

MEMORANDUM TO THE BOARD

CHIEF EXECUTIVE'S REPORT

1. STAKEHOLDER RELATIONS

1.1 Defra Relations

The new Secretary of State for Defra is The Rt. Hon. Hilary Benn, M.P., whose constituency is in Leeds. The Waterways Minister is Jonathan Shaw whose constituency is near the Medway.

The Chairman has written to both welcoming them to their new posts. He has also suggested a dinner with a small group of non-executives and executives to introduce them to BW.

Defra have received the BW Strategy paper (BWB 3282) presented to the June Board. They have not endorsed it and wish to have an away day with the Chairman and a few executives to better understand our thinking and explain Defra priorities. This may result in the Policy Objectives established by the Quinquennial Review being amended.

We were asked recently to explain our contribution to the provision of housing and affordable housing around the country. A major announcement by the Prime Minister on housing policy and the use of public sector land is expected before the Board Meeting.

The selection Boards for the appointment of three new non-executive directors have been completed and three recommendations made to the Minister.

1.2 UK Annual Meeting

This will be held on 17 October returning to Austin Court, Birmingham which we used very successfully (and with good cost savings) for the first time last year. The format will be similar to last year.

1.3 Scottish Executive

BWS submission for the Comprehensive Spending Review has been revised to reflect key drivers in the SNP manifesto. It is on target to be submitted to SE sponsoring department for consideration in early July. Discussions with SE to replace current Framework Document and BWS Financial Memorandum are ongoing. Following a positive meeting between BW and SE after the June Board meeting in Scotland, progress on BWS financial matters is continuing.

1.4 BW Scotland Annual Meeting

The BWS Annual Meeting will take place on 27th September, commencing at 10am in the Hub, Edinburgh. A response to a formal invite for the new Minister for Transport, Infrastructure and Climate Change, Stewart Stevenson MSP to address the BWS Annual Meeting is awaited. A convenient date for a pre-meeting with the new Minister in early September is also being progressed by our SE sponsoring team. The informal staging introduced last year will be repeated. It is also proposed to replace the Q&A session with an opportunity for questions to be answered at a number of stations for each area in the BWS Business Plan e.g. operations, leisure, regeneration, manned by the appropriate BWS/TWTS staff.

1.5 Welsh Assembly

Uncertainty continues following the Welsh elections. Plaid Cymru will now enter a coalition with Labour with the consequence that the current ministerial appointment (Brian Gibbons) is likely to change.

We have secured a ministerial visit for the Royal Welsh show where we will be launching an independent economic report that shows the value that Welsh inland waterways give to the nation. Benefits have been shown to exceed the cost of maintenance by a factor of 10. I will attend the show for the launch.

1.6 K&A User Forum

The K&A User Forum was held away from Devizes for the first time in an attempt to gain wider participation, both geographically and from outside of the K&A Trust. Whilst attendance was lower than usual the change of venue was received positively. The General Manager intends to move the venue for the three meetings each year between Bristol/Bath, Devizes and Reading/Newbury so covering the full length of the canal.

2. MARKETING & CUSTOMER SERVICE

2.1 Customer Service Transformation

B2B relationships

We held a forum for the inland marine trade on 28 June. It provided us with a clear picture of areas for immediate action and improvements with boating businesses. The selection panel for the consultancy to run a twelve month B2B development programme is to be held on 24 July. BW's up and coming leadership programme must reflect the progress we need to make in the B2B area.

Talking to customers

The 2007/08 programme commenced in the SE business unit on 3 July.

