

CHIEF EXECUTIVE'S REPORT

1. FOR APPROVAL

1.1 Approval of Authorised Signatories to the BW Seal

The Transport Act 1962, as amended by Section 52(4) of the Transport Act 1968 provides that the application of the Board's Seal shall be authenticated by the signature of the Secretary to the Board or some other person authorised to act for that purpose.

The current signatories are the Legal Director (as Board Secretary) together with (as authorised persons) Cornel Howells and three lawyers in legal Department. Of the latter, one (Alison Clegg) left British Waterways last year and another (Stephen Mendham) will leave in mid-September. Jackie Lewis is taking a period of maternity leave. In order to ensure availability of signatories when documents require sealing, I recommend that Paul Fendrich, Property Solicitor in the Legal Department (recruited in the place of Alison Clegg) be additionally authorised to witness the BW Seal.

It is recommended that the Board **RESOLVE** that Paul Fendrich be authorised to authenticate the application of the Board's seal and that the authorisation of Alison Clegg is revoked forthwith and that of Stephen Mendham is revoked with effect from 15 September 2006.

2. Stakeholder Relations

2.1 Relationships with MPs

The relationships we have built via our planned lobbying of MPs have proved very useful. Simon Salem has continued the programme of one to one briefings with MPs. Since the last Board, Simon has met Kitty Usher, Natascha Engel and Sion Simon.

2.2 Annual Report & Accounts 2005/06

This will be laid before Parliament shortly. All Board members will then be sent a copy. The report is being sent out to stakeholders and the waterway press (as last year) with invitations for our Annual Meeting (12 October). A wider media story will feature the report at the time of the meeting.

2.3 Media Relations

In this period we successfully managed intense media interest in the eviction of illegal occupiers from Castle Mill site in Jericho, Oxford. We limited national coverage of the eviction to two broadsheets and achieved reasonable balance of views in local coverage. Public relations was an integral part of the very careful planning for a complex operation.

The launch of the 2006 National Wildlife Survey led to extensive coverage in national media and across regional and local titles. The BBC featured the story on

both Breakfast News and its One O'Clock news programme, along with broadcasts on Radio 4's Today programme and Radio 5 Live (Drivetime). A short article in *The Daily Telegraph* produced correspondence in the letters page, leading to the Game Conservancy Trust writing that "British Waterways is to be applauded...." in regard to our care and enhancement of habitat for water voles.

In advance of the warm summer weather a press release was issued to regional media warning of the dangers of entering waterways to cool down. This resulted in some effective community safety press coverage.

2.4 British Marine Federation

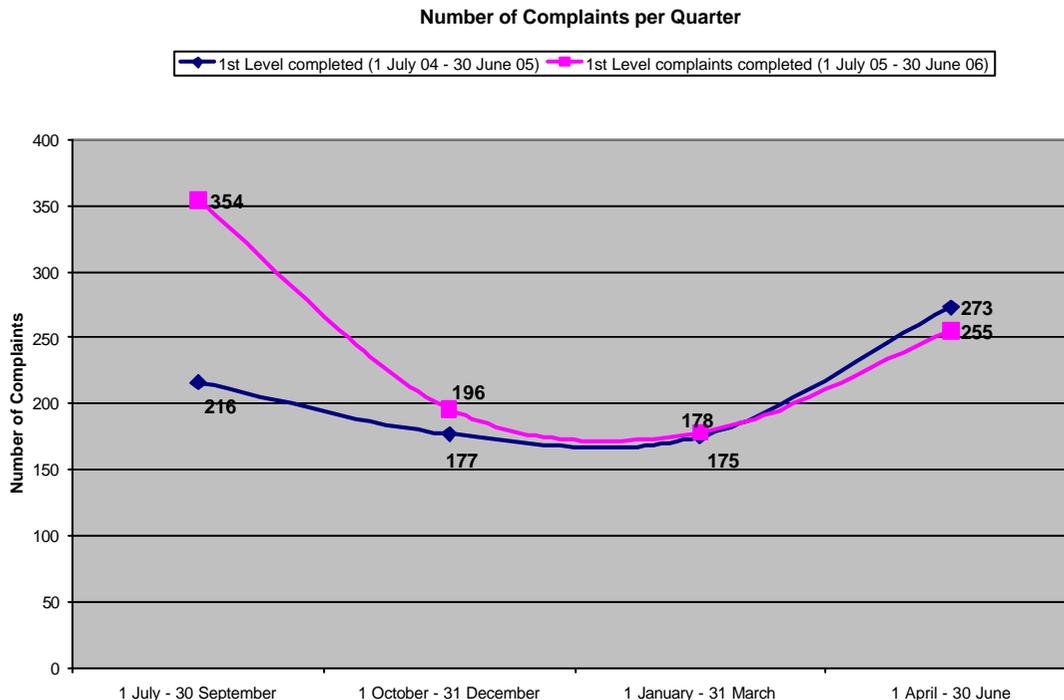
We have made good progress in implementing all the confidence building measures contained in the mediation agreement made in February. In particular, we have completed the drafting of a Code of Practice. This is scheduled for discussion by the Fair Trading Committee at their July meeting. The FTC Chair will give a verbal update at the Board meeting.

