

BRITISH WATERWAYS
CHIEF EXECUTIVE'S BRIEFING PAPER

JULY 2005

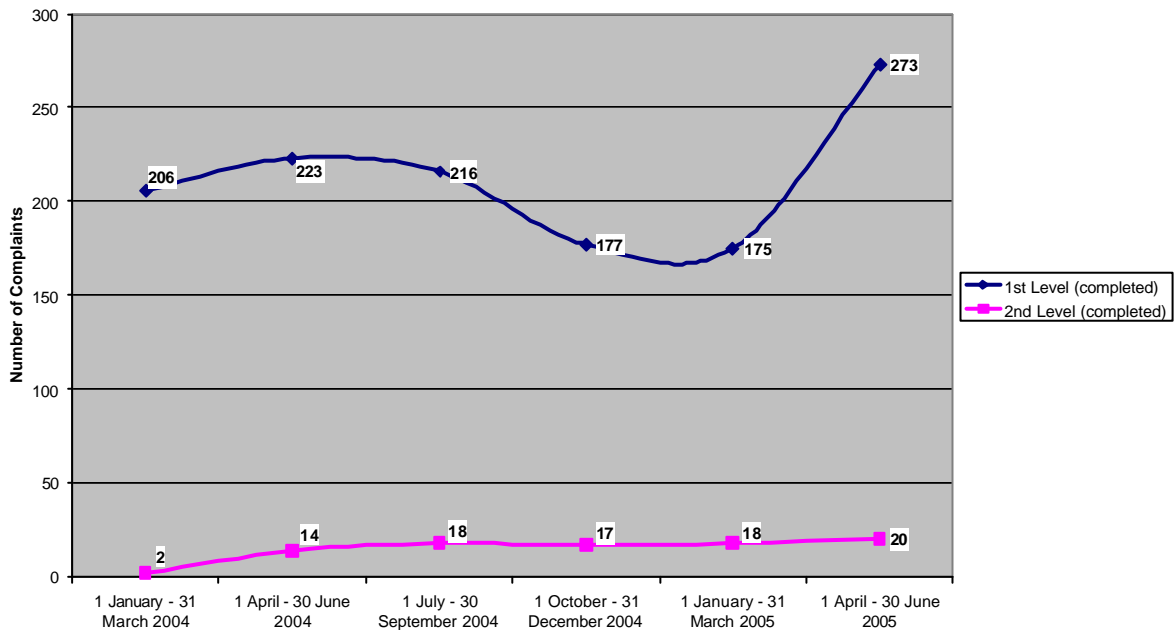
1. STAKEHOLDER RELATIONS

1.1 Complaints Q1 2005/06

Complaints per Quarter

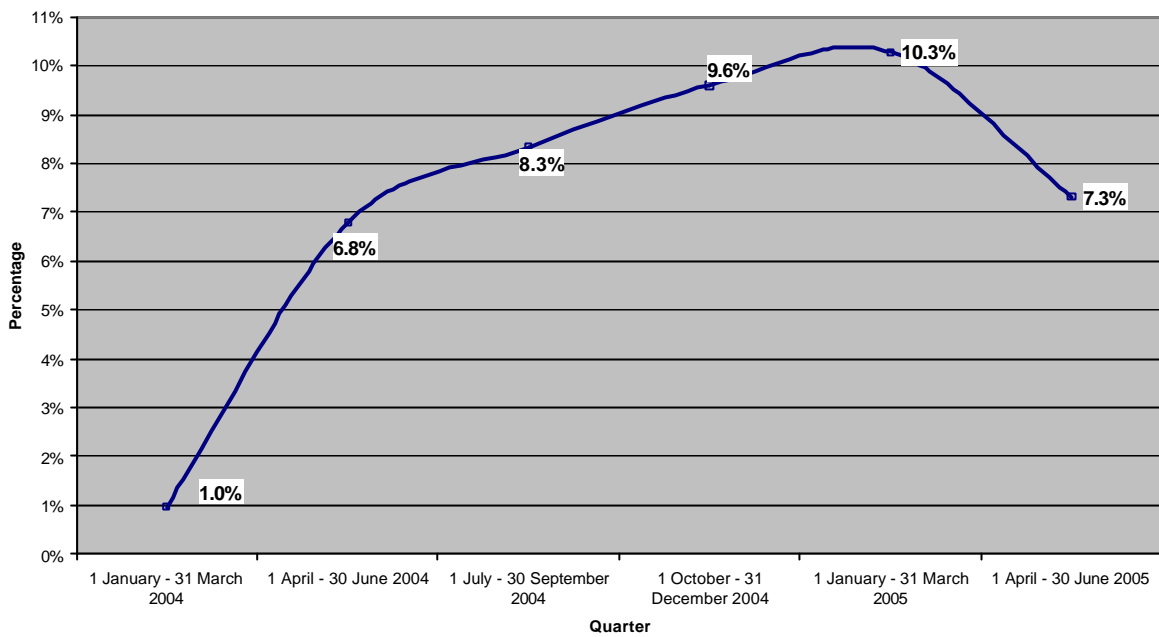
Q1 2005/06 saw the largest number of complaints (273) handled in any quarter since this data series began in January 2004. The number of complaints was 22% higher than the equivalent quarter 2004/05.

