



**HIGHWAYS AND TRANSPORT OVERVIEW AND SCRUTINY COMMISSION -
26 JANUARY 2022**

MEDIUM TERM FINANCIAL STRATEGY 2023/24 – 2026/27

**JOINT REPORT OF THE DIRECTOR OF ENVIRONMENT AND TRANSPORT
AND THE DIRECTOR OF CORPORATE RESOURCES**

Purpose of Report

1. The purpose of this report is to:
 - a) Provide information on the proposed 2023/24 to 2026/27 Medium Term Financial Strategy (MTFS) as it relates to the Highways and Transport services of the Environment and Transport Department; and,
 - b) Ask the Highways and Transport Overview Scrutiny Committee to consider any issues as part of the consultation process and make any recommendations to the Scrutiny Commission and the Cabinet accordingly.

Policy Framework and Previous Decisions

2. The County Council agreed the current MTFS in February 2022. This has been the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2023/24 – 2026/27 was considered by the Cabinet on 16 December 2022.

Background

3. The MTFS is set out in the report to the Cabinet on 16 December 2022, a copy of which has been circulated to all members of the County Council. This report highlights the implications for the Highways and Transport Services.
4. Reports such as this are being presented to the relevant Overview and Scrutiny Committees. The views of this Committee will be reported to the Scrutiny Commission on 30 January 2023. The Cabinet will consider the results of the scrutiny process on 10 February 2023 before recommending an MTFS, including a budget and capital programme for 2023/24, to the County Council on 22 February 2023.

Proposed Revenue Budget

5. Table 1 below summarises the proposed 2023/24 revenue budget and provisional budgets for the next three years thereafter for the Council's Highways and Transport Service. The proposed 2023/24 revenue budget is shown in detail in Appendix A.

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Original prior year budget	51,436	60,089	60,209	61,504
Budget transfers and adjustments	6,948	0	0	0
Add proposed growth (Appendix B – Growth and Savings 2023/24 – 2026/27)	1,310	1,840	1,745	2,110
Less proposed savings (B)	395	-1,720	-450	0
Proposed/Provisional budget	60,089	60,209	61,504	63,614

Table 1 – Revenue Budget 2023/24 to 2026/27

6. Detailed service budgets have been compiled on the basis of no pay or price inflation. A central contingency will be held which will be allocated to services as necessary.
7. The central contingency also includes provision for an increase of 1% each year in the employers' pension contribution rate, in line with the requirements of the actuarial assessment.
8. The total proposed expenditure budget for Highways and Transport services in 2023/24 is £74.61m with contributions from grants, service user income, recharges to the capital programme and various other income totalling £14.52m. The proposed net budget for 2023/24 of £60.09m is distributed as shown in Table 2 below:

	£000
Development & Growth	1,423
H&T Commissioning	2,423
H&T Network Management	3,096
H&T Operations Delivery	9,056
H&T Operations Resourcing	37,378
H&T Operations Services	6,713
Total	60,089

Table 2 - Net Budget 2023/24

Budget Transfers and Adjustments

9. A number of budget transfers (totalling a net increase of £7.02m) were made during the 2022/23 financial year. These transfers include:
 - £4.20m for running cost/contract inflation for highways maintenance, street lighting and transport budgets from the central inflation contingency.
 - £2.82m to cover additional costs associated with the pay award net of removal of the social care levy.
10. Adjustments were made across the Environment and Transport Department to manage the budget within the overall funding envelope. This has resulted in an overall decrease of £0.08m for Highways and Transport services.

11. Growth and savings have been categorised in the appendices under the following classification:

- * item unchanged from previous MTFS
- ** item included in the previous MTFS, but amendments have been made
- No stars - new item

12. This star rating is included in the descriptions set out for growth and savings below.

13. Savings have also been classified as 'Eff' or 'SR' dependent on whether the saving is seen as efficiency, service reduction, or a mixture of both. 'Inc' denotes those savings that are funding related and/or generate more income.

