

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Basingstoke Canal – Joint Management Committee
Date:	7 th June 2023
Title:	Final Accounts 2022/23, Revised Budget 2023/24, Forecast Outturn 2023/24
Report from:	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 final accounts of the Basingstoke Canal for the year ended 31 March 2023, and the revised budget and forecast outturn for the year to 31 March 2024 to the Joint Management Committee for approval.

Recommendations

2. That the final accounts for the 2022/23 financial year be approved by the Committee.
3. That the revised budget for the 2023/24 financial year be approved by the Committee.
4. That the forecast outturn for the 2023/24 financial year be noted by the Committee.
5. That the Committee approves the proposal that a minimum unallocated reserve balance of £200,000 be added to the reserves policy.
6. That the Committee notes the forward look position.

Executive Summary

7. 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.

8. The final outturn position for the year to 31 March 2023 is a draw from reserves of £149,094 being the net expenditure on revenue activities, however interest received of £20,648 has meant a net reduction in the reserves balance of £128,446.
9. The £149,094 draw represents a significant increase on the £82,000 budgeted draw, primarily as a result of unplanned maintenance works, energy price inflation, the impact of the summer drought which negatively affected both visitor income and energy usage, and a reduction in partner contributions.
10. Pressures were partly offset by savings from staff vacancies, and delayed principal survey works, although the delayed works will instead impact the 2023/24 budget.
11. Additional donations from the Basingstoke Canal Society and Crookham Village Parish Council totalling £92,000 have funded towpath works, spot dredging and the purchase of a weed cutter that would not otherwise have been possible.
12. Since the 2023/24 forward budget was approved, a number of pressures have arisen from further reductions in partner contributions and increased maintenance and premises spend. A revised budget is therefore proposed for approval, which includes a £99,000 draw from reserves compared to a £nil draw in the original approved budget.
13. The current forecast outturn for 2023/24 predicts a slightly favourable position against the proposed revised budget, but still a draw from reserves of £93,000.
14. A number of capital projects were completed during the 2022/23 financial year, however, the majority of capital funding has been carried forward for spend in future years, although a significant amount of preparatory work for Swan cutting has been undertaken.
15. The balance held in reserves for Basingstoke Canal as of 31 March 2023 was £673,406, consisting of £593,406 in the general reserve and £80,000 ringfenced for towpath maintenance at Wellesley. The Dredging and Silt Disposal reserve was fully depleted in year. After allowing for interest receivable, the total reserves balance is budgeted to decrease to £590,037 by 31 March 2024.
16. It is proposed that the reserves policy be amended to include a minimum balance of £200,000 be held in the unallocated reserve to cover any exit costs including possible redundancy costs in the event of the Partnership being dissolved.
17. Reductions in partner contributions have created an ongoing budgetary pressure that means the current operating model is not financially sustainable, and if expenditure and income continue at current known levels, the unallocated reserve will be fully depleted by the end of March 2028.

Final Accounts 2022/23

18. The final outturn position (as shown in Appendix 1) is a £149,000 draw from reserves – £125,000 from the general reserve and £24,000 from the dredging reserve. The total draw from reserves is £67,000 higher than the budgeted £82,000 and primarily reflects increased canal maintenance, energy price inflation and an underachievement of income, due partly to a reduction in partner contributions and partly as a result of the summer drought affecting visitor income.

Expenditure

19. Expenditure for the year totalled £1.028m, £115,000 above the £913,000 budget, primarily due to significant overspends on canal maintenance and utilities, partially offset by underspends on staffing and principal surveys as detailed below.

20. Spend on canal maintenance was £195,000 higher than budgeted, however, £92,000 of this spend was funded from additional grants / donations and £24,000 by a specific draw from the dredging reserve. The underlying £79,000 pressure against the budget was due to unplanned works required for health and safety reasons and crucial canal operations, including £41,000 works arising from the tree inspection survey costs relating to the Surrey section of the canal.

21. The £116,000 additional maintenance works funded from grants, donations and reserves consisted of:

- £45,000 for spot dredging, which was funded by a £21,000 donation from the Canal Society and by drawing the remaining £24,000 balance in the dredging reserve.
- £21,000 for towpath repairs funded by a grant from Crookham Village Parish Council.
- £50,000 for a new weed cutter funded by the Canal Society.

