

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Executive Member for Countryside and Regulatory Services
<b>Date:</b>	11 March 2024
<b>Title:</b>	Basingstoke Canal
<b>Report From:</b>	Director of Universal Services

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### Purpose of this Report

1. The purpose of this report is to set out the proposed changes to the governance and operation of the Basingstoke Canal Authority – which acts as a delivery agent for the management of the Basingstoke Canal, on behalf of the landowning authorities, Hampshire and Surrey County Councils.

### Recommendations

2. That the Executive Member for Countryside and Regulatory Services approves changes to the governance and operation of the Basingstoke Canal Authority (BCA) as detailed within this report.
3. That the Executive Member for Countryside and Regulatory Services delegates authority to the Director of Universal Services in consultation with the Head of Legal Services to agree and enter into the necessary Memorandums of Understanding, Agreements and arrangements with partners, that will underpin the updated governance.
4. That the Executive Member for Countryside and Regulatory Services takes this decision in the context of Hampshire County Council's role as one of two landowning authorities for the Basingstoke Canal (alongside Surrey County Council), on behalf of whom the BCA acts as a delivery agent.
5. That, subject to a parallel decision by the Executive Member at Surrey County Council (to be taken on 26 March), these changes come into effect from 1 April 2024.

### Executive Summary

6. This paper seeks to set out the proposed changes to the governance and operation of the Basingstoke Canal Authority – which acts as a delivery agent for the management of the Canal, on behalf of Hampshire and Surrey County Councils.
7. There are significant drivers for change to the management and operation of the canal. In particular, the canal is not currently financially sustainable, and the

paper seeks to demonstrate how the proposed changes will seek to move it towards greater financial sustainability.

## **Background**

8. The Basingstoke Canal, which is 32 miles in length, was jointly acquired by Hampshire and Surrey County Councils in the 1970s, to manage risks (notably flooding), protect the Canal and provide for public recreation.
9. The Canal is designated as a Site of Special Scientific Interest (SSSI) and due to its hydrological biodiversity and the effective management of its ecosystem, is home to numerous nationally scarce species of flora and fauna. As an accessible green and blue space, it also delivers well documented benefits to physical and mental health, and wellbeing.
10. The Basingstoke Canal Partnership was established to fund the operation of the Canal following restoration in late 1980's. The partnership includes a number of riparian partners (District, Borough and Town Councils) that contribute financially to the running of the Canal as per a Memorandum of Agreement. Governance is undertaken via the Canal's Joint Management Committee (JMC).
11. Subsequent to this, the two County Councils, as landowning authorities, formed the Basingstoke Canal Authority (BCA) in 1990 to operate and manage the Canal. Under this arrangement Hampshire County Council employs the BCA staff working under Hampshire County Council policies, and provides IT & Finance support, while Surrey County Council provides the main operational base and visitor centre at Mytchett as well as Democratic Services support.
12. The funding and governance model described above has since formed the basis for how the Canal is managed, up until this point.

## **Drivers for Change**

13. The current operation of the Canal is not financially sustainable: In 2023/24 costs will require a projected draw of £192,000 on existing reserves to cover a shortfall in income. On the basis income and expenditure of the Canal continues as is, these reserves are expected to be fully depleted by 2026/27.
14. The Canal is funded by the landowning authorities and the riparian funding partners, utilising a funding formula which is based around population in proximity to the Canal. A breakdown of how the Canal is funded is included as **Appendix A** to this document. Some Basingstoke Canal Partnership members have either reduced or withdrawn partnership contributions. The financial implications of this are significant - if all funding partners had maintained previous (index linked) contributions, financial sustainability would not be an issue.
15. Commercial activity is also limited: Over a number of years there has been significant growth in income from 5% to 30% (operating budget). However, growth plateaued at the time of the Covid '19 pandemic with further growth opportunities now limited and would requiring significant investment.

## **MACE Review**

16. Having identified emerging issues around financial sustainability, Hampshire County Council and Surrey County Council commissioned Mace Ltd to review management of the Canal and recommend a sustainable operating model.
17. Mace was directed to prioritise delivery of each County Council's statutory obligations, to:
  - provide for Safe operation of the Canal
  - fulfill Conservation duties in relation to the Site of Special Scientific Interest
  - ensure the Health and Wellbeing of residents – public rights of access and navigation (noting that this obligation exists only in the case of small boats, and not larger (motorised) craft)
18. Mace undertook a detailed review of the statutory responsibilities, risks and financial position as well as the current operational and governance model. A number of options were considered, and a preferred option was presented to the Basingstoke Canal Joint Management Committee in November 2023.