GROWTH

14. The overall growth picture for Highways and Transport services is presented below.

References	<u>GROWTH</u>	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
	Demand & cost increases				
** G9	Special Educational Needs transport - increased client numbers/costs	1,310	3,150	4,960	7,070
* G13	HGV Driver Market Premium (temporary growth removed)	0	0	-65	-65
	TOTAL	1,310	3,150	4,895	7,005
<u>References used in the tables</u>					
* items unchanged from previous Medium Term Financial Strategy					
** items included in the previous Medium Term Financial Strategy which have been amended					

15. For 2023/24 growth represents an increase of £1.31m (or 2.5%) compared to the original prior year budget. SEN transport is the main driver of growth, rising to £7.07m by 2026/27. More detail is provided in the following section.

Demand and Cost Increases

G9(**) SEN Transport – Increased client numbers/costs: £1.31m in 2023/24 rising to £7.07m by 2026/27

The cost of Special Educational Needs (SEN) transport continues to increase significantly. The number of pupils requiring transport is projected to increase by 6% in 2023/24, followed by increases of 8% in 2024/25 and 7% in 2025/26 and 2026/27 in line with the anticipated growth of pupils with an Education, Health and Care Plan (as projected by Children and Family Service Department). In addition, the daily cost of transport is rising at a rate of 2% annually due to the need to provide transport for those with more complex needs as identified by risk assessments. Growth figures are based on projected increases in service user numbers and complexity of needs only.

The budget overspend of £990,000 currently forecast in 2022/23 is linked to other issues (primarily market conditions and inflation). Since the beginning of the 2022/23 academic year, 98 SEN taxi contracts have been handed back by providers on the basis they are unable to deliver for the contracted cost. This is contributing to a substantial rise in costs when the contracts are retendered. Any impact arising from the development of additional local SEN provision is unable to be quantified at this point and will be closely monitored particularly if children move from residential provision requiring weekly transport to local provision requiring daily transport. Work

continues to be undertaken in collaboration with Children and Family Services Department to review future growth projections.

G13 HGV Driver Market Premium – Temporary growth removed: £0.07m in 2025/26

Time limited funding to cover costs associated with awarding Market Premia to specialist HGV driver roles with longer-term implications to be reassessed as part of future MTFS.

SAVINGS

16. The overall savings picture for Highways and Transport services is presented below.

References			SAVINGS	2023/24	2024/25	2025/26	2026/27
				£000	£000	£000	£000
			<u>Highways & Transport</u>				
*	ET1	Eff/Inc	Street Lighting - design services to developers and installation of street lighting on their behalf	-25	-35	-35	-35
**	ET2	Eff/Inc	E&T Continuous Improvement Programme - review of processes and potential income across a range of services	180	180	180	180
**	ET3	Eff	SEN Transport Lean Review	710	0	-350	-350
*	ET4	Eff	Passenger Transport Service - develop digital offer	0	-150	-150	-150
	ET5	Eff	Street Lighting - dimming to lower lighting levels	-45	-45	-45	-45
	ET6	SR	Review application of subsidised bus policy, post Covid	0	-200	-200	-200
	ET7	SR	Review approach to Park and Ride	-100	-400	-500	-500
	ET8	Eff	Review level of resource supporting HS2	-120	-120	-120	-120
	ET9	SR	Stop expansion of community speed cameras	-55	-55	-55	-55
	ET10	Eff/SR	Street Lighting - review energy reduction options, including reduced operation times and brightness	-150	-500	-500	-500
			Total	395	-1,325	-1,775	-1,775
			References used in the following tables				
			* items unchanged from previous Medium Term Financial Strategy				
			** items included in the previous Medium Term Financial Strategy which have been amended				
			Eff - Efficiency saving				

17. Highways and Transport services are expecting to deliver £0.50m savings in 2023/24, however, this is offset by a reinstatement of budget totalling £0.89m for savings that were either not deliverable in full or unable to be progressed in 2022/23. Savings of £1.33m are expected from 2024/25 and are projected to rise to £1.78m by 2025/26 subject to the delivery of a number of reviews and initiatives.

