

HAMPSHIRE COUNTY COUNCIL**Report**

Committee/Panel:	Basingstoke Canal Authority Joint Management Committee
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Title:	Financial Update Report
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Report From:	Report of The Honorary Treasurer

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1. Executive Summary

- 1.1 The purpose of this report is to give members a brief update on the 2013/14 forecast financial outturn position, provide an update on the 2014/15 budget and inform the JMC of issues arising following the external audit of the 2012/13 annual return.
- 1.2 It is anticipated that Basingstoke Canal will make a deficit resulting in a draw on reserves in 2013/14.
- 1.3 In 2014/15 no contribution to reserves is forecast as further savings still need to be identified to reach a balanced budget position.

2. 2013/14 Forecast Outturn

- 2.1 The projected outturn position is set out in Appendix A and is based on actual income and expenditure to date and known and predicted future activity.
- 2.2 The latest projections indicate a deficit of £8,365 will be incurred for the 2013/14 financial year. This is greater than the predicted shortfall presented in the October 2013 budget report and will need to be covered by a draw on the reserves.
- 2.3 This overspend is largely the result of non-receipt of match funding required for the two HLS projects currently being managed by the Canal.
- 2.4 The following variations from the revised budget are predicted:

- **Employees (-£5,490)**
The reduction in projected employee costs is mainly related to a lower than expected need for additional hours to be worked by rangers, lock keepers and visitor centre assistants.
- **Premises (£5,167)**
The costs of maintaining premises is expected to be higher than budgeted, mainly as a result of higher than anticipated increases in electricity charges (£4,000). This increase is the result of higher unit prices as well as greater usage of the Frimley and Woodham Pumping stations. Additional pumping was required to keep the navigation open for the boating season, due to the dry summer. Waste disposal costs have also risen resulting from higher prices and additional waste linked to the increased site hire. Additional contract cleaning has been used as an interim measure pending the filling of the maintenance post.
- **Canal Maintenance (£20,918)**
The planned preventative maintenance budget is held separately from other premises costs for clarity. Expenditure is projected to be £20,918 higher than budgeted, £17,000 of which is due to higher spend on equipment, materials and sundries, including the cost of removing disused boats. A further £2,000 is required for the improvement of facilities to complete the new mooring.
- **Transport (£11,802)**
Unplanned additional costs of £6,000 have been incurred to repair the chipper and part funded a hydraulic pump for the weed cutter, which was jointly funded by the Canal Society. Another £5,000 is expected to be spent fuelling an additional vehicle, where usage has been higher than anticipated, alongside increased travel resulting from issues caused by the recent storms. Efforts continue to be made to reduce transportation costs by encouraging staff to use site vehicles instead of claiming mileage.
- **Supplies and Services (£3,952)**
In most cases, supplies and services costs are expected to be in line with the amounts budgeted, however an overspend is projected resulting from agents fees of £4,970 relating to the sale of the property at Linden Avenue. The proceeds from this sale have been capitalised to be used to help fund the next phase of capital works on the Canal.

- 2.5 Operational income is expected to exceed the budget by a net 15%, an increase of £20,244. This is largely as a result of a block camping booking covering November and the last quarter of the year, with higher income also expected from sales, managed events as a result of additional Santa Cruises and an increase in the ticket price and hire of facilities which has seen a big

increase in hire of the function room. The increases achieved in income in these areas are offset by reductions in income from Surrey County Council relating to 2012/13. Income for 2012/13 fibre optic cabling and tea room lease rent of £47,653 was accrued based on figures provided by Surrey County Council. This income, received in late 2013, had a management fee of £5,000 deducted, resulting in a further pressure on the canal. Boat licence income is also lower than anticipated.

2.6 Partner Contributions have largely all been received, with the exception of Fleet Town Council and Rotherwick Parish Council. Fleet Town Council’s contribution is now classed as a grant and has to be applied for, with the application due to be considered in March 2013/14 and funding expected to be received. Rotherwick Parish Council have withdrawn, without notice, from the Partnership.

