

HAMPSHIRE COUNTY COUNCIL**Report for Information**

Title:	Revenue Budget Report for Environment for 2011/12
Presented to:	Environment and Transport Select Committee
Presented by:	Director of Environment and The County Treasurer
Date:	26 January 2011

Decision Maker:	Executive Member - Environment
Date of Decision:	26 January 2011
Decision Title:	Revenue Budget Report for Environment for 2011/12
Decision Reference:	2514
Report From:	The County Treasurer and Director of Environment

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1. Executive Summary

- 1.1. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2010/11 and detailed proposals for the 2011/12 budget. A medium term financial plan to cover the period 2012/13 to 2014/15 will be developed for consideration by the Cabinet later in 2011.
- 1.2. This report has been prepared in consultation with the Executive Member for Environment and will be reviewed by the Environment and Transportation Select Committee. It will be reported to the Leader and Cabinet on 11 February 2011 to make final recommendations to County Council on 28 February 2011.
- 1.3. The report considers revisions to the 2010/11 budget. In respect of the 2011/12 budget the report includes detailed proposals for efficiency improvements and other savings, the annual review of income and charges and the workforce implications of the proposed budget.
- 1.4. The budget proposals contained in this report are derived from the corporate workstreams and departmental service plans which have been developed to

support the priorities of the Corporate Strategy. A revenue budget amounting to £111.1 million is proposed for 2011/12 in support of the Environment services' aims and objectives.

2. Contextual information

2.1. The Cabinet agreed a three year budget plan for 2010/11 to 2012/13 in February 2010. This included proposals for corporate efficiency savings of £15 million per annum in 2011/12 and 2012/13 in view of the expected reduction in Government grant from 2011/12. However, as the extent and pace of the public spending reductions required to consolidate the public finances has become clearer, the budget plan for 2011/12 and 2012/13 has been reviewed during the spring and summer of 2010. Following the new Government's Emergency Budget in June, the Cabinet approved an Efficiencies and Expenditure Reduction Programme in July 2010. Its main features were as follows:

- planning on the basis of an 8% per annum reduction in service budgets in 2011/12 and 2012/13, in addition to the previous £15 million corporate efficiency savings target, in anticipation of a reduction in Government grant over 15% in 2011/12; and
- establishing a number of corporate efficiency workstreams designed to minimise the impact on front line services of achieving the planned spending reductions.

2.2. The subsequent Spending Review announcement in October 2010, and the Revenue Support Grant settlement in December 2010, have confirmed that spending reductions on the scale planned are both sufficient and necessary to meet the actual reductions in Government grant that have now been announced. The grant settlement covers the two year period 2011/12 and 2012/13 and the County Council's loss of formula grant is 14.3% and 10.4% in the two years respectively. Although the majority of the former specific and area based grants have been transferred into formula grant, the reduction in the remaining grants is in excess of 20% in 2011/12. In December 2010 the Cabinet therefore confirmed that service budgets should be prepared on the basis of the planned 8% reduction in spending and that, in addition, reductions in specific and area based grants should be 'passported' to the relevant service, to the extent that the reduction in grant exceeds the savings relating to grant funded expenditure in the service's savings proposals.

2.3. Although the Spending Review covers the four year period to 2014/15, the Government proposes to carry out a review of grant distribution arrangements prior to 2013/14, so that the Government grant payable to the County Council in 2013/14 and 2014/15 is uncertain. In view also of the tight timescale for formulating the 2011/12 budget following a relatively late grant settlement, proposals for a medium term financial plan covering the period 2012/13 to 2014/15 will be submitted to the Cabinet later in 2011.

- 2.4. The budget strategy is closely linked to the Corporate Strategy and Corporate Improvement Plan to ensure that savings are achieved, where possible, in accordance with the corporate workstream priorities agreed by the Cabinet.
- 2.5. For this service, the budget guideline for 2011/12 is £111.1 million.

Key Issues

3. Revised budget:

- 3.1. The cash limit for the revised budget is £102.4 million. The calculation is shown in Appendix 4. In line with the revised financial management policy, all underspends in cash limited budgets will be carried forward within the cash limit to be used to contribute to and support the change agenda. Such expenditure will be in consultation with the Treasurer.
- 3.2. Following the introduction of vacancy management measures in July, the Environment Department has now fully achieved the vacancy savings target of £0.9 million built into the 2010/11 budget. Taking account of current vacancies and making modest assumptions for further vacancies, a further underspending of £0.7 million is forecast on the department's staffing and operational support budget this year.
- 3.3. In addition, some £0.5 million of cost savings have been achieved from the implementation of the street lighting Private Finance Initiative (PFI) project, in line with expectations, as well as other cost savings of £0.4 million, mainly through reduced contributions to the Safer Roads Partnership.
- 3.4. Overall, an underspending of £1.6 million is predicted. This sum is being retained in the 2010/11 revised budget to be used in support of the change agenda, including the implementation of the various corporate workstreams in delivering budget reductions in 2011/12 and 2012/13.
- 3.5. The 2010/11 revised budget includes allocations of just £4,000 during the first half of the year from the £0.8 million central waste management contingency, to reflect variations in waste contract related costs. Waste management volumes continue to show year-on-year reductions, with the figures for the first half of the year being 1.1% lower than in 2009/10. The limited calls to date on the waste management contingency suggest that expenditure during 2010/11 is likely to be contained within the overall budget provision.