Customer service standards

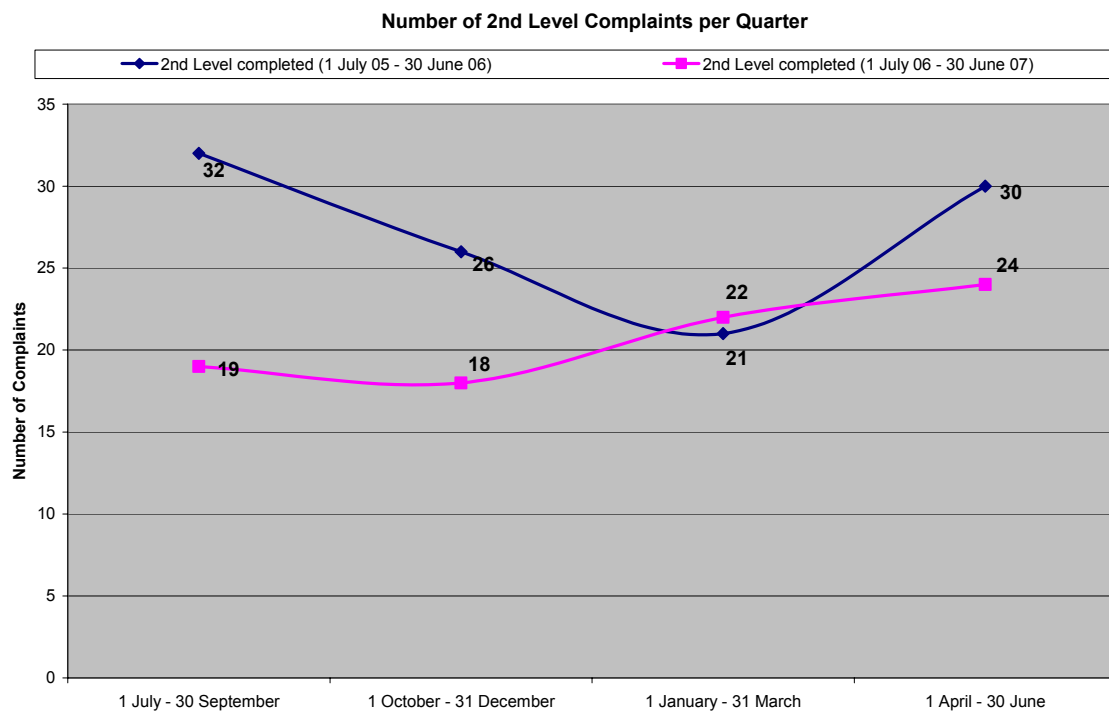
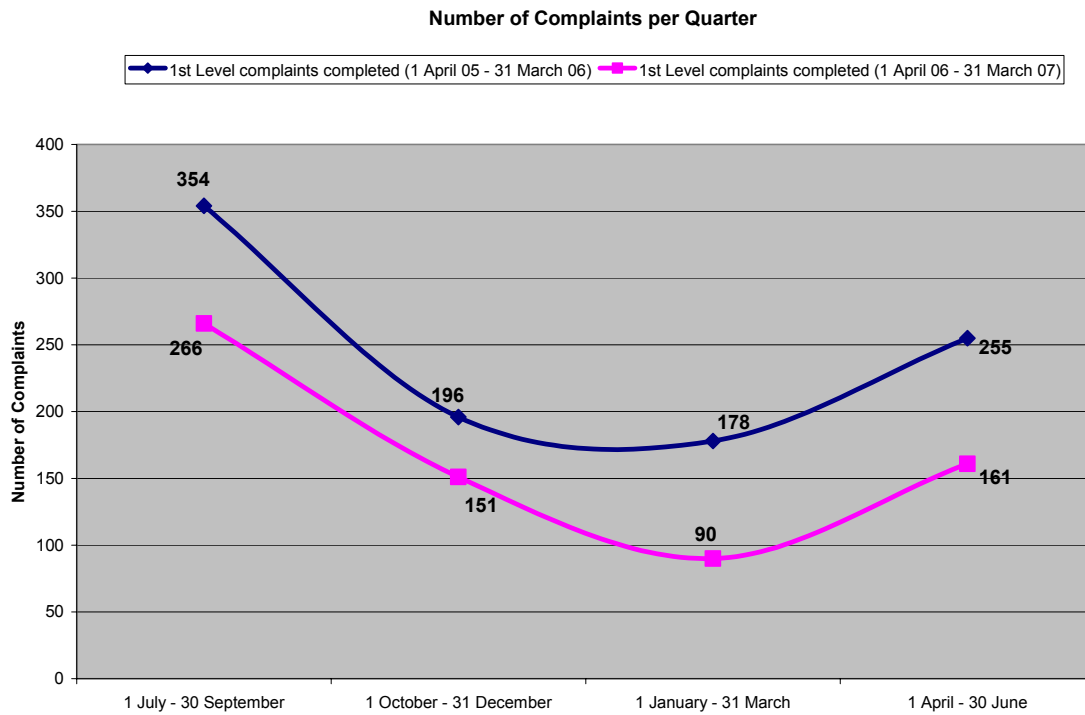
After final confirmation of minimum safety standards from the Technical Director, a set of minimum customer service standards written in simple language will be ready for approval by directors and action throughout the business.