It is too early to be sure if this is a trend since by contrast complaints in Q4 2004/05 were 15% down on the equivalent quarter in 2003/04. Additionally, the appointment of a new Service Manager in the South West unit has led to a significant increase in complaints as previously unacknowledged issues are deliberately addressed. Much of the Q1 increase can be attributed to this change. We now expect the situation to improve in the South West.



The number of 2nd Level complaints remains consistent in volume and currently does not reflect the increase in 1st Level complaints accepted for consideration. We will monitor this trend, but early indications suggest that improved standards of response at the 1st Level, leading to customer satisfaction, may be positively affecting these numbers.

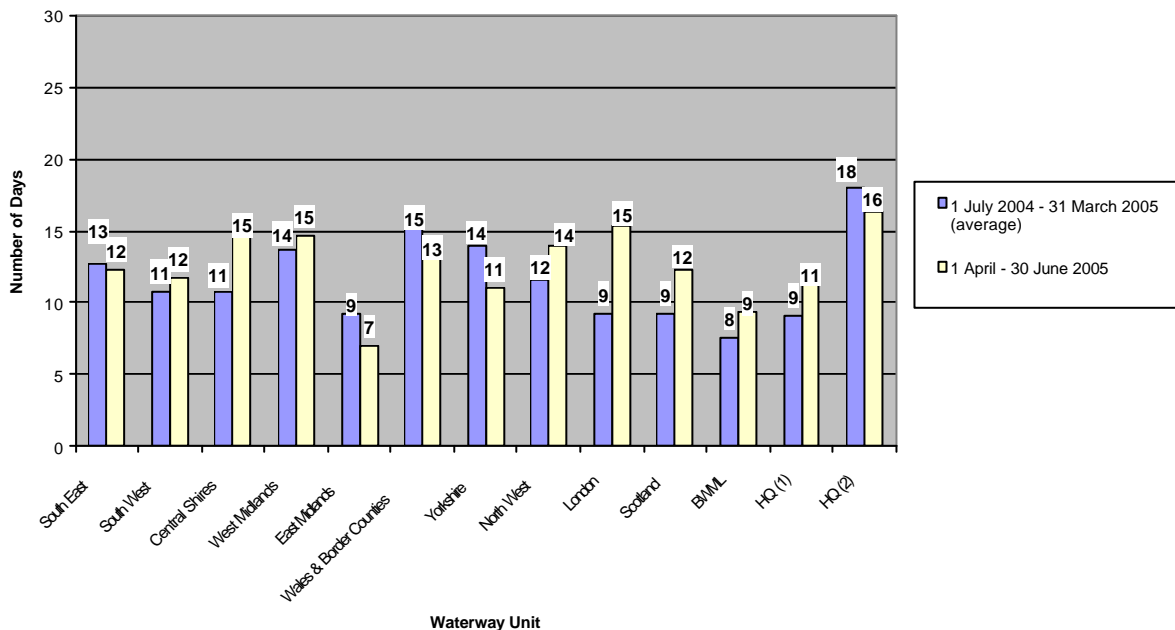
1.2 Percentage of Complaints Moved to Second Level



1.3 Individual Performance – Response Rates & Complaints' Volume

1.3.1 Average Number of days from Acknowledgement to Response

Average response times currently show a ceiling of 15 days is being achieved across the business, with the exception of 2nd Level cases considered by the Executive Team. These cases often involve a site visit by the Director responsible and may also be concerned with an unfamiliar area of the business.



