 January 2013

**Subject:** Budget 2013/15 – A Strategic Response

**Report of:** The Chief Executive, the City Treasurer and the City Solicitor

**Purpose of the Report**

This report sets out the implications for the City Council of the Provisional Local Government Settlement for 2013/15, and identifies a strategic framework to guide the detailed development of a budget strategy for 2013/15. This report should be read in conjunction with other reports on the agenda, culminating in a report from the Statutory Officers on the issues which need to be taken into account prior to the Council finalising its budget for 2013/14.

**Recommendations**

The Executive is requested to:

- (i) Note the impact on the City as a result of the provisional Local Government Settlement as it affects Manchester
- (ii) Consider the other budget reports on the agenda in the context of the overarching framework of this report, the results of which are consolidated into the Revenue Budget 2013/15 elsewhere on the agenda

**Wards Affected:** All

<b>Community Strategy Spine</b>	<b>Summary of the contribution to the strategy</b>
Performance of the economy of the region and sub region	This report sets out the Strategic Framework for the delivery of a balanced budget for 2013/15. The Framework is aligned to the priorities 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 – 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**

Elsewhere on the agenda are the Revenue Budget Report for 2013/15, the three Directorate Budget Proposal Reports, the Capital Programme Report and the Treasury Management Strategy for that period. This report provides the framework for Revenue and Capital planning for the two years 2013/14 and 2014/15.

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### **Background documents (available for public inspection):**

None

### Background

1. In February 2012, the Council approved a Medium Term Financial Plan (MTFP) for 2012/13 and set out the likely financial parameters, following the Comprehensive Spending Review for 2013/15. The report set out the strategic priorities for the Council and the budget principles used to set out the strategic framework for the difficult decisions to achieve the required budget reductions estimated to be in the region of £55m to £80m over the 2013/15 period. The principles set out how the Council would, within the reduced resources available, continue to implement the priorities for growth, service improvement and a better quality of life for Manchester residents.
2. Since the preparation of the report there has been a refresh of the Community Strategy with the development of a new strategic narrative for the City. A partnership engagement process has been carried out and the narrative, along with the feedback from the engagement process, to be reported to the Executive and the Council. This will provide the framework for the Medium Term Financial Strategy and the overall budget consultation process. The narrative sets out the ambition for the City and its residents, and the need to achieve better outcomes from total public sector spend. This will inform some of the difficult decisions that have to be made as a result of the financial settlement and the prioritisation of the Council's resources.
3. This report sets out the overall financial context, including the impact of the provisional Financial Settlement received on 19 December. It then sets out how the Council intends to respond to these challenges.

### Financial Context

4. The CSR for 2011/12 to 2014/15 outlined real term reductions of c28% in Central Government funds for public services. Local authority core funding is set to fall from £28.5bn in 2010/11 to £22.9bn in 2014/15. Further announcements on public sector pay, with a cap of 1% for 2013/15, were made as part of the Autumn Statement in 2011 (with an associated further reduction in funding of £445m), along with an indication that further cuts to resources would be made in 2015/16 and 2016/17 in line with the average reductions identified in the CSR 2011/15. With the Government electing to recast and remodel several funding streams in 2012/13, the effective funding reductions across 2012 to 2015 will be higher than those suggested at the time of the 2010 CSR.
5. The impact of this has been that the Council has faced significant funding reductions from 2010/11 with an overall reduction in the Council's budget of 28% during this period. This combined with the increased cost of the levies for Waste and Transport has led to a 37% reduction in the resources available to support the Directorate net revenue budgets.

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Resources Available	696	581	546	538	499
Calls Against Resources Corporate Items (Levies, Contingencies & Capital Financing)	106	108	118	125	128
Departmental Costs	590	473	428	413	371
Total Calls Against Resources	696	581	546	538	499
FTE Reduction		1681	344	562	268

6. In addition, there have also been considerable changes to how local government is funded including:
- Local Government Resource Review and the partial re-localisation of business rates
  - Changes to the Council Tax system with the localisation of council tax support and associated reduction in funding, the resultant changes to how the tax base is calculated and the ability to generate income locally through Council tax charges
  - Reform of the funding arrangements for schools from 2013/14
  - Transfer or responsibility for public health functions from 1 April 2013
7. The City Treasurer made an initial assessment in February 2012, of what the overall financial position may look like, taking into account both the likely longer term funding reductions and the changes to how local government will be financed. This identified that the Council would need to find between £55m and £80m by the end of the two year period.

#### The Autumn Statement

8. The Autumn Statement published on 5 December set out the continuation of austerity measures into the next parliament and the forecast for UK GDP growth was revised downwards. In addition the government will not be able to reach its deficit reduction targets; with an estimate that national debt will not start to fall as a proportion of GDP until 2016/17.
9. There are potentially some positive elements within the Autumn Statement. It did recognise that local leaders and businesses are best placed to set the strategic direction for their areas, alongside a commitment to devolve funding responsibility on key areas of activity. However a definitive response from Government to the proposals in the Lord Heseltine review is awaited. There was also some additional funding announced to support investment in infrastructure of up to £20m in each economic area. This is to be funded from the further reductions in Government spend also announced in the Statement.

10. Government departmental budgets will be reduced by a further 1% in 2013/14 and 2% in 2014/15. Local government will not be included in the 1% public sector spending reduction for 2013/14. This is because (a) resources have already been reduced by “a comparable amount” with the decision to freeze Council tax in 2013/14, and (b) to provide an incentive for local authorities to invest in reform to deliver further savings and to transform service delivery through initiatives such as Community Budgets. Local government will be included in the 2014/15 reduction of 2%. This further reduction was estimated to lead to a further loss of funding of between £6m to £10m for Manchester and confirmed that the level of savings required would be nearer the £80m.
11. The Autumn Statement confirmed that the next spending review will take place during the first half of 2013, in which departmental spending plans for 2015/16 will be set out. The reductions for local government are anticipated to be at a similar scale to those in the current spending review.

### The Financial Settlement

12. The Government published the provisional local government finance settlements for both 2013-14 and 2014-15, alongside a consultation on the 2013-14 settlement, on the 19 December 2012.
13. The settlements for both years are broadly as expected, which leaves the Council with the expected c. £80m funding gap in 2014-15. There is still some information outstanding and the position may change slightly. In addition there is a lot more volatility in the funding system and the overall position may change, particularly in 2013/14 as the estimate of business rates likely to be received is finalised. The main elements of the settlement are:
  - The Start Up Funding - the total amount of funding allocated to the authority provided through the estimated business rates share and formula funding including grants which have been rolled into it
  - Specific grant funding not included in the Start Up Funding
  - Spending Power calculation - the Government has retained the spending power calculation to establish the overall impact on local authority funding. This includes the Council Tax requirement, New Homes Bonus, the Start Up Funding, most Specific Grants (the specific grants table at paragraph 24 shows which are included in the Spending Power analysis) and NHS funding for social care that also benefits health.
14. The report goes through each of these areas.

### *Start-Up Funding*

15. The start-up funding represents the total amount of funding allocated to the authority provided through the estimated business rates share and formula funding including grants which have rolled into it. The provisional settlements indicate start-up funding allocations of £390.915m in 2013-14 and £354.038m in 2014-15. This is a fall in equivalent funding of 7.0% between 2012/13 –

2013/14 and 9.4% between 2013/14 - 2014/15. A breakdown of the start-up funding, including the grants which have now rolled into it, is shown below.

