

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE
THURSDAY, 24 NOVEMBER 2022

Report Title	Canal Project Update
Purpose of Report	To update on the progress of the Canal Project, to reaffirm the support of the Council for the project as accountable body, and to allocate an additional resource towards the project.
Decision(s)	<p>The Committee RESOLVES to:</p> <ol style="list-style-type: none"> 1) Confirm Stroud District Council’s commitment to the Cotswold Canals Partnership and to acting as the Accountable Body in managing the grant from the Lottery Fund and the overall management of the project 2) Allocate £1 million from the Capital Reserve as a contribution to the Canal Partnership <p>The Committee recommends that COUNCIL:</p> <ol style="list-style-type: none"> 1) Increase the capital budget for the Canal Project by £10.187m, to be funded as set out in this report
Consultation and Feedback	<p>SDC is represented on the Cotswold Canals Connected (CCC) Project Board (chaired by Brendan Cleere (Strategic Director of Resources) with Kathy O’Leary (Chief Executive), Cllr Catherine Braun and Cllr Chloe Turner as voting members). Lucy Clothier is the Financial Accountant on the project and is a member of CCC Executive Team. All matters raised in this paper have been shared with this team.</p> <p>The Project is working to the budget that was submitted and approved in the successful National Lottery Heritage Fund (NLHF) bid. This budget was prepared in 2018 and approved on 2nd October 2020. Project and financial governance are overseen by the CCC Project Board with financial reports presented and reviewed at Board Meetings (approx. every 12 weeks).</p> <p>Cost forecast and funding gap was last presented to the Project Board on 18th October 2022. The plans for meeting the Funding Gap requires additional contribution from all CCC project partners, National Lottery Heritage Fund, National Highways, grants and fundraising. All partners have confirmed their commitment to the successful delivery of the project and securing the additional funds that will be required.</p> <p>This request for funding is SDC’s additional contribution towards meeting this funding gap.</p>

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Options	Option 1: Agree to an additional grant of £1M Option 2: Agree to a reduced contribution (ie less than £1m) Option 3: Not agree to any further awards (this will have significant implications as set out below).			
Background Papers	CCC Board Minutes – 18 th October 2022 NLHF Canal Minutes – 1 st November 2022			
Appendices	Appendix A – Finance update (Canal tables) Appendix B – Cotswolds Canals Connected Impact Report			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	Yes

1. INTRODUCTION / BACKGROUND

- 1.1 The Strategic Partnership Agreement for the Cotswold Canals Connected (CCC) project was signed on 20th May 2020 and included Stroud District Council (SDC), Gloucestershire County Council (GCC), Cotswold Canals Trust (CCT), Stroud Valleys Canal Company (SVCC) and the Canal and Rivers Trust (CRT). These are known as the “core partners”.
- 1.2 The detailed proposal (aims, objectives and benefits) and project plan was set out in the NLHF bid which was submitted with the support of SDC in June 2020 and approved in October 2020. The Strategic Aims of the project are summarised below and the detailed Economic Impact Statement, which was included within the NHLF bid, is at Reference B.



- 1.3 It should be noted that the project budget was set in in early 2020 before the start of the COVID pandemic and was based on a completion date of end 2024. A COVID impact

assessment was written in May 2020 where it was noted that: “This situation could of course change again if there is a second Covid-19 wave of transmission, but we are in the lowest recorded UK death/cases area and we have the 12 months programme contingency.” This risk has materialised resulting in a significant impact on both project delivery and costs. The project has been significantly impacted by COVID and is now being further impacted and by rising inflation, Russian invasion of Ukraine, increasing energy increasing costs and the cost and availability of materials.

