

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Environment and Transport
Date:	16 January 2018
Title:	2018/19 Revenue Budget Report for Environment and Transport
Report From:	Director of Economy, Transport and Environment and Director of Corporate Resources – Corporate Services

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1. Recommendations

To approve for submission to the Leader and the Cabinet:

- 1.1. The revised revenue budget for 2017/18 as set out in Appendix 1.
- 1.2. The summary revenue budget for 2018/19 as set out in Appendix 1.

2. Executive Summary

- 2.1. The purpose of this report is to set out proposals for the 2018/19 budget for Environment and Transport budgets in accordance with the Council's Medium Term Financial Strategy (MTFS) approved by the County Council in November 2017.
- 2.2. The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of austerity is well documented. It involves planning ahead of time, making savings in anticipation of need and using those savings to help fund transformational change to generate the next round of savings.
- 2.3. In line with the financial strategy that the County Council operates, which works on the basis of a two year cycle of delivering departmental savings to close the anticipated budget gap, there is no savings target set for departments in 2018/19. Any early achievement of resources from proposals during 2018/19 as part of the Transformation to 2019 (Tt2019) Programme will be retained by departments to use for cost of change purposes.
- 2.4. The report also provides an update on the financial position for the current year. Overall the outturn forecast for the Environment and Transport services for 2017/18 is a planned saving towards Tt2019 of £3.1m recognising that not

all of the Department's required savings will be achieved in full by 2019/20 and that cash flow support needs to be built up in advance.

- 2.5. The proposed budget for 2018/19 analysed by service is shown in Appendix 1.
- 2.6. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2017/18 and detailed service budgets for 2018/19 for Environment and Transport budgets. The report has been prepared in consultation with the Executive Member and will be reviewed by the Economy, Transport and Environment Select Committee. It will be reported to the Leader and Cabinet on 5 February 2018 to make final recommendations to County Council on 22 February 2018.

3. Context and Priorities

- 3.1. The current financial strategy which the County Council operates works on the basis of a two year cycle of delivering departmental savings targets to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Grant Equalisation Reserve (GER) with any early achievement of savings proposals retained by departments to use for cost of change purposes, cashflow the delivery of savings or offset service pressures.
- 3.2. The County Council's early action in tackling its forecast budget deficit over the prolonged period of austerity and providing funding in anticipation of further reductions, has placed it in a very strong position to produce a 'steady state' budget for 2018/19, giving itself the time and capacity to develop and implement the Tt2019 Programme to deliver the next phase of savings totalling £140m. This also avoids the worst effects of sudden and unplanned decisions on service delivery and the most vulnerable members of the community. Consequently there are no departmental savings targets built into the 2018/19 budget. However, other factors will still affect the budget, such as council tax decisions and inflation.
- 3.3. In 2016 the Local Government Finance Settlement provided definitive figures for 2016/17 and provisional figures for local authorities for the following three years to aid financial planning for those authorities who could 'demonstrate efficiency savings'. Following acceptance by the Department for Communities and Local Government (DCLG) of the County Council's Efficiency Plan for the period to 2019/20 the expectation was for minimal change for 2018/19 and 2019/20. No figures have been published beyond this date and there remains uncertainty around the Fair Funding Review and the future of 100% Business Rate Retention.
- 3.4. The Medium Term Financial Strategy (MTFS) approved by the County Council in November 2017 flagged that the Budget in November might contain some additional information that could impact our planning assumptions, for example around public sector pay and council tax referendum limits.
- 3.5. In overall terms, the announcements in the Budget had very little impact on the revenue position reported in the MTFS, although there were some

welcome announcements in respect of the Community Infrastructure Levy and Section 106 Developer Contributions.

- 3.6. Since the Budget was announced there has been a two year pay offer for local government workers, which includes a 'core' increase of 2% and changes to the lower pay scales to reflect the impact of the National Living Wage. The overall increase in the pay bill could be in the region of 6% over the two years, and is above the allowances made within the MTFs. Depending on the final pay award that is agreed this could mean additional recurring costs of circa £5m will need to be met.
- 3.7. The offer of a four year settlement provided greater but not absolute funding certainty and the provisional Local Government Settlement announced on 19 December confirmed the grant figures for 2018/19 in line with the four year settlement. The other key elements of the provisional settlement were:
- The 'core' council tax referendum limit was increased from 2% to 3% for all authorities for the next two years (each 1% increase in council tax equates to approximately £5.7m). The arrangements for the social care precept remain unchanged.
 - Ten new 100% Business Rate Pilots were announced, one of which was for Portsmouth, Southampton and Isle of Wight Unitary Councils.
 - A Fair Funding Review consultation was announced as part of the settlement which is expected to be implemented in 2020/21.
 - A potential move to at least 75% Business Rate Retention is also planned for 2020/21, but still on the basis of fiscal neutrality.
 - No new announcements of funding for social care above those that we are already aware of but the Green Paper for adult social care is due to be published in summer 2018.
- 3.8. The key announcement related to the new referendum limit for council tax and this will be considered by Cabinet as part of the budget setting process in February.
- 3.9. The Economy, Transport and Environment Department has been developing its service plans and budgets for 2018/19 and future years in keeping with the County Council's priorities and the key issues, challenges and priorities for Environment and Transport services are set out below.

