Agenda item: 4

HAMPSHIRE COUNTY COUNCIL

Decision report

Decision Maker:	Executive Member for Environment and Transport
Date of Decision:	19 January 2017
Decision Title:	2017/18 Revenue Budget Report for Environment and Transport
Decision Reference:	8061
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 2017/18 budget for Environment and Transport budgets in accordance with the Council's Medium Term Financial Strategy (MTFS) approved by the County Council in July 2016.

1.2. The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of austerity, which involves planning ahead of time, making savings in advance of need and using those savings to help fund transformational change to generate the next round of savings, is well documented.

1.3. In line with this financial strategy, there were no new savings proposals presented as part of the 2016/17 budget setting process and the budget was balanced through the use of the Grant Equalisation Reserve (GER). Savings targets for 2017/18 were approved as part of the 2015/16 budget setting process and detailed savings proposals were developed through the Transformation to 2017 (Tt2017) Programme and approved by Executive Members, Cabinet and County Council in September and October 2015.

1.4. The report also provides an update on the financial position for the current year and overall the Department is expected to achieve a saving against the revised budget of £7.231million, mainly due to the early achievement of Tt2017 savings.

1.5. The proposed budget for 2017/18 analysed by service is shown in Appendix 1 and the workforce implications of the budget proposals are set out in Appendix 2.

1.6. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2016/17 and detailed service budgets for 2017/18 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 3 February 2017 to make final recommendations to County Council on 16 February 2017.

2. Context and Priorities

2.1. The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering Departmental savings 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) and early achievement of savings proposals retained by Departments to use for cost of change purposes or to offset service pressures.

2.2. The County Council's early action in tackling its forecast budget deficit over the prolonged period of austerity and providing funding in anticipation of the tougher times to come, placed it in a very strong position to produce a 'steady state' budget for 2016/17, giving itself the time and capacity to develop and implement the Transformation to 2017 (Tt2017) Programme to deliver the next phase of £98m of savings by 2017/18.

2.3. The budget setting process for 2017/18 will therefore be different in that the majority of the 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 pressures as outlined later in this report, but these will not be as significant as the savings programme that has already been put in place.

2.4. Last year the Final Local Government Finance Settlement was announced on 8 February 2016, and provided definitive figures for 2016/17 and provisional figures for local authorities for the following three financial years to aid financial planning.

2.5. The figures for 2017/18, 2018/19 and 2019/20 set out in the settlement resulted in an increase in the County Council's revenue gap to be bridged in each of these years. In 2017/18 the bottom line impact was that a further £15m was required, on top of the £98m of savings to be delivered from Tt2017 Programme to produce a balanced budget.

2.6. The July 2016 Medium Term Financial Strategy (MTFS) updated the overall position in respect of the 2017/18 budget gap and the allocation of transitional funding as a result of the final settlement announcement of £9.4m in 2016/17 and £9.3m in 2017/18 enabled the gap in 2017/18 to be closed; managed through the GER.

2.7. This position is underpinned by the delivery of Tt2017 savings and regular updates on the programme have been provided to Cabinet during 2016. Whilst there are acknowledged timing issues, the current assessment remains that the shortfall can be made up from departmental cost of change reserves on a one-off basis as savings come on line throughout 2017/18, leading to full implementation of the programme by 2018/19.

2.8. Other assumptions included in the MTFS that have been built into the 2017/18 budget proposals are:

- A 3.99% council tax increase, 2% for social care costs on top of the referendum limit of 1.99%.
- Total inflation and growth across all departments of £24.7m which includes the impact of the 2 year pay award for 2016/17 and 2017/18.
- ‘Passporting’ of any further losses of specific grant to the relevant services

2.9. The Economy, Transport and Environment Department has been developing its service plans and budgets for 2017/18 and future years in keeping with the ‘Shaping Hampshire’ priorities and the key issues, challenges and priorities for Environment and Transport services are set out below.