*ET1 (Eff/Inc) Street Lighting – Design services to developers and installation of street lighting on their behalf: -£0.03m in 2023/24 rising to -£0.04m by 2024/25

Increase income generation by taking an active approach to the sale of design services to developers and the installation of street lighting on their behalf. Quotes for the provision of design services will be offered as part of the existing s278 process when designs and/or design checks are complete.

**ET2 (Eff/Inc) E&T Continuous Improvement Programme – Review of processes and potential income across a range of services: £0.18m reimbursement of budget in 2023/24

As a result of further investigation and/or implementation, it has been identified that several smaller-scale savings opportunities captured under the remit of a continuous improvement programme were either not deliverable in full or unable to be progressed further. The figures above relate to the reinstatement of the budget previously

removed as part of the 2022-26 MTFs for Highways recharges; Highways Driven inspections; and Business Management digital payments. The overall impact has been offset by additional smaller scale savings delivered in-year.

**ET3 (Eff) SEN Transport Lean Review: £0.71m temporary reimbursement of budget in 2023/24. Saving of £0.71m expected in 2024/25 rising to -£1.06m by 2025/26

Work completed by Newton Europe has identified a potential £1.06m savings deliverable through the application of a standard “should cost” approach to contracting. The “should cost” calculator determines an estimated cost per mile based on an individual's need after having factored in direct and indirect costs for each journey, as well as the erosion of initial efficiencies generated through contract re-negotiations at the start of the academic year as a result of changes in pupil circumstances. This saving has been deferred by 2-years to allow the transport market to recover post-Covid-19 pandemic.

*ET4 (Eff) Passenger Transport Service – Develop digital offer: -£0.15m in 2024/25

Review of internal processes with a view to reducing manual input, duplication of effort and maximising developments in technology including robotics.

ET5 (Eff) Street Lighting – dimming to lower lighting levels: -£0.05m in 2023/24

Bring all part night lighting onto the same dimming profile, impacting 38,870 assets. This change has already been implemented and will result in energy and cost saving from reduced electricity consumption between the hours of 10pm and 12pm. This saving will also contribute to reduction in carbon emissions.

ET6 (SR) Review application of subsidised bus policy, post-Covid-19: -£0.20m in 2024/25

Reduction in the level of subsidised bus services. Options under consideration range from restricting subsidised services to those that provide ‘lifeline services’, with or without a review of community transport provision and Demand Responsive Transport.

ET7 (SR) Review approach to Park and Ride: -£0.10m in 2023/24 rising to -£0.40m in 2024/25 and -£0.50m in 2025/26

Reduced subsidy through review of the frequency of direct bus services from car parks at Enderby, Birstall and Meynells Gorse to Leicester City Centre. Options under consideration range from ceasing service provision entirely to reducing the number of park and ride sites with price fare initiatives, including removing concessions and introducing bus priority schemes.

ET8 (Eff) Review level of resource supporting HS2: -£0.12m in 2023/24

Reduce resourcing for HS2 activity/team.

ET9 (SR) Stop expansion of community speed cameras: -£0.06m in 2023/24

Discontinue expansion of installation of Average Speed Cameras (ASC) from 7 to 14 sites.

ET10 (Eff/SR) Street Lighting – review energy reduction options, including reduced operation times and brightness: -£0.15m in 2023/24 rising to -£0.50m in 2024/25

Review of various options including reducing hours of street lighting operation / part night lighting, lowering brightness and restricting street lighting operations from October to March.

