

MEMORANDUM TO THE BOARD

CHIEF EXECUTIVE'S REPORT

1. STAKEHOLDER RELATIONS

1.1 Defra Grant

As already notified, Defra have given us a provisional grant of:

2007/08	£55.4m
2008/09	£56.624m
2009/10	£56.552m
2010/11	£54.144m

This represents about a 2% increase next year which is very satisfactory considering what we had been expecting.

This grant has not been confirmed and although Defra need to cut some provisional allocations to balance their budgets, we have been told Ministers have 'no appetite' to cut BW.

1.2 Scottish Government Grant

Scottish Government have confirmed the following grant:

2007/08	£11.4m
2008/09	£11.6m
2009/10	£11.8m
2010/11	£12m

Scottish Government envisage that £1.5m of the core grant will contribute to the Helix project. Discussions with them are ongoing with regards to funding the Helix which could reduce this cost pressure.

1.3 Robin Mortimer visit

The West Midlands Waterway hosted a visit from Defra director Robin Mortimer in early December. The visit included a look around the canals of Birmingham city centre, a trip on the BW boat *Waterscape* and a visit to two stoppages. Robin Mortimer was interested to see the engineering work which gave him an insight into the need for certainty in funding to plan such works and he was interested to hear about planned maintenance works that helped increase the life of assets (e.g. lock gates).

1.4 Adjournment Debate

Michael Fabricant MP secured an adjournment debate on the future of British Waterways in December. The debate was well supported with 12 other MPs participating. Questions were directed to Jonathan Shaw.

No new issues were raised or information given. MPs felt the Minister equipped himself well but was left in no doubt there were a number of MPs ready and willing to cause a fuss if they felt the waterways were being under valued by government.

1.5 Breach of the Monmouthshire & Brecon Canal

We have requested a meeting with Ieuan Wyn Jones AM Deputy First Minister and Minister for Economy and Transport, Welsh Assembly Government to update on the Monmouthshire and Brecon Canal Breach. A Public Affairs plan has been prepared with support from the central External Communications team and an external funding strategy is in preparation which will include information on the value of waterways to the Welsh economy in this area.

1.6 The Waterways Trust

The refurbished museum offer at Gloucester is scheduled to open May 2008 in a reduced footprint. The space occupied by TWT in Gloucester is planned to shrink further over the next three years. Opportunities to re-house the archive and reserve collection in appropriate conditions at Ellesmere Port are under investigation.

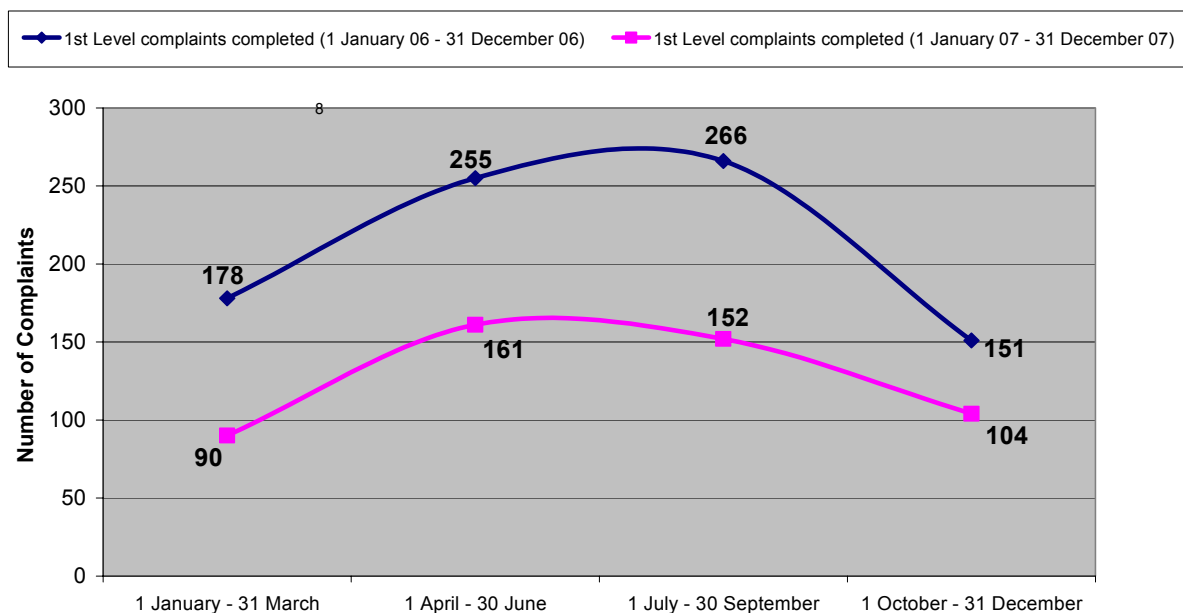
In tandem with this, TWT has restructured its operation. This has involved a number of redundancies and the appointment of a museum director with commercial, operation and curatorial responsibilities. He takes up his position April 2008.

