

CHIEF EXECUTIVE'S REPORT

1. **STAKEHOLDER RELATIONS**

1.1 **Defra Grant**

We have still not received written confirmation of our grant for next year although Ministers have decided and it is now in the hands of the Defra Directors. A 5% cut in 2006/7 and a 4% cut in 2007/8 is however certain.

1.2 **Contract with Defra**

Philip Ridal and I have had a number of meetings with Defra and the Shareholder Executive to progress the contract. Defra have previously stated they were not in a position to adopt a shadow contract in 2006/7 but wish to implement it from 2007/8. We have agreed a timetable of actions with the intent that a draft contract can be put to the Board in September in advance of it being formally approved by Defra thereafter. Defra anticipate it will take some months to get formal acceptance.

1.3 **Visits**

The Chairman and I took Helen Ghosh, the new Permanent Secretary at Defra, on a half day visit to the Oxford Canal. We found her to be very approachable and a good contact for the future.

John Lancaster and I took Robert Lawson and Sabine Mosner (the new Richard Bird and John Roberts respectively) on a half day visit to the Birmingham canals. It was a useful relationship building exercise.

2 **MARKETING & CUSTOMER SERVICE**

2.1 **Complaints**

This Board Meeting falls outside the quarterly reporting period for complaints. A report on the final quarter of 2005/06 will be submitted for the May Board.

During this reporting period BW took part for the second time in the National Complaints Culture Survey (NCCS). This is an independently run national survey of companies that provides insight into the culture of complaints' handling and allows BW to be benchmarked against other participants. The NCCS report is expected in the spring. A summary of its findings will be included in a future Board report.

2.2 Our Plan for the Future

We have reviewed the content of this document in the light of our progress with strategy and current business plans. We concluded that there have not been enough changes to justify a complete reprint of a document which still has a four year time horizon ahead of it. We plan to continue to make the current document available with an update sheet inserted. We will review the need to publish a new document at this time next year. The decision to make this change will give us savings of £45,000 this financial year including staff savings of £15,000.

2.3 Angling

A further review of progress against our angling strategy was held with NFA and NAFAC on 15 March. Waterway units are starting to work with local angling interests to develop their angling plans for inclusion in next year's business plans. Relationships are improving and we believe that, if we can continue with our strategy, we will be able to make angling a useful part of the growth in visit numbers.

2.4 Avian Flu

We have been working with ADAS (the environmental advisory consultancy who supported us well during the Foot and Mouth outbreak) to develop our approach to this issue. On the basis of the advice we have received, we believe that it is inevitable that the H5N1 strain of Avian Flu will arrive in the UK wild bird population at some time, probably fairly soon (ie possibly in the next few months and almost certainly this year). In addition to farmyard birds and poultry being at risk, ducks, swans and geese are particularly susceptible to the H5N1 strain of the virus.

Although the risk to humans of catching the disease from wild birds is minimal, we believe that we will have to manage a period of panic reaction from the public and media if the infection becomes widespread amongst wild birds on our waterways. The situation will be the opposite of the Foot and Mouth outbreak where the Government chose to close large parts of the network (to the annoyance of our customers). On this occasion we are likely to face the task of reassuring visitors that the waterways remain safe to visit.

Our strategy is to protect our customers and staff by offering proportionate science-based advice. We have to recognise that there may be a short or medium term impact on visit numbers whilst public understanding of the risks involved advances. Once established in wild birds, H5N1 could be present for up to five years. Defra does not believe there is any effective way of controlling the disease in wild birds.

Our strategy has identified five scenarios of increasing severity and the communication and operational responses appropriate to each one. Currently we are in the first of the stages ie the one where H5N1 is known about but is not present in the wild bird population in the UK. Our internal communication strategy is based on issuing guidance for staff and ensuring we have the necessary stocks of operational materials (disinfectants, masks etc). Our external communications strategy is to provide proportionate scientific-based advice to our wide range of stakeholders either directly or through our web site and points of contact with waterways' visitors and customers. The key messages for our people and for them to communicate when asked are:

- The H5N1 strain of Avian Flu is not present in the UK for the time being
- There are no known cases anywhere in the world of transmission of the H5N1 strain between wild birds and humans
- It is safe to continue to use, work on and enjoy the waterways.

