

[These Minutes were agreed by the Board at its meeting on 23 March 2006]

FOR PUBLICATION

Minutes Nos. 06/01 to 06/22

BRITISH WATERWAYS

Minutes of the Board Meeting held at Cwrt Bleddyn Hotel, Llangybi, Usk
on Thursday 2 February 2006 at 9.00am

PRESENT:

Mr T Hales	Chairman
Ms S Achmatowicz	
Mr R Bowker	
Dr C Christie	
Mr I M Darling	
Professor G Fleming	
Mrs H Gordon	
Dr D R Langslow	
Mr T Tricker	

IN ATTENDANCE:

Mr R Evans	Chief Executive
Mr J Froomberg	Commercial Director
Mr N Johnson	Legal Director
Mr V Moran	Personnel Director
Mr P Ridal	Finance Director
Mr S Salem	Marketing & Customer Service Director
Mr J Stirling	Technical Director
Mr C J Howells	Assistant Secretary

Minutes

The Minutes of the Board Meeting held on 24 November 2005 were confirmed and signed.

MATTERS ARISING

Fair Trading – British Marine Federation (Minute 05/124)

- 06/01 The Chief Executive referred to the agreement reached with BMF in early January to go to mediation facilitated by the Centre for Effective Dispute Resolution. He advised that the mediation would take place on 20 and 21 February. He would be accompanied by the Legal Director and Director of Marketing & Customer Service.

BW Leisure Attractions – Falkirk Wheel (Minute 05/130)

- 06/02 The Commercial Director undertook to confirm when the updated masterplan for the Wheel site would be available. Dr Christie asked that this be completed as a matter of urgency.

CHIEF EXECUTIVE'S REPORT

- 06/03 The Board noted BWB 3212.

Non-Executive Board Appointments

- 06/04 The Chairman referred to the appointment of Whitehead Mann to undertake the executive search for three non-executive directors and confirmed that he expected to be on the appointment panel.

On Board Members' remuneration, Mr Hales advised that DEFRA had confirmed revised rates using the Environment Agency as a comparator. This was a disappointing outcome, particularly as it did not reflect the commercial element of BW's responsibilities.

Stakeholder Relations

- 06/05 The Chief Executive advised that a cut in DEFRA grant of 5% in 2006/07 now seemed most likely and planning for this had begun. The cut, which was even larger in real terms, would have significant consequences for BW.

NERC Bill

- 06/06 The Legal Director confirmed that following the unsuccessful effort to achieve provision to widen BW powers through a government amendment to the Natural Environment & Rural Communities Bill, he was reverting to the original plan of seeking a Regulatory Reform Order to achieve this in England and Wales. The route in Scotland, which would have to be via primary legislation, was the more difficult. The Chief Executive confirmed that water sales in Scotland were not a critical income source.

ISIS Business Plan Summary 2006 – 2010

- 06/07 The Chief Executive introduced the ISIS Business Plan following the request at the last meeting for more information on the Joint Venture's activities and the risks associated with it.

Mr Evans highlighted how ISIS was growing rapidly to become a major component of BW's overall business. Its ambition was to become the UK's leading waterside property developer specialising in the regeneration of brownfield sites in urban areas. Whilst on a significant scale to BW, this was not the case in relation to the overall housing market, however.

The Commercial Director explained the background to the change in ISIS's modus operandi since the beginning of 2004 from land trader to direct development of schemes primarily in the residential sector. It was acknowledged this entailed greater risk, but there were also increased potential gains and it gave ISIS greater control in the development of sustainable communities.

The Board then reviewed the adequacy of the visibility it had had of the change that had occurred in the ISIS business and whether there were lessons for how it should proceed for the future.

At the conclusion of this, it agreed that a comprehensive report should be prepared on all aspects of the Corporate Governance arrangements in respect of ISIS going forward (and Wood Wharf, which was also very significant to the business). This would also include:

- the formal role of the Board in a Limited Partnership;
- ensuring that the Board had the property expertise to carry out its function;
- the governance process within the partnership;
- the role for internal audit. At the Audit Committee Meeting, it had been agreed that the Internal Audit Manager would review a JV each year commencing with ISIS.

