

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Environment and Transport		
Date:	15 January 2019		
Title:	2019/20 Revenue Budget Report for Environment and Transport		
Report From:	Director of Economy, Transport and Environment and Deputy Chief Executive and Director of Corporate Resources		
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1. Recommendations

To approve for submission to the Leader and the Cabinet:

- 1.1. The revised revenue budget for 2018/19 as set out in Appendix 1.
- 1.2. The summary revenue budget for 2019/20 as set out in Appendix 1.

2. Executive Summary

- 2.1. The purpose of this report is to set out proposals for the 2019/20 budget for Environment and Transport services in accordance with the Council's Medium Term Financial Strategy (MTFS) approved by the County Council in September 2018.
- 2.2. The deliberate strategy that the County Council has followed to date for dealing with grant reductions and the removal of funding that was historically provided to cover inflation, coupled with continued demand pressures over the last decade is well documented. It involves planning ahead of time, through a two-yearly cycle, releasing resources in advance of need and using those resources to help fund transformational change.
- 2.3. This strategy has served the County Council, and more particularly its services and community well, as it has delivered transformation programmes on time and on budget allowing maximum planning time and minimising disruption. Put simply, it is an approach that has ensured Hampshire County Council has continued to avoid the worst effects of funding reductions that have started to blight other local authorities.
- 2.4. In line with this financial strategy there were no new savings proposals presented as part of the 2018/19 budget setting process and the budget was

balanced through the use of the Grant Equalisation Reserve (GER). Targets for 2019/20 based on a reduction of approaching 19% in cash limited spend, were approved by the County Council in July 2016 as part of the MTFS to 2020. Proposals to meet these targets were approved by Executive Members, Cabinet and County Council in October and November 2017 and are being implemented through the Transformation to 2019 (Tt2019) Programme.

- 2.5. The report also provides an update on the financial position for the current year. Overall the outturn forecast for Environment and Transport services for 2018/19 is a saving of £6.117m resulting from planned early achievement of Tt2019 savings as well as adopting a cautious approach to business as usual budget with tight control of vacancy management and non-pay budgets in the light both of delivery challenges around the Tt2019 Programme and the need for future savings.
- 2.6. The proposed budget for 2019/20 analysed by service is shown in Appendix 1.
- 2.7. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2018/19 and detailed service budgets for 2019/20 for Environment and Transport services. 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 1 February 2019 to make final recommendations to County Council on 14 February 2019.

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 change to release resources and close the anticipated budget gap. This provides the time and capacity to properly deliver major transformation programmes every two years, with deficits in the intervening years being met from the Grant Equalisation Reserve (GER) and with any early delivery of resources retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures. The model has served the authority well.
- 3.2. The County Council's strategy placed it in a very strong position to produce a 'steady state' budget for 2018/19 and safely implement the next phase of changes through the Transformation to 2019 (Tt2019) Programme to deliver savings totalling £140m.
- 3.3. The Tt2019 Programme is progressing well and to plan, but it is clear that bridging a further gap of £140m is extremely difficult and will take longer to achieve in order to avoid service disruption. The Chief Executive's report entitled Transformation to 2019 – Report No. 5 was presented to Cabinet in December 2018 and outlined the positive progress being made.
- 3.4. The anticipated delay in the delivery of some elements of programme has been factored into our medium-term planning to ensure that sufficient one-off funding exists both corporately and within departments to meet any potential gap over the period. Taking up to four years to safely deliver service changes rather than being driven to deliver within the two-year financial target

requires the careful use of reserves as part of our overall financial strategy and further emphasises the value of our reserves strategy.