3. Departmental Challenges and Priorities

3.1. 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). With around 70% of the Department’s gross costs relating to external spend the 2017/18 savings proposals previously developed and agreed also targeted this area with 70% of the Department’s Tt2017 savings identified in highways maintenance, waste disposal and other contracted services. However, of the £28.1m overall budget provision for highways maintenance services in 2017/18, 56% 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 44% available for routine maintenance and safety defects (the equivalent figures for 2016/17 are 49.9% and 50.1% respectively). Scope for further reductions in these areas will be restricted both by contractual obligations (which have been reviewed and re-negotiated as part of Tt2017) and the need to maintain a safe highway network, in line with the statutory duties of a Highway Authority.

3.2. A further focus for the Department in developing its 2017 savings was to look to retain services, capacity and expertise by charging for services or developing a broader client base where possible. Without Government movement in this area it is less likely that key services such as Household Waste Recycling Centres will be able to be protected in this way in future.

3.3. 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. The re-negotiation of the waste disposal contract has contributed towards both the 2015 and 2017 savings by reducing the annual unit cost of disposing of waste arisings. A key priority for the Department is therefore to address rising waste volumes and falling recycling rates to reverse current trends. In future the focus will need to move to enabling capital investment in waste infrastructure and increasingly sophisticated and targeted behaviour change campaigns. The waste service budget is also 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.

4. 2016/17 Budget

4.1. The cash limited budget for Environment and Transport services in 2016/17 included the early achievement of savings of £5.096m during the year. These and any further savings achieved during the year can be transferred to cost of change reserves and used to fund any future costs of change.

4.2. Enhanced financial resilience monitoring, which looks not only at the regular financial reporting carried out in previous years but also at potential pressures in the system and the early achievement of savings being delivered through transformation, has continued through monthly reports to CMT and periodic reports to Cabinet.

4.3. The expected outturn forecast for 2016/17 is a saving against the budget of £7.231m, mainly due to the early achievement of Tt2017 savings.

4.4. There is an opportunity early in 2017 to bid for major Department for Transport (DfT) capital funding from tranche 2 of the Challenge Fund and a bid relating to major maintenance works at Redbridge Causeway is being developed. In order to submit a bid with maximum chance of success it is proposed to utilise £950,000 of this saving to provide additional match funding for the bid (total scheme value in excess of £20m). It is also proposed to allocate a further £650,000 to enable capital works to bring Bourley Road near Aldershot up to adoption standard. Executive Member approval to adopt the road was given in April 2012 but delays relating to land issues have led to significant deterioration of the road which carries significant numbers of vehicles daily and provides both residential access and a link to a business park. The Executive Member is asked to approve the virement of both these sums to the 2016/17 Environment and Transport capital programme.

4.5. The budget for Environment and Transport services has been updated throughout the year and the revised budget is shown in Appendix 1. The revised budget does not reflect the proposals in 4.4 above.

4.6. The increase of £11.958m between the original and revised budget for Environment and Transport services is made up of:

- £4.266m relating to the extension of the waste disposal contract and the subsequent adjustment to the technical accounting split of the budget with budget provision previously held corporately being transferred to the department (no overall change to costs or budget provision)
- The reinvestment of the £1.8m 2015/16 winter maintenance saving into highways maintenance in 2016/17 approved by Cabinet in June 2016
- The addition of £1m per year for three years to fund the revenue costs of competitive bidding for capital funding approved by Cabinet in February 2016
- Sustainable Travel Transitional Year grant funding of £444,000 for 2016/17
- Use of £1.003m temporary cost of change funding to support transformational savings delivery
- An adjustment to reflect waste disposal contractual obligations relating to inflation and throughput (£3.137m)
- Impact of the pay award (£236,000)
- Other adjustments (£72,000) including a one-off transfer from CCBS to support a broadening of the Parish Lengthsman Scheme.