16. CLG have adjusted the 2012/13 figure. The 2012/13 base has been adjusted for a number of the funding reductions that start in 2013/14 including the 10% reduction in Council Tax Support Funding, the reduction in Early Intervention Grant or EIG (although interestingly this has been reduced to £25.3m rather than the £22m allocated to Manchester) and the reductions in Preventing Homelessness and Flood Authority grants. These reductions have a significant impact on the reduction in funding the Council is perceived to have received.
17. In addition the figure has been adjusted for the notional adjustment for Local Authority Central Spend Equivalent Grant (LACSEG), the funding transfer made for support costs when schools convert to academy status. In 2013/14 the Government has removed all funding for LACSEG from the start-up funding, which for Manchester equates to a reduction of c. £9.9m. Officers currently estimate between £5.8m and £7m will be returned to the Council, although this will not be confirmed until much later in the financial year.

<b>Grants included in start-up funding:</b>	2012/13 (£m)	CLG Adjusted Figure (£m)	2013/14 MCC allocation (£m)	2014/15 MCC allocation (£m)
Formula Grant <sup>1</sup>	326.91	326.91	311.45	} 312.981
LACSEG Adjustment	-5.80	-9.93		
Council Tax Support Grant	42.31	37.387	37.387	
Council Tax Freeze Grant 2012/13 (one-off)	3.552	3.552		
Council Tax Freeze Grant 2011/12	3.502	3.502	3.502	3.502
Early Intervention Grant	31.172	25.300	22.000	20.598
Preventing Homelessness	1.369	1.203	1.203	1.203
Lead Local Flood Authority Grant	0.217	0.134	0.134	0.134
Learning Disability Grant	14.837	14.837	15.241	15.62
<b>Start-Up Funding</b>	<b>418.069</b>	<b>402.895</b>	<b>390.917</b>	<b>354.038</b>
Year on Year Reduction - To unadjusted figure (£m)			-27.152	-36.879
Year on Year Reduction - To unadjusted figure (%)			-6.5%	-9.4%
Year on Year Reduction - To Adjusted figure (£m)			-11.978	-36.879
Year on Year Reduction - To Adjusted figure (%)			-3.0%	-9.4%

<sup>1</sup> Excluding changes in council tax taxbase, i.e. growth.

18. In the past, the settlement would have contained details on assessed grant and the funding position would be known. With the new LGRR arrangements a significant proportion of the authority's income will come from retained business rates and the position in both years is dependent on the Council's

ability to raise and collect the expected business rates income. This is highlighted in the table below:

	13-14	14-15
	£m	
Revenue Support Grant (RSG)	234.746	193.078
Retained Business Rates Income	148.938	153.506
Business Rates Top-up	7.232	7.454
<b>Total Start-Up Funding</b>	<b>390.916</b>	<b>354.038</b>

19. The government have assumed a level of business rates for Manchester looking at the average position from the previous two years returns with an assumed level of growth built in. It is not clear what methodology they have used to make this calculation. The actual calculation made by the Council will need to consider the position as at September 2012 and add in assumptions for growth, collection rates and outstanding appeals. There are significant risks associated with these assumptions.
20. Current forecasts of retained business rates income suggest it will be lower than that forecast by CLG although an exact amount is difficult to quantify due to the lack of any meaningful information relating to outstanding appeals. The total aggregate Rateable Value in Manchester in September 2012 was £857.805m from 23,362 hereditaments. Based on data from the Valuation Office (VOA) at the end of October 2012 there are:
- 297 properties with outstanding appeals which relate to the 2005 rating list with a rateable value (RV) of £57.7m. The RV is not the 'at risk' amount, but the cost of any successful appeals may be considerable as some appeals could be backdated to April 2005 and payable with interest. Officers estimate that each £1m of RV successful appealed, if backdated to April 2005, could cost the local authority £2.0m.
  - 3,138 properties with outstanding appeals against the 2010 rating list with a total RV of £526.2m. Officers estimate that each £1m of RV successful appealed, if backdated to April 2010, could cost c. £0.9m.
  - In total, appeals of value £583.9m remain outstanding against both the 2005 and 2010 lists.
21. The Department for Communities and Local Government have always accounted for appeals on a cash basis (ie what happens in each year). Under the new arrangements Local Authorities will need to account for this on an accruals basis (ie will need to make provision for their 50% share of the total historic risks of non collection and appeals). Therefore in the first year there will be a significant 'hit' against the level of business rate income accounted for as the accrual will have to be made in full. As can be seen above, and without interest being accrued, if 5% of the RV of the current outstanding appeals is upheld and the costs split equally between central Government and the Council, this equates to a c. £27.8m fall in funding for the Council.
22. The issue has already been raised with CLG who have made an allowance for historic appeals in their figures by depressing the level of start up business

rate income assumed. An urgent meeting has been held with VOA to try and get more accurate intelligence for the Manchester Appeals. Whilst further information is being provided on the details of the outstanding appeals, there is very little information available on their timing. Until this information is received there is no way of knowing whether the CLG adjustments are sufficient. A further risk is that if a number of authorities end up predicting they will breach their safety net because of the outstanding appeals the national top-slice of £25m is likely to be insufficient. The government are then likely to claw back the additional liability in some way.

23. There is still a lack of clarification about how these issues will be treated and accounted for. The current estimate, based on the above analysis of outstanding appeals and assuming that the total liability will need to be accrued for in 2013/14, is that Manchester will collect £138.171m (after taking into account all of the risks associated with non collection and appeals) against the start up funding assumption of £148.948m – a shortfall of £10.78m. The safety net is set at £11.7m. This is an issue for 2013/14 only when the accrual will need to be made. The size of the safety net is also a cause for concern as it draws from the start-up funding allocation and therefore penalises more deprived authorities which have a heavier reliance on RSG.

*Specific Grants*

24. The table below shows the other specific grants, not in the Start Up Funding above, for which 13-14 allocations have been published.

<b>Specific grants with published allocations</b> (as at 27-12-12)	2013-14 MCC allocation (£m)	2014-15 MCC allocation (£m)
<b>Specific Grants within the Spending Power Calculation</b>		
Community Right to Bid	0.008	0.008
Community Right to Challenge	0.009	0.009
Local Reform & Community Voices	0.467	0.481
Social Fund – programme administration	0.575	0.527
Lead Flood Authority	0.084	0.084
<b>Sub Total</b>	<b>1.143</b>	<b>1.109</b>
<b>Other Items within the Spending Power Calculation</b>		
Council Tax Freeze Grant 2013/14	1.44	1.44
NHS funding to support social care and benefit health	9.542	9.998
<b>Items not in Spending Power Calculation</b>		
Council Tax Benefit Transition Grant	0.997	0
Council Tax New Burdens Grant	0.462	0.353
Housing Benefit Subsidy Admin Grant	5.649	No info for 14-15



*Public Health*

25. The public health White Paper, *Healthy lives, Healthy People: Our strategy for public health in England* set out the vision for a reformed public health system in England. The Health and Social Care Act 2012 transfers substantial health improvement duties to local authorities from 2013/14. Local authorities have been given a ring-fenced public health grant, which takes into account estimates of baseline spending, including from PCT recurrent resources and non-recurrent resources, such as the pooled treatment budget and drugs intervention programme, and a fair shares formula based on the recommendations of the Advisory Committee for Resource Allocation.
26. The public health grant is being provided to:
- improve significantly the health and wellbeing of local populations
  - carry out health protection functions delegated from the Secretary of State
  - reduce health inequalities across the life course, including within hard to reach groups
  - ensure the provision of population healthcare advice.
27. The allocation was confirmed on 10 January and officers are working through the detail. The allocation for Manchester is £40.105m for 2013/14, rising to £44.116m in 2015/16. This funding should cover the costs of the functions transferring.
28. The following are yet to be confirmed:
- The return of the unused New Homes Bonus top-slice for 2013/14 – an announcement expected early January. It will be returned pro-rata to the Local Authorities start up funding so an estimate of the amount has been made and is included in the budget
  - LACSEG top-slice recoupment (ie the top-slice for the costs that transfer when a school converts to an Academy) – more details are expected with the DfE funding announcement early in January. As the recoupment is linked to the actual number of pupils in schools that transfer to academy status the position can only be estimated and will change during the year
29. Therefore the overall position for the Council is still subject to change.