Savings under Development

18. There are a number of savings which are not yet currently developed enough to be able to quantify and build into the detailed savings schedules.
19. SEN Transport Lean Review – Fleet Transport: This involves looking at the scope for service users to be transferred from high-cost taxi contracts onto the Council's own fleet. Also introducing a comprehensive marketing / communications approach to voluntary passenger transport budgets to increase take-up further.
20. Developer Shop: Create a One Stop Shop for developers. Work proposed to investigate a commercial model for engaging with developers across the Department, creating a one stop shop to maximise the income potential. Currently there are a number of approaches and/or touch points with developers in different teams. There are examples of other authorities that have a single approach to developer engagement that delivers and maximises income from the various activities included.
21. Fees and Charges: A review is being conducted of all fees and charges across 50 services (such as disabled bays, H-bars, road works permitting and penalties and other licences the Council charges for) to ensure that fees and charges are reflective of the full costs incurred by the Authority.
22. Lane Rental: Lane Rental is a concept where a local authority can charge commercial firms for works on 'major' parts of the highways network. The aim of Lane Rental is to minimise the amount of time part of the major network is unavailable and ensure that the network is available as soon as possible. The experience of other local authorities suggests that this scheme could generate income although it needs to be considered in the context of the permitting charging currently in place.
23. New Vehicle Hire Contract (HGV's): Secure increased cost-effectiveness by implementing one single hire contract across the fleet to deliver economies of scale and better value for money.
24. Other options being explored

a) Generating further income: The scope for generating further income on a range of activities such as:

- Travel planning,
- Sign shop,
- Driver Education Workshop income from young driver market,
- Selling design services to neighbouring authorities,
- Traffic counts,

- Street lighting design,
- Traded income from electronic vehicle workshop.

b) Improve Commissioning: The potential for savings arising from outsourcing vehicle access construction.

c) Passenger Transport: A range of measures around passenger transport including:

- Cheaper provision for high-cost taxis,
- Increase Personal Transport Budgets,
- Improved efficiency in Home to School transport,
- Removal of manual processes within passenger fleet,
- New commissioning and procurement opportunities,
- Route optimisation to reduce number of single taxi journeys,
- Enhanced fleet / alternative fleet opportunities,
- In-year review of contracts (including Social Care contracts),
- Improved and consistent decision making (including a review of policy and application of policy through eligibility and risk assessment processes),
- Systems improvements (including system replacement, reporting and automation).

d) Highways Efficiencies: The scope to generate efficiencies from the overall strategy for vehicle usage through making better use of improved workshop data.

Other Factors influencing MTFS delivery

25. Services continue to face significant challenges in recruiting and retaining sufficiently skilled and qualified staff. Competition with major national projects such as HS2 and National Highways, as well as the private sector, mean that it is difficult to retain and recruit internal Council staff and also to secure external consultants and contractors. To meet needs, the Department currently relies heavily on buying in support at augmented prices. This practice is likely to grow as emphasis is placed on delivering initiatives and recruitment remains extremely challenging.
26. Ongoing uncertainty over the future viability of the public transport market remains with patronage failing to recover to the pre-Covid-19 pandemic levels resulting in lower fare revenues for bus operators. Inflationary pressures and a shortage of drivers have also had a huge impact on the local transport market. This has led to changes/ending of some commercial bus services and shrinkage of the bus/taxi operator market resulting in higher costs. Consequently, a significant level of transport reviews of supported services, mainstream school transport, social care and SEN transport service are required to bring expenditure in line with available budgets. Whilst contracts continue to be handed back there is a risk that current staffing resource will be insufficient to carry out this work.

27. The Department for Transport (DfT) have confirmed that with effect from April 2024 the Highways Maintenance block funding will be top sliced to incorporate incentivisation as part of the funding allocation. Metrics will include Local Transport Plan (LTP) development, Electric Vehicle (EV) charging levels, and bus and active travel infrastructure. Current self-assessments provide a strong indication that the Authority is unlikely to be able to access any of the incentivised funding without significant additional investment. As a result, existing maintenance works will need to be scaled back to match funding allocation.
28. The single year spending review continues to provide added uncertainty concerning longer-term investments including future years' capital programme allocations from the DfT, which in turn could have a knock-on impact on the fees recovered from a revenue perspective.

