

MEMORANDUM TO THE BOARD

CHIEF EXECUTIVE'S REPORT

1. STAKEHOLDER RELATIONS

1.1 Defra Funding - 2007/08

Defra notified us of our 2007/08 grant on the 20 December. The amount is £57.545m which after deducting £2.048m specifically allocated for repayment of NLF loans leaves £55.497m to spend on the network. This is the same as we ended up with for 2006/07.

1.2 Scottish Executive

BWS has had a further success in securing additional funds of £2.445m from the Scottish Executive from year end under spend for 2006/07. This is in addition to the £1.5m secured for the Port Dundas landscape link project to Glasgow City Centre. This additional funding helps us with a programme of capital works including dredging and embankment repairs throughout Scotland's canal network in addition to further development works at the River Leven. Whilst this additional spend puts BWS under significant time pressure to spend by the end of March, we are confident that we will complete all of the works identified. The Scottish Executive has also invited BWS to discuss forward planning for additional spend in 07/08.

The delivery of freight remains a high priority for the Transport department of the Scottish Executive and they are anxious that BWS seize any opportunity that emerges to promote freight on Scotland's canals.

1.3 Meetings with Politicians, Scotland

The Director, Scotland met with Fergus Ewing MSP at the Scottish Parliament to discuss the Scotland canals agenda with specific focus on the Highlands on 10th January.

A party of five members of the Shadow Cabinet, led by Liam Fox are scheduled to visit The Falkirk Wheel on 17th January.

1.4 Fair Trading – Code of Practice for BW Staff

Following the completion of the Code of Practice, we have held meetings with British Marine Federation (BMF) to discuss implementation. We have published the Code on our intranet and website and circulated it to managers.

Together with BMF we are planning a day seminar for the marine trade which will feature the Code, the results of our recent survey of trade opinion and our plans to act on it, and the New Marinas Unit and its progress. We want to emphasise partnership and growth facilitated by good governance.

Plans have moved a little slower than we would like, partly due to heavy BMF boat show commitments, but our relationship is good, and we expect the seminar to take place in Spring or early Summer.

1.5 Welsh Language Scheme

As a public corporation, British Waterways needs to comply with the Welsh Language Act 1993, which states that all public bodies are required to implement a Welsh Language Scheme. Furthermore, that in the conduct of public business in Wales, the Welsh and English languages will be treated equally.

We have prepared a Welsh Language Scheme. The scheme sets out the service that British Waterways will provide to the “public in Wales” with regard to Welsh language provision. This scheme applies to the areas of work that British Waterways has responsibility for in Wales.

Public consultation on the Scheme will commence on 8 January 2007 for six weeks. It will be publicised on www.britishwaterways.co.uk and the Welsh Language Board website. After the six week period, there will be four weeks for us to agree any changes, in which time an Action Plan will be drawn up for us to implement the Scheme. Implementation is expected to be from 1 April 2007.

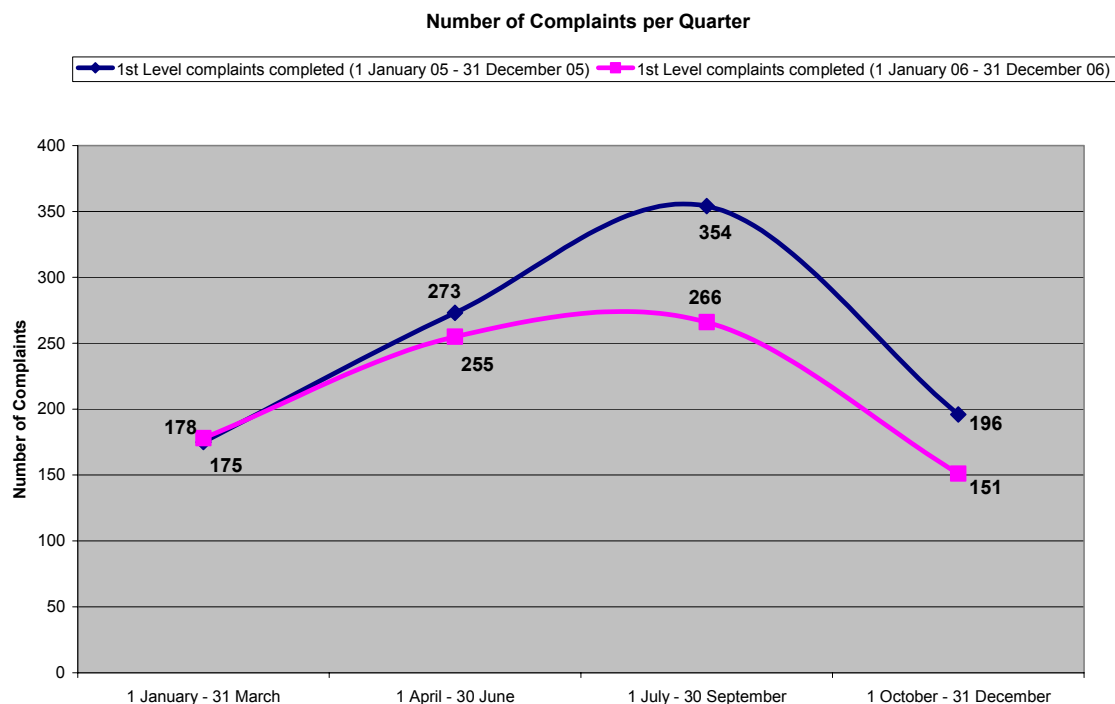
Total costs of some £30k pa in translation and web services have been included in the budgets of the two waterways concerned – Wales & Border Counties and Central Shires.