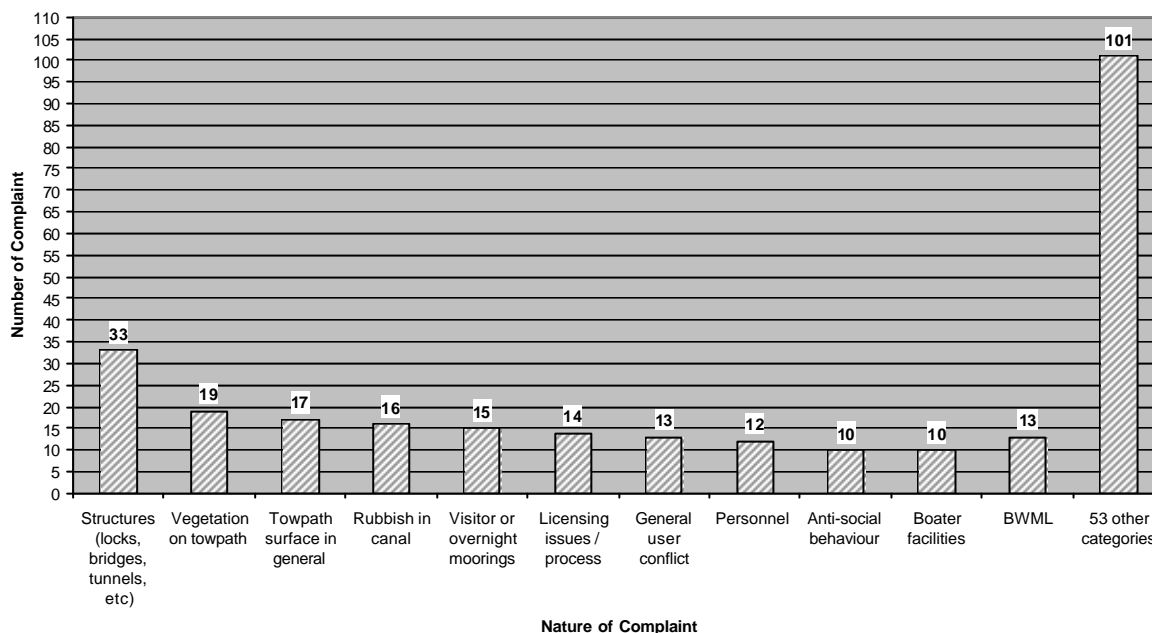
Yorkshire Business Unit has shown the greatest improvement in average response times (14 days to 11 Days), while London has experienced the greatest increase, from nine days to 15 days.

1.3.2 Completion rates per Reporting Unit (last quarter)

Four units – South East (5), South West (5), Central Shires (1) and North West (1) – have recorded complaints that have taken more than 20 working days to be resolved. There were seven units in this position in the previous quarter. The total number of 'out of time' complaints was 12 in Q1 (Q4 = 22). Overall, 95.6% of complaints were answered within 20 working days, compared with 90.4% achievement of our target for the financial year 2004/05.

