

FOR PUBLICATION

Minute Nos 04/01 to 04/33

BRITISH WATERWAYS BOARD

Minutes of the Board Meeting held at
The International Conference Centre Birmingham
on 29 January 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
Sir Peter Soulsby
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 S Salem	Marketing & Communications Director
Mr S Sim	Technical Director
Mr M Smith	Finance Director
Mr J Lancaster	Managing Director Southern Waterways
Mr C J Howells	Assistant Secretary

APOLOGY FOR ABSENCE

Ms A Malik

WELCOME

The Chairman welcomed Mr Lancaster as an invitee to the Board Meeting and thanked him for the arrangements for the Board Visit the previous day. He added that it was unfortunate that bad weather had curtailed the effectiveness of the Board Dinner when only half the guests had been able to attend.

MINUTES

The Minutes of the Meeting of the Board on 27 November 2003 were confirmed and signed.

MATTERS ARISING

Caledonian Canal Commercial Operators (Minute 03/122)

04/01 The Chief Executive reported on further progress in discussions with the Caledonian Canal Operators on licence fees. He recalled that the hire and trip-boat operators had already agreed in principle to the new charging regime. There had now been a helpful meeting with the Chairman of the Association of Pleasure Craft Operators, Ann Davis, who had agreed to meet the Chairman of the Caledonian Operators to recommend the proposals to them, including the four hotel operators. The intention was to implement the BW charging system from 1 April 2004.

The Board welcomed the progress. It was agreed the Scottish Executive should be kept informed. Further, given the importance of securing a satisfactory outcome, it would continue as a Board agenda item.

Business Reorganisation (Minute 03/124)

04/02 The Personnel Director reported on progress in following up issues raised by Board Members when visiting the Yorkshire Waterways in October and especially improving the management dialogue with staff. In particular, monthly team talks were being held in all units with corporate issues fully aired and with a note of the principal points going to both him and the Chief Executive. The Communications Director added that to further improve informal communication within BW, focus groups were being held and the results would be carefully reviewed. The Chairman recommended the use of a proven statistical process based on sampling of issues arising at the meetings.

Mr Tricker referred to the Board Visit the previous day and to a perception amongst some BW people that the chances of a successful appeal under the performance pay arrangement was minimal. The Personnel Director advised this was not the case. He would circulate a note of the proportion of successful appeals at each stage of the process. Board Members highlighted alternative approaches to appeal panels, particularly concerning the representation of management and staff. The Personnel Director undertook to discuss these outside the meeting, including the optional parallel process of peer group review.

Also arising from the previous day's visit, Ms Lewis-Jones commented that some waterway operatives felt uncomfortable when in smart new offices and that the accent should always be on "inclusiveness".

Sunday Times Best 100 (Minute 03/130)

04/03 The Personnel Director advised that BW would not be included this year in the Sunday Times Best 100 Employers. The Board agreed to await the full details in March before drawing any conclusions from this. These results would provide the equivalent of a good internal survey.

Openness & Accountability (Minute 03/144)

04/04 The Communications Director confirmed that three responses had been received to BW's Report on the outcome of the consultation.

These were from the IWA, IWAAC and the Waterways Ombudsman. Mr Salem briefly outlined them. None were felt to contain new evidence or a concern that could not be adequately addressed within the existing proposals. A detailed implementation programme was now being prepared with all arrangements to be in place by September.

A copy of a letter of 27 January from the Chairman to the Waterways Minister, the Rt. Hon. Alun Michael, MP, explaining the outcome of the consultation was tabled.

Non-Executive Directors Remuneration

04/05 Professor Fleming referred to the Board's discussion in 2003 on the appropriateness of Board Members' remuneration and its decision to take up the issue of benchmarking with other organisations with DEFRA. He asked for an update.

The Personnel Director responded that DEFRA had embarked upon a full review of the remuneration of non-executive members of boards of all of the bodies it sponsors. Because this was likely to be a long process, he had written to DEFRA with proposals for them to consider now in BW's case. Mr Moran undertook to circulate the reply to this letter to Board Members and keep them informed of progress.

Draft Published Board Minutes (Minute 03/143)

04/06 It was recalled that under its Freedom of Information Act Publication Scheme, the Board had committed to publishing its Minutes. It had asked first to see a "trial" publication copy to illustrate the principles involved.

The Board considered the draft of the Board Minutes of its November meeting prepared on this basis.

The Legal Director advised that the only need for exclusions in these draft Minutes were on the grounds of commercial confidentiality, although there were other grounds for exclusion which could apply on other occasions. The emphasis was on publishing rather than excluding minutes whenever possible, as had been already agreed by the Board. The Board endorsed the approach and agreed that its January Board Minutes would be published following their confirmation at the March meeting.

