

By: Paul Carter, Leader of the Council  
John Simmonds, Cabinet for Finance  
Mike Whiting, Cabinet Member for Planning, Highways,  
Transport and Waste

To: County Council – 12<sup>th</sup> July 2018

Subject: **REVENUE BUDGET 2018-19 UPDATE/HIGHWAYS  
ASSET MANAGEMENT**

Classification: Unrestricted

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**Summary:** This report seeks a formal decision for further additional funding to be made available in 2018-19 budget for pot-hole repairs

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## **1. Introduction**

- 1.1 The condition of the 5,400 miles of roads and footways maintained by the County Council has been a major issue following the damage which has occurred following winter snow and heavy spring rainfall. When the County Council agreed the 2018-19 budget in February an additional £2.4m was approved for highways drainage and pot-hole repairs. This was before the worst of the weather and at the time it was envisaged this would support a rolling budget reserve.
- 1.2 At the County Council meeting on 15 March 2018, in his oral update, the Leader announced a further £2m spending on a pot-hole blitz (a summer campaign to focus on pot-holes that would not be repaired under the Council's normal intervention criteria). This increased the total funding available for pot-hole repairs to £8m. This additional £2m was approved by County Council on 17<sup>th</sup> May 2018, funded by a draw down from earmarked reserves. At the time it was made clear that if this was not sufficient to repair the winter damage further funding would be made available.
- 1.3 Six local area contracts have been let specifically for the summer pot-hole campaign to supplement the existing planned and emergency repair contracts already let through the original revenue and capital budgets. The total forecast spending under this campaign is £10.1m i.e. £2.1m more than current approved funding. We propose this is funded by a further draw down from reserves and use of the uncommitted underspend from 2017-18 as outlined at Cabinet on 25<sup>th</sup> June.
- 1.4 In accordance with Well Managed Highway Infrastructure code of practice principles and as part of the current campaign highways engineers have been able to assess the full extent of the damage to the county's roads and footways and have advised that even more would need to be spent to fully repair the existing damage and to carry out additional resurfacing on some key routes to prevent further pot-hole damage if we have another bad winter. To fund this

additional work a further £2.5m would be needed to be drawn down from reserves and circa £10m made available from reprioritising spending within the £794.7m capital programme (i.e. without increasing the overall capital spending).

- 1.5 This report considers the financial implications and Section 151 assurance of providing additional funds into the highways maintenance budget in 2018-19 to repair more of the damage than the minimum needed to satisfy minimum statutory requirements.

## 2. Financial Assessment

- 2.1 The funding for highways maintenance and asset management comes from a combination of the Council's annual revenue budget and capital grants from Department for Transport (DfT). Prioritisation of spending within the available funding is agreed by the Cabinet Member for Planning, Highways, Transport and Waste and the Director of Highways, Transport and Waste. In recent years the Council has approved additional funding for pot-hole find and fix campaigns from funds rolled forward from previous years' underspends.
- 2.2 The 2015-16 Spending Review included the provision for five-year Pot Hole Action Fund as a separate element of capital grants. This government grant, together with KCC approved funding comprises the total available for the pot-hole blitz campaign. .
- 2.3 Chart 1 shows the total amounts available for find and fix pot-hole campaigns in recent years. It does not include prioritisation of pot-holes to meet the Council's statutory obligations throughout the year under the term maintenance contract with Amey PLC (shown within the overall "black works" revenue spend in Chart 2), or resurfacing work carried out under the contract with Eurovia in the capital programme.