22. The rise in electricity prices and increased electricity use as a result of back pumping at Woodham Pumping station to sustain water levels for houseboats during the drought, resulted in a £28,000 pressure on the premises budget. This pressure is expected to continue for at least the short term.

23. Also due to the dry weather, the £30,000 culvert survey works weren't able to be completed and have been delayed until the summer 2023. Tree and cutting inspections originally provided for in the Principal Surveys budget have been charged to maintenance (and came in at the lower cost of £17,500), giving rise to a £60,000 underspend against the Principal Surveys budget. The delayed surveys will become a pressure on the 2023/24 budget instead.

24. The staffing budget was underspent by £41,000 due to an Assistant Ranger position that is not being filled, as well as two other posts - a Visitor Services Assistant and a Lock Keeper - which became vacant in year and have not yet been recruited to.

25. Other budget variances include a £7,000 saving on transport costs, and a £17,000 pressure on supplies and services due to inflation and one-off costs such as new covers for Rosebud.

Income

26. Income for the year was £879,000, £48,000 higher than the revised budget of £831,000. However, as set out above, £92,000 of this income was due to additional grants / donations to fund specific maintenance works. The underlying position is therefore a £44,000 underachievement of income arising mainly from the £22,000 reduction in partner contributions, as well as lost visitor income due to the drought conditions in the summer.
27. The £75,000 overachievement on the other grants and contributions budget reflects the additional funding received for the extra maintenance works. The Canal Society contributed a total of £71,000 to the dredging operations and for a new weed cutter, and Crookham Village Parish Council contributed £21,000 for towpath works. However, £5,000 of anticipated Higher Level Stewardship funding will not be received due to a late claim.
28. Rushmoor Borough Council reduced their contribution by £22,000 in year, creating a pressure on the budget, and further reductions in contributions from Rushmoor and Woking Borough Councils have been notified for future years, which will further increase the pressure. Nonetheless, at £500,000 the total partner contributions still make up the majority of the Canal's income and are therefore fundamental to the successful running of the Canal.
29. As a result of the dry weather, sales were £19,000 below budget. Rosebud Cruise sales were impacted due to low water levels making stretches of the canal unusable, resulting in a £10,000 shortfall. There was a £13,000 loss of income in unpowered boat hire for the same reason. However, the losses in income were partially offset by £4,000 increased Santa Cruise sales later in the year, with the Santa Cruises again proving to be incredibly popular.
30. Other smaller variances against the income budgets include reduced fishing fees and rental income pressures due to vacancies on the Farnborough moorings, partly offset by increased income from filming, and boat licences and camping which did benefit from the warm, dry weather.

2023/24 Revised Budget

31. The forward budget for the 2023/24 financial year was formally approved by the Committee at the meeting of 3 November 2022. The budget approved was a balanced budget with no planned draws from, or planned contribution to, reserves.
32. After the forward budget had been approved, the Basingstoke Canal Strategic Manager was notified of a further reduction of £20,000 in Partners' contributions for the 2023/24 financial year. In response to this reduction in funding, an urgent review was undertaken to identify possible areas of savings that could be made to offset the reduced funding.
33. However, the review concluded that further reductions were not possible without compromising public safety, and furthermore, the review identified £45,000 additional expenditure required, consisting of engineering advice for maintenance projects expected to cost £15,000, and £30,000 for additional tree works required in Hampshire. The combination of the reduced funding and these further costs would result in a forecast pressure of £65,000 against the approved forward budget.
34. A report was taken to the Chair and Vice-Chair of the Joint Management Committee on 16 February 2023 seeking approval to incur the additional expenditure, knowing that this would

result in a £65,000 draw from reserves, with the intention of presenting a revised budget to the Committee for approval at the next meeting.

35. Following the finalised 2022/23 position, further additional pressures of £34,000 have been identified as follows:

- £26,000 for increased energy costs
- £8,000 to increase the principal surveys budget to £30,000 to complete the deferred culvert survey.

