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Project title: Basingstoke Canal

Charitable trust status: Updated position statement from October 2006 Options Appraisal Report

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Appendices

- Appendix 1 Extract of the Charitable trust information provided within the 2006 Options Appraisal Report.
- Appendix 2 Support services, and costs, provided free to the BCA from Hampshire and Surrey County Councils (estimated).
- Appendix 3 Hampshire County Council External Funding team extract of potential grants that could be obtained through charitable trust, rather than local authority ownership.

1 Executive summary

- 1.1 Part of the 2006 Options Appraisal Report for the Basingstoke Canal, which reviewed the financial sustainability of the Canal, recommended that further work be undertaken in relation to the Canal becoming a charitable trust. This report addresses that recommendation.
- 1.2 In summary there is little change in the position from that of the 2006 report. More detailed advice on the taxation implications and cost of support services shows that there is a potential additional net annual cost for a charitable trust model of £78,600, plus any business rate liability (Section 6, Table 3 page 14 and Appendix 2 refer). This is on top of the continuing annual shortfall in revenue contributions from some of the riparian partners, which for 2009/10 was £30,868.
- 1.3 Any charitable trust/third sector model would therefore need to generate additional income of at least £109,468 to be financially sustainable. This does not address the need to recover the depleted reserves balance which is a direct consequence of the revenue shortfall (Table 1, page 8 refers). This annual erosion of reserves is not sustainable.
- 1.4 Table 5, page 20, sets out the non local authority funding streams for the Canal and demonstrates that there has been no significant change in the level of income realised over the last eight years. Whilst there have been some fluctuations, overall there has been a fall in income of 13%.
- 1.5 There are some new income generating initiatives being developed, however there needs to be a stronger and more focused group tasked with realising income targets. The 2007 short audit of sponsorship and income opportunities produced by the Director of the Hampshire Museums and Galleries Trust (HMGT), who is also the Manager of Milestones Museum, Basingstoke, could form the starting point for this group, along with the recent joint working initiative agreed with Milestones (paragraph 7.20 refers) and exploring potential land and property opportunities adjoining the Canal, owned by the local authorities (paragraph 8.27 refers). The Canal Society have stated that they could also assist with fund raising, for example applying for grants which are not available to the current owners. However, account needs to be taken of very recent announcements by central Government of cuts in grants to local authorities which may have an impact.
- 1.6 The focus of this review has been on the potential for the day to day management of the Canal to be transferred into a charitable trust or third sector model. As a result of the structural maintenance backlog the infrastructure asset of the Canal is not in an acceptable condition to be considered as part of these proposals at the current time. However this does not prohibit it being considered in the future once it is in a good state of repair and providing the third sector owner can insure the liability, and that this is at an affordable level (as was stated in the original report of 2006). It should be borne in mind that this would not alleviate the two current owners or riparian partners of their revenue contribution as this is identified as a key success criteria for a third sector model (section 11 refers). There could also be a request/need to provide capital funding to support the ongoing structural maintenance.
- 1.7 A Condition Survey, a key recommendation from the original report in 2006, has been completed and an Asset Management Plan produced which has resulted in the Cabinet for both County Councils approving an initial three year capital programme to address the major structural risk areas identified (Paragraphs 2.6-10 refer).

- 1.8 The overall Asset Management Plan covers a 15 year period. The Canal Director has advised that the first five years will bring the Canal into a good state of repair, the next five years focussing on essential planned preventative maintenance and the last five years representing the life cycle plan of allowing for future major structural repairs (paragraphs 2.6-10 refer).
- 1.9 The core objectives of the Basingstoke Canal Authority (BCA) are to manage the Canal, ensure it is safe, that the waterway and towpath are available for public enjoyment and preserving the conservation value of the Canal. However, within the current financial climate with the annual shortfall in revenue contributions, evidence of no significant increase in income generation over recent years, and the expectation of public sector funding cuts to support the recovery of the national debt there is a strong case for updating the objectives of the BCA. The change would reflect the increasing importance for a more commercial outlook and ability to generate significant levels of income to support the future sustainability of the Canal. This is not a criticism, but a realisation of the changing needs to manage the funding of the Canal and keep it safe and in working order.
- 1.10 An update of the objectives of the Canal, and resultant change in focus to a more commercial outlook, would result in a need to examine and address skills required within the BCA, and ultimately a move to performance related targets for staff in line with skills development. However, the current economic climate should be borne in mind, as this has resulted in 62% of charities experiencing a fall in income (as reported by the Charity Commission in March 2010).
- 1.11 The consideration of the Basingstoke Canal moving into a charitable trust/third sector management model is complex and politically sensitive. There is not universal support for this proposal so the real issue is what benefits can be gained in this model over the current local authority model.
- 1.12 Key success criteria are cited as ongoing local government funding, along with the ability to significantly increase both income generation and the active participation of volunteers (section 11 refers). Whilst these currently occur on the Canal now there is real potential to develop this further regardless of the model adopted. Branding and marketing are also essential in attracting volunteers, funders and the local community (paragraphs 7.17 to 7.21 refer).
- 1.13 A lot can be achieved regardless of changing the governance model, so any alternative must be assessed against any further benefits that could be derived. The main difficulty is being able to quantify the ability to realise significantly more income to a level that will provide financial assurance, in order that moving to the third sector will deliver a financial sustainable model. It needs to be considered whether the increased income can be achieved within the existing ownership by working more closely with the Canal Society in this area to enable this established trust to be able to apply for grants and generate further income that would otherwise not be available to the local authority owners.
- 1.14 Exploring appropriate governance models for the charitable trust/third sector model has been specifically excluded from this review. However, there are a range of potentially suitable models which are highlighted within Table 8, page 28. The next step for any third sector/charitable trust proposal would be to commission a legal report to assess



and recommend the most appropriate governance model that should be applied. A key consideration here is one that limits liability and risk for trustees/board members.

- 1.15 As requested section 9 of this report sets out the requirements and process for becoming a charitable trust. This is easily accessible and understandable on-line within the charity commission's website <http://www.charity-commission.gov.uk>
- 1.16 The British Waterways (BW) third sector management proposal <http://www.britishwaterways.co.uk/twentytwenty/setting-a-new-course> sets out a range of considerations and issues, many of which are directly applicable to the Basingstoke Canal. These are addressed within section 11 of this report.
- 1.17 Whilst there are clearly benefits from moving into a third sector model, as set out within the BW report and in Table 4, page 15, of this report (the advantages and disadvantages of a third sector management model), the key considerations are that of economies of scale and financial risk for the Basingstoke Canal and the two County Council owners.
- 1.18 The overriding concerns are those of economies of scale and financial sustainability. The Basingstoke Canal's success within the third sector is fundamentally dependent on local authority contributions not falling any further, reducing the cost base and significantly increasing income generation. If charitable organisations are experiencing reduced income levels, the question remains as to whether this is the right time to be considering a move of this nature for the Basingstoke Canal.
- 1.19 The main focus of the following recommendations is to move the Canal into a position where it is self sustaining, and therefore financially sustainable within the existing model. This will position the Canal more strongly, and represent a more attractive proposition, to consider a move into the third sector in its own right, or as part of an existing third sector entity in the future.

1.20 Recommendations

- 1.20.1 It is proposed that the Joint Management Committee recommend that the two County Council owners address the following:

Recommendations that could be undertaken regardless of a move to charitable trust/third sector to put the Canal's "house in order"

1. Consider the case for updating the objectives of the BCA to reflect the need for a more commercial outlook in generating significant income levels. If this was agreed a skills audit would be required, a training needs analysis completed, training provided and subsequent income performance related targets set.
2. That the cost base of the Canal is reduced, with a realistic target established to compensate for the reduced revenue contributions.
3. Re-establish the income generation sub-group, including stakeholder representatives such as the Surrey and Hampshire Canal Society, the Inland Waterways Association and the Director of Development HMGIT and Manager of Milestones Museum, and task its membership with realising specific income targets. The starting points could be the proposals within the 2007 report produced by the Director of the Hampshire Museums and Galleries Trust, along with the recent joint working initiatives announced with Milestones and the Canal Society.



4. Through the income generation sub-group:
 - a. Work closely with the Surrey and Hampshire Canal Society to identify and agree where their trust could be beneficial in accessing specific targeted grants that would otherwise not be available to the local authority owners.
 - b. Explore the potential income generating opportunities from land and property adjoining the Canal.
 - c. Work in partnership with the Director of the Hampshire Museums and Galleries Trust to utilise the available income generation expertise.
5. Consider changing the branding and enhancing the marketing to increase engagement of funders and participation of volunteers and the local community.
6. Work in partnership with the Surrey and Hampshire Canal Society, and other interested volunteer groups, to overcome the current barriers to effective volunteer working.
7. Work in partnership with the Surrey and Hampshire Canal Society to increase the active volunteer base on the Canal.
8. That progress in achieving these recommendations, including the income levels and savings achieved, is formally reported to and monitored by the Joint Management Committee as part of the Canal Directors report.

Recommendation relating to the further exploitation of charitable trust status

9. If there is still support to further investigate the potential move of the Basingstoke Canal into the third sector that the two County Council owners jointly commission a legal report to assess and recommend the most appropriate governance model at some mutually agreed future point.
10. At a suitable future point, when the Canal represents a more attractive proposition as a financially sustainable organisation, open discussions with British Waterways regarding the potential for consolidation into their mutualised structure, assuming this progresses as currently proposed.

2 Introduction

- 2.1 The Basingstoke Canal is jointly owned by both Hampshire County Council and Surrey County Council. It has 32 miles of navigable waterway and runs from the village of Greywell in Hampshire to Woodham in Surrey, where it connects with the River Wey. Due to the risk of flooding it represents one of the highest corporate risks within Surrey County Council, and, whilst historically was one of the highest corporate risks at Hampshire, this is now classified as the highest departmental risk for Culture, Communities and Rural Affairs at Hampshire County Council due to changes in risk classification. The day to day operation is managed by the Basingstoke Canal Authority (BCA) which receives funding from the two County Councils, plus six riparian District/Borough Councils (situated along the banks of the canal), based on an agreed funding formula.
- 2.2 In 2006, Treasurer's Consultancy produced a report on the options for the future management of the Basingstoke Canal. This arose from the ongoing financial constraints faced by some of the riparian authorities, which has resulted in an ongoing shortfall in



funding for running costs. Income required from the riparian partners in 2009/10 totalled £252,931, however there was a shortfall of £30,868. This has been the consistent position for many years. As a result there was a need to ensure long term financial sustainability of the Basingstoke Canal. A range of recommendations were produced within the report, and these were approved by the Joint Management Committee for the Canal in October 2006.

- 2.3 One of the recommendations was to pursue further the option of the Canal becoming a charitable trust. Although some work was undertaken during the course of the options appraisal it was recognised that this required further analysis. Appendix 1 sets out the extract from the October 2006 report on the charitable trust options considered.
- 2.4 In relation to the option of the Canal becoming a Charitable Trust there were three key dependencies:
- That the two owners commission a Condition Survey for the Canal as this is imperative for any future model, which will lead to the production of an Asset Management Plan for the Canal for addressing the backlog of structural maintenance.
 - If the infrastructure transfers into a charitable trust model that an insurance quotation be obtained to determine if the Canal was a) insurable and b) that the quote was affordable. It was agreed that this would not form part of this review.
 - Any charitable trust option would be dependent on a commitment to long term funding from the two owners and all of the riparian local authorities.
- 2.5 As a consequence of the dependencies set out above, and the fact that the indicative financial analysis undertaken during 2006 suggested there would be a net additional cost to the BCA in operating as a charitable trust, the affordability and long term financial sustainability of the Canal is therefore a key requirement of any charitable trust model.