BW has put forward Judy Niner as its fifth nominated trustee, replacing Sir Adrian Montague. Judy is an experienced fundraiser for museums now running her own business <http://www.development-partners.co.uk/> Other nominated trustees are Francis Done (chairman), Christopher Coburn, Christopher Mitchell and Laurence Newman.

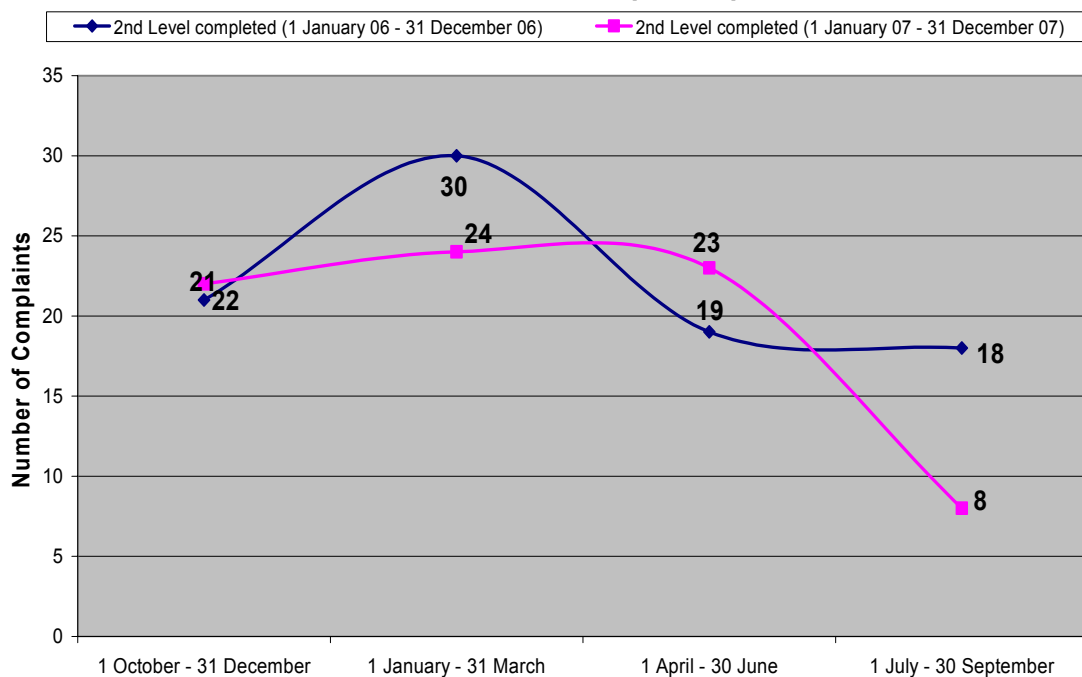
2. MARKETING & CUSTOMER SERVICE

2.1 Complaints data

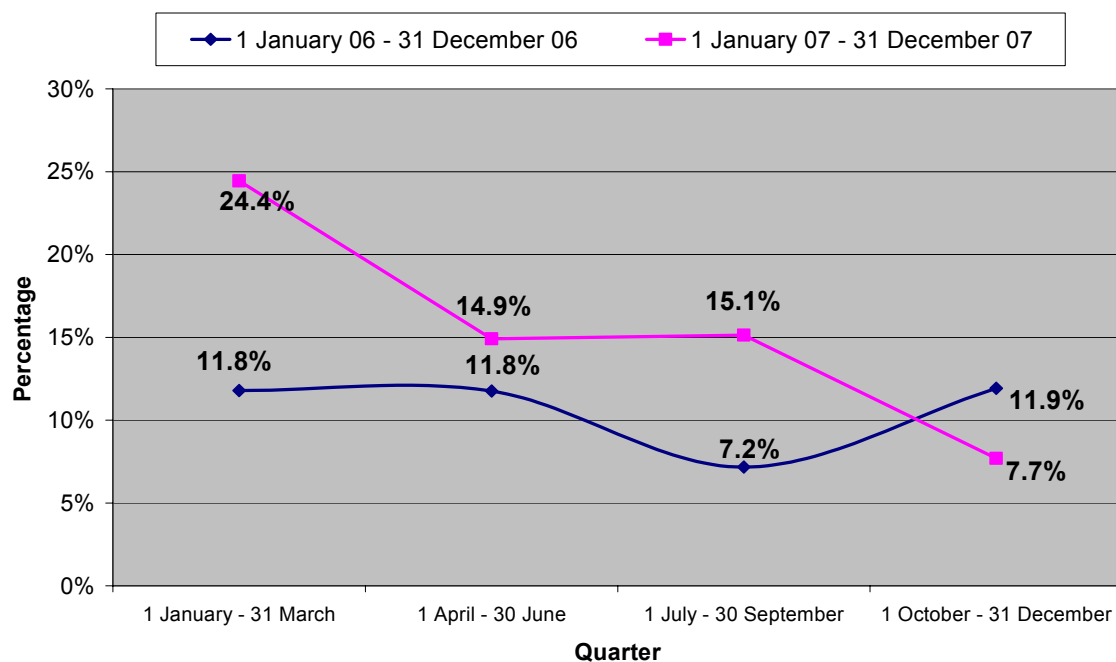
Number of Complaints per Quarter



Number of 2nd Level Complaints per Quarter



Percentage of Complaints Moved to Level 2



Waterways Ombudsman cases

	2006/07		2007/08		
	Q3	Q4	Q1	Q2	Q3
Number of cases accepted by Ombudsman	5	11	7	4	2
Number of cases completed	4	7	5	9	14
Number of completed cases with maladministration found. Includes () = partial finding of maladministration	3 (1)	2 (1)	2 (1)	2 (0)	8 (8)
Complaints accepted as % of BW level 2 complaints	28%	50%	29%	20%	25%

2.2 Mooring tender trial

We launched the twelve month trial of allocating vacancies at our directly managed moorings by tender at the end of October 2007.

While the service remains unpopular amongst boating user groups and the waterways press, the system is functioning as planned and we have used it to advertise 65 vacancies so far. 168 people have submitted tenders – an average of 2.5 per vacancy.

The premium achieved compared with the current price charged to existing customers ranges from -46% to +167%, with the average currently + 16%. There were no tenders received for 16 of the vacancies and the reserve price was not met in 5 cases.

