

ANNUAL MEETING 2011
Tony Hales, Chairman, British Waterways

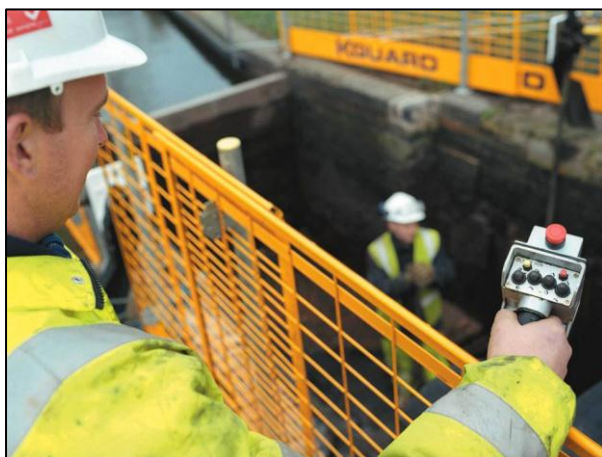


by those communities.



10000 in the last decade.

3. There are now 13 million people using the towpaths – a quarter of all U.K. adults.



spend which is often unseen but which if neglected threatens the long term viability of the network or whether to focus spend on more obviously visible maintenance such as dredging,

These are challenging times for Europe, our country and our canals and rivers. But while they are challenging times, they are also exciting times for us. My focus and the focus of my colleagues is all about creating a sustainable future for our canals and rivers, encouraging their maximum use by all communities and in doing so creating a real sense of ownership and responsibility

British Waterways has achieved a great deal over the years. Let's consider a few facts:

1. The last decade has seen the first serious expansion of the network since Victorian times with over 200 miles of new and restored canals being opened.
2. There are more boats on the system than even at the height of the Industrial Revolution with 35,000 licensed boats – up

But what about the condition? – surely - I hear some of you say - it is all going to rack and ruin. That is just not borne out by the facts. In caring for the canals and rivers in our stewardship, we have had to make hard decisions in recent years as available funds have been tight. The choice was whether or not to focus spend on the principal assets such as embankments, tunnels, locks etc.,

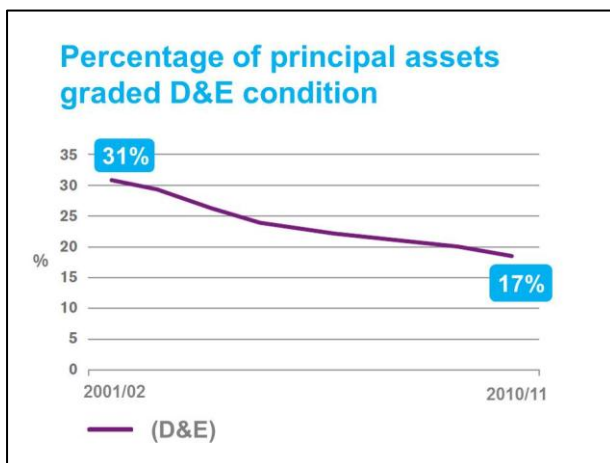


graffiti removal or refuse clearance. We want to do as much as possible of both but we have definitely concentrated on the principal assets because we believe that we must prioritise the network's long term viability. The big individual items are in the first category but of course no user sees much of that money unless something breaks. I appreciate everyone sees locks but the average user does not see the state

of a reservoir, or particularly a culvert. On the other hand that couple of inches of missed dredging or that overgrown tree jutting out is a real irritation.

