

## HAMPSHIRE COUNTY COUNCIL

## Report

<b>Committee/Panel:</b>	Basingstoke Canal - Joint Management Committee
<b>Date:</b>	3 November 2022
<b>Title:</b>	Revised Budget 2022/23, Forecast Outturn 2022/23, Forward Budget 2023/24
<b>Report from:</b>	Report of Honorary Treasurer and Strategic Manager

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**Purpose of this Report**

1. The purpose of this report is to present the revised budget and forecast outturn for the year ending 31 March 2023 as at September 2022, and the Forward Budget for the year ending 31 March 2024 to the Joint Management Committee for approval.

**Recommendations**

2. That the Committee approves the revised budget for the 2022/23 financial year.
3. That the Committee notes the forecast outturn for the 2022/23 financial year.
4. That the Committee approves the forward budget for the 2023/24 financial year.
5. That the Committee supports a review by officers of possible alternative operating models to ensure the long term financial sustainability of the Basingstoke Canal.

**Executive Summary**

6. The net revenue costs of the Basingstoke Canal are incurred on behalf of the Joint Management Committee by Hampshire County Council (HCC) and financed through partner contributions from Hampshire and Surrey County Councils (SCC) and the riparian district councils. Capital expenditure is currently being funded by Hampshire and Surrey County Councils for specific repairs and improvements.

7. A revised budget for the 2022/23 financial year is presented for approval to reflect extra works agreed for 2022/23 at the previous Board meeting on 15 July. This increases the budgeted draw from reserves for 2022/23 from £30,000 to £82,000.
8. The forecast outturn for the year to 31 March 2023 shows an £121,000 draw on reserves, compared to the revised budget draw of £82,000. Expenditure is forecast to be £21,000 under budget, with various minor pressures, and savings including staffing vacancies and lower capacity for works, however, income is forecast to be £60,000 lower than planned. The pressure on income includes the £22,000 increased shortfall on agreed partner contributions this year, whilst low water levels over the summer have prevented income generating activities such as Rosebud tours, boat hire and fishing.
9. The proposed forward budget for the 2023/24 financial year is for a balanced position, with neither a draw from nor contribution to reserves. Pressures arising from inflation on both pay and non-pay costs, and the reduction in Partner contributions have been mitigated by significant cuts to staff positions, an increase in budgeted sales income to reflect the continuation of additional boat licence income received, and a reduction to the maintenance budget with lower planned expenditure than in previous years, to ensure that the finite reserves are not being used to fund ongoing annual expenditure.
10. The balance held in reserves for the Basingstoke Canal as of 31 March 2022 was £801,852, comprising of £697,774 held in the general reserve and £24,078 and £80,000 allocated respectively for dredging & silt disposal and Wellesley. The total reserves balance is forecast to decrease to £694,733 by 31 March 2023, with no budgeted draws from or contributions to reserves in the year to 31 March 2024.

### **2022/23 Revised Budget**

11. The Committee is asked to approve the revised budget as set out in Appendix 1, which increases the Expenditure budget and therefore also the draw from reserves by a total of £52,000.
12. At the 15 July 2022 Board meeting, the Committee approved the following spend from reserves:
  - £24,000 from the dredging reserve for spot dredging
  - £28,000 from the general reserve for Countryside Asset Management software (CAMS).
13. The final accounts for the year ended 31 March 2022, as approved at the 15 July 2022 Board meeting, highlighted £50,500 of planned works that had slipped from the 2021/22 financial year as follows.
  - £33,000 on the Brookwood Moorings re-decking. This will be delayed again to 2023/24 due to staff capacity and is therefore included within the proposed 2023/24 budget.
  - £17,500 Tree Inspection Survey costs relating to the Hampshire section of the Canal. This is part of the existing budget and is being carried out in 2022/23.
14. The combined effect of these revisions is to increase the budgeted draw from reserves for the year from £30,000 to £82,000.

## 2022/23 Forecast Outturn

15. The current forecast shows the Canal will make a draw from reserves of £121,000, £39,000 more than the revised budgeted draw of £82,000, as shown in Appendix 2.

