

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Basingstoke Canal - Joint Management Committee
Date:	20 November 2023
Title:	Forecast Outturn 2023/24, Forward Budget 2024/25
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 forecast outturn for the year ending 31 March 2024 as at September 2023, and the Forward Budget for the year ending 31 March 2025 to the Joint Management Committee for approval.

Recommendations

2. That the Committee notes the forecast outturn for the 2023/24 financial year.
3. That the Committee approves the forward budget for the 2024/25 financial year.

Executive Summary

4. 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 funded by Hampshire and Surrey County Councils for specific repairs and improvements.
5. A revised budget for the 2023/24 financial year was presented for approval to reflect extra works agreed for 2023/24 at the previous Board meeting on 7 June. This increased the budgeted draw from reserves for 2023/24 from £nil to £99,000.
6. The forecast outturn for the year to 31 March 2024 is now a £192,000 draw on reserves, £93,000 higher than the revised budget draw. Income is forecast to be £93,000 lower than planned, largely as a result of the poor weather over summer and loss of partner contributions

due to a section 114 notice. However, expenditure is forecast to budget, with savings on staffing vacancies and utilities offset by the higher expenditure on tree works and other services.

7. The proposed forward budget for the 2024/25 financial year is for a £140,000 draw from reserves. Pressures arising from inflation on both pay and non-pay costs, combined with challenges earning income and falling partner contributions mean that despite savings being made where possible, the current model is not financially sustainable in the long term.
8. The balance held in reserves for the Basingstoke Canal as of 31 March 2023 was £673,263, comprising of £593,263 held in the general reserve and £80,000 allocated for Wellesley. The total reserves balance is forecast to decrease to £515,487 by 31 March 2024, with a £140,000 budgeted draw from the reserves in the year to 31 March 2025.
9. Given the agreed minimum unallocated reserve balance of £200,000, should the financial position stay at the 2024/25 budgeted level, the unallocated reserve would fall below the minimum balance during the 2025/26 financial year.

2023/24 Forecast Outturn

10. The current forecast shows the Canal will draw £192,000 from the reserves, £93,000 more than the revised budgeted draw of £99,000, as shown in Appendix 1.
11. An unplanned reduction in partner contributions and a wet summer with only a small surplus on recovered costs to offset it, has resulted in a reduction of forecast income of £93,000. Expenditure is forecast to budget with savings due to vacancies and lower electricity bills offset by the cost of tree works and other supplies and services.

Expenditure

12. Expenditure is forecast to the revised budget of £898,000. The planned Principal Inspections of culverts have been completed this year at the budgeted cost of £30,000.
13. Staff vacancies (one lock keeper post and visitor services assistant posts held vacant all year, and the canal manager and another lock keeper being vacant part of the year) have resulted in forecast savings of £42,000. The public sector pay award is included in this forecast based on the current offer.
14. Reduced electricity costs are leading to a forecast £16,000 underspend on Premises costs. This is from lower usage due to little requirement for back pumping during the wet summer and the St John's pump being broken further reducing the electricity used.
15. Transport costs are forecast to be £2,000 under budget, with maintenance and fuel costs slightly lower than expected.
16. Canal Maintenance is expected to cost £43,000 more than planned, primarily due to a higher than anticipated quantity and price of tree work required in the Hampshire section of the Canal. This was after several years without inspections and therefore spend in future years is expected to be less. There were also some works in the Surrey section that had been missed by the contractor last year. £20,000 of works have been postponed until next year due to these

works and are included in the budget in 2024/25. This budget was increased by £45,000 in the approved revised budget in June, and so this overspend represents a further increase.

17. Supplies and services are expected to overspend by £17,000 due to the balance of Countryside Access Management System (CAMS) implementation work still outstanding, increased contracted cleaning costs and higher credit card charges associated with income collection.

