

[These Minutes were agreed by the Board at its meeting on 17 March 2005]

FOR PUBLICATION

Minute Nos. 05/01 to 05/28

BRITISH WATERWAYS BOARD

Minutes of the Board Meeting held
at Tortworth Court Hotel Wootton-Under-Edge, Gloucester
on Thursday 27 January 2005 at 9.00am

PRESENT:

Dr G P Greener Chairman
Ms S Achmatowicz
Mr R Bowker
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 J Lancaster Managing Director Southern Waterways
Mr V Moran Personnel Director
Mr S Salem Marketing & Customer Service Director
Mr S A Sim Technical Director
Mr M Smith Finance Director

Mr C J Howells Assistant Secretary

APOLOGY FOR ABSENCE

Dr C Christie (attending an industrial tribunal)

MINUTES

The Minutes of the Board Meeting on 4 November 2004 were confirmed and signed.

MATTERS ARISING

BP Grangemouth (Minute 04/154)

05/01 [Text omitted as commercially confidential].

It was noted that Scottish Water would itself be subject to an End-to-End Review and there would be an opportunity for BW to lodge its concerns then.

BWML (Minute 04/167)

05/02 The Legal Director reported that the Executive was doing further work on the two matters referred to at the previous Board Meeting (i.e. Sawley and Ventures) before submitting these to the Board's Fair Trading Sub-Group for review.

H₂O Joint Venture (Minute 04/177)

05/03 The progress report on the H₂O Joint Venture would be submitted to the March Board Meeting.

Covelink (Minute 04/177)

The Finance Director updated the Board on progress in pursuing BW's exit strategy from Covelink. He was meeting the Administrator and one of three potential parties who might take an interest in the Company the following day.

CHIEF EXECUTIVE'S REPORT & FINANCIAL REVIEW

05/04 The Board noted BWB 3174.

Financial Performance

05/05 The Finance Director tabled the Third Quarter forecast of the year end position by business area. He identified the principal changes and trends since the previous Second Quarter Forecast. He highlighted that spend required (mainly major works) in the remainder of the year to achieve full forecast was lower than last year and the Executive was confident this would be achieved.

Mr Smith advised that part of the net result would be carried over as recommended in the End-to-End Review.

The Board welcomed the EVC property gains which the Chief Executive stressed were due to the efforts of the BW teams involved and was reinvested for the long-term benefit of the waterways.

The Board welcomed the update and progress being made.

3-Year Corporate Plan

05/06 The Chief Executive introduced the draft 3-Year Corporate Plan 2005/06 to 2007/08. He stressed its alignment with the 10-Year Vision and asked for Board members' views on its effectiveness as a vehicle for delivering this.

Mr Evans then gave a presentation highlighting the main features of the plan and progress relating to the critical success factors for the business.

The Board particularly welcomed the Chief Executive's commitment to the steady state model for the 2006/07 business planning process. Mr Tricker saw this as the key to BW's efforts to demonstrate what it was delivering to Government and to stakeholders. It would be reviewed as a possible base hurdle by the Remuneration Committee.

The Finance Director followed this with business area net contributions which showed progress was consistent with achieving the 10-year vision. The risks to this were acknowledged. In particular, the outcome of the 2006/07 Government spending review and implementation of the End-to-End recommendation on carry-over were critical.

Board Members' comments on the draft plan included: -

- (i) a fuller commentary was needed on visitor attractions, to show they were managed vigorously and the extent of their full contribution (including heritage);
- (ii) the core waterway freight milestones should be quantified to include investment and returns;
- (iii) where possible, investment in areas of technical expertise such as heritage, environment and water supply needed to be quantified (at the least in terms of staff involvement);
- (iv) the resource management and procurement section should be strengthened.

The Board expressed satisfaction with the overall shape of the document. Further comments were invited in correspondence with a final plan to be presented for review and approval at the March Board meeting.

Fair Trading

05/07 Dr Langslow reported that the principal item at the meeting of the Audit Committee on 19 January had been the marina protocol. He recalled that the Committee had asked PwC to review the controls that BW had put in place to comply with the protocol. PwC had now reported and confirmed that the appropriate controls were in place or were in the process of being so.