- 3.5. Budget setting for 2019/20 will therefore be different in that the majority of decisions in respect of major changes to the budget were taken early. However other factors will still affect the budget, such as council tax decisions and inflation, but these will not be as significant as the transformation programme that has already been put in place.
- 3.6. The MTFS approved by the County Council in September 2018 flagged that the expectation was for minimal change to the provisional Local Government Finance Settlement for 2019/20, the final year of the Comprehensive Spending Review (CSR). However, it was acknowledged that the Budget in the autumn could potentially contain some additional information that could impact our planning assumptions.
- 3.7. 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 one-off additional funding for both adults' and children's social care and for highways. Although this funding falls far short of the amount required and is only one-off, it does however signal that some of the pressures on local government are being recognised by the Treasury and the hope is that this will feed through to further changes within next year's CSR.
- 3.8. The provisional Local Government Settlement announced on 13 December confirmed the grant figures for 2019/20 broadly in line with the four year settlement and there has been no change to the council tax thresholds, with the exception of the police precept. The other key elements of the provisional settlement were:
 - The County Council's Revenue Support Grant (RSG) was reduced to zero in 2019/20 as part of the original four year settlement. On top of this a further £1.6m was lost as a result of 'negative RSG' which reduced the top up grant from business rates. The Government has announced that there will be no 'negative RSG' in 2019/20 and this therefore represents a benefit of £1.6m to the County Council next year.
 - A £180m surplus from the business rates levy account will be distributed pro rata to the Settlement Funding Assessment (SFA) which is a proxy for the relative need of each local authority - the County Council's allocation is £1.8m.
 - The continuation of 100% pilots in Devolution Deal Areas and fifteen 75% business rates retention pilots. Hampshire County Council's bid was unsuccessful but Portsmouth, Southampton and the Isle of Wight have had their existing pilot extended, albeit at a lower retention level (2018/19 was 100% retention).
 - £20m has been added to the settlement to maintain the New Home Bonus (NHB) baseline at 0.4% (only growth in new homes above this baseline level attract the NHB). Hampshire will receive approaching £4.9m from the NHB and this is already factored into the MTFS for next year.

- The provisional settlement confirmed the allocations of adult social care funding announced in the Budget but the Green Paper for adult social care which was originally due to be published in summer 2018 has been delayed further until next year.

3.9. Environment and Transport services have been developing their service plans and budgets for 2019/20 and future years in keeping with the County Council's priorities and the key issues, challenges and priorities for the Economy, Transport and Environment Department are set out below.

4. Departmental Challenges and Priorities

- 4.1. The Department's overarching budget strategy continues a relentless 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 major 2017 savings in highways maintenance resulting from the new Hampshire Highway Service Contract (HHSC), of the £27.6m overall revenue budget provision for highways maintenance services in 2019/20, 57% 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 43% available for routine maintenance and safety defects (the equivalent percentage figures for maintenance in 2016/17 was 50%). 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 for sold services where possible. While movement in this area is still required, the County Council remains in discussion with the Government over user charging 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; addressing the challenges remains a key priority for the Department. 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) would be expected to 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. 2018/19 Revenue Budget

- 5.1. The original cash limited budget for 2018/19 included the early achievement of Tt2019 proposals of £3.840m during the year. This figure has been exceeded by £814,000 and, after applying £2.374m of this total to fund one-off investment and costs to support transformational change during the year, the net early delivery achieved can be transferred to cost of change reserves and used to fund future transformational change or to cash flow delivery and offset service pressures.
- 5.2. Enhanced financial resilience reporting, which looks not only at the regular financial reporting but also at potential pressures in the system and the achievement of savings being delivered through transformation, has continued through periodic reports to the Corporate Management Team (CMT) and to Cabinet.
- 5.3. The budget for Environment and Transport services has been updated throughout the year and the revised budget is shown in Appendix 1. The net increase of £2.341m is made up of:
 - A one-off addition of £2m of local resources to the highways maintenance budget.
 - Inflation (e.g. pay award & business rates uplift) of £565,000.
 - A net increase to the waste disposal budget of £132,000 covering volume growth pressures.
 - A contribution towards the Parish Lengthsman Scheme of £35,000 from the Culture, Communities and Business Services Department.
 - Budget transfers of £281,000 relating to services e.g. Chichester Harbour moved out of the Environment and Transport cash limit.
 - One-off cost of change funding transferred to Culture, Communities and Business Services Department (hosting the fly-tipping co-ordination post) plus other minor adjustments (reduction of £110,000).
- 5.4. Over the past months the Government has announced several initiatives with relation to waste disposal and recycling including a consultation on a Deposit Return Scheme and the Resources and Waste Strategy published on 18 December 2018. The resulting uncertainty about the wider regulatory and financial environment in which the service will operate in future has impacted on the County Council's progress with the MRF project which underpins the planned Tt2019 saving for waste disposal. Some £3.1m of the Department's Tt2019 savings will be delayed so the County Council can better understand the Government's intentions and ensure appropriate facilities are constructed.
- 5.5. The expected outturn forecast for 2018/19 is a saving of £6.117m resulting from planned early achievement of Tt2019 savings as well as adopting a cautious approach to business as usual budget with tight control of vacancy management and non-pay budgets in the light both of delivery challenges around the Tt2019 programme and the need for future savings. This sum will be transferred to the Department's cost of change reserve at the end of the year in line with the County Council's financial strategy to be used to fund future transformational change or to cash flow delivery and offset service pressures.

