

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Executive Lead Member for Universal Services
<b>Date:</b>	23 January 2023
<b>Title:</b>	Highway Network Recovery Strategy - Update for 2023/24
<b>Report From:</b>	Director of Universal Services

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### Purpose of this Report

1. The purpose of this report is to outline the continuing financial challenges facing the highways sector and seek approval to redistribute funding allocations identified in the Highway Network Recovery Strategy to cover the continued cost of inflation across core highway maintenance budgets for the 2023/24 financial year.

### Recommendations

2. That the Executive Lead Member for Universal Services notes the continued inflationary pressures affecting the highways service and approves an extension of the revised funding approach outlined in the report to the Executive Lead Member for Economy, Transport and Environment in May 2022 entitled 'The Impact of the Inflationary Pressures on the Delivery of the Highway Maintenance Service'.
3. That the Executive Lead Member for Universal Services approves the re-direction of up to £2.5million of revenue funding from the additional £7million to cover additional costs anticipated in delivering the planned 23/24 Structural Maintenance Programme.
4. That, in light of an expected significant increase in contract prices for 2023/24, the Executive Lead Member for Universal Services agrees to a temporary reprioritisation of spend and a managed scaling back of the planned structural maintenance programme in order to ensure that the highest priority needs across the highway network can continue to be met.
5. That the Executive Lead Member for Universal Services agrees to delay the full implementation of the Network Recovery Strategy, approved by the Executive Lead Member for Economy, Transport, and Environment in March 2022, to at least 2024/25, subject to a further review by the Director of Universal Services, in consultation with the Executive Lead Member for Universal Services, in Autumn 2023.

## Executive Summary

6. In March 2022 the Executive Lead Member for Economy, Transport and Environment approved the Highway Network Recovery Strategy, which outlined how an additional £7million of annual revenue funding would be allocated to enhance frontline service delivery and improve network resilience to counter the impacts from climate change. The situation in eastern Europe escalated quickly after approval was granted, leading to spiralling increases in inflation, risk and uncertainty across the highways sector. In May 2022 a further report was approved that outlined the forecast impact of the inflationary pressures on the highway maintenance service and the need to redistribute £3-4.5million of the additional £7million funding to support key maintenance programmes such as Planned Maintenance (Operation Resilience).
7. In November 2022 the Bank of England forecast that inflation is expected to remain high until 'at least' the middle of 2023. It is anticipated that the impact on the highways and construction sectors could last for several years beyond this. This means that a proportion of the additional £7million highways maintenance funding will again need to be used to cover the increasing costs of inflation across the Highways service.
8. The draft price adjustment figures for the Hampshire Highways Service Contract for 2023/24 are approximately 29% for capital works and 11% for revenue activity. Structural maintenance work, which includes Operation Resilience, is funded from capital budgets and due to the significant impact the price adjustment indices will have, it is proposed to review and reprioritise the 2023/24 programme for these elements of work. This will include deferring lower priority schemes for at least one year until the inflation situation has stabilised.

## Contextual information

9. In March 2022 the inaugural Highway Network Recovery Strategy was approved by the Executive Lead Member for Economy, Transport and Environment. The strategy outlined the pressures and challenges facing the highways sector following more than a decade of underinvestment in local roads by Government due to austerity, which was further compounded by the impacts of the Covid-19 pandemic and Brexit. This has had a significant effect on the condition of local road networks across the country, and in Hampshire there is an estimated £377million maintenance backlog across all assets (pre-2022/23 inflation levels). The Highway Network Recovery Strategy set out how the Highways service intended to proactively manage the highway network utilising existing capital and revenue budgets, together with the extra £7million of revenue funding committed by the County Council in November 2021, to slow down and arrest the decline in network condition.
10. In May 2022, a subsequent report *The Impact of the Inflationary Pressures on the Delivery of the Highways Service* was approved by the Executive Lead Member for Economy, Transport and Environment. The paper outlined how the situation in eastern Europe had quickly escalated leading to significant increases in oil, gas and energy prices, which had impacted manufacturing and global supply chains. Consequently, the proposed spending plan for the additional £7million identified in the Highway Network Recovery Strategy was reallocated with an estimated £3-4.5million of the additional funding being used

to cover the cost of the inflationary affects to the core highway maintenance budgets and also support essential maintenance programmes such as Planned Maintenance (Operation Resilience), which delivers all the County Council's resurfacing and surface treatment schemes.