4. Proposed budget 2011/12:

- 4.1. The proposed budget for 2011/12 is £111.1 million, which is a reduction of £4.3 million compared to the provisional budget for 2011/12 prepared last year of £115.4 million. The 2011/12 budget has been updated for:

- technical adjustments to the provisional budget arising from the implementation of International Financial Reporting Standards (IFRS) and transfers to other services;
- revised base budget adjustments;
- adjusted allocation for future inflation; and
- efficiency and other savings proposals (section 5 below).

4.2. These adjustments are shown in Appendix 5.

4.3. The base budget reflects the current financial policies of the Council. The adjustments required to the 2011/12 budget are:

- an additional sum within the public transport budget to meet the anticipated cost of the Hampshire Concessionary Travel Scheme, following the transfer of the responsibility for this service to the County Council from districts from 1 April 2011 (+£13.3 million);
- provision for additional routine highways maintenance expenditure arising from variations in road lengths, the revenue effect of implementing capital programme schemes and the four-yearly average funding formula for highways winter maintenance (+£613,000);
- waste management contract, relating to annual re-pricing of contract and lower waste disposal volumes (+£36,000);
- variations in expenditure funded from Government grants (-£910,000), including new Government grant of £0.2 million for Flood Management;
- implementation of the programme of corporate efficiency savings (-£898,000);
- base budget variations relating to the implementation of the street lighting PFI (-£43,000);
- transfers to and from reserve accounts for community transport vehicle replacements and the minerals and waste development framework (+£112,000); and
- other base budget transfers and adjustments (+£186,000).

4.4. The base budget includes provision of £1.1 million to cover future increases in pay and prices during 2011/12.

4.5. The make-up of the base budget also includes provision of £469,000 for staff salary increments payable from 1 April 2011 together with a reduced allowance for staff turnover of £275,000. These pressures have been off-set by allocating efficiency savings and vacancies equivalent to 16 FTEs within

the cash limit. Similarly, the base budget assumes that any pressures arising during 2011/12 from anticipated higher inflation on the term highways and bus subsidy contracts will also be absorbed.

- 4.6. As mentioned above, there is an overall reduction in expenditure of £910,000 resulting from lower Government grants. This includes reductions relating to expenditure previously funded from the Area Based Grants for road safety, rural bus services and de-trunked highways, which has now been assimilated into formula grant, albeit at a reduced level. The base budget also reflects the removal of support from Government grant towards the preparation of school travel plans and safer modes of transport, equating to a staffing reduction of 7 FTEs.
- 4.7. Adjustments will be made in due course to reflect the transfer of the budget for the Economic Development function to the Environment Department, once this has been agreed by the Executive Member for Policy and Resources.

5. Savings and redeployment proposals for 2011/12:

- 5.1. The Cabinet requires all services to consider and report on:
 - cost pressures absorbed within the budget guidelines;
 - the redeployment of any resources required to off-set any new spending priorities, or inescapable budget pressures, or legislative requirements which otherwise cannot be met within their budget guidelines; and
 - savings and efficiency improvements.
- 5.2. Appendix 1 sets out the proposals for this service. It includes efficiency improvements and other savings amounting to £5.3 million in 2011/12.

Redeployment proposals

- 5.3. No proposals for additional expenditure arising from new spending priorities, inescapable budget pressures or legislative requirements that cannot be met within the budget guidelines have been identified for 2011/12. However, in future years it is expected that future demographic growth of the elderly population within Hampshire will increase the cost of the concessionary travel scheme, which would have to be funded from within the cash limit.

Proposals for efficiency improvements and other savings

- 5.4. The budget guidelines for 2011/12 include reductions totalling £5.3 million next year, equivalent to a reduction of approximately 8% against the department's cash limited budget (excluding the waste management contract). There will also be an impact from the reduced capital programme, following falls in Government support, particularly where departmental staff

are currently funded by recharging salaries and other costs against allocations for fees within capital programme schemes.

