BM/08iv/MAR/2025
**CORPORATE**
**DISCUSSION**
**OPEN**

**EXECUTIVE DIRECTOR: SARAH JANE HANNAH**

## QUARTER 3 2024/25 FINANCE REPORT

**Purpose**

This paper provides the Board with an update on the financial position for the 2024/25 financial year, and a summary of other ongoing financial issues.

**Priority**

Routine – this is reviewed on a quarterly basis and is part of the regular reporting suite of documents.

**Key Messages**

**A. 2024/25 Position**

**<u>2024/25 – Expenditure to Date</u>**
Against an original budget position of expected net expenditure to 31 January 2025 of [redacted]

**<u>Expected Position on 31 March 2025</u>**
Comparing expenditure to 31 January to the expected reforecast position (RF3), [redacted] with so much of our winter works programme already contracted and due to occur in the last two months of the year.

We have been projecting a deficit since July and have been liaising with Transport Scotland about the overall structural deficit position of the organisation in detail since the 2023/24 financial year. In recognition of that, Transport Scotland has provided an additional £1m, bringing available revenue expenditure to £12.845m to support Scottish Canals to operate safely and bring the year-end in at break-even for 2024/25. Due to that additional resource being made available in February, budget holders have been under additional pressure to bring forward some expenditure which had been proposed to be delayed on account of affordability.

Most of the expenditure has been allocated to the removal of trees across our land. This was a significant expenditure which was going to be delayed and put on an extended programme to remove diseased and dangerous ash trees suffering from ash dieback and addressing the up to 150 dangerous/fallen trees since Storm Eowyn.

Expenditure has also been authorised across Bowling and the Lowlands to address sunken boats, and some training expected to be conducted in 2025/26 has been brought forward to 2024/25.

[redacted]

[redacted]

**2024/25 – Movement between Budget and Original Q3 Reforecast (RF3)**

There have been a number of reasons for the changes from a break-even point as at 31 March 2024 to the reforecast position of £567k overspend based on December figures.

| Summary | 2023/24 Actual £'000 | | 2024/25 Budget £'000 | 2024/25 RF1 £'000 | 2024/25 RF2 £'000 | 2024/25 RF3 £'000 | 2024/25 RF3 (updated for latest expenditure) £'000 |
|---|---|---|---|---|---|---|---|
| [redacted] | [redacted] | | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

1. **INCOME – increase by £501k since budget**

| Income | 2023/24 £'000 | 2024/25 Budget £'000 | 2024/25 RF1 £'000 | 2024/25 RF2 £'000 | 2024/25 RF3 £'000 | 2024/25 RF3 (updated for latest expenditure) £'[redacted] |
|---|---|---|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | | | | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| | | | | | | |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

Retail income has increased significantly with an additional [redacted] in takings, and another [redacted] expected to be taken by our new Kelpies Experience. With a new Visitor Experience Manager filling a vacant post at the Caledonian Canal Centre, investment in our offer there has resulted in an increase of [redacted] over the summer months. Income from hire boats has had an increase of [redacted] on the expected position at the start of the year, and boat trips and retail at The Falkirk Wheel have brough in an additional [redacted] respectively.

Our properties have continued to provide a reliable income stream and increased by [redacted] for the year, [redacted]

There is a large programme of improvement which has been scheduled on utilities across the organisation. Utilities costs and recharges have been under analysis, with some historic charges to our customers now being processed, and costs on contracts held based on capacity levels being reviewed.

Historic recharges were over-budgeted in March 2024, with less cost recovery expected and a reduction of [redacted] expected to be due for collection by the end of the year.

Income from moorings, licences and wharfage have remained strong with an overall [redacted] increase in income for those areas, with an increase in residential moorings during the year and temporary meetings at the Caledonian Canal. Additional staffing in this area compared to the previous year has improved the takings, improved the governance around bringing customers onto the canal, and reduced the risk of boat rescues. Some historic cost recoveries and third-party income have fallen significantly, with [redacted]

## 2. EXPENDITURE – increase by [redacted] since budget

| Expenditure | 2023/24 £'000 | 2024/25 Budget £'000 | 2024/25 RF1 £'000 | 2024/25 RF2 £'000 | 2024/25 RF3 £'000 | 2024/25 RF3 (updated for latest expenditure) £'[redacted] |
|---|---|---|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| | | | | | | |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
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| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
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| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
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| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | | | | | |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| | | | | | | |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

Wages - [redacted]

Notional attrition of [redacted] was initially part of the budget and was removed at the RF1 forecast in July. Attrition has since been calculated on an individual position level with input from each Head of Service, taking into account leave and start dates for vacancies.

There remains a halt on recruitment apart from all necessary recruitment, with circa 30 vacancies held at the start of the year and no recruitment allowed without EMT authorisation. Some of the new roles may be covered by capitalisation, however not all. These include a construction manager, sustainability manager, project management capacity in Engineering and in setting up a Programme Management Office, finance coordinators, and records management resource.