11. The 2022/23 financial year has seen an increase in costs across all elements of the highways service. In November 2022 the Bank of England confirmed that the rate of inflation (based on CPI) was 11.1% and they have forecast this to fall from the middle of next year towards a 2% target in 2 years' time. Whilst CPI is currently 11.1% this is not necessarily a true reflection of the inflationary impact across the construction and highway sectors. Oil and gas prices are still severely affecting the prices of basic materials and products, particularly bitumen-based surfacing materials.
12. The Hampshire Highways Service Contract is a long-term contract that delivers all of Hampshire's highway maintenance operations. The contract includes established price adjustment clauses that allow prices to fluctuate in line with market inflation. The clauses are linked to a variety of construction industry indices but are limited to provide the County Council with some financial protection. The draft indices for capital works is likely to increase prices by approximately 29% and 11% for revenue activities for the 2023/24 financial year, although the final confirmed capital figure will not be available until February 2023. It should be noted that the 29% is calculated using the contract's built-in price adjustment clauses. Whilst this is fixed for the year it is unlikely it will fully cover the inflationary pressures for all highway activities, particularly those linked to the supply of bitumen, and consequently the impact for some elements of the supply chain will be challenging.
13. The continued high levels of inflation will continue to have a detrimental impact on the ability to deliver the proposals outlined in the Highway Network Recovery Strategy. Therefore, it is proposed to, again, use a proportion of the additional funding to support the anticipated cost increases through 2023/24. The redistribution of funding will be used to ensure essential maintenance programmes can be sustained at an appropriate level. Without this intervention there will be a detrimental impact on network condition, increased reactive maintenance revenue costs, increased carbon emissions and increased liability for third party claims. It is essential that the County Council is able to sustain its established asset management driven approach to highway maintenance in order to demonstrate effective network management to the Department for Transport. This is important to ensure the County Council can maintain its Band 3 performance for Incentive funding.
14. Due to the anticipated inflation levels for capital works, the various programmes will be reviewed and scaled back in overall size for 2023/24. Delivering the full programmes for these operations would not provide value for money in the current economic climate and a significant proportion of funding from the additional £7million would need to be reallocated to cover the heightened inflation costs. The sites that are deferred from the 2023/24 programme will be completed as soon as inflation reduces to more reasonable levels, which could be 2025/26. High priority sites, or those where specific commitments have been made, will still be undertaken and only lower risk sites will be deferred.

15. It is hoped that inflation will recover slightly for the 2024/25 financial year and a higher proportion of the additional benefits identified in the Highway Network Strategy can be implemented as part of normal service delivery. A further review of the inflationary position will therefore be undertaken in Autumn 2023.

## **Finance**

16. The report in May 2022 estimated the inflationary pressure on the highways maintenance service for 2022/23 to be in the region of £3-4.5million and, as at January 2023, forecasts indicate that the actual cost of inflation for 2022/23 is likely to be at the higher end of this range.
17. Even with a managed scaling back of the structural maintenance programme, forecast contract price increases for 2023/24, linked to inflation, will still create a financial pressure which is estimated to be in the region of £2.5million. This pressure will continue to be funded from the additional £7million and the remaining funds will be distributed across the priority areas outlined in the Highway Network Recovery Strategy. This will enable some of the identified benefits outlined in the strategy to be delivered in 2023/24, albeit at a reduced level.
18. As part of the 2021 Spending Review the Government fixed capital funding allocations for highway maintenance on local roads at 2021/22 levels for three years to 2024/25. Prior to this funding was allocated annually. However, with spiralling inflation this effectively means that highway authorities are now locked into a year-on-year net reduction in funding from the Department for Transport. The impact of this will be a compounding of the ongoing challenges together with an increase in the backlog of identified maintenance needs.