4. Departmental Challenges and Priorities

- 4.1. The Department's overarching budget strategy continues to focus on core service delivery around Highways, Waste Management, Transport and statutory planning services (budget priorities relating to Economic Development, a further key service priority for the Department, are now reported to the Executive Member for Economic Development).
- 4.2. After allowing for the removal of the 2017 savings in highways maintenance resulting from the new Hampshire Highway Service Contract (HHSC), of the £27.5m overall budget provision for highways maintenance services in 2018/19, 58% is required either to cover street lighting PFI contractual payments and energy costs or set aside for winter and other weather

emergency responses with just 42% available for routine maintenance and safety defects (the equivalent percentage figures for maintenance in 2016/17 and 2017/18 respectively were 50% and 44%). While the HHSC has already delivered £4.8m of savings in highways works and facilitated a further £1m of savings in the highways operating model its successful implementation in August 2017 now embeds a commitment to closer, collaborative working to develop further service innovation and efficiencies.

- 4.3. The Department continues to look to retain services, capacity and expertise by charging for services or developing a broader client base where possible. While movement in this area is still required the County Council remains in discussion with the Government and these discussions have broadened out to include areas such as the potential to charge for issuing Concessionary Fares passes in addition to a universal access charge for Household Waste Recycling Centres.
- 4.4. Waste volume growth (due to demographic growth) and falling recycling rates (reflecting the national trend) continue to represent a significant risk to the financial position of the Department. A key priority for the Department remains therefore to address rising waste volumes and falling recycling rates to reverse current trends. Progress has been made in this area with the approval by the Executive Member for Environment and Transport in November 2017 of a new waste strategy together with recent constructive discussions with District Councils as Waste Collection Authorities around more collaborative approaches to recycling. The proposed new Single Materials Recovery Facility (MRF) will play a major role in increasing recycling and reducing the overall cost of waste disposal. The waste service budget will however continue to be sensitive to changes in statutory waste definitions and fluctuations in markets or currencies which affect the value of recycled materials such as metal or paper or the treatment costs of materials like wood.

5. 2017/18 Revenue Budget

- 5.1. Enhanced financial resilience reporting, which looks not only at the regular financial reporting carried out in previous years but also at potential pressures in the system and the achievement of savings being delivered through transformation, has continued through regular reports to the Corporate Management Team (CMT) and periodic reports to Cabinet.
- 5.2. Overall the outturn forecast for the Environment and Transport services for 2017/18 is a planned saving towards Tt2019 of £3.1m recognising that not all of the Department's required savings will be achieved in full by 2019/20 and that cash flow support needs to be built up in advance.
- 5.3. The budget for Environment and Transport services has been updated throughout the year and the revised budget is shown in Appendix 1.
- 5.4. 88% of the increase of £4.131m between the original and revised budget for Environment and Transport services is made up of two temporary additions to the budget as follows:
 - £1.937m temporary cost of change funding applied to support savings delivery

- £1.7m relating to the 2016/17 winter maintenance budget saving reinvested into the 2017/18 highways maintenance budget (approved by Cabinet in June 2017).

5.5. Other changes include:

- A change in employer's pension contribution following a recent actuarial valuation +£201,000
- Technical adjustment relating to the street lighting PFI contract +£190,000
- Net changes relating to grants +£98,000
- One-off funding towards an agreed County Council contribution to an East Hampshire District Council scheme (Emsworth Wall) +£45,000
- A further year's contribution from the Culture, Communities and Business Services Department to support the broadening of the Parish Lengthsman Scheme +£30,000
- Consolidation of £29,000 Economy, Transport and Environment Department early achievement savings previously shown under the Executive Member for Economic Development
- Reductions relating to reduced business rates and other corporate contributions -£99,000.

6. 2018/19 Revenue Budget Pressures and Initiatives

- 6.1. Staff recruitment and retention continues to be challenging in particular for areas such as engineering, planning and specialist environmental services and the cost and availability of temporary agency staff in these areas continues to create pressures in these areas. The Department is continuing to develop initiatives such as apprenticeships including at graduate level and working collaboratively with universities and strategic partners to secure access to the capacity needed.
- 6.2. Although the new contract and operating model are designed to maximise the service provision from reduced resources the budget available for routine maintenance and safety defects in 2018/19 is at the lowest level for many years in real terms. Experience from previous years of where the Department has implemented or proposed savings, particularly in 'universal' service areas like Highways or HWRC operations, indicates that there will be an increase in contact from members of the public and also from MPs and others who expect previous service levels to continue and challenge responses that indicate that services levels have been reduced or withdrawn. The combination of reduced staffing levels (since 2010 the Department has reduced its core permanent staff numbers by around 25%) and the lower operational budget provision mean it will be challenging to respond to these demands.
- 6.3. Many of the Department's services have interdependencies with both District Councils and Government agencies (e.g. waste, flood risk management) and successfully addressing the challenge of maintaining good relationships while all organisations face pressures to reduce costs against a backdrop of

uncertainty around arrangements for the future delivery of local public services will be important.