Chart 1

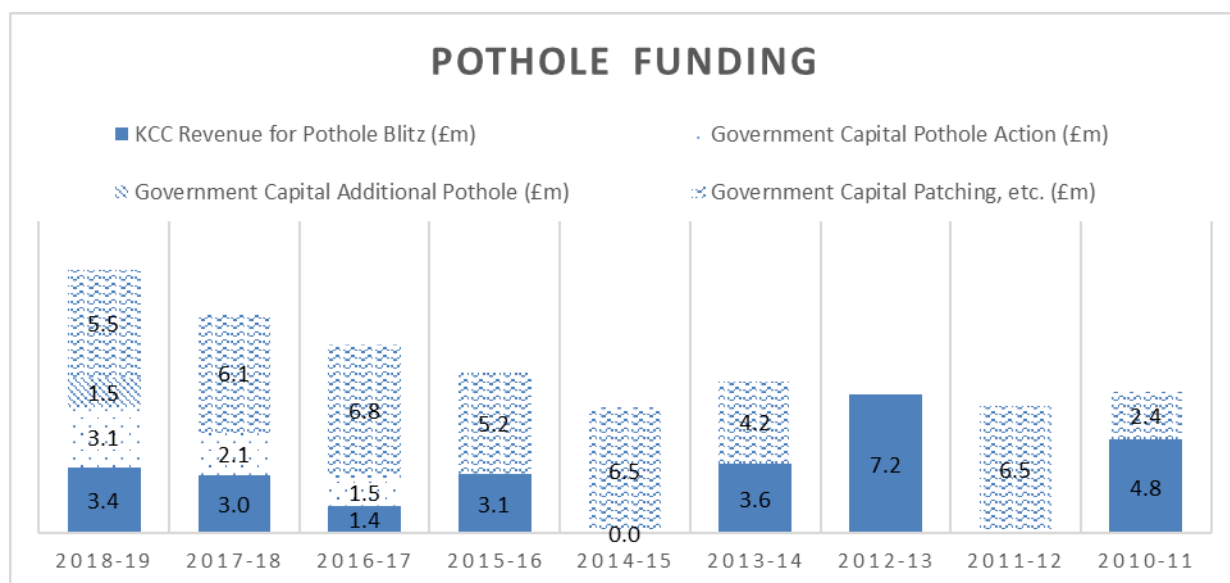
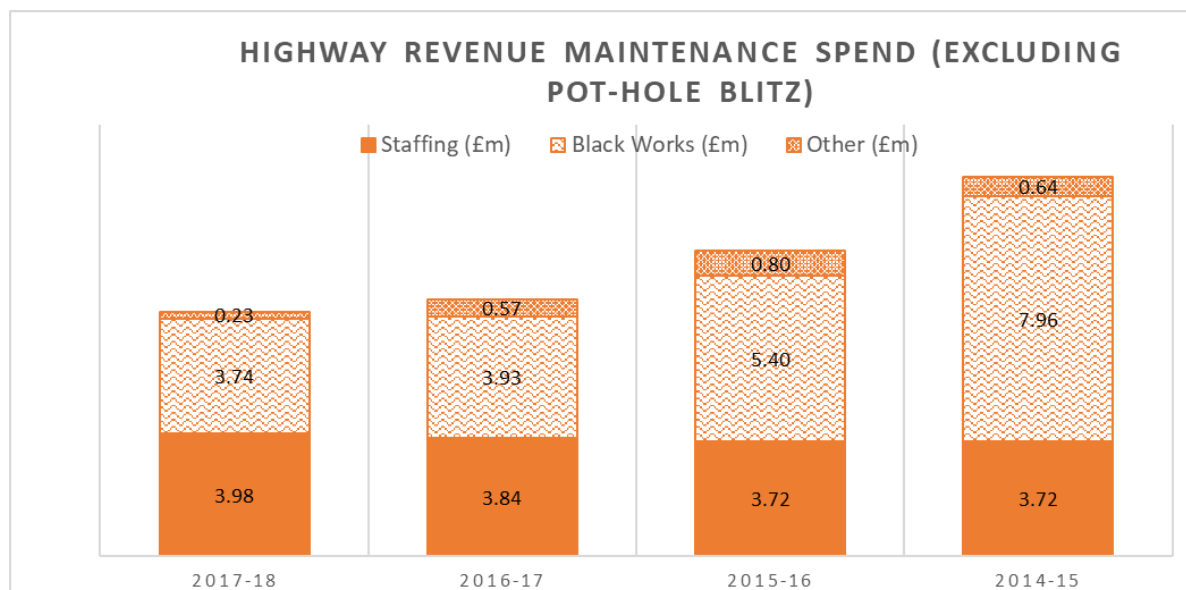