## **Preferred Option**

19. A number of management options for the canal were explored by MACE, as follows (and further detailed in **Appendix B**):
  - Option 1: Do Nothing
  - Option 2: Change Ownership
  - Option 3: Change Management Model (remove the BCA)
  - Option 4: the BCA delivers Statutory Functions only
  - Option 5: the BCA delivers Statutory Functions and enables leisure navigation
20. The recommended and preferred option was Option 5, that the BCA should continue to deliver statutory requirements, plus leisure navigation, for maximum financial viability.
21. Under this preferred option, the BCA will no longer deliver other non-statutory activities such as boat hire, camping, running the visitor centre, and events.
22. As part of this approach, it was recommended that changes were also made to how the Canal is governed, noting that the BCA has no legal or corporate identity; that the Memorandum of Understanding with partners is outdated (particularly in reference to funding contributions as per para 11); and, that the Canal's Joint Management Committee is not effective in current form to meet the challenges the canal now faces, with operational decisions made by the Canal Management Team (Hampshire County Council and Surrey County Council officers) and strategic decisions made by landowning authority governance structures.

## **Proposed Changes to Operating Model**

23. Under the revised operating model, the BCA will be retained as delivery agent for the Canal (on behalf of Hampshire County Council and Surrey County Council). It will no longer deliver visitor services activities and will focus on meeting statutory obligations and navigation.
24. A new agreement between the two landowning authorities will be established, to regularise working relationships and financial contributions. Ongoing capital funding will be required from both authorities to enable safe management of canal assets.
25. New Service Level Agreements will also be agreed with riparian funding partners; whose ongoing financial contribution will be encouraged, and where agreed, secured for a minimum period.
26. The Canal Centre at Mytchett (where visitor services are based) will revert to the direct management of Surrey County Council (which is the owner of the building, and entitled to make decisions upon its future use, with Hampshire County Council being kept informed). The BCA will, however, continue to be based at the Mytchett Centre.
27. BCA staff are managed as Hampshire County Council employees for HR & Administrative purpose. The 3 members of BCA staff most closely associated with Visitor Centre Activity will transfer to the employment of Surrey County Council via a TUPE process. Consultation with these staff has already been undertaken, with the completion of process now subject to both authorities' decision making processes.

## **Proposed Changes to Canal Governance**

28. Current governance arrangements are in need of review in the context of the challenges the Canal is facing.
29. The Basingstoke Canal Authority was established in 1990 to operate and manage the canal, but has no legal or corporate identity.
30. There is a Memorandum of Agreement with riparian partners but this is outdated given the change in partner contributions and how decisions are made.
31. Finally, the Canal's Joint Management Committee is a key element of governance but is not effective in its current form to meet the challenges the Canal now faces: with operational decisions made by the Canal Management Team (Hampshire County Council & Surrey County Council officers) and strategic decisions by landowning authority governance structures.
32. The proposed new governance arrangements for the Canal reflect the responsibilities for how decisions are made and also reduced remit of the BCA. They will provide greater clarity on working arrangements between partners and those bodies that are accountable for liabilities. It is founded upon the following bodies:
  - a. The **Basingstoke Canal Management Team** – responsible for operational management of the Canal and made up of Senior responsible officers and finance from the two County Councils.
  - b. A **Basingstoke Canal Joint Board** – made up of Hampshire County Council & Surrey County Council elected Members only. With two

representatives per authority. This body will provide oversight of the management of the Canal and will make recommendations to the Executive Member for decision at the respective authorities.

- c. An **Advisory Panel to JMC** – an advisory panel consisting of experts in the field of local authority finance, inland waterway management, public access and biodiversity or such other experts as it deems appropriate to assist in its role as a scrutiny Board for the Basingstoke Canal.
- d. The **Basingstoke Canal Society (BCS)** - via a new memorandum of understanding with both landowning authorities, that in turn sets out the working relationships between BCS and BCA.
- e. A **wider partnership of riparian authorities** – with an updated MOA demonstrating commitment from all partners, including Hampshire County Council, Surrey County Council and funding partners. This partnership will be facilitated via two meetings a year and an annual report, alongside regular ongoing engagement.
- f. Other **stakeholders and user representatives**, including non-funding riparian partners, user groups and other partners will be invited to an annual meeting and a site visit in the Summer; to raise awareness of the Canal, share information, create a forum for feedback and seek support.

The proposed governance model is shown in **Appendix C**.