6. 2019/20 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. 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. However, the size and scope of the Capital Programme, which is delivering major infrastructure improvements in Hampshire, does mean that particular pressures are being felt in professional services and project delivery areas of the Department.
- 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 Household Waste Recycling Centre (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. 2019/20 Revenue Savings Proposals

- 7.1. The Department was given a final savings target for 2019/20 of £15.805m by the County Council in February 2018 following County Council agreement that officers would continue to explore all viable options to revise or refine the savings proposals agreed with particular regard to service continuity in areas such as community transport, school crossing patrols and waste and recycling centres, while recognising that any modification to any proposal must be consistent with the financial and time imperatives of the overall programme. Proposals to meet these targets were approved by Executive Members, Cabinet and County Council in October and November 2017 and have been developed through the Tt2019 Programme.
- 7.2. Of this target, £15.685m relates to Environment and Transport services with the balance found from Economic Development.
- 7.3. During the last year, the Department has been progressing the implementation of these proposals, which have been subject to regular reporting to Cabinet and CMT.

- 7.4. It is now anticipated that full year savings of £11.897m will be achieved in 2019/20 with the shortfall of £3.908m against the target being made up from the cost of change reserve.
- 7.5. The main reasons for the shortfall relate to:
- Waste disposal £3.1m – As outlined in paragraph 5.4 above, recent Government initiatives in this area have generated uncertainty about the wider regulatory and financial environment in which the service will operate in future and this has impacted on the County Council's progress with the MRF project which underpins the planned Tt2019 saving for waste disposal. The Government's Resource and Waste Strategy was published on 18 December 2018 but the savings resulting from the MRF are expected to be delayed by at least one year.
 - Parking £0.8m – A timing delay of up to one year due to the need to give sufficient notice to District Councils currently operating on-street parking on the County Council's behalf under agency agreements and to ensure arrangements to deliver a full cost recovery approach consistently across the county are in place. The take up of revised agency arrangements is expected to be significantly reduced across the district councils.

These issues and the increasing extent to which the Department's savings programmes are dependent at least in part on the actions and decisions of others emphasise the importance of the Department's approach in taking savings early when possible and adopting a cautious approach to business as usual budget with tight control of vacancy management and non-pay budgets so one-off cost of change funding continues to be available to bridge these timing shortfalls.

- 7.6. Rigorous monitoring of the delivery of the programme will continue during 2019/20, to ensure that the Department is able to stay within its cash limited budget as set out in this report.
- 7.7. This early action in developing and implementing the savings programme for 2019/20 means that the County Council is in a strong position for setting a balanced budget in 2019/20 and that no new savings proposals will be considered as part of the budget setting process for the next financial year.

8. 2019/20 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:
- £648,000 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.
 - £193,000 relating to the precept paid each year to the Chichester Harbour Conservancy for the conservancy, maintenance and improvement of the Harbour and the Amenity Area for recreation and leisure, nature conservation and natural beauty.

