

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member Culture, Recreation and Countryside
Date:	7 December 2017
Title:	Basingstoke Canal – Future Direction
Report From:	Director of Culture, Communities and Business Services

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1. Executive Summary

1.1. The purpose of this paper is to:-

- a) Update the Executive Member for Culture, Recreation and Countryside on the progress made to secure a sustainable long term management model for the Basingstoke Canal.
- b) Seek approval for the business objectives and long term direction for the management of the Basingstoke Canal.

2. Contextual information

2.1. The Basingstoke Canal is jointly owned by Hampshire County Council and Surrey County Council and managed on their behalf by the Basingstoke Canal Authority (BCA). The Canal is funded by both landowning authorities and a financial contribution is made to the running of the Canal by the six riparian District Councils. All of the staff are employed and hosted by Hampshire County Council and work out of a Surrey County Council facility at the Canal Centre, Mytchett.

2.2. The management and maintenance of the Canal is overseen by the Basingstoke Canal Joint Management Committee (JMC) who aim to balance the interests of all the users of the Canal and conservation of the natural environment. The committee membership consists of eight County Councillors (four from Surrey and four from Hampshire), as well as Borough and District Councillors and representatives from special interest groups.

- 2.3. The Canal is designated as a Site of Special Scientific Interest particularly as an important habitat for aquatic plants and dragonflies. This requires careful management which includes a limit to the number of boat movements that restricts the opportunities to develop the Canal.
- 2.4. Along the length of the Canal there are major engineering assets required to manage the water levels and enable navigation. In Hampshire there are long sections where the canal passes through populated areas on raised embankments. As a result the Basingstoke Canal is considered to be one of the highest risk assets owned by the County Council with the potential of significant flood damage in high value locations, if not managed appropriately.
- 2.5. Despite an equal allocation of capital funding of £2m from both landowning authorities over the past three years there is understood to be an arrears of maintenance estimated at £6.8m along the length of the Canal. The arrears in Hampshire just slightly less than the Surrey section at approximately £3m.
- 2.6. The Canal is widely used with over 1.5 million visitors per year including ; boaters, campers, anglers, walkers and cyclists who all contribute to the wider local economy by supporting businesses and enterprises located along the Canal.
- 2.7. In light of the current local government financial situation both County Councils are coming under increasing pressure to reduce their annual revenue contribution by 2019. It is recognised that the riparian District and Town Councils have their own pressures and may need to consider proportionally reducing their contribution.
- 2.8. A valuation exercise was undertaken that assessed the most cost effective and suitable options for the future level of navigability and long term management. The consultants, JBA, 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.
- 2.9. Since this report Hampshire County Council and Surrey County Council have been jointly exploring the appropriate operating model that would provide the relevant competence and capacity to safely manage the operations of the Canal as well as successfully develop the Canal to realise its potential.

2.10. The purpose of this report is to provide 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.

3. Finance

- 3.1. The contributions to the BCA made by the riparian Borough and District authorities are calculated based on a historic formula derived from bank mileage and population within 5 miles. Despite the Memorandum of Agreement in place, supported by all contributing partners, two (Surrey Heath BC and Runnymede BC) do not meet their full contribution.
- 3.2. Over the past years the BCA has been gradually increasing the amount of income generated mainly by developing moorings and licensed activity. In 2016/17 the earned income was around £300,000 which is 36% of the turnover (£825,000) that year. This included £522,500 contributions made by the funding partners and a contribution to the reserves but excluded any capital contributions.
- 3.3. Unlike other Canals, the Basingstoke Canal has very limited adjoining land remaining following historic asset stripping. This is particularly the case for Hampshire. All other successfully run canal systems have a property portfolio to bolster revenue generated from “on water” boat traffic. On average these return 40%-60% of the total budgets for a canal system.
- 3.4. The capital arrears of maintenance are thought to be in the region of £6.8m, although this is not equally distributed between the authorities. Both landowning authorities have contributed £2m capital each towards the maintenance of the assets since 2013. Unfortunately exactly half of the allocation in Hampshire was required to redress a landslip at Dogmersfield that was not part of the planned maintenance programme. Prioritised capital works are ongoing and further investment is being sought from both landowning authorities to assist in addressing the arrears of maintenance and ensure the assets do not decline further leading to an increase in risk.
- 3.5. Hampshire County Council is considering making a reduction in the level of revenue funding it contributes to the Basingstoke Canal as part of the Countryside Service T19 savings target of £640,000. Surrey County Council is in a different position as it generates income from assets such as houseboats that are currently not returned to the BCA. Surrey are considering changing this policy in order to protect the revenue funding to the Canal.