On the basis of this report and its recommendations, the Board could ensure it had an appreciation of the risks, milestones and major changes going forward and that these were being managed.

The Board also received confirmation that DEFRA was aware of the evolution in ISIS as set out in its business plans. Its relevance to contract with Government was briefly discussed. The Chief Executive advised there was a meeting with the Shareholder Executive the following week.

It was agreed that the inclusion in the financial review of integrated business plans across the ventures would be helpful.

The ISIS Sustainability Charter was commended to the Board. Professor Fleming undertook to take up the lack of reference to BW in the Scottish Executive Sustainability Policy with the Chief Executive.

Joint Venture Directorships

06/08 The Board approved changes to BW Joint Venture directorships as set out in the Chief Executive's memorandum. Additionally, it was agreed that the Finance Director would join the Chief Executive and Mrs Gordon on the ISIS Investor Committee.

Chief Executive's Briefing

06/09 Board Members commented on topics in the Chief Executive's briefing.

- Mr Tricker suggested that the Chief Executive's report should in future include regular updates on customer service delivery. This was agreed;
- In response to Dr Christie, the Technical Director gave further information on the grounds for BW to refute damage claims by Network Rail following the Carmuir's Tunnel collapse in 2002;
- Mr Salem reported on a productive agenda meeting of the British Waterways Advisory Forum and invited Board Members to attend the next meeting on 17 May.

Wood Wharf

06/10 The Commercial Director referred to Board Minute 05/140 and the Board's approval at its last meeting of the acquisition of the share capital of the Wood Wharf Property Company (the Teltscher site). Also to the update in the Chief Executive's Briefing. He advised that he now had new information to report.

[Text omitted as commercially confidential]

The Commercial Director outlined the terms of the proposed agreement. He advised that these had been endorsed by the Board's Property Sub-Group as commercially acceptable and that the level of BW's overall protection also remained acceptable.

The Board agreed the recommendation. Professor Fleming asked to have noted his refusal to take the decision on the basis of verbal update. It was agreed the Commercial Director would circulate a full briefing note to the Board immediately following the meeting.

FINANCE DIRECTOR'S REPORT

06/11 The Board noted BWB 3213.

The Board welcomed the change of the financial summary format which showed more clearly the hierarchy of reporting entities within the business, consistent with the organisation management structure. The Finance Director invited detailed comments outside the meeting.

The Board agreed that the ultimate goal was to have management accounts based on KPIs that flowed from the corporate strategy, e.g.

customer service, accident numbers. The new format was an important step in that direction.

The Finance Director confirmed that he was working up a Treasury Policy in respect of BW's cash and its investments. The Board agreed that this should be submitted to the Audit Committee so that it could report on the appetite for risk.

The Commercial Director undertook to examine the option for BWML's boat sales business to be outsourced.

HEALTH & SAFETY IN BW – ANNUAL REPORT

06/12 The Board considered BWB 3211, the Annual Report on Health and Safety in BW in 2005.

Introducing the report, the Technical Director referred to the further progress in performance demonstrated by a 24% year-on-year reduction in reportable accidents. Nevertheless, there were signs that progress was plateauing and uncertainty whether the target 30% reduction in reportable accidents in 2006 was achievable. The Chief Executive noted, however, that whilst companies in difficult industries were outperforming BW as a whole, some Business Units, such as Wales & Border Counties, were up to these high standards. This was evidence that further progress was achievable.

The Board confirmed it was encouraged by the focussed approach of the Executive, as demonstrated by the evidence of its visit to Wales & Border Counties and offered its full support by example.

The addition of occupational health to the report was welcomed and it was suggested this might be extended to cover lifestyle and personal health and fitness.

RESTORATION UPDATE (BWB 3210)

06/13 The Board congratulated the bid team on the successful funding applications to the Heritage Lottery Fund and South West Regional Development Authority (SWRDA) towards the cost of restoring the Cotswold Canal. The Chief Executive advised that after careful review, it had been decided that the SWRDA requirement to pay their funds as capital (i.e. land) and not revenue could be accommodated.

It was noted that HLF's grant conditions included Stroud District Council being a co-signatory. The Chairman undertook to consider an approach to the Council.

The Board noted that following the change to a more targeted approach to restorations, BW had achieved funding for six of the priority projects identified in Waterways 2025. A press release was to be issued shortly to this effect.