The trial has highlighted opportunities for improving income from our moorings business, including improving speed with which vacancies are offered to the market and better space planning at our mooring sites. The vacancies that didn't attract tenders were all for berths only 12 metres long or less.

We will begin a formal interim review in March and launch the public consultation in May

3. RISK ISSUES

3.1 Rotton Park Reservoir, Birmingham

The Channel 4 Dispatches programme screened in December (*Britain Under Water*) included detailed reference to Rotton Park Reservoir (also known as Edgbaston Reservoir) located adjacent to Birmingham city centre. The programme speculated on the safety of the reservoir dam and highlighted that schools and nurseries would be inundated if the dam failed catastrophically. There were intense discussions with Channel 4 and local partners prior the screening, which ultimately portrayed BW in a reasonable light. The city council subsequently wrote to BW seeking reassurance about the dam safety. Contact has been made with the city in its role as a Category 1 responder under the Civil Contingencies Act to look at the risk posed by BW reservoirs in West Midlands.

4. STRATEGIC PEOPLE ISSUES

4.1 James Froemberg

James Froemberg has been appointed as a National Lottery Commissioner for a four year term, by the Secretary of State for Culture, Media and Sport.

4.2 Leadership Development Programme

The programme continues to roll forward, with leadership behaviour diagnostics being completed for business unit general managers and senior functional heads and a total of five leadership development centres taking place during this month and February.

Directors have completed a further stage of their team development plan and are considering their personal development requirements in light of the feedback received from their diagnostics.