Estates has had additional vacancies throughout the year, resulting in [redacted] lower expenditure on wages. This has been putting the team under significant pressure on their existing resource. Lowlands engineering resource dropped significantly from [redacted] to [redacted], with the team having difficulty recruiting seasonal workers.

Rent, rates and insurance - [redacted]
Rates in property and estates was under-budgeted by [redacted] across the estate, [redacted] on the Treehouse, and [redacted] on The Falkirk Wheel. Additional insurance costs compared to the start of the year cost an additional [redacted]

Utilities - [redacted]
Savings were budgeted originally, whereas the forecast is an extrapolation of the actual cost year to date. Due to the complexity of our portfolio and the utilities working group not having any dedicated resource, savings have not yet materialised.

Utilities were originally charged on estimates of [redacted], with a working group working on a detailed action plan to ensure this area is more predictable going forward.

Repairs and maintenance - [redacted]
Additional pressures on repairs have arisen at Crinan and in Crinan Engineering during the year, amounting to an extra [redacted]. Core engineering has dropped its expenditure by [redacted], as has the estates team, however there has been an [redacted] increase in expenditure on repairs on the Lowlands, and a [redacted] additional expenditure on The Falkirk Wheel.

Cost of goods sold - [redacted]
Most of this increase ([redacted] is due to the increase in income from the Caledonian Canal Centre. Overall, the %age profit for destinations has kept steady for both the Caledonian Canal Centre and The Falkirk Wheel.

Other staff costs - [redacted]
This is mostly due to a [redacted] reduction in expected recruitment fees, with vacancies remaining unfilled during the year, and a reduction in training and mileage expected.

Company cars and vehicles - [redacted]
This increase is due to unbudgeted insurance costs, and additional hire charges for new fleet.

Professional - [redacted]
There was a [redacted] increase in audit fees since the start of the year, an additional [redacted] expected in engineering, some additional legal fees and a reduction in planning fees which were capitalised.

**B. Update on activities with HMRC compliance (as reported to ARC)**
The reconciliation to 31 March 2024 has been agreed, with the funds from Transport Scotland and associated payments made from Scottish Canals' books and records being sufficient to cover the costs including the interest. The interest calculation was slightly higher than disclosed in the 2023/24 Annual Report & Accounts by [redacted], considered immaterial, and not adjusted.

[redacted]

[redacted] has also already been paid to HMRC on behalf of the year ended 31 March 2025 to prevent any additional interest accrual. This amount exceeds the required payment to date.

A full reconciliation of the year from 1 April 2024 to 31 December 2024 has been reviewed by our VAT consultants. Although it was expected that Scottish Canals would produce a parallel run return during November for examination by HMRC, there has been significant pressure on the finance team with the ongoing external audit, system readiness for revised VAT procedures, the new electronic point of sale system going live, a financial governance internal audit, and additional 2025/26 budget and 2024/25 reforecast work required. Work will continue to go live with a model for the production of monthly VAT returns going forward.

The Corporation Tax strategy has been reviewed, with a computation produced for the 31 March 2024 financial year. Agreement on the terms of corporation tax assessment going forward is now awaiting review by HMRC. This full proposition is still under review.

**c.** [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

## D. External Audit Recommendations

Outstanding audit recommendations were reported to the Audit & Risk Committee on 20th February. As reported at the last Board, these have been partly superseded by the updated comments within the external audit report at item 7 of the Board agenda.

i. Medium-term financial strategy (AMBER) - incl VAT, Corporation Tax, Workforce Planning
ii. Capital Policies and Procedures (AMBER)
iii. Maturity of Disaster Recovery (AMBER)

It is recommended that reporting on the external audit recommendation continues based on external audit's updates recommendations on conclusion of the 2023/24 audit.

**Corporate Considerations**

- Strategic Priorities: Prioritisation of ensuring the organisation is well-run and fulfils its statutory obligations regarding financial compliance is part of our corporate plan 2023/28. This will include implementing our Investment Strategy.

- Risk/Risk Appetite: Risks have been identified as above.

- Legal: There are no legal implications arising from the contents of this report.

- Financial: There are no new financial implications arising from this report other than those detailed within the report.

- Human Resources: There are no new HR implications arising from this report.

- Fair Work First: Scottish Canals operates to ensure that we comply with the SG principles of 'Fair Work Principles,' and all HR-related matters are cross-checked to ensure ongoing compliance. There are no implications within this paper.

- Communication: Once approved, this will be shared with Transport Scotland as part of a quarterly update.

- Community & Third Sector: Nothing additional currently.

- Commercial: Nothing additional currently.

- Asset: Nothing additional currently. Depreciation is not included within this report as it is not part of the cash expenditure reflected in and reported against our cash revenue Grant-in-Aid package.

- Environment: Nothing additional currently.

- Health & Safety: Nothing additional currently.

**Conclusions and Recommendations**

The Board is asked to note the contents of this paper.

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| **Author:** | **Sarah Jane Hannah** |
| **Title:** | **Director of Finance & Business Services** |
| **Date:** | **05 March 2025** |