We will update the Board as the situation develops.

2.5 Relationships With MPs

We held the first of our Parliamentary dinners on 13 February. 12 Labour and Conservative MPs and peers attended. Jim Knight joined us for coffee. There was a very positive atmosphere and a good relaxed exchange of ideas. In particular, there was a growing understanding of our commercial approach and the way our property is integrated into our overall strategy for the long term sustainable future of the waterways.

The second of these dinners is now being planned for November and Sir Peter Soulsby has agreed to host it for us.

As part of our planned approach to the Conservative party, Simon Salem and I met Peter Ainsworth, M.P., Shadow spokesman for Environment, Food and Rural Affairs on 7 March. The meeting was positive and Peter Ainsworth seemed receptive to our vision and strategy for the waterways. We need to continue the dialogue and Peter Ainsworth asked for a boat trip to Bow Back Rivers which we are arranging. He asked for his colleague Hugo Swire (Shadow DCMS spokesman) to be included too. Arising from the discussion at the meeting, BW will be making a written submission to the Quality of Life Commission – the Conservative Party policy team looking at the environment and related issues.

At the meeting of the All Party Parliamentary Waterways Group (APPWG) held on 28 February Nigel Johnson was one of three speakers presenting short papers on waterways legislation, which was the theme of the meeting. Since the re-launch of the format of the APPWG at our suggestion the number of MPs attending has risen from virtually zero to five or six per meeting and the group is looking at wider issues.

2.6 Media

Several articles have appeared during this reporting period. The Sunday Times property section featured the values and aims of ISIS in an article entitled “Canals on a new Path”, timed to coincide with the marketing launch of New Islington, an ISIS development in East Manchester.

The Guardian featured canals in its “In praise of....” editorial section on 21 January, commenting that “a new canal age is dawning....” and going on to list the various restorations and new build schemes currently underway.

The successful award of HLF funding for the first phase of the Cotswold Canals restoration encouraged the BBC’s Bob Sinton to produce a short news item that featured on both BBC Radio Four and Radio Two news bulletins. An emphasis on working in partnership for wider community benefits was achieved through BW’s spokesperson.

The Independent's 'Green Pages' section considered the potential for freight carriage on inland waterways, and featured numerous schemes including the potential for the London Olympics to be serviced by waterway with the restoration of the Bow Back Rivers.

Two features generated in partnership with the Drifters Consortium of hire boat operators also appeared during this period, in The Independent and The Observer. These highlighted the pleasures of taking a narrowboat holiday on the canal network and continue to underpin BW's drive to increase visit numbers and support the hire boat trade.

The Daily Telegraph's Weekend Section on 25 February printed a feature that was critical of BW's development of canalside land and questioned whether BW should be involved in property development. It contained a number of inaccuracies but also featured an extensive quote by me promoting the sensitive use of non-operational assets to assist in becoming largely self-sufficient. Our communications plans for 2006/07 will address positively the benefits of regeneration and BW's involvement both itself and through joint ventures.

2.7 British Waterways Advisory Forum

The second Agenda Meeting of the British Waterways Advisory Forum took place on 31 January. This meeting is held between the two main meetings and addresses issues arising from the last full BWAFF meeting along with establishing agenda items for the following meeting, scheduled for 17 May.

Items for discussion in May have been agreed as: BW's Restoration Strategy; BW's Property Portfolio; and Volunteering. It was further agreed that BW would make a presentation on its property portfolio and how this is being used to fund reinvestment in the network to inform a future discussion at the main meeting planned for November 2006.

3. RISK ISSUES

3.1 Cycling Incident – Regents Canal

There has been a further incident involving cyclists on the London towing paths. Two cyclists collided together, resulting in one of them falling into the Regent's Canal. Representatives from the leisure team and health and safety visited a large section of the Regent's Canal where a number of cycling incidents have been reported. As a result a number of control measures were identified.