Customer Research

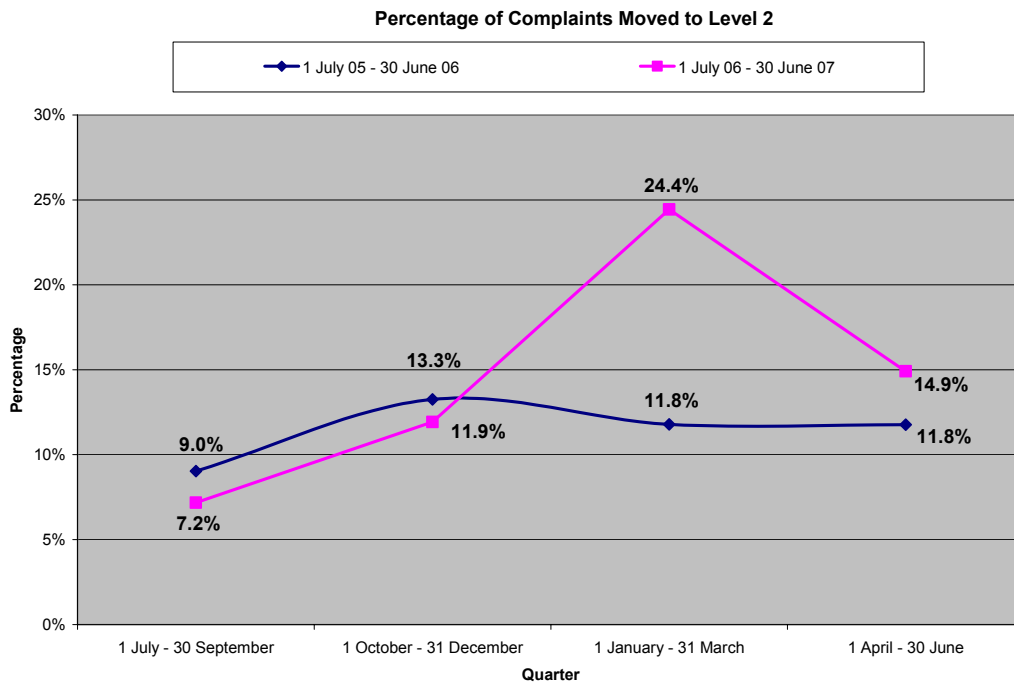
Recent fluctuations in the reported monthly volume of customer visits has led to a review of both method and choice of volume measure. The review includes options for measuring the number of people living close to BW waterways as well as the number of people undertaking specific activities on or by them.

2.2 Complaints data

Complaints Quarter 1 2007/08 – Volume at Levels 1 and 2



Percentage of complaints moved to Second Level



The volume of complaints continues to follow a clear seasonal pattern but volume levels in the last year have been consistently below the levels of 2005/06.

Numbers of complaints moved to level 2 can be volatile but have returned in Q1 to be closer to the long term pattern.