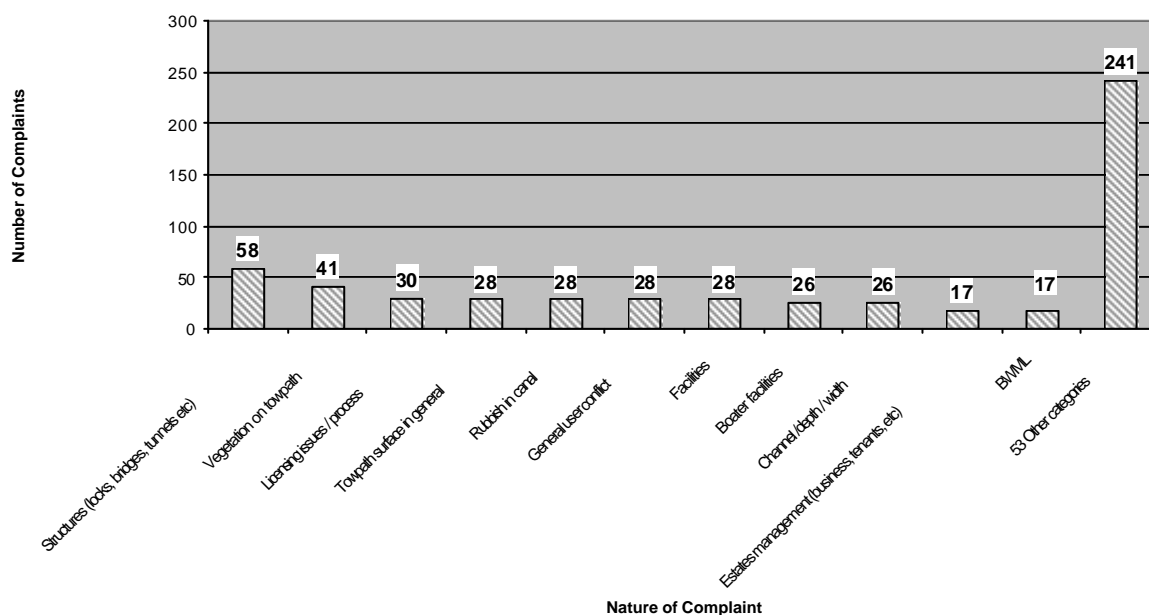
1.4 Complaint Areas

1.4.1 Nature of Complaint – 1 April 2005-30 June 2005



Complaints concerning structures (locks, bridges, etc) feature most frequently in this quarter's report. This number was increased by multiple complaints concerning K&A lock gearing. A programme of modification to the gearing to address these issues is now in place.

1.4.2 Nature of Complaint – 1 July 2004-31 March 2005



1.5 The Scottish Executive

Following the election of Nicol Stephen MSP as Leader of the Lib Dems and his appointment as Deputy First Minister, Tavish Scott MSP joins the Cabinet as Minister for Transport and Telecommunications. We have contacted his office inviting him to visit the canals during the summer and to meet our Chairman and Campbell Christie. We have also asked that he will address our Annual Meeting in Scotland, which Nicol Stephen had committed to doing.

The Quarterly Review Meeting between BWS and the Scottish Executive took place on 16 June. Nigel Johnson also attended this meeting to provide an update on the position regarding the widening of BW's powers.

1.6 Fountainbridge Edinburgh

On 1 June Campbell Christie and Jim Stirling met Donald Anderson, Leader of the City of Edinburgh Council. This was a useful meeting and BW continues to seek to influence planners to include waterspace in future developments in this area.

1.7 Media & Stakeholder Relations

Our Pub Partnership (WP5) with Scottish & Newcastle Plc was successfully launched with an event for corporate, regional and local stakeholders held at the first pub in the partnership, the Foxton Locks Inn in Leicestershire. The launch was supported by quality coverage in *The Times* business pages, in addition to supporting coverage in trade publications such the *Morning Advertiser* and *The Publican*.

Match funding for the Droitwich Canals restoration was announced and secured small coverage in *The Times*. We intend to revisit this story and seek further coverage once the national news agenda is quieter.

The appointment of Philip Ridal to the post of Finance Director was covered by the *Financial Times* along with other trade publications such as *Financial Director*.

During this period we appointed Cavendish Communications to assist with our public affairs work. Cavendish has identified a range of key cross party MP's and peers and has prepared a contact programme involving introductory letters from BW with a view to these leading to face-to-face briefings. Cavendish will assist in BW's aim of reversing Conservative policy to sell BW property as part of any future Conservative Government's fundraising exercise.

1.8 Annual Meeting – 8 September 2005

Preparations are under way for the meeting which will take place, as last year, in the Institution of Civil Engineers, One Great George Street, London SW1. Registration is from 11.45 am and the event should end around 3.15 pm. Board members should have received an invitation.

Jim Knight is unable to attend but has agreed to record a short speech on video which will be played on a large display screen in the large hall shortly before the formal meeting begins. In other respects the format will be similar to last year.