Condition Survey and Asset Management Plan

- 2.6 One of the recommendations from the original report in 2006 was for a Condition Survey to be undertaken in order that this could then inform the development of an Asset Management Plan. This would then translate the structural maintenance backlog work required on the Canal, to bring it up to an acceptable minimum condition, into a phased capital funded programme of work to be undertaken by both County Councils as owners.
- 2.7 The freehold ownership and infrastructure, and therefore resulting insurance liability on the asset, would remain with the two owners Hampshire and Surrey County Councils until such time as the infrastructure is considered to be in an acceptable condition.
- 2.8 Whilst it is acknowledged that three year capital funding has been approved by the Cabinet within both Hampshire and Surrey County Councils, it is estimated that this will take up to 10 years to make the Canal into an acceptable state to potentially transfer out of local authority ownership. The three year capital programme is based on what was known as a result of the condition survey at the time of applying for capital funding. The cuttings and culverts are in the process of being surveyed, which may inform the two owners of an increased capital requirement beyond the initial three years.
- 2.9 The overall Asset Management Plan covers a 15 year period. The Canal Director has advised that the first five years will bring the Canal into a good state of repair, the next five years focussing on essential planned preventative maintenance and the last five years representing the life cycle plan of allowing for future major structural repairs.



- 2.10 On completion of the work to address the structural backlog and put the Canal into an acceptable condition, potentially up to 10 years, consideration can then be given to transferring the full asset to a charitable trust/third sector model.

Basingstoke Canal Authority – Reserves History

- 2.11 Prior to discussing the detailed findings it is useful to understand the impact that the reduced revenue contributions, from some of the riparian partners, has had on the financial reserves for the Basingstoke Canal. The revenue shortfall has been met from the reserves each year, and as a result at the end of 2008/09 were 68% less than eight years previously in 2001/02. The trend information on the reducing level of balances for the Basingstoke Canal, is shown below within Table 1.

Table 1: Trend analysis of reserves history for the Canal

	Opening Balance	Capital Expenditure	Capital Contributions	Revenue Balance	Closing Balance
	£	£	£	£	£
2001/02	254,701	(33,995)	12,362	34	233,102
2002/03	233,102	(62,956)	8,917	(13,435)	165,628
2003/04	165,628	(23,101)	57,786	(1,254)	199,060
2004/05	199,060	(41,436)	6,663	3,012	167,299
2005/06	167,299	(47,427)	5,793	(277)	125,387
2006/07	125,387	(15,232)	32,743	33,758	176,656
2007/08	176,656	(60,630)	8,638	(18,731)	105,933
2008/09	105,933	(58,698)	42,120	(17,047)	72,308

- 2.12 It is clear from Table 1 above that funding the shortfall in revenue contributions from the reserves is not a sustainable long term position. The reserves were originally designed to be held for capital works on the Canal, not for supporting the day to day management of the Canal.
- 2.13 Treasurer’s Consultancy have been commissioned to update the position relating to the option of the Canal becoming a Charitable Trust from the 2006 review, and produce a report on the findings for the Joint Management Committee in June 2010.

3 Consultancy project

3.1 Project aim

To further explore and report on the potential for the Basingstoke Canal Authority (BCA) to become a charitable trust and remain financially sustainable into the future.

3.2 Project objectives

The objectives of this project are to:

- Understand the requirements and process for becoming a charitable trust.



- Determine the financial and non-financial implications for the BCA becoming a charitable trust.
- Produce a report on the findings, and present this to the Joint Advisory Group on 4 June and the Joint Management Committee on 25 June.

3.3 Scope - Inclusions

For the purposes of this review (paragraphs 2.6-10 refer) the consideration of a charitable trust option will relate to the day to day management of the Canal only, in other words the Basingstoke Canal Authority (BCA).

The project will update the 2006 analysis for the BCA becoming a charitable trust and include the following:

- Financial analysis.
- Income generation potential.
- Non financial factors.
- Risks.
- The implications for establishing the Basingstoke Canal Authority as a business unit within the County Council, as a stepping stone to a potential third party management model such as a charitable trust.
- A high level summary of alternative not for profit governance models will be included for reference purposes.

3.4 Scope – Exclusions

- General update on the progress of any other recommendations from the 2006 report.
- Insurance quotation (not required as assets not transferring – owners liability therefore continues to be covered by the two County Councils self insurance provisions).
- Asset Management liability (capital cost to the two owners, not BCA)
- Legal expertise in becoming a charitable trust. This would need to be commissioned from a legal expert in this area.
- Further research into other similar models operating as a charitable trust due to the limit of available days – the analysis undertaken in 2005/6 will be used for the purposes of this work.

4 Method of approach

4.1 This short project has been approached using a mix of the following:

- Undertaking desk based research on:
 - the process of becoming a trust



- financial and non-financial implications
- impact of becoming a charitable trust
- risks and impact of failure of the trust
- high level summary of other not for profit governance models.
- Phone and email correspondence as necessary with the Project Executive, Senior User and Surrey County Council to clarify points of detail.
- Meeting(s) with two key stakeholder representatives for the Basingstoke Canal:
 - the Surrey and Hampshire Canal Society (who consider their current role as guardians of the Canal to safeguard the Canal's interests, having employed full time teams over a 30 year period to restore the Canal to navigation in partnership with the local authorities), and
 - the Inland Waterways Authority (a registered charity with a core mission of campaigning for the maintenance, restoration, conservation and development of a vibrant inland waterway. They have around 18,000 members, with a regional and branch structure throughout England and Wales).
- Working with the Finance Manager to update the financial implications for becoming a charitable trust.
- Liaising with Hampshire County Council Economic Development team to update information on the potential to obtain grant funding from external sources as a charitable trust as compared with local authority ownership.
- Meeting(s) the Canal Director, joint owners and relevant stakeholders during the course of the work to discuss findings and issues prior to producing the draft and final reports.
- Producing a draft and final report for discussion with the joint owners, prior to the final version being presented to the Joint Advisory Group and Joint Management Committee meetings.

5 Links to Hampshire County Council corporate priorities

5.1 Corporate priorities

This project supports the corporate priority of making Hampshire safer and more secure for all by ensuring that the Canal can continue to meet its safety requirements and be financially sustainable within an externalised governance model.

5.2 Value for money

This project supports value for money by ensuring that the liabilities of the two County Councils would be protected if the Basingstoke Canal Authority were to become a charitable trust.



5.3 Equalities and diversity

This project is updating the position from 2006 regarding the potential to move to charitable trust status, and is still a theoretical exercise. Once any decision is made to progress this further, there will be a need to undertake a full impact assessment for the Basingstoke Canal, and there are likely to be staffing and equalities issues to consider.

5.4 Sustainability

This is a key consideration for a charitable trust model. Currently the Canal is not financially sustainable due to a shortfall in revenue contributions from riparian partners, and with resulting depleted reserves. Any potential model must be sustainable and viable in the long term to protect the interests of the two owners, Surrey and Hampshire County Council.

6 Findings – financial implications

6.1 This financial update is consistent with option 3 from the original report in 2006 – relating to the day to day management of the Canal being transferred into a charitable trust/third sector model (Appendix 1 contains the original material from 2006). It is designed to give an indicative position on the likely additional costs, and potential savings achievable as a result of moving to a third sector model, on top of the current budget.

6.2 VAT/Taxation, Pension, Gift Aid and Corporation Tax implications

6.2.1 The following VAT/taxation advice has been provided by the Hampshire County Council Corporate Tax Advisor, and is based on the 2008/09 accounts.

6.2.2 Currently, as part of Hampshire County Council, the Basingstoke Canal is able to get full recovery of the VAT on its expenditure, plus it is exempt from taxation on any profits. Any form of transfer outside of the County Council would therefore have tax implications.

Value Added Tax (VAT)

6.2.3 If the Canal were to be transferred outside of local authority ownership, the Canal would no longer be part of the County Council's VAT registration. If their taxable turnover (the income that would be subject to VAT were they VAT registered) exceeds a set limit (currently £68,000 pa in 2009/10), they will be required to register for VAT.

6.2.4 Income that is likely to count towards this are certain sales (excluding any books), boat licences, campsite fees, and fishing. 2008/09 income for these alone would be sufficient to require VAT registration. It would also be necessary to examine certain other income headings, for example group activities and miscellaneous income, in order to determine whether these would also to some extent be liable to VAT.

6.2.5 Recovery of VAT on the Canal's expenditure would then be restricted by the extent to which it's income is taxable. A rough estimation based on 2008/09 figures would imply that the Canal would only be able to recover little over 10% of the VAT that it incurred on its expenditure (potentially taxable income of £79k/total income of £783k).

6.2.6 Currently it is estimated that VAT of around £26k p.a. is recovered by the Canal on its expenditure. The cost of irrecoverable VAT on this expenditure would therefore be



£23k. However as a separate entity, supplies by the two County Council owners to the Canal will become liable to VAT in the same way as charges to any other external customer, whereas at present they are simply internal recharges. For example, if staff were to remain employed by Hampshire County Council, the Canal would have to be charged VAT of around £83k, £75k of which would be irrecoverable. Hampshire Transport Management hire charges would attract VAT of £10k, £9k of which would be irrecoverable.

6.2.7 In total, transfer could cost the Canal up to an estimated £120k per annum in lost VAT.

Employment Taxes (PAYE/NIC)

6.2.8 If staff were to remain employees of HCC, there would be no employment tax issue, however there would be a significant VAT cost (see above). An alternative would be for staff to transfer to the new organisation.

6.2.9 If staff were to transfer, the Canal would need to register with HMRC as an employer, becoming responsible for the deduction of Income Tax and National Insurance Contributions. Whilst this would not represent any actual additional tax cost to the Canal, the operation of a payroll and completing all associated returns would be an additional administrative burden.

6.2.10 Presumably staff would transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) – which requires the new employer to provide equivalent terms (including pension provision). In practice the latter is often achieved by the organisation becoming an admitted body to the pension fund.

Hampshire Pension Fund

6.2.11 The following advice has been received from the Hampshire Pension Fund directly. The Local Government Pension Scheme (LGPS) Regulations make provision for charitable and voluntary bodies to seek admitted body status into the LGPS. It is Hampshire's policy that such bodies can only be admitted with a local (tax raising) authority guarantor – this would presumably be the two County Council owners.

6.2.12 The current employers pension contribution rate is 19.1% of payroll costs (the same cost that is currently incurred by the BCA), however we are currently within a valuation year (there are triennial valuations) and the actuary will set the rates for the three years ahead once the results of the valuation are known towards the autumn of 2010.

6.2.13 There are no costs associated with joining the pension fund, but there would be standard costs associated with any employers decisions to dismiss staff on the grounds of redundancy or efficiency where those concerned are aged 55 or over as these dismissals create a cost to the Fund arising from early payment of unreduced pension benefits.

6.2.14 If the new charity acquired admitted body status, there are employer duties and responsibilities which it would be obliged to fulfil and these are set out in the employer guide, <http://www3.hants.gov.uk/pensions/pensionsinfoforemployers.htm>, along with a Service Level Agreement (SLA) which all new employers must sign up to.