1.6 Gloucester & Sharpness Canal – Change to Winter operations

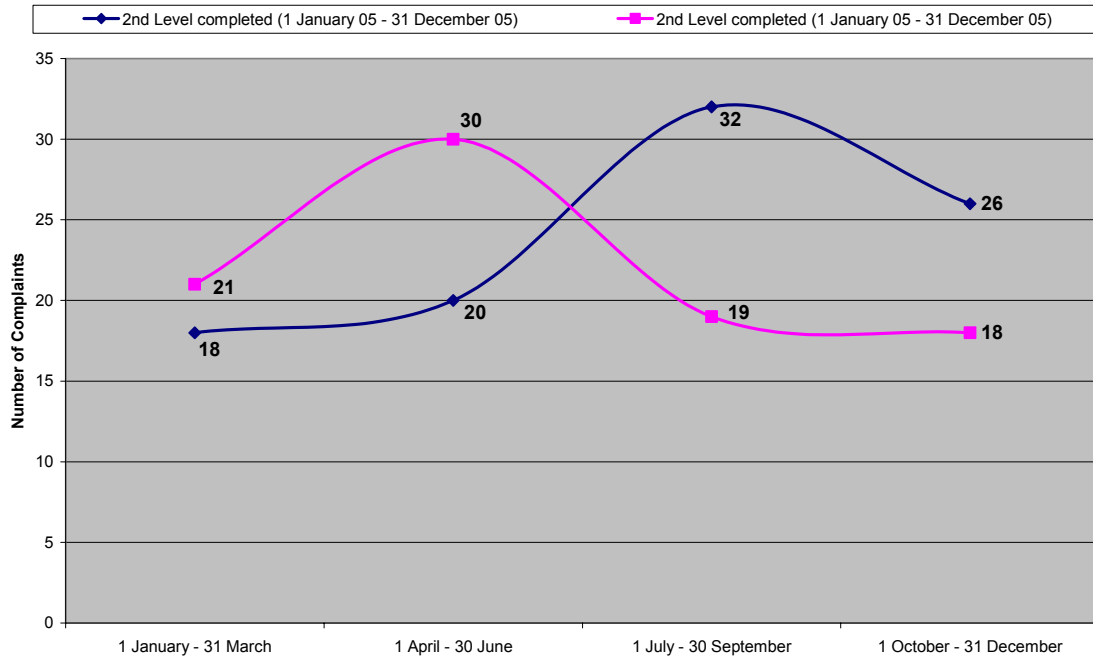
The decision on winter operations on the G&S and River Severn referred to in my last report was published, as scheduled, on 1 December. Opposition to user operation is mounting from the various Parish Councils along the canal and they are seeking to use the County Council to force a change. A visit to the Kennet & Avon Canal is being arranged for a number of parish councillors to see the user operated bridges there. David Drew, Labour MP for Stroud, will also join in with this visit.