CHIEF EXECUTIVE'S REPORT & FINANCIAL REVIEW

04/07 The Board noted BWB 3120.

Financial Performance

04/08 The Finance Director highlighted points arising from the financial performance in the first 9 months and full year outturn forecast.

Government Funding

04/09 The Board noted with disappointment the £2.5m cut in grant in 2004/05. This followed the appearance of an unexpected £90m hole in DEFRA's 2004/05 budget. The Chief Executive advised that this disappointment had been conveyed to DEFRA and an explanation of the rationale for the cut had been requested.

The Board agreed that the request of this information by the Chief Executive was fully justified and should be followed up. This included how the cut had been applied across the different parts of DEFRA and how much of the hole DEFRA had absorbed itself. Providing this information would be consistent with BW's approach to Openness & Accountability, which DEFRA had welcomed.

Adopting this approach was also felt to be consistent with BW's successful dinner with Government Ministers the previous Autumn. A series of actions continued to flow from that, including impending meetings with the Education Secretary and Mrs Ann Keen MP, PPS to the Chancellor of the Exchequer. The Board agreed it was important to continue to demonstrate to Treasury BW's status as an exemplar and in delivering value for money.

The Board agreed in regard to the financial consequences of the cut and its relationship with DEFRA that its actions would be solely based on an objective assessment of its longer-term strategic priorities.

3-Year Business Plan 2004-2006

04/10 The Board received a presentation from the Chief Executive on the 3-year Business Plan. He emphasised that the changes that had been made to this year's plan would ensure that the short/medium term plans/budgets were "joined-up" with the agreed 10-Year Plan strategic objectives. Fully focussed on BW's vision statement the emphasis of the Plan was on doing the things that had to be done better and on resolving difficult issues. This back to basics approach included producing a strategic moorings plan, consistent pricing for services, tackling licence evasion hotspots, getting value from SAP, improving safety and implementing Openness & Accountability.

In considering the presentation, the Board particularly welcomed the separation of core waterway and restoration scheme third party funding. There would be a continuing commitment to restoration but this would be objective and realistic.

Reference was made to the link to the Vision Statement and delivery across its four key areas, of which one was to be "largely self-sufficient". The Board asked to receive a note defining this in more detail in advance of its next meeting.

On the continued commitment by the management team to remove all statutory arrears by 2010 and ahead of the promise of 2012 made in the public domain, the Chief Executive acknowledged the increased risk to these targets given the recent cut in grant.

On ISIS, the Board noted the major change to its business plan in the mix of development activity with a move from land trading to direct residential development. Following a full explanation from the

Commercial Director of the reasons for this change, and an assurance that the risks had been identified and covered, the Board accepted the new approach.

On Watergrid, the Board noted that the Water Act 2003 effectively ruled out common carriage. This would have a marked effect on Watergrid's performance, particularly from 2008 onwards. It was agreed the Board would review the consequences of this and how it might be compensated for at a future meeting.

Dr Langslow referred to the recent review of length inspections by the Audit Committee and asked for inclusion of a statement reinforcing the importance of maintaining core quality in the Plan.

On the new management incentivisation plan and bonus categories, Sir Peter Soulsby, Chairman of the Remuneration Committee, explained the links to the 3 and 10 Year Plans. The Remuneration Committee would be reviewing this further with an update at the March Board Meeting.

The Board endorsed the general direction of the new planning process and the outline 3-year plan.

Quinquennial Review

- 04/11 The Chief Executive reported that DEFRA's 5-Year Performance Review of BW had been re-titled "End to End Review". It would be an operational and business review concentrating on performance and quality. BW welcomed the opportunity to put a strong case for further commercial and other freedoms.

Information Communications Technology

- 04/12 The Board approved proposals for the final stage of BW's Group IT strategy relating to the provision of desktop hardware and servers plus the related software. The Finance Director was authorised (subject to Government approval) to bring contract negotiations to a close with a preferred supplier from the short-list. It was suggested a 10-year contract might be overly long.

East Manchester – New Islington Development

- 04/13 [Text excluded for reasons of commercial confidentiality.]

Bedford-Milton Keynes Link

- 04/14 The Board noted the Chief Executive's conclusion that funding prospects for the BMK proposal would remain poor for the foreseeable future and BW resources allocated to it would reduce. This would be reviewed and taken up in the 3-Year Plan.

Reservoirs & Water Supply

04/15 Having received an update on water supplies, the Board asked for a fuller explanation of the implications for the cruising season at the next Board Meeting.

Moorings – Prompt Payment Discount

04/16 It was noted that BW Marinas Limited intended from 1st April to withdraw, for the customers transferred to it, the 10% prompt payment discount currently offered to all BW moorings customers. This would bring BWML in line with the market and ensure it was not acting anti-competitively. BW was about to commission an independent review by consultants OXERA on all aspects of its own mooring pricing policy.