Income

18. Income is forecast to be £706,000, £93,000 below the budgeted £799,000 primarily due to lost partner funding and the cold and wet weather over summer reducing demand for all the Canal's facilities. There also appears to be an element of return to pre-Covid levels of usage, with some activities having seen an increase during Covid. This is only slightly offset by £12,000 surplus on other contributions.
19. Partner contributions are forecast at £427,000 which is £53,000 below the budgeted £480,000 as a result of Woking Borough Council being unable to pay their planned contributions following the section 114 notice.
20. This is in addition to the further reduction in Partner contributions highlighted at the previous Board meeting which were accounted for in the increased budgeted reserves draw. Furthermore, three Partners were already making contributions at less than the previously agreed rate, as shown in Appendix 2.
21. General Fees and Charges income is predicted to under achieve by £19,000. The campsite has lost income due to bad weather and three traveller incursions. The function room use reduced after COVID-19 but has declined further this year, which is thought to be due to the cost-of-living crisis reducing demand. Boat licensing has also fallen due to bad weather and the lease to the local canoe club (which generates £1,000 per year) has transferred to Surrey County Council, who own the asset. £14,000 of income is still outstanding from the Canoe Club as a one-off payment to reimburse the costs of works undertaken on the canoe club cottage, however, due to uncertainty over when this income will be received, it is not included within the forecast.
22. An £18,000 sales income shortfall is forecast because of poor weather reducing demand for boat trips and unpowered boat hire. Traveller incursions and low campsite demand will also have reduced sales income as a secondary effect.
23. Whilst advertising for the Holland and Barn Bridge moorings is generating enquiries, these are not leading to realised demand yet, and many moorings remain empty. The forecast for rental income is £13,000 under budget as a result.
24. There is a £10,000 surplus on other contributions due to recharges from the project officer and higher than expected cost recovery of utility costs for the tearoom.

2024/25 Forward Budget

25. Due to increasing pressures on both expenditure and income, the proposed Forward Budget is a draw on reserves of £140,000, as shown in Appendix 3. The Forward Budget has been prepared on the basis of the current operating model and is therefore before any potential adjustments resulting from the separate review of possible alternative operating models to

ensure the long term sustainability of the Canal. However, it should be noted that the proposed budget reflects a further deterioration in the financial position of the canal.

26. This is largely due to 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; and income targets being realigned to reflect what has been achieved in previous years.

Expenditure

27. The proposed expenditure budget has been increased by a net £12,000. Savings in staffing costs and from a lower maintenance and transport budget have been made to limit the impact of inflationary increases in staffing costs and supplies and services costs, and the increased requirement for Principal Surveys in 2024/25.
28. It is proposed to increase the staffing budget by a net £10,000, as below:
- Pay awards for 2024/25 have been budgeted at 3%, increasing all salary, hourly rates and allowances. This is expected to cost £23,000.
 - £11,000 increase in casual staff expenditure due to the pay increases and agency fees from Connect2Hampshire (the agency framework used by Hampshire County Council).
 - £24,000 will be saved by not filling the second lock keeper position and part year costs of the visitor services assistant post. Both are budgeted for in 2023/24 and this will offset some of the rising costs from the pay award.
 - The forward budget includes a Canal Manager at the top of the F grade scale. A review is currently underway as to whether this post should be regraded upwards, taking into account the current scope of the role and similar roles within Hampshire and Surrey County Councils' countryside services, which could further increase the cost of running the Canal.
29. The budgeted spend on Canal Maintenance has been reduced by £25,000 to £127,000, which is also considerably less than the £195,000 spend forecast for 2023/24. As highlighted above, the Hampshire section works being completed in 2023/24 are higher than usual as inspections had not been completed for several years. The 2024/25 budget includes works on the Surrey section, which are expected to cost less as this section has been surveyed more recently and therefore less work should be needed.
30. The Principal Surveys budget includes provision for the principal inspections of the second tranche of culverts at £30,000, for Tree Surveys at £20,000, and £5,000 for footbridges totalling £55,000. This is a £25,000 increase from last year, which only included culverts.
31. An increase of £12,000 for Supplies and Services.
32. An increase for Transport of £2,000 to £37,000 is proposed to cover inflation.
33. A £12,000 decrease is proposed to the Premises budget to reflect falling utility costs and usage, to £40,000.

Income

34. The proposed overall income budget has been reduced by £29,000, reflecting the further reduction in Partner contributions and income budgets being adjusted to reflect current levels of demand reducing these sources of income by £76,000. This is partially offset by an expected £47,000 per year from recharging time spent by the project officer to capital projects funded by Hampshire and Surrey County Councils, and other recovered costs.

