

EXECUTIVE DIRECTOR SPONSOR: Richard Millar

**2021-22 - Q1
INFRASTRUCTURE & OPERATIONS DIRECTORATE REPORT**

Purpose

This paper provides a summary of progress against all business areas for Q1 and was discussed and approved at EMT.

Priority

Routine.

Key Issues / Highlights

The Board are invited to comment on the update of activities across the various teams within the Infrastructure & Operations Directorate.

Q1 saw the gradual easing of Covid-19 restrictions and the canals returning to operation as well as the successful completion of the extensive winter works programme. Numerous opportunities are being explored to support major renewable projects including pump storage in the Highlands and a potential fusion energy plant on Lowlands. The Estates team have remained focused on delivering the Dundas Hill/ Borrone Street deal and returning the holiday cottages to longterm leases creating dependable income streams back to the business. The mooring business has seen a dip as a result of Covid-19 but is now showing signs of a firm recovery. Staffing resource remains a challenge particularly within the Engineering and Estates teams. Across the directorate we are operating with 10 full-time vacancies (6%) out of a contingent of 168 posts, all are being actively recruited but some remain difficult to fill. Operational teams have focussed on successfully reopening the canals and have seen reasonable activity levels with 60%-80% of normal activity levels – this activity/ income is in excess of what we had predicted within the budget model.

LOOK BACK (Q1)	
Engineering <i>(Headed up by Peter Robinson)</i>	<p><u>Key activities:</u></p> <p>The first quarter of the year saw the return of the canals to operations, albeit with some challenges remaining associated with the completion of the winter works projects due to issues arising from delays as a result of Covid-19 restrictions throughout last financial year.</p> <p>Particular challenges were experienced at Gairloch Gates and Swing Bridge and Crinan East, where the most significant and complex investment was undertaken.</p>

Progress / achievements:

The dredging programme at Laggan Spout was successfully completed, where the delays to plant as a result of Brexit resulted in close working between the Engineering Team, Customer Operations and Contractor to complete the works whilst managing navigations. The result has seen the dredging completed and the material now stored within constructed lagoons, this material is currently being analysed for consideration for reuse, resulting in a byproduct that may be marketed.

Video Link – Laggan Spout Dredging

Stockingfield Bridge is progressing well, with the first main structural elements arriving on site. There has recently been a minor delay resulting from police escorts of the elements to site, however, it is anticipated that there should be no significant impact to the overall programme.

Development work is progressing at pace on all projects as set out in the Capital Investment Programme for deployment on site this winter, with the most significant projects being at Townhead and Hillend Reservoirs, Culloch and Kytra on the Caledonian Canal, and Locks 14 & 15 and Cairnbaan Bridge on the Crinan Canal.

There remain ongoing challenges relating to the cost and availability of materials resulting from impacts related to Covid-19 and Brexit and we are working closely to manage the risks with our suppliers, who joined the framework at the start of the period, as well as understanding the short, medium and longer term implications of these risks.

A number of additional projects have been implemented as a result of the reprofiling of the programme, with a significant focus on the development of User Operation Plans for the canals, upgrading of mooring bollards pending the completion of procurement, further investment in the Union Canal culverts as part of climate change resilience measures and advance purchasing of materials, specifically sheet piles in response to the risks of price instabilities.

Challenges / how these were overcome:

There are a number of ongoing challenges relating to the interactions with 3rd party assets. The most significant of these occurred on 3rd June, when the feeder flows failed through the Monkland Pipelines, resulting in a closure to the canal, deployment of alternative sources and deploying emergency pumping and abstraction of water from the River Kelvin. The Scottish Canals team responded well, managing a complex and evolving emergency situation over the 2 week period, safely restoring operational water levels across the Forth & Clyde. Strong partnership working was needed as the supply pipes are owned by Transport Scotland and operated by Amey, while the loss of water required engagement with numerous organisations including SEPA and Nature Scot. Other unassociated issues remain regarding the operations of third party bridges on the Caledonian Canal and chemical pipe crossings of the Forth and Clyde at Grangemouth.