1.9 Ministerial Visit

The planned date for the visit is 11 August. The visit will be based on the Droitwich Canal and Stourport-on Severn where there is major regeneration taking place with HLF funding involved. The minister will have the chance to take a boat trip and there will be local and waterway press calls.

2. RISK ISSUES

2.1 Falkirk Wheel

On 27 May 2005 the skipper of the Govan Seagull, believing he had a green light, and that the skipper of the Archimedes was aware of his intentions, moved his vessel into the entrance of the top gondola of the Falkirk Wheel. The sequence to start the Wheel had been activated as the Govan Seagull attempted to manoeuvre into the gondola. The skipper of the Archimedes, aware that the gates were moving, informed the skipper of the Govan Seagull that the gates were coming up and that he must go astern and he was doing this when the aqueduct gate came up. This missed the bow of his vessel. Unfortunately, the outer gate came up under the vessel lifting the bow of the boat approximately 1m out of the water. The Wheel operation was stopped and the gates dropped, allowing the vessel to reverse back onto the aqueduct and the Wheel operation to restart. A full investigation is underway.

2.2 Damaged Electricity Cables

Two West Midlands employees were suspended for failure to follow the method statement procedures which resulted in a damaged electricity cable. The incident was investigated in depth and the individuals interviewed through the disciplinary procedure and given final written warnings. The application of the Method Statement has been revised following the findings of this investigation to ensure such incidents will not happen again.

2.3 Mechanical Digger Incident – Camden

An investigation has been carried out into a non-injury incident in Camden where a mechanical digger overturned on the towpath. The work was carried out by a Third Party contractor on behalf of Camden Council without our knowledge. We would probably not have allowed the use of a digger in this location.. The work will only resume following a submission of risk assessments and method statements to BW. We are thoroughly investigating how this unauthorised work was able to proceed.

2.4 Trip Boat Collision – Paddington Arm

A trip boat on Paddington Arm collided with the unsecured air-raid precaution (ARP) gate causing some minor injuries to passengers and damage to the boat and property on board. A report was made by the Maritime & Coastguard Agency (MCA) to the Marine Accident Investigation Branch (MAIB) following contact from the boat owner to MCA. Mike Barrett and Jon Guest have filed reports to MAIB. Gates on the Paddington Arm have been inspected and secured.

2.5 Illegal Swimmers

Illegal swimming in canals is a recurrent problem in hot spells and is something BW seeks to tackle through education and publicity, highlighting the risks involved. There was a spate of such swimmers in Docklands in the recent heat wave. BW has engaged with the Metropolitan Police Safer Neighbourhood Unit in an attempt to deal with this. Five youths were arrested for ASB activities and will be prosecuted under our bye-laws.

3. STRATEGIC PEOPLE ISSUES

3.1 Directors & Senior Manager Changes

General Manager, North West Waterways

Adrian Sains tendered his resignation in advance of emigrating with his family to Australia early in 2006. Consideration of internal candidates including several identified in our succession planning talent pool resulted in the appointment of Jonathan Griffiths currently Finance Controller, North, to be effective from 1st August. Jonathan has considerable finance skills coupled with regeneration experience and a spell as acting General Manager.

General Manager, South East Waterways

Jerry Appleyard tendered his resignation to pursue a significant commercial opportunity. Jerry was appointed in September 2004 with strong private sector customer service experience and has stabilised the waterway team during his short time with us. The strength of internal candidates prepared to relocate to the South East is not as high as in the North West and, therefore, the role will be advertised externally to match an internal candidate with the external market.

Managing Director, Waterscape

Our search for a suitable candidate for this role has not proved successful so far and, therefore, we will continue with an interim manager.

Operations Manager, South West Waterways

John Laverick has decided to retire early and an internal appointment from our talent pool is expected.

3.2 Employee Benefits

The recently launched flexible benefits package has proved popular with our people. Employees can access various discounted products and services through a scheme operated on our behalf by a specialist agency. The Government approved Home Computer Initiative and Child Care Voucher scheme is included in the programme which enables employees to recover tax relief on these products. 180 employees have ordered home computers and 30 are taking advantage of child care vouchers.