## **Finance**

- 33. If the landowning authorities were to “do nothing” (an option considered and rejected by the MACE report), it was projected that Canal Reserves would fall under the minimum unallocated reserve balance of £200,000, by 2025/26; and run out in 2026/27.
- 34. At the time of the MACE commission, the proposed preferred approach set out in this report was projected to improve financial sustainability; and, significantly delay the point at which reserves would be fully utilised. Since then, the financial position of the Canal has deteriorated with a further reduction in partner contributions meaning that, based on current projections, the proposed approach would only delay the point at which reserves are depleted by one year.
- 35. The financial position of the Canal has continued to deteriorate with all of the £120,000 currently contributed by the riparian partners (included within the table below) now considered to be at risk.
- 36. However, the proposed approach still minimises the ongoing annual deficit in providing statutory services; reduces the risk involved from income generation needed to offset the c. £200,000 per annum gross costs of running the Visitor Centre; and, has been assessed by officers as providing the greatest opportunity to move towards financial sustainability, particularly if partner contributions are reinstated (as has been indicated as a possibility).

37. Please see the below table ref: updated financial position resulting from the proposed approach:

	<b>Do nothing £'000</b>	<b>Preferred Option £'000</b>
Canal Centre costs (including staffing, premises etc)	200	0
Canal Centre income	(156)	0
Staffing, premises, supplies and services, transport	537	537
Maintenance and Surveys	172	172
Hampshire and Surrey County Council contributions*	(306)	(306)
Other Riparian Partner contributions	(120)	(120)
Commercial income	(187)	(187)
<b>Annual draw on reserves</b>	<b>140</b>	<b>96</b>
Year in which unallocated reserve falls below £200k minimum**	2025/26	2026/27
Year in which unallocated reserve is fully depleted**	2027/28	2028/29

*\*NB this does not include Strategic Management costs and contributions in kind such as the finance costs, democratic support costs and IT costs*

*\*\* a further table detailing reserves position is included as **Appendix D**.*

38. It is important to note that riparian funding contributions, which were initially agreed at a total level of £240,000 per annum, have already reduced to £120,000 per annum and are expected to reduce further still, potentially being removed altogether, in the context of Canal's overall financial position.
39. Without the riparian partner contributions, even under the preferred option reserves will be fully depleted in 2026/27, and it is likely that Hampshire and Surrey County Councils as the landowning authorities would need to increase their annual contributions in order to ensure that, as a minimum, statutory responsibilities are met.
40. As per Para. 21, ongoing Capital Funding will also be required from the landowning authorities. A Hampshire County Council allocation of £500,000 per annum had previously been agreed, up until 2024/25, but there is currently no allocation beyond 2025/26.
41. It is suggested that the minimum requirement for Hampshire County Council Capital Funding is £300,000 per annum to undertake priority works to keep the Canal safely operational for the period spanning 2025/26-2027/28. This does not account for any additional costs that might arise due to unforeseen circumstances. The £300,000 per annum further funding is currently not part of the Universal Services Capital Programme, but will be considered for inclusion as part of the next capital priorities review in accordance with standard procedures.

## **Consultation and Equalities**

42. Consultation with regards to the proposed approach has been undertaken with riparian partners and other stakeholders. A report was delivered to the Canal's Joint Management Committee (in current form) on 20<sup>th</sup> November 2023.
43. JMC Members were then invited to comment further upon proposals in writing before 30 January 2024 in advance of an Executive Member Decision subsequently being taken by both landowning authorities – with no responses received.
44. In parallel to this, letters were sent to the Chief Executives of riparian funding partners, seeking to confirm onward funding contributions, in the context of the current financial position, and proposed changes to how the Canal is managed.
45. No further consultation has been required with reference to these proposals, beyond consultation with limited numbers of staff with regards to the TUPE process to Surrey County Council, as the decision does not impact upon core elements of public facing service delivery.
46. For similar reasons, no specific impacts upon protected characteristics have been identified as part of the Equality Statement, which has identified a neutral impact on these groups.

## **Climate Change Impact Assessments**

47. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

## **Climate Change Adaptation**

48. As this decision purely relates to the governance and operations of the Canal, the Climate Change adaptation tool was not relevant. The tool will be used in future in relation to any proposals that alter, or have impact upon, the physical infrastructure of the Canal.

## **Carbon Mitigation**

49. As this decision purely relates to the governance and operations of the Canal, the Carbon Mitigation tool was not relevant. The tool will be used in future in relation to any proposals that alter, or have impact upon, the physical infrastructure of the Canal.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

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



## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- 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.