Tony Hales met the BMF Management Board on 11 July at one of its regular meetings for an informal exchange of views. He reported that the BMF were upbeat about the improved relationship and that they thought good progress was being made.

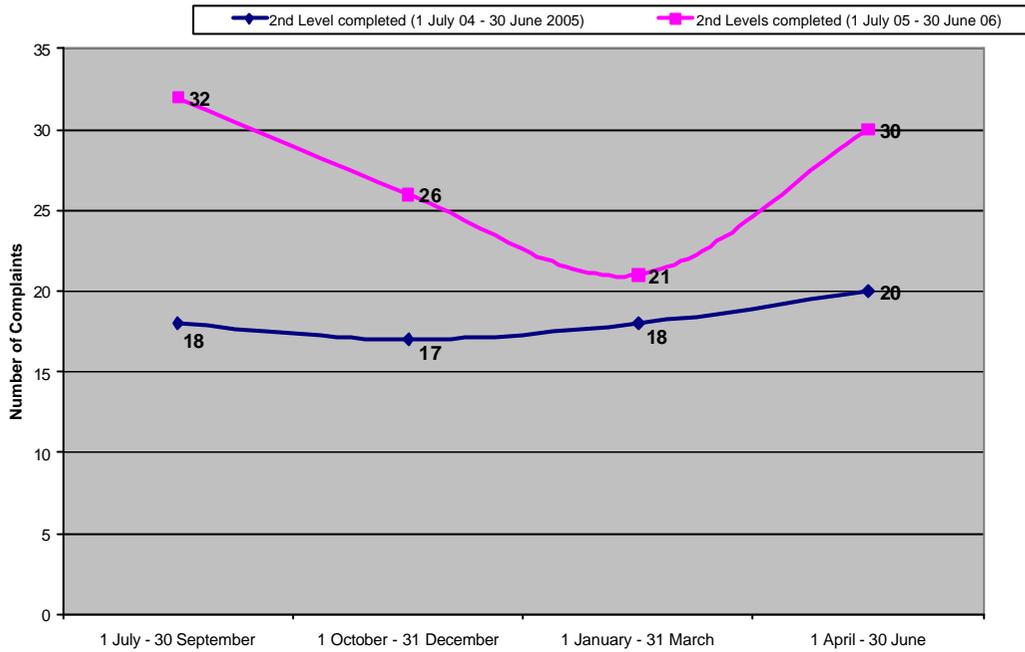
3. MARKETING & CUSTOMER SERVICE

3.1 Complaints

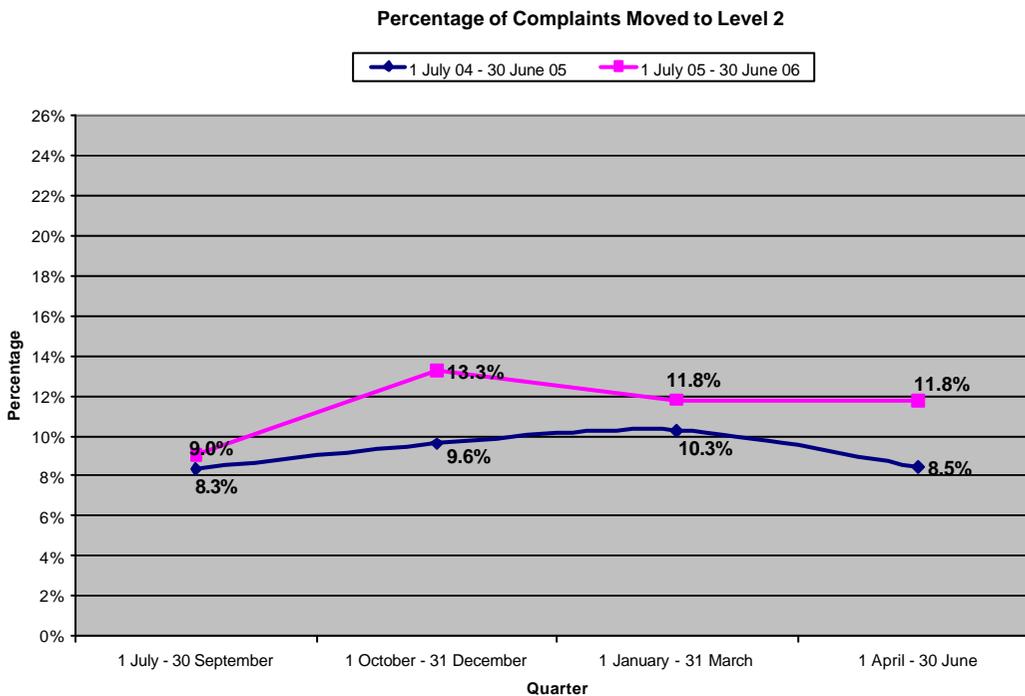
Complaints Quarter 1 2006/07 – Volume at Levels 1 and 2



Number of 2nd Level Complaints per Quarter



Percentage of complaints moved to Second Level



The number of complaints per quarter has been similar to last year for 3 consecutive quarters. We wait to see if the sudden uplift experienced in Quarter 2 2005/06 is repeated this year.

In the past year the proportion of complaints going to second level has increased to an average of around 11% from around 9%. We are monitoring this, but can see no discernible pattern as yet.

The average number of days taken to respond fully to a complaint in Q1 remains the same as Q4 2005/06 at 12 working days. However, the percentage of complaints responded to within 20 working days rose to 97.25%, up from 92.7% in the previous quarter and 95.2% for the last financial year. As reported to the Board at its May meeting, the response time for complaints is to become 15 working days from 1 January 2007. The number of complaints completed within 15 working days was 70.6% in Quarter 1 – we are discussing this with operating units.