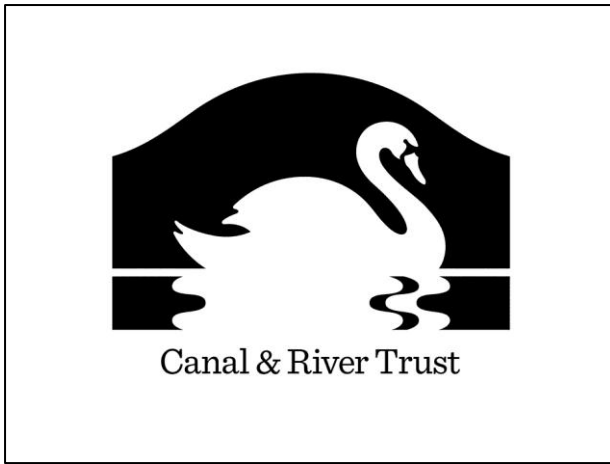


British Waterways' priority over the last 10 years has been to improve the long term state of those main assets, while holding the day to day maintenance at a just reasonable level. We of course want it to be better than 'just reasonable' and our preferred standard is based on a model with a higher spend – often referred to as steady state. You know we are not there, we know we are not there, but this requires higher expenditure than currently available.



On the other hand the investment in the major assets has delivered a steady improvement year over year. You will see from this chart the steady progression as shown by the reduction in the percentage in assets in the lowest two grades of condition. The system is not only larger than 10 years ago, but its asset foundations are in better condition.

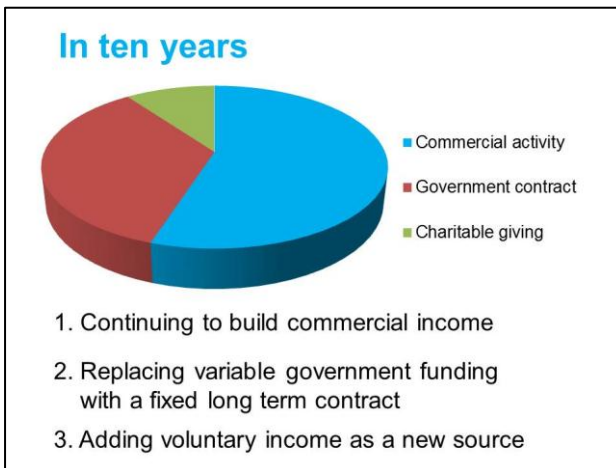
However, with the further squeeze on public expenditure required to address the national debt problem not only will we have not achieved our higher aspirations on customer standards on dredging and vegetation, etc., but the underlying improvement of our main



assets will be threatened. Hence the need to explore new sources of income such as from charitable funds. Funding and governance go hand in hand and in our move to create the Canal & River Trust, or Glandwr Cymru, we are determined to have an organisation that is more accountable to and in touch with the communities we serve, and they in turn must recognise the

responsibility that greater ownership brings.

Robin will go into more detail on the Canal and River Trust plans but I want to particularly emphasise one point. In ten years' time, we expect the balance of income for the Trust to be primarily from our commercial activity – representing well over half of income, secondly from government contract and thirdly less than 10% from charitable giving. Our strategy is not predicated on replacing annual government grant with voluntary giving. Our strategy is based on:



1. Continuing to build commercial income
2. Replacing variable government funding with a fixed long term contract
3. Adding voluntary income as a new source.

The Trustees have carefully examined the commercial income and voluntary income targets, and are satisfied that they can be achieved, and the contract is, as you know, subject to negotiation with the government at the moment.

I do not pretend that delivering any of these target income streams to the levels we aspire is easy but it provides a better balance than currently and a real opportunity to grow if we truly meet the needs of the widest communities that we serve, and I stress widest - as a narrow focus will fail.

Droitwich Barge & Junction Canal



Let me now return to the progress last year. The major expansion of the system was the opening of the Droitwich Barge & Junction Canals to make a new weekend ring. I lived in Droitwich in the seventies when Max Sinclair started his campaign and all credit to him and his many supporters for his perseverance against the odds. It took nearly 40 years but it gave me enormous delight to be present

when Caroline Spelman, our Secretary of State, officially opened the restored canals. And then in September my wife and I had the pleasure of navigating the ring ourselves with some friends. Thank you again to all the funders, volunteers, councils and the British Waterways team who came together to complete a really challenging job. This was like nearly every major restoration, a real partnership of committed volunteers, the professional muscle of British Waterways, the active help of local councils, and the funding of HLF and others. We get stuff done when we all work together for a common purpose and equally we tend not to get stuff done when one party is working to promote itself to the cost of the overall partnership.

