

FOR PUBLICATION

Minutes 04/101 to 04/128

BRITISH WATERWAYS BOARD

Minutes of the Board Meeting held at the
Hanover International Hotel, Hinckley, Leicestershire
on Thursday 22nd July 2004 at 9.00am

PRESENT:

Dr G P Greener (Chairman)
Ms S T Achmatowicz
Dr C Christie
Mr I M Darling
Professor G Fleming
Mrs H Gordon
Dr D R Langslow
Ms J A Lewis-Jones
Mr T Tricker

IN ATTENDANCE:

Mr R Evans	Chief Executive
Mr J Froomberg	Commercial Director
Mr N Johnson	Legal Director
Mr J Lancaster	Managing Director Southern Waterways
Mr V Moran	Personnel Director
Mr S Salem	Marketing & Communications Director
Mr S Sim	Technical Director
Mr M Smith	Finance Director
Mr C J Howells	Assistant Secretary

APOLOGY FOR ABSENCE

Ms A Malik - illness

BOARD MEMBERSHIP

The Board expressed its appreciation of the contribution of Sir Peter Soulsby to its work over the past six years, including as Vice-Chairman. Sir Peter had resigned as a consequence of his candidacy for the Leicester South by-election.

The Board welcomed the re-appointment of Dr Campbell Christie for a 3-year term and his appointment as Vice-Chairman.

BOARD VISIT/DINNER

The Board welcomed Mr Lancaster and thanked him for the arrangements for the site visits the previous day and for arranging the working dinner on Corporate Social Responsibility and sustainability issues, which had followed.

HLF COTSWOLD CANALS BID

Board Members also expressed appreciation to Mr Lancaster and his team for the Stage One pass from the Heritage Lottery Fund for BW's bid for £11.3 million to restore a six-mile length of the Cotswold Canals. It was agreed this success reflected BW's credentials as an organisation which delivered high quality restorations on time and to budget.

MINUTES

The Minutes of the Board Meeting on 3rd June 2004 and of a Special Meeting of the Board on 19 July 2004 were confirmed and signed. The latter meeting discussed the Board performance evaluation process, which led to an agreed Board Improvement Programme.

MATTERS ARISING

River Carron - Safety

- 04/101 The Technical Director reported that he had examined the operational procedures for the River Carron and was able to confirm that it was safe for use.

Non-Executive Directors' Remuneration (Minute 04/60)

- 04/102 The Personnel Director advised that there was no progress to report in this matter but the representations to DEFRA would continue. The Legal Director confirmed the responsibility of the Minister under the Transport Act 1962 for determining the remuneration of Board Members.

Government Funding (Minute 04/61)

- 04/103 The Chief Executive reported that DEFRA had secured a 1.2% real increase in funding in its Budget, but this was earmarked for waste and climate change initiatives. He understood from conversations with Mr Roberts that notwithstanding this DEFRA remained receptive to BW's case and would do its best to restore the level of funding.

BP Grangemouth (Minute 04/62)

- 04/104 The Chief Executive reported that his meeting with his counterpart in Scottish Water had not resulted in any significant progress. On BW's submission to the Office of Fair Trading, it was reported that OFT was seeking advice from OFWAT.

Waterscape (Minute 04/77)

- 04/105 The Communications Director confirmed that the meeting of the Group of Board Members to review aspects of the operation of Waterscape would take place shortly.

Health & Safety (Minute 04/83)

- 04/106 The Technical Director highlighted the work in progress on a communications strategy for the safety transformation programme. This included a pocket-book with concise information on Health and Safety for use by those on the canalbank. It would be ready by the end of August.

Report on Market Research (Minute 04/91)

- 04/107 Mr Tricker, who had not been present at the previous meeting, advised that he had taken up with the Executive team the need to reinforce the approach to “measuring the vision” with respect to recruiting new customers. He felt it was strong on retention but did not cover sufficiently what potential new visitors to the waterways might be looking for and to providing that.

The Chief Executive confirmed that additional questions to cover this were being considered for inclusion in Waterscape and the national user surveys.

Seasonal Workers (Minute 04/98)

- 04/108 The Personnel Director had reviewed the benefits for seasonal workers and confirmed that during the period they were with BW their benefits were, in almost all respects, the same as for permanent employees e.g. pay, pensions and training. He was establishing whether there were any other benefits that applied to permanent employees that could be available to seasonal workers, such as the company’s learning grant.

CHIEF EXECUTIVE’S REPORT & FINANCIAL REVIEW

- 04/109 The Board noted BWB 3145.