36. A proposed revised budget for the 2023/24 financial year to reflect the increased planned spend and reduction in contributions set out above is included at Appendix 3 for the Committee's approval.

37. The unallocated reserve balance had been projected at £630,000 by 31 March 2024, and therefore with the final 2022/23 year end position and revised budgeted £99,000 draw in 2023/24 (equating to 17% of the unallocated balance), the projected balance would reduce to £510,000.

2023/24 Forecast Outturn

38. The forecast outturn is presented in comparison to the proposed revised budget at Appendix 4.

39. At this early stage of the financial year, a small overspend on the expenditure budget is forecast due to spend on shop stock and people safe devices and an increase in cleaning costs due to inflation and cleaning of an extra site. However, additional income is forecast from recovery of the higher electricity costs from the Canal Café and project officer time recharged for working on HCC/SCC capital projects. The net forecast is therefore a small £6,000 reduction in the budgeted draw from reserves to £93,000.

Capital Expenditure Programme

40. Appendix 5 shows the final 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 and Surrey County Council.

42. The slippage of revenue culvert principal inspections will affect both programmes in future years, with any works needed as a result of the inspections now happening later than originally planned.

Hampshire County Council

43. The Hampshire County Council capital programme is managed through one-off lump sum contributions for specific projects, with any remaining capital balance rolling forward each year until fully spent.

44. As of 1st April 2022, the balance available in the Hampshire County Council capital programme was £1.242m.

45. During the 2022/23 financial year, £183,000 was spent on projects with the major spend on bank protection projects which include works at Crookham and the combined dredging and bank protection work over winter in the Odiham / Winchfield area.

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46. £69,000 was spent on the design and purchase of replacement sluice gates with the old gates having reached the end of their useful life. The gates were delivered in the 2022/23 financial year but will be fitted in the 2023/24 financial year.

47. A great deal of preparatory work has been ongoing for the proposed Swan “Cutting” project including engineering design and checking, preparatory surveys and initial meetings with regulators.

Surrey County Council

48. 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. There was also £39,000 carried forward from 2021/22 giving a total of £189,000.

49. During the 2022/23 financial year, £85,000 was spent on projects including £47,000 on lock gates and £22,000 on bank repairs surrounding locks.

50. This was considerably less than forecast, with several projects slipping due to low officer availability and reliance on external resources, particularly notable for the projects relating to buildings or with a mechanical / electrical aspect where specific external expertise is required.

51. Of the remaining £104,000 balance, £89,000 will be spent on works reprofiled to 2023/24 and £15,000 will be carried forward to future years.

Special Projects

52. 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

53. This project relates to one-off Heritage Lottery funding to restore Odiham Castle, with the remaining balance being used to refresh the signs and paths. Of the £2,211 balance at the start of the 2022/23 financial year, £1,697 was spent on installing signs. The remaining £514 is planned to be spent in the 2023/24 financial year on replacing the interpretation boards, bringing an end to this project.

Higher Level Stewardship funding

54. Higher Level Stewardship (HLS) funding was historically received from the Rural Payments Agency by both Hampshire and Surrey County Councils for grassland maintenance and was used to offset staffing costs of the Canal. However, the agreement with Surrey County Council ended in October 2021 and Hampshire County Council's agreement ended in November 2022, and no future HLS work will be undertaken in future.
55. Funding of £5,226 had been anticipated in 2022/23 for the final year of Hampshire's agreement, however, the claim was refused due to late submission as a result of long-term staff absence.

Hampshire County Council Path Recovery programme

56. Although entirely separate to the Basingstoke Canal, the establishment of a £500,000 Path Recovery programme was agreed by Hampshire County Council in 2021/22 to carry out remedial works to improve the condition of the worst affected rights of way and countryside paths in Hampshire after the increased usage during the Covid 19 pandemic. £30,000 of this sum was allocated to spend along the Basingstoke Canal towpath, with £13,000 spent in the 2021/22 financial year on improvements to the Ash Lock towpath, and the remaining £17,000 spent within Hampshire County Council's Countryside service in 2022/23, completing the works.