	<p>Retention and recruitment of staff, particularly in the M&E sector in the Lowlands remains a continual challenge, resulting in a shortfall of available staff resource. This situation has been compounded with the resignation of the Maintenance Manager, unfortunately impact on output in this area. Job Evaluation will need to take cognisance of local market factors to help sustain a stable workforce especially within M&E to avoid continuing with high staff turnover.</p> <p>There are also a number of significant opportunities being considered to repurpose and diversify our historic assets relating to renewable and carbon free energy sources, including pumped storage hydro at both Coire Glas and on Loch Ness, Hydropower at Banavie to be combined with sewerage heat recovery and district heating and potentially supporting pilot fusion power on sites adjacent to the Lowlands.</p> <p>The NGIWMS Smart Canal won the Water Industry Awards for Surface Water Management Initiative of the year in June. It is also being considered as part of Glasgow City Council's demonstrator projects for COP26.</p>
<p>Estates <i>(Headed up by Fiona MacFadyen)</i></p>	<p><u>Key activities:</u></p> <p>The Dundashill / Borron Street asset swap was completed in the quarter, with a lease extension also negotiated at Borron Street over three units let [REDACTED]</p> <p>The team continues to maintain statutory compliance across the estate while progressing new mooring agreements as demand increases in line with the reopening of the canals post-Covid, and undertaking a five-yearly review of the Moorings Pricing Strategy which is currently ongoing. Concurrently, the Job Capture exercise has been completed for the wider Job Evaluation project.</p> <p>Q1 has also seen the closing date and evaluation of offers for Custom House and Phase 2 Arches at Bowling, negotiation of the voluntary transfer/purchase of third-party owned canal section at Port Dundas, and the conclusion of missives with Jacobite for new leases over 3 lots securing [REDACTED] per annum rent.</p> <p><u>Progress / achievements:</u></p> <p>The Dundashill: Borron Street / Payne St asset swap transaction was fully completed on 5th July 2021. Funds have been transferred and SC has 100% ownership with effect from that date. Borron Street continues to show 77% occupancy with current rent roll c [REDACTED] pa. Payne Street is fully let showing a headline rent of £ [REDACTED] pa.</p> <p>Sale of Plot 3 to West of Scotland Housing Association (WoSHA) – terms are agreed to sell plot 3 for the sum of [REDACTED]. The transaction has been delayed due to WoSHA undertaking further due diligence around the contamination works carried out. The sale is currently still anticipated to conclude during FY21/22.</p>

All twelve residential properties from within the Canalside Cottages portfolio have now been let, securing an annual income of approximately £ [REDACTED]

Comprehensive refurbishment works to create rooms to let and shell restaurant space have been completed at Custom House and Phase 2 arches, Bowling, with the opportunity placed on the market in early February. At the initial closing date on 2nd April, 12 bids were received and following a detailed evaluation process five of these were asked to submit detailed proposals at a second closing date on 21st May. A preferred bidder has been identified following a second evaluation exercise and heads of terms are currently being negotiated with a view to obtaining EMT approval to the preferred tenant in the next few weeks. Timing for operation of Customs House will be immediately the lease can be put in place, the restaurant offer in the Phase 2 arches is likely to be c. 6 months later to allow for statutory consents process and tenant fit out.

Mooring occupancy levels have dropped in Q1 falling below KPI (81% against a target of 85%) as several customers left the canal and were unable to be replaced at the time, particularly in the Caledonian leisure portfolio. However, we are seeing increased demand and the easing of restrictions has now allowed the moorings team to begin processing new customers again with 8 new moorings now sold in the Caledonian and a significant number of offers out across the network.

Additional operational property valuations of c.55 properties were completed and reported on schedule as part of new FReM requirements.

Challenges / how these were overcome:

As at the end of Q1 the Estates team of 9 staff is carrying three vacancies (30% of the team) which will have a significant impact on capacity. One of the vacancies is the Moorings Manager which is a critical role in day to day delivery. The Estates team will continue to prioritise workload in line with business need focusing on business-critical issues whilst recruitment is underway.

Moorings compliance continues to sit below target as the back log in Boat Safety Inspections is being resolved. KPI sits at 81% against a target of 90% but this is increasing month on month as restrictions are eased and Inspectors recommence work. Risks associated with non-compliant vessels are being actively monitored and managed to ensure the safety of our customers.

	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>Property Maintenance has affected by shortage of materials and sub-contractor availability (reflecting Covid-19 and Brexit challenges). This is causing a backlog of maintenance/repair work to accrue, as well as an increase in material costs. There is concern around future impact on budget and spend.</p>
<p>Customer Operations: Highlands & Lowlands <i>(Headed up by Russell Thomson for Highlands & Mark Smith for Lowlands)</i></p>	<p><u>Key activities</u></p> <p><u>Highlands:</u></p> <p>Both highland canals have been fully reopened to both commercial operators and transits. Due to Covid-19 constraints and to construction delays/extension to works scope these dates were slightly delayed to end of April for the Caledonian Canal and to the 14th May for Crinan.</p> <p>Average activity across Highlands was c. 65% transit numbers and 80% of activity levels.</p> <p>Work has continued on the Caledonian Review to define the existing and future the business dynamics, baseline the future resource requirements and define a plan for operations and investment levels required to deliver a modern and flexible canal.</p> <p><u>Lowlands:</u></p> <p>The late start to the boating season due to Covid-19 restrictions allowed additional resources to be directed to preparing the canal for opening, which in turn allowed greater effort to be applied to defect resolution, focusing particularly on channel improvement. Nonetheless, some sections of channel were not accessible during this time due to ongoing investment works.</p> <p>Permanent staff recruitment has seen a new full-time member of staff join the Union Canal team following the retirement of a long-standing member of the workforce.</p> <p>Operational Planning is developing across the canal network with Canal & Maintenance Managers focussing resource towards defects resolution which has seen nearly 500 defects resolved in Q1 across the network.</p> <p>The Maintenance Team is supporting Lowland operations and Volunteering for a period whilst recruitment of senior staff is ongoing. This has proven positive for both functions realising a focussed resource on defect resolution and delivering volunteering events.</p>

