

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Executive Member for Economy, Transport and Environment
Date of Decision:	19 January 2016
Decision Title:	Revenue budget report for Economy, Transport and Environment for 2016/17
Decision Reference:	7225
Report From:	Director of Economy, Transport and Environment and Director of Corporate Resources – Corporate Services

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1. Executive Summary

- 1.1. The purpose of this report is to set out proposals for the Economy, Transport and Environment budget for 2016/17 in accordance with the Council's Medium Term Financial Strategy (MTFS) reported to Cabinet in October 2015.
- 1.2. The County Council's early action in tackling its forecast budget deficit over the 2010 Comprehensive Spending Review (CSR) period and providing funding in anticipation of the tougher times to come, placed it in a very strong financial position and has given the time and capacity to develop and implement the next phase of savings of £98million of savings by 2017/18.
- 1.3. 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 the department in 2016/17. Any early achievement of savings proposals during 2016/17 as part of the Transformation to 2017 Programme will be retained by the Department to use for cost of change purposes.
- 1.4. The report also provides an update on the financial position for the current year. Overall the Department is expected to achieve a saving against the revised budget of £1.747million.
- 1.5. The report also reviews the level of charges for the provision of services in section 5 and provides a summary of charges in Appendix 1.
- 1.6. The proposed budget for 2016/17 analysed by service is shown in Appendix 2 and the workforce implications of the budget proposals are set out in Appendix 3.

- 1.7. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2015/16 and detailed service budgets for 2016/17 for Economy, Transport and Environment Department. 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 2016 to make final recommendations to County Council on 18 February 2016.

2. Context and Priorities

- 2.1. 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 means that there are no Departmental savings targets built into the 2016/17 budget. Other factors will still affect the budget, such as council tax decisions and inflation.
- 2.2. Following the General Election in May 2015, it was announced that Government Departments had been asked to draw up plans to tackle real terms reductions of 25% and 40% over the next four years. However it was always recognised that the distribution of these reductions between Government Departments and consequently different tiers of local government would not be uniform.
- 2.3. The provisional local government finance settlement was announced on 17 December, which provided figures for local authorities for the next four financial years. Unusually, the settlement included a major revision to the methodology for distributing Revenue Support Grant (RSG), which has had a major impact on Shire Counties and Shire Districts. Significant changes to methodology like this are usually consulted on by the Government over the summer ahead of the settlement announcement, but no such warning was given this year.
- 2.4. The impact of the change in methodology is that the County Council has had a reduction in grant of £48m in 2016/17, which is equivalent to a 37.4% cut compared to an adjusted 2015/16 base level of grant. This is £29m higher than anticipated in the Medium Term Financial Strategy.
- 2.5. Part of the reason for the significant impact on the County Council is that the re-distribution of RSG takes into account the ability to raise revenue through council tax. The Government is assuming that all classes of authority will increase council tax over the next four years by the maximum permissible.
- 2.6. For Hampshire our maximum council tax increase would include the additional flexibility of 2% for social care costs on top of the referendum limit of 1.99%, a total of 3.99% per annum, which is just over £41 for a band D property in 2016/17.
- 2.7. The County Council will respond to the Government's consultation on the provisional local government finance settlement, making it clear that this will have a significant impact on the County Council's ability to meet the predicted budget deficit over the next four years, particularly in the face of rising social care costs in respect of the impact of the National Living Wage on the private social care sector.

- 2.8. Based on the figures we have been given however the additional reduction of £29m in Government grant announced in December, offset by an assumed increase in council tax of 3.99% and collection fund surpluses still means that there is an anticipated budget gap for 2016/17 of around £55m that needs to be addressed.
- 2.9. The County Council had always planned to meet the deficit in 2016/17 by drawing on the Grant Equalisation Reserve in line with the MTFS and, fortunately, sufficient funding already exists within the reserve to meet the predicted gap of £55m outlined above, however the implications on the Medium Term Financial Strategy are significant both in terms of the impact of the Transformation to 2017 Programme and the financial outlook to 2019/20, further details of which will be included in the Budget report to Cabinet in February .
- 2.10. As part of the ongoing transformation programme across the County Council, the Economy, Transport and Environment Department has been developing service plans and budgets for 2016/17 and future years in keeping with the County Council's priorities and the key issues, challenges and priorities for the Department are set out below.