2. MARKETING & CUSTOMER SERVICE

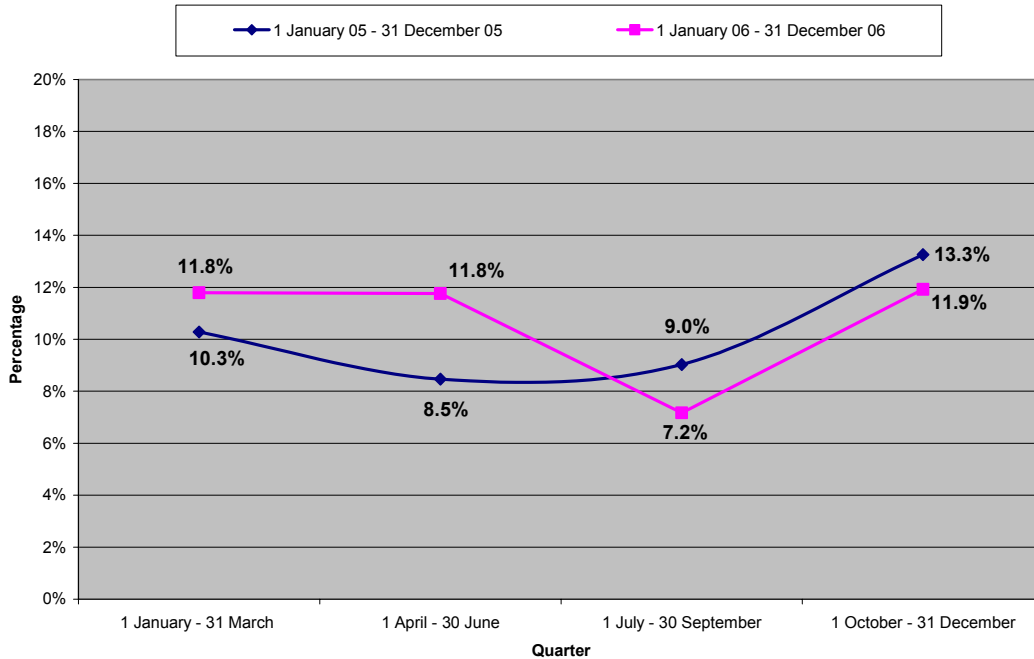
2.1 Complaints Quarter 3 2006/07 – Volume at Levels 1 and 2



Number of 2nd Level Complaints per Quarter



Percentage of Complaints Moved to Level 2



Complaint volume for the calendar year 2006 (850) is down by 15% compared with 2005 (1001). Level 2 complaints for 2006 (88) are also down although by only 8% compared with 2005 (96).

The number of complaints during Q3 has followed the seasonal trend (though with fewer complaints in Q3 2006)

Although the overall volume of complaints is similar year on year, the number of complaints moved to the Second Level has increased slightly this last quarter. In Q3, 11.9% of complaints were moved to Level 2 compared to 13.3% in the same period in 2005.

The table below compares the number of complaints completed by month during the third quarter of 2006/07 compared with the same quarter in 2005/06. The total

volume of complaints completed is lower in all three months when compared to the previous year. Overall there has been a 23% reduction in complaints completed over the quarter.

	2005/06	2006/07	% change 05/06
October	75	64	-14.7%
November	69	50	- 27.5%
December	52	37	- 28.8%
Totals	196	151	- 23%

The average number of days taken to respond fully to a complaint in Q3 was 9.4 working days. The percentage of complaints responded to within 20 working days remains unchanged at 98%, up from 97.3% in quarter 1 and 95.2% average for the last financial year.

From January 2007 we are moving to our new standard to complete all complaints in 15 working days. Our score for this target had it been in place for Q3 was 73% with a score of 68% for the calendar year. We thus face a challenge (as we originally did with the old 20 day target) to improve our performance.

2.2 Waterways Ombudsman cases - 2005/06

	2005/06		2006/07		
	Q3	Q4	Q1	Q2	Q3
Number of cases accepted by Ombudsman	5	9	6	4	5
Number of cases completed	8	10	5	10	4
Number of completed cases with maladministration found. Includes (1) = partial finding of maladministration	6 (6)	5 (3)	2 (1)	7 (7)	3 (1)
Complaints accepted as % of BW level 2 complaints	19%	43%	20%	21%	28%

2.3 Media Relations

In November the Sunday Telegraph wrote very positively about BW's role in waterside regeneration including the financial and social benefits resulting from our regeneration activity. The article featured ISIS, including its schemes in Manchester and Leeds.

Broad media coverage of the Defra grant cuts has continued to be generated by third parties contacting a range of media outlets. We have treated approaches reactively. To ensure 'alignment' between Defra communications team and our own a meeting was held which produced useful results for both parties.