- 1.4 Project delivery and governance is managed through the CCC Executive Team (chaired by Chris Mitford-Slade, Canal Project Director,), CCC Project Board (Chaired by Brendan Cleere, SDC Director of Place) and National Lottery Heritage Fund Project Team (Chaired by Tom Brewer, NLHF Account Manager). Financial and risk management is a standing agenda on each of these meetings, with costs, budget and forecasts monitored and scrutinised.
- 1.5 Forecast costs (as set out in Appendix A show a cost increase of between £9M to £10M. The majority of the cost increase (£7.5M) is in the capital costs for the Engineering Programme. The Project Team have also been extended in their role for a further 30 months resulting in a cost increase in staff costs of £1.4M and Environment project costs have increased by £0.3M. Due to uncertainty in the cost of construction and materials, a significant contingency remains within the project forecast and gives rise to the range in costs. There are also costs of £0.2m outside of the NLHF Project for works on the A38 roundabout which were predominantly funded by a Highways England grant.
- 1.6 The project team are already making positive progress in closing the funding gap and securing the additional funds required to deliver the project. This can be achieved through a combination of fundraising, charitable grants, legacies, donations, public funds and additional funds from project partners. The provisional plan for securing the additional funds required to deliver the project is shown in the table below:

Funding source	Amount	Notes
Grants	£4.0M	Applications in progress
Lock Sponsorship	£1.0M	Over next 3 years
Sale of excavated materials	£1.0M	
SDC	£1.0M	S&R Committee application
Partners	£1.0M	Over next 3 years
Fundraising	£2.0M	Over next 3 years
TOTAL	£10.0M	Over next 3 years

- 1.7 NLHF need to be reassured that the CCC Project Team can secure the additional funding that will be required to deliver this project and this is a key requirement in order for NLHF to grant full Permission to Start (PTS). NLHF have awarded partial Permission to Start (PTS) which has been extended until 31st December 2022. The following criteria must be met in order to achieve full PTS:

- 1.7.1 *Proof of required statutory permissions, licenses and consents*
- 1.7.2 *Proof of ownership or signed third party landowner agreements*
- 1.7.3 *Evidence that a governance review in relation to diversity and inclusion has taken place and been implemented*
- 1.7.4 *Evidence that all partnership funding has been secured (including evidence previously submitted to ensure we have all documents in one place)*
- 1.7.5 *An updated integrated project programme*
- 1.7.6 *An updated cashflow*

2. MAIN POINTS

- 2.1 Progress against achieving the full PTS criteria was presented and discussed at a recent meeting with NLHF representatives. Although excellent progress was noted across a range of areas of the project, there were two criteria which could not be met by 31st December 2022:
 - 2.1.1 Statutory permissions: The Missing Mile planning application has been delayed due to additional work required on flood modelling and ecology. These matters are being addressed and we aim to submit the application to SDC for approval at Development Control Committee on 7th March 2023.
 - 2.1.2 Partnership funding: Project costs have escalated since the original lottery bid (prepared in 2018) due to Brexit, COVID, Ukraine, energy crisis, cost of materials and inflation. We need to provide evidence to NLHF that the project can be completed with partnership funding contributions.
- 2.2 Current delays to the Missing Mile Planning Application are not currently impacting the Engineering Programme but there have been significant delays to the Environment Programme due to the need for additional surveys and the application for water vole relocation licences. NLHF understand the reasons for the delay and the mitigation measures that have been put in place.
- 2.3 It is recognised that additional time will be required to secure this funding which could delay the completion of the project. However, we would deliver the three elements of the project over the following timescales:
 - 2.3.1 Environment programme – complete by end 2024
 - 2.3.2 Community Engagement programme – complete by November 2025
 - 2.3.3 Engineering programme – complete Sections 2 and 3 by end 2025; may require further time to complete Section 1 (western end of the canal and connection to the national network at Saul Junction).
- 2.4 In response to the financial challenges of the project a new response to managing the programme and associated risks is proposed. The financial risk to SDC could be mitigated by controlling project spend in line with income. Essentially this means that each stage of the project would only proceed when fundraising and partner contributions have generated sufficient funds to meet the costs. There could be a risk that delaying projects could result in increased costs. Therefore, cashflow and forecasts would need to be tightly managed and aligned with the engineering programme.
- 2.5 As accountable body for the project, SDC is committed to working with partners to secure all necessary additional funding to complete the project.
- 2.6 There are three Options that could be considered:
 - 2.6.1 Option 1 – Agree to an additional grant of £1M. This is the recommended Option and the details behind this are set out in this paper.
 - 2.6.2 Option 2 - Reduced contribution. A reduced contribution would be likely to result in reduced contributions from all core partners which would result in increased reliance on fundraising. This would result in a longer time required to secure the funding with resulting delays on project delivery.
 - 2.6.3 Option 3 – Not agree to any further awards. If SDC did not make any further financial contribution to the project, then there is a significant risk that other core partners would follow suit. It is therefore likely that the project would fail to demonstrate the commitment to full funding that is required to satisfy NLHF