Five reporting units (SE, CS, EM, W&BC & Scot) had complaints that took longer than 20 working days to complete, up from three reporting units that failed to meet the deadline in the previous quarter.

3.2 Waterways Ombudsman cases – Q1 2006/07

	2005/06				2006/07
	Q1	Q2	Q3	Q4	Q1
Number of cases accepted by Ombudsman	8	7	5	9	6
Number of cases completed	9	0	8	10	4
Number of completed cases with maladministration found. Includes (1) = partial finding of maladministration	6 (5)	0	6 (6)	5 (3)	2 (1)
Complaints accepted as % of BW level 2 complaints	40%	22%	19%	43%	20%

The Waterways Ombudsman will be attending the Board meeting to discuss her Annual Report.

3.3 Customer Service Transformation

Twelve customer service ambassadors have made a strong start to the Moments of Truth assignment. Specific objectives are ;

- A live, stimulating and practical customer focussing exercise for all business units, including central departments
- Participation by around 10% of BW people at all levels in eleven business units and BWML
- Put Moments of Truth to work throughout the business as an agent of cultural change
- Involve BW people from across the business in setting customer service standards
- Assess priority areas for improving BW's presence for customers.

Henley Centre reports and presents the 2012 volume and value model to the customer service transformation board on 17 July.