At the Audit Meeting, the Chief Executive had highlighted BWs total commitment to trading fairly and the great effort extending throughout the organisation to achieve this. He had also asked that the relatively modest resources of BWML be recalled when assessing progress and noted that Ministerial consent had only been achieved in the middle of last year.

The Committee's comments on the PwC report had included: -

- (i) 20% was an overstatement of BWs share of the marina business;
- (ii) on TUPE and pensions an equitable transfer of costs to BWML should be evidenced;
- (iii) on the business rates equivalent, the Chief Executive acknowledged it was important to confirm how this was spent and that this was subject to both internal and external audit;
- (iv) it was noted BW should write to every tenant with a BW marina lease with the offer to transfer to the form of lease applied to BWML Marinas.

Mr Bowker had then given a report to the Committee on behalf of the Fair Trading Sub-Group. The Group had received both the PwC Report and the Internal Audit Report on the marina protocol. The Group had recommended to the Committee that its terms of reference should now be finalised and formally adopted and its work programme, arising from the report, should be established.

Mr Bowker had also referred to the decision that he and Mr Tricker should meet with Council Members of the British Marine Federation with a view to restoring relations between the two organisations to a sounder footing. BMF now seemed amenable to this and arrangements were being made.

Following this report, the Audit Committee had agreed that: -

- (i) an aggressive timetable should be pursued resulting in early publication of the PwC report;
- (ii) the finalised formal Terms of Reference of the FTG would be agreed in correspondence with formal adoption to be accompanied by a work programme to follow;
- (iii) the Chief Executive would provide FTG with the management response to the PwC recommendations;
- (iv) the FTG proposals on BMF were endorsed.

The Legal Director confirmed that the Fair Trading Sub-Group had met the previous day and was proceeding as agreed. It had additionally been decided that the work plan would include a legal audit of the Protocol under competition law.

Mr Bowker felt that BW could take comfort that its actions went further than the requirements of competition law.

The Board welcomed the reports from the Audit Committee and Fair Trading Sub-Group.

Dr Greener felt that the actions agreed by the Committee gave him the basis to write to the Minister and to provide him with the assurances he sought. He would do this immediately after the Board Meeting.

Caledonian Canal Commercial Operators

- 05/08 The Chief Executive recalled the decision to implement the new charging regime on the Caledonian Canal from 1st April 2004. This had been accepted by the Trip and Hire Boat Operators. Regrettably, four smaller hotel operators were not complying with the new system and legal action was being taken against them.

Board Members' Remuneration

- 05/09 The Chief Executive updated the Board on discussions with DEFRA concerning Board Members' remuneration. The matter remained under review by DEFRA. The Shareholder Executive had sent it a letter supporting BW's position.

Chief Executive's Briefing

- 05/10 The Board endorsed the Chairman's view that whilst providing an essential source of information to them on the business, the Chief Executive's briefing conveyed the breadth of BW activities to stakeholders and others who were interested. It was agreed that the Chief Executive would publish a briefing paper on the web to accompany the Minutes of the Board Meeting concerned.

In addition to progress on complaints, Board Members felt that other highlights in the briefing included the help provided by Margaret Shackleton, a BW Engineer, to the Sri Lanka Tsunami disaster relief work, the excellent outcome in refurbishing and letting the Sowerby Bridge listed warehouses and the results of BW Equality & Diversity Survey.

The Chief Executive briefly updated the Board on progress on three topics since the report was prepared.

On Brent Reservoir, the Environment Agency had asked BW to suggest criteria whereby it might qualify for flood defence funding for Brent Reservoir. This was a helpful development.

On the Bedford & Milton Keynes Waterway and the decision of the Local Planning Inspector, the Chief Executive confirmed that the Partnership would continue to press to secure the route through the planning process.

On Freight in London, it was noted that a meeting was to take place with Mr McWhirter on the Waste by Water Project in Hackney.

Complaints

- 05/11 The Board reviewed the complaints data to 31 December 2004. This included the first twelve months of the Internal Complaints procedure and of capturing data in the current format.