A peak of media activity was experienced during the final weekend of November when waterways groups staged UK-wide 'waterway blockades' of both BW and EA navigations. Extensive broadcast coverage ensued, notably features on Radio Four News and the PM Programme, Radio 5 Live (including an interview with the waterways minister), BBC One 10 O'Clock News, BBC Breakfast News and news summaries on other national BBC stations. Along with interviews with protestors and waterways' group representatives, MPs also made comments while UNISON issued

a news release deploring the funding cuts and the impact on BW employees. We refused to participate in any of these broadcasts to avoid any conflict with Defra.

The results of BW's annual Wildlife Survey, in conjunction with waterscape.com, generated excellent national and extensive regional media coverage. Highlighting the plight of the water vole, we worked with the Environment Agency to secure coverage on BBC One 1pm news, Radio Four's 'PM Programme' and Radio Five Live!'s breakfast programme. National broadcast coverage was supplemented by nine regional BBC broadcasts, along with a feature in *The Times* and numerous regional daily newspapers. Along with generating positive media coverage for BW's environmental work, the findings of the survey are also used for aiding future engineering maintenance programmes.

2.4 Political activity

Like media relations, political activity has been dominated by the government funding cuts. We continue to respond reactively to parliamentarians' requests for information about waterways in their constituencies.

The Early Day Motion tabled by the MP for Staffordshire Moorlands, Charlotte Atkins, calling on Government to restore BW's funding to pre 2006/07 levels, was re-tabled once Parliament began sitting in the current session. To date it has the most signatures of any current EDM tabled, and is supplemented by a number of other EDMs relating to waterways and funding cuts.

An Adjournment Debate was secured by Sir Peter Soulsby, MP for Leicester South, and was very well attended when it took place at the start of December. Twenty five cross party MP's spoke about a wide range of issues in the 90 minute debate. Ben Bradshaw, the Environment Minister, responded on behalf of Barry Gardiner who was unable to attend the debate.

Terms of Reference for an Environment, Food & Rural Affairs Select Committee Inquiry in to various aspects of British Waterways, its work and its funding systems have now been published. The Committee is expected to sit in early February. We are currently preparing our written evidence. We also expect to be asked to give oral evidence.

2.5 Customer Service Transformation

B2B relationships

Our first ever B2B trade survey results chart a positive attitude to future trading prospects of waterside businesses and the beneficial effect waterside locations can have for businesses. However, they paint a picture of poor performance by BW in managing its B2B relationships. The results are a clear call for action and business wide improvement. The current restructure was specifically designed to deal with some of these issues giving, as it does, clearer B2B relationship accountability.

Both directors and general managers have considered and discussed the results and I have written to those 825 businesses that participated in the research.

We have an action plan that includes an account management development programme and specific B2B components in all future customer service transformation activities.

B2B principles form a fundamental part of the marketing and business strategy.

2.6 Advertising Business

BW currently generates £300k rental income per annum from large format advertising hoardings on its property. These are largely in urban areas at intersections of waterways and major roads. While this advertising business has not previously been seen as a priority it is one with considerable upside potential that does not require capital investment by BW. It represents a way or monetising the large volumes of activity on and around the waterways.

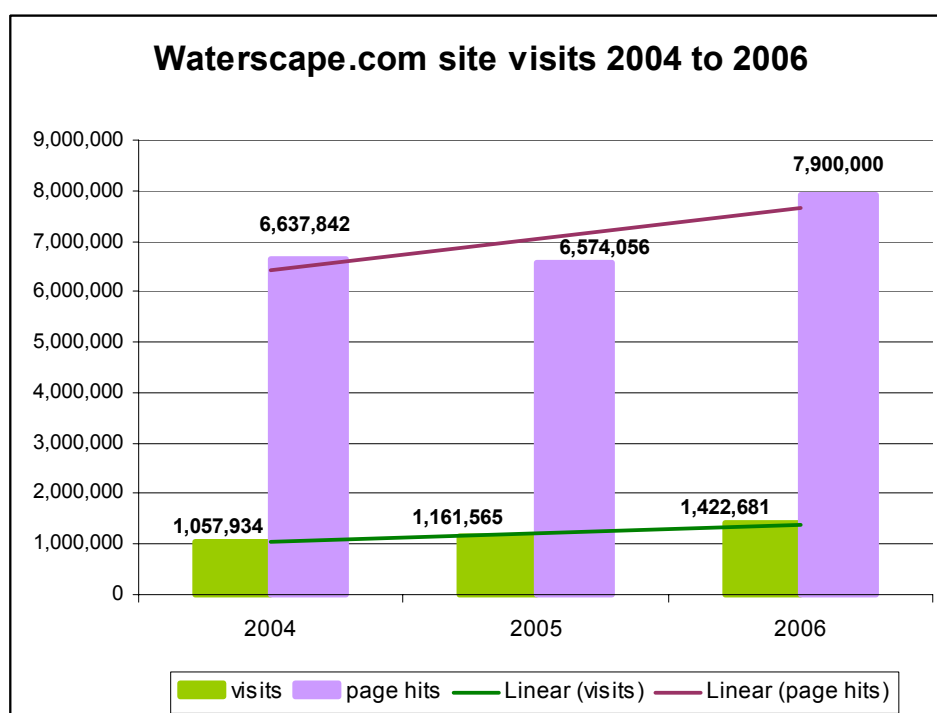
Following an extensive procurement, negotiation and legal process the single firm SI Media Ltd has been appointed BW's preferred advertising contractor to take on and improve existing sites as their leases expire, and to develop new opportunities. SI Media commenced work during December 2006.