The Board welcomed the succinct overview of restoration progress and looked forward to receiving further updates.

COMMERCIAL UPDATE & COMMERCIAL PROJECTS [BWB 3209]

06/14 The Board noted the following updates:

- Progress on the 2005/06 investment and disposal strategy;
- Willow Grange disposal and Head Office relocation;
- Timber Basin joint venture. The revised strategy on Timber Basin was endorsed.

Edinburgh Quay

06/15 The Board noted progress regarding the dividend for Edinburgh Quay Phase 1, construction of Phase 2 and a potential JV with a developer on the adjoining Arnold Clark residential site.

The proposed revised funding of Phase 2 was approved subject to confirmation that it was the most tax efficient.

[Text omitted as commercially confidential]

Weston Point

06/17 The Board considered a supplementary paper to BWB 3209. This recommended concluding a deal with Westlink for the freehold of the Weston Point site.

[Professor Fleming declared an interest. He reported that Peel Holdings was a client of his company, Envirocentre, mainly in connection with the River Clyde, but had no commercial interest in any site where BW was working with Peel. BW and Peel Holdings were also clients of his company at Bowling Basin].

In reviewing the proposal, the Board considered the history of the negotiations leading up to the recommendation. It was agreed there were points to take away for the future. This included clearly establishing that responsibility for the conduct of the negotiations rested with the Executive and that the Board was kept fully informed at all stages.

The Board agreed that the outcome demonstrated the benefit of competitive bids. It agreed that in the event of any chipping of the difference involved between the two bids before the deal was concluded, it should be informed.

The wider issues of maintaining BW's relationship with the unsuccessful bidder, Peel Holdings, would be reviewed further outside the meeting.

The Board agreed the recommendation to conclude a deal with Westlink on an unconditional freehold basis for an upfront cash receipt of [text omitted as commercially confidential].

Heywood Wharf

06/18 The Board noted the following project which had been agreed by the Executive:

- Heywood Wharf, Mucklow Hill, Halesowen – acquisition of head lease industrial investment opportunity, where BW already owns the freehold, at a cost of £985k.

AUDIT COMMITTEE

06/19 Dr Langslow, Chairman of Audit Committee, gave an oral report on the principal matters discussed at the meeting of the Committee on 1st February 2006:

- under the Financial Issues report, there was a full debate on BW's corporation tax policy, including in respect of JVs. A three year tax plan would be prepared to accompany the business plan;
- the Committee received a report on climate change and expressed satisfaction that the risks were being managed actively;
- new red risks were steady state, fair trading and cut in DEFRA grant. There was also a risk of lack of skills in BW to which the Personnel Director would be asked to respond, including an update of the People Strategy;
- the Corporate Governance section of the Annual Report would now show time commitment by Board Members to BW;
- Internal Audit was congratulated on the high standard of its work as confirmed by the 5-yearly independent review;
- on the Wigrams Marina Internal Audit report, it had been agreed that the Chief Executive would write to Mr Parker apologising for BW's poor customer service to him;
- the Committee had reviewed the resignation of the General Manager prior to the completion of disciplinary action. Some concern was expressed that the disciplinary hearing would not now take place. It had been agreed the Executive would issue a clear note to staff to explain the position.

FEEDBACK FROM BOARD VISIT

06/20 The Board reviewed the visit to sites on the Monmouthshire & Brecon Canal and round-table discussion with staff that had followed. It was agreed to thank Wales & Border Counties for these productive events.

With regard to future visits, the Board agreed that whilst the existing formula for the visit and reception with staff had worked well, it should now be broadened with greater flexibility and new elements introduced as appropriate to the locality, e.g. meeting canal bank operatives on their patch, meeting customers, focussing on a project, etc.

OTHER BUSINESS

- 06/21 The Chief Executive tabled a draft Strategy Paper which would be considered by the Board at a review session on 17 February and the Chairman circulated a paper on Board objectives. Comments on both were invited.

SEAL REGISTER

- 06/22 The Seal Register showing that documents 18,342 to 18,441 had been sealed since the last meeting of the Board was received.

DATE OF NEXT MEETING

23 March 2006 Weston Park (Shropshire).