

**Hampshire County Council**

**Basingstoke Canal Joint Management Committee**

**19 February 2010**

**Update of Financial Position for 2009/10 and 2010/11**

**Report of the Honorary Treasurer**

Contact : Mike Walls    Tel: 01962 847102    E-mail: mike.walls@hants.gov.uk

**1      Introduction**

- 1.1    This report covers the position for the current financial year as at mid-January, and the situation regarding the budget for next financial year.

**2      2009/10 Forecast Outturn**

- 2.1    The forecast outturn for the current financial year is a deficit of £25,968 against a budgeted deficit of £9,092 (see Appendix 1). The effect on reserves is to reduce the balance to £33,620 at the end of the year.
- 2.2    Expenditure is forecast to exceed the budget by £25,300 for a variety of reasons. Employees' costs have risen due to overtime and allowances being incurred to cover long-term staff absences. Emergency repairs and maintenance work on the Canal infrastructure have contributed to the overspend on Premises and Supplies and Services. These additional costs have been partially offset by savings on Transport and hire of equipment.
- 2.3    Income is forecast to increase by £5,200. A good performance from Group activities has offset a drop in income from rents and wayleaves.
- 2.4    The capital expenditure shows a net overspend of £12,720 following work on several locks, Frimley ground well pumping, and at Deepcut. Most of this work has been covered by funding from Surrey County Council and contributions from the Canal Society.

**3      2010/11 Proposed Budget**

- 3.1    At the Joint Management Committee (JMC) meeting held on 25 September 2009 members approved a net revenue budget for 2010/11 of £581,000. This level of net revenue expenditure represented an increase of 1.25% over the previous year, and as a consequence constituent authorities were requested to increase their formula based contributions by 1.25%.

- 3.2 As agreed at the JMC in September 2009, the revenue budget has been set for a full complement of staff, and for small routine and emergency maintenance works only. Major repairs will be covered separately by the two owners who have already funded capital repairs approaching £200,000 in the current year.
- 3.3 The partner contributions were calculated using the new formula which had been introduced in the 2009/10 financial year, as set out in Appendix 2.
- 3.4 The likely levels of constituent authorities' contributions for 2010/11 and the impact on the agreed revenue budget, based on the responses that have been received are set out in Appendix 2.

#### **4 Partner contributions**

- 4.1 For more than a decade there has been a shortfall in revenue contributions from the partners. By 2007/08 it had increased to 12% (£65,800) of the requested contribution. The cumulative effect of these shortfalls has been repeated calls on the reserves to supplement the maintenance work that is usually funded from the revenue budget.
- 4.2 It was hoped that the new formula introduced in 2009/10, and accepted by the partner authorities, would bring a stability to the core funding for the Basingstoke Canal Authority. However, although the shortfall reduced to 5.38% (£30,868), three partners did not meet their requested contributions, and have contributed at a level similar to previous years (below the requested level).
- 4.3 If the shortfall in the 2009/10 partner contributions had been made good, there would be a forecast contribution to reserves of £4,900 rather than a £26,000 draw on reserves.
- 4.4 It is a fact that the nature of the Canal infrastructure means that there is a high and constant demand on the financial resources of the Canal Authority to maintain the structures and ensure the safety of the users. Continuous underfunding has forced the Director to focus on essential maintenance and repairs rather than following a planned maintenance programme and pursuing the development of the Canal.
- 4.5 The figures in Appendix 2 show the breakdown between the formula-derived requested cash contributions, the potential contributions and SLAs. The cash shortfall in partner contributions for 2010/11 is £31,397 (5.4%). Those partners not meeting their requested contributions have indicated that they will seek to make up the difference "in kind" or through a Service Level Agreement (SLA) arrangement (although the Canal may need to incur additional expenditure to deliver this).
- 4.6 Even if the difference is made up through SLAs, the core activities of the Canal will be underfunded which means that - yet again - the Director may

have to consider additional reductions in the budget. If this is the case this will be addressed at the start of the new financial year.

- 4.7 However, it can be seen from the financial performance of the last three years that there is little flexibility in the budget, and this has led to a net drop in reserves of £143,000. £130,000 of this has been spent on essential and emergency repairs and maintenance. The shortfall in partner contributions during this period has been £119,100.
- 4.8 The partners are urged, once more, to do all they can to ensure their full contributions are made, and that any additional capital funding for the development and improvement of the Canal is actively sought and secured. A short-term fix of reducing the core funding will lead to long-term problems in maintaining the Canal infrastructure.
- 4.9 The condition survey has revealed the extent of the work that is required to bring the Canal into an acceptable state of repair. The indicative cost of this work is approximately £2 million. This will need to be discussed separately by Hampshire and Surrey County Councils as joint owners of the Canal.
- 4.10 In addition, Hampshire and Surrey County Councils have committed almost £200,000 this financial year to capital works. These works have been paid directly by the two Counties, and therefore do not appear in the Canal's financial statement as shown in the Appendices.