*Spending Power*

30. The Government has retained the spending power analysis used during the previous two local government finance settlements to establish the overall impact on local authority funding.
31. The spending power calculation tracks five income streams for individual local authorities between 2012-13 and 2013-14. The streams are:
- a. The council tax requirement for the given year (the Government has assumed that councils will decide to freeze their Council tax at 2012-13

levels in each of the subsequent two years therefore it includes the 2012/13 Council tax requirement with the provisional £1.4m allocation of council tax freeze grant);

- b. New Homes Bonus funding allocated (this does not include funding expected to be returned - a topslice of £500m from RSG has been made nationally to meet NHB costs of which it has been estimated £88.6m will not be required and will be returned to local authorities). The indicative figure for 2014/15 assumes that the growth for 2013/14 will occur again.
- c. The start-up funding assessment for the given year;
- d. The level of specific grants for the given year; and
- e. NHS funding for spend on social care that also benefits health.

32. The table below sets out the position for Manchester using the information published in the Settlement.

	2012/13 £m	2013/14 £m	2014/15 £m
Council Tax Requirement 2012/13	142.158	142.158	142.158
Council Tax Freeze Grant 2012/13	3.554	0.000	0.000
Council Tax Freeze Grant 2013/14 - 2014/15	0.000	1.440	1.440
Start up Funding Assessment	402.382	390.915	354.038
New Homes Bonus	4.653	5.524	6.396
Specific Grants	1.178	1.142	1.107
NHS Funding to Support Social Care	7.064	9.542	9.998
<b>Total</b>	<b>560.989</b>	<b>550.721</b>	<b>515.137</b>
Year on Year Reduction (£m)		-10.268	-35.584
Year on Year Reduction (%)		-1.8%	-6.5%

33. The table on the following page shows the percentage cuts in Spending Power for England, and across Greater Manchester:

	13/14 Spending Power reduction	14/15 Spending Power reduction	Overall Reduction
<b>England</b>	<b>-1.7%</b>	<b>-3.8%</b>	<b>-5.5%</b>
Bolton	-1.8%	-4.9%	-6.6%
Bury	-2.4%	-4.0%	-6.3%
<b>Manchester</b>	<b>-1.8%</b>	<b>-6.5%</b>	<b>-8.2%</b>
Oldham	-1.9%	-5.6%	-7.4%
Rochdale	-2.3%	-5.1%	-7.3%
Salford	-1.0%	-4.7%	-5.6%
Stockport	-2.3%	-3.5%	-5.6%

	13/14 Spending Power reduction	14/15 Spending Power reduction	Overall Reduction
Tameside	-1.7%	-4.9%	-6.4%
Trafford	-2.8%	-3.7%	-6.4%
Wigan	-2.2%	-4.9%	-6.9%
Birmingham	-1.1%	-6.0%	-7.0%
Bristol	-2.5%	-4.0%	-6.4%
Leeds	-2.3%	-4.6%	-6.9%
Liverpool	-1.7%	-6.2%	-7.7%
Newcastle upon Tyne	-1.5%	-5.4%	-6.8%
Nottingham	-0.5%	-5.7%	-6.1%
Sheffield	-2.3%	-5.2%	-7.3%

34. Some specific grants are excluded from this analysis, for example, capital grants, grant funding for education, and ring-fenced grants.
35. It is worth noting that CLG have used the 'adjusted figure' for the Start Up Funding assessment which already takes many of the budget reductions (eg the reduction in EIG Funding and Council Tax Support Funding) into account. This means that the 2013/14 Spending Power reduction is significantly understated. Paragraph 5 sets out the unadjusted Start Up funding figure of £421m (including a notional adjustment for LACSEG). If this figure is used then the funding reductions for 2013/14 look very different as shown in the table below.

	2012/13	2013/14	2014/15
	£m	£m	£m
Council Tax Requirement 2012/13	142.158	142.158	142.158
Council Tax Freeze Grant 2012/13	3.554	0	0
Council Tax Freeze Grant 2013/14 - 2014/15	0	1.44	1.44
Start up Funding Assessment	418.069	390.915	354.038
New Homes Bonus	4.653	5.524	6.396
Specific Grants	1.178	1.142	1.107
NHS Funding to Support Social Care	7.064	9.542	9.998
Total	580.476	550.721	515.137
Year on Year Reduction (£m)		-29.755	-35.584
Year on Year Reduction (%)		-5.13%	-6.46%

36. The analysis is also flawed in that the costs of the Council Tax Support Scheme are included both within the Council Tax Requirement figures and the Start Up Funding Assessment. Once this is adjusted for there is a further c0.4% increase to the year on year reduction.
37. The 2014/15 allocation methodology has hit Manchester and similar cities severely. This is due to the methodology for reducing Revenue Support

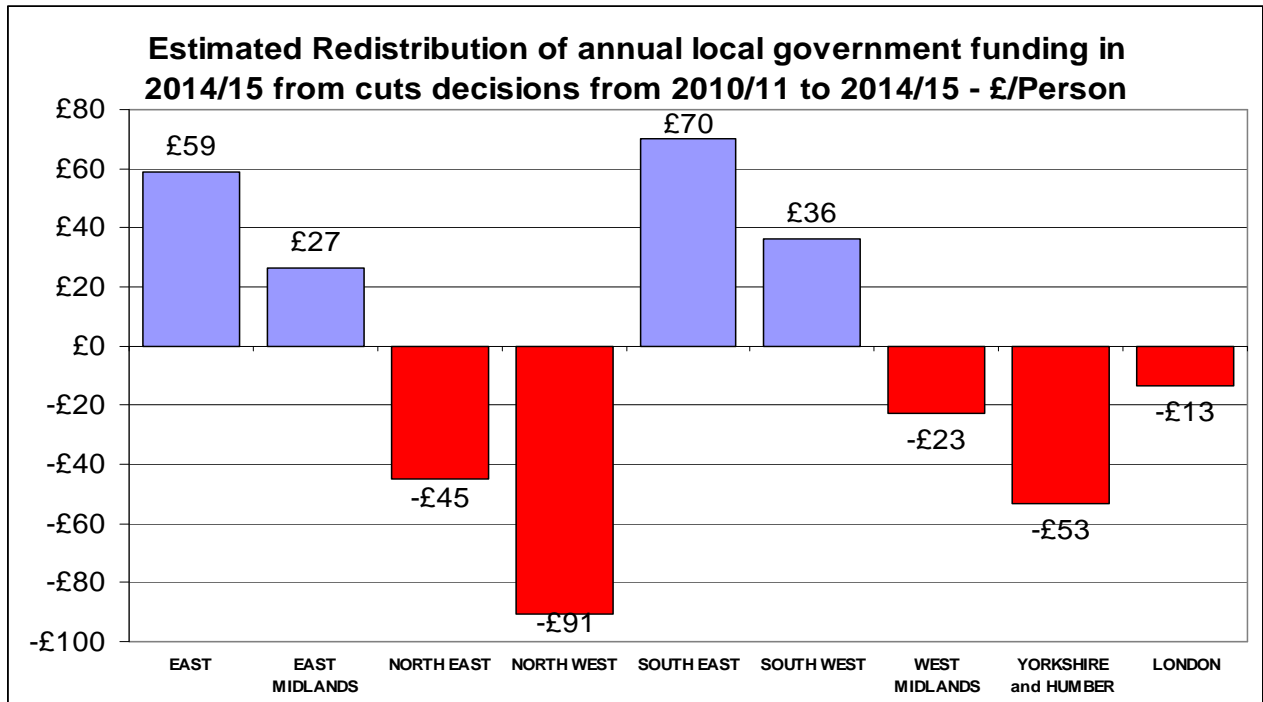
Grant, with a move away from damping arrangements to a percentage reduction by type of authority, alongside the redistributive effects of New Homes Bonus funding. There are also concerns that the Council Tax Support Grant has rolled into the RSG with no future visibility on how it is allocated, and will be reduced purely in line with RSG.