The team considering where and how BW people can best improve their ability to communicate with customers, is progressing to a programme and specification. Appropriate parts of this will be tendered for execution Q3 & Q4 2006/07.

Strategic principles for a future customer contact centre have been established. Detailed examination of options is in hand.

4. RISK ISSUES

4.1 Rochdale Canal – Hebden Bridge

Following a period of heavy rainfall on the evening of Sunday 1st July, a stream which runs in culvert under the Rochdale Canal overtopped and discharged water and debris into the Canal. The canal has been blocked to navigation. Gallifords have visited the site along with Land and Water dredging contractors. Due to access issues, the debris will need to be removed by floating craft and work to clear a channel to allow restricted navigation will now commence.

4.2 River Lune Aqueduct, Lancaster Canal

The River Lune Aqueduct has now been repaired and the navigation and towpath re-opened to users on 30th June. There is still some historical leakage through the structure which is being monitored. An arrears scheme to undertake comprehensive repairs to the aqueduct and re-line the approach embankment is planned for inclusion within the 2008/09 business plan.

4.3 Plank Lane Lift Bridge Counterweight Failure, Leeds & Liverpool Canal

Plank Lane Lift Bridge was re-opened to navigation on 13th June upon completion of the remedial work following the counterweight collapse.

The investigation into the cause of the failure has now been completed. This concluded that the principal reason for the failure was poor detailing of connections and joints leading to corrosion of bolts compounded by incorrect fitting of hydraulic lines to the rams on the day of the failure. The Technical Structures team have been advised of the outcome of the investigation and guidance on inspection and monitoring is awaited.

4.4 Llangollen Breach

The Llangollen Canal breached overnight on Monday 5th June at Ravensmoor. Water was lost from 2km of the canal and 3 boats were stranded dry. The stranded crews were accommodated in hotels while their craft was re-floated.

Arrangements to crane craft past the site resulted in 12 operations. The canal re-opened on 16th June following works directed by BW engineers. Our prompt response to dealing with the breach has been received very positively with excellent media coverage.

5. STRATEGIC PEOPLE ISSUES

5.1 Annual Pay Settlement

Following detailed negotiations agreement on the annual pay review has been reached with the trade unions. The level of pay increase for fully effective performers will be 2.7% plus £100 business performance bonus. Around 30% of our people will receive pay increases above this level up to 6.7% based on individual performance rating taking the average pay bill increase to around 3.2%. Performance bonus payments up to 7.5% of base salary have been awarded to around 700 employees in addition to the £100 business performance bonus for effective performers.

Negotiations have been challenging this year as the unions ambition was to achieve a general increase in excess of 3%. Our final offer included the £100 business performance bonus subject to acceptance of the total package. Both unions accepted the offer without a ballot of their members. During negotiations the unions targeted Director remuneration in an attempt to demonstrate unfairness. Further discussions are being arranged with senior union officials to explain the market context for Director and Senior Manager remuneration.

5.2 Senior Management Changes

- **London General Manager** – Simon Bamford will commence on 4 September. Simon is currently Operations Director with Land and Water Remediation Ltd and brings over 20 years experience in environment and water related industries having previously worked for Southern Water and ADAS Scotland Operations. David Lamont has taken up the role of Operations Manager (Scotland). David has a general management background having worked in the engineering and leisure industries.
- **HR Restructure** - As part of the restructure of the HR function Sally Charman, Personnel Manager (South) and Ken Adams, Training & Development Manager have left employment.
- **Procurement Restructure** - National Procurement Manager, Ken Butcher has taken early retirement and Nigel Habben has been promoted to lead the procurement function within Shared Services.
- **Senior Manager resignations** - Sarah Briggs, Estate Manager (South West), Pam Swanson, Business Support Manager (Scotland), Norrie Courts, Commercial Manager (Scotland), Andrew Cobden, Property Development (London) and Amanda Dunk, Leisure Manager (London) have all recently resigned. Where possible the opportunity will be taken to achieve efficiencies from these developments.