Departmental Challenges and Priorities

- 2.11. The Department's overarching budget strategy continues the focus on core service delivery around Highways, Waste Management, Transport, Economic Development and statutory planning services whilst seeking to optimise efficient, effective and outcome focussed service delivery for customers. With over 70% of gross costs relating to external spend relationships with our key private sector service delivery partners remain critical to the Department's ongoing success. The newly let HWRC management contract, the extension to the waste disposal contract and the new Hampshire Highways Service Contract from 2017 will help to support and deliver further innovation and efficiency savings as well as support development of new operating models in these service areas.
- 2.12. Staff retention and recruitment issues remain challenging as the private sector is increasingly willing and able to offer more competitive rates of pay to key groups of staff such as transport planners and engineers whose skills are in short supply nationally. With a very significant capital programme to deliver and maintain, even utilising temporary staff with similar skills on an interim basis is proving difficult. The Department is responding by continuing its use of apprenticeships and developing and expanding student placements and sponsorship through closer working with universities but costs associated with retention and recruitment issues continue to put pressure on the overall staffing budget.
- 2.13. The capital programme continues to be significant with a proposed three year programme 2016/17 to 2018/19 of £183.4m of which £61.8m (34%) is funded from Local Enterprise Partnership (LEP) Local Growth Deal money secured following competitive bidding processes. This level of funding is delivering much needed investment in transport infrastructure but preparing and submitting bids and securing planning permission requires considerable revenue staff resource. In addition the pressure on revenue funding means

the Department has to consider the specification of materials and finishes on schemes, and consider the expected future maintenance costs of the new inventory at an early stage of bid development to ensure proposals are affordable over the life of the asset. Expectations by grant providers of ever greater provision of local match funding in areas such as Flood Defence Grant in Aid and the Local Growth Fund also mean that local capital resources are under greater pressure.

- 2.14. Waste volume growth (due to demographic growth) and falling recycling rates (reflecting the national trend) together with the impact of legislative changes in this area represent a significant risk to the financial position of the Department. It is estimated that the planned 76,000 new houses by 2026 would add £2.5m to waste disposal costs based on average waste production. The variable performance across Hampshire in terms of per capita waste arisings and recycling rates also puts additional pressure and cost into the overall waste management system.

3. 2015/16 Budget

- 3.1. The cash limited budget for 2015/16 included savings of £13.194m to be delivered during the year. Savings proposals were developed as part of the Transforming the Council to 2015 programme, which was formally closed in March 2015. Enhanced financial resilience monitoring has continued through monthly reports to the Corporate Management team and periodic reports to Cabinet.
- 3.2. It is now anticipated that savings of £12.359m will be achieved by 2015/16 with the timing shortfall against the target being made up from the cost of change reserve.
- 3.3. The main reason for the under achievement by 2015/16 relates to timing:
- The negotiations on the waste disposal contract resulted in a phased approach with 77% of the agreed savings available in 2015/16 and the balance in 2017/18.
 - While the agreed 2015 savings from Household Waste Recycling Centres will be achieved in full the timings associated with the procurement process mean the contract through which the majority of these savings will be delivered does not start until 1 April 2016.
 - The timing shortfall has been met from the Department's cost of change reserve built up from the early achievement of savings during 2014/15.
- 3.4. The budget for the department has been updated throughout the year and the revised budget is shown in Appendix 4. The early achievement of 2017 savings mainly through the Enhanced Voluntary Redundancy programme earlier in 2015 together with other 'business as usual' savings and the release of holding account balances no longer required has contributed to an expected outturn forecast for 2015/16 of a saving against the revised budget of £1.747million.