The table below compares the number of first level complaints by month during the first quarter of 2007/08 compared with the same quarter in 2006/07. With the exception of April, the total volume of complaints is lower in all three months when compared to the previous year. Overall there has been a 39% reduction in complaints over the quarter.

	2006/07	2007/08	% change 06/07
April	43	43	0%
May	89	65	-27%
June	123	53	-56.9%
Totals	255	161	-38.9%

From January 2007 we moved to our new standard to complete all complaints in 15 working days. The average number of days taken to respond fully to a complaint in Q1 was 8.7 working days. The percentage of complaints responded to within 15 working days was 91%.

Waterways Ombudsman cases - 2006/07

	2006/07				2007/08
	Q1	Q2	Q3	Q4	Q1
Number of cases accepted by Ombudsman	6	4	5	11	7
Number of cases completed	5	10	4	7	5
Number of completed cases with maladministration found. Includes (1) = partial finding of maladministration	2 (1)	7 (7)	3 (1)	2 (1)	2 (1)
Complaints accepted as % of BW level 2 complaints	20%	21%	28%	50%	29%

2.3 Media Relations

The Sunday Telegraph featured a news report questioning whether the Cotswold restoration would go ahead or not. It suggested that BW's grant reduction had a direct effect on the organisation's willingness to pursue additional waterway miles. We issued a statement reiterating our commitment to the restoration, but noting that work was underway to reduce the currently unacceptably high level of financial risk associated with the scheme.

There has been coverage of freight issues in the Sunday Telegraph and on Radio Four. Whilst some of the coverage focussed on the alleged contradiction between property development and the maintenance of waterway freight, we were able to use the radio opportunities to start to put forward the case outlined in the OXERA report in the last report to the Board.

Radio Four's You & Yours continued the debate on suggestions that the network could be privatised. It featured a range of contributors concerned with boating activities, restoration and canal transport. We were able to ensure that BW and the Government's position on privatisation, (i.e. this is not policy) were conveyed, along with recognition of the benefits of the network across a wide range of Government policies.

The recent 'Two Tings' cycling campaign by BW London has been very successful and was highlighted with press launch headed up by Islington MP Emily Thornberry and AM Murad Quereshi. The campaign was well received and coverage was achieved in Metro, The London Paper, London Cyclist, BBC Radio London, Radio Five Live and local papers.

3. LEISURE

3.1 Saul Junction Festival

The annual Saul Junction Festival was cancelled due to flooding of the site. There is no question of BW being blamed for this which will have had a significant financial impact for the Cotswolds Canals Trust.

3.2 Crick Boat Show

I reported briefly on our initial assessment of the Show in my June report. We now have more detail.

This is the first year that the show has been delivered using a specialist event management company. Richmond Event Management (REM) have brought their expertise to bear in terms of contingency planning and a consistent best practice approach to all aspects of the Show. A good working relationship has been established and this will be built upon for 2008.

The build was completed on time, the look of the site was enhanced and initial feedback from exhibitors and customers has been positive overall, although traffic management must be improved for next year.

Ticket sales on Saturday were £35K, a record for Crick but as expected visitor numbers were impacted by the wet and cold weather on the Sunday and Monday. Early reports from trade exhibitors, (which numbered over 270 this year), indicate it was a commercial success from their perspective.

It is anticipated that income will be down on plan but the associated expenditure will also be lower than forecast, resulting in a £6k-£8k loss.

3.3 Promotions - VisitLondon

Areas of London Waterways have been covered in two separate campaigns from VisitLondon. In a Village London campaign both Brentford and Hanwell were featured along with a guide to cycling within London and along the towpaths. A promotional booklet on Camden was created, this featured the Regent's Canal and a range of businesses in the surrounding area. Media and distribution for these activities were through Time Out, poster and page advertising as well as press stunts such as creating a lawn in Trafalgar Square for the Village London campaign.

