

HAMPSHIRE COUNTY COUNCIL

Decision Report

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| Decision Maker: | Executive Member for Economy, Transport and Environment |
| Date: | 14 January 2020 |
| Title: | 2020/21 Revenue Budget Report for Economy, Transport and Environment |
| Report From: | Director of Economy, Transport and Environment and Deputy Chief Executive and Director of Corporate Resources |

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Section A: Purpose of this Report

1. The purpose of this report is to set out proposals for the 2020/21 budget for Economy, Transport and Environment in accordance with the Council's Medium Term Financial Strategy (MTFS) approved by the County Council in November 2019.

Section B: Recommendation

To approve for submission to the Leader and the Cabinet:

2. The revised revenue budget for 2019/20 as set out in Appendix 1.
3. The summary revenue budget for 2020/21 as set out in Appendix 1, subject to approval by Cabinet of the provisional cash limits.

Section C: Executive Summary

4. 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.
5. 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 with maximum planning and minimum 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 adversely affect other local authorities and enabled us to sustain some of the strongest public services in the country.

6. In line with this strategy there will be no new savings proposals presented as part of the 2020/21 budget setting process. Savings targets for 2021/22 were approved as part of the Medium Term Financial Strategy (MTFS) in July 2018 and detailed savings proposals have been developed through the Transformation to 2021 (Tt2021) Programme which were agreed by Cabinet and County Council during October and November last year. Any early achievement of resources from proposals during 2020/21 as part of the Tt2021 Programme will be retained by departments to use for cost of change purposes.
7. Alongside this, delivery of the Transformation to 2019 (Tt2019) Programme continues. The anticipated delay to delivery of some elements of the programme has been factored into our financial planning and whilst sufficient one-off funding exists both corporately and within departments to meet any potential gap over the period, the need to commence the successor programme does mean that there will be overlapping change programmes.
8. The report also provides an update on the financial position for the current year. Overall the outturn forecast for the Department for 2019/20 is a saving against the budget of £1.9m (less than 1.7% of the cash limit).
9. The proposed budget for 2020/21 analysed by service is shown in Appendix 1.
10. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2019/20 and detailed service budgets for 2020/21 for Economy, Transport and Environment (ETE). 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 2020 to make final recommendations to County Council on 13 February 2020.

Section D: Contextual Information

11. 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 Budget Bridging Reserve (BBR) 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.

12. The County Council's action in tackling its forecast budget deficit and providing funding in anticipation of further reductions, has placed it in a very strong position to produce a 'steady state' budget for 2020/21, giving itself the time and capacity to develop and implement the Transformation to 2021 (Tt2021) Programme to deliver the next phase of savings totalling £80m. This also avoids the worst effects of sudden and unplanned decisions on service delivery and the most vulnerable members of the community. Consequently, there are no departmental savings targets built into the 2020/21 budget. However, other factors will still affect the budget, such as council tax decisions and inflation.
13. The Spending Round 2019 (SR2019) announcement took place on 4 September and the content of the proposed settlement and the issues it addressed were pleasing to see as they mirrored the key issues that we have been consistently raising for some time directly with the Government and through our local MPs.
14. In overall terms, there was a net resource gain to the County Council, albeit that is only for one year at this stage. However, the cost pressures we face, particularly in adults' and children's social care services are significantly outstripping the forecasts that were included in the original Tt2021 planning figures.
15. Without the additional injection of funding, the County Council would have faced a revised deficit position of nearly £106m by 2021/22, but the additional resources bring us back to a broadly neutral position. It is worth highlighting that the additional grant from the £1bn plus the 2% adult social care precept generates additional resources of around £29m for the County Council, but this must be measured against growth pressures and inflation across adults' and children's social care services which total nearly £57m for 2020/21 alone.
16. The Autumn Budget which was planned for 6 November was cancelled and it is now anticipated that there will be a Budget in Spring 2020. The provisional Local Government Finance Settlement was announced on 20 December 2019 and confirmed the grant figures and council tax thresholds for 2020/21 in line with the SR2019 and the clarification provided in the subsequent technical consultation. The final grant settlement for 2020/21 is not due out until this report has been dispatched, however it is not anticipated that there will be any major changes to the figures that were released in December 2019.
17. The Economy, Transport and Environment (ETE) Department has been developing its service plans and budgets for 2020/21 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

Section E: Departmental Challenges and Priorities

18. The Department's overarching budget strategy continues a relentless focus on core service delivery around Highways, Waste Management, Transport, Economic Development and statutory planning services.