2.7 Waterscape.com 2006 round-up

On 1 April 2006 Waterscape.com ceased to be a separate subsidiary and was brought in-house as part of BW's generic marketing.

2.7.1 Increased site visits

A better targeted marketing campaign in 2006 has resulted in site traffic increasing by 22% compared with 2005.



2.7.2 Top ten visited pages

The top pages visited were more aligned to our core offerings. However, much of the site traffic comes from the 'long tail' – the thousands of more specific pages that get less than five hits.

	2006	2005
1	Waterscape homepage	Waterscape homepage
2	boating	index.html
3	cycling	boating

4	boating holidays	cottages
5	boating stoppages	holidays: boating holiday search.html
6	boating guides	Wales
7	fishing	boating stoppages
8	walking	waterways guide
9	boating hiring	cycling
10	boating useful downloads	holidays: boating holiday search

2.7.3 **Further reductions in cost**

Budgets, employee numbers, and spend on marketing were all cut back at the start of 2006 for a move in-house. Over the year Waterscape.com has managed a further 20% reduction in employee numbers, and a projected overall reduction in costs of 25% compared with budget.

2.7.4 **Customer research**

3.5% of the UK population used Waterscape.com to find out information on Britain's waterways

(Source: IWVS survey April-June)

8% of towpath visitors to priority sites had visited Waterscape.com, with 87% of them rating it as ok, good or excellent.

(Source: Priority site survey 2006)

36% of hire boaters had visited the site before booking their holiday and 93% rated it as ok, good or excellent.

(Source: Hire Boat survey 2006)

2.7.5 **Development in 2007**

By mid 2007 the site will be upgraded to reflect BW's new marketing strategy, customer feedback and web 2.0.

3. **RISK ISSUES**

3.1 **Closure of Kennet & Avon Canal**

The weir at Sheffield Mill on the eastern K&A has collapsed, closing the navigation. This weir is on private land 25m away from the canal. The landowner is taking the position that it does not affect his operations so he is not going to repair it. We have researched the legal position and have established that the land with the weir was sold in 1834 with the maintenance obligations remaining with the canal company. We, therefore, appear liable for the repair. Costs have been estimated by Morrisons at £250k - £300k plus £100k risk. This project is not funded at present. The weir has never been on our asset list nor has it been inspected. The EA also have an interest given the water flows over the weir into the main river channel. It is unlikely that we could simply dam this small arm off.

3.2 **Peak Forest Canal, Lock 15**

Significant voiding was discovered beneath the lock top area of Lock 15 on the Peak Forest Canal in December. An emergency scheme is currently being designed to grout and excavate the material behind the lock wall and stabilise the lock wall.

4. **STRATEGIC PEOPLE ISSUES**

4.1 **Honours & Awards**

Barry Whitelock, a Customer Operations Assistant on the Leeds & Liverpool Canal, received an MBE in the New Year Honours for services to the waterways in the North of England.

5. LEISURE

5.1 Christmas at The Falkirk Wheel

To address the previous low level of visitors to the Wheel at this time of year, a Christmas event was staged from December 1st to December 24th. The event included a festive boat trip and a toy exhibition. This was augmented by a funfair and a Christmas market. It is anticipated that this will grow into an annual event. The event achieved a national profile in advertising and promotion with support from VisitScotland, including TV coverage. Whilst a marginal loss was made this year, it is anticipated that year two to five will be profitable.