- 5.5. The unprecedented scale of the reductions required means that a restructuring of the department and re-calibration of service delivery is inevitable.
- 5.6. The budget proposals include measures to reduce senior management staff by 30%; to rationalise and reduce support activities and costs within the department; to minimise the impact on core services and to maintain delivery capacity for the future that would otherwise be lost as capital spend is cut back, whilst stopping legacy activity such as strategic planning and significantly reducing non-core services.
- 5.7. It is intended that the restructure will re-focus the department on delivery of core services:
 - highways, traffic and transport;
 - waste management, energy, climate change, minerals and environment; and
 - new corporate leadership and coordination roles on research and intelligence, and place shaping.
- 5.8. It is planned that significant resource optimisation will be achieved through the introduction of radical systems and culture change, including activity based service and resource planning, deployment, management and performance monitoring. This will be facilitated through increased targeting and utilisation of remaining resources.
- 5.9. The departmental organisation structure will be radically altered, removing management overheads and creating a flexible but disciplined framework for efficient and effective delivery of core services, projects and programmes through the adoption of matrix management. Although the process of re-focusing on core services may impact on the department's future ability to fully maintain current levels of support on all traffic management issues. In addition, the wholesale adoption of project management principles and the application of project management discipline to all work areas will significantly increase efficiency, accountability and effectiveness through increased focus and targeting of resources to priority areas.
- 5.10. The critical relationship with the department's two large private sector business partners, Amey and Veolia, will be further developed and adjusted. This will ensure that assets and commercial opportunities are fully exploited, to drive down costs, reduce bureaucracy and explore greater integration where appropriate, including the possible co-location of an external highways office with the term contractor.

5.11. Appendix 1 sets out details of proposals for efficiency and other savings in order to comply with the 2011/12 budget guidelines, which are also summarised in the following table:

	£'000
Corporate workstream efficiency savings	4,435
Departmental savings:	
Efficiency savings	932
Other departmental savings	1,338
Total departmental savings	2,270
Total corporate workstream and departmental savings	6,705
Savings to be retained within 2011/12 cash limit, to contribute towards implementation of change agenda and future budget reductions	-1,396
Total cash limit reduction 2011/12	5,309

Corporate workstream efficiency savings

- 5.12. The implementation of the various corporate workstreams is planned to deliver savings of £4.4 million in 2011/12, with additional ongoing reductions of £1.6 million in future years.
- 5.13. These include savings in 2011/12 of £1.5 million from planned reductions in senior management graded staff, rising by a further £0.2 million in a full-year (-26 Full Time Equivalents – FTEs, including those within Communications), together with £0.4 million from other staff grades resulting from the introduction of the recruitment moratorium during 2010/11 (-13 FTEs).
- 5.14. Other planned corporate workstream efficiency savings total £2.5 million in 2011/12. These include significant target savings to be achieved from within the operation of the term highways contract, grant support to Partnerships, communications, support and administration and IT support and developments.

- 5.15. The proposed reductions in level of the County Council's grant support to Partnerships would result in lower contributions to the Safer Roads Partnership (SRP) (-£460,000) and Transport for South Hampshire (TfSH) (-£275,000). In addition, the annual payment to the Partnership for Urban South Hampshire (PUSH) would cease following the County Council's withdrawal from this Partnership (-£88,000).
- 5.16. The reduction to SRP funding would require the Partnership's activities to be re-focused more on enforcement, with a corresponding reduction in road safety education and campaigns, whilst the reduction to TfSH funding would require efficiencies to be made in the operation of the Partnership and the scope of its future delivery plan.

Departmental savings

- 5.17. A number of other departmental budget savings, totalling £2.3 million in 2011/12, are also proposed. This includes further savings from staff grades below senior management level arising from the reshaping and restructuring of operational support. Savings of £0.9 million are anticipated during 2011/12, with additional full-year reductions of £0.8 million in future years. Reductions amounting to 50 full-time equivalent posts are anticipated.
- 5.18. A county-wide review of subsidised bus services is planned, aimed at achieving savings of £1.2 million during 2011/12. It is intended that the outcome of this review would result in a reconfigured transport network which maintains accessibility to education, employment, health care and rural services, but which is affordable within the budget available. Greater use of car-share, taxi-share and community transport services, together with revisions to frequencies, days of operation and length of day, would all need to be considered as part of this review. A similar level of additional savings is expected to be achieved in 2012/13, reflecting the full-year impact of the review.
- 5.19. A reduction in the budget for support to strategic transport is also proposed which would result in lower expenditure of £0.2 million on feasibility and other studies, linked to the reduction in future capital programme activity.