3.2 Health & Safety Initiative – Regents Canal

An initiative has been put in place on the Regent's whereby each working unit will supply one new idea or innovation concerning Health and Safety at every team meeting. In practical terms this exercise again puts the emphasis on the bank staff to actively think about their daily actions and ways in which their systems of work could be improved. Whilst all ideas received may not be practicable, there are certain members of the team who display a real flair for positive and simple improvements that could be transferred to other teams.

4. STRATEGIC PEOPLE ISSUES

4.1 Non-Executive Appointments

Whitehead Mann have been appointed and have met with the Chairman. The Scottish Executive have agreed the remuneration figures but they now also need Treasury approval. The advertisement is planned for early April with the long list being agreed by 27 April. The short list is to be agreed by the 18 May and interviews will be held on the 23 June. All short listed candidates will be offered a face to face briefing from me.

4.2 IWAAC Chairman

This post was advertised in the Guardian on the 22 February and the Sunday Times on the 26 February.

4.3 Senior Management Changes

- Customer Operations Director - Further to my e-mail of the 8th March, Vince Moran has now taken on this role.
- General Manager Recruitment – advertisements have been placed to recruit to the recently vacated North West General Manager. A new role of General Manager London is being created to provide additional senior support in London.
- Head of Engineering – George Ballinger, Chief Engineer, Scotland has been appointed to this new role created as part of the Technical Director’s restructure of central technical functions. Plans to appoint a successor in Scotland are underway.
- Estate Manager, West Midlands – Richard Smith has been recruited from HSBC.
- Finance Manager, South East – Felicity Bates has been promoted to the role. Felicity has worked for BW for 15 years in a number of management positions.

4.4 Employee Surveys

During February/March a full employee survey was undertaken to measure levels of employee satisfaction. 70% of our people completed the survey (increased from 67% two years ago). This level of response is regarded by the independent market research company as excellent given the dispersed nature of our workforce.

Detailed results are being compiled and a full report will be presented at the next Board meeting. Waterway units will be presented with their individual ratings and a wide ranging communication plan will be actioned over the next two months. Headline results from 5 key indicators are given below compared to the 2004 full survey and the 2005 sample survey results:

	2004	2005	2006
Overall job satisfaction	71%	82%	80%
Satisfaction with BW as employers	55%	72%	70%
Motivation	60%	69%	69%
Satisfaction with communications	36%	40%	47%
Satisfaction with leadership	30%	43%	49%

5. CORPORATE SOCIAL RESPONSIBILITY

5.1 Bulbourne Yard

We have met with the CEO of BBOWT (Berkshire, Buckinghamshire & Oxon Wildlife Trust) and Chiltern Society to discuss possible joint use of part of the site for education and visitor facilities in conjunction with BBOWT's wildlife site next door (College Lakes).

Both groups are very interested in working with BW. A "partnership" could open additional funding opportunities and increase visitors to the canal. A site visit has now been arranged with all parties to progress.

5.2 Protected Species

Technical Services advice and support to the waterways includes a significant body of work on protected species generally, but particularly bats. Advice has been given on how potential bat roosts can be created with the renovation of a WWII Pill Box on the Kennet & Avon Canal and a Toll House at Dundas Aqueduct. There has also been a tree survey for bat roosts at Knipton Reservoir. Artificial bat roosts have been installed in Saddington Tunnel within a section of the Kilby Foxton SSSI, designated for its importance to Daubentons bats.

6. LEISURE

6.1 BMF Mediation

The Chairman advised you of the outcome to the mediation in his e-mail of the 22nd February.

We have begun the process of working more closely together and there appears real enthusiasm on their side to put the dispute behind us. We have already put in hand a number of confidence building measures.