4. RESTORATION/REGENERATION

4.1 Cotswold Canal

We are continuing to make strenuous efforts to find a solution to the funding gap previously reported to the Board. The main focus of this work is Stroud Council and the transfer of responsibility to them for the delivery of Brimscombe Port. If we can achieve enough comfort on this and cover the relatively small remaining gap from other funders, we should be able to recommend continuing with the restoration.

4.2 Bancroft Gardens, Stratford

We are progressing towards the setting up of a formal partnership for the regeneration of the Bancroft Gardens at Stratford. There is nevertheless an outstanding leasehold legal issue with Stratford District Council to be resolved before the partnership can be finalised. There is also a potential issue over the replacement of a footbridge over the Bancroft canal basin at Stratford. The original bridge was constructed and installed in 1964 during the canal restoration and reopening. The canal society sees the bridge as a symbol of the restorers' efforts and should remain. We have considered the issue carefully and decided to support the replacement of the bridge, which does not comply with DDA standards, is not considered to be listable quality by English Heritage and has been significantly altered from its original form by the local authority in the 1970s.

4.3 MK Waterway Park

Outline planning permission was granted by the two planning authorities (Milton Keynes Council and Milton Keynes Partnership) on 14th & 21st June respectively. We are awaiting sight of the Planning Conditions.

Big Lottery will be carrying out their two-day Assessment visit on 9/10 July. This will be the final formal hurdle prior to the decision being made in the Autumn.

4.4 East Midlands Development Agency (emda)

emda has allocated a £5 million fund towards waterway regeneration and development projects. The bid deadline is 31 July 2007. This exciting news is the culmination of many months relationship building with *emda* and their consultants and should deliver a wide range of destination and development based schemes across the region.

4.5 City Waterside, Stoke

Further to my last report, English Partnerships have now agreed to novate their funding agreement with Stoke on Trent City Council and contract directly with British Waterways. Construction should commence in mid-September with completion in February 2008. EP have increased the funds offered to c£750k.

Also in Stoke, an opportunity has arisen for additional ERDF funding to deliver up to £1.4M of environmental improvements. The scope includes access and biodiversity improvements, new service block, works to a building at risk, etc. Funding confirmation is due on 11 July with the project having to be completed by the end of December 2008. We will require additional resources to deliver this, the project includes £60k for project management costs.

5. PROPERTY

5.1 Business Boats – Union Canal

Planning consent for two business boats on the Union Canal at Lochrin Basin, Edinburgh has been issued by City of Edinburgh Council. The first boat to take up the berth will be occupied by an architects practice. The new build boat will not be available until November. Two further businesses have approached us for the second berth.

5.2 Paddington Basin

We are close to finalising the restructuring of the 1995 lease of land around the Basin. This will allow the next phase of regeneration to be undertaken by our tenant, European Land & Property Limited (formerly Paddington Development Corporation Limited), which is a highly ambitious scheme comprising three residential buildings, three commercial buildings, a new harbourmaster building, public realm and improved access to the Basin.

6. LEGAL AND REGULATORY ISSUES

6.1 Port of Weston Public Enquiry

Board Members will recall the sale of Weston Point Docks (now called Port of Weston) to Westlink that completed last year. Peel Holdings were out-bid in the sale.

Following the sale, secondary legislation (a Harbour Revision Order) is required to transfer BW statutory powers and duties in respect of the Port to Westlink. Manchester Ship Canal Company (MSCC - a subsidiary of Peel Holdings) objected to the proposed Order and have forced a public enquiry.

Nevertheless, a very rapid and robust response to the objections (including securing a surprisingly early date for an enquiry) has resulted in MSCC withdrawing their objections. Having been called, the Public Enquiry will have to go ahead (on 17 July) but, subject only to the Inspector's views, on an unopposed basis. All costs are payable by Westlink.

6.2 Legal Director

Nigel Johnson, Legal Director, has been appointed a consultant editor to Halsbury's Laws of England.