3.3 Diversity

A programme of diversity research is underway using the QED organisation and ex-Board Member Adeeba Malik. Community workshops have been held in Rochdale, Huddersfield, Leicester and Birmingham to understand minority ethnic community views on BW's services. Internal workshops with senior managers are now taking place to increase awareness and develop an action plan to be linked to the Customer Insight Project underway in the South East.

3.4 Internal Communications

Directors Question and Answer Sessions with employees have continued with Central Shires and Wales/Border Counties Waterways involved. These informal sessions are proving very worthwhile in our programme to improve internal communications.

4. CORPORATE SOCIAL RESPONSIBILITY

4.1 London Canal Museum

184 children from five Islington schools have enjoyed a week of activities arranged with the Islington Education Business Partnership. They took part in tunnel building and floating and sinking workshops as well as a boat trip. This week of activities also coincided with the Learning Services Officer's celebration marking her 10,000th child coming on a visit to the London Waterways.

4.2 Waterways Heritage Report

BW's first State of the Heritage report was published in July. It covers 2004 and will be updated annually.

The report is an objective assessment of BW's heritage performance – the good points and where more work needs to be done. Rather than just being a progress report however it is being incorporated into Business Unit reporting and performance reviews so that it can drive the improvements that are needed in heritage management.

As part of BW's *HeritageAction* we are rolling out heritage awareness workshops to all waterway units. These workshops are designed to "raise the game" and reinforce the message behind the common target to demonstrably improve commitment to heritage across the waterways. The workshops will all have been completed by mid-September.

5. PROPERTY

5.1 Gloucester Quays

It was reported at the last Board Meeting that the Peel/BW Outline Planning Application passed by Gloucester City Council in November 2004 has been "called in" for determination by the ODPM. We anticipate that a Public Inquiry will be held at the end of the year/early 2006 to assess how the scheme accords with national and regional planning policies. A final decision on whether the scheme can be allowed to proceed can, therefore, be expected by mid/late summer 2006.

6. LEISURE

6.1 Saul Junction Boat Festival

The Ninth Annual Saul Junction Boat Festival was held at the beginning of July and was once again a great success. Visitor numbers on the Saturday appeared lower than last year but the combination of Live 8 concerts and the weather did not help. With much better weather, Sunday was very well attended. The Cotswold Canal Trust managed to secure significant sponsorship from Morrison, Cemex and Stroud & Swindon Building Society. Morrison's brought some 70 staff to the event to showcase their involvement in canal maintenance and restoration.

6.2 Crick Boat Show

Some 27,000 visitors attended a successful Crick Boat Show over the Bank Holiday weekend. 250 exhibitors displayed on site generating £1.5m of trade sales over the show weekend. Current estimates are that the Show will generate £10k profit, this includes all management time. There was significant local media interest with TV coverage on BBC.

We are considering the best way to resource our involvement with the Show, currently undertaken by SE Waterways. The Show is now a major event with benefits to BW locally and nationally.

6.3 Angling

The Directors have agreed a project to re-establish positive relationships with the national angling associations. This will involve community based angling initiatives, which it is hoped will be matched in kind by the angling bodies. Central Shires and West Midlands Waterways have been nominated to lead the project.

6.4 Towpath Improvements – London

Transport for London has confirmed funding for the current financial year of £800,000 for towpath surfacing and widening improvements plus £30,000 for 6 access point feasibility studies. The main areas are the Regent's Canal in Islington, Hackney and Tower Hamlets; the Paddington Arm in Ealing and the Grand Union in Brentford. The access point schemes include one at Roache Point on the Hertford Union – a key link for the Olympics area. BWL costs for project design and management are £120,000.

7. RESTORATION/REGENERATION

7.1 Liverpool Link

The NW Development Agency has formally approved £7.5 million funding for the Link, together with an assurance that development costs can be claimed retrospectively (this eases the call on contingency by £200k).

Additionally, EP has confirmed its £1.7m allocation will be forthcoming, subject to formal approvals.

7.2 Northwich Vision

Through the Board of Northwich Vision, BW is influencing the local authority development at Baron's Quay adjacent to the River Weaver navigation. With the development of our riverside land, including our present offices and in conjunction with the RDA, EP, EA, the County and Borough Councils, we are producing a masterplan for the renaissance of this market town with BW's waterway at its core.