Benefit from Gift Aid

6.2.15 If the Canal were to become a charity, then it may be able to benefit from Gift Aid, which is currently 28%. Gift Aid can be claimed where the charity receives a donation from a UK taxpayer. There are a number of conditions to be fulfilled – a significant one is the limit to any benefit that the donor should receive in return. It is for this reason that charitable tourist attractions will often offer two scales of admission charges, one



that includes a “voluntary” donation that is sufficient to then allow the full admission charge to become eligible for gift aid.

- 6.2.16 Local Authorities are not taxpayers for this purpose and so funding provided by the Councils (representing nearly 70% of the Canal’s total income) would not be eligible. Much of the remainder of the Canal’s income is in respect of specific goods or services, and would therefore not meet the conditions limiting the value of any benefit to the customer. Perhaps the only income item in the 2008/09 figures where gift aid may have been achievable is the £2k received from “other organisations” and the £6k “donations” - however even if possible the gift aid benefit would have been little over £2k.

Corporation Tax

- 6.2.17 Under any externalised structure, it is likely that the Canal would be required to pay Corporation Tax at least on its trading profits. Trading income would be likely to consist of the majority of that not currently shown as funding by the Councils i.e. approximately 30% of current income, equating to around £238k. It is not possible to identify from the figures at present what proportion of the expenditure relates to these activities, however it is reasonable to assume that they are profitable and some will attract taxation.

Summary VAT/taxation implications

- 6.2.18 The advice received above results in the financial implications set out below in Table 2:

Table 2: Summary taxation implications

	£ per annum (based on 2008/09 Canal accounts)
VAT implications	
Unrecoverable VAT on expenditure	23,000
Unrecoverable VAT if staff remain employed by Hampshire County Council	75,000
Unrecoverable VAT on transport hire charges from Hampshire Transport Management	9,000
Gift Aid (income) on donations and income from other organisations	-2,000
Corporation Tax – dependent on governance model adopted	TBC

6.3 Support costs

- 6.3.1 Support services, such as payroll, audit, legal, finance etc., are not currently charged to the BCA. They are provided ‘free’ to the Canal by the two owners. It is apparent that these could continue to be provided in this way, as this is what currently happens with Hampshire Museums and Galleries Trust (HMGT). Appendix 2 sets out the current estimated cost of these support services, which totals £55,600.
- 6.3.2 The Canal Director has identified IT and transport hire as two particular areas where savings could be achieved if the BCA was not part of the County Council. As part of Hampshire County Council they access County Council transport and IT services. IT and transport costs are currently borne by BCA as direct costs.
- 6.3.3 The Canal Director has stated that IT currently costs in the region of £11,000 per annum. He estimates that initial new set up costs would be £14,000 for hardware and



software, with an annual maintenance cost estimated at £2,000. IT hardware equipment and software would need replacement and upgrading at six yearly intervals with an additional cost of approximately £2,000. This would result in immediate savings of £9,000 per annum.

- 6.3.4 Transport costs are currently in the region of £71,000 per annum, and includes hire of vehicles, a tractor and trailers, along with an excavator, fuel and running costs also coming out of this budget. The Canal Director recommends reducing the hire requirement by negotiating a new contract in ten months time, when the existing contract expires (there is an excessive penalty exit costs if this is undertaken earlier). The plan is to implement sharing of vehicles (risk assessed but dependant on ‘call-off’ term contractor being established) and off hire the tractor and excavator. Savings are estimated to be £18,000 per annum.
- 6.3.5 It should be noted that the estimates within paragraphs 6.3.3 and 4 have not been tested as part of this review, and have been provided by the Canal Director following his own research.
- 6.3.6 Table 3 updates the financial position, as maximum costs in addition to the existing budget available to BCA. It includes the estimated total costs of support services as a potential additional cost.

Table 3: Updated financial implications of third sector day to day management

Estimated financial costs and savings in setting up a social enterprise	Estimated annual costs £
Savings:	
NNDR savings (Visitors Centre) (see note 1)	Unknown
Gift Aid (see note 2)	2,000
Transport hire savings	18,000
IT running cost savings	9,000
Total savings	29,000
Additional costs:	
VAT (see note 3)	32,000
NNDR base 20% new cost	Unknown
Incremental costs of Director (see note 4)	20,000
Support services and statutory requirements (see note 5)	55,600
Total additional costs	107,600
Net additional cost to new organisation	78,600
Estimated set up costs	Estimated one off costs £
Third party legal costs	TBA
IT infrastructure (new hardware and software)	14,000
Recruitment and training of trustees, director and finance manager	0
Pension scheme related costs	0
Full time person to implement would be provided by the new Director	0

Notes:

- 1 NNDR is not currently charged to the Centre and as a result this cost is not known
- 2 Gift Aid: paragraphs 6.2.15 and 16 refer
- 3 VAT: unrecoverable VAT on expenditure and transport hire (paragraphs 6.2.3 to 6.2.10 refer)
- 4 Accounts for the potential extra salary costs for a Chief Executive/Director role within a charitable trust. However this could be lower, with performance related pay enhancements tied in to external income generation targets.
- 5 Support services, including insurance for public and employer liability, could continue to be provided by the two County Councils and not charged, as is the case for HMG. These are included as a maximum cost, and the breakdown is shown within Appendix 2.

7 Findings – non-financial factors

7.1 Non financial factors to be considered are:

- Advantages and disadvantages of a third sector management model.
- Volunteering.
- Branding.
- Risk.

Advantages and Disadvantages

7.2 In consultation with the Canal Society and Inland Waterways Association the advantages and disadvantages of a third sector management model were re-visited to update the 2006 position. This is shown below within Table 4.

Table 4 Advantages and disadvantages of a third sector management model

Advantages	Disadvantages
<ul style="list-style-type: none"> • Enhancing the ability to raise funding – although difficult to quantify 	<ul style="list-style-type: none"> • High level of cost and risk remain with the two County Council owners
<ul style="list-style-type: none"> • Increasing the possibility to get more support from volunteers, particularly around maintenance 	<ul style="list-style-type: none"> • Long term division between structural repair/maintenance and operational management
<ul style="list-style-type: none"> • Partnership relationship with and independence from local authorities 	<ul style="list-style-type: none"> • Proportion of unrecoverable VAT as an additional cost
<ul style="list-style-type: none"> • Governance: better more focussed trust body with support and direction 	<ul style="list-style-type: none"> • Overall additional operating costs
<ul style="list-style-type: none"> • Motivation to make things happen for example income generation as critical to survival 	<ul style="list-style-type: none"> • High dependence on grant funding/external income and risk due to the economic climate and not being able to secure sufficient external funding/income

Advantages	Disadvantages
<ul style="list-style-type: none"> • Greater alliance from Canal Society members to a charitable trust/third sector model than with a local authority 	<ul style="list-style-type: none"> • County Councils feeling of reduced responsibility as more remote from day to day management
<ul style="list-style-type: none"> • More commercial outlook 	<ul style="list-style-type: none"> • Failure to mobilise the volunteer input
<ul style="list-style-type: none"> • More responsive decision making 	<ul style="list-style-type: none"> • Risk of failure
<ul style="list-style-type: none"> • With day to day management transferred the insurance liability remains with the two owners. 	<ul style="list-style-type: none"> • Reversibility – although this is less with the infrastructure remaining with the two County Council owners
<ul style="list-style-type: none"> • Opportunity to develop new partnerships 	<ul style="list-style-type: none"> • Complex governance model
<ul style="list-style-type: none"> • Expertise and contacts of trustees 	<ul style="list-style-type: none"> • Potential conflict of interest for authority members on board
<ul style="list-style-type: none"> • Opportunity for rebranding 	<ul style="list-style-type: none"> • Unreasonable expectations
<ul style="list-style-type: none"> • User led 	<ul style="list-style-type: none"> • Rules relating to trading activities

7.3 It was felt that there were also some critical dependencies relating to the third sector model:

- Ongoing local authority funding (owners and riparian partners), which may include capital as well as revenue implications if the infrastructure were to be transferred over on completion of the structural backlog
- Ability to generate significant income levels to ensure financial sustainability
- Clear roles and responsibilities defined between the local authorities, the third sector model and the volunteers – this would form part of a governance document.

7.4 It was acknowledged that a number of the advantages above could be pursued under the current model, such as income generation, volunteer input, branding and increasing partnership opportunities.

Volunteering

7.5 The main volunteer activity on the Basingstoke Canal comes from the Surrey and Hampshire Canal Society. They are also supported by some visiting groups on a rotating basis, including IWA volunteers. The Canal Society also provide a range of volunteer inputs through its participation in working groups involved in key management and policy issues, such as the JAG, JMC and joint Canal Society/BCA working groups and the 2006 Options Appraisal. Their volunteer efforts also assist the Canal in raising funds through the operation of the John Pinkerton passenger trip boat (approximately £25,000 per annum) and by organising events which publicise the Canal and attract revenue.

7.6 In their February 2010 report to the Joint Management Committee they reported volunteer days for the four month period September 2009 to January 2010 at 123 days. Grossing this up to a twelve month period would equate to 369 days. Using an average productive days per annum for a member of staff at 220 days¹, this equates to additional support equivalent to 1.7 full time equivalent people.

¹ 220 days is calculated as 365 day per year, less 104 weekend days, 8 bank holidays, 25 leave and 8 sick/absence.



- 7.7 The Chairman of the South East branch of the IWA has observed that the volunteer input on the Basingstoke Canal is proportionately greater than that currently involved in maintenance on BW waterways. The BW volunteer input is about 1% of their maintenance spend, and believes that the monetary value of the volunteer input on the Basingstoke Canal is proportionately greater (although this has not yet been calculated).
- 7.8 Whilst volunteers are currently engaged on the Basingstoke Canal there is the potential for this to develop further. The increased use of volunteering would be key to a third sector model, which is also cited by British Waterways within section 11 of this report.
- 7.9 On consulting the Surrey and Hampshire Canal Society they explained that they currently have around 1,500, of which they estimate 10-15% are active. This equates to a maximum of 150-225. Using the total days estimated in paragraph 7.5 this equates to between 1.6 and 2.5 volunteer days per active member². However, they do not actively work to engage people to do more.
- 7.10 The Canal Society feel that many aspects of volunteering work well, but they could do more. However, there are two areas which hamper this – onerous health and safety requirements, for example around the supervision requirements for the use of chain saws; and some cultural issues between some of the Rangers and the volunteers that would need to be addressed to enable this to operate efficiently, and therefore increase joint working opportunities.
- 7.11 The Society identified four areas where volunteers could provide more support:
- Practical work, such as maintenance on the ground and meeting and greeting Canal users.
 - Income generation in accessing specific grants through their charitable trust status.
 - Administrative support – although this was accepted as potentially not very interesting.
 - Canal Centre cover so they are interacting with the public and able to share their knowledge and enthusiasm for the Canal.
- 7.12 To increase volunteering it was agreed that you need to sell the relevance of their contribution, to encourage repeated support. It was acknowledged that the volunteers need:
- Work that is interesting.
 - To feel appreciated.
 - Effective communication – this is considered to be very important as well as the work itself.
- 7.13 They need to have a clear definition of their responsibilities and what their functions would be. This also needs to be co-ordinated and communicated. This could increase engagement and encourage them to continue volunteering after their first experience.

² This equates to the estimated 369 total volunteer days per annum in paragraph 7.5, divided by the maximum 225 active members this equates to 1.6 days per person. Using 150 active members this equates to 2.5 days per active member.