7. CORE WATERWAY

7.1 Flooding/Water Control

Yorkshire

Yorkshire Waterways were hit by flood events on June 15-19 and June 25 -28.

The areas of our system worst affected were the South Yorkshire and Aire and Calder systems. Some damage has also been sustained on the Calder and Hebble, with the Leeds and Liverpool escaping the worst.

Our Teams were mobilised quickly and we provided good coverage across the business unit. We have assisted both the Local Authorities (in Doncaster and Rotherham particularly) as well as the EA during these exceptional events.

Significant damage (including very rough estimates) we do know about includes:

- 200 metres failed piled bank between Woodlesford Lock and Swillington Road Bridge. Existing bank protection failed when the nearby River Aire breached the flood bank and washed over into the canal. Cost circa £250k.
- 100 metres failed bank protection downstream of Kilnhurst Lock SYN. Full towpath repairs required. Costs circa £150k.
- 200+ metres bank slippage and tree collapse. SYN Kilnhurst. Costs £150k
- RipRap bank protection, River Don under the Tinsley Flyover and weir boom repairs. £100k.
- Milby Lock sustained a broken gate and heel post, the extent of which will not be understood until the lock is dewatered. Currently the navigation is closed. An emergency dewatering is planned w.c. 9th July.
- M&E. The only known repairs at the moment are the control panel at Tinsley Pumping Station which was flooded and costs for a temporary generator at Lemonroyd Lock. Other relays and motor damage at most SYN locks. circa £50k in total.
- Property damage at 3 sites (eg at Ickles Lock Rotherham). Loss adjusters on site but total costs possibly £30k.
- Damage repair at Ledgard Weir, Mirfield. Urgent temporary works completed, within a 48 hour window of opportunity between further storms, which could have led to extensive loss of the weir. Possible total costs £100k.

Additionally, a number of craft have sunk or suffered significant damage. 25% of the navigations in Yorkshire remained closed during the first week of July. In addition Fearn's Wharf had to be evacuated twice during this period but business continued quickly once access through the car park was achieved.

South West

The River Severn has overtopped in several places with water levels rising above the balance beams at Diglis. This normally happens in January not June. On the G&S staff ensured that the canal did not overtop, but only just. We have not suffered any major structural damage so far. The K&A and B&T, whilst having higher rainfall than usual, have not had the same extent of problems, though there has been some localised flooding around the Stroudwater Canal.

West Midlands

In the West Midlands water control and fallen trees were the main issues with our hit squad working all weekend 16/17 June. Rivers Penk Sow and Tame were all at very high levels, with the latter seeing highest level for 11 year causing damage to properties around Fazeley offices. There were around 20 trees recorded fallen.

East Midlands

Flooding has been river related and has mainly affected agricultural land. On the Chesterfield Canal overtopping has caused flooding to approximately 15 residential gardens. Efforts to limit flooding and control flow continued through the night on a number of occasions.

One boater at Torksey Lock drowned whilst attempting to check his ropes.

An urgent request was received from the Environment Agency for us to allow flushing of water through our lock gates at Boston Grand Sluice. The original request suggested leaving both sets of lock gates fully open for up to three weeks, resulting in total draining of the River Witham. The plan had serious environmental, customer safety and financial implications. The EA eventually decided on an alternative plan to prevent Lincoln from flooding but it is likely that the request will be made again in the future. We have requested that work is jointly undertaken on emergency and communications plans and that legal indemnity agreements are drawn up in advance to accommodate any future request.

We are accommodating a request from the EA to flush water through our lock gates at Torksey to allow water to be run off the Fosdyke back into the Trent.

All seven of the waterways' reservoirs were inspected, as a precaution, following regional flooding. Although full, they were coping with the increased flows.

Wales & Border Counties

A culvert failed on the Montgomery Canal in Wales on 27 June 2007. Culvert 47 was blocked at its downstream side and the surcharged water then blew the bed of the canal. While the blockage remains the water from the culvert is flowing into the canal. The canal is un-navigable at this point but is a SSSI and SAC. We have to minimise any impact on water supply to the rest of the canal and on the floating water plantain (*Luronium natans*). Expected costs are between £50-100k.