### Expenditure

16. Expenditure is forecast to be £892,000, £21,000 below the revised budget of £913,000.

17. Staff vacancies (including two ranger posts and a casual post at the campsite) have resulted in forecast savings of £49,000, however these have been largely offset by a £33,000 forecast pressure resulting from the public sector inflationary pay rise, reducing the net staffing underspend to £16,000.

18. An underspend of £30,000 is projected on Principal Inspections costs with £10,000 of footbridge work being delayed due to a lack of capacity and £20,000 of cuttings inspections also cancelled this year. The remaining £30,000 is being spent on Culvert surveys as planned.

19. Other savings include £3,000 on travel costs due to lower fuel and repair costs, partly explained by changes in staff behaviour following Covid 19.

20. However, Canal Maintenance is forecast to spend £12,000 more than planned, primarily due to an unbudgeted ecological survey which will cost £23,000, offsetting the savings on cuttings inspections above and savings from delayed Embankment works.

21. Higher electricity costs are leading to a forecast £8,000 overspend on Premises costs, resulting from both higher prices and higher usage due to the pumps running inefficiently and increases in pump usage to ensure more of the canal is usable despite the drought.

22. Finally, £6,000 ongoing maintenance/licensing costs for the new CAMS have contributed to an £8,000 forecast pressure on Supplies and Services.

### Income

23. Income is forecast to be £771,000, £60,000 below the budgeted £831,000 due to two main factors - first the Canal has been at its lowest level since it was refilled, meaning the Mytchett Pound was unusable, and second a further reduction in Partner income.

24. The low water levels over the summer severely impacted Sales income with lost income from cancelled Rosebud boat trips and reduced boat hire totalling £24,000.

25. General Fees and Charges income was also affected and is set to underachieve the budget by £5,000, although lost income in angling and associated services (£5,000), dry docks (£1,000) and general lettings (£4,000), has been partially offset by a strong performance of the campsite and general fees (providing £4,000 and £1,000 over achievement in these areas respectively).

26. Low uptake of Holland moorings at Farnborough has led to an £8,000 expected underachievement against Rental income, and Grant contributions from other bodies are forecast to be £1,000 lower than actuals last year and budgeted this year.

27. Finally, the reduction in Partner contributions highlighted at the previous Board meeting has resulted in a £22,000 shortfall against the already reduced Partner contributions budget, with three Partners now making contributions at less than the previously agreed rate, as shown in Appendix 3.

## 2023/24 Forward Budget

28. Despite increasing pressures on both expenditure and income, the proposed Forward Budget is a balanced position, thereby aiming for the planned ongoing annual and cyclical expenditure to be met from the expected annual income without drawing from reserves.

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29. However, balancing the budget is becoming increasingly difficult with inflationary pressures on pay and non-pay costs, no inflationary increases to Partner contributions for several years representing a real term cut, as well as an actual reduction in Partner contributions. Therefore, several significant changes to the budget are proposed as explained below.

### Expenditure

30. It is proposed to increase the staffing budget by £26,000, limiting the impact of the anticipated inflationary pay award with changes planned in the Canal staffing team, as below:
- £55,000 net pressure from an expected £1,925 increase plus on-costs at all grades for 2022/23, with a further 5.2% increase budgeted for in 2023/24 (although the reduction to National Insurance contributions has offset a small amount of this pressure).
  - £20,000 saving as the temporary upgrade to the Visitor Services Assistant role will now not be extended when the current contract ends and £8,000 saving by making the Lock Keeper seasonal for April through November.
  - £1,000 increase in casual staff expenditure with the pressure due to the pay increases mitigated by removing seasonal and ranger casual roles.
  - £11,000 saving by removing unpowered boats and campsite ranger casual posts.
  - £10,000 budgeted cost for a casual waterway ranger post to cover several removed roles.
31. The budgeted spend on Canal Maintenance has been reduced again to £107,000 to balance the budget. Planned expenditure is reduced in areas such as soft bank protection, towpath resurfacing, lock repairs and equipment compared to previous years.
32. The Principal Surveys budget includes provision for the principal inspections for Cuttings at £20,000 and Footbridges £2,000 delayed from previous financial years, with the remaining bridge inspections planned to occur in 2024/25.
33. A saving of £6,000 is proposed to the transport budget from ceasing hire of the tractor from HCC Countryside Services.
34. A £2,000 increase is proposed to the Premises budget to reflect inflation in utility costs.