35. The Partner contributions budget has been reduced by £53,000 to £427,000 to reflect the complete withdrawal of funding from Woking Borough Council. Despite every effort being made to generate income to support the Canal's activities, the Partner contributions element of the budget remains vital. Previously Partner contributions made up approximately two thirds of the budgeted income, but now constitute just over half, hence the significant pressure on the budget. Not only has there been no inflationary increase to Partner contributions in recent years, equating to a real term cut, but budgeted Partner contributions are now £121,000 less than the original agreement.
36. A net reduction of £10,000 is proposed to the General Fees and Charges budget to £139,000 and a £13,000 reduction has been made to the sales budget to £75,000. This is a result of targets being set based on recent demand rather than levels they could potentially stretch to. This is despite CPI being applied to some General Fees targets in line with price rises at 6.8%.
37. It is expected that four fifths of the project officer's time will be spent on capital projects and will therefore be recharged to Hampshire and Surrey County Councils as landowners, generating £36,000 of additional revenue income for the Basingstoke Canal Authority.
38. Finally, the proposed Grants and Contributions budget are being increased by £11,000 to £23,000, with the previous loss from the cessation of the Higher Level Stewardship agreement only partially offsetting increased recovery of utility costs from the tea room. No change has been made to the rental income budget.

Capital Expenditure Programme

39. Appendix 4 shows the projected capital outturn for 2023/24 and the budgeted expenditure for 2024/25.
40. 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

41. 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 31st March 2023, £961,000 remained of this funding.
42. A further £1m capital funding was approved by Full Council as part of the Medium Term Financial Strategy on 29th 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.

2023/24 Hampshire Forecast Outturn

43. At the beginning of the 2023/24 financial year £1.08m was budgeted to cover the necessary works at "Swan Cutting". However, it is now forecast that only the design, engineering fees,

permissions and early contractor involvement expenditure amounting to £110,000 will be spent in 2023/24 and the main expenditure for construction will be incurred in 2024/25.

44. Other planned capital expenditure for 2023/24 is as follows:

- £99,000 for the installation of three new sluice gates at Aldershot, North Warnborough and Fleet (the new stainless-steel gates themselves having been purchased in the 2022/23 year).
- £15,000 has been allocated to make improvements to tarmac areas of the towpath.
- £30,000 is allocated to the repair of culverts following the delayed Principal Inspection of Culverts – engineers are currently assessing the results of the survey.

45. Total expenditure for the Hampshire Capital Programme in 2023/24, including contingency provision, is expected to be £273,000 with a carry forward of £1,188,000.

2024/25 Hampshire forward plan

46. In 2024/25 it is planned to spend £1.17m on the repair of the Canal Banks – this includes the balance of the £1.08m allocated to Swan Cutting. The remainder will be spent on bank repairs where natural erosion processes threaten canal integrity or interfere with public access.

47. £84,000 is to be spent on water management projects (including dredging and replacing the upper gates at Ash Lock), £70,000 is to be spent on renewing and repairing structures, and £55,000 on public access maintenance (such as path surfaces).

48. At the end of the year it is expected that there will be expenditure of £1.446m with a carry forward of £242,000.

Surrey County Council

49. The Surrey County Council capital programme for 2023/24 is allocated £150,000 plus a carry forward from 2022/23 of £82,000, and carry forward from 2021/22 of £33,000, giving a total of £242,000.

2023/24 Surrey Forecast Outturn

50. The primary expenditure in 2023/24 is expected to be £110,000 on works to canal structures including a new set of stop plank grooves required by the independent Reservoir Inspecting Engineer at Mytchett Lake.

51. £76,000 is allocated to water management (including lock gate replacement and overhaul of the back pumping systems). £30,000 is allocated to public access repairs and £15,000 on bank repairs.

52. No carry forward is forecast – indeed a further £3,000 is required if all projects are completed at the current budgeted amounts, savings will be made to keep this within budget.