Weaver Navigation has been closed for much of the last week of June and first of July owing to high water levels. Numerous tree falls have occurred around our network and we anticipate will continue because of the saturated ground making trees unstable. Overtime costs will be substantial for dealing with night-time flood running and blockage removal. Planned works activities have been hit because of depleted teams as a consequence.

7.2 Freight - Scotland

BW Scotland met with the Forestry Commission in Dingwall to discuss freight on the Caledonian Canal. Primarily we were interested in obtaining estimates of harvested quantities that could be routed by canal. Work is still ongoing on this piece of research by the Highland Timber Transport Group but it is hoped that the figures will be available by September. However, they also explained to us that there is a high demand for the supply of woodchip for domestic biomass energy equipment and they are keen to explore the creation of storage plants adjacent to the canal to allow supplies to be sent from outlying areas to Inverness.

Hi Trans and Highlands & Islands Enterprise commissioned a report on Bulk Freight Shipping in the highlands area. The major feature of this is the shortage of small vessels able to carry up to 1000 tonnes of cargo. This is particularly relevant to the Caledonian Canal and the freight options. One conclusion from the study is that Hi Trans should work in partnership with BW to scope the potential of the market and possibly encourage public sector procurement of vessels. Hi trans have agreed to joint fund a study.

Avondale Environmental is keen to establish a freight wharf on the Union Canal in the Whitecross area. They are operators of a landfill site one mile from the canal and will be developing a mechanical biomass transfer plant within the next three years. The favoured location is owned by Morston Assets. We have had positive initial discussions with Morston in regard to Freight and a potential small Marina.

7.3 Rochdale Canal – Maden Fold Farm Embankment Damage

Following the breach of his injunction, the Court imposed a three month prison sentence suspended for two years against Mr. Jones, the adjoining landowner who has caused significant damage to the canal at Maden Fold farm.

BW has been contacted by a contract investigator acting on behalf of Natural England for information relating to the breach of the canal at Maden Fold Farm and possible damage to the SSSI/SAC. Natural England is considering the potential to prosecute Mr. Jones.

The repair to the embankment at Maden Fold farm is now complete and the canal is fully open.

7.4 Fish Kill on Rochdale Canal

The Environment Agency has alleged that approximately 200 fish died on Friday 22nd June when the canal pound between locks 60 and 61 on the Rochdale Canal was drained. Early indications are that the pound drained as a ground paddle was not fully closed following a boat passage. BW staff attended the site along with EA and took steps to refill the pound using supplies from further up the canal system, however only 30 dead fish were recovered. Liaison with the EA continues.

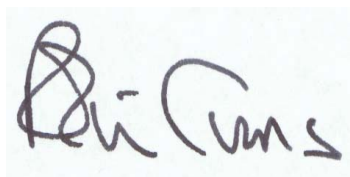
8. 2008 BOARD DATES

The proposed Board Meeting dates for 2008 are primarily driven by accounting/reporting schedules.

We are proposing an extra Board Meeting in June 2008 specifically to sign off the Annual Report and Accounts. We would envisage this taking place in our Paddington office with video or telephone links for those further afield. The only agenda items will be the Annual Report and Accounts.

The brackets (e.g. F8) refer to the revised forecast business plan outturn that is carried out in these accounting periods and reported to the Board.

Board	23/24 January	(F8)
Board	19/20 March	Approval of the 2008/9 Business Plan (F10)
Board	21/22 May	Period 12 draft management accounts
Audit	10 June	Audit Committee – review accounts and external audit report
Board	19 June	Special Board to consider final accounts only
Board	16/17 July	(F2)
Board	25/26 September	Strategy Review (F4)
Board	19/20 November	Business Plan outline (F6)



ROBIN EVANS

July 2007.