### **2. Equalities Impact Assessment:**

The proposal is with regard to the Operation of the Basingstoke Canal (seeking to achieve greater financial sustainability and updated governance); and does not impact upon core elements of Service Delivery. There is therefore no notable impact upon any groups, including those with protected characteristics, and the impact is assessed as neutral.

## Appendix A – Partnership Funding Contributions 2023/24

Local Authority		Funding* Formula		Committed Funding	
Hampshire County		£160,434	28%	£153,000	34%
Surrey County		£160,434	28%	£153,000	34%
Guildford Borough	Surrey	£40,925	7%	£39,076	9%
Hart District	Hampshire	£66,773	12%	£30,924	7%
Woking Borough	Surrey	£55,796	10%	£26,638	6%
Fleet Town	Hampshire		0%	£18,309	4%
Surrey Heath Borough	Surrey	£27,526	5%	£10,000	2%
Runnymede Borough	Surrey	£17,667	3%	£8,000	2%
Rushmoor Borough	Hampshire	£44,244	8%	£0	0%
Church Crookham Parish	Hampshire		0%	£6,750	1%
Odiham Parish	Hampshire		0%	£4,036	1%
Crookham Village Parish	Hampshire		0%	£3,048	1%
Winchfield Parish	Hampshire		0%	£250	0%
Dogmersfield Parish	Hampshire		0%	£240	0%
<b>Total Funding</b>		<b>£573,799</b>		<b>£453,271</b>	

\*Funding formula agreed by the JMC in 2008, Surrey Heath Borough Council did not agree to the funding formula. Funding formula was developed based on population in proximity to Canal and is embedded in the Memorandum of agreement.

### Notes:

- Woking Borough Council 50% reduction 24/25 (12 mths notice received now confirmed to be 100% reduction)
- Rushmoor 100% reduction 23/24
- Surrey Heath Borough Council contribution is less than that in the MOA
- Hart District Council shares contribution with Fleet and PC's

## Appendix B – Detailed Options

### Option 1 Do Nothing

Maintain the current model of operation with ongoing requirement to utilise reserves, largely due to the reducing contributions being made by District Authority Partners.

The Canal budget would continue to cover Management, Operations and Maintenance, Administration and Commercial activities and would be under increasing financial pressure due to inflation, static contributions from all authorities and limited ability to capitalise on the commercial activities which have helped bridge the gap between income and costs.

Given the current climate of increased inflationary costs, inefficient governance and operational management and limited prospect [under the management of the BCA] of major additional commercialisation this option poses significant financial risks to HCC and SCC.

### Option 2 Change Ownership

The **transfer of ownership** of the Canal has been considered previously and following discussions with the Canal and River Trust (CRT) this option was not financially viable.

The **creation of a Community Interest Company (CIC)** has been considered, with a CIC operating the Canal under a lease transfer, however the liability risk against the asset remains too great when set against the benefits lost and was therefore not pursued. This option would not address the fundamental financial issues of the current operations of the canal.

### Option 3 Change Management Model (remove BCA)

The option to **disband the BCA**, allowing HCC and SCC to manage their sections of the canal, realises a number of key benefits, vastly reducing level and [internal] cost of governance structures, i.e., no JMC in this model and placing more autonomy on what each Authority chooses to do with their retained assets.

However, by removing the BCA there is a **much-increased cost of operation** incurred by both authorities to ensure their statutory and critical duties are met, due to the requirement to have minimum staffing levels for key health and Safety operations. Under this model there are still tasks requiring joint working as a single body of water does not respect county borders and actions in one area can have consequences elsewhere, there are also efficiencies lost as some partnering is not capitalised.

### Option 4 Retain the BCA, to coordinate and deliver Statutory Minimum activities.

Retaining the **BCA to deliver a statutory minimum**<sup>1</sup> level of service is operationally the most efficient method of delivering the joint responsibilities that HCC and SCC have regarding the Canal, with the exception of managing some differing asset policy requirements, again this reduces the governance layers. None of the current commercial activities have any statutory requirements (Boat Hire, Canal Centre & Camping) which the BCA contribute to/run, so costs and income associated with these is discounted, with the owning Authority making separate studies to determine their viability. The requirement to keep the canal navigable is necessary to ensure access for key maintenance, however income from leisure craft is discounted as is the cost of Lock Keepers required to enable this activity. The reduced remit also offers the potential to redistribute resource within wider operations and reduce the cost of staff and premises/maintenance; however, this reduces