19. 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. This approach served the Department well in delivering Transformation to 2019 (Tt2019) savings and will also support delivery of the Tt2021 programme. ETE has recently implemented a 'Driving Change' programme: the 'Commercial' theme of this programme will underpin the drive to maintain business-like approaches in all aspects of service delivery and further develop commercial skills where this will bring added financial benefit.
20. The County Council hopes to engage positively with the new Government over user charging including areas such as the potential to charge for issuing Concessionary Fares passes in addition to a universal access charge for Household Waste Recycling Centres. This would reduce the need for further spending reductions in future.
21. 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 previous Government had signalled its intention to make major changes to waste collection and management. While the new Government has yet to clarify its position the County Council expects the overall approach to continue. Therefore, there will be an ongoing need to work closely with Hampshire's District and Borough Councils as Waste Collection Authorities and significant changes to infrastructure to deliver the anticipated changes. Work on a business case for the proposed new Single Materials Recovery Facility (MRF) has continued during 2019 and a final business case will be considered by the Executive Member early in 2020. In addition, the waste service budget continues 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 and all these factors create a challenging backdrop for delivering the Tt2021 savings target for waste.
22. Following the County Council's decision to declare a climate emergency earlier in the summer, more important steps have recently been taken to develop our response to the challenges. Funding has been agreed for a small corporate team to co-ordinate and support work across the County Council on climate change mitigation and resilience over the next two years. Initial work will focus on developing an Action Plan to deliver an effective response to make Hampshire more resilient to the effects of climate change and reduce Hampshire's carbon footprint. This team will be hosted in ETE and will also work on the County Council's response to the Hampshire 2050 Commission's report.
23. In addition to the key focus on climate change, the Hampshire 2050 work has provided a good foundation on which to refresh the County Council's approach to its place-shaping role.
24. Finally within Economic Development we have a key role in supporting Hampshire businesses, to ensure that Hampshire remains a competitive location for investment and growth, with the focus on supporting workforce

skills, investing in infrastructure, and working closely with the Local Enterprise Partnerships (LEPs) to support and encourage sustainable economic growth. In the immediate future there will also be a focus on supporting businesses as they respond to Brexit, and building on Hampshire's excellent record as a leader in exports and research and innovation.

Section F: 2019/20 Revenue Budget

25. 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.
26. The expected 2019/20 outturn forecast for the ETE Department is a saving against the budget of £1.9m (less than 1.7% of the cash limit). Given the significant challenges of the Tt2021 savings programme the Department has adopted a cautious approach to 'business as usual' budgets including a prudent approach to vacancy management. The saving is due to a combination of posts that are currently held vacant, tight control of non-pay budgets and increases against forecast income and recharges, offset by increases in agency staff primarily related to capital projects (and linked to the higher income and recharges), planned one-off investments and exceptional project development costs not rechargeable to capital. 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.
27. The majority of ETE's Tt2019 savings (£11.7m equating to 74%) were delivered on time. The anticipated cash flow delays to the parking and waste disposal savings will be met from planned contributions from the Department's Cost of Change reserve. The first savings have been delivered with the balance of the parking saving (£0.9m) on track to be delivered as planned in 2020/21. The previous Government had announced major changes through the Waste and Resources Strategy and the anticipated delay in achieving the balance of the waste disposal saving (£3.1m) resulted from the need for greater clarity around the detail and timing of these changes (for example, the impact of introducing a Deposit Return Scheme depends on the range of targeted materials). The balance of the saving was underpinned by the construction of a new Materials Recovery Facility with the final business case expected in the final quarter of 2019/20 and it remains critical to ensure appropriate facilities are built however, as a result, the balance of the saving is not expected to be fully achieved until at least 2021/22 and appropriate financial provision has been made to reflect this.
28. The budget for ETE has been updated throughout the year and the revised budget is shown in Appendix 1.