Summary

- 5.20. In total the corporate efficiencies and departmental savings proposals amount to £6.7 million and would provide one-off resources of £1.4 million to help meet the cost of the change agenda, including redundancies and other transitional costs, and these are built into the plans.
- 5.21. Taking into account all of the above changes, a budget of £111.1 million for 2011/12 is recommended. This would enable the department's main aims and objectives to be supported, including:

- £49.7 million for routine highways maintenance and related operational support, to help maintain Hampshire's roads, transport systems and assets;
- £35.5 million for the management of waste with Hampshire, including waste disposal, and initiatives for re-cycling and reduction;
- £19.7 million towards public transport support, including the County Council's concessionary travel scheme for the elderly;
- £3.4 million for planning and development activities, including planning policy, environmental initiatives and development control; and
- £2.8 million for road safety initiatives to reduce serious road casualties, including continuation of the school crossing patrol service.

6. Review of charges

- 6.1. The service's 2011/12 revenue budget includes income of £12.5 million from fees and charges.
- 6.2. There are some mandatory and national charges which the County Council is not able to vary, the main example for the Environment services being planning application fees. Most other departmental charges to users are set to ensure full recovery of costs, including an appropriate contribution to departmental overheads.
- 6.3. Wherever possible, charges are reviewed regularly in accordance with financial regulations, or rise automatically in line with increases in cost, and are expected to produce additional income of £0.3 million during 2011/12, in line with the assumption included in the inflation allocation.

7. Other Expenditure

- 7.1. The budget includes some items which are not counted against the cash limit. At the present time this includes the budgets for capital charges, flood protection, adjustments for pension and early retirement costs and estimated income relating to the operation of the landfill allowances trading scheme (LATS).
- 7.2. Further adjustments to the 2011/12 budget will be made later on in the budget preparation process, including charges for central departments' support services and for repairs to and maintenance of buildings. These costs are excluded at this stage because this expenditure is controlled by Policy and Resources and the budgets and subsequent allocation of expenditure to other services has not yet been agreed.
- 7.3. Included within the Environment services' cash limit are costs relating to Member support, which will be re-charged to the Policy and Resources

budget for corporate and democratic core services, also at a later stage in the budget process.

8. Workforce implications

- 8.1. The workforce implications of the proposed budget for 2011/12 are set out in Appendix 3. The 2011/12 base revenue budget and capital programme supports a planned workforce of 821 FTE staff. This compares with the original estimate for 2010/11 of 833 FTEs, which is a reduction of 12 FTEs, mainly relating to the removal of Government support towards the preparation of school travel plans and safer modes of transport staff, together with staff transfers to other departments.
- 8.2. The net effect of proposals for efficiency improvement and other savings (Appendix 1) result in a reduction in average staffing levels of 70 during 2011/12, rising to 100 FTEs in a full year, with a further reduction of 11 FTEs in respect of capital programme funded posts.
- 8.3. The changes are summarised in the following table:

	FTEs
2010/11 original estimate of average staff in the year	833
Base budget changes during 2010/11	-12
2010/11 adjusted estimate	821
 <u>Impact of 2011/12 savings proposals:</u>	
Change in average number of staff in 2011/12	-70
2011/12 estimate of average staff numbers in the year	751
Full year impact of savings proposals	-30
Reduction to capital programme funded posts	-11
Full year estimate of average staff numbers	710

9. Conclusions

- 9.1. The above proposals set out a revised budget for 2010/11 and the revenue budget for 2011/12.
- 9.2. The recommended budgets are in line with the budget guidelines set by the Cabinet in July 2010 and confirmed by Cabinet in December 2010.

10. Recommendations

10.1. To approve for submission to the Leader and Cabinet:

- (i) the revised budget for 2010/11 totalling £102.4 million (as set out in Appendix 4);
- (ii) the proposals for efficiency improvements and other savings of £5.3 million (8% of the proposed budget) in 2011/12 (as set out in Appendix 1), including the full-year impact of the cost reductions in 2012/13;
- (iii) the annual review of income and charges (as set out in paragraph 6);
- (iv) the detailed budget for 2011/12 (as set out in Appendix 2); and
- (v) the workforce implications of the proposed budget for 2011/12 (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:	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

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. A high level equalities impact assessment has been carried out on the main savings included in this report. Fuller assessments will be made prior to implementation of the measures to deliver these savings.

2. Impact on Crime and Disorder:

- 2.1. As this is a general report covering the whole of the budget for the department it cannot set out detailed crime and disorder implications. However, crime and disorder implications of specific issues raised in the budget would be reflected in individual service plans and project reports where appropriate.

3. Climate Change:

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

As this is a general report covering the whole of the budget for the department it cannot set out detailed climate change implications. However, climate change implications of specific issues raised in the budget would be reflected in individual service plans and project reports where appropriate.

Appendices

Appendix		Colour
1	Proposals for efficiency improvements and other savings in 2011/12	Yellow
2	Revenue Budget 2011/12 – budget book detail	Green
3	Workforce levels and costs 2010/11 revised and 2011/12 original	Blue
Technical appendices		
4	Revised budget 2010/11 – calculation of cash limit	Yellow
5	Proposed budget 2011/12- changes from provisional budget 2011/12	Pink