## **Consultation and Equalities**

19. Due to the nature of the approval for this report, limited consultation has been undertaken. However, the Highways team, Milestone Infrastructure and the wider supply chain are closely involved in actively and dynamically managing the situation and the associated risks and impacts.
20. The decision sought in this report will not reduce the scope of the service provided or have any impact on service users or the individuals working on the service, so has been assessed as having a neutral impact on groups with protected characteristics. Approval is sought for service adjustments to accommodate and address pressures and it is not anticipated that these proposals will have a direct impact on people with protected characteristics. Rather, they are intended to maintain service delivery to all highway users and help maintain and/or improve highway safety.

## **Climate Change Impact Assessments**

21. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by

2050. This process ensures that climate change considerations are built into everything the Authority does.

### **Climate Change Adaption**

22. Despite the proposed change in approach for 2023/24, adaptations will continue to be made to reduce the highway network's vulnerability to climate change by reducing the impact of flooding on the highway caused by heavy rainfall. Carbon sequestration and biodiversity in highway verges will continue to be increased through enhanced maintenance regimes, albeit at a temporarily reduced level. The investment in planned proactive structural maintenance activity, even at a reduced level for 2023/24, will still contribute to reducing the number of reactive repairs overall, reducing carbon emissions from transport as well as the works themselves.

### **Carbon Mitigation**

23. In light of the fact that inflationary pressures have primarily impacted bitumen-based products, opportunities will continue to be sought to expand the use of the County Council's Highway Materials Recycling Facility at Micheldever. This established site already provides high-quality cold-recycled materials for use in Hampshire's highway network, thus reducing the need for premium-priced traditional hot materials.

### **Summary and Conclusions**

24. Previous reports have highlighted the problems and impacts associated with the deterioration of the highway network. In November 2021 the County Council recognised this problem and committed an additional £7million to annual maintenance budgets to specifically improve the condition of the local road network. The 2022 Highway Network Recovery Strategy outlined a ten-year strategy with the aim of addressing the highway maintenance backlog in Hampshire.

25. The escalation of events in eastern Europe has led to spiralling inflation that has significantly impacted the ability of the Highways service to deliver this Strategy and has required a reprioritisation of the additional funding to underwrite the cost of the inflationary pressures and preserve basic service delivery.

26. The financial situation has not improved since the previous report to the Lead Executive Member in May 2022 and no recovery in construction inflation is expected for at least two years. In order to provide a sustainable and cost-effective level of service in 2023/24, a review and reprioritisation of planned activity will be necessary together with using a proportion of the additional £7million funding to cover anticipated inflation costs. It is proposed that structural maintenance programmes are temporarily scaled back for at least one year to ensure the available funding is spent as cost effectively as possible.

27. This approach demonstrates that the County Council continues to take a diligent approach to the challenges facing the highways service, and particularly those arising from inflation. By reallocating a proportion of the £7million to support key

highways services and scaling back lower priority planned works the County Council can maximise cost efficiency and better manage financial risk.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	yes

**Other Significant Links**

<b>Links to previous Member decisions:</b>	
<u>Title</u>	<u>Date</u>
Hampshire Highways – Highway Network Recovery Strategy	10 March 2022
The Impact of the Inflationary Pressures on the Delivery of the Highways Maintenance Service	12 May 2022

**Section 100 D - Local Government Act 1972 - background documents**

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

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

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- 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.

### **2. Equalities Impact Assessment:**

The decision sought in this report will not change the scope of the service provided or have any impact on service users or individuals working on the service, so has been assessed as having a neutral impact on groups with protected characteristics. Approval is sought for service adjustments to accommodate current pressures and it is not anticipated that these proposals will have a direct impact on people with protected characteristics. Rather, they are intended to minimise disruption to all highway users arising from the current challenges and help maintain highway safety.