## **5 Meeting the Shortfall in the 2010/11 Budget**

- 5.1 Should any of the partners not make good their shortfall in contributions the budget will be balanced (as in previous years) by curtailing expenditure on equipment and materials, and restricting the maintenance programme to essential work. The staffing structure will be further reviewed. Opportunities to generate extra income are limited, but will be actively pursued. Other budgets will also be reviewed with the intention of reducing expenditure where possible.
- 5.2 Every effort will be made to revise the budget to take account of the potential budget deficit without adversely affecting the daily operation of the canal. This may require a redirection of the appropriate earmarked reserves.

## **6 Recommendations**

- 1 That the 2009/10 position be noted, and all partners are urged to seek additional contributions to relieve the pressure on the Canal revenue budget and reserves.
- 2 That all partner authorities be urged to make their full contributions and to honour the agreed scale contributions for 2010/11.

- 3 That the Group agree the Canal Director be authorised to take the necessary steps outlined in paragraph 5 to contain the net expenditure during 2010/11 to meet the potential shortfall in contributions from the partner authorities.

## FORECAST OUTTURN 2009/2010

	<b>Revised Budget 2009/10 £</b>	<b>Forecast Outturn 2009/10 £</b>	<b>(Over)/ Under Budget £</b>
<b><u>Expenditure</u></b>			
Employees	501,100	516,100	(15,000)
Premises/Infrastructure	90,200	102,400	(12,200)
Transport	84,200	73,000	11,200
Supplies & Services	35,000	46,500	(11,500)
Dredging	10,000	10,000	0
Special Project Research	2,200	0	2,200
<b>Total Revenue Expenditure</b>	<b>722,700</b>	<b>748,000</b>	<b>(25,300)</b>
<b><u>Income</u></b>			
Boat Licences	17,000	17,000	0
Sales	4,000	6,200	(2,200)
Angling	11,000	11,000	0
Rents and Hire of Facilities	64,200	59,700	4,500
Group Activities	17,000	21,900	(4,900)
Fibre Optic Cable	49,300	49,300	0
Donations/contributions	11,400	14,000	(2,600)
<b>Total Revenue Income</b>	<b>173,900</b>	<b>179,100</b>	<b>(5,200)</b>
Contribution to/(from) Reserves	(9,092)	(25,968)	(16,876)
<b>Net Revenue Expenditure</b>	<b>539,708</b>	<b>542,932</b>	<b>(36,976)</b>
<b>Local Authority Contributions</b>	<b>539,708</b>	<b>542,932</b>	<b>(3,224)</b>

**RESERVE ACCOUNT 2009/10**

	<b>£</b>	<b>£</b>
Balance as at 1 April 2009		72,308
Add: Interest		0
Less: Net Capital Expenditure	(12,720)	
Less: Revenue Deficit	<u>(25,968)</u>	
		<u>(38,688)</u>
Balance as at 31 March 2010		<u><u>33,620</u></u>

**CAPITAL SUMMARY**

Work at Deepcut and Locks 12 & 17	(84,626)
Work at Frimley groundwell pump	(1,594)
Income from Surrey CC	73,500
	<u>(12,720)</u>

## Local Authorities' Probable Revenue Contributions 2010/11

	2009/10		2010/11			
	Original Request	Final Contribution	Original Request	Likely Contribution	Possible SLA	Notes
	£	£	£	£	£	
Surrey CC	160,434	160,434	162,448	162,448		1
Guildford BC	40,925	36,800	41,438	36,800	4,638	1,2
Runnymede BC	17,667	8,000	17,888	8,000	9,888	1,2
Surrey Heath BC	27,526	11,000	27,871	11,000	16,871	1,2
Woking BC	55,796	55,796	56,497	56,497		1
Hampshire CC	160,434	160,434	162,448	162,448		1
Hart DC	66,773	66,224	67,611	67,409		1,3
Rushmoor BC	44,244	44,244	44,799	44,799		1
	<b>573,800</b>	<b>542,932</b>	<b>581,000</b>	<b>549,401</b>	<b>31,397</b>	
Shortfall		30,868 5.38%		31,599 5.44%		

Notes

- 1 Likely contributions for 2010/11 to be confirmed.
- 2 The Canal Director will discuss the terms of the Service Level Agreements with the relevant partners.
- 3 Hart DC contributions for 2009/10 consisted of £58,081 from Hart DC and £8,143 from seven parishes in the Hart district. One of the parishes will not make its contribution in 2010/11.