4.3 Succession Management

The Nominations Committee is receiving an update report about succession management. We shall build on our established succession planning processes using the outputs of the leadership development programme and in particular the high performance behaviour model used by Centre for High Performance Development (CHPD), our leadership development partners.

5. LEISURE

5.1 Tees Barrage White Water Course

Working with One North East, Sport England, Stockton and Middlesborough Councils, YBU has developed the opportunity to secure £3.4 million to upgrade the White Water Course at the Tees Barrage. This will create one of the top white water courses in the world, attracting a wide range of customers from elite athletes to regular canoeists. Regular project meetings will be held with the Funders and work is expected to commence in late Summer once we are satisfied with the terms of the grant.

5.2 Stoke Bruerne Visitor Improvements

South East Waterways has been awarded a £250k grant from Northamptonshire Enterprise Ltd to improve visitor facilities at Stoke Bruerne. The scope of work will include car park and toilet upgrade as well as a new dipping pond attraction. These funds have become available late in the financial year due to other NEL funded projects falling through. The deadline for completion is the end of March. Delivery of these works will be via Morrisons who are already on site undertaking much needed towpath improvements totaling £135k.

6. RESTORATION/REGENERATION

6.1 Cotswold Canal

The Board will recall that we had agreed with Stroud District Council (SDC) that they would construct the Brimscombe Port section of the canal, thereby removing between £2.5-5m of risk from BW.

In trying to document this agreement, it has become clear that SDC will not indemnify BW for non-performance. This means that if SDC do not build out Brimscombe Port to Heritage Lottery Fund satisfaction, we are liable to HLF clawing back the whole £14m of grant from us.

HLF have confirmed that they would be highly unlikely to do this if we had constructed our part of the canal, but they will not relinquish their right to do so.

I do not believe we would be required to pay back grant by HLF if SDC failed to build Brimscombe although it remains a risk. What is much more likely is that we will come under great pressure from HLF and others to step in and undertake or complete Brimscombe Port.

Given the huge cost of repairing the Monmouthshire & Brecon Canal, the uncertainty in the property market and the knock on effect on JV income, combined with our boating customers' concern about rising licence fees, I believe a decision to withdraw from this project would be widely understood, although not welcomed. There would be a very negative reaction from the Cotswold Canal Trust and SDC.

We will need to handle HLF sensitively. They will be disappointed but probably relieved to have certainty one way or other. We also want to claim around £1m of costs already incurred, which they are willing and ready to do, but only if we sign the funding agreement. We will need to justify signing the agreement to get our £1m when we have no intention of completing the project.

The Board will want to consider whether to exit from the project when discussing the outline 2008 Business Plan in the Finance Director's report.

The Executive recommend that we do withdraw from the Cotswold Canal Restoration for the reasons given.

6.2 East Midlands Development Agency

Two waterways have been successful in securing funding from EMDA.

On the Caldon Canal, the North West Waterway will be able to deliver £600k of improvements to visitor facilities and infrastructure at Bugsworth Basin and Whaley Bridge.

In the East Midlands, almost £800k of funding has been secured for a number of projects. The largest of these is on the Erewash Canal with £575k for improving community and visitor access. The project also involved a feasibility study into potential re-use of brownfield land at Trent Lock.

6.3 Heritage Lottery Fund Awards

In December the HLF £50m award was made to the Sustrans Connect 2 scheme following public voting on TV presentations of short listed schemes. This award will include access improvements linking the River soar and Watermead Country Park. Meetings with Leicestershire County Council (representing Sustrans) are to be held in January to agree the items going forward in the prioritised list of planned works and to agree future maintenance responsibilities. The overall value in the HLF bid for works affecting BW property in the East Midlands is approximately £450k.

The Black Country Big Lottery £50m bid was unsuccessful in the TV telephone vote. The waterway has now taken the initiative in rallying the Black Country Consortium (the body coordinating the 4 local authorities) to revive viable aspects of the bid which are still deliverable and can provide positive benefits for the waterways.

6.4 Foxton HLF Update

Following the completion of the engineering phase of the HLF works at Foxton, all that remains is the installation of the interpretation elements and the re-grading of the inclined plane. All consents have been received for the interpretation work and the application for the plane works has been submitted from which no problems are expected. Work will commence on site in mid January and all works will be completed by the end of March. A grand opening event is planned for the weekend of June 14th/15th.