38. Further analysis has been carried out to look at the impact of the changes in Spending Power from 2010 through to 2015. This reinforces the fact that the distribution of the reduction has not been uniform across the country. The table below shows the regional change in spending power from 2010 through to 2015:

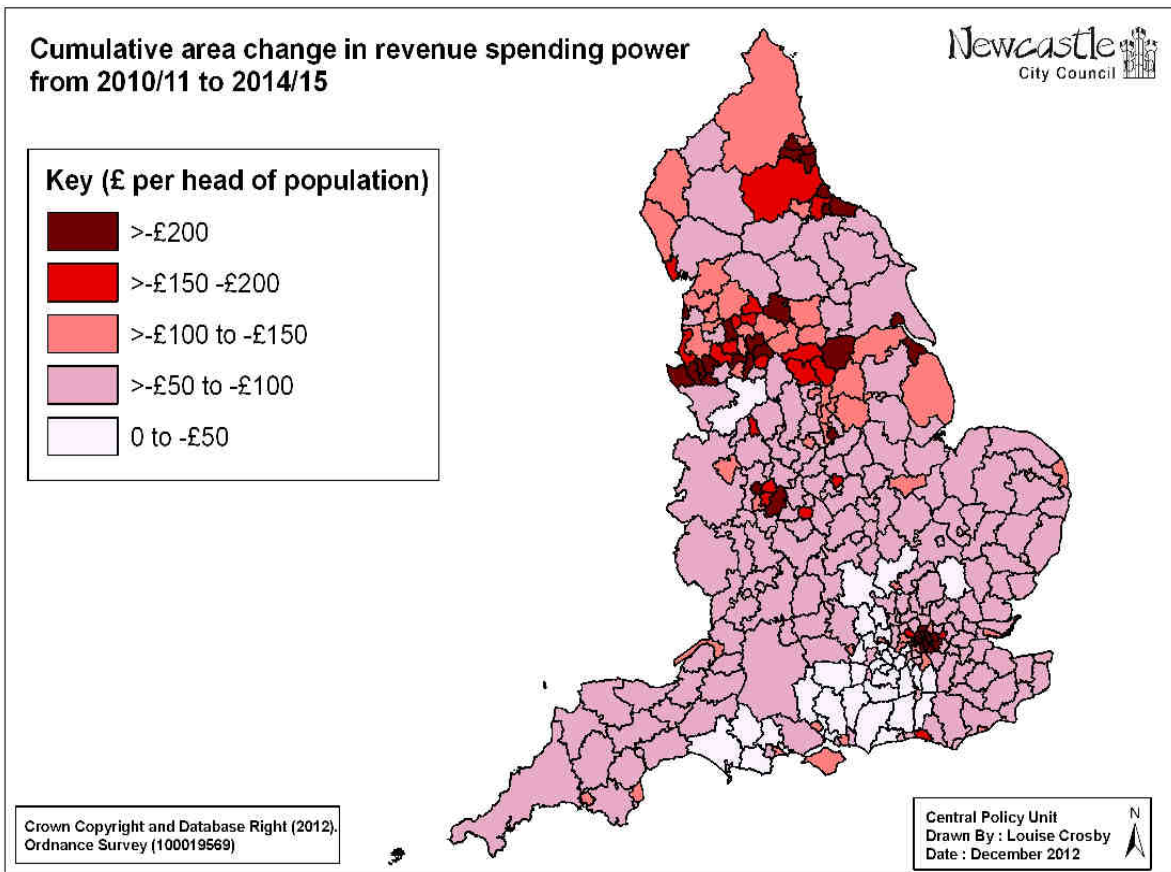
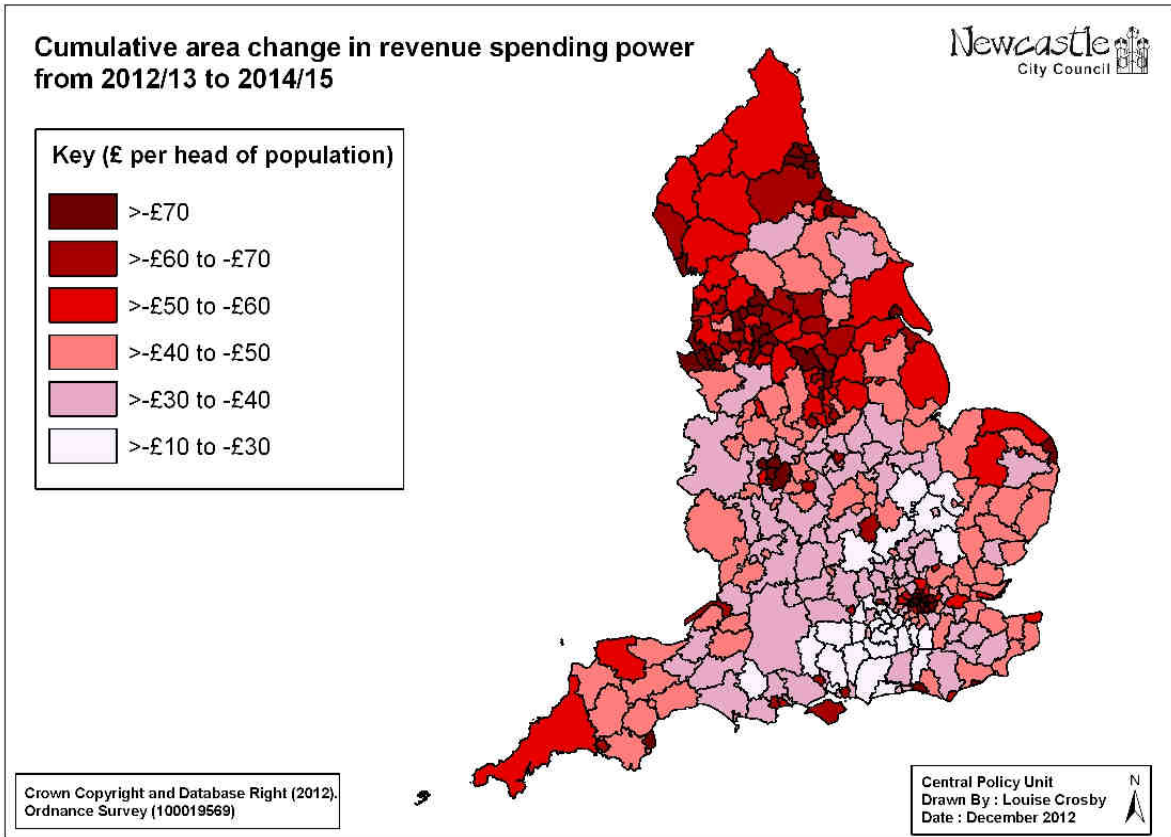
**Table showing Regional change in Spending power in 2014/15 from decisions taken between 2010/11 and 2014/15**