6. RESTORATION/REGENERATION

6.1 Olympics Update

A presentation will be given at the meeting.

6.2 Grantham Canal

The Inland Waterways 2007 National Trailboat Festival "Grantham on Water" has secured £10k towards the cost of running the event from the Lottery "Awards for All" programme. The Festival will take place between 26 and 28 May.

6.3 Caldon Canal

We have the prospect of a £500k grant from English Partnerships to complete an area of towpath improvements in the City Waterside regeneration area. This will fund washwall repairs as well as a high quality towpath surface which meets our own objectives of utilising third party funding to improve our assets. EP has confirmed an initial £10k work-up grant. Final funding has to be confirmed during January with the majority of the expenditure during the 2007/8 financial year.

7. PROPERTY

7.1 Millgate Newark – Planning Appeal

British Waterways and Redrow Homes (Midlands) Limited are to lodge an appeal against the refusal by Newark & Sherwood District Council of the planning application for the redevelopment of land at Millgate in Newark for 69 new build residential dwellings and amenity space, including associated landscaping, parking and access. This appeal is being submitted in tandem with appeals against the refusal of Listed Building Consent and Conservation Area Consent.

7.2 Willow Grange Relocation

We have not found any canalside accommodation that meets our requirements. We are now proposing to take a short (3-5 year) lease of offices within Watford. This will enable us to benefit from reduced costs of running Willow Grange and earlier receipt of capital payment. No premises have yet been identified but we do not consider this will be a problem.

7.3 Witan Gate House

Notice has been served to BP with regard to terminating the lease of the regional office at Witan Gate House. We will be looking at other local office possibilities to take us forward from 1 June 2006.

8. CORE WATERWAY

8.1 Major Works

We planned to undertake work on 249 major works projects at £30m in 2006/7. Our plans were affected by the announced grant cuts and the need to make immediate savings of £5m. Following review and risk assessment, 23 projects were deferred or significantly reduced in scope to make these savings. A further 62 projects were deferred or cancelled during the year to balance 91 arising reactive projects.

Our major works have been helped by a mild Winter period and are progressing satisfactorily. Of 255 active projects in 2006/7, 55 (22%) are already complete with a further 200 (78%) in progress. Expenditure to date is £15m with a forecast out-turn of £24m. Unless our programme is affected by a requirement for significant emergency work before year end, we are confident that we will meet our targets.

8.2 Brent Feeder near Woodheyes Road

Members of the public are dumping trolleys from the bridge into the feeder, to provide an unofficial crossing, causing flooding of the adjacent allotments. Consultation with Brent Council is underway and they have provided funding of £63k towards construction of a permanent bridge and approach works. Because of planning permission the estimated time for works are 6-8 months. To alleviate the immediate problem, it has been proposed by Brent Council that a temporary scaffold bridge may be erected.

8.3 Docklands – Concrete Batching Plant

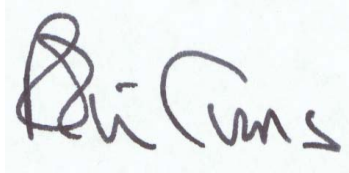
The planning application for the mooring and operation of the concrete batching plant in Docklands should be concluded by Spring. Tower Hamlets Council has agreed with BWL that the vessel can come into Docklands for re-fit prior to formal operating consent being granted. The vessel will be moored on west side of Cable & Wireless site and will provide concrete to local developments. Aggregates etc. will be delivered by barge generating revenue for BW.

8.4 Project Approvals

I have approved the following operational projects:

- **North Staffordshire Canals and Connecting Routeways** (increase in funding from £5.4m to £5,752,000 with additional costs met fully by third parties. The increase in funding is for a visitor centre at Stoke to be run by the local authority. BW's contribution remains unchanged at £344,000).
- **Staffordshire & Worcestershire Canal Improvement Works (£867k).** Major Programme of Works on a 39km section of the canal in Wolverhampton and South Staffordshire.
- **Kellingley Mining Subsidence, Yorkshire – Phase 6 (£926k).** Works are agreed with and largely funded by UK Coal.

- **Braunston Backpumping Scheme** (increase in project costs from £526k to £599k).

A handwritten signature in black ink on a light background. The signature is written in a cursive style and appears to read "Robin Evans".

ROBIN EVANS

January 2007.