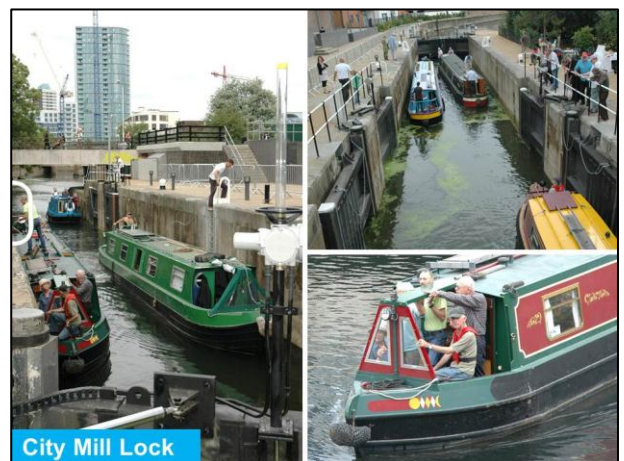
The other restoration highlight is the continuing progress of the East London waterways



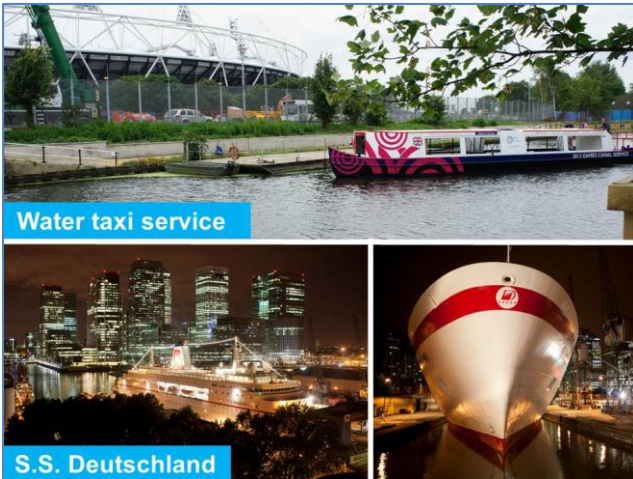
East London Waterways

around the Olympics. The area has been transformed from a collection of dirty ditches to some magnificent waterways surrounding iconic structures and flanked by wonderful parks and walkways. This year saw the restoration of City Mill Lock, celebrated by our

friends at the St. Pancras Cruising Club and the Three Mills Mooring Association and the first stage of the full restoration of the Carpenters Lock was achieved. Gold medallist Jonathan Edwards also opened the new stretch of towpath at Bow, which now creates a glorious uninterrupted walk or cycleway for 28 miles from the Thames to Hertford.



City Mill Lock



Water taxi service

S.S. Deutschland

Incidentally a new water taxi service with over 20 boats staffed by ex-service personnel will provide access to the Olympic Park using the Limehouse Cut and River Lea navigations. And just down the waterway in case you missed it, this is picture of the largest boat ever moored in Canary wharf – the S.S. Deutschland, soon to be paying a good rent negotiated by our commercial team providing useful extra cash for the waterways. Some of these restored waterways will be excellent for canoe use, the fastest growing sport in the UK. The prestige canoe project for us has been the new Olympic standard slalom course at the Tees Barrage, opening in the next month at a cost of over £4.5 million – and another signal that waterways encourage use by everyone.