OPERATIONAL PROJECTS (BWB 3116)

04/17 The following projects, which had been agreed by the Executive Directors, were noted:

- **Marsh Meadow Swing Bridge, Leeds & Liverpool Canal – Rufford Branch £260k (Backlog)**
- **Six Mile Bridge at New Bridge, Lancaster Canal £370k (Backlog)**
- **Bingley 5 Rise Locks, Leeds & Liverpool Canal £370k (Arrears)**
- **Sharpness Middle Gates, Gloucester & Sharpness Canal £380k (Arrears)**
- **Dunardy Locks 9, 10, 11, Crinan Canal £360k (Arrears)**
- **Fradley Waterway Wall Repair, Trent & Mersey Canal £380k (Arrears)**
- **Dredging Bruce Tunnel to Foxfield Lock 70, Kennet & Avon Canal £395K (Arrears)**
- **Customer Facilities Building - Todd End, Dudley Canal £299k gross/£141k net**
- **Towpath Improvement, Beeston Canal, Nottingham £336k gross/£104k net**

Professor Fleming applauded the use of existing materials at Six Mile Bridge in terms of resource efficiency. He felt it would be consistent with BW's status as an exemplar in sustainability if an index rating were included for each project that came forward. The Technical Director would consider this and report further.

ANNUAL REPORT ON HEALTH & SAFETY IN BW

04/18 The Board considered BWB 3117 by the Technical Director.

The Board endorsed the new BW Health & Safety Policy Statement. This was welcomed by Dr Christie as a major step forward with a coherent structured approach, clearly identifying responsibilities. It was agreed that the section on the Technical Director's responsibility to the Board for safety, and acting as the representative of the Board, would be further reinforced.

The Board accepted that the construction industry was a suitable comparator for the time being but this would be kept under review. On safety performance, the Board underlined the need to move from the second to the upper quartile of this benchmark as a top priority. BW's Omnibus Contractors have all made progress and are in the top quartile. The important consideration was to have an objective basis of assessment and be able to act on it.

The Board noted progress in developing a Safety Transformation Programme in BW and also of the Occupational Health Initiative.

On User Safety, the Technical Director commended the recently published booklet "Managing Visitor Safety in the Countryside" to Board Members.

It was agreed Board Members would be invited to attend the BW National Safety Conference.

Mr Sim added that an additional target for 2004 was that all Business Managers and Executives would have safety improvement targets as one of their key performance indicators.

Dr Greener's proposal that interested Board Members and some Executive Directors should hold a Question and Answer session with the BW Safety Adviser, Mr Evans, was agreed.

The Board noted the Annual Safety Report and welcomed the progress made.

THE WATERWAYS TRUST

04/19 The Board noted BWB 3118.

The Chief Executive advised that he expected to be in a position very shortly to recommend to the Chairman, on the basis agreed at the previous Board Meeting, that a contract be concluded with the Waterways Trust for 2004/05.

On Trustees nominated to TWT by BW, for which there were currently two vacancies, the Chairman thanked Board Members for suggestions put to him. He would take these up with the Trust's Chairman when he met her next month.

COMMERCIAL UPDATE & COMMERCIAL PROJECTS (BWB 3115)

Investment Strategy

04/20 The progress report on BW's commercial investment strategy was noted.

Waterside Pub Partnership

04/21 The Board approved the proposal to proceed with the Waterside Pub Partnership following the evaluation of the responses to the OJEU Notice issued on 24 November.

British Waterways Marinas Limited

04/22 The Commercial Director referred to a recent meeting with the British Marine Federation and its continuing concerns about the Protocol. The Board considered these concerns but felt satisfied with the process of consultation and agreed that the protocol should now be implemented as published. An advance copy would be sent to the Waterways Minister who had asked to see this before giving consent to the transfer of assets from BW to BWML (as required under the Transport Acts). It would further be indicated that the approach was consistent with BW's commercial strategy that had been approved by the Minister.

BP Grangemouth

04/23 The Commercial Director recalled that in September 2003 the Board had approved a proposal to enter a contract with Ondeo Industrial Services to supply water to BP's refinery at Grangemouth. Subsequently, BW had been advised by BP that they did not intend to progress the proposed contract. Instead they intended to enter into a new long-term contract with Scottish Water at a substantially reduced price to the existing arrangement. Mr Froomberg continued that legal advice had supported BW's serious concerns about the BP/Scottish Water contract, particularly on environment and sustainability grounds and issues of competition law. BW's concerns had been brought to the attention of the parties and the Scottish Executive has been kept advised.