Chart 2



- 2.4 Any additional revenue funding for pot-hole repairs in 2018-19 would need to be funded from a further draw down from reserves. When the County Council approved the 2018-19 budget it was reported that the final draw down from reserves was £4.4m less than the draft proposals published in January (and £6.4m less than the Autumn Budget report in October). This was made possible by additional one-off funding (£11.9m) available following the final settlement, final collection fund balances, and estimated proceeds from the 100% business rate pilot. At the time it was recognised that holding more in reserves would help to mitigate the cliff-edge effect of lost one-off funding in 2019-20.
- 2.5 At the time the budget was set it was acknowledged that amendments could be considered which were funded from reserves provided the overall amount did not exceed the additional amount in reserve compared to the earlier drafts (£4.4m to £6.4m). The additional £2m approved in May has reduced this latitude to £2.4m to £4.4m. Further draw down from reserves within this latitude would not compromise the Section 151 assurance given to the County Council in February regarding the adequacy of reserves. The outturn report to Cabinet on 25<sup>th</sup> June identifies a further £0.5m uncommitted underspend from 2017-18 which could also be used to fund pot-hole repairs.
- 2.6 The latitude on reserves and uncommitted underspend means up to £5m could be allocated to pot-hole repairs in 2018-19 without compromising the budget for the year. The current forecast spend on pot-hole blitz campaign is £10.1m, this is £2.1m more than current approved funding (£3.4m KCC, £3.1m government pot-hole action fund, and £1.5m additional government funding). This £2.1m and the further £2.5m to cover further revenue spending are within the tolerances of the latitude on the Section 151 and thus can be approved without compromising that assurance. The circa £10m additional capital spending will be managed by reprioritising spending within the existing total £794.7m programme and therefore does not need approval and does not impact on the Section 151 assurance.

- 2.7 The published medium term financial plan (MTFP) showed an unidentified gap of £15m between forecast spending demands and the amount of funding likely to be available after £27.4m of further identified savings and £7.45m draw down from reserves. Further draw down from reserves in 2018-19 to fund pot-hole repairs could mean that the £7.45m planned draw down in 2019-20 may not be feasible without leaving inadequate reserves. If this proved to be the case using reserves to fund pot-hole repairs this year could increase the 2019-20 budget gap. It is too early in the budget cycle to say for sure whether this will be the case but in considering additional funding for pot-hole repairs it is important the Council is made fully aware of medium term financial risks.
- 2.8 The financial assessment has concluded that up to £4.6m additional revenue funding could be drawn down from reserves to fund pot-hole repairs in 2018-19 without compromising the Section 151 assurance for 2018-19. This assurance assumes that the Council achieves a balanced outturn at the end of 2018-19, and that current savings plans are delivered (or alternative implemented) including any outstanding key decisions. Any further draw down does pose an additional risk to balancing the 2019-20 budget, although it is too early in budget cycle to confirm whether this will impact on the Section 151 assurance on the adequacy of reserves for that year. There are many uncertainties and further considerations to include before this assurance can be finalised.

### 3. Recommendations

- 3.1 Members are asked to **APPROVE** an additional £4.6m draw down from reserves to support the £10.1m already committed and provide for a further £2.5m revenue spending on pot-hole repairs in 2018-19. Members are asked to **NOTE** that additional capital spending on road schemes will require other capital projects (as yet not identified) to be reduced.

### 4. Contact Details

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