Reserves

57. The Basingstoke Canal reserves consisted 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.
58. The total reserves for the Basingstoke Canal Authority were £673,406 as of 31 March 2023, a reduction of £128,446 from the position at the end of 2021/22. A detailed breakdown of the reserves is shown in Appendix 6.
59. The balance on the Unallocated Reserve as at 31 March 2023 was £593,406 which equates to over 7 months of budgeted expenditure.
60. In 2022/23 interest of £20,648 was received, paid at an average rate of 2.29% on all reserve balances.
61. The £24,000 opening balance in the Dredging reserve was fully drawn to contribute towards the cost of spot dredging in year, and this reserve is therefore now depleted. No draws were made from the Wellesley reserve, which remains at £80,000.
62. The 2023/24 proposed revised budget provides for a further draw from the Unallocated Reserve of £99,000, reducing the budgeted balance to £510,037, which equates to just over 6 months of budgeted expenditure.

63. The reserves policy has not previously specifically referenced a minimum balance to be maintained, to cover any exit costs including possible redundancy costs in the event of the Partnership being dissolved. Given the financial position of the Canal and the expected draws from reserves, it is recommended a minimum balance is set at a proposed level of at least £200,000 (which equates to three months of budgeted annual expenditure). However, the aim would continue to be to maintain the unallocated reserves at a higher level to also provide suitable contingency for unexpected expenditure or an unexpected drop in income.

7 64. Adopting this proposed minimum reserve balance would reduce the expected available unallocated reserve balance as at 31 March 2024 to £310,037.

Forward look

65. In 2023/24 the funding from Rushmoor Borough Council will cease, reducing partner contributions by £20,000, which is factored into the proposed revised 2023/24 budget. From 2024/25, partner contributions will reduce by a further £27,000, with Woking Borough Council halving their contribution.

66. As mentioned above, in February a review was undertaken of the financial position, and at that time on the assumption that funding remains at current known levels and that annual expenditure remains at similar levels to that expected for 2023/24, it was concluded that annual draws in the region of £92,000 would be required from the unallocated reserve. The additional pressures highlighted from the final outturn position have increased this to an expected annual draw of £126,000. This would result in the unallocated reserve dropping below the proposed minimum balance in the 2026/27 financial year and being fully depleted by the end of the 2027/28 financial year.

67. The Committee had previously confirmed its support for a review by officers of possible alternative operating models to ensure the long-term financial sustainability of the Basingstoke Canal. The Basingstoke Canal management team instructed independent consultants to assist with this review over December/January, with the outcomes and proposed actions covered in a separate, confidential report.

68. The Canal is in the position of having time to transition to a new, more financially sustainable operating model, due to its history of good budget management leading to a reasonable balance within reserves. However, given the further deterioration in the financial position of the Canal, the window for action is narrowing.

Conclusion

69. The final outturn for 2022/23 is worse than budgeted and forecast, with a £149,000 draw from reserves rather than the budgeted draw of £82,000.

70. However, despite the worsened financial position, towpath works, spot dredging and the purchase of a weed cutter were all possible due to contributions from the Basingstoke Canal Society and Crookham Village Parish Council.

71. Although the impact of COVID has receded, new pressures have emerged in increased energy prices and as a result of the drought over the summer months. Furthermore, the actual and notified reduction in partner contributions has created an ongoing pressure, meaning that the Canal is not financially sustainable in its current operating model, and therefore changes are required.
72. The total balance within reserves as of 31 March 2023 is £673,406, budgeted to fall to £590,037 by 31 March 2024. The balance within the Unallocated Reserve equates to six months of budgeted expenditure, which is considered a reasonable level, but cannot be relied upon to address the ongoing budget shortfall.