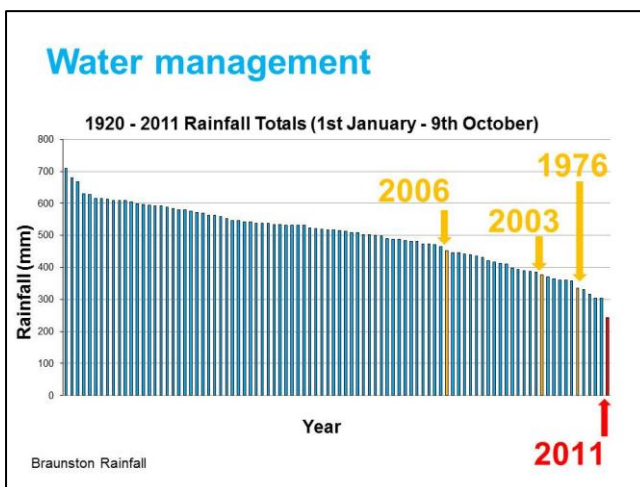


Rochdale Canal

- Lock 26
- Construction cost £430K • Programme 14 weeks

I mentioned the long term progress on asset condition earlier, but just to focus on last year, the percentage of assets in D and E condition – the two worst conditions - fell again from 18% to 17% and here are just a few photos of some of the major jobs that were completed on Sharpness Lock, the Grand Union canal, the Ribble Link and the Rochdale.

I would also like to say a word about water management, this year we experienced the driest



Spring in England since the Met Office records began in 1910. The dry weather continued and this graph shows the rainfall at Braunston for every year going back to 1920 for the period January to October. Those from Scotland may not recognise this picture but we had a truly exceptionally dry year in England and Wales overall. In addition one of our main reservoirs, Chasewater, was not in

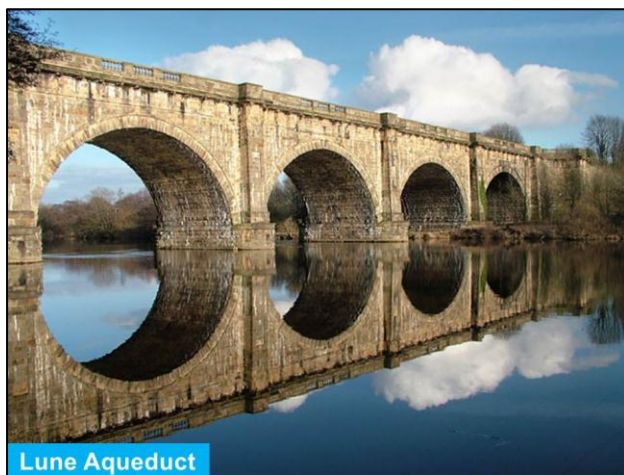
operation due to major repair by the Council. Despite that, so far this season no canal was closed (although we have given notice that it's highly likely we'll have to close the Leicester Line around Saddington just before the end of the boating season – 24 Oct) and restrictions

were relatively modest with most of the network open for normal use. Yes levels were dropped to a point which made the bottom a bit too close for comfort at times but overall I believe our team and their SCADA technology really squeezed the maximum out of a very limited amount of rainfall. We'll make sure we learn the lessons from the restrictions we had to put in place this year, to try to minimise the impact of similar droughts in the future, and we'll be keeping a close eye on our reservoirs to see how they refill over the winter.



We share our water and their banks not just with people but with nature. Our ecologists and environmentalists do sterling work to encourage most plant, fish, birds and fauna to flourish and to discourage a few exceptions like Japanese knotweed, floating pennywort, cannibal crayfish and the cruel mink. On the positive side we have worked with the Angling Trust on fish restocking; the

number of kingfisher sightings doubled, and new programmes to support bats, owls, newts and dragonflies are examples of work that has been instigated. This is important for our national and local eco culture maintenance in the long term as well as providing an important educational and interest feature for visitors. This all takes resource and skill and maybe is not always obvious to the casual or focused user.



As well as nature our heritage role is vital, with over 3000 listed structures to care for. We work closely with English Heritage; we enjoy tremendous support from the Heritage Lottery Fund for example their support in repairing the stunningly beautiful Lune Aqueduct. We were also delighted that British Waterways' engineers were given a special award recently by the Institute of Civil Engineers for their

“exceptional commitment to maintaining and enhancing engineering heritage”. In addition to our growing band of heritage trained and qualified staff, committed to preserving the very best traditions of our network, thanks also go to the support of some wonderful volunteers including the BWA Heritage Committee, chaired by Dave Fletcher and their regional advisors. Our Heritage Open days have been well attended and like the Major Work Open

Days demonstrate a new openness in British Waterways, which has been warmly welcomed and indeed experienced by many people. We also have new heritage, if that is not a misnomer, but I include in this the new stunning Hepworth Art Gallery in Wakefield built on our land next to a wonderful historic warehouse nearby. While sustaining art is not one of our core roles it is yet one more aspect of community engagement that we encourage and can be complimentary to the whole experience of visiting the waterways.