- 7.14 In addition, the Director of HMGT stated that volunteers are a great source of income as lottery grants are often linked to the use of volunteers.
- 7.15 It was noted that the Association of Inland Navigation Authorities (AINA) are currently undertaking some work on the use and development of an effective volunteer base. This may produce some useful supporting information to develop the volunteer base for the Basingstoke Canal.
- 7.16 It is apparent that, regardless of any third sector model, the potential to increase volunteering - and with the associated potential to increase in funding opportunities - this should be actively explored and exploited. However, there could be an impact on increases in the Basingstoke Canal volunteer base if BW significantly increase theirs in relation to their third sector developments – this will need to be monitored (section 11 refers).

Branding and Marketing

- 7.17 Branding and marketing was discussed with the Canal Society and the Inland Waterways Association representatives as a potential barrier to encouraging volunteering and income generation at present. The use of the word “Authority” in the name of the Basingstoke Canal Authority does not depict the scope and scale of partnership working that currently exists. This was perceived as potentially off-putting.
- 7.18 The Chairman of the South East Region of the Inland Waterways Association (IWA) cited two examples. Firstly the National Trust who have a simple but very recognisable and effective brand. Secondly, a less commercial example of the Chesterfield Canal Partnership. A Canal Development Manager, employed by Derbyshire County Council, works with a range of stakeholders, including the East Midlands Development Agency, British Waterways and the IWA. This is similar to the Basingstoke Canal. However, it operates as a Trust and the badge of Partnership is felt to lend more impact in gaining funding and support from volunteers. It may be useful to explore this further as an example, although it was also noted that many of the successful Canal partnerships in existence have been on restoration projects rather than completed waterways.
- 7.19 It was felt that by changing the name, even to the Basingstoke Canal Partnership, this could convey a much clearer and less bureaucratic feel to the organisation and therefore, with more marketing this new “brand” could encourage greater participation from volunteers and funders. The Canal Society also feel that the development of a true partnership would open up the opportunity to involve local communities in the promotion and support for the Canal.
- 7.20 On 27 May the Director of Development for HMGT, and Manager of Milestones Museum, Basingstoke, met with two representatives from the Canal Society at Milestones, and have agreed the following positive developments which should really start to increase awareness and marketing of the Canal:
- A six month exhibition will be hosted at Milestones from the end of August 2010 on the Basingstoke Canal.
 - They will develop and promote ‘Canal Days’ at Milestones, and introduce Canal Art demonstrations



- The Basingstoke Canal will be part of this years Milestones museum based OctoberFest delivering demonstrations, talks and promoting public inclusion.
- Milestones will monitor all public response as part of their evidence gathering to apply for an Heritage Lottery Fund bid to enable them to create a permanent exhibition as part of Milestones presentation.

7.21 Milestones will also jointly, with the Canal Society and BCA, explore and develop ideas and initiatives of mutual benefit that could/would attract external funding. The Director of Development HMGT/Manager of Milestones feels that this is an exciting development for Milestones of which all their staff are totally supportive.

Risk

7.22 The Basingstoke Canal represents one of the highest risks within both Hampshire and Surrey County Councils, largely due to the impact on the community and surrounding areas following a breach of the Canal bank(s) and subsequent flood damage.

7.23 This was brought into sharp focus earlier in 2010 with a risk of breach so highly likely that the local community surrounding the West Hart embankment area were informed of the potential danger. Mitigation measures were taken, and the risk was not realised. However, this, coupled with the production of the Condition Survey, provide the evidence to inform the recent Asset Management Plan. This has now resulted in capital funding for the next three years to begin to address the structural backlog that has resulted in this position (paragraphs 2.6-10 refer).

7.24 In terms of a potential third sector model the core risks are around failure. Given a major benefit of a move to a third sector management model is stated as the potential to be more entrepreneurial and realise much greater income generation the main risk relates to the state of the economy at present. The Charity Commission have stated that 62% of trusts, in their March 2010 survey into the impact of the economic climate, have experienced reduced income this would seem to indicate that, whilst there may be opportunities these are less likely to be realised within the current economic climate. The risk is insufficient generation of income to cover costs, with resultant failure and reversal back to the two County Councils as owners.

8 Income Generation

8.1 Income generation is critical to the survival of any charitable trust or third sector model. It is also important for the future of the Basingstoke Canal in any future model, be it local authority owned or within a third sector model.

8.2 The table below has been provided by the Treasurer for the Canal and sets out the income streams and levels realised by the BCA since 200/01. This demonstrates the types of income currently realised, and demonstrates that there has been fluctuating level of income levels with a reduction in recent years.



Table 5: Income stream history for the Canal

	Boat Licences	Sales	Angling	Rent and Hire of Facilities	Group Activities	Fibre Optic	Donations & Contrib'ns	Total
	£	£	£	£	£	£	£	£
2001/02	26,957	3,233	9,847	38,038	5,194	58,686	32,736	174,691
2002/03	28,160	3,651	10,860	31,887	6,594	50,099	39,582	170,833
2003/04	20,247	1,999	9,013	32,550	11,492	50,399	35,955	161,655
2004/05	25,571	549	10,071	42,562	9,120	58,301	22,207	168,381
2005/06	18,936	4,450	9,947	34,895	9,812	51,868	1,352	131,260
2006/07	20,080	5,926	11,095	59,335	11,062	51,075	28,694	187,267
2007/08	19,736	10,490	10,964	46,025	15,135	51,768	11,509	165,627
2008/09	17,921	4,583	11,317	41,668	17,233	51,775	8,016	152,513

8.3 The original report in 2006 suggested that whilst it is possible to attract more income as an entity external to a local authority, there was no “pot of gold” and there was an administrative burden to attracting, administering and maintaining often short term grants.

8.4 To explore this further the following information has been obtained:

- Consultation with the Director of Development for the Hampshire Museums and Galleries Trust (HMGT)
- Analysis of income realised by the Surrey Wildlife Trust (SWT) and HMGT
- Potential sources of funding from the External Funding Team within Hampshire County Council.
- British Waterways main areas of income generation potential as advised by the Chairman of the South East Region of the Inland Waterways Association.

8.5 This advice suggests further income generation is realisable. There is a clear need for commercial acumen, exploiting all available opportunities and making it happen on the ground.

Potential opportunities identified by the Director of Development at HMGT

8.6 In 2007 the Director of Development at HMGT produced a short report, following a two day audit trail of the Canal, on the financial sponsorship and income potential for the Basingstoke Canal. The report concluded that whilst there were limited sponsorship opportunities based on existing facilities, there was huge potential to implement income generating initiatives both on a day to day ‘drip feed’ basis and through one-off events.

8.7 The following were identified as initiatives to consider:

- Public facilities (such as public toilets, meeting rooms, retail outlets, exhibition areas, information boards).
- Trim Park (As part of a designed and strategically placed “Trim Trail Running Track”).
- Camping (requiring the provision of basic supply of water, electrics, shower and washing facilities along with development of retail facilities to supplement the experience).
- Bike Hire Centre, plus pony/horse trekking centre.
- Corporate and private hire events including presentations, hospitality, advertising, retirement parties, marquee events, birthdays, staff training/team building/ corporate away days.
- Specialist societies, such as model boat builders, model boat/car racing, miniature (passenger) railway track, kite flyers, and internally model trains, children’s pottery/paint shop, presentations, talks and ‘friends groups’, volunteer groups/activities.
- Creation and advertising of developed Nature Trails.
- Re-enactments, bringing in specialist societies to deliver the programme (links to camping).
- Car boot sales.
- Evening events, including organised musical events, barbeques and hog roasts showing the Canal off at night and extending the stay and usage of visitors.

8.8 In summary this was a light touch review, and it was felt that because the Canal was unique to Surrey and Hampshire and that there were no local competitors, the rewards existed for generating further income to support the Canal. The suggested recommendations were as follows, and to date most of these have not been progressed:

- Preparatory work at the five identified sites to cater for the potential developments, and determine the feasibility and income potential.
- Appointment of a short term, two year post to prioritise and, through attracting external funding, deliver an agreed programme of development. It was felt that there were specialists available who could do this, and that the role could be part funded from the two owners and match funded from external funding. The estimated total cost for the two years was £80,000, and that any further extension and retention of the role could be solely determined through income generated. As such this represents a low cost and low risk option.

8.9 The Director of Development for HMGT has also confirmed that:

- Instead of employing a fundraising expert within the Canal, they would be able to benefit from this expertise within HMGT. However there would be a cost associated with this.
- Potential to further exploit the ‘gate licenses’ charged to people with property backing onto the Canal. This is currently charged at £50 per annum per property.
- Gift Aid could be further exploited by companies donating sponsorship generating an additional 28% income on the donation.



- Volunteers are a good source of income, as many lottery grants are linked to the use of volunteers.
- There should be the potential to exploit partnerships with people and companies/organisations bordering the Canal and thus generate further income streams.

Current income generating initiatives being developed by the BCA

- 8.10 The camping facilities at the Canal Visitor Centre in Mytchett is the main focus for generating further income. In the last two years camping has generated around £32,000 from 35 pitches, with an average number of pitches per day, over the course of 2009/10, being 8 pitches. The plan is to double the capacity to 75 pitches, or an average of 16 per day, with potential income of £67,300, with a revised tariff to reflect the improved facilities.
- 8.11 However, the expansion cannot be achieved without investing in the infrastructure to support the increased camping use. A new toilet and shower block is required, along with electrical hook up points. Costs are still being finalised - the new toilet/shower block is estimated to cost £120,000 which will be part funded by Canoe England and Surrey County Council. The Canal Director believes the electric hook up and field improvements are feasible within capital funding from Surrey County Council, along with the BCA undertaking some of the work in-house to reduce costs. Discussions are currently underway with local Borough Councils and the Canal Society about grant sponsorship and donation funding to cover improvement costs.
- 8.12 Other potential future development is likely to be around other hire of facilities such as extra rental of the club room, once the size and capacity of the camping facilities has been improved and increased. However this is a long term plan that will require funding.
- 8.13 It is also felt that income from gate and garden licences could be more than doubled. This is currently £50 per license per annum, equating to £3,270 in total per annum. A review and survey is in progress and should be completed ready to implement for the 2011/12 financial year.
- 8.14 It should also be noted that once the Canal's structure is considered to be in an improved state to allow increased navigation, potentially up to 10 years, this would then enable increased income to be realised from an increase in mooring and licenses.

Illustrative income levels realised by HMGT

- 8.15 To some extent the level of income generation realised is dependent on the quality and experience of the individual(s) involved in developing, managing and delivering the initiatives. However, it was thought useful to illustrate the income levels achieved from an existing trust for the purposes of this report. This shows the following pattern of income generation realised within Table 7 below.



Table 7: Hampshire Museums and Galleries Trust (created 1991)

	1994/95 £	1998/99 £	2000/01 £	2003/04 £	2008/09 £
Local authority income	15,000	30,000	49,100	38,961	47,325
Non local authority income	4,585	4,099	109,941	74,878	198,369

Notes: From 200/01 the trust had to be self financing and the Director was set an income generation target of £100k per annum. Significantly larger grants have been realised since 2006/07, including European Union grants.