3. Looking Ahead 2014/15

3.1 The budget for 2014/15 has been prepared at estimated outturn prices and is set out in Appendix A. The budget for 2014/15, set in October 2013, contains unidentified savings of £29,354.

3.2 Additional pressures which have been identified include:

- Maternity additional costs £5,900
- Camping database – options for a camping database are being explored and will be purchased if funding is available. Funding maybe available from the Canal Centre redevelopment project.

3.3 A number of potential solutions to meet the budgeted shortfall are being explored and include:

- Farnborough Air show additional camping £5,000
- Events Income £2,800
- Hire of function room £2,000
- Additional Shop profit £8,000
- New mooring – 6months mooring fees £15,000
- Increased mooring fees - pricing policy change £13,000

These plans require additional work to confirm how they could be implemented and to ensure projections are robust, while additional options will also be sought.

4. Capital Expenditure Programme

4.1 The current position on the main capital schemes is detailed in Appendix B, showing projected costs and income for 2013/14 and 2014/15.

- 4.2 Projects previously highlighted in both Hampshire and Surrey have been listed in order of priority and profiled up to 2017. Work planned for 2014/15 includes a large amount of embankment work to ensure the structural integrity of the canal.
- 4.3 Hampshire - The previous allocation of £872,000 from 2012/13 for the Hampshire capital programme has been fully allocated, with additional costs of £15,000 being set against the £200,000 funding for 2013/14.
- 4.4 £44,000 of the Hampshire capital funds have been spent to date on consultancy costs, mainly in relation to the landslip at Dogmersfield. It is anticipated that £30,000 will be invested on a telemetry system by the end of the financial year, as well as a further £33,000 on consultancy costs.
- 4.5 The £100,000 set aside for the purchase of emergency equipment during 2013/14 will now be used during 2014/15 as a 50/50 split with Surrey. Further work at Dogmersfield and various culvert repair work is planned during 2014/15.
- 4.6 Surrey - Of the Surrey County Council capital funding, £551,000 has been spent to date, with the majority spent on the Mytchett Lake embankment strengthening. A further spend is projected of £30,000 for Mytchett Lake embankment and £30,000 for Surrey's 50/50 share of the telemetry remote monitoring and control system. This will result in a projected overspend against the 2013/14 allocation. Surrey intends to re-profile this against their 2014/15 allocation.
- 4.7 Further embankment work is planned during 2014/15 to ensure the structural integrity of the canal.
- 4.8 It is anticipated that preliminary work to provide the relevant surveys, reports and design for the redevelopment of the Canal Centre will take place during the spring of 2014, with a report expected by July. Surrey County Council has allocated a separate capital budget of £100,000 to fund this work.

5 Special Projects

- 5.1 The current position on externally funded special projects managed by the Canal are detailed in Appendix C.
- Rushmoor TAG project - The project is now complete with the remaining £230 spent on towpath works within the Rushmoor boundary during 2013/14.
 - Odiham Castle - Funds stand at £3,600 with no expenditure in the current year. The fund will remain unspent unless there is a requirement to replace interpretation signs due to vandalism or general wear and tear over the next few years.

- Higher Level Stewardship (HLS) funding
 - Surrey - work was completed on soft bank protection below lock 1 during 2012/13 under the D&B term contract (the work was required for both engineering and conservation reasons) but it did not meet the original specification laid out in the bid. Following discussion with Natural England no claim will be accepted for this work. As a result of being unable to claim for the first phase of the Special Project work, it will not be possible to complete any of the remaining Special Projects in Surrey.
 - The situation is similar with tree works below lock 1, as it was discovered that the area concerned had been omitted from the holding map agreed between the BCA and Rural Payments Agency. No claim will be possible for these works either. As a result of this, Surrey and the BCA are reviewing the entire HLS project, with the aim of ensuring a limited programme of tree works are carried out during 2014/15 to keep the agreement alive; no further work will be carried out during 2013/14.
 - Annual work on the maintenance of grasslands and control of invasive plant species will continue, with funding of £2,520 being received per annum. This will be allocated against the staff cost of undertaking the work.
 - Hampshire - work has commenced on the Special Bat Grille project with £2,780 being spent to date in 2013/14. Work has also started on soft bank protection work in Rushmoor and Yew Tree with further work to be completed at Pillars Bridge by the end of 2013/14. The cost of this work will be in the region of £40,000 with match funding required of £8,000.
 - Tree works are planned in various locations during 2014/15 at an anticipated cost of around £22,000, with match funding of £10,500 required. Annual work on the maintenance of grasslands and control of invasive plant species has received funding of £2,718. This funding will offset the staff costs of undertaking this work.

