

## Update on the Future Management of the Basingstoke Canal

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### **1 Introduction**

Hampshire CC and Surrey CC, as joint owners of the Basingstoke Canal, have been working together to identify a long term sustainable solution for the management of the Basingstoke Canal.

Consultants JBA Consulting Ltd, commissioned on behalf of both landowning authorities, undertook a valuation exercise and assessed the most cost effective and suitable options for the future level of navigability and long term management of the Canal. They concluded that continuing the current level of management was the preferred option and recognised that it was likely that there would need to be continued public subsidy to sustain the efficient and safe operation of the Canal unless there is a significant increase in direct income. This report was summarised and reported to the Basingstoke Canal Joint Management Committee in June 2015.

Since this report the landowning authorities have been jointly exploring the most appropriate business model that would ensure that the safe and effective management of the Canal as well as successfully developing it to realise the potential and secure the long term future.

The purpose of this report is to provide JMC members with an update on the progress made towards a sustainable future management solution for the Basingstoke Canal and make recommendations regarding the long term strategy and business objectives for the Canal.

### **2 Background**

The Canal was built in the late 18<sup>th</sup> Century as a commercial concern, but failed to achieve financial sustainability. Subsequent owners asset stripped the land associated with the Canal, and a later owner allowed the Canal to fall into a derelict state due to

lack of funds. Severe flooding caused by embankment breaches in 1968, and resulting public campaigning led to the purchase of the Canal by Hampshire and Surrey County Councils (HCC and SCC).

Restoration was undertaken in the 1970s and 1980s by the ranger forces of both authorities, alongside volunteers predominantly from the Surrey & Hants Canal Society (now the Basingstoke Canal Society). Limited capital financing led to economies being made; the ranger forces were combined in 1989 to form the Basingstoke Canal Authority (BCA), effectively a management partnership operating the Canal on behalf of the owners.

No appreciable capital was then injected into the Canal for a period of more than 15 years which was by then operational but not complete. By 2009 the Deepcut Locks were in such a parlous condition they were closed on safety grounds, followed shortly after by a breach at West Hart Embankment.

The owners have since 2010 instigated a major capital rehabilitation project to address the backlog of heavy maintenance and complete jobs left unfinished in the 'restoration'. The Canal's Asset Management Plan suggested this capital sum needs to be in the region of £6.8m meet the maintenance arrears and £167,000 revenue per annum (excluding staff costs) then being required by the BCA to maintain the assets in a stable state. This does not include the annualised capital needed to ensure the assets are properly maintained.

The Canal's prime business is in tourism and recreation; visiting boaters, campers, anglers, walkers and cyclists all contribute to the wider local economy by supporting businesses and enterprises located along the Canal, and provide income generating opportunities for the BCA through licensing and secondary spend.

### **3 The Need for Change**

In light of the current local government financial situation the owners are looking at different models that can sustain the safe operation and secure the financial future of the Canal. Each County Council is under pressure to reduce their financial contribution by 2019. Each County Council is likely to match the other in equal terms. It is recognised that the riparian District and Town Councils have their own pressures and may need to consider proportionally reducing their contribution

With financial pressures and competing demands for public services both landowning authorities believe that for a secure long term future the Basingstoke Canal may be better managed by an organisation such as the Canals and Rivers Trust.

## 4 Business Case

Three delivery models have been identified by the landowning authorities:-

- Option A - Both landowning authorities divest entirely of the Canal to an appropriate body who can continue to safeguard the future of the Canal with no further involvement from the County Councils; the only remaining viable organisation is Canal & River Trust. **(Preferred long term solution)**
- Option B - There is targeted investment in the Canal and the landowning authorities continue to operate the Canal continuing with the current partnership or similar delivery model. **(Only viable current option)**
- Option C - The landowners enter into a contract with a private sector partner to wholly or partly develop and run the Canal. **(Discounted)**

### Option C - Contract with a private sector

This option has been discounted following the response to enquiries made through Knight Frank to establish if there was any commercial interest. Knight Frank concluded that the Canal as a whole was not an economic proposition and transfer to any other party would be the transfer of a liability, not a commercial asset. This mirrored the valuation assessment undertaken by Hampshire Property Services and consequently this option has been discounted.