End to End Review

- 04/110 The Chief Executive reported on the meeting of the Review Steering Group the previous day and the progress being made.

Further meetings were planned which would lead to a draft of the Review Report going to the November Board. A joint meeting of the Board and the Waterways Minister to discuss it would probably be held in December.

Noting the different emphasis that may be emerging in Scotland, the Board agreed Dr Christie’s proposal that those involved should meet to review BW’s position before the planned meeting with the Scottish Executive on 26 August 2004.

Annual Pay Review

- 04/111 Dr Christie welcomed the information on pay increases across groups of BW people following the conclusion of the Annual Pay Review. He suggested this should be presented for the last 3 years in order to give fuller context. Board Members referred to their discussions with BW people generally on pay and the review of contribution pay currently in progress.

The Personnel Director advised that it was BW’s policy to match its pay bands to the market median using data provided by Hay MSL. He would be happy to provide this data to Board Members, who wished to see it and to brief them on the progress of the contribution pay review.

Business Area Performance Reviews

- 04/112 Quarter 1 Performance against plan and full year forecast for the business areas was reviewed.

Work to ensure the disposals programme was back on track was highlighted. Registering title in advance of disposals in the future would help prevent many of the delays currently being experienced.

The risk to the achievement of moorings income was noted as was the work in hand to restore this to plan level.

Dr Langslow welcomed the approach to access at Standedge and Anderton Visitor Centres with only a charge for car parking, which he felt would give social inclusion benefits with increased visitor numbers and spend.

Ms Achmatowicz referred to the informative session on small businesses during the Board visit. She felt that the broad objective of doubling visitor numbers by 2012 was not being translated into effective and co-ordinated initiatives at local level that would support this. The Chief Executive responded that whilst the delivery of strategy was based primarily on national initiatives, particularly ventures, there was always a place for local initiatives. He felt that these initiatives did not need to meet the same commercial returns as the large projects. The two should be run in parallel and the Service Managers would help in getting this right.

On ventures, Mrs Gordon noted that ISIS was bidding competitively for three non-BW sites. She emphasised that the priority was dividend growth not activity per se. The Commercial Director confirmed this was the priority; but work was needed to plug a potential fall-off in business in future years.

The Board agreed the approach to business area review was helpful and looked forward to future reports on this basis.

Chief Executive's Briefing Paper

04/113 The Board agreed that the balance between the Chief Executive's Report and his Briefing Paper was appropriate and reports should continue on this basis. Board Members would continue to take up points in the Briefing Paper with the Executive Team outside the meeting.

Two items in the Briefing Paper were highlighted. On casinos, it was agreed BW would adopt a cautious approach to potential partnerships¹.

On change in BW, it was accepted that the right long-term decision for BW had been taken. The importance of minimising adverse outcomes for customers and the work on this was underlined. It was accepted this was a major cultural change for BW. Careful attention would be given to monitoring satisfaction reviews to ensure BW was getting it right.

[Ms Lewis-Jones left the meeting for a previously arranged engagement.]

CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY PRIORITIES

04/114 The Chief Executive reported that the outcomes from the discussion on corporate social responsibility and sustainability priorities the previous evening would be taken forward in the preparation of the Strategic Business Plan.

OPERATIONAL PROJECTS (BWB 3144)

04/115 The following projects were approved:

¹ Explanatory footnote: The Board was considering a reference to interest from public and private bodies in the development of casinos on brownfield sites including docks and harbours, in the light of anticipated reforms of the betting and gaming laws.

- **Replacement Programme for BW's Maintenance Craft [Phase 1] £400k 2004/05; £1.2m pa from 2005/06;**

The Chairman stressed the importance of logging the expected benefits of the project going forward. It was confirmed this would be undertaken by the recently established project control team. On the field trials of the vessels involving BW people it was important that they all understood and were signed up to this process and its outcomes.

- **Rimmers Swing Bridge, Leeds & Liverpool Canal, £650k Arrears Programme;**
- **Dredging, Trent & Mersey Canal (Meaford) £660k Arrears Programme;**
- **Dredging Staffs & Worcester Canal (Rodbaston) £946k Arrears Programme;**

The Technical Director confirmed a total £10m to £15m dredging arrears backlog remained outstanding and costs would be higher than originally planned because of recent waste legislation. Professor Fleming recommended that the Executive looked at the treatment of contaminated dredging material with a view to its use on the BW estate. This involved creating a soil hospital. It was agreed the Executive should take this further.