'permission to start' criteria. In the event that SDC and other core partners cannot demonstrate a commitment and ability to complete the project, there is a risk that NLHF could withdraw their support for the project and potentially seek repayment of all funding provided to the project to date. It should also be noted that a decision to pursue this option would significantly jeopardise the Council Plan commitment to deliver phase 1B of the canal project and the benefits arising from it (noted earlier in this report).

3. CONCLUSION

3.1 For all the reasons set out in this report, the Committee is recommended to support Option 1 – an additional contribution of £1M.

4. IMPLICATIONS

4.1 Financial Implications

4.1.1 This report sets out that the cost of delivering phase 1B of Cotswold Canals Connected has increased significantly due to many external factors outside the control of the project. In particular the cost of labour and materials increasing, inflation costs being higher than previously expected and delays leading to a longer delivery period. This increase is expected to be in the region of £9m to £10m, which includes some contingency to reflect uncertainty in some costs at this stage. There have also been additional costs of £0.2m on delivering the works at the A38 roundabout, which although do not fall within the NLHF project, will need to be funded within the project partnership.

4.1.2 SDC committed to fund £3m towards Phase 1B, of which £0.5m funded the development stages of the bid, and £2.5m was available for the delivery stage. An amount of £0.16m was also allocated to fund salaries during an interregnum period between the delivery and development stages.

4.1.3 The additional costs of £10.2m identified in this report are to be funded across the partnership, through seeking new grant funding and the sale of excavated material. The additional contribution sought from SDC is £1m. As the accountable body SDC must include the full cost of the project within its capital programme but it is only that £1m which will come from Council resources.

4.1.4 The additional contribution of £1m could be funded from the capital reserve (existing funding allocated by Council for capital works). This would allow SDCs contribution to be increased without new borrowing and without an impact to the Medium Term Financial Plan which would require a reduction in Council revenue services. It should also be noted that this is a General Fund reserve and is therefore not available to fund housing capital works.

4.1.5 As accountable body SDC will continue to work with the other partners in order to secure the remaining funding needed.

4.1.6 Should the project not continue, NLHF could withdraw funding and request that the existing project funding provided be returned. The funding currently received from NLHF for the delivery stage is £3.1m.

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4.2 Legal Implications

If Option 1 is adopted then there will be no Legal Implications as the project will continue to be delivered under the agreements with both NLHF and core partners.

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4.3 Equality Implications

The bid submitted to NLHF included a wide range of community benefits, with a particular focus on promoting equality, inclusion and wider health and wellbeing. These benefits were outlined in a community engagement programme and associated activity plan, submitted as part of the bid. If the recommended option 1 is adopted, the project will have the required funds to deliver the community engagement programme and benefits.

4.4 Environmental Implications

The bid submitted to NLHF included a wide range of environmental benefits, outlined in an associated environmental programme. If the recommended option 1 is adopted, there will be sufficient funding to deliver the environmental benefits set out in the NLHF bid.