The Chief Executive brought the Board's attention to two supplementary issues for inclusion in the report. Firstly, the increase in complaints going to the Ombudsman. Secondly, that twenty-eight complaints had not met the 20 day standard for a response. On the latter, the Chief Executive assured the Board that the tracking process was being improved with timely action in future.

Other comments from Board Members on the data presented included the need to explain the two stage HQ review of complaints and that instead of average number of days to respond there should be banding of this time. The high level of complaints in Scotland despite its new reporting methodology, was highlighted and the Executive confirmed this was being addressed.

ANNUAL REPORT – HEALTH & SAFETY IN BRITISH WATERWAYS

05/12 The Board considered BWB 3167.

The Technical Director referred first to the recent meeting of the Board's Audit Committee and the concerns expressed there over the Worksite Safety and Workboat Safety Audits.

On Worksite Safety, the Audit Committee had found no formal induction at five of the six active general work programme sites. Mr Sim confirmed that he had fully supported the Audit's recommendation for formal procedures to be introduced and this had subsequently been done. Mr Bowker advised that he had, in the last few days, visited three sites and found the induction to be excellent. Mr Sim confirmed that non-compliance was a disciplinary matter.

On Workboat Safety, the Technical Director explained that the risks identified in the Audit Report did not pertain to safety and he assured the Board that no workboats operated by BW were unsafe. The Board welcomed the clarification.

Dr Langslow, Chairman of the Audit Committee, reported that there were further points in the report to be addressed and these would be examined by the Committee in May. This included the competence of crews and recording it in the SAP process.

The Technical Director confirmed that the West Midlands achievement of no reportable accidents for a year was being analysed so that best practice could be shared.

The Technical Director then highlighted the updates in his report on the investigations into the contractor fatalities at Upper Lode Lock, River Severn and on the Kennet & Avon Canal. On the latter, the Board noted with concern that the Coroner's Inquest was not expected to be held until 2006. This was felt to be unacceptable and the Legal Director was asked to examine the procedures involved and establish whether BW should make representations, including by the Chairman to the Waterways Minister.

Dr Langslow welcomed the new inspection procedures for length inspections and the expected achievement of the April 2005 target for Principal inspections.

Mr Tricker, Chairman of the Remuneration Committee, advised that the Board report would form the basis of the safety hurdle for Directors' remuneration and he invited Board Members' comments by March.

END-TO-END REVIEW

05/13 The Board considered BWB 3172.

The Chairman advised that the Policy Review of British Waterways now presented to the Board was the final document. Board members' comments were invited on its recommendations with a view to informing BWs response to the document and the meetings with Ministers. Dr Greener added that the report should be taken in the round with any critical comments more than counterbalanced by the many positive recommendations. He commended the work of the Chief Executive and Finance Director as Members of the Committee in this regard.

The Board identified the broad issues which could form the focus of review with Ministers. These were: -

- (i) the welcome inferences to be drawn from the Report's endorsement of the Board's vision;
- (ii) the risks of an overly short-term approach;
- (iii) the paramount importance of achieving an acceptable Corporate Governance letter;
- (iv) the implications of the report for the way the outputs from public consultation are presented.

It was agreed that the Chairman, Chief Executive and Finance Director would develop this agenda in correspondence with Board Members. Similarly, they would liaise with Mr Darling and Dr Christie on an agenda for Scotland.

STRATEGIC PLANNING GUIDANCE

05/14 The Board received BWB 3171 confirming the update of the Strategic Planning Guidance following the discussion at the November Board Meeting. The Chief Executive advised that it only remained to add the context of the 3-Year Plan to the Guidance and it would then be copied to Board Members.

A draft layout of Our Plan for the Future was also received together with a plan for communicating it to stakeholders.