Budget 2016/17

4. Revenue Savings Proposals

- 4.1. In line with the current financial strategy, there are no new savings proposals presented as part of the 2016/17 budget setting process. Savings targets for 2017/18 were approved as part of the 2015/16 budget setting process and detailed savings proposals have been developed through the Transformation to 2017 Programme and were approved by Executive Members, Cabinet and County Council in September and October last year.
- 4.2. Some savings will be implemented prior to April 2017 and any early achievement of savings in 2016/17 can be retained by departments to meet cost of change priorities. It is anticipated that £4.947million of savings will be achieved in 2016/17 and this has been reflected in the detailed estimates contained in Appendix 2.

5. Review of charges

- 5.1. For Economy, Transport and Environment, the 2016/17 revenue budget includes income of £853,000 from fees and charges to service users. This is an increase of £58,000 (7.3%) on the adjusted original budget for 2015/16. Two of these charges were subject to a review earlier in 2015 and a revised charging schedule was approved by the Executive Member in July 2015. Excluding the impact of these changes the impact of the increases proposed is £23,000 (4%).
- 5.2. Details of current and proposed fees and charges (where these are specifically defined) for 2016/17 are outlined in Appendix 1.

6. Other expenditure

- 6.1. The budget includes some items which are not counted against the cash limit. This includes budgets for central department support services (except where they have been given to service departments to buy services), and repair and maintenance of buildings. It also includes costs of Member Support within Economy, Transport and Environment and budgets that are rechargeable to Policy and Resources for corporate and democratic core services.
- 6.2. For Economy, Transport and Environment this also includes a sum of £603,000 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.

7. Budget summary 2016/17

- 7.1. The budget update report presented to Cabinet in December included provisional cash limit guidelines for each department. The cash limit for Economy, Transport and Environment in that report was £111m.

- 7.2. Appendix 2 sets out a summary of the proposed budgets for the service activities provided by the Department for 2016/17 and show that these are within the cash limit set out above.
- 7.3. This net position excludes central items such as repairs and maintenance, support service charges and capital charges which will be added as part of the overall budget reported to Cabinet and County Council in February.

8. Workforce implications

- 8.1. The workforce implications of the proposed budget for 2016/17 are summarised in the table in 8.2 and set out in more detail in Appendix 3.
- 8.2. At the end of 2016/17 the planned workforce for Economy, Transport and Environment is 676 full time equivalent (FTE) staff.
- 8.3. Key changes include the impact of the Enhanced Voluntary Redundancy programme in early 2015 (total reduction of 58.3 fte posts with the balance of the savings in 2017/18), a transfer of 11.6 fte minibus driver posts from Culture, Community & Business Services Department and a temporary increase of 9 fte posts funded from cost of change to support the transition to new operating models.

	FTEs
Original estimated FTE posts as at 31 March 2016	704
Changes relating to early EVR	(41)
Transfers and other changes	19
Revised estimate as at 31 March 2016	682
Changes relating to EVR	(16)
Transfers and other changes	10
FTE estimated posts as at 31 March 2017	676

9. Recommendations

To approve for submission to the Leader and Cabinet:

- 9.1. The annual review of income and charges (as set out in Appendix 1).
- 9.2. The revised budget for 2015/16 (as set out in Appendix 2).
- 9.3. The summary budget for 2016/17 (as set out in Appendix 2).
- 9.4. The workforce implications of the proposed budget for 2016/17 (as set out in Appendix 3).