7. Revenue Savings Proposals

- 7.1. In line with the current financial strategy, there are no new savings proposals presented as part of the 2018/19 budget setting process. Savings targets for 2019/20 were approved as part of the MTFs to 2020 by the County Council in July 2016. Savings proposals to meet these targets have been developed through the Tt2019 Programme and were approved by Executive Members, Cabinet and County Council in October and November this year, though the Cabinet also resolved to request further work to review and identify potential alternative savings proposals which in relation to the ETE Transformation programme specifically related to savings proposals in respect of School Crossing Patrols, Household Waste Recycling Centres, and subsidised public and community transport, and noted at its meeting on 11th December that that work is progressing well. A final, formal recommendation is expected to be considered on these matters at the February Cabinet meeting.
- 7.2. Some savings will be implemented prior to April 2019 and any early achievement of savings in 2018/19 can be retained by departments to meet cost of change priorities. It is anticipated that £3.84m of savings will be achieved in 2018/19 and this has been reflected in the detailed estimates contained in Appendix 1.

8. 2018/19 Revenue Budget Other Expenditure

- 8.1. The budget includes some items which are not counted against the cash limit.
- 8.2. For Environment and Transport this is a sum of £630,800 relating to the Flood Protection Levies paid annually to the Environment Agency. These funds are received and distributed by the Regional Flood and Coastal Committees for flood defence works across their regions.

9. Budget Summary 2018/19

- 9.1. The budget update report presented to Cabinet in December included provisional cash limit guidelines for each department. The cash limit for the Economy, Transport and Environment Department in that report included £111.749m relating to Environment and Transport services which was a £349,000 increase on the previous year
- 9.2. The elements making up the net increase are:
- Removal of £3.72m of one-off budget provision from 2017/18 including sums funded from cost of change
 - Pay and non-pay inflation of £3.719m including an allocation to reflect contractual price changes in the waste disposal contract.
 - £350,000 to recognise the increased highways asset base resulting from the capital programme and the associated increase in maintenance requirement.

- 9.3. Appendix 1 sets out a summary of the proposed budgets for the service activities provided by Environment and Transport services for 2018/19 and show that these are within the cash limit set out above.
- 9.4. In addition to these cash limited items there are further budgets which fall under the responsibility of Environment and Transport services, which are shown in the table below:

	2018/19	
	£'000	£'000
Cash Limited Expenditure	156,334	
Less Income (Other than Government Grants)	(44,585)	
Net Cash Limited Expenditure		111,749
Flood Protection Levy		623
Less Government Grants:		
• Lead Local Flood Authority	(90)	
• Bikeability	(305)	
• Bus Service Operators Grant	(1,068)	
Total Government Grants		(1,463)
Total Net Expenditure		110,909

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes/No
People in Hampshire live safe, healthy and independent lives:	Yes/No
People in Hampshire enjoy a rich and diverse environment:	Yes/No
People in Hampshire enjoy being part of strong, inclusive communities:	Yes/No

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Transformation to 2019 – Revenue Savings Proposals (Executive Member for Environment and Transport) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=170&Mid=438	19 September 2017
Medium Term Financial Strategy Update and Transformation to 2019 Savings Proposals (Cabinet) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&Mid=737	16 October 2017
Budget Setting and Provisional Cash Limits 2018/19 (Cabinet) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&Mid=738	11 December 2017
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1 The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2 Equalities Impact Assessment:

The budget setting process for 2018/19 does not contain any proposals for major service changes which may have an equalities impact. Proposals for budget and service changes which are part of the Transformation to 2019 Programme were considered in detail as part of the approval process carried out in October and November 2017 and full details of the Equalities Impact Assessments relating to those changes can be found in Appendices 4 to 7 in the October Cabinet report linked below:

<http://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments>

2. Impact on Crime and Disorder:

2.1 The report contains no proposals that will impact on crime and disorder.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

The report contains no proposals that will impact on our carbon footprint or energy consumption.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

The report contains no proposals that will impact on climate change.

Budget Summary 2018/19 – Environment and Transport Department

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Highways Maintenance	12,346	14,133	11,392
Street Lighting	9,741	9,899	9,969
Winter Maintenance	5,996	5,996	6,144
Concessionary Fares	13,886	13,236	13,118
Other Public Transport	5,117	5,117	5,297
Traffic Management and Road Safety	1,767	1,558	1,292
Other Highways, Traffic and Transport Services	(43)	(48)	(48)
Staffing and Operational Support	8,889	8,862	9,405
Total Highways, Traffic and Transport	57,699	58,753	56,569
Waste Disposal Contract	44,187	46,373	46,315
Environment and Other Waste Management	680	667	319
Strategic Planning	865	934	967
Chichester Harbour Conservancy	193	193	193
Total Waste, Planning and Environment	45,925	48,167	47,794
Departmental and Corporate Support	3,356	3,530	3,546
Early achievement of savings	289	950	3,840
Net Cash Limited Expenditure	107,269	111,400	111,749