OPERATIONAL PROJECTS (BWB 3166)

05/15 The following projects were approved: -

- **Llangollen Canal – Phase II; repairs to Hampton Bank Embankment, Ellesmere £648k (Contingency)/£55k Risk Allocation;**
- **Trent & Mersey Canal Derwent Mouth Lock £980k Arrears/ £178k Risk Allocation; [this was an increase on the authorisation at the previous Board Meeting]**

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

- **Leeds & Liverpool Canal Culvert 140A Chorley £274k Arrears/£15k Risk Allocation;**
- **Kennet & Avon Bradford on Avon Visitor Improvements £367k (Make a Difference Funded)/£32k Risk Allocation;**
- **River Severn Upper Lode Lock Emergency Works £450k (Contingency and Arrears funded)/£50k Risk Allocation;**
- **Rochdale Canal Whitbrook Middle Culvert £447k (Re-allocated Arrears funding)/£67k Risk Allocation;**
- **Bridgwater & Taunton Canal Culvert III, Bridgwater £467k Arrears/£156k Risk Allocation;**

Additionally, the Board reviewed progress reports on: -

- **Potential Acquisition of Middlehaven Dock Teesside;**
- **Restoration of the Cotswold & Droitwich Canal;**

On the Cotswold Canal, the Board endorsed the arrangements to take the restoration up to Stage II at no cost to BW.

The Board noted that in the event that it proceeded with the projects, BW would bear any unfunded elements of both the Droitwich and Cotswolds restorations. It was felt the implications of accepting this risk should be considered further in terms of achieving strategic business planning objectives and especially greater self-sufficiency and achieving the vision. Middlehaven was also relevant in this context. There would be a further discussion at the next Board Meeting.

PENSION SCHEME DEFICIT

05/16 The Board considered BWB 3169.

[Declaration of interest was received from the Chairman, Ms Achmatowicz and Mrs Gordon as Directors of British Waterways Pension Trustees Limited. It was agreed they should remain and participate in the discussion].

The Personnel Director recalled that Board members had been consulted on the adjustment to the financial assumptions to retain the deficit at £42m following an error in calculation by the Actuary. The adjustment had been accepted. In response to Ms Achmatowicz, the Finance Director confirmed he continued to be satisfied with the level of prudence.

The Board approved the amended proposal for dealing with the £42m pension fund deficit as accepted by the Committee of Management.

It was noted that the proposal would be considered by the Pension Fund Trustee Board at a special meeting arranged for 2 February 2005. Subject to Trustee approval, amendments to the Trust Deed and Rules would be prepared so that the changes could be implemented from 1st April 2005.

WATERSCAPE – UPDATE & REVIEW

05/17 The Board considered a report by the Marketing & Customer Service Director and the Finance Director, which it had requested at the previous meeting on the progress and strategic issues of its subsidiary, Waterscape. [BWB 3168].

The Chief Executive commented that Waterscape was an important component of BW's strategy to introduce people to the waterways and in time contribute value. Initial progress had been good but there were risks and challenges ahead and the paper sought to address these.

The Marketing & Customer Service Director then explained the basis of the review of options which the Waterscape team had undertaken and its conclusion that in-house operation, including bringing IT in-house, was the right approach.

Mr Salem highlighted two areas where BW could be of particular help to Waterscape. These were integration (e.g. providing content and leads and promoting Waterscape) and securing improved relations with the trade as discussed earlier.

The Board welcomed the recognition of and approach to challenges ahead. It was accepted that difficult decisions remained. It was felt that progress was best kept under review through the ventures quarterly reports and Ms Achmatowicz and Mr Bowker would continue to take a particular interest.

COMMERCIAL UPDATE & COMMERCIAL PROJECTS (BWB 3165)

05/18 The Board noted progress on the 2004/05 investment and disposal strategy.

Progress on Wood Wharf

[Mrs Gordon declared an interest in Ballymore as a previous employer. It was agreed she should remain and participate in the discussions].

05/19 On the basis of the report and further supporting comments from the Members of its Property Working Group, the Board approved: -

- the selection of the consortium of Canary Wharf Group and Ballymore Properties Limited as the preferred bidder for the Wood Wharf Partnership;
- delegation of the Final Business Case and sign off of the transaction before financial close to the Property Working Group of the Board;
- the Chief Executive's proposals for the governance, management and resourcing of the proposed Wood Wharf Partnership, as included in the Board Report.