29. The original 2019/20 budget for Highways, Traffic and Transport has been re-stated to include staffing and operational support costs with the main service budgets. This is consistent with the presentation for the rest of the Department and provides a clearer view of the true cost of service provision.
30. The revised budget for the year shows an increase of £12.341m made up of:
- A one-off increase to Highways Maintenance of £1.964m funded from the 2018/19 saving in Winter Maintenance (as agreed by Cabinet in February 2019)
 - The addition of £2.35m of one-off increase from funding agreed by Cabinet and the County Council in February 2018 to support the revenue costs associated with feasibility, business case and funding bid development work associated with capital schemes
 - Temporary cash flow funding from Cost of Change to cover the timing shortfalls against Tt2019 savings in waste disposal and parking of £4m.
 - Funding from Cost of Change for one-off investments e.g. to support the development of the Tt2021 savings programme of £3.621m
 - A permanent increase to the waste disposal budget of £469,000 covering volume growth pressures
 - Net transfers between departments including a contribution to the Fly Tipping Officer post hosted in the Culture, Communities and Business Services Department resulting in a net reduction of £63,000.

Section G: 2020/21 Revenue Budget Pressures and Initiatives

31. Following major savings in highways maintenance in 2017 resulting from the new Hampshire Highway Service Contract (HHSC) it remains the case that 57% of the budget provision for works is now required either to cover street lighting PFI contractual and energy costs or set aside for winter and other weather emergency responses with just 43% available for routine highway maintenance and safety defects (the equivalent percentage figures for maintenance in 2016/17 was 50%). The HHSC has delivered significant savings in highways works and has embedded a commitment to closer, collaborative working to develop further service innovation and efficiencies and the coming year will see trial use of innovative maintenance materials and techniques such as graphene as an additive to bituminous mixes cold recycled materials and investigating the potential for offering suitable HCC waste material, e.g. plastics, to highway suppliers for reprocessing as new products, e.g. traffic cones, barriers.

However, these initiatives are targeted at reducing the County Council's carbon footprint and are unlikely to generate financial savings.

32. After a decade of financial pressure, the condition of Hampshire's highways network is in noticeable decline. The County Council's Operation Resilience capital programme has helped to mitigate the effects of the reductions but has remained at £10m per year since its inception thus reducing its ability to mitigate the effects of reduced revenue funding. Government capital funding for highways, while welcome, is provided as a mixture of formula grant (with a degree of stability and the ability to plan programmes of work), one-off funding announcements (such as the Pothole Fund) and competitive bidding for one-off grant.
33. Staff recruitment and retention continues to be challenging, in particular in 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 (67 continuing or completed at all levels since April 2017) 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 specific pressures are being felt in professional services and project delivery areas of the Department and this is expected to continue given the strong support for further infrastructure investment included in the new Government's election manifesto.
34. Many of the Department's services have interdependencies with both District Councils and government agencies (e.g. waste, flood risk management). 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. The Tt2019 parking proposals and, in particular, the Tt2021 focus on the two-tier waste service are bringing this into ever sharper focus.

Section H: Revenue Savings Proposals

35. In line with the current financial strategy, there are no new savings proposals presented as part of the 2020/21 budget setting process. Savings targets for 2021/22 were approved as part of the MTFS by the County Council in July 2018. Savings proposals to meet these targets have been developed through the Tt2021 Programme and were approved by Executive Members, Cabinet and County Council in October and November last year.
36. Some savings will be implemented prior to April 2021 and any early achievement of savings in 2020/21 can be retained by departments to meet cost of change priorities. It is anticipated that £0.35m of savings will be achieved in 2020/21 and this has been reflected in the detailed estimates contained in Appendix 1. This early achievement is made up of £200,000 of operational efficiencies in highways maintenance and the winter service,

£100,000 from additional income from charging and the removal of vacant posts and £50,000 from street lighting energy costs.

Section I: 2020/21 Revenue Budget Other Expenditure

37. The budget includes some items which are not counted against the cash limit.

38. For ETE this is:

- £668,000 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.
- £201,000 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.

Section J: Budget Summary 2020/21

39. The budget update report presented to Cabinet on 6 January included provisional cash limit guidelines for each department. The cash limit for ETE in that report was £109.553m which was a £6.7m increase on the previous year.

40. This increase comprises:

- £4.996m for inflation, permanent additions from the waste contingency and growth recognising the increase in highways assets to be maintained
- Additional funding for waste disposal of £1.25m recognising the growth in households in Hampshire in recent years
- Permanent funding for additional Highways Inspection staff of £292,000 and temporary funding for a team to lead the response to the County Council's declaration of a Climate Emergency & the Hampshire 2050 report (£267,000 in 2020/21)
- Reduction of £96,000 following the ending of the Flood and Water Management specific grant
- £12,000 net decrease from other minor adjustments

41. Appendix 1 sets out a summary of the proposed budgets for the service activities provided by ETE for 2020/21 and shows that these are within the cash limit set out above.