- 8.16 The HMGT Director is employed with performance related pay, directly tied to the level of income achieved. HMGT have two income streams – these are classified as restricted and unrestricted. The unrestricted grants are required to cover the running costs, along with the local authority income. The restricted grants are specific grants for specific projects that have conditions attached to the grant income achieved.
- 8.17 In summary, there appears to be evidence of further income being generated by the two existing trusts set out above (HMGT and SWT). However the significant fact relating to the Canal is that whilst there has been much discussion relating to income generating opportunities over many years this has not translated into any significant increase in levels of income that relieves the pressure on the revenue budget for the Canal (Table 5 demonstrates this).
- 8.18 One conclusion that could be drawn is that in a trust type model survival is intrinsically linked to the income realised, which is a powerful driver, but there is less urgency under a local authority owned model. This could be overcome by setting income performance targets within the individual performance plan (IPP) staff appraisal process for the Canal Director, consistent with that set up within HMGT.
- 8.19 To enable this to occur there would first need to be a change in the stated objectives of the BCA. The core objectives of the Basingstoke Canal Authority (BCA) are to manage the Canal, ensure it is safe, that the waterway and towpath are available for public enjoyment and preserving the conservation value of the Canal. However, within the current financial climate with the annual shortfall in revenue contributions, evidence of no significant increase in income generation over recent years, and the expectation of public sector funding cuts to support the recovery of the national debt there is a strong case for updating the objectives of the BCA. The change would reflect the increasing importance for a more commercial outlook and need to generate significant levels of income to support the future sustainability of the Canal. This is not a criticism, but a realisation of the changing needs to manage the Canal and keep it safe and in working order.
- 8.20 An update of the objectives of the Canal, and resultant change in focus to a more commercial outlook, would result in a need to examine and address skills required within the BCA. There would then need to be a training needs analysis completed and a training provided. Ultimately there should be a move to performance related targets for staff in line with skills development. However, the current economic climate should be borne in mind, as this has resulted in 62% of charities experiencing a fall in income (as reported by the Charity Commission in March 2010).



- 8.21 Income generation targets should be set progressively with the intention to recover at least the current £30,868 shortfall in revenue funding, and then build from there.

Potential External Funding Sources – Hampshire County Council Economic Development Team

- 8.22 A schedule is set out at Appendix 3 which depicts potential external sources of income that the Canal could target if they were outside of local authority control. This sets out a range of ten grant sources, and demonstrates the range from small (£250 to £5,000) opportunities, to large lottery grants up to £2m.

- 8.23 The Surrey and Hampshire Canal Society have had some success in raising external funding to enable them address specific issues on the Canal relating to the navigation. To enable navigation all year round, the Society has promoted and raised funds for back-pumping installations at locks to recycle water which is ultimately lost to the Wey Navigation. The first back-pump scheme was completed in 2001 on the Woodham flight of six locks, with a Heritage Lottery grant, and a similar project at St John's near Woking has now been completed.

- 8.24 The Canal Society feel that they could assist further with fund raising, for example applying for grants which are not available to the current owners. In addition they are able to tap into other sources of funding, for example legacies and donations which are becoming increasingly important as sources of finance for the waterways and other heritage assets. This has also been raised by the Director of HMG T as a potential other source of funding.

- 8.25 There is also real potential for other income streams to be realised through the recent developments with Milestones Museum, Basingstoke, set out within paragraphs 7.19-20.

British Waterways main areas of income generation potential as advised by the Chairman of the South East Region of the Inland Waterways Association

- 8.26 Three areas were set out, that BW have identified as core sources of income generation:

- Voluntary giving, legacies etc. Could also consider setting up a subscription based organisation like the National Trust
- Volunteers. They currently have £1m worth of volunteer effort (which equates to approximately 1% of their spend on maintenance) and feel that this could be significantly increased
- Financial freedoms enabling them to raise money through borrowing, particularly relating to commercial property. Of their £223m³ income from 2008/009 this was split as follows: 33% Government grants, 51% commercial income (with 41% of this relating to their property portfolio), and the remaining 16% coming from third party contributions to works.

- 8.27 Unfortunately it is understood that there is little or no further property development potential available on the Basingstoke Canal within the existing Canal corridor although the local authorities, including the riparian partners, own further land along the Canal which could represent income generating opportunities.

³ Extract from 2008/09 accounts for the British Waterways Group
http://www.britishwaterways.co.uk/media/documents/BW_Annual_report_and_accounts_2008_09.pdf



- 8.28 However, the Chairman of the South East Region of the IWA has suggested that there could also be opportunities to exploit what the Canal has to offer local redevelopments, such as the Aldershot Urban Extension which apparently does not currently consider the Canal to be an integral asset to the developments.

Summary

- 8.29 The budgets available within local authorities in forthcoming years are, and will be, coming under increasing scrutiny as measures to manage the deficit within the Country as a whole are likely to result in reduced budgets for local authorities. This could result in even less reliance on the funding available from the riparian partners particularly, but also potentially the two owners. This increases the emphasis on generating income, and working closely with the Canal Society and HMG T in this area, even without consideration for the day to day management of the Canal being externalised to a third sector model.

9 The requirements and process for becoming a charitable trust⁴

- 9.1 A charity is a particular type of voluntary organisation – one that takes a distinctive legal form and has a special tax status. Charities must provide [benefit to the public](#), not to a specific individual. Their aims, purposes or objectives have to be exclusively those which the law recognises as charitable.
- 9.2 Registered charities have to obey a number of rules and regulations set out in charity law. Those that are registered as companies, relating to non charitable activities, have to comply with company law too. A registered charity is not allowed to have political objectives or take part in political lobbying (other than in a generally educational sense).
- 9.3 To become a charity in England and Wales you must apply to the Charity Commission for charitable status. The Charity Commission provide extensive information on their website www.charity-commission.gov.uk . They have a user-friendly online application system which guides you through the process of applying to register, and they suggest that the following guidance is read and understood - [our core guidance on registering a new charity](#). This gives a comprehensive overview of the entire registration process.
- 9.4 Their website provides specific guidance to help you complete your application. It includes the [Registration process](#), [finding trustees](#), [how to demonstrate public benefit](#) and [choosing your charity's name, purposes and governing document](#).
- 9.5 One key recommendation is that professional legal advice is sought from legal firms that are familiar with charity law to advise on the most appropriate governance model, and in setting up the appropriate governing and legal documents.
- 9.6 They recommend that a suitable governing document is in place before you apply to register. A Governing Document is a legal document which represents the rule book for the way in which the charity will operate – model governing documents are available to help this process. They state that if you don't get it right at the start, you will soon run

⁴ Extracts throughout this section directly from the Charity Commission website www.charity-commission.gov.uk

into problems. Core guidance [Choosing and Preparing a Governing Document \(CC22\)](#) is available to support this.

9.7 The Six [Hallmarks of an Effective Charity](#) guidance is a straightforward framework of good practice, produced by the Charity Commission, and includes the relevant regulatory requirements, and is intended to encourage a positive approach to improvement. The six hallmarks are:

1. Clear about its purposes and direction.
2. A strong board – right balance of skills and experience.
3. Fit for purpose - structure, policies and procedures.
4. Learning and improving – performance and efficiency.
5. Financially sound and prudent – with finances and resources to deliver its purposes and mission.
6. Accountable and transparent to the public and its stakeholders.

9.8 It is Hallmark 6 which is of the greatest concern. If the Canal cannot cover costs now, and is annually drawing down existing balances to break even, this is not a financially sound, nor sustainable position, and particularly within the current economic climate.

9.9 [The Essential Trustee](#) sets out detailed information for all people who serve as trustees or directors on the governing body of a charity, or for people who are about to take up trustee responsibilities. It sets out trustee duties, responsibilities, compliance, duty of prudence, duty of care and what if things go wrong.

9.10 The Charity Commission, with their partners, regulate on behalf of those who give to and benefit from charities, and on behalf of wider society:

- to ensure that charities meet the legal requirements for being a charity, and are equipped to operate properly and within the law;
- to check that charities are run for public benefit, and not for private advantage;
- to ensure that charities are independent and that their trustees take their decisions free of control or undue influence from outside; and
- to detect and remedy serious mismanagement or deliberate abuse by or within charities.

9.11 The above represents an extract of the process for applying to become a Charity, further comprehensive information on the process of becoming a charity, managing and regulating charities can be found on the Charity Commission website <http://www.charity-commission.gov.uk> (paragraph 9.3 refers).

10 Social enterprise/third sector governance models

10.1 Whilst the scope excludes examining the governance/legal form of the potential charitable trust model in detail it is useful to explain, at a high level, the potential alternative models available within the third sector. This will dictate the legal, administrative and financial requirements of any model, including the level of liability for



- its board members and taxation implications for Her Majesty's Revenue and Customs (HMRC).
- 10.2 A diverse range of organisation types exist between public and private ownership. The third sector incorporates charities, voluntary organisations and social enterprises.
- 10.3 Charities are defined within paragraph 9.1. A Social Enterprise is a business with primarily social objectives. Any profits would be largely reinvested in the business or the community, rather than given to shareholders and owners. Trusts are included within this definition, along with Community Interest Companies, and Charitable Incorporated Organisations (a new model from Spring 2010).
- 10.4 This would appear to be an appropriate definition for the business of the Basingstoke Canal, however at this stage in the process no legal advice has been obtained on the most appropriate governance model for the Basingstoke Canal.
- 10.5 The following table has been extracted from Business Link, an official government website for businesses of all types and sizes. It is a free on-line business advice and support service compiled by subject experts within government and business support organisations. Table 8, page 28, presents "legal structures for social enterprises at a glance". This is a rough guide to the legal structures most commonly associated with social enterprise models.
- 10.6 Table 8 is meant as background information, however a key requirement in the progression of discussions surrounding the proposal for charitable trust status for the Basingstoke Canal would be the commission of a legal report into the most appropriate governance model for the Canal.

11 British Waterways proposal to move Britain's waterways into the third sector

- 11.1 British Waterways (BW) is the organisation that cares for 2,200 miles of the country's canals and rivers, or approximately 60% of the inland waterways conservancy. The Environment Agency manage a further 25-28%. A recent report by KPMG⁵ identified the need for BW to spend up to £30m per annum in England and Wales, in addition to their current expenditure base, on major maintenance if the waterways were to become truly sustainable for the long term. Without this investment, the overall physical state of Britain's waterway asset would go into decline. In November 2009 they published a document setting out their aspiration to move it from the public sector into the third sector, this was entitled "Setting a new course: Britain's waterways in the third sector".