- **Smethwick Summit Canal Corridor Improvements Birmingham Canal Navigations £619k (£429k funded by HLF);**

The Executive Summaries of the following projects, which had been agreed by the Directors, were noted: -

- **Shardlow & Derwent Mouth Locks, Trent & Mersey Canal, £411k Arrears Programme;**
- **Belvie Reservoir, Shropshire Union Canal, £330k Arrears Programme;**
- **Naseby Reservoir, Grand Union Canal, Leicester Line £277k Arrears Programme;**
- **Drayton Reservoir, Grand Union Canal, £357k Arrears Programme;**
- **Clattercote Reservoir, Oxford Canal, £348k Arrears Programme;**
- **Richmond Hill Retaining Wall, Macclesfield Canal, £316k Arrears Programme;**
- **Rushall Lock 4, Rushall Canal, Walsall £317k Arrears Programme.**

THE WATERWAYS TRUST

04/116 Memorandum BWB 3143 and an oral update by the Chief Executive were noted.

The Chief Executive confirmed he would follow up the proposed joint BWB Board/Trustees event with the Chairman of TWT.

HEALTH & SAFETY MANAGEMENT PROGRESS REPORT

04/117 The Board noted BWB 3146, including progress with the Safety Transformation Programme and the revision of accident statistics.

COMMERCIAL UPDATE & COMMERCIAL PROJECTS (BWB 3142)

Progress on the 04/05 Investment & Disposal Strategy

04/118 The report and a further update by the Commercial Director were noted. The Board agreed the project chart was helpful and should, in future, be supplemented with a traffic-light headline.

Waterside Pub Partnership

04/119 The Board received an update from the members of its Sub-Group, which had met the previous day.

The Group had agreed that Scottish and Newcastle Pub Enterprises was BW's preferred partner in the formation of WP5. On the basis of a detailed analysis the Company was felt to be best placed to deliver what BW required from the partnership, including addressing the points raised by the Board at its previous meeting as set out in BWB 3132.

Mr Froomberg advised the Executive team was now concentrating on key issues including due diligence on other S&N Partnerships, the form of the partnership board and management agreement and arranging for the sub-group to meet the Directors of S&N plc. The importance of the management agreement and how the partnership Board would function were recognised as important issues for consideration by the Group and the Board. A further report would be made to the next Board Meeting. Mr Froomberg would convey the Board's appreciation of the progress made to his team.

Wood Wharf

04/120 The Board: -

- endorsed the progress on Wood Wharf since the last update [BWB 3132];
- approved the selection of the final short-list of four parties to proceed to the Invitation To Negotiate (ITN) stage. The rationale behind having four parties was accepted;
- noted the approval of the final ITN document by the Property Working Group of the Board;
- approved additional fee commitment to conclude the OJEU. The Executive would achieve best value on this throughout and only spend on basis of need. [Text excluded for reasons of commercial confidentiality].

Finally, the need for a strong and fully resourced BW Executive team to take Wood Wharf forward was agreed.

BWML Equity Investment

04/121 The Board considered proposed equity investment of £3.55 million into BWML in 2004/05. The Commercial Director emphasised the following points:

- the funding was from money earned from commercial capital;
- the investment was treated in same way as any commercial organisation's investment into a subsidiary;
- it was based on a detailed business plan prepared at the end of last year and reviewed by the Executive and Commercial teams;
- it was assessed against BW's hurdle rate for commercial investment in directly managed businesses of 12% (real), which was at the high end for commercial leisure business (plc's);
- BWML was expected to deliver this level of return from this investment, in line with its plan.

In response to the Chairman, Mr Froomberg confirmed that any marketing assistance by BW to BWML (e.g. holding leaflets in offices) would apply equally to all marina operators.

The Board agreed the proposed investment as follows:

- £1.05 million to acquire the leasehold interests of four marinas from BW;
- £1.3 million for capital improvements at the existing 10 marinas; and
- £1.2 million maximum to commit to boat construction for onward sale to customers in the Spring of 2005/06.

Of this £3.55 million, £1.05 million would be repaid to BW so that the net cash outflow was £2.5 million. The recommendations were consistent with the BW Board approval in November 2003 of the creation of BWML [BWB 3104 – Minute 03/141].

Mr Froomberg undertook to raise the suitability of Falkirk as a boat sales site with BWML.

North London Timber, Hale Wharf, Tottenham

04/122 The Board noted the approval of the Chief Executive to the purchase of the leasehold interest of North London Timber at Hale Wharf, London N17. [Text excluded for reasons of commercial confidentiality].

BW (1990) PENSION FUND – TRIENNIAL VALUATION

04/123 [Declarations of interest were received from the Chairman, Ms Achmatowicz, Dr Christie and Mrs Gordon as Directors of British Waterways Pension Trustees Limited. It was agreed they should remain and participate in the discussion.]