6.5 Olympics

6.5.1 Project Summary

Construction work on Prescott Lock is 6 weeks behind schedule largely due to the discovery of worse than expected contamination previously reported. The costs associated with remediation have now been agreed with the contractor at £2.1m (c.80% of the contingency).

Other items of work that are contributing to the pressures on the budget include: unforeseen difficulties in dealing with buried structures in Prescott Channel; sensitivities on costs for works to the 'throttle' (where Prescott Channel joins Channelsea River); the realignment of lock and; EA requirements for design modifications to Three Mills Wall Weir. These could result in additional unfunded costs of between £2.5m and £3m.

Further funding is being sought from the key funders principally the ODA, TfL, London Thames Gateway Development Corporation and the LDA. Recent reports that the LDA may receive lower than projected receipts from the Legacy land sales may impact on these discussions. BW will, subject to Board approval, contribute up to £0.5m of this cost if required.

Additional funding has been secured from a waterside developer, Manser Homes, for £300k contribution towards the wider restoration of the Lower Lea Valley Waterways. We are continuing discussions with other developers in the area including the developers of Stratford City (Bovis Lend Lease and Westfield), Genesis Housing Association and Cleveland Estates all of which have land interests adjacent to our waterways.

BW is contributing to the Olympic and Legacy Waterspace Masterplan which is due for completion by April 2008. However, we are concerned at the lack of progress of both this and the wider Legacy Masterplan. The Olympic Masterplan for the land use, for example, has been finalised before any proper consideration has been given to the water Masterplan. Nevertheless, we are working to influence the Legacy Planning process by working with stakeholders such as the LTGDC, London First and Lord Mawson of Bromley by Bow who is promoting the concept of developing a 'Water City' for the area.

6.5.2 Commercial Opportunities

Recent discussions have taken place with the London Organising Committee for the Olympic Games with regard to maximising opportunities associated with the Olympic Games. Proposals include the provision of floating amenities including restaurants, cafes, water buses, water taxis and corporate hospitality barges. LOCOG have given us positive assurances, however we are yet to see any evidence that they have fully grasped the opportunities for using the waterways.

In addition to the rights already granted to the LDA to bridge the waterways, further commercial opportunities including surface water drainage rights and temporary pedestrian pontoons (acting as access walkways over the waterways) are currently being discussed.

6.5.3 Ancillary Works

Ancillary works in the Olympic Park include: infrastructure improvement to two locks (City Road Lock and Carpenters Road Lock); dredging; wharves; and river wall improvements. A BW Engineer is assisting with this work, with the post funded by the ODA.

We have estimated the cost of these works to be in the order of £6m-£7m and have sought ODA agreement to fund on the basis of BW facilitating works within our boundaries that will reduce their costs substantially. We estimate that there may be a cost saving to the ODA of up to £20m.

6.5.4 Water Freight

The ODA has recently announced that Aggregate Industries has won the contract to supply materials to the Olympic Park. Aggregate Industries is familiar with water transport and has a fleet of 350-tonne barges, via its subsidiary AC Bennetts, which is available to service the construction of the Games.

The ODA has recently published a booklet called 'Demolish, Dig and Design' which recognises BW's delivery role in the Games and promotes the use of the waterways for water freight. The document highlights ODA's commitment to construct the necessary infrastructure, including wharves, required for a successful water freight operation.

6.5.5 Water Quality

We have recently completed an assessment of the impact of the Lock on the water quality of the Olympic waterways. The sewage discharges from Abbey Mills Sewage Treatment Works will be eliminated when the Lock is in place. However the water quality within the newly impounded section will be affected by other sources of pollution entering the system from the north. Further mitigation, such as oxygenation, may be necessary to alleviate this impact. This work is being developed in partnership with Defra's Olympic Measures Group which is chaired by the EA. Other partners include the GLA, Thames Water and London Boroughs.

6.5.6 Regeneration of the Lower Lee Valley

BW and the ODA have commissioned a study to investigate viability of an Olympic passenger service by water. There is a potential to work with TfL to combine a proposed waterside hydrogen fuelling station to service both buses and boats, thereby enabling the development of hydrogen fuel cell boats for both the Games and Legacy.