### Income

35. The proposed overall income budget has been reduced by £12,000, primarily reflecting the reduction in Partner contributions. Several fee increases are expected to generate additional income; however, some income sources are suffering reduced demand.
36. The Partner contributions budget has been reduced by £23,000 to £500,000 to reflect the reduction in contributions notified in the 2022/23 financial year. Despite every effort being made to generate income to support the Canal's activities, the Partner contributions element of the budget remains vital, constituting nearly two thirds of the budgeted income and therefore this further reduction is concerning. Not only has there been no inflationary increase

to Partner contributions in recent years, equating to a real terms cut, but budgeted Partner contributions are now £47,000 less than the original agreement.

37. A net increase of £5,000 is proposed to the General Fees and Charges budget. This is a result of increases to camping fees (£4,000) and boat licenses and dry docks (£6,000), offset by a £5,000 expected loss of angling income as a result of the revised agreement level.
38. Increases are also proposed to the Rental income budget (£6,000) as the Committee had previously agreed index linked increases to certain fees such as moorings, and increases are proposed to the Sales budget (£4,000) to cover inflationary pressures.
39. Finally, the proposed Grants and Contributions budget has been reduced by £5,000 to reflect the end of all Higher Level Stewardship (HLS) agreements.

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## **Capital Expenditure Programme**

40. Appendix 5 shows the projected capital outturn for 2022/23 and the budgeted expenditure for 2023/24.
41. Capital expenditure for the Canal is managed as two separate capital programmes by Hampshire County Council (HCC) and Surrey County Council (SCC).

### Hampshire County Council

42. HCC manages its capital programme for the Canal through periodic allocations of funding to cover capital works, with any remaining capital balance rolling forward each year until fully spent. In 2017 £1.5m capital funding was allocated as three instalments of £500,000 per annum, with the third and final instalment received in 2020/21. Due to the complex nature of the schemes in the HCC programme, as at 31<sup>st</sup> March 2022, £1.242m remained of this funding.
43. The current forecast is that £281,000 will be spent in the 2022/23 year. This covers expenditure on solving the main leak at Crookham not solved by the original contractor, major repairs to sluices and weirs, a further bank protection programme (to coincide with the revenue spot dredging works), and preliminary surveys and engineering design costs for Swan "Cutting" at North Warborough.
44. A further £1m capital funding was approved by Full Council as part of the Medium Term Financial Strategy on 29<sup>th</sup> September 2022, covering expected works in the 2023/24 and 2024/25 financial years. Again, this will be payable in £500,000 instalments for each of those two years.
45. £1m is budgeted to cover the necessary repairs to Swan "Cutting" in the 2023/24 financial year.

### Surrey County Council

46. Surrey County Council agreed an annual allocation of £150,000 per annum for their capital programme for five years up to and including 2023/24. From 2024/25, the annual allocation will be reduced to £100,000 per annum to the end of their current Medium Term Financial Plan in 2025/26. Additional funds will then be required again to facilitate the next round of Lock Principal Inspections and expected major maintenance.

47. The Surrey County Council capital programme for 2022/23 is allocated £189,000 due to £33,000 being rolled forward to the 2023/24 at year end in error. A planned £107,310 is expected to be spent on bank protection, the cyclical lock gate programme, repairs to Deepcut Depot, and major overhaul of the back-pumping systems. It is expected that the balance will be carried forward to 2023/24.
48. The total approved budget for 2023/24 is £183,000, consisting of the core capital contribution of £150,000, plus the £33,000 rolled forward from 2021/22. It is expected that the total budget will increase to £264,890, providing the £81,690 is rolled forward from 2022/23. There is total planned expenditure of £289,000, so an additional £24,000 allocation is being sought for 2023/24 to cover unexpected costs arising from the 10-year independent inspection of Mytchett Lake under the Reservoirs Act.