In order to maintain momentum, the Council's preferred developer will be announced in late July with BW's appointment of ISIS for our own holdings in September.

8. LEGAL

8.1 Crossrail

The second reading of the Hybrid Bill is now tabled in the House of Commons and the petitioning period will follow. We are working toward gaining agreement with Crossrail on the majority of interface sites where we are not contending the principle of their proposals and preparing our petitioning documentation for those sites where we are not in agreement with them.

8.2 Challenge to the BW VAT Status

A licence payer (NABO member) has taken to the VAT tribunal a challenge that VAT is payable on licences (and specifically River Only Certificates). Charging of VAT on licences is worth in the region of £20 million in VAT reclaims to BW. Customs are the respondents to the taxpayers challenge but BW is proactively seeking to provide information and advice to Customs to ensure the challenge is effectively defended. We are working with Ernst & Young VAT experts. Issues raised include BW status, its legal powers and property ownership. There would be significant ramifications if the licence payer succeeds in the challenge and the matter remains under close scrutiny.

8.3 Boston Dock Revision Order

Despite not being given notice, BW discovered Port of Boston was applying for an HRO that would have relinquished it of responsibility for tidal River Witham between the end of BW's Witham Navigation and the remainder of the Port leading out to the Wash. Serious safety risks to BW customers entering or exiting the Witham Navigation could have arisen. A late objection to the HRO was lodged preparatory to a public enquiry due later this month. Faced by a strong BW case based on evidence prepared swiftly by local and central BW staff the Port of Boston withdrew its proposal to change the harbour limits 7 days before the public enquiry was due to commence.

9. CORE WATERWAY

9.1 Diesel Spillage – Grand Union Canal

A major diesel spillage at Leighton Buzzard closed the canal for 3 days. The culprit was an illegal red diesel transfer yard. A claim has been lodged with EA to reclaim our operational costs (£22k). However, we are unlikely to get this back for several years.

9.2 Water Supplies

The lower than average rainfall following the exceptionally dry winter means that water supplies may become an issue particularly in the South of England where the deficit is greatest.

South East Waterways report that a weekly update on water management has been introduced as several reservoirs are 20% below the level we would expect at this time of the year. This is a major concern if the weather does not change – we are forecasting that action will be needed by the end of August. Notices about sharing locks and increasing customer's awareness of water control are being issued.

9.3 River Lee – Weed Clearing

“The Lee Mean Clean Machine” has been very successful in clearing duckweed and in conjunction with the Lea Rivers Trust, 36 lorry loads of weed have been removed during the months of May and June at a cost of £11k. Work is on-going to look at environmental means of disposal of the weed.

9.4 Freight

- BW has assisted Powerday PLC in securing funding c. £500,000 from the London Development Agency towards the Waste and Recycling Facility proposed at Old Oak Sidings near Willesden on the Grand Union (Paddington Arm). BW is close to agreeing the design of the wharf which will be used to transfer c.300,000 tonnes of waste and recyclates from water and land per year. The wharf will be constructed this financial year. £320,000 has been secured for the project from Transport for London.
- The new aggregate traffic on the River Severn from Ripple to Ryall has commenced and vessels are carrying approximately 1200 tonnes per day on this journey, with a predicted annual tonnage of 275,000 tonnes.
- A further 65,000 tonnes per annum from Ryall to Gloucester is due to commence with trials in October this year with a Grand Opening Event being proposed for early 2006.
- Following on from the success of liquid Biomass Fuel being delivered by barge to Ferrybridge and Drax Power Stations discussions are underway for a trial movement of 1,000 tonnes of solid biomass Fuel to Ferrybridge C Power Station in August. If successful, this could result in 100,000 tonnes per annum to Ferrybridge by water, with similar trials and tonnages to Drax and West Burton Power Station at a later date.

10. VENTURES

10.1 Foxton Pub

The WP5 Foxton Pub opened on schedule on 29 May 2005 and is currently trading 70% above plan and is in negotiations with SE Waterways about the use of the adjoining workshop. It is extremely popular especially at weekends with queues. Increasing the outside seating area is being considered to accommodate this.