	2014-15 Population	Reduction in Spending Power 2010/11 to 2014/15 £/Person	Difference from the England Average cut £ per Person £/Person	Estimated Redistribution of Funding £m
EAST	6,039,765	-£85	£59	£355
EAST MIDLANDS	4,661,493	-£118	£27	£124
NORTH EAST	2,637,288	-£189	-£45	-£119
NORTH WEST	7,152,708	-£235	-£91	-£648
SOUTH EAST	8,897,919	-£74	£70	£624
SOUTH WEST	5,439,626	-£108	£36	£196
WEST MIDLANDS	5,726,783	-£167	-£23	-£131
YORKSHIRE and HUMBER	5,407,819	-£197	-£53	-£287
LONDON	8,585,169	-£158	-£13	-£115
ENGLAND	54,548,568	-£144		

39. The difference between the individual regional reductions and the England average gives an indication as to the redistributive effect of the reductions. Shown as a chart, this information presents a fairly stark picture:



40. The picture is also set out by further work by Newcastle City Council which shows the impact on reductions in Spending Power between 2012/13 and 2014/15, and the impact of the various funding reductions from central government since 2010 in map format. The maps shown below highlight that the reductions have not been uniform over that period, and have hit some types of authorities disproportionately hard:



### *Council Tax Freeze Grant*

41. The Government has also laid out details of a Council tax freeze grant for 2013-14. Authorities which do not increase their basic amount of council tax in 2013-14 will receive a grant equivalent to a 1% increase in their projected 2013-14 tax base. This will be calculated excluding the reductions on the council tax base for those receiving council tax support and will be paid in both 2013-14 and 2014-15. An estimate of the level of the grant for each local authority has been published as part of the settlement- for Manchester the grant would be worth c. £1.44m in each financial year.

### *Council Tax Referenda and Council Tax Base Calculation*

42. The statement makes clear that for those authorities wishing to increase council tax, any increase over 2% in the relevant basic amount between 2012-13 and 2013-14 will require a referendum.
43. There is an exception to this 'excessiveness' principle. For shire districts, Police and Crime Commissioners, and Fire and Rescue authorities whose 2012-13 council tax was in the lower quartile of their category of authority, a referendum must only be held if the relevant basic amount is increased by more than 2% and there is a cash increase that is more than £5 in the relevant basic amount. Both GMPA and GMFA fall into this category and both have indicated that they may wish to take advantage of the flexibility it gives.
44. Council tax support, which is replacing council tax benefit in 2013-14, is a discount on council tax bills, and will now reduce the council tax base. In order to allow local authorities to assess the referenda position, the Government have published "Alternative Notional Amounts" (ANA) for 2012-13, which are the Band D equivalent of the each council's retained council tax had the localisation of council tax support occurred in 2012-13, rather than 2013-14.
45. The "Alternative Notional Amounts" (ANA) for 2012/13 therefore are the Government's estimate of what the relevant basic amount would have been in 2012/13 if localisation of council tax support had occurred in 2012/13 rather than 2013/14. The figure published for Manchester's 2012/13 ANA is £435.47 and it is this amount which cannot be increased by more than 2% without a referendum. Based on preliminary indications of levies likely to be issued, Manchester could increase its basic amount of council tax (i.e. its band D figure including levies) by up to 6% without increasing its relevant basic amount by more than 2%.

### *Council Tax Increase*

46. The Council will need to take into account the changes to Council Tax regulations and the overall financial position when considering the levels of council tax increase for 2013/14. In particular the referenda criteria and the treatment of levies. The Budget report elsewhere on the agenda sets out that the levies the City Council has to pay for both waste and transport will increase in 2013/14, and again in 2014/15. As set out above, these levies are

accounted for in the calculation of council tax and the referenda calculation, in that it is now assumed that the levies are funded from council tax income.

47. The table below shows how the City Council's Band D council tax level can be split between the levies and the element retained by the City Council. It shows how these elements will change if the overall Band D council tax level increases by 3.7% as per the consultation proposal (this excludes precepts from the fire and police authorities):

	2012/13	2013/14
	£	£
MCC Band D	1,130.01	1,172.27
<i>% change</i>		3.7%
<i>made up of:</i>		
Levies	703.87	756.21
<i>% change</i>		7.4%
MCC retained CT	426.14	416.06
<i>% change</i>		-2.4%

48. The table highlights that whilst the overall level of council tax is increasing, the proportion retained to fund City Council services will reduce.
49. The Government have offered a Council Tax Freeze grant at one per cent for 2013/14 (£1.44m). This will be payable for 2013/14 and 2014/15 with no indication that the grant will continue beyond 2014/15. The increase that would be generated through the proposed 3.74% increase is £3.9m – a net increase of £2.5m once the council tax freeze grant is taken into account. The total impact in 2015/16 could be a loss in resource of £4m compared to current budget plans if the freeze grant is accepted. Therefore accepting the freeze grant could mean finding an extra £2.5m of savings per year in 2013/14 and 2014/15, rising to £4m per year from 2015/16 onwards, in addition to any further budget reductions from 2015/16.

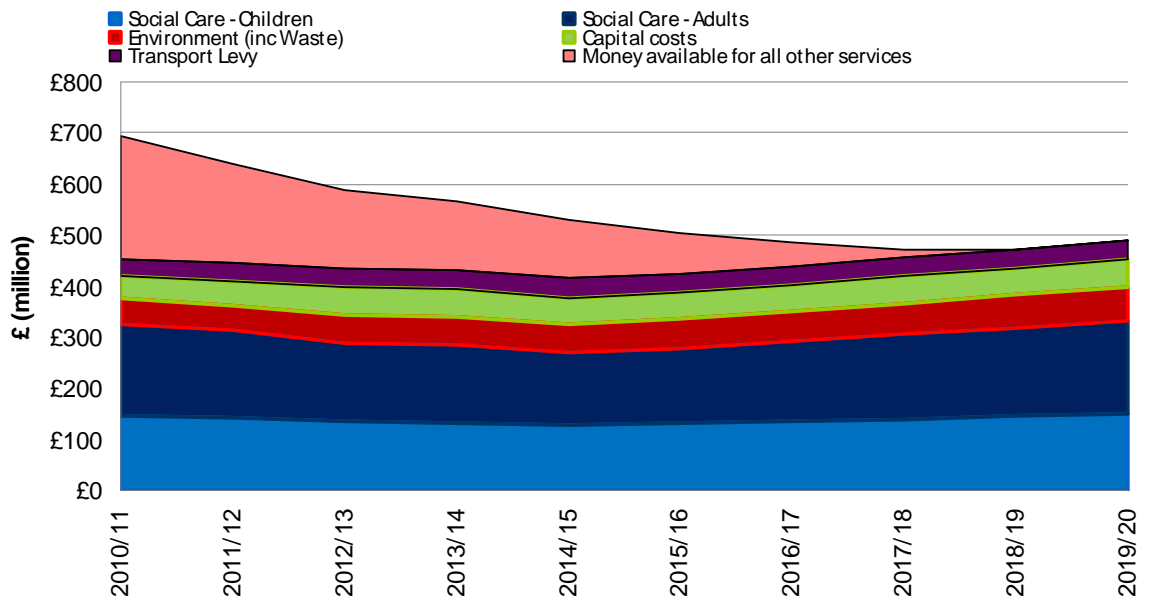
#### Overall Impact

50. The overall impact of the settlement is to leave the Council with a shortfall of resources of £40m in 2013/14 rising to £81m in 2014/15. This is after the funding reductions arising from the settlement and unavoidable budget pressures such as the increase in the levies that the Council has to pay. Full details are set out in the accompanying 2013/14 to 2014/15 Budget Report.