2024/25 Surrey forward plan

53. From 2024/25, the annual allocation by Surrey County Council will be reduced to £100,000 per annum to the end of their current Medium Term Financial Plan in 2025/26.
54. In 2024/25 a total of £331,000 is projected to be required to complete the planned programme, leaving a shortfall of £230,000 – further funds are being sought from SCC to cover this.
55. As planned the programme includes £130,000 on bank repairs including those under the statutory direction of the Reservoir Engineer. £103,000 is allocated to water management including lock gate and sluice replacement, and £52,000 is allocated to canal structures including any repairs required following the Principal inspection of Culverts.
56. No carry forward is forecast at the end of 2024/25.

Special Projects

57. In addition to the main revenue budget for the Basingstoke Canal there are often special projects with ringfenced budgets related to the Canal.

Odiham Castle

Funding of £514 remains from the historic Heritage Lottery Fund project to restore Odiham Castle, with this balance available to refresh the signs and paths. This is planned to be spent in the 2023/24 financial year on replacing the interpretation boards, bringing an end to this project.

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Reserves

58. The Basingstoke Canal reserves consist of two reserve funds as follows:
 - Unallocated Reserve – the general reserve to hold annual revenue surpluses.
 - 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.
59. At the Committee meeting of 7 June 2023, it was agreed that a minimum balance of £200,000 should be retained within the unallocated reserve 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. 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.
60. The total reserves for the Basingstoke Canal Authority were £673,263 as of 31 March 2023, and are projected to decrease to £515,487 by 31 March 2024. A detailed breakdown of the reserves is shown in Appendix 5.
61. The Unallocated Reserve was originally budgeted to reduce by £99,000 to £510,037 by 31 March 2024, however with the worsened financial position, but allowing for interest receivable,

the balance is now projected to decrease to £435,487. This equates to under six months budgeted expenditure, just over three months after factoring in the £200,000 minimum unallocated reserve balance.

62. The 2024/25 proposed budget plans for a £140,000 draw from the Unallocated Reserve, however, recent increases to the Bank of England base rate (which at the time of writing this report has risen to 5.25%) will result in a reasonable addition to the reserve for interest receivable on the balance, resulting in an expected balance of £322,550 by 31 March 2025.
63. 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.

Conclusion

64. The forecast for the 2023/24 financial year is a £192,000 draw from reserves (£93,000 higher than the revised budgeted draw of £99,000) with the wet weather over the summer months and a further reduction in Partner Contributions severely impacting income.
65. Although the excess rain is hoped to be an exceptional situation, last year there was a loss of income and increased expenditure due to the hot dry summer, and there may come a point where what would previously have been regarded as exceptional weather conditions and a corresponding exceptional reduction in income, should be seen as the new normal under climate change.
66. Recurring pressures have arisen from the cumulative effect of no inflationary increases in Partners' Contributions, exacerbated by the recent high levels of inflation and the knock-on impact on staff pay in particular, over which the Canal Authority has no control. Furthermore, actual reductions in Partner contributions have significantly worsened the position.
67. The Forward budget has been set as a £140,000 draw, meaning annual expenditure is having to be funded from finite reserves unless increased funding can be found. This is despite addressing the recurring pressures highlighted above as far as possible, with savings being made by removing vacant posts and reducing planned maintenance expenditure to a minimum.
68. Whilst the Surrey Capital Programme has progressed largely as planned, significant parts of the Hampshire Capital Programme have been delayed due to the complexity of the projects and previous lack of staffing to deal with them. These are now proceeding as expected, albeit with a later start and finish than originally planned.
69. The total balances within reserves are projected to decrease from £673,406 as of 31 March 2023 to £402,550 by 31 March 2025, reflecting the worsening financial position. The projected balance within the Unallocated Reserve equates to only five months of budgeted expenditure. Additionally, 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.
70. In light of the above, the current funding model is not sustainable over the long term.