The Board considered a summary by the Finance Director of the initial report of the Actuary of the triennial valuation of the BW (1990) Pension Fund. This was based on a presentation by the Actuary to the Pension Trustees Board and the Committee of Management on 17 July 2004. The Board also had before them Memorandum BWB 3147 by the Legal Director on the division of responsibilities for pension matters.

The Chief Executive prefaced the Board's review by emphasising the value BW placed on its people as a key component of the 10-year strategy. This was reflected in its recruitment and retention policy of which pensions was perceived to be an important part. Also, he referred to the recent change in BW and the need for a period of certainty and continuity. It was essential that the issues raised by the actuarial review were handled proportionately, efficiently and collectively by all those involved.

The Chairman added that his statement on pensions at the BW staff reception the previous evening had similarly reflected BW's vision and the importance of its people in a branded services business. Board Members felt that whilst the timing of the statement had been a difficult judgement call, it had been measured and helpful in easing uncertainty.

Ms Achmatowicz recalled that the conclusion of the joint meeting with the Actuary had concentrated on communicating the messages. It had been agreed that the outcomes of the meeting and the Board Meeting to follow should be communicated in a statement sent directly to pensioners and members and included in BW Monthly.

The Board then reviewed in detail with clarification from the Executive on individual points raised, the deficit assumptions arising from the valuation, the appropriate level of prudence and options for the way forward.

At the conclusion of this review, the Board agreed that work to address the issues should proceed on the basis of a deficit in the order of £40m. The statement to be issued following the Board Meeting should be prefaced by an overview of the type of organisation BW wished to be, as already described by the Chairman and Chief Executive. It would confirm that "the Board has decided that it will work in partnership with employees and stakeholders to retain a defined benefit pension scheme for existing and future employees". There would also be re-assurance that accrued benefits were well protected.

The statement would be drafted by the Chief Executive, the Communications Director and Ms Achmatowicz. The Trade Union members of the Trustee Board would also be consulted on its contents. It would be circulated to all Board Members before issue.

The issue would be the subject of a further discussion at the Board's September meeting.

BW (1990) PENSION FUND – RULE CHANGE

04/124

The Board considered BWB 3141 and approved an amendment to the Pension Fund Rules to allow the Fund Committee of Management discretion to restrict lump sum commutation of pension in cases of incapacity where a medical review applies.

COMPETITION ISSUES

04/125 The Board received a report from the Legal Director (BWB 3148) on competition issues including compliance with competition and fair trading law. The Legal Director updated the Board on developments in both BW's water sales businesses and leisure boating businesses.

On the latter the Board noted that the Waterways Minister had granted consent to the transfer of the BW marinas to British Waterways Marinas Limited and had reiterated his support for BW's leisure business strategy, subject to due compliance with competition law.

The Board further noted that a meeting between lawyers representing BW and those representing the British Marine Federation (BMF) had taken place. Following the meeting, an edited copy of BMF counsel's opinion on competition issues had been provided to BW and copies were available to all Board members, together with BW's observations on the opinion, to be provided to BMF.

The Board noted that arrangements and processes for competition and fair trading compliance had evolved over time as BW's competitive activities had developed and that they continued to evolve in response to further development; and that for some years BW had sought advice from consultant competition economists and competition lawyers, whenever necessary, on its activities in water sales, commercial property and telecommunications and, more recently and on an on-going basis, on its competitive leisure businesses.

Given the increased exposure to regulatory and reputational risk now faced by BW with the growth in its competitive commercial activities, the Board considered the need to enhance its arrangements for its oversight of competition and fair trading compliance in these fields and resolved as follows:

- that a "Fair Trading sub-group" of the Board be formed, comprising at least two Board Members, to undertake focused oversight of competition and fair trading compliance within the BW Group;
- that the sub-group would normally report to the Audit Committee but shall have power to refer matters to the Board whenever necessary or appropriate;
- and that the Nominations Committee consider membership of the sub-group at its meeting on 30 July 2004.

AUDIT COMMITTEE MEETING

04/126 The Board noted the Minutes of the Audit Committee held on 27 May 2004.

REMUNERATION COMMITTEE MEETING

04/127 The Board noted the Minutes of the Remuneration Committee held on 28 May and 1-2 June 2004.

SEAL REGISTER

04/128 The Seal Register showing that document nos. 17,444 to 17,504 had been sealed since the last meeting of the Board was received.

DATE OF NEXT MEETING

23 September 2004