### Special Projects

49. In addition to the main revenue budget for the Basingstoke Canal there are a number of special projects with ringfenced budgets related to the Canal.

#### Odiham Castle

Funding of £2,302 remains from the historic Heritage Lottery Fund project to restore Odiham Castle, with this balance available to refresh the signs and paths. There is expected to be approximately £1,800 spent on the sign refresh this year with the remainder rolled over to 2023/24 for future projects.

#### Higher Level Stewardship funding

50. Higher Level Stewardship (HLS) funding is received from the Rural Payments Agency by both Hampshire and Surrey County Councils for grassland maintenance. The funding is used to offset staffing costs of the Canal, with the amounts outstanding for the 2021/22 and 2022/23 financial years shown in the table below.

	<b>Surrey County Council £'000</b>	<b>Hampshire County Council £'000</b>	<b>Total £'000</b>
2021/22 financial year	5,196	0	5,196
2022/23 financial year	0	5,526	5,526

51. The agreements with Surrey County Council ceased in the previous financial year, but maintenance work on the grassland/woodlands continues under the current agreement with Hampshire County Council until November 2022, when the funding will cease.

#### Hampshire County Council Path Recovery programme

52. Although entirely separate to the Basingstoke Canal, in 2021/22 the establishment of a £500,000 Path Recovery programme was agreed by Hampshire County Council to carry out remedial works to improve the condition of the worst affected rights of way and countryside

paths in Hampshire affected by the Covid 19 pandemic. £30,000 of this sum was allocated to spend along the Basingstoke Canal towpath, with £13,000 of this spent in the 2021/22 financial year and the remainder expected to be spent in the current financial year.

## Reserves

53. The Basingstoke Canal reserves consist of three reserve funds as follows:

- Unallocated Reserve – the general reserve to hold annual revenue surpluses
- Dredging & Silt Disposal reserve – specifically to cover cyclical dredging works
- Wellesley Reserve – established from a commuted sum from the Ministry of Defence and Grainger (Aldershot) Ltd specifically for keeping the improved area of towpath between Aldershot and Farnborough in repair.

54. The total reserves for the Basingstoke Canal Authority were £801,852 as of 31 March 2022, and are projected to decrease to £694,733 by 31 March 2023. A detailed breakdown of the reserves is shown in Appendix 6.

55. The Unallocated Reserve was originally budgeted to reduce by £30,000 to £667,774 by 31 March 2022, however with the approved additional draw for the CAMS expenditure and the worsened financial position, but allowing for interest receivable, the balance is now projected to decrease to £614,733. This equates to just under nine months budgeted expenditure.

56. The 2023/24 proposed budget plans for neither a draw from nor a contribution to the Unallocated Reserve, however, recent increases to the Bank of England base rate (which at the time of writing this report has risen to 2.25%) will result in a reasonable addition to the reserve for interest receivable on the balance, increasing the expected balance to £630,364 by 31 March 2024.

57. There is no draw planned from the Wellesley reserve in either the current or next financial year, and the balance is therefore expected to remain at £80,000.

58. Following the Board's approval to draw down the £24,000 in the Dredging & Silt Disposal reserve for spot dredging in the current financial year, this reserve will cease to exist.

## Conclusion

59. The forecast for the 2022/23 financial year is a £39,000 pressure against the revised budget with the reduced water levels over the summer months severely impacting income. Although the low water level is hoped to be an exceptional situation, recurring pressures have arisen from a reduction in Partner contributions and pay inflation (albeit the pay inflation is forecast to be more than offset by savings from staff vacancies in the current financial year).

60. The Forward budget has been set as a balanced budget, but it is becoming increasingly difficult to achieve this, and the Canal Authority is nearing the point where annual expenditure will need to be funded from finite reserves unless increased funding can be found. To address the recurring pressures highlighted above, savings are proposed from removing vacant posts, restructuring casual spend and reducing planned maintenance expenditure to a minimum, in addition to the expected continuation of increased boat licence and Santa cruise income.