Progress / achievements:

Highlands:

Achieving activity levels and income to plan (for the period during which the canals have been open).

Lowlands:

The Lowland Canal networks was successfully opened to traffic as scheduled for the May Bank Holiday weekend, from . (date)

Boat movements have returned and there is an exciting level of activity across the canals.

Lock keeping services are being supported on the Falkirk Flight by Go Forth & Clyde, a third sector organisation who successfully bid to provide this service. This service has been operating very well.

Our staff have coped exceptionally well with Covid-19 restrictions, this is particularly noticeable along the towpaths where we have seen an increase in tow path users of over 1 million people across the entire canal network as more and more people recognise the benefit of our canals.

Challenges / how these were overcome:

Highlands:

Constraint of being limited to 'essential works' has meant that some service standards have slipped from normal e.g: facility block maintenance, availability of refurbished pontoons, lockside maintenance. These issues have been successfully managed by front line communication and signage, once the Covid-19 restrictions were lifted the team have worked team tirelessly to resolve these issues.

At locations where winter works ran over it has been challenging to deliver customer operations in construction environments as well as resolving snagging issues. A few complaints have been received from boaters but these have been resolved predominately at a local level.

Minor challenges have continued in securing and retaining sufficient seasonal staff, this has presented difficulties and added burden to those staff trying to cover for those gaps.

Business planning (Caley Review and adjustments to Crinan operating model), again when in full operating mode.

Emerging issue in respect of water resource on Crinan.

Lowlands:

	<p>Seasonal recruitment has been much more challenging with applicant numbers considerable reduced on previous years. We have successfully filled two thirds of the posts. Whilst these vacancies are not impacting on the service to boaters they are impacting on resources available for canal maintenance.</p> <p>Water resources were cut from the Monkland Pipeline without notice which led to a closure of the Forth & Clyde Canal (west) during June. The situation was resolved but two weeks of boating were lost as resources were diverted to address safety concerns.</p> <p>Volunteering has been slower to recover from Covid-19 restrictions for formal events, but we have seen an increase in people working “independently” to improve their own environment. Formal volunteering for Scottish Canals is now returning with notable successes in Falkirk, Coatbridge, Glasgow, Clydebank and Bowling</p>
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LOOK FORWARD (Q2)	
<p>Engineering <i>(Headed up by Peter Robinson)</i></p>	<p><u>Priorities in the next quarter</u></p> <p>Q2 see further development of the projects for the winter works, along with the development of projects to inform the business planning and investment planning to be carried out in Q3.</p> <p>Ongoing discussions relating to third party challenges and opportunities as well as confirmation from Transport Scotland to fund and progress the Phase 2 Monkland Pipeline 2030 Strategy to explore alternatives to the current pipes.</p> <p>Recruitment into the Lowland Maintenance and M&E Team will progress to return the team structure towards a sustainable position. Succession planning across the teams remains an ongoing focus, resolving this issue should enable teams to be able to accommodate potential apprenticeship recruitment an progress an important aspect of long term technical sustainability.</p>
<p>Estates <i>(Headed up by Fiona MacFadyen)</i></p>	<p><u>Priorities in the next quarter</u></p> <p>Q2 will see the conclusion of the Dundashill sale to WoSHA</p> <p>Q2 will see the documentation of a surface water drainage agreement with Scottish Water, while negotiations will progress to agree water abstraction and discharge to facilitate the development of Scotland’s first inland surfing lagoon in Edinburgh at the Wave Garden. Water ingress at Blowing Arches 2 & 3 are also expected to be resolved.</p> <p>Recruitment is a priority in Q2, with the vacancies of Moorings Manager, Estates Surveyor and Crinan Property Maintenance Technician required to be filled. We also expect to procure consultants to progress the Moorings Pricing Review and development of the Bluebox Property Management System to incorporate a finance interface.</p>