### Option A - Transfer Basingstoke Canal to CRT

Full asset transfer to the Canal & River Trust (CRT) has been explored which has included a due diligence exercise and asset condition assessment. Whilst this option is currently unaffordable in the short term it remains a longer term ambition for all three organisations with the CRT securing agreement in principle from their trustees for the transfer of the Basingstoke Canal, subject to agreed terms and contract.

Discussions are continuing with the CRT with all parties keen to enable this transfer within a 3-5 year period. The ability to achieve this long term solution will require the BCA to:

- **Protect revenue funding.** The two landowning authorities currently contribute £153,000 each to the BCA and in addition jointly fund the Strategic Manager position. The other funding partners account for a total of £220,000. Both HCC and SCC are looking to reduce their revenue contribution from April 2019. Both authorities will try to keep this reduction to a minimum in order to protect the Canal and give other funding partners confidence. The key will be not to compromise the future ambition to transfer a safe and sustainable canal.

- **Secure further investment in the core Canal assets.** HCC and SCC will be looking to secure further capital funding for the next 3 - 5 years. The current £4m capital allocation has been spent or allocated for priority maintenance in 2017/18. SCC has already managed to secure an additional £150,000 every year for the next 3 years. It is likely that more will be required to meet some of the maintenance arrears.
- **Develop income generating activity.** The BCA has achieved an increase of income of 55% since 2012 all credit to the work of the team. A couple of further opportunities have been identified which will require modest investment namely the campsite and moorings outlined below.
- **Continue to increase volunteering activity.** The number of volunteers carrying out a range of tasks for the BCA as well as the Canal Society has increased by 142% over the past 5 years.

#### Option B - Targeted investment

Within Option B, a number of individual business cases have been developed alongside some scenario modelling, ranging from retaining the status quo to reducing the service to investing in income generating opportunities. The tested scenarios are below:-

1. **Status Quo** – the Canal Management Team continues piecemeal improvements and pursues income opportunities, however, no major investment takes place and some property income from Surrey’s assets continues to be retained by the Property Service under its ‘corporate landlord’ policy.
2. **Do less** – closure of all ‘non-essential’ elements of the Canal operation, This would enable a more fundamental change in governance if Members desired. This option means only essential maintenance activities will continue; visitor centre and facilities would close (unless operated by an external group/volunteers etc.), and BCA-run boat trips and events would cease for example
3. **Status Quo with added property income** - retain the status quo with the exception of adding the property income from Surrey’s assets to the Canal as a business unit.
4. **Campsite redevelopment** – the camp site is an existing use of the site, and can be made much more efficient with a limited development budget.
5. **Addition of new moorings** – two sites have been identified for new moorings which could provide additional rental income.

6. **Canal Visitor Centre redevelopment** - the remainder of the investment takes place at the Canal Centre, including a new visitor centre and facilities, plus a small paid entry attraction.

It should be noted that the options above are not mutually exclusive. A combination of investing in the right opportunities, changing the delivery method or reducing or stopping some non-essential activities, and transfer of the revenue streams to the Canal as a business unit is likely to underpin any financial sustainability the Canal can achieve.

These options have been assessed against criteria (Appendix 1) with Options 1 and 2 scoring poorly as the status quo is unsustainable and reducing the service is undeliverable. Options 4, 5 and 6 score relatively well on the Canal strategic objectives however Option 6 scores badly on deliverability due to the affordability of the investment and the timescales for financial return.

Therefore a combination of 3,4 and 5 would be the preferred approach. This would also help the BCA to work towards the longer term ambition of transferring to the CRT.

## 5 **Proposed Action**

Appraisal of the options results in the following actions:

1. Establish the Canal as a business unit and ensure that all income generated by canal assets is retained by that unit.
2. Refine and seek approval for the proposed campsite development business case with a view to seeking funding for implementation.
3. Refine and seek approval for the proposed moorings business case with a view to implementation in the short term.
4. Consider any efficiencies that reduce the revenue requirements without having a significant impact on the level of service. Currently options are being explored with HCC Countryside Service to see if there are any options for resource sharing. Any opportunities are likely to have minor impact on savings.
5. Strengthen the confidence and collaboration amongst the funding partners to support the longer term strategy that will remove the reliance for ongoing revenue funding from the partner authorities in the future.
6. Produce a 5 year capital priority spending plan to form the basis of a request to the landowning authorities as part of the long term strategy.
7. Continue to liaise and work closely with Canal and River Trust.