61. Whilst the Surrey Capital Programme has progressed largely as planned, with some slippage in some projects mainly caused by outside factors, significant parts of the Hampshire Capital Programme has been delayed due to the complexity of the projects and previous lack of staffing to deal with them.

62. The total balances within reserves are projected to decrease from £801,852 as of 31 March 2022 to £710,364 by 31 March 2024, reflecting the worsening financial position. The projected balance within the Unallocated Reserve equates to only nine months of budgeted expenditure, and although this is considered a reasonable level, the requirement to set the expenditure budgets at a minimum level in order to balance the budget means there is no capacity to absorb unexpected pressures outside of the Canal Authority's control, leading to increased likelihood of unplanned draws from reserves.

63. In light of the above, it is considered that should the pressures on income and expenditure continue or indeed worsen, the current funding model will not be sustainable over the long term. It is therefore recommended that possible alternative operating models are looked into whilst there is still a reasonable balance within reserves.

## Appendix 1 – Proposed Revised Budget for the Year Ended 31 March 2023

	Original Budget 2022/23 £'000	Increase / (Decrease) to Budget £'000	Revised Budget 2022/23 £'000
<b>Expenditure</b>			
Employees	542		542
Premises	24		24
Canal Maintenance	133	24	157
Principal Survey Work	60		60
Transport	41		41
Supplies & Services	61	28	89
<b>Total Revenue Expenditure</b>	<b>861</b>	<b>52</b>	<b>913</b>
<b>Income</b>			
General Fees & Charges	143		143
Grants & Contributions - Partner	523		523
Grants & Contributions - other	17		17
Rental Income	64		64
Sales Income	84		84
<b>Total Revenue Income</b>	<b>831</b>	<b>0</b>	<b>831</b>
Contribution from/(to) Reserves	<b>30</b>	<b>52</b>	<b>82</b>
<b>General Reserves</b>			
Opening Balance	802		802
Contribution (from)/to Reserves	(30)	(52)	(82)
Interest on Balances	1		1
<b>Closing Balance</b>	<b>773</b>	<b>(52)</b>	<b>721</b>

## Appendix 2 – Forecast Outturn for the Year Ending 31 March 2023

	Revised Budget 2022/23 £'000	Forecast Outturn Sep-22 £'000	Over/ (Under) Budget £'000
<b><u>Expenditure</u></b>			
Employees	542	526	(16)
Premises	24	32	8
Canal Maintenance	157	169	12
Principal Survey Work	60	30	(30)
Transport	41	38	(3)
Supplies & Services	89	97	8
<b>Total Revenue Expenditure</b>	<b>913</b>	<b>892</b>	<b>(21)</b>
<b><u>Income</u></b>			
General Fees & Charges	143	138	(5)
Grants & Contributions - Partner	523	501	(22)
Grants & Contributions - other	17	16	(1)
Rental Income	64	56	(8)
Sales Income	84	60	(24)
<b>Total Revenue Income</b>	<b>831</b>	<b>771</b>	<b>(60)</b>
Contribution from/(to) Reserves	<b>82</b>	<b>121</b>	<b>39</b>
<b>General Reserves</b>			
Opening Balance	(802)	(802)	0
Contribution from/(to) Reserves	82	121	39
Interest on Balances	(1)	(13)	(12)
<b>Closing Balance</b>	<b>(721)</b>	<b>(694)</b>	<b>27</b>

## Appendix 3 – Forecast Partners Contributions for the Year Ending 31 March 2023

	<b>Contributions per the Original Agreement £</b>	<b>Notified Contributions £</b>	<b>Variance £</b>
<b>Partner Contributions</b>			
Hampshire County Council	153,188	153,188	0
Surrey County Council	153,188	153,188	0
Guildford Borough Council	39,076	39,076	0
Hart District Council	30,924	30,924	0
Runnymede Borough Council	16,869	8,000	(8,869)
Rushmoor Borough Council	42,246	20,000	(22,246)
Surrey Heath Borough Council	26,282	10,000	(16,282)
Woking Borough Council	53,276	53,276	0
Church Crookham Parish Council	6,750	6,750	0
Crookham Village Parish Council	3,048	3,048	0
Dogmersfield Parish Council	240	240	0
Fleet Town Council	18,309	18,309	0
Odiham Parish Council	4,036	4,036	0
Winchfield Parish Council	250	250	0
<b>Total Partner Contributions</b>	<b>547,682</b>	<b>500,285</b>	<b>(47,397)</b>