	2013/14	2014/15
	£'000	£'000
Total Resources	577,425	544,675
Total Call on Resources	617,488	625,659
Total Budget Shortfall	40,063	80,984



51. Officers have also sought to analyse the Council’s budget position beyond 2014/15 given that funding is expected to fall whilst demand for services will continue to rise. The graph below shows the results of this analysis, and suggests that, by 2018/19, the Council will only be able to fund Children and Adult’s Social Care, environment costs including waste, the transport levy and capital costs.



52. Whilst this is only a high level analysis, it does show that unless something radically changes, there will be insufficient resources to fund anything other than debt financing costs, the transport and waste levies and social care.

Overall Strategy for Delivery of the Council’s Objectives

53. It is clear that the Council will be operating within a climate of reducing resources and that the impact of the recession and reductions in public sector spending will continue for the next five years. Local government has been subject to particularly severe reductions and the large cities have again been affected more than local authorities as a whole. Without reducing dependency and the demand for high cost, high dependency services their cost will become increasingly unaffordable within the fiscal environment affecting local government and the large cities in particular. If this is not tackled the level of resource left to fund universal services, which are so important to enable the City’s economy to grow and places to prosper, will be significantly reduced. The only way to become more sufficient in funding terms, and hence less vulnerable to changes in the quantum and distribution of local government resources, is by optimising the balance between growth and reform. This applies not just to the Council, but across public service agencies.

54. Only the Council has the leadership capacity to protect the City’s future, and chart a new direction about how public services must reform to meet the needs of residents going forward. The Council must develop and lead an

agenda that is focused around growth and which has the reform of public services, and in particular improving the skills base and reducing worklessness, at its heart. That means not only having to take very difficult decisions about spending priorities and reductions in services in order to meet a significantly reduced spending capacity over the next few years, but in doing so, take into account the longer term priorities of the City so that its positioning as a national growth centre is at least maintained, if not enhanced.

55. The strategy adopted over the past three years of ensuring decisions on reductions are based on the priorities for the City needs to be continued. This requires a clear framework for making spending decisions and maximising the resources that remain.
56. The framework should be formed from the overall aims for Greater Manchester which are set out in the Greater Manchester Strategy (GMS) and the Community Strategy. Both strategies are being refreshed in the context of the:
  - continuing recession
  - the shifts in where growth is being generated globally
  - the continuing global challenge of climate change
  - the growth and changes in the City's population
  - the continued reductions in public spending
  - the continued challenge of unemployment and low skills
  - changes to national policies on public services, including welfare reform.
57. The three spines remain equally relevant and continue to frame the Council's priorities.

Fig 1: The Spines



58. Partners have been engaged locally in the refresh of the Community Strategy and Manchester has played a leading role in the refresh of the GMS. The Community Strategy will be reported to February Executive and Council in March.
59. The refresh of the GMS and Community Strategy lead to three priorities against which decisions about the budget should be assessed: growth, people based reform and place.

### Driving Economic Growth

60. The priority remains to use Manchester's role as an engine of growth, maximising the use of its economic assets and the potential to create jobs and economic wealth for the benefit of residents and the wider sub-region.
61. The Combined Authority and Local Enterprise Partnership provide accountability, civic and business leadership and a platform for decisions on funding streams for growth to be brought together and devolved on a place basis. Further progress on place based commissioning of skills is key to increasing the economic activity and productivity of residents, which releases the potential for growth in the GM economy and reduces demand for public services. Maximising the opportunities from the devolution of powers around skills, trade and investment is key and provides a basis for a single settlement for place and the reform of public services that compliments the City Deal. This will accelerate public service reforms to reduce the costs of dependency and improve outcomes for Manchester people.
62. The focus on growth and people based reform must go hand in hand with the management and regeneration of neighbourhoods. The impacts need to be manifest in those parts of the City where we have the highest concentrations on dependency. The 'Place' section of this report sets out the priorities for housing and neighbourhood management which are fundamental to the growth strategy for the City.
63. There is a clear understanding of the drivers of the GM economy and the Greater Manchester Strategy sets out the priorities which include:
  - To build on recent successes including the development of High Speed Rail, devolution of rail franchising, and investment in the northern hub
  - Secure and grow international connections through Manchester Airport, and equip businesses to exploit overseas markets. This includes the work to develop and retain the benefits of growth through the Enterprise Zone
  - The delivery of the Digital Strategy and to ensure there is the digital infrastructure in place to support growth, this includes improving broadband connectivity
  - Develop a more integrated focus for trade, inward investment and business support. The Business Growth Hub will provide co-ordinated engagement with small and medium businesses. Alongside this a more structured approach will be developed to work with the larger businesses.
  - Continue the development of the knowledge economy, building on the strengths in digital and creative industries, biomedical and health sectors, advanced manufacturing, finance and professional services.

- Have a greater focus on commercialising discoveries such as Graphene, along with capitalising on the new markets such as low carbon technologies.
  - Support the continued growth of a strong and dynamic SME base with a focus on key sectors that drive growth and recognising the economic role played by social enterprise and the third sector.
  - Growing commercial and industrial space that supports this demand (Sharp and City Lab are examples) and ensuring there is appropriate infrastructure development and cross boundary working as the city centre develops and expands.
  - Underpinning the approach to growth by responding to the challenges and opportunities posed by climate change to create a context for businesses that is environmentally sustainable and harnesses the opportunity for leadership in the growing low carbon economy. To realise ambitious plans to reduce CO2 emissions through transforming infrastructure and culture to realise the benefits of greater energy and resource efficiencies.
  - Maximising the opportunities from the GM Community Budget work - linking the benefits from economic growth with the opportunities for the reform of public services and supporting Manchester to become more self sufficient
64. The strategy recognises the need to create jobs in the economy and increase productivity through increasing the skills of the workforce and reducing dependency on the state. There is a need to ensure that residents are equipped with the capacity to access the jobs being created. The People Section of this report sets this out in more detail. In addition, it is critical that support is continued to be provided to the development of Manchester University and MMU and their potential to drive growth in key sectors of activity, investment is continued in initiatives such as NOMA to create places where private investment and job creation can be promoted and for commercial and professional services to be able to flourish in the City. The longer term success of developments such as the Airport City EZ and the Etihad Campus are crucial too in creating the skills and jobs that the City's economy needs.
65. The work will build on the success with the first City Deal where Manchester led the national debate to develop more ambitious and far reaching plans for reform. The investment to support the priorities will be through the GM Investment Framework with leadership and accountability through the Combined Authority. Investment opportunities need to be fully exploited, leveraging private sector funding and access to national and European funds.
66. The Corporate Core is the engine for driving forward the growth agenda providing a leadership role for GM as well as for the City. The skills and capacity to support this work are essential and these are being addressed

through the proposals, set out in the report elsewhere on the agenda, for the Corporate Core.

Supporting people, investing in people – the need for reform

67. The GMS demonstrates the critical link between economic growth and competitiveness and public service reform. Without addressing the latter the full potential for growth will not be realised. The key is not so much how the Council can reduce its level of spend, but how better public outcomes for total public spend within the city can be delivered. Just reducing spend will leave residents vulnerable and reduce growth prospects.
68. A new relationship with Whitehall is needed with a settlement that allows more of the proceeds of growth to be retained to incentivise the growth of the tax base and the opportunity to retain the proceeds of reducing dependency through reform. The Community Budget Pilot will provide the basis for developing a new settlement between national and local government that supports, incentivises and responds to public service reform – a deal for people based reform alongside the deal for cities.
69. The priorities for reform include:  
  
*Troubled Families*
70. Successful intervention with families provides an opportunity to reduce dependency and release savings. The work that has been developed over the past couple of years on Troubled Families and targeted interventions will be scaled up. Key will be behavioural change tools and techniques which we have already shown with the Troubled Families work can increase independence and reduce dependency  
  
*Early Years*
71. There will be a focus on implementing a new delivery model for Early Years. This will provide targeted support where it is most needed to ensure that every child gets the best start in life and can arrive at school ready to learn. Whole family approaches will centre around improving parenting, with additional support to the family provided in a co-ordinated and effective way that will make the greatest impact on the whole family.  
  