9. Budget Summary 2019/20

- 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 was £102.023m of which £101.273m relates to Environment and Transport services. This was a reduction of £10.476m against the original 2018/19 budget.
- 9.2. At that stage the cash limit guidelines did not include an allowance for the second year of the two year pay award covering the 2018/19 and 2019/20 financial years. However, the required allocations have now been finalised and have been added – full details will be included in the February budget setting report. For Environment and Transport this amount is £0.817m and increases the cash limit to £102.090m which represents a net reduction of £9.659m.
- 9.3. This net reduction is made up as follows:
- The removal of the Tt2019 savings of £15.685m
 - The three-year funding arrangement providing £1m per year to develop a pipeline of major transport schemes ends in 2018/19 and the associated funding has therefore been removed from the Department's budget. Alternative arrangements to access the strategic development and infrastructure funding of £2m per year across the whole Council for the next three years agreed by Cabinet and the County Council in February 2018 are expected to allow this work to continue in 2019/20 and beyond.
 - The full year effect of budget reductions from services (e.g. Chichester Harbour) transferred out of the Environment and Transport cash limit of £292,000.
 - Inflation and allowable growth pressures (mainly relating to waste disposal and highways maintenance) of £5.764m.
 - The pay inflation adjustment referred to in paragraph 9.2 above of £817,000.
 - An increase to the waste disposal budget of £726,000 covering forecast volume growth pressures.
 - Other minor adjustments adding £11,000 in total.
- 9.4. Appendix 1 sets out a summary of the proposed budgets for the service activities provided by Environment and Transport for 2019/20 and shows that these are within the cash limit, including provision for the 2019/20 pay award, set out above.
- 9.5. In addition to these cash limited items there are further budgets which fall under the responsibility of the Economy, Transport and Environment Department, which are shown in the table below:

	2019/20	
	£'000	£'000
Cash Limited Expenditure	139,327	
Less Income (Other than Government Grants)	(37,237)	
Net Cash Limited Expenditure		102,090
Flood Protection Levy		648
Chichester Harbour Conservancy		193
Less Government Grants:		
• Lead Local Flood Authority	(96)	
• Bikeability	(305)	
• Bus Service Operators Grant	(1,068)	
Total Government Grants		(1,469)
Total Net Expenditure		101,462

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) https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=170&MId=438	19 September 2017
Medium Term Financial Strategy Update and Transformation to 2019 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments	Cabinet - 16 October 2017 County Council – 2 November 2017
Revenue Budget and Precept 2018/19 and Capital Programme 2018/19 to 2020/21 https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=163&MId=329	Cabinet – 5 February 2018 County Council – 22 February 2018
Looking Ahead - Medium Term Financial Strategy https://democracy.hants.gov.uk/ieIssueDetails.aspx?Id=10915&PlanId=0&Opt=3#AI8687	Cabinet - 18 June 2018 County Council – 20 September 2018
Budget Setting and Provisional Cash Limits 2019/20 (Cabinet) https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&MId=3479	10 December 2018

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.)

Document

Location

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 2019/20 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:

<https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&MId=737>

2. Impact on Crime and Disorder:

2.1 The report does not contain any proposals which impact on crime and disorder.

Climate Change:

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

The report does not contain any proposals which 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 which will impact on climate change.

Budget Summary 2019/20 – Environment and Transport

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Highways Maintenance	11,392	14,024	12,244
Street Lighting	9,969	9,969	10,125
Winter Maintenance	6,144	5,594	5,732
Concessionary Fares	13,118	13,118	13,222
Other Public Transport	5,297	5,441	3,249
Road Safety & Traffic Management	1,292	1,400	1,543
Other Highways, Traffic & Transport Services	(48)	(46)	(996)
Staffing and Operational Support	9,405	10,157	7,324
Highways, Traffic and Transport	56,569	59,657	52,443
Waste Disposal	46,315	47,106	45,044
Environment	319	305	297
Strategic Planning	967	1,038	762
Chichester Harbour Conservancy	193		
Waste, Planning and Environment	47,794	48,449	46,103
Departmental and Corporate Support	3,546	3,704	3,494
Early achievement of savings	3,840	2,280	50
Net Cash Limited Expenditure	111,749	114,090	102,090