<http://www.britishwaterways.co.uk/twentytwenty/setting-a-new-course>

⁵ British Waterways Status Options Review June 2008

Basingstoke Canal: Charitable trust status updated position statement

Legal structure	Summary: most typical features	Ownership, governance and constitution	Is it a legal person distinct from those who own and/or run it?	Can its activities benefit those who own and/or run it?	Assets 'locked in' for community benefit?	Can it be a charity and get charitable status tax benefits?	Legal structure appropriate for the Canal?
Unincorporated association	Informal; no general regulation of this structure; need to make own rules.	Nobody owns - governed according to own rules.	No, which can create problems for contracts, holding property and liability of members.	Depends on own rules.	Would need bespoke drafting to achieve this.	Yes, if it meets the criteria for being a charity.	Most unlikely
Trust	A way of holding assets so as to separate legal ownership from economic interest.	Assets owned by trustees and managed in interests of beneficiaries on the terms of the trust.	No, which means the trustees are personally liable.	Not usually. Trustees/directors can only benefit if trust, court or Charity Commission give permission.	Yes, if trust established for community benefit.	Yes, if it meets the criteria for being a charity.	Yes if private company limited by guarantee also established to limit trustee liability, but then dual registration and legal structure
Limited company (other than Community Interest Company) www.companieshouse.gov.uk	Most frequently adopted corporate legal structure; can be adapted to suit most purposes.	Directors manage business on behalf of members. Considerable flexibility over internal rules.	Yes, members' liability limited to amount unpaid on shares or by guarantee	Yes, but no dividends etc to members if it is a company limited by guarantee.	Would need bespoke drafting in articles, which could be amended by members.	Yes, if it meets the criteria for being a charity.	
Community interest company (CIC) www.cicregulator.gov.uk	'Off-the-peg' limited company structure for social enterprise with secure 'asset lock' and focus on community benefit.	As for other limited companies, but subject to additional regulation to ensure community benefits.	Yes, members' liability limited to amount unpaid on shares or by guarantee.	Yes, but must benefit wider community as well. Can pay limited dividends to private investors.	Yes, through standard provisions which all CICs must include in their constitutions.	No, but can become a charity if it ceases to be a CIC.	Possibly
Industrial & Provident Society (IPS) (Co-operative) http://www.fsa.gov.uk/pages/doing/small_firms/msr/societies/index.shtml	For bona fide co-operatives that serve members' interests by trading with them or otherwise supplying them with goods or services.	Committee / officers manage on behalf of members. One member, one vote (regardless of size of respective shareholdings).	Yes, members liability limited to amount unpaid on shares.	Yes, but should do so mostly by members trading with society, using its facilities etc, not as a result of shareholdings.	Would need bespoke drafting in articles, which could be amended by members.	No, would have to be constituted as community benefit type of IPS.	Possibly
Industrial & Provident Society (IPS) (Community Benefit Society (BenComm))	Benefit community other than just own members and have special reason not to be companies.	Like Co-op type, but new legislation provides option of more secure form of 'asset lock'.	Yes, members liability limited to amount unpaid on shares.	Must primarily benefit non-members - 'asset lock' applies.	Yes, asset lock only survives dissolution if new statutory form of asset lock adopted.	Yes, if it meets the criteria for being a charity.	Possibly
Charitable Incorporated Organisation http://www.charity-commission.gov.uk/registration/charcio.asp	First ready-made corporate structure specifically designed for charities.	Similar to company but with different terminology, eg 'charity trustee' instead of 'director'.	Yes, members either have no liability or limited liability.	Members are not permitted to benefit and charity trustees are only able to benefit if constitution, court or Charity Commission give permission.	Yes.	Cannot be anything but a charity, and must meet the criteria for being a charity.	Most likely but new and untested model. Only one set of legal structures to comply with, and trustee liability limited

Table 8: Extract from Business Link "legal structures for social enterprise at a glance" - This is a rough guide to the legal structures most commonly associated with social enterprise.

Basingstoke Canal: October 2006 Final Report to the Joint Management Committee

Extract of charitable trust information contained within the 2006 report

11.2 It states that by moving into the third sector British Waterways aims to increase the level of public and volunteer participation in the waterways and widen the network's supporter base. As a third sector organisation, a wider range of community stakeholders could have a say in new governance arrangements, whilst British Waterways' directors and management could work to much longer horizons with the security of an agreed long term government funding contract. If it were a UK charity, British Waterways would be the 13th largest by income; comparable to charities such as the British Red Cross and Barnardo's.

11.3 Key requirements are cited within the document as:

- The ability to focus even more clearly on their third sector purpose and mission, and develop closer relationships with a wide range of organisations concerned with conservation, heritage, education and community issues.
- It would need to position itself in a very different way - people support third sector organisations through fundraising and volunteering. BW would need to create a living brand, position themselves as a compelling cause, demonstrate greater independence from government and review its name. Marketing becomes key.
- The ability to become more innovative and entrepreneurial – key characteristics of the best third sector organisations.
- Ongoing Government funding is critical. Some concerns have been cited that by becoming more independent it would give the government more opportunity to cut funding. However, government funding has been falling anyhow.
- They believe that greater independence from government would help considerably in raising significant funds from charitable sources. They estimate the ability to raise up to £4m from voluntary sources but that it would take up to 10 years to achieve this, and it would take considerable investment and be carefully targeted. They state that funds raised from this source would not be sufficient to fill their long term funding gap.
- Attracting more volunteers is key, but it is necessary to clarify what they could do and provide high quality training and management.
- The legal considerations were key to limit liability for trustees. They state that any changes to legal structure would occur in a series of steps. They have considered two legal models as not all their activities are charitable in nature (such as commercial property) within which a range of legal structures could be applied.

11.4 A key statement is that they accept they could implement many of the proposals under their current governance model. An alternative governance model must therefore be assessed against any further benefits that could be achieved.

11.5 A lot of the issues and considerations within the BW document 'Setting a new course' could be directly applied to the Basingstoke Canal. The one difference is that of economies of scale. The size of the BW network means they have more "wriggle room" if any particular Canal experiences difficulties. For the Basingstoke Canal that would not

exist. This is a key consideration in the deliberations as to whether charitable trust status is a sensible step for Surrey and Hampshire County Councils in protecting their liabilities.

- 11.6 One potential issue, which is difficult to quantify at this point, is the potential impact on the current visiting volunteer base to the Basingstoke Canal of the increase in volunteer input to the broader canal waterways run by BW that they would be instigating as a core part of their third sector developments. This could result in a reduction in the visiting volunteer numbers which the Basingstoke Canal currently benefits from.
- 11.7 As part of the original work in 2006 discussions were held with BW to determine if they would be prepared to take on the management of the Canal. At that time this was not possible. It may be that, if their mutualisation is successful, discussions could be re-opened with them, particularly once the capital works have been completed over the next 10 years. However, it is likely that if they took it on they would still require the local authorities to continue their grant funding.

12 Conclusions

- 12.1 The purpose of this review was to update the position from the 2006 options appraisal report regarding the potential for the day to day management of the Basingstoke Canal (equivalent to the BCA) to move into a charitable trust/third sector management model.
- 12.2 The key provisos in 2006 were for financial sustainability, and that whilst income generation was critical to the success of such a model this was not straightforward to attract, and bore an administrative overhead. As such the conclusion was that the consideration was complex, and that further work was required to determine if there was a reasonable case to develop this proposal.
- 12.3 This review has assessed the financial and non financial factors, consulted with the Canal Society, Inland Waterways Association and the Director of the Hampshire Museums and Galleries Trust and reviewed the British Waterways public document proposing their move into the third sector.
- 12.4 The Canal structural maintenance backlog will start being addressed in this financial year (2010/11) and this is seen as part of a 15 year Asset Management Plan. To enable any transfer of the infrastructure to a third sector model the asset would need to be in a good state of repair. As such this review has only considered the transfer of the day to day management of the Canal into a third sector model.
- 12.5 The main conclusions are that:
- 12.5.1 The Basingstoke Canal is still not financially sustainable and reserves continue to be depleted through the shortfall in revenue contributions from some of the riparian partners. Local authority contributions continuing is paramount for the future regardless of the management model adopted.
- 12.5.2 There is a need to get the cost base right. Costs need to be reduced, and income increased to ensure the financial health of the Canal is protected, particularly given the forecast budget pressures in coming years that are likely to be experienced by local authorities.



- 12.5.3 The financial analysis demonstrates that there would be a net annual cost of up to £78,600, plus any business rate liability, for the Canal in operating within the third sector. This is on top of the annual revenue shortfall of £30,868. As a result a third sector model would need to increase income generation by at least £109,468, and this does not include the need to redress the erosion of the Canal reserves.
- 12.5.4 Any third sector model for the Basingstoke Canal will be heavily dependent on generating income to overcome their current revenue shortfall, and to meet the increased costs of the new organisation. Whilst it is apparent there are opportunities to develop income, the economic climate dictates that income generation will not be easy, with the Charity Commission reporting in March 2010 that 62% of charities are experiencing reduced income levels.
- 12.5.5 There has not been any significant development of income by BCA over the last eight years. Whilst the camping facilities are in the process of being developed there is a need to increase income to overcome revenue shortfalls. The income generation sub-group that was created in 2006 should be regenerated and tasked with achieving real income streams for the BCA. In addition there is the opportunity to develop beneficial partnerships with organisations that border onto the Canal.
- 12.5.6 Recent joint working developments with Milestones and the Canal Society are encouraging and should start to increase awareness and marketing later in 2010. This opportunity drawing on HMGIT expertise, along with close working with the Canal Society utilising their trust to access specific grant and external fund raising opportunities, could result in increased income generating initiatives for the Canal. However it is difficult to quantify the potential levels realisable.
- 12.5.7 There are also potential income streams that could be explored and exploited through the property and land that are next to the Canal that is owned by the riparian partner, the two County Councils and also potentially part of the Defence Estate.
- 12.5.8 The increasing dependency on generating significant other income streams to enable the Canal to become financially sustainable highlights the need to review the fundamental objectives of the BCA. Currently these do not reflect the changing emphasis on the need to take a more commercial view and generate new income streams in the day to day management of the Canal.
- 12.5.9 Updated objectives would also lead to the need to undertake a skills audit of the existing staff, develop a training needs analysis and provide training to develop the skill base. Income generation performance targets could then be set, in line with skills development, to recognise the importance of income generation for the financial sustainability of the Basingstoke Canal, whatever management model it is operating within. However, these would need to be tempered to reflect the economic climate, and recently announced central Government cuts in grants to local authorities.
- 12.5.10 There is the potential to develop further the volunteer base with the Canal Society, although the issues highlighted within the report will need to be overcome to ensure this is a success.
- 12.5.11 The branding and marketing of the Canal should be considered to help with the image, and in trying to invigorate and attract volunteers, legacies and donations and grant funding bodies.
- 12.6 The overriding concern is that of economies of scale and financial sustainability. The Basingstoke Canal's success within the third sector is fundamentally dependent on local authority contributions not falling any further, and significantly increasing income



generation. If charitable organisations are experiencing reduced income levels, the question remains as to whether this is the right time to be considering a move of this nature for the Basingstoke Canal.

- 12.7 If the Basingstoke Canal is operating within the third sector and finds itself in a position where it cannot meet its required obligations, unlike BW which benefits from a significantly larger scale (2,200 miles of Canal waterway compared with Basingstoke Canal's 32 miles) there are no other waterways or funding streams to tap into to cross subsidise the organisation. Who then picks up the tab? The inference would be that it falls back to the two County Councils owners, and if this is the case what is the benefit of the change?
- 12.8 There are a range of potentially appropriate governance models within the third sector. If there is still an appetite to further progress the potential of moving the Canal management into the third sector the next step would be for the two County Councils owners to jointly commission a legal report to assess and recommend the most appropriate governance model to be adopted.
- 12.9 A number of the conclusions above can be developed regardless of any move into the third sector. These are as follows:
- Update the BCA objectives.
 - Reduce costs.
 - Increase income generating initiatives.
 - Exploit opportunities to develop partnerships with organisations that border onto the Canal.
 - Address branding and marketing.
 - Increase the active volunteer base and participation of local communities.

12.10 However, for the proposals within this report to deliver what is needed there are some key success criteria as follows:

- Sustaining local authority funding.
- Canal Director capacity at a strategic and not operational level to address the new requirements.
- Commercial and income generation skills and outlook.
- Attracting significant new income streams – at least £110k pa.
- Image and perception.
- Increasing volunteer and local community involvement.
- Increased partnership working with Canal Society.
- Continuing the work to get the Canal infrastructure into a good state of repair.