The LTGDC has announced a funding package of £38m towards the regeneration of the Lea River Park. We have helped develop a 'blueprint' for the Park with their contracted design consultant, 5th Studio. This funding package available over the next 3 years is essential to help deliver the original aspirations put forward by BW and the other Defra agencies regarding the improvement of open space, water quality and natural bio-diversity of the lower Lea valley.

It is pleasing to note that Tom Russell, previously CEO of New East Manchester, has been appointed by the LDA to oversee their Olympic Legacy strategy. It is hoped that this will give the LDA greater focus and direction as the key Legacy client. BW will be seeking early meeting with Tom, who we know through Isis and James Froomberg, to discuss mutual areas of interest and activity.

7. PROPERTY

7.1 Aylesbury Town Centre Development

Prolonged negotiations between Aylesbury Vale District Council (AVDC) and Aylesbury Canal Society (ACS) on relocation from their town centre basin location to an edge of town purpose built facility (Circus Fields) continue to be a major sticking point for progress. AVDC are shortly to enact a break clause in the ACS lease and follow up with the issue of CPO proceedings. BW South East continues to be fully supportive of AVDC's position in this important scheme.

ISIS are still hopeful to be appointed the preferred developer for the scheme.

7.2 Jericho

Planning permission for Springs Jericho development was refused by the planning committee on 11th December. The 4 reasons for refusal revolve around not a high enough percentage of affordable housing (only 33%-Oxford City Council want 50%), poor use of resources and energy efficiency, lack of clarity and a legal agreement around contributions to Oxfordshire CC and the absence of a legal agreement to secure the land for a community centre.

The debate about adequacy of replacement boat repair berth was not cited as a reason for refusal.

7.3 Water Space Strategy

British Waterways has appointed Sir Terry Farrell to undertake the design of a water space strategy for the Docklands area. This work builds on previous work undertaken in house by BW and will result in a broad strategy document for adoption or recognition by the local authority and adjacent developers to inform on the future development of the docks and use of the water space. A synopsis of the initial thoughts is currently on display at New London Architecture.

7.4 Masthouse Terrace Pier, River Thames

Refurbishment of Masthouse Terrace Pier commenced on 7th January. This is a £500,000 project funded by British Waterways (£100k) and Transport for London (£400k). On completion of the works, the pier will be fit to be used for the next 15 years and will provide a bus stop for the Riverbus service from which BW will derive an annual income along with the ability to use the improved facility for other vessels. The works will ensure that access to the pier from the water is DDA compliant and will also provide enhanced security via a CCTV link along with real time Riverbus schedules and a passenger information link to the TfL control room.

8. CORE WATERWAY

8.1 Beaver Re-introduction in Scotland

BW was consulted, at short notice, over plans to re-introduce beavers into Knapdale, Argyll, adjacent to the Crinan Canal. At the consultation meeting on 19 October 2007, it was stated that a licence application for the re-introduction was expected to be submitted prior to Christmas 2007.

Our concerns are that the consultation period is short and there is a significant lack of comprehensive documentation outlining the main issues, including an assessment of the risks to all potentially affected parties. We have recommended that an Environmental Impact Assessment style approach should be taken to the project.

Our letter opposed the proposal in its current form and has said that if the licence application is submitted, we would be forced to take the strongest measures available to oppose the reintroduction. A more thorough consultation including the impacts relating to the operation of the Crinan Canal is requested prior to the proposed re-introduction.

We have now learnt that the Scottish Wildlife Trust and the Royal Zoological Society of Scotland have submitted the licence application to Scottish Government.

8.2 Marple Retaining Wall

Following its collapse in February 2006, United Utilities admitted liability for the repairs. The project is now completed on site. United Utilities then wrote to us to suggest that a further drain discovered during the works, and not within their ownership, was responsible for the collapse. The North West Business Unit, in consultation with our legal department, has sent a robust response threatening legal action. They have recently written back again refuting the claim. A way forward has been agreed with our legal department which may require mediation with United Utilities.

8.3 MannoX Claim – Rochdale Canal

After over 12 months of legal negotiations, the North West Business Unit has successfully secured a £400k compensation payment from Manchester City Council in respect of the Council's failure to provide information on the contamination of the silt within the canal bed under their contract during the restoration of the Rochdale Canal. Continued contamination on this site has also been highlighted during a recent external environmental review and the Business Unit is working with Manchester City Council colleagues to look at how this can be prevented.