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	Yes
Corporate Business plan link number (if appropriate):	
Maximising well-being:	No
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	Yes
Corporate Business plan link number (if appropriate):	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>		<u>Date</u>
None		

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>
Medium Term Financial Strategy Update and Transformation to 2017 Savings Proposals	Cabinet – 5 October 2015
Budget Setting and Provisional Cash Limits 2016/17	Cabinet – 7 December 2015

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 2016/17 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 2017 Programme were considered in detail as part of the approval process carried out in September and October 2015 and full details of the Equalities Impact Assessments relating to those changes can be found in Appendices 3 to 6 in the October Cabinet report linked below:

http://www3.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemdocuments.htm?sta=&pref=Y&item_ID=6920&tab=2&co=&confidential=

2. Impact on Crime and Disorder:

2.1. N/A

3. Climate Change:

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

N/A

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

N/A

Department

Review of income 2016/17

	Total Income (16/17 Budget) £	Current Charge £	Proposed Increase %	Proposed New Charge £
Mandatory/National Charges:				
None				
Discretionary Charges:				
Road Traffic Incident (RTI) damage – recovery of engineering and administration costs (costs of work required are charged at cost)	20,000	63.00	-	63.00
Non-RTI damage, including vehicle access – recovery of engineering and administration costs (costs of work required are charged at cost, and in addition to this fee) (1)	154,000	68.00	10	75.00
Vehicle access – recovery of design and supervision costs (costs of work required are charged at cost, and in addition to this fee) (1)	136,000	148.00	18	175.00
Land Search Fees	346,000	19.50	5	20.50
Extinguishment of Public Rights of Way Fees	12,000	3,520.00	2.5	3,605.00
Land Status Fees	138,000	49.50	2.5	50.75
Concessionary Fares – replacement of lost passes	25,000	10.50	5	11.00
Road Safety – Older Drivers Courses	22,000	31.50	11	35.00
Economy, Transport and Environment Total	853,000			
(1) These changes have already been approved.				

**Department
Budget summary 2016/17**

Service Activity	Original Budget 2015/16 £000	Revised Budget 2015/16 £000	Proposed Budget 2016/17 £000
Highways Maintenance	16,109	16,075	15,851
Street Lighting	9,458	9,458	9,793
Winter Maintenance	5,870	5,870	6,011
Concessionary Fares	13,383	13,369	13,625
Other Public Transport	5,501	5,464	5,145
Road Safety	1,681	1,819	1,659
Other Highways, Traffic & Transport Services	(13)	(13)	(18)
Staffing & Operational Support	10,460	10,490	8,346
Total Highways, Traffic & Transport	62,449	62,532	60,412
Waste Disposal Contract	35,153	40,771	40,189
Environment & Other Waste Management	364	915	643
Strategic Planning	1,680	1,257	1,017
Chichester Harbour Conservancy	187	187	191
Total Waste, Planning & Environment	37,384	43,130	42,040
Economic Development	948	971	754
Departmental & Corporate Support	2,989	2,979	2,847
Early achievement of savings	0	1,449	4,947
Total	103,770	111,061	111,000

Department
Workforce implications (full-time equivalent posts)

Service Activity	Original Estimated Staff Numbers 31.3.2016	Changes relating to early EVR	Transfers and other changes*1	Revised Estimate 31.3.2016	Changes relating to EVR	Transfers & Other Changes*2	Estimated Staff Numbers 31.3.2017
Highways, Traffic and Transport	541	(27)	18	532	(15)	15	532
Waste, Planning and Environment	90	(6)	3	87	0	(5)	82
Economic Development	18	(2)	(1)	15	(1)	0	14
Departmental and Corporate Support	55	(6)	(1)	48	0	0	48
Total	704	(41)	19	682	(16)	10	676

*1 Includes:

- Temporary additional interim posts funded from cost of change to support the transition to new operating models : 9 fte posts
- Posts funded from new income or recharges including capital : 14 fte posts
- Other adjustments : net reduction of 4 fte posts

*2 Includes a transfer from Culture, Community and Business Services Department of 12 fte posts relating to minibus drivers.