Appendix 1 – Forecast Outturn for the Year Ending 31 March 2024

	Revised Budget 2023/24 £'000	Forecast Outturn Sep-23 £'000	Over/ (Under) Budget £'000
<u>Expenditure</u>			
Employees	568	526	(42)
Premises	52	36	(16)
Canal Maintenance	152	195	43
Principal Survey Work	30	30	0
Transport	35	33	(2)
Supplies & Services	61	78	17
Total Revenue Expenditure	898	898	0
<u>Income</u>			
General Fees & Charges	149	130	(19)
Grants & Contributions - Partner	480	427	(53)
Grants & Contributions - other	12	22	10
Rental Income	70	57	(13)
Sales Income	88	70	(18)
Total Revenue Income	799	706	(93)
Contribution from/(to) Reserves	99	192	93
General Reserves			
Opening Balance	(673)	(673)	0
Contribution from/(to) Reserves	99	192	93
Interest on Balances	(15)	(34)	(19)
Closing Balance	(589)	(515)	74

Appendix 2 – Forecast Partners Contributions for the Year Ending 31 March 2024

	Contributions per the Original Agreement £	Notified 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	0	(42,246)
Surrey Heath Borough Council	26,282	10,000	(16,282)
Woking Borough Council	53,276	0	(53,276)
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	427,009	(120,673)

Appendix 3 – Proposed Forward Budget for the 2024/25 Financial Year

	Revised Budget 2023/24 £'000	Forecast Outturn September £'000	Increase / (Decrease) to Budget £'000	Proposed Budget 2024/25 £'000
Expenditure				
Employees	568	526	10	578
Premises	52	36	(12)	40
Canal Maintenance	152	195	(25)	127
Principal Survey of Sluices & Weirs	30	30	25	55
Transport	35	33	2	37
Supplies & Services	61	78	12	73
Total Expenditure	898	898	12	910
Income				
General Fees & Charges	149	130	(10)	139
Partner Contributions	480	427	(53)	427
Other Grants & Contributions	12	22	11	23
Recharges to Capital	0	0	36	36
Rental Income	70	57	0	70
Sales Income	88	70	(13)	75
Total Income	799	706	(29)	770
Contribution from / (to) Reserves	99	192	41	140
General Reserves				
Opening Balance	(673)	(673)	(158)	(515)
Contribution from/(to) revenue	99	192	41	140
Interest on balances	(15)	(34)	(12)	(27)
Closing Balance	(589)	(515)	129	(402)

Appendix 4 – Basingstoke Canal Capital Programme 2023/24 and 2024/25

	Surrey County Council Programme £'000	Hampshire County Council Programme £'000	Basingstoke Canal Total £'000
Balance as at 31 March 2023	82	961	1,043
Funds in:			
Core capital contribution	150	500	650
C/fwd from 2021/22	33	0	33
C/fwd from 2022/23	82	961	1,043
Total Funds in	265	1,461	1,726
Bank works	(15)	(110)	(125)
Canal structure	(110)	(30)	(140)
Water Management	(76)	(99)	(175)
Public Access	(30)	(15)	(45)
Contingency + Fees	(37)	(19)	(56)
Total Funds out	(268)	(273)	(541)
Further Funds being sought	3		3
Balance as at 31 March 2024	0	1,188	1,188
Funds in:			
Core capital contribution	100	500	600
C/fwd from 2022/23	0	1,188	1,188
Total Funds in	100	1,688	1,788
Bank works	(130)	(1,173)	(1,303)
Canal structure	(52)	(70)	(122)
Water Management	(103)	(84)	(187)
Public Access	0	(55)	(55)
Contingency + Fees	(45)	(64)	(109)
Total Funds out	(330)	(1,446)	(1,776)
Further funding being sought	230		230
Balance as at 31 March 2025	0	242	242

Appendix 5 – Basingstoke Canal Budgeted Reserves

	Unallocated Reserve £	Dredging & Silt Disposal £	Wellesley Reserve £	Reserves Total £
Balance as at 31st March 2023	(593,263)	0	(80,000)	(673,263)
Income (Interest on Balances)	(34,224)	0	0	(34,224)
Transfers From/(To) Reserves	192,000	0	0	192,000
Balance as at 31st March 2024	(435,487)	0	(80,000)	(515,487)
Income (Interest on Balances)	(27,063)	0	0	(27,063)
Budgeted Transfers From/(To) Reserves	153,000	0	0	140,000
Balance as at 31st March 2025	(309,550)	0	(80,000)	(402,550)

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