Other Funding Sources

29. For 2023/24, a number of additional funding sources are expected and allowed for within the budget outlined in Appendix A. These funding sources include external grants and other contributions from external agencies towards the cost of schemes delivered by the Department. The key ones include:
- Section 38, 184 and 278 agreements – £3.37m income from developers relating to fees for staff time, mostly around design checks for these agreements;
 - Capital fee income - £7.74m for staff time charged in delivering the capital programme. Should elements of the capital programme not be delivered as planned this could have an impact on the amount of staff time recovered. However, the use of agency and temporary staff resource does give some scope for varying staff levels in order to minimise the risk of this resulting in overspending in staffing cost centres;
 - Fees and charges/external works charges to other bodies (works for other authorities, enforcement of road space booking, permit scheme and network management and fleet services) - £4.82m;
 - Driver Education workshop - £2.24m of fee income collected for the Road Safety Partnership from drivers taking speed awareness and similar courses. This income is returned to the partnership net of the cost of operating the courses;
 - Joint arrangement income - £0.41m from Leicester City Council primarily to cover the costs of the City Council's share of the Park and Ride scheme that is jointly operated with the County Council.
 - Civil parking enforcement income - £1.10m which covers penalty charge notices (PCNs) for on-street parking, income from the district authorities to cover the cost of processing off-street PCNs on their behalf and parking permit income;
 - Vehicle workshop internal recharge - £1.57m, to ensure vehicle use is recharged back to the capital programme where appropriate;
 - Other specific grants (such as Bus Service Operators Grant, Extended Rights to Free Home to School Travel and Rural Mobility Fund) - £2.46m;

- Leicester, Leicestershire, Rutland Road Safety Partnership - £0.28m returns and a drawdown from reserve to fund safety schemes; and,
- Leicester and Leicestershire integrated transport model - £2.71m funding provided for the transport model development work.

Capital Programme

30. The draft capital programme is summarised in Table 3 and the detailed programme is set out in Appendix C. The capital programme is funded by a combination of the LTP grant, discretionary funding and other external and internal sources.

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Major Schemes	71,583	78,600	27,892	5,603	183,678
Transport Asset Management	21,481	15,659	13,505	16,989	67,634
Total	93,064	94,259	41,397	22,592	251,312

Table 3 – Summary Draft Capital Programme 2023/24 to 2026/27

31. The programme includes £183.67m to deliver major infrastructure schemes including;

- Melton Mowbray Distributor Road: £100.17m for the North and East sections (total scheme costs £116.11m), and £33.91m for the Southern section (total scheme costs £37.50m);
- Zouch Bridge: £10.36m towards the cost of bridge replacement;
- County Council Vehicle Replacement programme: £13.16m;
- Advanced design programmes: £12.20m.

	2023/24	2024/25	2025/26	2026/27	Total
	£000	£000	£000	£000	£000
Grant - Local Transport Plan (LTP) - <i>Integrated transport element</i>	2,750	2,750	2,750	2,750	11,000
Grant – Local Transport Plan (LTP) - Total needs/formula allocation	7,891	7,891	7,891	7,891	31,564
Grant – Local Transport Plan (LTP) - Total <i>Incentive funding</i>	1,973	1,973	1,973	1,973	7,892
TIIF - Grants - DfT Pothole Funding	7,891	7,891	7,891	7,891	31,564
Grants - Housing infrastructure fund (HIF)	4,213	12,442	0	0	16,655
Grants - Melton Mowbray Distributor Road DfT Funding	43,919	5,553	0	0	49,472
Grants - Melton Mowbray Distributor Road LLEP Funding	4,000	0	0	0	4,000
S106 Contributions	451	2,530	0	0	2,981