6.2 Launch of the Inland Marina Investment Guide (IMIG)

We launched the IMIG on 8 March. This is an initiative to attract the private sector to develop up to 11,000 new marina berths on our network over the next decade to meet the expected boating demand. This growth is equivalent to about 45 new 250 berth marinas compared to the existing supply of about 100 marinas (average size about 140 berths). Investment of £100m-£150m will be needed by the private sector, to deliver this target. Our initiative to facilitate their investment has included:

- The publication of the IMIG itself - a thoroughly researched and professional explanation of the market opportunity, the potential investment returns, the locational opportunities, and BW's role in facilitating the opportunity
- The creation of the New Marinas Unit – a full time team of five BW staff, and a set of new business processes to deliver the service to potential marina development clients.
- The resolution, through mediation, of our issues with BMF which has allowed them and TYHA to state publicly their support for this initiative.

The launch of the IMIG involved a major PR campaign in March, a dinner with senior industry representatives, and substantial direct mail marketing. We are targeting property developers, leisure companies, investment institutions, canalside land owners, the existing boating business trade and the various trade associations that represent these groups. The New Marinas Unit is already seeing new enquiries flowing as a result of the launch.

6.3 Newark on Water Festival

It seems likely that drastic budget cuts being considered by the local council will not permit the Festival to go ahead this year. The Festival in 2004 attracted over 30,000 people over 3 days.

7. RESTORATION/REGENERATION

7.1 Upper Lee Valley

BW has secured a grant of £2.5M from the Office of the Deputy Prime Minister, London to Stansted Corridor Growth Area Fund. The grant will be used to design and build a bridge at Hale Wharf, Tottenham and to improve the wharf for the trans shipment of recyclates from the proposed new mixed use development.

BW's new Stonebridge Lock Facilities Building situated on the River Lee navigation has been nominated as a finalist for the Bura Waterside Regeneration Community Project Award. The final will take place at Madame Tussauds on the 22nd March and will be hosted by John Craven.

8. PROPERTY

8.1 Middlehaven Dock – Teesside

Since submitting the outline bid significant building development has taken place on the site. Conditions, restrictions and responsibilities surrounding management of the docks and dock walls will have changed. All such changes are to be identified and addressed with TVR at a forthcoming meeting.

8.2 Fountainbridge Edinburgh

A positive meeting has taken place with City of Edinburgh Council (CEC) over the lack of waterspace in future development plans for Fountainbridge. Amendment to the Development Brief was approved by the Planning Committee in December 2005. Steve Dunlop has met Andrew Holmes, Director of Development and will soon be meeting Grosvenor Estates and EDI. There are a number of issues to be settled but there is confidence that the development will include waterspace but not to the extent we had originally envisaged.

8.3 Aylesbury Basin

Development plans are being drawn up for the Basin that would make it a central feature and major destination in Aylesbury. Situated at the end of the Aylesbury Arm, the land and Basin cover 1.43 acres. It is some 500 yards from the main town centre Market Square and retail shopping centre.

9. LEGAL

9.1 The Water Framework Directive - Scotland

This is the most important legislation for over thirty years to protect and improve the water environment. It is regulated in Scotland by the Scottish Environment Protection Agency (SEPA) and will apply charges for activities that have an impact on the water environment in Scotland. British Waterways Scotland submitted a response to SEPA's consultation document on the proposed water environment charging scheme at the end of December 2005.

This response outlined BWS concerns. These were mainly that BWS as a major water user would be seen as a major contributor to cost recovery and that the level of charge would be unfair and disproportionate to the actual environmental impact of BWS activities. There was also concern that there is a lack of recognition of the significant environmental benefits of canals and that Scottish Executive funding would be diverted from work on the ground to cover costs.

BWS has now received a response from SEPA and a meeting took place on 24 February 2006. SEPA is now sensitive to the special nature of the canals as artificial structures and the environmentally sensitive management of these structures by BWS. As a result the charge for abstractions and impoundments to BWS is expected to be £50k per annum. This is significantly less than charges to other major water users. However, it has been indicated that the additional costs will have to be met from the Scottish Executive grant.