5. 2017/18 Revenue Budget Pressures and Initiatives

5.1. 2017/18 will see the transition to the new Hampshire Highways Service Contract. The current contract, which came into force in 2008 will come to an end in July 2017. The new contract, from August 2017, is designed to reflect the new operating model for the highways service and will drive and support the delivery of significant savings in Highway service operations. However both the timing and the process of transition will bring significant operational challenges (the summer season sees a peak in activities which are weather dependent and the start date in August means a relatively short lead-in time to the winter period). A comprehensive planning exercise is underway to minimise the risk of service disruption and funding has been set aside in the Department's cost of change reserve to support the contract mobilisation process but the comprehensive nature of the change means operational and, potentially, budget pressures are possible during 2017/18.

5.2. 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 2017/18 is at the lowest level for many years in real terms. Experience from 2016/17 of where the Department has implemented savings early, 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. 2017/18 Revenue Savings Proposals

6.1. The Economy, Transport and Environment Department was given a savings target for 2017/18 of £14.7m of which £14.4m related to Environment and Transport budgets. The target was approved as part of the 2015/16 budget setting process and detailed savings proposals were developed through the Tt2017 Programme and approved by Executive Members, Cabinet and County Council in September and October 2015.

6.2. During the last year, the Department has been progressing the implementation of these savings, which have been subject to regular reporting to Cabinet and CMT.

6.3. The plans put in place for Environment and Transport services will fully achieve the savings required with a small over-achievement of £287,000 once the programme is fully implemented. Known timing shortfalls (mainly in relation to the timing of phase two of the waste disposal contract extension) will be covered by utilising the Department's cost of change reserve.

6.4. Rigorous monitoring of the delivery of the programme will continue during 2017/18, to ensure that the Department is able to stay within its cash limited budget as set out in this report.

6.5. This early action in developing and implementing the savings programme for 2017/18 means that the County Council is in a strong position for setting a balanced budget in 2017/18 and that no new savings proposals will be considered as part of the budget setting process for 2017/18.

7. 2017/18 Revenue Budget Other Expenditure

7.1. The budget includes some expenditure which is not counted against the cash limit. For Environment and Transport this is a sum of £623,000 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.

8. Budget Summary 2017/18

8.1. 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 £107.3m relating to Environment and Transport services which was a £15.2m decrease from the 2016/17 revised budget. The main elements making up the net reduction are:

- Removal of the savings target (£14.4m)

- Removal of the one-off reinvestment of the 2015/16 winter maintenance saving (£1.8m)
- Removal of one-off cost of change funding (£1.003m)
- Grant funding ended or reducing (£539,000)
- Addition of inflation (£3.12m)
- Technical adjustment (waste disposal – reduction of £395,000)

8.2. Appendix 1 sets out a summary of the proposed budgets for the service activities provided by the Department for 2017/18 and shows that these are within the cash limit set out above.

8.3. In addition to these cash limited items there are further budgets which fall under the responsibility of this department, which are shown in the table below:

	2017/18 £'000	**2017/18 £'000**
Cash Limited Expenditure	148,039	
Less Income (Other than Government Grants)	(40,770)	
Net Cash Limited Expenditure		**107,269**
Flood Protection Levy		623
Less Government Grants:		
• Bikeability	(305)	
• Bus Service Operators Grant	(1,068)	
Total Government Grants		(1,373)
Total Net Expenditure		**106,519**

9. Workforce implications

9.1. The workforce implications of the proposed budget for 2017/18 are set out in Appendix 2. At the end of 2017/18 the planned workforce for Environment and Transport is 664 full time equivalent (FTE) staff. This compares with the estimate at the end of 2016/17 of 662 FTEs which is an increase of 2 FTEs as summarised below:

	FTEs
Estimate as at 31 March 2017	662
Changes relating to savings targets	(13)

Transfers and other changes	15
Estimate as at 31 March 2018	**664**

9.2. The changes relating to savings targets refer to the reduction of two fte posts where the EVR exit date was deferred and eleven vacant fte posts which are to be deleted.

9.3. The estimated position as at 31 March 2017 included an expected transfer from the Culture, Communities and Business Services Department of 12 fte minibus driver posts which did not ultimately take place. Other changes during 2016/17 include 7 fte temporary additional posts supporting the Department's transformation programme with funding from the cost of change reserve and 10 fte posts funded from increased capital activity, external income or grant.