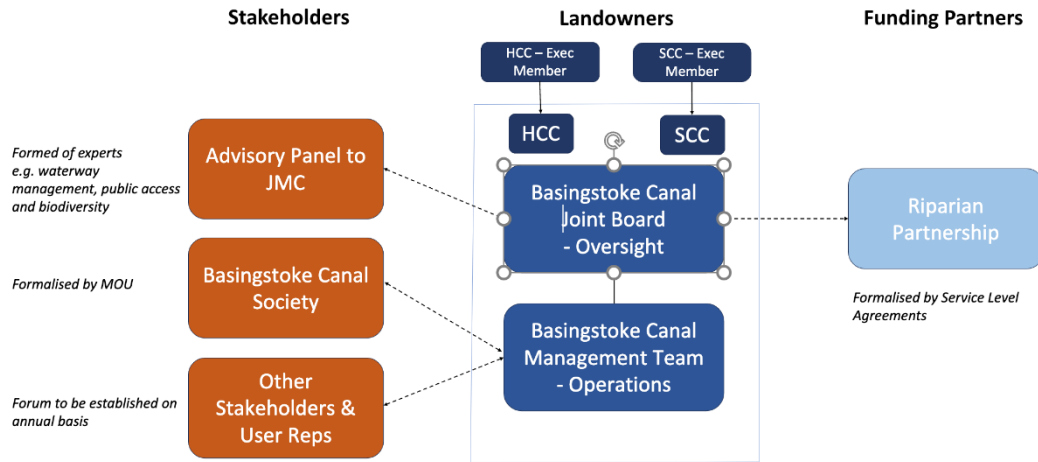
the commercial income. There is no positive net gain in this option, financially there is a risk, that by removing Navigation would lead to a reduced input from volunteers, and there may further result in a risk of legal challenge should [leisure] Navigation be removed.

#### **Option 5 Retain the BCA, deliver Statutory Minimum activities and enable Leisure Navigation**

This is the same as Option 4 but adds back the commercial activity associated with Navigation. The requirement to keep the canal navigable is necessary to ensure access for key maintenance, therefore the additional cost to enable [Leisure] Navigation, primarily resides with the employment of Lock Keepers to ensure safe passage through the canal system. The additional cost of this is comfortably offset with the additional commercial income received by Moorings and associated reduced draw on reserves.

## Appendix C – Governance Proposal

# Proposed Operating Model - Governance



## Appendix D – Unallocated Reserves

Unallocated Reserve Projected Balance	Preferred Option with no partner contributions		
	Do Nothing £	Preferred Option £	£
<b>Balance as at 31<sup>st</sup> March 2023</b>	<b>(593,263)</b>	<b>(593,263)</b>	<b>(593,263)</b>
Income (Interest on Balances)	(34,224)	(34,224)	(34,224)
Transfers From/(To) Reserves	192,000	192,000	192,000
<b>Projected Balance as at 31<sup>st</sup> March 2024</b>	<b>(435,487)</b>	<b>(435,487)</b>	<b>(435,487)</b>
Projected Income (Interest on Balances)	(14,513)	(16,513)	(10,513)
Budgeted Transfers From/(To) Reserves	140,000	96,000	216,000
<b>Projected Balance as at 31<sup>st</sup> March 2025</b>	<b>(310,000)</b>	<b>(356,000)</b>	<b>(230,000)</b>
Projected Income (Interest on Balances)	(9,000)	(13,000)	(1,000)
Budgeted Transfers From/(To) Reserves	140,000	96,000	216,000
<b>Projected Balance as at 31<sup>st</sup> March 2026</b>	<b>(179,000)</b>	<b>(273,000)</b>	<b>(15,000)</b>
Projected Income (Interest on Balances)	(2,000)	(9,000)	0
Budgeted Transfers From/(To) Reserves	140,000	96,000	216,000
<b>Projected Balance as at 31<sup>st</sup> March 2027</b>	<b>(41,000)</b>	<b>(186,000)</b>	<b>Fully depleted</b>
Projected Income (Interest on Balances)	0	(5,000)	
Budgeted Transfers From/(To) Reserves	140,000	96,000	
<b>Projected Balance as at 31<sup>st</sup> March 2028</b>	<b>Fully depleted</b>	<b>(95,000)</b>	
Projected Income (Interest on Balances)		0	
Budgeted Transfers From/(To) Reserves		96,000	
<b>Projected Balance as at 31<sup>st</sup> March 2029</b>		<b>Fully depleted</b>	

\* In addition to the unallocated reserve there is an £80,000 ringfenced reserve specifically for works at Wellesley, therefore not included within the figures above.