Successful implementation and the financial benefits anticipated are predicated on all new income and expenditure forming part of the BCA revenue budget, not a replacement for any contributing authority’s revenue funding. The success of any investment decision, regardless of where it may be physically located, will be delivered and operated by BCA staff within the BCA budget and thus impacts on all contributing authorities.

As a result of ongoing local government reductions, should the financial contribution from the riparian districts reduce or disappear the revenue contribution required from the owning authorities would necessarily increase to ensure the safe operation of the Canal.

Any reduction in funding considered by the owning authorities will be predicated on the successful implementation of the business cases, with the associated increase in revenue income, and the safe operation of the Canal.

**6 Proposed Business Objectives**

Objective	Success Criteria
Deliver a financially viable and sustainable Canal operation through increased income generation and/or streamlined operating model, enabling a reduction in funding from the County Councils and District Councils	<ul style="list-style-type: none"> <li>• Canal is operating with reduced revenue support</li> <li>• A lean and effective operating model is in place</li> <li>• Income growth continues</li> <li>• Revenue support from the owning authorities is reduced by April 2019</li> </ul>
Undertake ongoing maintenance and improvement to the Canal infrastructure, minimising the corporate risks	<ul style="list-style-type: none"> <li>• Planned maintenance works are undertaken</li> <li>• Capital improvements are made to reduce the maintenance arrears</li> <li>• No significant breaches or failures are experienced</li> </ul>

**7 Equalities & diversity implications**

The intention is to limit the impact on current provision and to invest to improve services that will benefit users and visitors to the Canal. This is dependent on securing ongoing revenue contribution and additional capital funding to ensure that the Canal can continue to operate safely and effectively.

**8 Crime & disorder implications**

There are no crime and disorder implications for this strategy however the individual business cases will need to consider this, particularly moorings and campsites.

**9 Recommendations**

That the Basingstoke Canal Authority Joint Management Committee:

1. Approve the business objectives and long term direction for the management of the Basingstoke Canal.
2. Encourage all partner authorities to maintain their revenue contribution as close to current levels as they can for the next 3-5 years to assist in securing the long term financial future of the Canal.
3. Consider the detailed business cases prior to final approval by the relevant authorities.

APPENDIX 1

		Strategic Objectives			Deliverability		
Scores		Effectively manage risk	Align to customer needs	Impact on revenue funding	Affordability	Political acceptability	Timescales
Description		<i>Will the option maintain and improve the level of risk management of the canal?</i>	<i>Does the option meet what the customer requires?</i>	<i>Is the option able to provide a significant financial contribution enabling revenue funding reductions by the partners?</i>	<i>How affordable is the option? Can the service afford to develop this option, or if corporate investment is required can the organisation afford to develop this option given competing priorities?</i>	<i>Is the option politically acceptable? Will it result in a risk to reputation or a positive enhancement of reputation?</i>	<i>How long will it take to deliver this option? This is important because it indicates how long the partners will have to wait to see a return on investment.</i>
	0	There is evidence that this option will increase the level of risk at the canal	Does not meet customers needs	There is no evidence this option will reduce the revenue funding required	Scale of investment required makes the option unaffordable when assessed against the potential return	Would not be politically acceptable	>5 years for any benefits to be arise from the implementation of this option
	1	There is limited evidence that this option will increase the level of risk at the canal	Partly meets customer needs	There is limited evidence this option will reduce the revenue funding required	Scale of investment required means the option is just unaffordable when assessed against the potential return	The development of this option would be difficult due to political acceptability	4-5 years
	2	There is evidence that this option will maintain the current level of risk at the canal	Meets customer needs but unlikely to receive high satisfaction rates	There is evidence this option will reduce the level of revenue funding required by <£50k per year	Scale of investment required makes the option marginally affordable when assessed against the potential return	The development of this option would cause no political issues	3-4 years
	3	There is limited evidence that this option will reduce the level of risk at the canal	Fully meets customer needs with good satisfaction rates	There is evidence this option will reduce the level of revenue funding required by <£100k per year	Scale of investment required makes the option affordable when assessed against the potential return	The development of this option would have positive political backing	2-3 years
	4	There is evidence that this option will reduce the level of risk at the canal	Fully meets customer needs with high/excellent satisfaction rate	There is evidence this option will reduce the level of revenue funding required by >£100k per year	Scale of investment required makes the option highly affordable when assessed against the potential return	The development of this option would have full political acceptability	Within 1-2 years the organisation will realise the identified benefits