9.2 Judicial Review (central rates transitional relief)

The full hearing of BW's judicial review claim against ODPM is due on 20 and 21 March. Pre-trial exchange of evidence has revealed that ODPM chose not to consult on key change to regulations despite being aware there would be a significant adverse impact on BW.

9.3 Rating Revaluation – Scotland

All valuation notices pertaining to the 2005 revaluation have 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.

The matter is still being progressed by the British Waterways agent. All valuation appeals have been lodged. A nil increase is sought although this appears unlikely.

9.4 VAT Tribunal

BW's application to be joined in as interested party has been successful. Claim is by a boat owner against HMRC claiming VAT should not be payable on river only licences. If claim is successful, BW's ability to reclaim significant amounts of VAT would be in jeopardy. Full hearing likely early summer.

9.5 River Lee payments

Thames Water has made formal application to the Secretary of State, under River Lee local legislation, to be relieved of its current obligation to pay £368,000 p.a. to BW. Lawyers currently being selected to oppose application. The EA is also seeking to end its payment obligation under the same legislation though no formal application has yet been made.

10. CORE WATERWAY

10.1 Water Resources

South East Waterways are concerned about water resources for Summer 2006. Whilst reservoirs are recovering, Naseby in Leicestershire, Wilstone near Tring and Boddington in Oxfordshire are still low. We will manage the resources carefully and have discussed with the trade how we can also maintain boat hire confidence.

A particular concern is the effect of Blue Green Algae last summer, limiting our use of the Tring Reservoirs. Jeff Whyatt and Matthew Routledge are meeting the EA in March to discuss our proposals for managing any repeated outbreak.

The reservoir groups for the Leeds & Liverpool and Chesterfield Canals are also low with a risk of closures this Summer.

10.2 Inverness Local Plan

British Waterways previous concerns included the design and location of Phase V of the Southern Distributor Road. Following the Public Inquiry, the Reporter has recommended that the proposals map in the Local Plan be amended to make clear that the route is a general alignment only and includes a safeguarded corridor in the vicinity of the canal.

Decision over the proposed route is still ongoing. BW are seeking a meeting with the Highland Council Roads Department to establish progress regarding design proposals for bridge/aqueduct options. Notice of Intention to adopt the Local Plan was published week beginning 28 November. This is likely to be adopted in early 2006. A letter has been sent to the Council requesting that they contact BW to discuss the crossing of the canal.

10.3 Meeting with Environment Agency

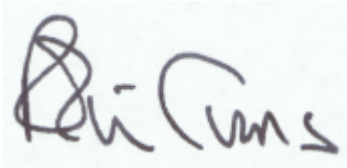
The Yorkshire Business Unit Management Team initiated a meeting with the Regional Director of the North East EA and his Senior Team to explore new ways of working together. Some key outcomes, such as best practice sharing, safety training, procurement savings and graduate job swap initiatives are now being formulated.

10.4 Birmingham Canals – Visit by Dutch delegation

A visit to Birmingham's canals was undertaken by a Dutch delegation of 42 individuals representing Highways, Local Government, and Canal and River Operators. A second visit has been requested with the delegation list including the Dutch Minister for Environment and Rural Affairs.

10.5 Freight

- Cemex RMC – River Severn
The first loaded barge navigated through Gloucester Docks bringing sand from Cemex's Ryall site to their concrete batching plant in Gloucester on 3^d March. The launch event hosted by Cemex and ourselves was well attended and attracted a large amount of media coverage. The President of Cemex's UK Operations and a number of his co-Directors attended and were extremely pleased with the event and the coverage they received. This new traffic will add another 65,000 tonnes per annum to their projected 275,000 tonnes from Rippal to Ryall.
- Drax Power – River Ouse
A meeting was held with Clugstons, a partner of Drax Power, to discuss a proposed wharf on the River Ouse at Drax to facilitate the movement of timber from sources including Scotland which will be chipped to provide Biomass fuel for the station. Clugstons are to commence the planning application process.



ROBIN EVANS
Chief Executive

March 2006.