6 External Audit Issues Arising Report

- 6.1 The 2012/13 small bodies return was signed off by the external auditor on 30 September 2013. The auditor raised some issues which are set out below, together with officer responses. These issues were raised in respect of all the JMCs for which Hampshire County Council is the Honorary Treasurer.

Point Raised

- Internal Audit - The Canal does not comply with the Accounts and Audit (England) Regulations 2011 which requires authorities to follow proper internal audit procedures. The practitioners guide states that the internal audit should be undertaken annually.

Officer's Response

- The external audit team make reference to the Guide that states '*Local Council's must at least once a year carry out a review of internal audit and include the results in the annual governance statement which is Part 2 of the return*'. This reference actually refers to the 'annual effectiveness of internal audit' which is presented to the County Council's Audit Committee annually. The guidance is much more about a risk based and proportionate approach to internal audit which is what is adopted.
- The result of that risk assessment is that Basingstoke Canal is 'low priority'. Audit resource is directed towards medium and high priority reviews and establishments such as the Canal would not routinely be visited. However, an approach was previously agreed with the Audit Commission to implement a review of small bodies in which establishments would be fully reviewed on a cyclical basis and where appropriate reliance would be placed on assurance work carried out on corporate systems (payroll, main accounting, bank reconciliation etc.) used by the small bodies to avoid duplication and additional cost to the individual establishments.
- The external auditor has been asked if he will accept our previously approved approach and if not to justify the necessity for change in methodology and associated cost to Basingstoke Canal.

Point Raised

- Risk Assessment - The Auditor accepts that a risk assessment is carried out by the host authority and that minutes of meetings during the year indicate that business risk matters are monitored. However the body has not minuted these as being referenced to risk. The auditor also requires that it be minuted that all Members have approved the risk assessment.

Suggested Response

- No change in the approach to risk is required however Officers will have to ensure that when business risk matters are considered by the JMC that they are appropriately minuted.

7 Reserves

- 7.1 A detailed breakdown of reserves is shown in Appendix D.
- 7.2 There is expected to be a draw on reserves of £8,365 in 2013/14. This is to meet a small overspend of £365 and to provide £8,000 of match funding for the Hampshire HLS project. This draw would leave the reserves at the end of 2013/14 at £283,092.
- 7.4 Projections for 2014/15 continue to indicate that savings need to be identified to present a balanced budget. Assuming these savings are found, then it is anticipated there will be no movement on reserves in 2014/15, leaving the reserves at the same level as at the end of 2013/14.

8 Conclusion

- 8.5 This report indicates that due to the current economic climate the Basingstoke Canal continues to face financial challenges. Savings identified need to be confirmed for 2014/15 to meet a balanced budget.
- 8.6 The Canal continues to maintain good standards, although financial constraints on the budgets of partners continue to create pressures.
- 8.7 Plans and timescales for the use of the additional capital funding recently received from Hampshire County Council are being formulated.

Recommendations

- 1 That the forecast outturn is noted.
- 2 The members are asked to note the revenue draw on reserves in 2013/14 along with the draw for match funding for the HLS projects.
- 3 That the Committee support the Officer responses to the Issues Arising report from the external auditor for 2012/13.

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