8.4 Standedge Tunnel Operations

Further gas testing took place in the tunnel on 14th November. The results of these tests, and those which took place in September, showed the risks from emissions to be minimal. This had led us to consider whether boats could be piloted through the tunnel individually, by qualified BW staff, rather than towed through by a tug. It is intended that such a piloted operation will be tested, in a low-key manner, during the 2008 season. Following consultation with Shire Cruisers, it has been agreed that boats booking tunnel passage from their fleet will be used for this trial. Consultation with the "Standedge Supporters Group" will continue.

8.5 Bingley 3 Rise

Work to replace gates revealed a void in the lock floor where timber had rotted, necessitating a one week extension to the stoppage. Planners allowed the void in the Grade II structure to be filled with concrete, and the timber floor had to be replaced. As much of the original material as possible was retained, and the team worked hard to ensure the lock could be re-watered in time for the Christmas break.

8.6 Kennet & Avon – Refuse Collection

We continue to experience major problems with BIFFA regarding refuse collection on the Kennet & Avon Canal. This has been ongoing for many months, despite several interventions, and we are now moving towards a new supplier. It is disappointing that the national contractor is unable to guarantee the service level.

8.7 Wheaton Aston Embankment

A principal inspection in October 2007 identified serious badger activity on the offside embankment at Wheaton Aston on the Shropshire Union Canal near Market Drayton. There is a risk of embankment failure and as a result we have undertaken temporary works to raise the freeboard on the offside bank and have increased our inspection regime to daily. The consequence of failure is low as the area is farmland. Natural England are working with us and are ready to issue the required permissions for work, however badger exclusion work cannot commence until early summer (once the young have emerged). We are planning for a reinstatement project for the winter of 2008. This highlights the ongoing risk of badger activity in embankments.

8.8 Yard Lock, Stone, Trent and Mersey Canal

During December a cavity opened in the forebay area of this lock meaning that it could not be operated - the lock has been closed since. The cavity formed around head gate paddle culverts and the surface cover then collapsed, consequently water is by-passing the head gates and water levels cannot be held. This has resulted in a late, unplanned stoppage over the Christmas period which has drawn some concern from customers. Repairs have commenced and it is expected that the lock will re-open by the end of January. Cost c£40k.

8.9 Barnton Sluice Emergency Works

This sluice failed in the up position during December with the consequence that the Weaver Navigation began to drain. All efforts to lower the sluice gate manually failed and with the navigation pound levels substantially reduced and dropping, potentially forcing the adjacent chemical works to shut down. The decision was taken to cut the sluice gate free and allow it to drop to the closed position. This was successful but now means that the gate has to be repaired. Cost c£50k.

While the gate is out of commission there is an increased difficulty in our controlling water levels for this pound. To mitigate this we have implemented a procedure for running water through Saltersford Lock in the event of flooding. With other maintenance items underway and the non-operational sluices at Vale Royal, we currently have 6 sluices that are temporarily out of use. It is expected that it will take up to 8 weeks to re-commission Barnton Sluice – the cill may have been damaged by the action taken and require repair.

8.10 Brent Feeder

The Brent Feeder Regeneration Project is running over three years from 2007 - 2009 and has the aims of bringing the Feeder back into operational use and of implementing a sustainable maintenance regime.

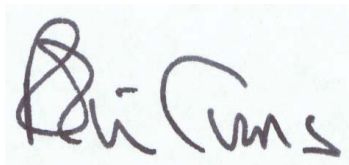
Over recent years, lengths of the Feeder immediately downstream of Brent Reservoir has been subject to extensive littering and fly tipping, particularly in stretches immediately behind houses, resulting in an unpleasant environment which has generated letters of complaint from residents and a letter from the local MP.

As part of the project, a joint BW/Residents/Brent Council "clean up day" was held in November. The clean up event concentrated on the heavily littered area downstream of the Reservoir, at the backs of houses, and was attended by approx. 35 local residents plus BWL's Antonia Zotali, Brent Council Staff and the local MP Dawn Butler who called in to give support to the project. A further "clean up day" is planned for February 2008.

8.11 Project Approval

I have approved the following project:

Swellands Reservoir - £1,650,385.



ROBIN EVANS

January 2008.