	<p>In terms of transactions, we expect to conclude the sale of Dundashill to WoSHA, complete the transfer of land required for Stockingfield Bridge, and conclude the contract for the voluntary transfer of land and water at the island site at Pinkston. Q2 will also see the closing date for offers on the Steamer Terminal.</p> <p>Ongoing interactions will include the pursuit of a commercial agreement at Edinburgh Quay with neighbouring developer, Vastint, continued engagement of interested parties at Treehouse and consideration of marketing options, and determining investment feasibility for refurbishment and letting at Borron Street Units 23 & 24.</p>
<p>Customer Operations: Highlands & Lowlands (Headed up by Russell Thomson for Highlands & Mark Smith for Lowlands)</p>	<p><u>Priorities in the next quarter</u></p> <p><u>Highlands:</u></p> <p>Continue to deliver safe and effective customer operations in the hope of continuing to receive 60% + transit numbers and increased commercial operator activity.</p> <p>Secure final approval for Caley Review</p> <p>Commence engagement with ‘super users’ for training on caley structures (Dochgarroch)</p> <p>Deliver the freight review for Ardrishaig.</p> <p>Agree opening dates for 2022 in acknowledgement of 200 years of the Caledonian canal and our plans for the winter works programme.</p> <p><u>Lowlands:</u></p> <p>Boat movement are expected to remain strong for the remainder of the season and with the recent good weather, a concerted effort will continue towards channel clearance. Final “sea trials” and minor modification to the recently purchased aquatic weed harvester will support this goal.</p> <p>At this stage in the season seasonal recruitment will only get more challenging so we will potentially rely on some focussed and planned over-time to support the service.</p> <p>Developing operational planning to address defect will be a main focus for this quarter, along with developing plans for winter works.</p>

Corporate Implications

- **Strategic Priorities:** Clarity around funding has allowed an early start to the capital Investment programme planning and resourcing. Asset risks are being managed in line with the principles set out in the Asset Strategy. Commercial/ income has been affected by COVID-19 however significant success in this area has stabilised income levels and provide a strong foundation moving forward

- **Risk/Risk Appetite:** Short term asset risks are being managed, Scottish Government have indicated continued capital and revenue investment for Scottish Canals over the next 3-5 years which will help to continue to manage asset risk. Risks exist as a result of COVID-19 and any associated economic downturn in relation to the leisure and commercial markets which we operate within, these are being monitored and managed in the short term. Climate change continues to concern the asset teams as extreme weather incidents continue to be encountered especially in relation to intense rain events.
- **Legal:** We continue to work with Network Rail to assert our legal rights in regard to operating the canal below Clachnaharry Railway Bridge. No formal legal claims have been received in relation to the Muiravonside Breach however Network Rails Lawyers continue to request information, we continue to support with information the collation of responses by our insurers lawyers. We continue to support our insurers loss adjustors in discussions with the local landowners effected by the breach.
- **Financial:** Budget provided to infrastructure remain lower than defined as necessary within the Asset Management Strategy but improved trading in Q1 is helping to maintain the defects budget.
- **Human Resources:** We continue to monitor and respond to the mental health and wellbeing effects of the COVID-19 lockdown on our staff. HR are providing strong and appropriate support to affected individuals.
- **Fair Work First:** Scottish Canals endeavour to work within the Fair Work First principles/ and good progress is being made on a number of initiatives both on the water and within local canal side communities.
- **Communication:** This has been an important focus both internally and externally during this challenging quarter. The use of video conferencing, phone, WhatsApp and other social media platforms continues to maintain our team spirit and collegiate approach during this period.
- **Community & Third Sector:** Scottish Canals continue to work with a number of third sector partners during this period and good progress is being made on a number of initiatives both on the water and within local canal side communities.
- **Commercial:** Quarter 1 has been challenging within our commercial portfolio and for our commercial operators as there business come off of support and business gradually returns to the waterways. We continue to support in line with agreed policies and will monitor the situation going forward.
- **Asset:** Significant implications of the reduced revenue asset investment is being managed in line with our asset management strategy. Focussed planning time has allowed us to build a strong foundation for our 2021/22 £7.8m asset/ £12.2m total capital works programme.
- **Environment:** Smart Canal switch on is planned for late August and associated publicity plan is being developed with the comms team ahead of COP26.

- **Health & Safety:** Loss of water supply to the F&C presented numerous H&S issues which were managed, similar plans are being compiled should Crinan Water supply become problematic in September

Conclusions and Recommendations

The board is invited to note the contents of this paper, and to highlight any queries or interest about the activities referred to in the update.

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