Another huge success this year has been the growth of volunteering. I would like to thank all



our volunteers, many new but of course some great stalwarts from the WRG and the many IWA branches. I would also like to thank my BW colleagues for their new openness in embracing volunteers in so many functions from the bankside to the office. Our volunteering days have tripled from 8,000 in 2007 to over 24,000 in 2010, which we value at over £1.6m. And our volunteers came from many sectors of

society including bankers and those in the justice system. Not only are their efforts valued in their own right, but every volunteer is someone who feels a greater sense of ownership and responsibility for our lovely waterways. We have more to do to ensure people are effectively organised and can get on the job without hanging around for briefings or materials. We have more to do in ensuring volunteers experience variety and find interest in new activities and insights and we have more to do to recognise volunteers and volunteer leaders, but come with us and help us on this journey. Clive Henderson's advice to our board on this matter as well as more generally has been really helpful as well as providing a valuable link to the largest waterway voluntary grouping.



Scotland will be pursuing a separate path next year and this will be my last time to report on matters north of the border. I believe the Scottish canals have an exciting future and they will continue to be great icons for the Scottish people as they promote tourism and the wonderful natural assets of Scotland to the wider world. A perfect example of this took place just last month with a fantastic, colourful celebration of the 10 year anniversary of the reopening of

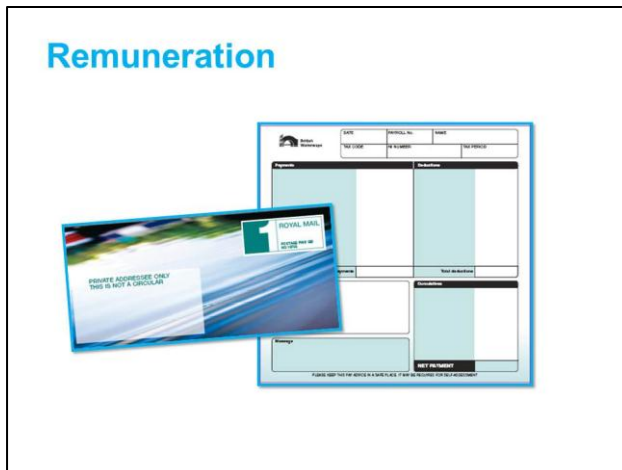
the Forth & Clyde Canal with the largest flotilla in living memory gathering on the Canal at Speirs Wharf in Glasgow.



In these straightened economic times, affecting all of the United Kingdom, the relentless drive to reduce costs goes on and this year further reductions have been made to the cost base. Over the last 3 years management layers have been reduced, fewer people are delivering with greater productivity, teams have been more focussed on delivering specific measurable outputs and national contracts have

replaced a myriad of local contracts that were more costly and administratively burdensome. A significant reduction in office facilities is also in hand with the planned closure of the Paddington and Watford offices.

The former pension scheme has been closed to new entrants and amended for all current staff to both reduce absolute cost and to reduce the level of risk to British Waterways and its successor trust. It remains an excellent scheme and a valuable part of the remuneration package for all current employees.



Having raised the issue of remuneration, I am well aware the whole issue of directors pay is one of great public concern at the moment particularly when everyone is being pressured economically. At British Waterways we have excellent directors, they are good people with great capability, who are very committed, work hard and have delivered tremendous progress not just in running today's organisation but in

visioning and planning a new waterways fit for purpose in the future very different world to the one we have experienced. They do not set their own remuneration, an independent committee of the Board, chaired by Rodney Green, does that taking external advice on relevant comparators for our sector. Last year the Remuneration Committee agreed performance payments for directors that reflected excellent performance and which were within the framework advised by our sponsoring department Defra.