42. In addition to these cash limited items there are further budgets which fall under the responsibility of ETE, which are shown in the following table:

| | 2020/21 | |
|--|----------------|----------------|
| | £'000 | £'000 |
| Cash Limited Expenditure | 150,839 | |
| Less Income (Other than Government Grants) | (41,286) | |
| Net Cash Limited Expenditure | | 109,553 |
| Flood Protection Levy | | 201 |
| Chichester Harbour Conservancy | | 668 |
| Less Government Grants: | | |
| • Bikeability | (316) | |
| • Bus Service Operators Grant | (1,068) | |
| Total Government Grants | | (1,384) |
| Total Net Expenditure | | 109,038 |

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

| | |
|--|-----|
| Hampshire maintains strong and sustainable economic growth and prosperity: | Yes |
| People in Hampshire live safe, healthy and independent lives: | Yes |
| People in Hampshire enjoy a rich and diverse environment: | Yes |
| People in Hampshire enjoy being part of strong, inclusive communities: | Yes |

Other Significant Links

| Links to previous Member decisions: | |
|---|---|
| <u>Title</u> | <u>Date</u> |
| Transformation to 2021 – Revenue Savings Proposals (Executive Member for Economy, Transport and Environment) http://democracy.hants.gov.uk/documents/s38269/Report.pdf | 17 September 2019 |
| Medium Term Financial Strategy Update and Transformation to 2021 Savings Proposals http://democracy.hants.gov.uk/documents/s39439/MTFS%20Tt2021%20Report.pdf | Cabinet – 15 October 2019 County Council – 7 November 2019 |
| Budget Setting and Provisional Cash Limits 2020/21 (Cabinet) http://democracy.hants.gov.uk/documents/s42775/Dec%20Report%20-%20Cabinet%20-%20FINAL.pdf | 6 January 2020 |
| Direct links to specific legislation or Government Directives | |
| <u>Title</u> | <u>Date</u> |
| | |

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 protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are 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 in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

The budget setting process for 2020/21 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 2021 Programme were considered in detail as part of the approval process carried out in October and November 2019 and full details of the Equalities Impact Assessments relating to those changes can be found in Appendices 5 to 8 in the October Cabinet report linked below:

<http://democracy.hants.gov.uk/documents/s39446/Appendix%207%20ETE%20EIAs.pdf>

Budget Summary 2020/21 – Economy, Transport and Environment

| Service Activity | Original* Budget 2019/20 £'000 | Revised Budget 2019/20 £'000 | Proposed Budget 2020/21 £'000 |
|---|---|---------------------------------------|--|
| Highways Maintenance | 16,101 | 17,881 | 17,075 |
| Street Lighting | 10,292 | 10,372 | 10,651 |
| Winter Maintenance | 5,732 | 5,732 | 5,677 |
| Concessionary Fares | 13,222 | 12,982 | 13,212 |
| Other Public Transport | 3,875 | 3,939 | 4,092 |
| Traffic Management and Road Safety ⁽¹⁾ | 2,176 | 3,468 | 2,268 |
| Strategic Transport ⁽²⁾ | 1,045 | 4,477 | 1,780 |
| Highways, Traffic and Transport | 52,443 | 58,851 | 54,755 |
| Waste Disposal ⁽³⁾ | 44,914 | 50,337 | 48,699 |
| Environment | 547 | 307 | 619 |
| Strategic Planning | 762 | 1,195 | 932 |
| Waste, Planning and Environment | 46,223 | 51,839 | 50,250 |
| Economic Development | 766 | 910 | 879 |
| Departmental and Corporate Support | 3,374 | 3,597 | 3,319 |
| Early Achievement of Savings | 50 | 0 | 350 |
| Net Cash Limited Expenditure | 102,856 | 115,197 | 109,553 |

The above budgets show the position for Economy, Transport and Environment in accordance with the current portfolios. Previously Economic Development and Environment & Transport were presented as two separate reports.

*The original budget has been restated to reflect Staffing and Operational support costs within the relevant areas, rather than these costs being shown separately as in previous reports.

- (1) Revised budget includes one-off cash flow support covering the delayed Tt2019 parking saving.
- (2) Revised budget includes exceptional one-off budget provision for bidding mainly relating to the Transforming Cities Fund.
- (3) Revised and Proposed budgets include one-off cash flow support for the delayed Tt2019 waste contract savings.