*Education and Skills*
72. A key priority is developing the leadership and influencing role within the Education system with schools encouraged to take a stronger role in the communities they serve, and an active role in the future success of the city with shared aspirations and values. There will be a focus on continuing to improve the education system in Manchester and make it more connected to the world of work, raising aspirations and building resilience. This will be underpinned by ensuring there are sufficient high quality school places for the rapidly increasing number of school age children. This work will be vital to

ensuring there are the right skills and capacity in the future to support the growth of the Manchester economy.

#### *Integrated Health and Social Care*

73. There will be a focus on integration with health in specific areas to reduce unplanned hospital admissions and speed up safe discharges. The priority is to tackle urgent care and elderly, chronic illness and long term conditions and the prevention of un-necessary admissions and readmissions. This approach builds on the significant progress to date under the Community Budgets work and is about delivering tangible benefits in terms of:

- Improving urgent care for elderly and disabled patients with chronic illness and multiple long term conditions
- Improving patient experience joining up primary care, community care, social care and acute care around the needs of patients
- Reducing spend in the most expensive areas of social care, particularly residential care and care with nursing;
- Securing investment from health partners where they benefit from the new delivery model of integrated care.

The key challenge going forward is rapidly accelerating the pace and scale of integrated care, balanced with the need to secure more evidence to support investment decisions. We are now operating the New Delivery Model for integrated care in Central Manchester, jointly funded with the CCG. North Manchester are due to go live with their first integrated care team in one patch at the end of January with South Manchester following quickly in 1st April with integrated teams in 2 patches. The system is introducing information sharing agreements between health and social care and an integrated ICT solution across social care, CCGs and hospital and community based health staff.

74. There will be continue to be pressures associated with increasing costs of caring for elderly, frail and vulnerable people and more diverse communities. There is a need to explore radical and innovative models, e.g. for health and social care, that will respond to these changes. This includes safely reducing the number of children in the care system and significantly improving the outcomes of the children for whom we are the corporate parent, in accordance with the decision of the Executive on 21 November 2012 in relation to improving outcomes for Looked After Children.

#### *Worklessness and Skills*

75. Central to improving competitiveness is the need to improve productivity and increase the breadth and depth of the labour market. This means a drive for reform across the whole spectrum of public services, supporting people into work, raising skills across the board and improving quality of life for all. Driving the health and work agendas closer together will be critical in tackling this agenda.

76. Through the GM Community Budget work there will be an increased focus on helping people back into the labour market or into the labour market for the first time – essential to reducing the numbers of people in dependency. This will integrate thinking about welfare reform, skills and work and be supported by new service delivery and investment models.
77. Improvements in peoples lives will be connected with the maintenance and regeneration of the places in which they live. This will include working with housing providers and other partners to minimise the negative impact of welfare changes on households and places. It will also include reform of accommodation for high risk and vulnerable people such as those at risk of repeat offending, homelessness, those recovering from drug and alcohol abuse and those escaping domestic violence.

*The Manchester Investment Fund*

78. The Manchester Investment Fund (MIF) was established in 2011/12 to bring together spending on specialist and targeted services that support high cost and high risk families. This has supported the public service reform work and there are now six heads of terms agreements in place, with partners, setting out how resources can be used more effectively to target support where it is most needed. Work will continue to evaluate where benefits fall to enable funding to be moved between agencies with the development of full investment agreements which enable the sharing of costs and savings across public services, investing in what works. This will be critical to the reform agenda enabling a move away from funding dependency and towards providing help early and in a targeted way. As part of this work the MIF will be used to accelerate reducing demand enabling further savings of £10m to be delivered to the Council's budgets in 2015/16.

*Integrated Delivery and Integrated Commissioning*

79. In order to effectively deliver the above, work has been carried out in order to bring together aspects of adults and children's social care in ways that promote early help and protects and strengthens safeguarding the most vulnerable. This will include:
- A new function for Integrated Service Delivery across Public Health, Children's and Adults Services – introducing a streamlined customer journey ensuring that from the first point of contact results in a coordinated response, delivering evidence based sequenced interventions that enable people and families to become independent and self sufficient.
  - A new function for Integrated Commissioning – building on the learning from new investment models and the MIF, driving the underpinning commissioning – decommissioning cycle critical to the delivery of reform. The establishment of an Integrating Commissioning Hub will provide the skills, expertise and capacity to support this work across the whole of the Council's activities

- A new locality based operating model - in line with the three localities from Health; North, central and South. This will contribute to multi-agency work and the joint investment by partners in New Delivery Models.

### Place

80. The Council has a pivotal role to play in securing the social, physical and economic future of the city. The Regeneration division will lead the way in delivering economic growth, through linking the strategic policies that drive economic growth and investment in the city to the local delivery of jobs for residents, and to supporting improved infrastructure in neighbourhoods that are thriving and sustainable.
81. Manchester needs to maintain and grow the amenities to support economic growth. This includes provision of education, the cultural and sports offer and other assets such as range of good housing choices in order to compete with the best international cities in terms of the quality of life that is offered.
82. This means getting the basics right and:
  - Ensuring the city is clean, well maintained and safe and that residents are supported to take pride in their surroundings
  - There continues to be a robust approach to working with communities and the police to tackle crime and anti-social behaviour.
  - Setting out a clear vision for a smaller but high quality offer for the future of parks, libraries, sports and cultural facilities. This will include proposals for reforming the offer for both libraries and leisure facilities. These are critical to the fabric of successful neighbourhoods.
83. The success of the neighbourhood delivery teams will be built on – integrating with police and others such as housing providers into single teams and establishing effective partnerships with communities that support clean, green and safe places for people to live. Work will also be carried out with the new Police and Crime Commissioner with the aim that the GM approach supports and enhances the work that is done locally.
84. Housing is a fundamental part of the growth strategy for the City. More housing of the right mix is needed to support a growing population and to encourage people (across the income ranges) to stay within the City.
  - Supporting the development of new models that show how high value sites across the conurbation can be used to support higher cost, lower value sites.
  - Supporting the expansion and diversification of the private rental sector with new investment, equity models and tenancy models, particularly at a time when access to mortgage finance is constrained.
  - Interventions to support the creation of effective housing markets will continue, underpinned by a housing strategy that reflects and responds to changes to the benefit regime.



- The role of specialist housing will be recognised, including that for students, and the opportunities this can bring to release traditional family housing back into the market. Finally
- Supporting the improvement of the environmental performance of housing in all tenures.