9.4. The estimated numbers as at 31 March 2018 incorporate a further 10 fte temporary posts to support the delivery of the transformation programme including the transition to new operating models. These posts will be funded from the Department's cost of change reserve.

10. Recommendations

To approve for submission to the Leader and Cabinet:

10.1. The revised budget for 2016/17 as set out in Appendix 1.

10.2. The summary budget for 2017/18 as set out in Appendix 1.

10.3. The workforce implications of the proposed budget for 2017/18 as set out in Appendix 2.

The Executive Member is asked to approve:

10.4. The virement of a sum of £950,000 to the Economy and Transport 2016/17 capital programme to provide additional match funding for the Redbridge Causeway Challenge Fund bid.

10.5. The virement of £650,000 to the Economy and Transport 2016/17 capital programme to fund the works needed to bring Bourley Road near Aldershot up to adoption standard.

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:	Yes
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	Yes
Corporate Business plan link number (if appropriate):	

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
Medium Term Financial Strategy Update and Transformation to 2017 Savings Proposals	Cabinet – 5 October 2015
Medium Term Financial Strategy to 2020	Cabinet – 20 June 2016
Budget setting and provisional cash limits 2017/18	Cabinet – 12 December 2016

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 disproportionally low.

1.2. **Equalities Impact Assessment:**

The budget setting process for 2017/18 does not contain any new proposals for major service changes which might 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://www.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemdocuments.htm?sta=&pref=Y&item_ID=6920&tab=2&co=&confidential

Equalities Impact Assessments are an ongoing part of the implementation of the Transformation to 2017 programme.

2. Impact on Crime and Disorder:

2.1 The proposals in this report have no direct impact on crime and disorder.

3. Climate Change:

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

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

The proposals have no impact on climate change.

Budget Summary 2017/18 – Environment and Transport Department

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Highways Maintenance	15,931	17,963	12,346
Street Lighting	9,823	9,581	9,741
Winter Maintenance	6,011	5,851	5,996
Concessionary Fares	13,625	13,625	13,886
Other Public Transport	5,145	5,145	5,117
Road Safety	1,952	1,944	1,767
Other Highways, Traffic and Transport Services	(60)	(49)	(43)
Staffing and Operational Support	8,464	9,868	8,889
Total Highways, Traffic and Transport	**60,891**	**63,928**	**57,699**
Waste Disposal Contract	40,189	48,308	44,187
Environment and Other Waste Management	643	817	680
Strategic Planning	1,017	1,004	865
Chichester Harbour Conservancy	191	189	193
Total Waste, Planning and Environment	**42,040**	**50,318**	**45,925**
Departmental and Corporate Support	**2,847**	**3,151**	**3,356**
Early achievement of savings	4,757	5,096	289
Net Cash Limited Expenditure	**110,535**	**122,493**	**107,269**

Workforce Implications Full Time Equivalent (FTE) – Environment and Transport Services

Service Activity	Original Estimated Staff Numbers 31.3.2017 FTE	Impact of Savings Proposals [1] FTE	Transfers & Other Changes [2] FTE	Estimate 31/03/2018 FTE
Highways, Traffic and Transport	532	(8)	(4)	520
Waste, Planning and Environment	82	(5)	3	80
Departmental and Corporate Support	48	0	16	64
Total	**662**	**(13)**	**15**	**664**

(1) Reductions of 2 fte positions where the EVR exit date was deferred and 11 fte vacant posts deleted

(2) Includes:

- The reversal of a transfer from Culture, Communities and Business Services Department relating to minibus drivers which was proposed in January 2016 and did not ultimately take place: reduction of 12 fte posts
- Temporary additional interim posts funded from cost of change to support the transformation programme including the transition to new operating models: 7 fte posts in 2016/17 and a further 10 fte posts in 2017/18 (total of 17 temporary fte posts)
- Other posts funded from increased capital activity, external income or grant: 10 fte posts