Revenue and Earmarked Funds	1,350	600	100	100	2,150
Revenue Contribution to capital	1,392	0	0	0	1,392
Capital Substitution	0	-1,144	-1,144	-1,144	-3,432
Environment agency Grant	701	0	0	0	701
Corporate Funding (capital receipts and revenue)	16,533	53,773	21,936	3,131	95,371
Total Highways & Transportation	93,064	94,259	41,397	22,592	251,312

Table 4 – Highways and Transportation Capital Funding

32. At the time of writing, the Government has yet to confirm the LTP allocation for 2023/24 and the pothole funding for any future years so the above figures are still provisional. The LTP funding from DfT comprises two elements:
- a) Integrated Transport Schemes – funding of £2.75m has been assumed each year from 2022/23 to 2025/26. This funding will be used as match funding for grant bids into external funding streams. This resource will also be used to fund advanced design and feasibility studies to ensure outline business cases are available to support any such bids;
 - b) Maintenance — LTP Maintenance funding of £7.89m is assumed each year for the basic needs-based allocation.
33. It has been assumed that the Governmental incentive level funding for capital maintenance activity on highways assets is to remain at the 2022/23 grant allocation rate. The incentive level funding is dependent on the County Council being able to demonstrate Level 3 in its Asset Management assessment.
34. Funding for improvement schemes is limited to that which can be secured from the various Government funding streams available for infrastructure. Some provision (around £12.20m over the MTFS) exists for advance design/match funding. However, increased levels of capital funding are being channelled through bidding processes. This has an impact in two ways. Significant amounts of staff time are required in submitting bids (including options modelling, developing business cases, liaising with the Government, Midlands Connect and/or Leicester and Leicestershire Enterprise Partnership) which may be wasted if bids are unsuccessful. The costs of compiling and submitting a bid are significant and may not result in funding being awarded.
35. Schemes for which external funding has already been secured include:
- Hinckley Junctions (National Productivity Infrastructure Fund);
 - Melton Mowbray North East Distributor Road (Local Majors Fund); and
 - Melton Mowbray Southern Distributor Road (Housing Infrastructure Fund).
36. The largest risk to the capital programme is rising inflationary costs. This risk is putting pressure on the affordability of completing major works and delivering within budget.

37. There is continued risk stemming from labour shortages slowing progress and whilst this can be addressed through outsourcing, it is more costly. Government funding often dictates delivery within a prescribed time-frame. This can be difficult to achieve, causing knock-on pressures across other schemes in sourcing resources for scheme design, programme planning and delivery as resources cannot always be secured externally.
38. Often this can be compounded by other pressures. Adverse weather conditions can play a part, especially for certain maintenance activities (such as surface dressing and flood alleviation works). Also, for some of the larger schemes, legal issues may need resolving around for example, compulsory purchase orders.

Capital Programme – Future Developments

39. Where capital projects are not yet fully developed, or plans agreed these have been included under the heading of 'Future Developments' under the Department's programme in Appendix C. It is intended that as these schemes are developed, and where there is a financial justification, or an investment required to maintain delivery of the service, they are added into the capital programme. These include:
- Additional bid development/match funding,
 - Green vehicle fleet.

Background Papers

Report to Cabinet 16 December 2022 – Medium Term Financial Strategy 2023/24 to 2026/27. <https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6746&Ver=4>

Circulation under Local Issues Alert Procedure

None.

Equality and Human Rights implications

40. Public authorities are required by law to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation;
 - Advance equality of opportunity between people who share protected characteristics and those who do not; and,
 - Foster good relations between people who share protected characteristics and those who do not.
41. Many aspects of the County Council's MTFs may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure decision makers

have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

42. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the action plan.

List of Appendices

Appendix A – Revenue Budget 2023/24

Appendix B – Growth and Savings 2023/24 – 2026/27

Appendix C – Capital Programme 2023/24 – 2026/27

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