## Appendix 4 – Proposed Forward Budget for the 2023/24 Financial Year

	Revised Budget 2022/23 £'000	Forecast Outturn September £'000	Increase / (Decrease) to Budget £'000	Proposed Budget 2023/24 £'000
<b>Expenditure</b>				
Employees	542	526	26	568
Premises	24	32	2	26
Canal Maintenance	157	169	(50)	107
Principal Survey of Sluices & Weirs	60	30	(38)	22
Transport	41	38	(6)	35
Supplies & Services	89	97	(28)	61
<b>Total Expenditure</b>	<b>913</b>	<b>892</b>	<b>(94)</b>	<b>819</b>
<b>Income</b>				
General Fees & Charges	143	138	6	149
Partner Contributions	523	501	(23)	500
Other Grants & Contributions	17	16	(5)	12
Rental Income	64	56	6	70
Sales Income	84	60	4	88
<b>Total Income</b>	<b>831</b>	<b>771</b>	<b>(12)</b>	<b>819</b>
<b>Contribution from / (to) Reserves</b>	<b>82</b>	<b>121</b>	<b>(82)</b>	<b>0</b>
<b>General Reserves</b>				
Opening Balance	802	802		695
Contribution from/(to) revenue	(82)	(121)		0
Interest on balances	1	13		15
<b>Closing Balance</b>	<b>721</b>	<b>694</b>		<b>710</b>

## Appendix 5 – Basingstoke Canal Capital Programme 2022/23 and 2023/24

	Surrey County Council Programme £'000	Hampshire County Council Programme £'000	Basingstoke Canal Total £'000
<b>Balance as at 31 March 2022</b>	<b>0</b>	<b>1,242</b>	<b>1,242</b>
<b>Funds in:</b>			
Core capital contribution	150	0	150
C/fwd from 2021/22	39	0	39
<b>Total Funds in</b>	<b>189</b>	<b>0</b>	<b>189</b>
Bank works	(107)	(281)	(388)
Canal structure			
Contingency			
<b>Total Funds out</b>	<b>(107)</b>	<b>(281)</b>	<b>(388)</b>
<b>Balance as at 31 March 2023</b>	<b>82</b>	<b>961</b>	<b>1,464</b>
<b>Funds in:</b>			
Core capital contribution	150	500	650
C/fwd from 2021/22	33		33
C/fwd from 2022/23	82		82
<b>Total Funds in</b>	<b>265</b>	<b>500</b>	<b>765</b>
Bank works	(289)	(1,000)	(1,289)
Canal structure			
Contingency			
<b>Total Funds out</b>	<b>(289)</b>	<b>(1,000)</b>	<b>(1,289)</b>
<b>Further funding being sought</b>	<b>24</b>		<b>24</b>
<b>Balance as at 31 March 2024</b>	<b>0</b>	<b>461</b>	<b>461</b>

## Appendix 6 – Basingstoke Canal Budgeted Reserves

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	Unallocated Reserve £	Dredging & Silt Disposal £	Wellesley Reserve £	Reserves Total £
<b>Balance at 31 March 2022</b>	<b>697,774</b>	<b>24,078</b>	<b>80,000</b>	<b>801,852</b>
Income (interest on balances)	13,426	0	0	13,426
Budgeted Transfers To / (From) Reserves	(96,467)	(24,078)	0	(120,545)
<b>Projected Balance at 31 March 2023</b>	<b>614,733</b>	<b>0</b>	<b>80,000</b>	<b>694,733</b>
Income (interest on balances)	15,631	0	0	15,631
Budgeted Transfers To / (From) Reserves	0	0	0	0
<b>Projected Balance at 31 March 2024</b>	<b>630,364</b>	<b>0</b>	<b>80,000</b>	<b>710,364</b>