Appendix 1 – Final Outturn for the Year Ended 31 March 2023

	Revised Budget 2022/23 £'000	Forecast Outturn September £'000	Final Outturn 2022/23 £'000	Over/ (Under) Budget £'000
Expenditure				
7 Employees	542	526	501	(41)
Premises	24	32	52	28
Canal Maintenance	157	169	352	195
Principal Surveys	60	30	0	(60)
Transport	41	38	34	(7)
Supplies & Services	89	97	89	0
Total Expenditure	913	892	1,028	115
Income				
General Fees & Charges	143	138	142	(1)
Grants & Contributions - Partner	523	501	500	(23)
Specific Partner Grants	0	0	21	21
Grants & Contributions - Other	17	16	92	75
Rental Income	64	56	59	(5)
Sales Income	84	60	65	(19)
Other Miscellaneous Income	0	0	0	0
Total Income	831	771	879	48
Contribution from/(to) Reserves¹	82	121	149	67
General Reserves				
Opening Balance	(802)	(802)	(802)	0
Contribution from/(to) Reserves	82	121	149	67
Interest on balances	(1)	(14)	(21)	(20)
Closing Balance	(721)	(695)	(674)	47

Appendix 2 – Partners Contributions for the Year Ended 31 March 2023

	Contributions per the Original Agreement £	Notified & Actual Contributions £	Variance £
Partner Contributions			
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
Total Partner Contributions	547,682	500,285	(47,397)

NB the table above excludes the additional one-off grant contribution from Crookham Village Parish Council to fund towpath works.

Appendix 3 – Proposed Revised Budget for the Year Ended 31 March 2024

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	Approved Budget 2023/24 £'000	Increase / (Decrease) to Budget £'000	Revised Budget 2023/24 £'000
Expenditure			
Employees	568	0	568
Premises	26	26	52
Canal Maintenance	107	45	152
Principal Survey Work	22	8	30
Transport	35	0	35
Supplies & Services	61	0	61
Total Revenue Expenditure	819	79	898
Income			
General Fees & Charges	149	0	149
Grants & Contributions - Partner	500	(20)	480
Grants & Contributions - other	12	0	12
Rental Income	70	0	70
Sales Income	88	0	88
Total Revenue Income	819	(20)	799
Contribution from/(to) Reserves	0	99	99
General Reserves			
Opening Balance	695	(22)	673
Contribution (from)/to Reserves	0	(99)	(99)
Interest on Balances	15	0	15
Closing Balance	710	(121)	589

Appendix 4 – Forward Outturn for the Year Ended 31 March 2024

	Revised Budget 2023/24 £'000	Forecast Outturn 2023/24 £'000	Forecast Variance £'000
Expenditure			
Employees	568	570	2
Premises	52	52	0
Canal Maintenance	152	152	0
Principal Survey Work	30	30	0
Transport	35	35	0
Supplies & Services	61	64	3
Total Revenue Expenditure	898	903	5
Income			
General Fees & Charges	149	149	0
Grants & Contributions - Partner	480	480	0
Grants & Contributions - other	12	23	11
Rental Income	70	70	0
Sales Income	88	88	0
Total Revenue Income	799	810	11
Contribution from/(to) Reserves	99	93	(6)
General Reserves			
Opening Balance	673	673	0
Contribution (from)/to Reserves	(99)	(93)	(6)
Interest on Balances	15	15	0
Closing Balance	589	595	(6)

Appendix 5 – Basingstoke Canal Capital Programme for the Year Ended 31 March 2023

	Surrey County Council Programme £'000	Hampshire County Council Programme £'000	Basingstoke Canal Total £'000
Balance as at 31 March 2022	0	1,242	1,242
Funds in:			
Core capital contribution	150		150
Carried forward from 2021/22	39		39
Total Funds in	189		189
Funds out:			
Bank Works	22	113	135
Canal Structure	47	69	116
Buildings	3		3
Engineering Advice	13		13
Total Funds out	85	182	267
Balance as at 31 March 2023	104	1,060	1,164

Appendix 6 – Basingstoke Canal Budgeted Reserves

	Unallocated Reserve £	Dredging & Silt Disposal £	Wellesley Reserve £	Reserves Total £'000
Balance at 31 March 2022	(697,774)	(24,078)	(80,000)	(801,852)
Income (interest on balances)	(20,648)	0	0	(20,648)
Transfers To / (From) Reserves	125,016	24,078	0	149,094
Balance at 31 March 2023	(593,406)	0	(80,000)	(673,406)
Income (interest on balances)	(15,631)	0	0	(15,631)
Budgeted Transfers To / (From) Reserves	99,000	0	0	99,000
Projected Balance at 31 March 2024	(510,037)	0	(80,000)	(590,037)

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