6. LEISURE

6.1 The Scottish Boat Show & Outdoor Leisure Festival

Despite very unsettled weather, 10,000 visitors were welcomed to this third major event at the Falkirk Wheel. Reaction from visitors was favourable and 350 completed visitor surveys were received. These will be analysed and a report prepared. Exhibitors had mixed reactions to the introduction of more activities; in particular some felt that it was not a real boat show – more of a day out for visitors.

There was excellent media coverage of the event by BBC Radio Scotland “Drivetime”, “Out of Doors” and Scottish TV News.

6.2 Crick Boat Show

The show returned a loss of £65k following a number of operational challenges. The weather leading up to the weekend was the worst ever experienced by the show, putting the building phase behind schedule and flooding problems had to be overcome throughout. On the second evening a nearby warehouse burnt down overnight, leading to major diversions and traffic issues for the remaining 2 days of the show. Despite this, the show was the biggest ever staged and local stakeholders will be engaged to build in better traffic access and contingency for the future.

Outsourcing of the show is being progressed for 2007 – tenders have been received from four event management companies to manage the infrastructure.

6.3 Sheffield on the Waterfront Festival

Yorkshire Waterways supported the second annual Sheffield on the Waterfront Festival on 11th June. An estimated 8000 people attended this event at Victoria Quays.

7. RESTORATION/REGENERATION

7.1 Helix Living Landmarks Bid

The River Carron currently has a tight navigation window for craft travelling to and from the Forth at Grangemouth. This issue is clearly identified in the Scottish Executive's policy document "*Scotland's Canals: An Asset for the Future*" and the Scottish Executive has strongly encouraged BW to look at ways to tackle it.

BWS with MAD monies and Scottish Executive funding have carried out a full review and developed solutions. The review initially considered a tidal barrage. However, this identified too many environmental concerns. The preferred solution under consideration is the construction of a canal along the south shore of the river, from the sea lock to the west section of Grangemouth Dock incorporating an iconic 'Kelpie Boatlift'.

A funding bid in partnership with Falkirk Council to form a project called the Helix – Living Connections has been submitted to the Big Lottery Fund Living Landmarks programme. The bid incorporates the canal channel and Kelpie with the Falkirk Council 310 hectare Community Parkland Project to develop a community land trust, combining art, environment and sport. The two projects join geographically at the Grangemouth Sea Lock.

The funding bid has passed the first phase of filtering and a review panel visited the project on the 8th and 9th May this year. Falkirk Council was the lead organisation for the bid. The two days assessment went well and was well supported by BW.

The project will be scored as part of the review report and will be considered as part of the second round filtering. This will reduce the existing 75 projects to 25. Projects taken to the next round will be considered for up to £250,000 of development monies. A decision on projects to proceed to Stage 2 is expected by the end of July 2006.

8. CORPORATE SOCIAL RESPONSIBILITY

8.1 Angling Competition

Yorkshire Business Unit is to provide sponsorship for a junior fishing competition run by West Yorkshire Police on the Calder & Hebble Navigation. The competition is aimed at offering an accessible alternative to drugs and crime which now affect young people from all walks of life.

8.2 Education & Water Safety

Brunel, Bugs and Bridges - To celebrate the 200th anniversary of the birth of Brunel, 274 children from five Ealing primary schools took part in activities at Three Bridges in Southall. Isambard Kingdom Brunel took the children on a guided walk along the towpath to show them his structure at Three Bridges as well as other canal features. The children went bug hunting in the local park led by Ealing Countryside Rangers and BW's Ecologist and also built miniature arches. One of the children wrote 'I loved building bridges because when I grow up I might be an engineer like Isambard Kingdom Brunel. I enjoyed his walk – it was inspiring!'

9. PROPERTY

9.1 Jericho

The repossession of this site was achieved on 31st May. On the day around 25 police and 20 bailiffs were involved and the operation went fairly smoothly. There has been criticism from the local community about the numbers of police and bailiffs involved but I am in no doubt the police called it correctly.

9.2 Rating Revaluation – Scotland

All valuation notices pertaining to the 2005 revaluation have now been received. It is clear that the Assessors have applied a 100% increase to the rateable values of canal undertakings. The effect of these rises has been curtailed this financial year by transitional rates relief, limiting increases to circa 12.5% plus inflation.

