

STROUD DISTRICT COUNCIL

COUNCIL

15 DECEMBER 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)	The Council RESOLVES to increase the capital budget for the Canal Project by £10.187m, to be funded as set out in this report and recommended by Strategy and Resources Committee.
Consultation and Feedback	<p>SDC is represented on the Cotswold Canals Connected (CCC) Project Board. 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>On Thursday 24th November 2022 the Strategy & Resources (S&R) Committee considered a report on the Canal Project. The full report is contained within this report and is provided as background to the decision taken by the S&R Committee.</p> <p>The S&R Committee confirmed their commitment to the Cotswolds Canals Connected project and agreed to allocate £1m from the Capital Reserve as the SDC contribution to the Canal Partnership.</p> <p>This request for funding is SDC's additional contribution towards meeting the funding gap which was set out in the S&R Canal Report.</p>
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Background Papers	CCC Board Minutes – 18th October 2022 NLHF Canal Minutes – 1st 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:



- 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 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.

3. CONCLUSION

- 3.1 For all the reasons set out in this report, the S&R Committee agreed to award an additional contribution of £1M.
- 3.2 It was noted by the S&R Committee that an additional £9M of funding would be secured through additional grants from National Highways, National Lottery Heritage Fund, grants, charitable trusts and private donations. This external investment is required for the successful delivery of this project in order to realise the significant economic, environmental and community benefits as set out with the original bid.
- 3.3 The additional costs for this project will require SDC as the Accountable Body, to increase the capital budget for the Canal Project by £10.187m, to be funded as set out in this report at para 1.6 and recommended by Strategy and Resources Committee. The Council is therefore recommended to approve this capital budget increase.

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 Strategy and Resources Committee have allocated the additional SDC contribution of £1m 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 the recommended Option 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 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 is adopted, there will be sufficient funding to deliver the environmental benefits set out in the NLHF bid.