- 3.6. It is recognised that the safe operation of the Canal is of paramount importance and that any funding reduction should not put this at risk.

4. Future Management Options

- 4.1. Following the research by JBA Consulting three delivery models have been identified by the landowning authorities namely:-

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 – Private sector partner

- 4.2. This option has been discounted. Initial enquiries into establishing if there was any commercial interest were made through Knight Frank. This produced a response that they considered 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 Canal and Rivers Trust

- 4.3. The Canal and Rivers Trust (CRT) are considered to be the only organisation that has the required competency and capacity to manage the Basingstoke Canal. Established in 2012 the CRT is responsible for 2,000 miles of the canals and rivers system in England and Wales.
- 4.4. A full asset transfer to the CRT has been explored which has included a due diligence exercise and asset condition assessment. Whilst this option is currently unaffordable it remains an 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.

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

- a) **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 not be not to compromise the future ambition to transfer a safe and sustainable canal.
- b) **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 funding secured in 2013/14 has been spent or allocated for priority maintenance. It is proposed that Hampshire County Council consider allocating capital funds over the next three years with the aim of reducing the arrears of maintenance. This is likely to have a positive effect on the financial settlement likely to be required for any transfer to the CRT.
- c) **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.
- d) **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 however there is still some potential to increase this further.

Option B - Targeted Investment

4.6. 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:-

Status Quo – the Canal Management Team continues piecemeal improvements and pursues income opportunities, however, no major investment takes place and property income from Surrey's assets are not generally returned to the Canal under its 'corporate landlord' policy.

Do less – closure of all 'non-essential' elements of the Canal operation, this would enable a more fundamental change in governance. This option means only essential maintenance activities will continue; visitor centre and facilities would close (unless operated by an external group/volunteers etc.), BCA-run boat trips and events would cease for example.

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.

Campsite redevelopment – the camp site is an existing use of the site, and can be made much more efficient with a limited development budget. This is a Surrey County Council asset.

Addition of new moorings – two sites have been identified for new moorings which could provide additional rental income. One of these is in Hampshire the other in Surrey.

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. This is a Surrey County Council asset.

- 4.7. 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.
- 4.8. 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.
- 4.9. Therefore a combination of 3, 4 and 5 would be the preferred approach. This would also help the Basingstoke Canal Authority to work towards the longer term ambition of transferring to the Canal and Rivers Trust.

5. Future Direction

- 5.1. The following business objectives under pin the future direction of the management of the Basingstoke Canal

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"> • Canal is operating with reduced revenue support • A lean and effective operating model is in place • Income growth continues • Revenue support from the owning authorities is reduced by April 2019

Undertake ongoing maintenance and improvement to the Canal infrastructure, minimising the corporate risks	<ul style="list-style-type: none"> • Planned maintenance works are undertaken • Capital improvements are made to reduce the maintenance arrears • No significant breaches or failures are experienced
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6. Consultation and Equalities

- 6.1. A report on the Future Management of the Basingstoke Canal was considered by the Basingstoke Canal Joint Management Committee on 29 September 2017.
- 6.2. The JMC approved the business objectives and long term direction for the management of the Basingstoke Canal which are mirrored in this report.

7. Recommendation(s)

The Executive Member for Culture, Recreation and Countryside

- 7.1. Supports the request for capital funding to undertake maintenance works on Hampshire owned Canal assets with the aim of reducing the maintenance arrears.
- 7.2. Supports the reduction in revenue funding if it can be achieved without compromising the safe operation of the Canal.
- 7.3. Approves the business objectives and long term direction for the management of the Basingstoke Canal that includes:
 - a) Targeted investment in income generating opportunities on a sound business case basis.
 - b) To continue to work with Surrey County Council and the Canal and Rivers Trust to reach an agreement for the transfer of ownership and liability of the Basingstoke Canal.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equality Duty

- 1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:
- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
 - Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
 - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

- 1.3. 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

2. Impact on Crime and Disorder:

- 2.1. There are no Crime and Disorder implications for this strategy however the individual business cases will need to consider this in particular campsite development and moorings

3. Climate Change:

There are no climate change implications for this strategy. The management of the Canal habitat takes account of changes in climate as part of the operational conservation management.

		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