Progress on WP5

05/20 The Board noted progress and approved the increase in professional fees from £1 million previously agreed to £1.2 million.

The Chief Executive's recommendations for BW appointments to the Limited Liability Waterside Pub Partnership Board were agreed.

Progress on Other Projects

[Professor Fleming declared an interest through his consultancy in Weston Point, Gloucester Quays and Ellesmere Port. It was agreed he should remain and participate in the discussion].

05/21 Progress was also noted on Weston Point, Gloucester Quays, Brentford and Edinburgh Quay.

Projects for Approval/Noting

05/22 The following projects were approved: -

- **Ellesmere Port** – Variation in the existing 990 year lease to the Manchester Ship Canal and the disposal of the 122 acre freehold to Peel Holdings (parent company of MSCC);

[Text omitted as commercially confidential].

- **Brindley House** – Disposal of Brindley House, Birmingham, on a 150-year lease plus overage; [Text omitted as commercially confidential]

- **Hale Wharf, Tottenham, Business Barges** – contribution of £376k commercial capital in a £910k project (ERDF and LDA grants of £534k) to acquire and install four business barges at Hale Wharf, Tottenham.

- **Bowling Basin, Forth & Clyde Canal – Regeneration of Bowling Basin** contribution of £485k commercial capital in a £1.12m project: £455k grant from ERDF and SE Dunbartonshire and £175k of core working funding.

The Board noted that instead of the recommended freehold acquisition of **Tudor Industrial Estate Tyseley** a 999 year lease was now proposed on the same basis. An issue with the vendor and capital allowances had also arisen. It was agreed to delegate approval to the Property Working Group of the Board. [Text omitted as commercially confidential].

The following project was noted: -

- **Riverside and the Causeway, Bishops Stortford** – Disposal of c0.73 acres of land to Wilson Bowden Developments Limited. [Text omitted as commercially confidential].

SAP POST PROJECT APPRAISAL

05/23 The Board considered BWB 3173 by the Finance Director.

Richard Walsh, Head of Information Communications Technology, joined the meeting for this item. Together with the Finance Director, he reported on the successful delivery of the first two year stage of the SAP project to time and to budget.

Points highlighted included the successful turnaround of craft licensing after initial poor performance and the increased receptiveness of BW users to SAP. A problem with respect to the latter had been the number of casual users of SAP but their needs were now being addressed more effectively through training and support generally. A particular lesson had been to realise that the project was about people and to forge effective partnerships. The success of the relationship with the host provider, Logica, had been driven by co-operation and could not have been achieved by the contract alone.

The Board welcomed the reports' findings. The project was an essential element of BW's ambition to become a model organisation. The progress to date was substantial and all involved, including Logica, should be congratulated on this.

The Board noted the conclusions of the PPA and the re-forecast project IRRs as set out in BWB 3173.

The principle of completing further bi-annual PPAs focused on benefit realisation was endorsed.

THE WATERWAYS TRUST

05/24 The Board noted BWB 3170, the regular update on the progress of the Waterways Trust and its contract to provide services to BW.

AUDIT COMMITTEE

05/25 Dr Langslow, Chairman of the Audit Committee reported that the principal topics reviewed at its meeting on 19 January 2005 had been reported earlier in the meeting i.e. BWML Protocol and Safety Audits. The Minutes of the Audit Committee Meeting would be submitted to the next Board Meeting.

SEAL REGISTER

05/26 The Seal Register showing that document nos. 17,673 to 17,802 had been sealed since the last meeting of the Board was received.

OTHER BUSINESS

Sharpness Docks

05/27 Professor Fleming referred to two issues arising from the Board's visit to Sharpness Docks the previous day.

He noted that BW owned and operated a number of docks and harbours. These were covered by separate legislation and he asked to be assured that BW was in full compliance.

Confirmation was given by the Executive that the Sharpness Harbour Jetties project would be completed in 2005/06.

Board Visit

05/28 The Board thanked Mr Lancaster for the arrangements for the BW Visit the previous day and the productive meeting with local BW staff.

DATE OF NEXT MEETING

17 March 2005