All appeals have been lodged by British Waterways appointed agents. However, further progress is unlikely until the Local Authorities Assessor is in a position to deal with the appeals.

9.3 Dundas Wharf

The Scottish Executive has called in the ISIS Dundas Wharf residential tower scheme. A public inquiry will be held before the Executive decide whether to affirm the Local Council's planning permission. ISIS is reviewing its options in the light of this decision.

9.4 Headquarters Move – Apsley Site

The Executive undertook a review of the proposed Head Office relocation to Apsley and compared it with the costs/benefits of relocating to Milton Keynes and Paddington.

The review showed that there were no significant cost differences between either option and the decision rested on the risks associated with each. The Executive decided that the business continuity risk of moving to Milton Keynes and Paddington was greater than the construction risk at Apsley. We have therefore confirmed the move to Apsley.

We anticipate signing the sale agreement for Willow Grange within the next 23 weeks with a planned move to Apsley by December 2008.

9.5 Gloucester Quays

On 23 June the Secretary of State granted outline planning permission for the Gloucester Quays scheme. The news has been very well received locally with excellent press and media coverage.

9.6 Brentford Lock, Brentford

We have exchanged contracts on unit 2 with Prezzo, an Italian restaurant operator, who is now fitting out the premises and should start trading in July. We have completed the sale of the long leasehold interest of the pub unit to the Great Little Pub Company and we anticipate them being open for trading in early September. Units 3&4 remain vacant and we are talking to interested parties. The BW Operational team are now in occupation of the Harbour Masters Office and Chandlery at Heron View on the West Bank and we are marketing the two office units where we have received strong interest but are still in search of suitable tenants.

10. CORE WATERWAY

10.1 Pollution – South Yorkshire Navigation

We are handling a significant pollution incident on the SYN when, during recent flash storms, the Yorkshire Water Storm Sewer overflowed into the River Don. The canal from Swinton Lock to Eastwood Lock is presently closed pending clean-up by YW and the Environment Agency.

10.2 Cemex – River Severn

It is disappointing to note that Cemex have failed to move a single barge of aggregate through Gloucester since the launch in March. They have continued to promise this but have not delivered. There is a real risk of siltation undoing the £300k of dredging works completed last winter. Cemex are clear on our position that we will not dredge this entire stretch again in the foreseeable future.

10.3 Motorcycles on Towing Paths

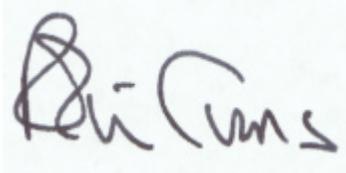
West Midlands Waterways have had difficulties with motorcycles on towpaths in the Wednesfield area. The local community was encouraged to report every sighting to the police through Crimestoppers. Discreet surveillance cameras were installed and local police worked with our own staff to stop, confiscate and destroy nine motor cycles in three days. This has reduced the number of incidents to a minimum almost overnight.

10.4 Slough Arm

Thorney Lane, Iver: Due to high winds an Italian Poplar tree was blown on to buildings on the Ridgeway trading estate. Structural damage was caused and subsequently a claim has been put against BW London for damage caused. On closer inspection it was realised that the other 6 very large Poplar trees that are growing on our land are also rotten. Work is ongoing to get these trees felled on safety grounds. It is expected to cost in the order of £25k to remove the trees all of which is unplanned works. Overhead powerlines have delayed the start of works.

10.5 Docklands

The British Waterways petition on the Crossrail proposals has been deferred and will not now be heard by the Select Committee until after the Parliamentary summer recess. This deferral is to allow for further discussion to take place between British Waterways, Canary Wharf and Crossrail on revised proposals for the Isle of Dogs station. The intent is for all parties to reach broad agreement on the proposals so that petitions can be withdrawn. Subsequently, separate meetings have been held between British Waterways and Crossrail to discuss technical issues related to the construction of a revised scheme.

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

ROBIN EVANS

July 2006.