Clearly the overall economic situation is changing, and with it public attitudes and policies to directors pay has changed. Our pay policies have been part of a culture that has delivered great performance but future policies will need to reflect changes in our society and in our status. Our move to trust status will of course influence our comparator group for remuneration purposes.



The Transition Trustees, led on this issue by Jane Cotton, deputy Chief Executive and HR Director of Oxfam, have commissioned an independent study covering all aspects of director remuneration using independent consultants, and in due course a summary of this study will be in the public domain. You will understand that I cannot give specific details just now as

these have personal implications for individuals and are subject to proper discussion and consultation recognising there are contractual issues involved but the directors have been aware of the potential issues from the outset of this proposal and are keen to resolve them. I can say that our research shows performance pay at director level in the charitable sector is awarded more by exception and then at lower levels than those currently applying in British Waterways. There is nothing much further I can add today but I think I have given a reasonable indication of future direction of travel on this sensitive subject. We must never forget however that we are in a competitive market and earn most of our income from the business side of our activities, and we must also recognise that there is a clear market for engineers, accountants, surveyors and even fundraisers and yes directors. If we want quality, and we do, we must recognise that, in the right balance of our reward structure for all our employees, whatever their job. The Transition Trustees will make a further statement on director remuneration policy in due course and well before the charity commences operation.

ANNUAL REPORT & ACCOUNTS 2010/11

- Grant 16% 
- Commercial income 3% 
- Gains on property transaction **2x**

Let me return to last year and our income sources. Government grant was £59 million including Scotland, down 16% on the previous year, much in line with the cuts across similar government functions. In a difficult commercial market, our commercial income grew 3% and our realised gains on property

transaction generated £11 million, double the previous year. The property market is cyclical with some periods of strong growth followed by times of even sharper falls. We cannot manage a large portfolio like ours to try to guess each short term turn in the market but our aim is to exceed the overall market returns when measured over time.



I am happy to confirm that over 3, 5 or 10 years our management teams have exceeded the IPD measure of return – this being the consensus benchmark measure in the property world, and this performance was recognised in a number of government reviews. Our overall reserves also increased by 13%, taking us forward again in the right direction.

Some particular highlights in a good commercial performance were licence income up due to more licences than ever, and a particularly strong performance from utilities, up 17% to £25 million due to a number of new agreements negotiated. Of course in a competitive and difficult commercial world, not everything went well with the property market being particularly volatile. Nevertheless overall we again exceeded our targets and all the extra goes into more maintenance work on the system.



Let me end on a personal note. This summer I have been out nearly every weekend visiting one festival or another. Many of these festivals are very young and they are all going from strength to strength. They are organised by some remarkable volunteers in the community and while they are centred on the canal and the fascination of boats – old and new – they really embrace the whole community.

To me they epitomise our future where we engage community after community in owning, loving and using their canal and river as a resource for all. Our team have quietly facilitated these events and I hear nothing but praise for our local waterway teams in their role to help so let me emphasise my thanks to all our people wherever they work.



They are proud of their waterways and they work hard to make those waterways fit for purpose and enjoyed by millions of people. BW has changed and will change much more yet as we learn to work with a new Council and new Waterway Partnerships. We are making mistakes, and we will continue to make mistakes but nobody and no enterprise achieves change and

progress without pushing the boundaries and making mistakes. This however is a time of great opportunity for us to come together with all parties examining their position – not just BW or the new Trust – but all parties. We are making progress on all fronts, and at a time when our society is questioning its fundamental values – I hope for the better – our canals and rivers can play a huge part in education, health, restorative justice, economic regeneration and so on, but particularly in bringing whole communities together to share a wonderful national resource in a truly civilising way. Navigation is of course essential and the point of difference in our linear parks but it must never be our point of exclusiveness as we move towards a new status, with new governance and a new relationship with government and wider society, I ask you all to seize the opportunity of putting old differences



behind us, seize the day, and seize the challenge of building new partnerships where all of us who love our waterways learn together to sustain our fantastic waterways for future generations.