#### Developing the Budget Principles to meet the Challenges of 2013/15

85. The priorities outlined in this report will provide the framework for the Medium Term Financial Plan. Balancing the continued reduction in the resource base with protecting the priorities for the city will be extremely challenging. This goes beyond the traditional delivery of efficiencies and requires a more targeted approach that focuses on the outcomes that are required for the City.
86. The budget process for 2011/13 led to the establishment of a set of principles, to guide the Council through the highly challenging budget process. The 2013/15 budget process, underpinned by the development of the refreshed Strategic Narrative builds on this work.
87. The proposals set out in the following papers for Targeted and Specialist Services, Universal Services and the Corporate Core are informed by the following principles:

#### *The Role of the Corporate Core*

88. Ensuring a corporate core that provides streamlined and effective support for the delivery of the Council and City's priorities for growth, people and place:
- Provides leadership for GM as well as the City for the economic growth and public service reform agendas
  - Maximises the opportunities from GM investment framework and other external funding
  - Provides leadership for developing the City's low carbon economy and the delivery of the Digital Strategy
  - Drives people based reform including addressing low skills and worklessness into all aspects of public service reform
  - Develops a strong corporate response to Welfare Reform
  - Ensures the right skills and capacity are in place to deliver the Council's priorities
  - Builds on the Centre of Excellence approach with new Centres of Excellence to support: Integrated Commissioning; Policy, Research and Partnerships; Technical Services; and continues the reform of our ICT and customer services
  - Supports the Council through change - including supporting delivery of the transformation agenda, exploring new ways to invest in people, supporting behavioural change and maximising the use of the Council's resources

#### *Leadership of Place*

89. Providing strong leadership for the City and its neighbourhoods through:
- Transforming places and the prospects of the people living in them through the delivery of Single Regeneration Frameworks (SRFs) and a focus on promoting growth and integration of services around families at a neighbourhood level to deliver both SRFs and public service reforms.
  - Ensuring a continued focus on place, exploring opportunities for deeper integration of working models, removing duplication with partners and aligning strategic priorities
  - Further develop regeneration teams to link people focused services to economic development and housing markets
  - Maximising economic growth and the benefits to Manchester residents in terms of enterprise, job creation, skills and employment
  - Tackling worklessness and improving skills in partnership with other public and private sector organisations
  - Integrated commissioning building on the work of Community Budget working examples in Wythenshawe, Gorton /Longsight and North Manchester, supported by information, intelligence and a strong evidence base
  - Supporting community engagement and capacity building

*Targeted and Specialist Services*

90. The priorities for targeted and specialist services are informed by:
- Better timed and coordinated delivery of targeted services with the development of evidence-based interventions that reduce demand and release resources for early intervention and other universal services
  - Focus services on the needs of whole families, taking an holistic view of their context and needs
  - changing behaviours to promote independence,
  - integration with partners where appropriate.
  - Retain focus on maintaining the safety-net of safeguarding services e.g. Looked After Children and Vulnerable Adults, but that not only provides a safety net but also moves people to greater independence;
  - As reform reduces deprivation and dependency related demand, start to make safe and carefully planned reductions in spending on safeguarding
  - Apply procurement expertise and look for clusters of collaboration to safeguarding services to improve efficiency and effectiveness

*Universal Services*

91. The framework to our approach for the development of universal services will be based on the following:
- Our leadership role - to ensure universal provision via different models and to drive up standards
  - A neighbourhood focus with an emphasis on the contribution to Place and creating neighbourhoods where people want to live and work

- Capital investment to ensure a high quality service offer and transform old outdated and inefficient facilities wherever possible- this is more important than maintaining a quantity of lower quality services
- Ensuring that Universal Services can make a contribution to those receiving targeted services and safeguarding support
- Ensure the City is attractive and clean, integrating waste and refuse strategies and developing new models of delivery and behaviour change to support residents to take a pride in where they live and work
- Increase self service options and support to 'channel shift'
- Further collaboration, or trading service models, build on what we are good and considering collaborative contracts for high cost services such as waste and recycling
- Where we remain provider – workforce reforms building on the m people principles

### Collaboration

92. Manchester is committed to collaboration where it makes sense for the city and our residents.
93. Through the AGMA Improvement & Efficiency Programme, Manchester leads on the Adult Commissioning Programme under the sponsorship of Directors of Adults Services and the Asset Management Programme. The role of the AGMA Improvement and Efficiency Unit is under review with a proposed refocus around the delivery of wider public service reform. Manchester is currently considering what support and drive can be provided to enable the more productive elements of the programme to continue and developing ideas on further big ticket items in Adult Services. In addition, Manchester has also been engaged in a Collaborative Programme with Salford City Council to improve services and make efficiencies with particular success in shared Legal Services. There are also ongoing discussions with Greater Manchester Police (GMP) and a number of AGMA Council's regarding potential areas for further collaboration.

### Workforce and Skills

94. It is important that the Council has the skills and capacity to deliver on its priorities and the radical and innovative agenda that will be essential to secure the city's future. There needs to be a sophisticated organisational response to these challenges which builds on the success of the Council's **m people** approach which has focused since its introduction in 2010 on developing a highly skilled and flexible workforce.
95. The Council's ability to reduce the workforce from 9,849 FTE in December 2010 to 7562 fte in November 2012 has been contingent on the **m people** approach. This approach has supported over 5,000 staff through service redesigns and provided a flexible framework to move individuals to the points of greatest organisational need whilst supporting skills development and aspirations. Further flexibility and the growth of key skill sets through **m**

**people** will be essential to supporting ongoing organisational change with an even greater need for flexibility to meet organisational need. The success of **m people** has been founded on close working relationships between the authority, its staff and the Trade Unions and this relationship will be critical going forwards.

96. The principles of **m people** will continue to be applied with the development of skills within the existing workforce, increased flexibility and movement of people around the organisation and the restriction of external recruitment to areas where the skills and capacity can not be sourced internally. There will be a continued reduction in overall staff numbers with a further reduction of at least 800 fte and a workforce budget reduction of in the region of £25m. The Council is still committed to trying to achieve this through it's time limited Voluntary Early Retirement and Voluntary Severance Scheme in order to avoid compulsory redundancies if at all possible.
97. The effective delivery of the Public Service Reform agenda will require staff across public service organisations both within the local and regional context of place to develop new skills and work across agency boundaries. Whilst the economic climate is one of budgetary constraints there is a pressing need to ensure that staff are equipped with the skills for the future and that training and development budgets are focused on the key skills and behaviours to deliver public sector reform. Collaboration on the identification of these skills and behaviours is required so that staff are engaged at an early stage and work across organisational and place boundaries comes from a sound basis of shared knowledge and skills.

#### Budget Consultation

98. The Council is seeking views and feedback on the strategic approach outlined in this report and on the priorities and proposals in the accompanying budget reports on the agenda (the Directorate Budget Reports and the budget 2013/14 to 2014/15 Report). This will be carried out through:
- The engagement process with partners for the refresh of the Community Strategy. This work will report to Executive in February with the refreshed Community Strategy due to be submitted to the March Council
  - An overall consultation with residents and businesses on the budget setting approach set out in this document and on the priorities the Council is working towards and proposals on how the budget will be reduced to achieve a balanced position
  - Specific consultation processes starting on 23 January for saving proposal areas that require specific statutory consultation or other legal procedures to be followed before actions can taken place
99. This report is supported by a suite of budget reports, culminating in the Revenue Budget report for 2013/15. Together these form the basis for the budget consultation.

100. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act. In broad terms this means that the Council has a duty 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.
101. 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.
102. In carrying out the work to identify proposals for 2013/15 officers will have due regard to how the equality duty can be fulfilled in relation to the proposals overall. Detailed consultation processes and equality impact assessments will be carried out for specific proposals prior to final decisions being made where required.

#### Conclusion

103. This report sets out the Council's approach to how it will deliver its objectives and deliver better public outcomes across the City, and how this is achieved within significantly reduced resources in order to deliver a balanced budget for 2013/15. Within this, it is important that we use our influence both at a national level to influence the next CSR and at a local level so we get more integrated commissioning across agency boundaries and through that how we ensure that public sector resources beyond the Council are aligned to the City's priorities.
104. The approach will be used to deliver a definitive plan that will form the basis of the detailed budget and business planning process for 2013/15. This will be in the context of ensuring that statutory duties are met and that the Council continues to protect the vulnerable. The work will be underpinned by the Council's values of People, Pride and Place and of continuing to develop our workforce applying the MPeople principles.

Howard Bernstein  
Chief Executive

Susan Orrell  
City Solicitor

Richard Paver  
City Treasurer