12.11 The main focus of the recommendations are therefore to get the Canal’s “house in order” within the existing management structure. This will allow the Canal to develop a financially sustainable model, to then enable a move into the third sector to be considered as a viable proposition in the future. This could be either in its own right, or as part of an existing model such as that being developed by British Waterways.



Setting up an independent body – Charitable Trust options

General issues

- 4.57 A lot of recent work has been undertaken within Hampshire County Council regarding the potential to transfer Milestones Museum into charitable trust status. As a result it has been possible to use this learning in respect of the Canal appraisal. This included researching a number of reference sites, although further work has been undertaken specifically looking at navigations in the form of seven Canal organisations, a Regional Park authority and two much larger trusts encompassing a range of sites and activities. A summary of the Canal Trust research is shown at Appendix 4 (not appended).
- 4.58 The advantages and disadvantages of trust status can be summarised as follows. These are set out in more detail within Appendix 5 (not appended).

Advantages	Disadvantages
<ul style="list-style-type: none"> • Single focus • Responsive decision making • User led (including non users) • Community engagement • Ability to attract sponsorship and donations • More commercial approach • More entrepreneurial culture • Income generation opportunities • Opportunity to develop new partnerships • Expertise and contacts of trustees • Partnership relationship with and independence from local authorities 	<ul style="list-style-type: none"> • Risk of failure • Less security from local authorities • Potential conflict of interests for authority members on trust board • Unreasonable expectations • Reversibility is difficult • Rules relating to trading activities • High dependence on grant funding • Additional costs of a trust (see financial case)

- 4.59 Appendix 5 (not appended to this extract) also sets out more general issues relating to the considerations required in establishing a trust. This covers the following areas:

- | | |
|--------------|-------------------------|
| • Legal form | • VAT |
| • Governance | • Gift Aid |
| • Trustees | • Trading subsidiary |
| • Management | • Partnership working |
| • Insurance | • Strategic proposition |
| • Culture | • Risk |

- 4.60 One of the benefits of charitable trust status is cited as the ability to have a much greater entrepreneurial capacity through raising external funding in the form of grants. To test this assumption the Hampshire County Council External Funding Team were asked to produce analysis of the potential grants that could be realised by a local authority and those that could be realised through a charitable organisation. This analysis is shown at Appendix 6 (not appended).
- 4.61 This analysis needs to be explored further by the Income Generation Group, including the Canal Director and the Canal Society. Given income streams have been realised by the BCA to date, in partnership with the Canal Society, that would otherwise not have been available to a local authority it will be interesting to determine which of these other grant routes could still be accessible, and not be dependent on a charitable organisation being established.
- 4.62 The over-riding caveat here is caution. Refer to paragraph 4.15 (of the original report) and the advice from the Chief Executive of the SWT, given his experience of charitable trusts. This area of work needs further examination to determine to true extent for a charitable trust to realise extensive grant income, not currently seen by BCA, prior to any decision regarding this management option.
- 4.63 Fundamental dependencies that form the **core success criteria** for establishing a trust for the Basingstoke Canal are:
- Securing a long term funding arrangement with the authorities: this security is especially important for a single site trust which is not in position to share risk and costs within a portfolio of sites or rely on a secure income stream
 - A clear agreement by the owners relating to the current backlog of structural maintenance. This will need to set out a planned forward programme on how this will be tackled to bring the standard of the Canal up to an acceptable level
 - A single and responsive decision making body
 - A clear agreement for ongoing operational maintenance and management of the Canal, including the SSSI
 - Formation of a trust board which has the relevant skills including financial, legal, trusteeship, fund-raising, other commercial expertise and the connections to maximise funding, in particular recruiting the right Chair
 - Appointment of a Chief Executive, by a Shadow Board, who, with the Chairman, can lead the transformation required
 - Robust finance and managerial processes and systems, meeting necessary financial controls and compliance with statutory requirements that enable sustainable management and appropriate development of the Canal
 - Ability to maintain and enhance current risk management standards.

Evaluating the trust options



- 4.64 The trust options being considered for the Canal are:
1. Freehold asset transfer to the trust, including insurance and structural maintenance
 2. Full repairing lease, with the Canal put into good order by the owners
 3. Operational management under contract, with the freehold assets, insurance and structural maintenance remaining with the owners
 4. Local Authority controlled trust

The indicative financial case for each trust option

- 4.65 The indicative financial case for each option has been compiled in the table below. These represent a 'like for like' financial position of the Canal under trust status in comparison with the current authority control. The future of the Canal under trust status would entail potential savings to be negotiated in the running costs, particularly transport, along with additional revenue generation and associated costs, depending on the strategic proposition developed by the new director and trustees.
- 4.66 The Consultant and the Business Development Manager for Recreation and Heritage within Hampshire that were involved in the detailed Milestones appraisal work attended the Project Team meeting in July, to consider the key issues regarding trust status for the Canal. Two key drivers for Milestones becoming a trust are not relevant to the Canal – business rate relief of 80% for the accommodation and gift aid realised from admission charges. The Canal Visitors Centre is owned and provided by Surrey County Council who bear all the costs for the site – these are not borne by BCA. As a result under trust status there would need to be an increase in baseline costs equivalent to 20% of the business rates. Gift aid would not be realisable in any significant level as admission charges are only levied on a small number of Canal users, such as the boaters.
- 4.67 It should be noted that any of the charitable trust options is dependent on a commitment to long term funding from the two owners and all of the riparian local authorities.
- 4.68 The indicative costs suggest, on purely financial grounds, that any of the trust options will have an additional net cost to the new organisation above that currently incurred. That said not all the costs have been confirmed – the final position when we have these costs will give a truer picture. Decisions relating to the desire to pursue the potential to establish a charitable trust will need to be based on more than just the financial case.

	Trust Options			
	Charitable Trust model 1: Freehold transfer to trust	Charitable Trust model 2: Freehold = owners; Canal put into good repair; Full repairing lease	Charitable Trust model 3: Freehold, structural repairs and insurance = owners; Trust manage under contract for owners	Local Authority Controlled Trust
	£	£	£	£
Savings:				
NNDR savings (Visitors Centre) (see note)	8,000	8,000	8,000	8,000
Gift Aid (see note)	2,800	2,800	2,800	2,800
Total savings	10,800	10,800	10,800	10,800
Additional costs:				
VAT (see note)	15,000	15,000	15,000	15,000
NNDR base 20% new cost	2,000	2,000	2,000	2,000
Insurance (see note)	15,000 +	15,000 +	15,000 +	15,000 +
Incremental costs of Director	20,000	20,000	20,000	20,000
Support services and statutory requirements (see note)	50,000 to 100,000	50,000 to 100,000	50,000 to 100,000	50,000 to 100,000
Total additional costs	102,000 to 152,000 +	102,000 to 152,000 +	102,000 to 150,000 +	102,000 to 150,000 +
Net cost to new organisation (see insurance note)	91,200 to 141,200 +	91,200 to 141,200 +	91,200 to 141,200 +	91,200 to 141,200 +
Cost to Borough Council relating to discretionary rates savings (see note)	0	0	0	0
Estimated set up costs:				
These would include: - third party legal costs - recruitment and training of trustees, director and finance manager - pension scheme related costs Need potentially full time person to implement for 6 months	50,000 to 100,000	50,000 to 100,000	50,000 to 100,000	50,000 to 100,000



Notes to the indicative financial case

NNDR	This is a pure estimate for the Visitors Centre only. No quotation has been received for this at this time, as it is apparent NNDR is not currently paid on the building. It is assumed that there will not be a discretionary rates saving relating to the remaining 20% as no discussions with Surrey Heath have taken place with respect to this aspect of the calculation
Gift Aid	Advice has been received that only donations to the BCA would attract gift aid – it is not applicable to boat or angling licenses
VAT	This assumes this is the proportion relating to non recoverable charitable activities
Insurance	This is an estimate, based on the Milestones quotation, but excluding the public liability relating to flood risk and damage to property. A formal quotation is awaited from Zurich. As a result of the fact that the key element of insurance being excluded at this time the “+” has been added to the financial case. Once the insurance quotation has been received this will demonstrate if it is a) insurable and if it is, whether it is b) affordable
Support Services	This relates to human resources, finance, legal, marketing, website maintenance, bank charges, audit and book keeping that are currently provided by, but not charged by, the two County Councils. IT charges are excluded as they are paid for by BCA

4.69 Further work is required on the charitable trusts options relating to the ability to reduce costs and realise further income streams as the first cast of the financial case suggests any of the models has a net cost, compared to the current picture. As the current picture is in deficit this issue is significant and, as set out, needs further exploratory work. Potential non-financial benefits have been identified as:

- Increased focus on users
- Increased focus on income generation
- Entrepreneurial culture to get things done
- Single and responsive decision making body

Option 1 Freehold transfer

Advantages	Disadvantages
<p>Considerable potential to raise external revenue funding including funding not available to local authorities</p> <p>If meeting capital costs potential for external funding</p> <p>High level of “ownership” by members if membership Trust could be highly entrepreneurial</p> <p>Structural and financial risks transferred from local authorities</p> <p>Probably high levels of voluntary activity</p>	<p>Considerable insurance costs</p> <p>Highly dependent on local authority funding</p> <p>High risk of failure largely irreversible</p> <p>High levels of risk to the Trust</p> <p>Voluntary input uncertain</p> <p>Could take a long time to set up</p>

- 4.70 This would enable the charitable trust more freedom to operate, and potentially encourage greater entrepreneurial capability as their success is dependent on generating additional income as they are responsible for everything to do with the Canal. Another key issue is whether or not this option would be dependent on the Canal being put into a state of good repair prior to handover. Without this the trust could experience significant difficulties, but could potentially realise grant funding to undertake specific works. This option is beneficial to the two owners as the Canal risk is transferred entirely to the new trust. If the insurance quotation comes back as uninsurable or unaffordable this option will not be viable, and will therefore be eliminated from further consideration.

Option 2 Full repairing lease

4.71 With this option the freehold of the Canal remains with the County Councils, who undertake to put the Canal into good repair and then transfer the Canal to the Trust on a full repairing lease.

Advantages	Disadvantages
<p>Revenue funding needed less than Model 1</p> <p>Considerable potential to raise external revenue funding including funding not available to local authorities</p> <p>Initial Capital costs not met by Trust</p> <p>Could be very entrepreneurial</p> <p>Not irreversible</p> <p>Structural and financial risks transferred from local authorities</p> <p>Much voluntary activity</p>	<p>Could have high insurance costs</p> <p>Capital costs would have to be met by County Councils</p> <p>Dependent on local authority funding but not as great as Model 1</p> <p>Voluntary input uncertain</p> <p>Some risks to the Trust, including risk of failure, but not as great as Model 1</p> <p>Could take a long time to set up</p>

4.72 A key dependency with this option is the two owners putting the Canal into a good state of repair. This could be undertaken in a phased way, with responsibility being passed to the trust as the work was completed. This would present less risk than option 1 as the Canal would be in a good structural state of repair. This would require a conditions survey and a commitment to a programme of capital works from both owners, significantly Surrey County Council as they are responsible for 28 out of the 29 locks.

4.73 Again this would enable the charitable trust freedom to operate and be more entrepreneurial. Insurance could be an issue with this option as well – where the liability for flood risk lies would be key.

Option 3 Management under contract

4.74 Freehold of the Canal remains with the County Councils who also continue to be responsible for ongoing structural repairs and insurance. The trust undertakes the management of the Canal under contract to the two County Councils.