The Board supported the Executive's intention to pursue these matters and agreed that it was appropriate not only to keep officials at the Scottish Executive informed, but also that the Chairman should take up the Board's concerns with the Scottish Minister. It was accepted that BW's case should be thoroughly researched and carefully presented.

BW Mast Business

04/24 Progress was noted.

It was confirmed that it was not BW policy to own telecoms masts.

Projects

04/25 The Board approved the following projects:

- **Falkirk Trip Boats** – authorisation of a further £100k commercial capital to the project.

[Text excluded for reasons of commercial confidentiality.]

The following project, which had been agreed by the Directors, was noted:

[Text excluded for reasons of commercial confidentiality.]

STATUS OF WATERWAYS RESTORED TO NAVIGATION

04/26 The Board considered BWB 3123 by the Legal Director, which dealt with waterways restored to navigation and the modernisation of statutory maintenance dimensions.

The Board welcomed the proposed approach and agreed in principle to a programme of:

- seeking reclassification of remainder waterways restored to navigation to the status of cruising waterways; and (at the same time and in parallel).
- seeking modernisation of the statutory maintenance dimensions on certain other waterways where those dimensions manifestly do not reflect use or prospects of use.

It was noted that this change of policy was considered necessary given recent changes to the law of water resources regulation (notably the Water Act 2003).

Once preliminary investigatory work had been completed, there would be a further report to the Board on the scope of any reclassification, re-dimensioning and prospects of success before taking any formal steps.

PROPOSAL FOR CAPTIVE RE-INSURANCE SUBSIDIARY

04/27 The Board considered BWB 3119 by the Finance Director.

The Finance Director explained that the proposal related to BW's own insurance needs and was part of BW's on-going review of its risk management and insurance strategy.

The Board approved the principle of establishing a BW captive insurance subsidiary on the basis outlined in the memorandum.

BRAND STRATEGY

04/28 The Marketing & Communications Director introduced BWB 3121.

Mr Salem recalled that BW had developed a marketing strategy that was reviewed by the Board and incorporated in the Strategic Business Plan. The marketing strategy incorporated core brand values on which the Board had asked for an update.

Following a review, the Board welcomed the strategic approach to branding and looked forward to receiving periodic updates.

Comments by Ms Achmatowicz on the large volume of written material, ensuring consistency of format and making use of the latest electronic communication modes would be taken further by the Communications Director.

An additional point made on communications was that "BW Monthly" should feature Board Members more often as part of the BW family. This was agreed.

REVIEW OF CORPORATE GOVERNANCE

04/29 The Board considered BWB 3122 by the Legal Director which recommended actions to be taken by the Board to continue to follow best practice in corporate governance, particularly in the light of the Higgs Review on non-executive Directors and the Smith Review of Audit Committees.

Following a review, the Board:

- Resolved to comply with the Combined Code on Corporate Governance (as published by the Financial Reporting Council in July 2003) adapted as necessary to take account of British Waterways status as a statutory public corporation;
- Agreed in principle to establish a Nominations Committee for which draft terms of reference were tabled;
- Noted that revised terms of reference for the Remuneration Committee will require the Board Chairman to stand down from it; and
- Agreed in principle to establish a process for the performance evaluation of the Board, its committees and all individual Board Members;

The Chairman advised that he would contact Board Members individually on the Board Evaluation Questionnaire, which had been tabled, before the next Board meeting. There would be an update with further proposals for developing the corporate governance arrangements then.

AUDIT COMMITTEE MEETING – 21 JANUARY 2004

04/30 The Board received a report from the Chairman of the Audit Committee, Dr Langslow, on the principal matters discussed at its meeting on 21 January 2004. The three main areas of review had been Financial and Accounting issues, receipt of the draft Internal Audit Plan 2004/05 and the regular Internal Audit Summary of on-going work.

On the latter, the Committee had expressed concern about the findings in the report on length inspections. Actions that had been agreed following the review by the Committee were summarised in the report from the Chief Executive that was included with the Board papers. Dr Langslow confirmed the Committee was content with the position on length inspections on the basis of these actions being implemented.

SEAL REGISTER

04/31 The Seal Register, showing that document numbers 17,167 to 17,241 had been sealed since the last meeting of the Board was received.

OTHER BUSINESS

New Board Members

- 04/32 The Chairman advised he was in contact with DEFRA and Scottish Executive about appointing new Board Members when Dr Christie and Sir Peter Soulsby stepped down later in the year. He tabled a copy of a draft advertisement which was being reviewed with DEFRA and Scottish Executive.

Chief Executive's Attendance at Overseas Conference

- 04/33 The Board endorsed the Chief Executive's attendance at a Property Conference in Portugal where he would present a paper. He would be accompanied by his wife (at no cost to BW).

DATE OF NEXT MEETING

25 March 2004