Advantages	Disadvantages
<p>Revenue funding needed less than models 1 and 2</p> <p>Some potential to raise external revenue funding including funding not available to local authorities</p> <p>Insurance costs not borne by Trust</p> <p>Could be entrepreneurial</p> <p>Not as dependent on local authority funding as models 1 and 2</p> <p>Risks of failure not as great as Models 1 and 2</p> <p>Some financial risks transferred from local authorities</p> <p>Much voluntary activity</p> <p>Not irreversible</p> <p>Less complicated to set up than Model 1 and 2</p>	<p>Potential to raise external funding not as great as Models 1 and 2</p> <p>High levels of cost and risk remain with the County Councils</p> <p>Long term division between structural repair/maintenance and operational management</p>

4.75 Whilst this could mean the trust may not be encouraged to be as entrepreneurial, given they do not have responsibility for structural repairs and insurance, this could be the most favourable option as it transfers least risk to the trustees, but still allows freedoms in the way it operates in meeting the day to day management obligations. This option would provide the one with least risk of failure, as it transfers least risk from the two

owners. This option is supported by the Canal Society, with the caveat of it being financially sustainable.

- 4.76 There were some concerns from the owners that there may not be as much volunteer effort available under this option. At the Joint Advisory Group meeting it was reported that the Kennet and Avon Canal Trust have not seen a fall off of volunteer effort even though restoration has been completed. This was felt to be because of the commitment and enthusiasm of the local people having something local that they can play a part in.

Option 4 Local Authority Controlled Trust

- 4.77 Local Authority control is greater than 20% of the places on the Trust's board. Freehold remains with the County Councils. The Trust undertakes the management of the Canal and could also be made responsible for structural repairs.

Advantages	Disadvantages
Some potential to raise external revenue funding	Potential to raise external revenue funding not as great as independent Trust
Not irreversible	Capital costs count towards Prudential borrowing calculation
Could have voluntary activity	Trustees have personal liability and therefore risk averse
Could be entrepreneurial	Not as responsive to users and interest groups as independent Trust
Easy to transfer staff	Unlikely to be as entrepreneurial as an independent Trust
Relatively easy to establish	Highly dependent on local authority funding
	Voluntary input less than independent Trust
	High levels of cost and risk remain with the County Councils
	Not very accountable

- 4.78 Whilst this may satisfy local authorities in terms of control of the new organisation, as they would have a stake on the board at >20% as compared to the other trust options, this may well stifle the ability to be truly entrepreneurial and attract new funding. Consideration needs to be given to the impact on the County Councils Prudential borrowing calculations from the cost of structural repairs – and whether the cost of the structural repairs would lie with the trust or remain with the two County Councils.
- 4.79 There could be a “Friends” group or an Advisory Committee to take forward the views of stakeholders. The Canal Society have concerns over this option as they believe that they would have no voice, and that it would be bureaucratic and remote.
- 4.80 It could be determined that this option does not present much change from the current position, whilst significantly increasing the risk to trust in transferring responsibility for the structural repairs.

Summary of trust options evaluation

- 4.81 Some key information is awaited that will dictate whether some of the options, particularly option 1 with freehold transfer, is viable. This is particularly the insurance quotation and the cost of the NNDR on the Visitors Centre (and if it is applicable to any other property relating to the Basingstoke Canal).
- 4.82 With any of the charitable trust options it will be essential at the outset to set out an exit clause to clarify what would happen in the event of failure of the trust given the risk of breach and that it is one of the highest corporate risks currently with both owners.
- 4.83 One of the concerns of a charitable trust from a local authority perspective is the limit of not more than 20% representation on the Board. One way to avert this concern would be to develop a Service Level Agreement between each local authority and the charitable trust which clearly defines service standards within a performance management framework.
- 4.84 If a decision was made to pursue a charitable trust option further work would be required to determine the most appropriate governance arrangements. This would relate specifically to trustees and whether or not they would be appointed or operate as a membership trust. If it were to be a membership trust this would have a significant impact on the Canal Society as to whether they were integral to, or remained outside of the arrangements. Some outline information is contained within Appendix 5.
- 4.85 In summary, if a charitable trust were determined as the most appropriate way forward this could be done in a staged way moving to option 3 initially, then as structural works are completed moving to option 2 (whilst also resolving the insurance liability issue), but further work is required to determine if benefits are realisable above the initial financial case which suggests a net cost to the new organisation.



Basingstoke Canal:

Support services provided to the BCA free from Hampshire and Surrey County Councils

Service	SCC £/year (estimated)	HCC £/year (estimated)	Comments
Payroll		500	HCC - Based on 2007/08 costs for River Hamble (FTEs factored up by 45%) + inflation
Payments		1,000	HCC- Based on 2007/08 costs for River Hamble (turnover factored up by 35%) + inflation
Income and Debtors		1,200	HCC- Based on 2007/08 costs for River Hamble (similar income) + inflation
Tax, VAT & Bank Charges		200	HCC - Based on 2007/08 costs for River Hamble
DFU	0	8,300	HCC - Based on 2007/08 costs for River Hamble (factored down by 50% + inflation)
Audit		1,500	HCC - Based on 2007/08 costs for River Hamble (4.5 days/year) + inflation
Treasurer to the Committee		1,200	HCC-Officer time (6 days) plus expenses- attending and preparing 3 annual meetings
Human Resources		6,900	HCC- Based on 2008/09 CCRA costs (1.6%)
Occupational Health Unit		1,500	HCC- Based on £65 per hour (Referral 2 cases per yr x 4 hrs, Pre-employment 1 case per yr x 1 hr, Health Surveillance 8cases x 1.5hrs)
Employee Support Line		500	HCC- estimate for small organisation to be part of ESL
Legal		2,500	HCC – Based on the average hours over 2 years for 2008/09 (29.2hrs) and 2009/10(58.7hrs), at £55 per hour
Chief Executives Department		3,500	HCC- Based on 2008/09 CCRA costs (1.6%)
Committee Services	3,000		Based on 3 meetings at £1000 per meeting
Property maintenance	5,000	0	SCC- MW Estimate for Visitor centre and tea rooms. HCC- Works recharged to Canal
Marketing		100	HCC- Minimal – ½ day per year
Website maintenance		0	HCC -Managed by staff at site
Fundraising		0	Undertaken by BCA
Pension Fund administration		0	HCC There is no direct charge from HCC to any employer for providing the Pension Scheme.
Senior Management time (CCRA)	4,500	4,500	SCC- Rod Edbrooke & Mike Dawson; HCC - Andy Smith – 12 days (£2,500); John Tickle/Yinnon Ezra (£2,000)
Public Liability Insurance	3,500		SCC- Based on 2006 quote + inflation, £2m indemnity
Professional Indemnity Insurance		0	HCC- May not be applicable to Canal
Employers' Liability Insurance		2,600	HCC- Based on 2006 quote (£2,300) + inflation, £10m indemnity
HCC self-insurance		0	HCC - See property and infrastructure insurance below
Property insurance	3,600		SCC -Based on 2006 quote (£3,179.39 + inflation) – Pump House, Workshop and visitor centre
IT Staff work			HCC – recharged directly to Canal budgets through IT charges thus not "below the line"
TOTAL	19,600	36,000	
TOTAL HCC and SCC		55,600	

Basingstoke Canal:

Potential external funding opportunities for the Canal if it was outside of local authority control

Funder	Programme	Description	Who can apply?	How much?	URL
Charles Hayward Foundation	Charles Hayward Foundation	Grants to UK charities under the following categories: Heritage and Conservation; Criminal Justice; Hospices; Older People; Overseas (currently suspended); Youth at Risk (currently suspended); Other Areas.	Registered or exempt charities.	Small grants of up to £5k, or main grants: £10-25k	http://www.charleshaywardfoundation.org
Department for Culture, Media and Sport; The National Lottery	HLF - Landscape Partnerships	Support for schemes led by partnerships of local, regional and national interests which aim to conserve landscape areas of district local character throughout the National Kingdom.	Formal or informal partnerships, including local voluntary conservation or community groups, parish councils, local government or statutory/advisory agencies.	£250k-£2m	http://www.hlf.org.uk
Aggregates Levy	Natural England Aggregates Levy Sustainability Fund	Funding for projects in England which reduce the effects of aggregate extraction on local communities and the natural environment. Projects must deliver benefits for one or more of the following themes: Landscape and Nature Conservation; Access and Informal Recreation; Health and Wellbeing; Education and Understanding; and Evidence Gathering.	Areas in England with clear links to aggregate extraction.	£5-350k, up to 75% of total project costs.	http://www.naturalengland.org.uk/conservation/grants-funding
Biffa Waste Services; Landfill Communities Fund	RSWT - Biffaward	Support for UK projects that provide or improve community spaces, cultural facilities and places for outdoor recreation; and for site-based projects that protect and enhance biodiversity across the UK. The funding is provided under the Landfill Communities Fund and projects must be eligible under ENTRUST regulations. The Flagship Scheme supports two themes: rebuilding biodiversity and cultural facilities.	Any Environmental Body registered with Entrust	Small grants: £250-£5k; Main grants: £5-50k; Flagship projects: £150-500k	http://www.biffaward.org
Inland Waterways Association	Restoration Grants Fund	Support for the restoration of inland waterways in England and Wales. Activities eligible for support include: construction and excavation, feasibility studies, land purchase, research on matters affecting waterway restoration and education materials promoting the history of waterways and the benefits of waterway restoration.	Organisations promoting the restoration of navigable, or formerly navigable, inland waterways or new navigable waterway routes.	Up to £15k	http://www.waterways.org.uk

Funder	Programme	Description	Who can apply?	How much?	URL
St Modwen Properties plc; Landfill Communities Fund	St Modwen Environmental Trust	Support is available to communities in areas where St Modwen Properties plc operates. Grants are offered to not-for-profit groups seeking to improve their local environment, with a primary focus on environmental schemes, historic buildings and public amenities.	Not-for-profit organisations such as community groups and charities. Public sector projects may be supported where mainstream funding is not available.	Small grants: Up to £10k; Large grants: £10-50k	http://www.stmodwenenvironmentaltrust.co.uk
Inland Waterways Association	Waterways Training Awards	Awards to individuals and societies in England and Wales to assist with the cost of training in skills associated with inland waterway restoration.	individuals or canal societies involved in inland waterway restoration.	Upto £750, for up to 75% of direct costs.	http://www.waterways.org.uk
The Waterways Trust	Waterways Trust - Small Grants Scheme	Support for waterway-related projects throughout the UK. Funding is provided for waterway wildlife conservation projects, especially ponds linked to canals, and community-based projects to improve facilities on canals and inland waterways.	Organisations, community groups and schools.	UK Waterways Grants: up to £2k; Thames Grants: up to £5k	http://www.thewaterwaystrust.org.uk
Heritage Lottery Fund	Your Heritage	General small grants programme for all types of heritage projects. It is a flexible programme particularly designed for voluntary and community groups and first-time applicants.	Projects that relate to the local, regional or national heritage of the UK	£3-50k	http://www.hlf.org.uk/HowToApply/programmes/Pages/yourheritage.aspx
Heritage Lottery Fund	Heritage Grants	Programme for grants over £50,000 for all kinds of heritage that relate to the national, regional and local heritage of the UK. It is open to all not-for-profit organisations.	Projects that relate to the national, regional or local heritage of the UK	From £50k	http://www.hlf.org.uk/HowToApply/programmes/Pages/heritagegrants.aspx