[These Minutes were agreed by the Board at its meeting on 27 January 2005]

FOR PUBLICATION

Minute Nos. 04/154 to 04/194

BRITISH WATERWAYS BOARD

Minutes of the Board Meeting
held on board Barge Josephine, London Docklands on
Thursday 4 November 2004 at 9.00am

PRESENT:

Dr G P Greener	Chairman
Ms S Achmatowicz	
Mr R Bowker	
Dr C Christie	
Mr I M Darling	
Professor G Fleming	
Mrs H Gordon	
Dr D R Langslow	
Mr T Tricker	

IN ATTENDANCE:

Mr R Evans	Chief Executive
Mr J Froomberg	Commercial Director
Mr N Johnson	Legal Director
Mr V Moran	Personnel Director
Mr S Salem	Marketing & Communications Director
Mr S A Sim	Technical Director
Mr M Smith	Finance Director
Mr C J Howells	Assistant Secretary

MINUTES

The Minutes of the Board Meeting on 23 September 2004 were confirmed and signed.

MATTERS ARISING

BP Grangemouth (Minute 04/129)

04/154 [Text omitted as commercially confidential].

Dr Christie reported on the lunch he had attended with the Chairman and Operations Director of Scottish Water. Following this lunch, Scottish Water had written to BW with the proposal that BW consider making its expertise in waterside property development available to the Company in developing its own estate. Mr Evans confirmed that this proposal was being reviewed by the Executive. It was noted however, that the scope for this in practice was limited with the Scottish Water's property having little or no connection with BW's.

Waterscape (Minute 04/130)

04/155 Mr Bowker would join Ms Achmatowicz on the Group responsible for reviewing the progress of Waterscape.

Design Panel (Minute 04/142)

04/156 The Chief Executive confirmed that he had contacted the Commission for Architecture and the Built Environment about providing advice to BW on the quality of design of developments along the network. He felt this was the right approach and the Wood Wharf Development would probably be the first to benefit in this way.

End-to-End Review (Minute 04/143)

04/157 The Chairman referred to the letter from the Chairman of the Inland Waterways Association that had been tabled at the last meeting and his response to this that had been copied to Board Members. He felt that progress was being made in addressing the issues arising from the IWA's response to the End-to-End Review and there would be a further opportunity to gauge this at the national User Group Meeting on 16 November.

Dr Greener also confirmed that the reply to the letter from IWA on waterways' freight was in preparation and would be copied to Board Members.

CHIEF EXECUTIVE'S REPORT & FINANCIAL REVIEW

04/158 The Board noted BWB 3161.

Financial Performance

04/159 The Chief Executive advised that the Quarter 2 Review and the forecast full-year outturn had been prepared with the benefit of visits and extensive discussion with Business Unit teams by himself and the Finance Director.

The Finance Director reported on the first half year financial results, noting that an operating profit had been recorded for the first half year 2004/05. This was consistent with the pattern of income and expenditure in previous years. Most of the major works on the network take place during the winter months to avoid disruption to customers. Given the concentration of major works in the second half of the year, the latest forecast of the operating result at the end of the 2004/05 financial year remained unchanged.

The Board welcomed the update, particularly the commentary on major ventures and the close level of financial control it demonstrated.

Employee Survey

04/160 The Chief Executive referred to the outcomes of the 2004 Employee Survey. This showed as expected that overall employee satisfaction and motivation levels had reduced since the last full survey in 2001 due to the impact of re-organisation and redundancies but showed improvement on the 2003 interim survey. Mr Evans also noted that the independent research company undertaking the survey had confirmed that levels were not untypical of an organisation undergoing structural change and had identified some recent recovery in morale. Work was in hand to ensure this continued.

Stakeholder Relations – British Marine Federation

04/161 The Board strongly endorsed the Executive's approach to seeking to re-establish a constructive working relationship with the British Marine Federation, which had been damaged by arguments over the introduction of the Marinas Protocol. Successfully persuading the Waterway's Minister, who was supportive of BW's approach, to meet the Federation and the Chief Executive's proposal that members of BW's Fair Trading Group should meet two or three fellow BMF Council Members, were examples of actions being taken. The Board endorsed this constructive approach.

Rates

04/162 It was noted that BW was likely to have to begin payment of business rates on core assets whilst an appeal was lodged. DEFRA was seeking to have the decision of the Valuation Office reviewed and the Waterway's Minister had agreed to write to the Treasury Minister, Mr Boateng. No substantive progress had been made in Scotland.

Spending Review

04/163 The Chief Executive reported on his meeting with the Waterways Minister at which he had been accompanied by the Chairman. The Minister had outlined the likely shape of the forthcoming grant settlement for BW.

The Board agreed that when the grant was known, the Executive should prepare for DEFRA a full report on the consequences of that level of funding. They particularly felt that the adverse consequences for the business of not inflating grant should be clearly underlined.

Scottish Executive Grant

04/164 The Board welcomed the announcement by the Scottish Minister of increases in grant funding for the year 2006/07 and 2007/08 of £2m and £2.5m respectively, giving a baseline grant of £11.4m in 2007/08. They took this as a clear demonstration of the confidence the Scottish Executive had in BW Scotland and the benefits the Scottish canals were delivering.

Restoration Business

04/165 The Board welcomed the recent significant progress on key restoration schemes viz the Cotswolds, Montgomery, Bow Back Rivers, Liverpool Link, Manchester Bolton Bury, Northern Reaches and Droitwich.

Ventures

04/166 The Board reviewed in detail the progress of the four major ventures i.e. BWML, ISIS, Waterscape and Watergrid.

BWML

04/167 The Board noted the good progress of BWML in its first year of operation and that it expected to meet its target of achieving a profit in the year. They congratulated the Company on its progress.

The Chief Executive identified three issues which demonstrated the commitment to the protocol and criteria for transfer:

(i) it had been decided that as the proposed marina at Clarence Dock, (Leeds) (one of the second group of marinas currently under review for transfer) was not yet operational it should not be considered for transfer to BWML.. Instead, it had been decided to place the business opportunity on the open market and BWML could consider whether to bid;

(ii) at Sawley Marina, BWML had identified some land unused by BW which was suitable for expansion of its operation, but not sufficiently large to form a separate marina. Whilst there would be logic in negotiating a sale to BWML on arms-length terms, it was accepted there might be a case for going to the open market. The Executive had decided to refer the issue to the Board's Fair Trading Sub-Group;

(iii) the recent BW ventures conference had revealed the scope for individual ventures to combine to exploit a variety of waterside opportunities, including pubs and marinas. The Executive recognised the need for this process of engagement to be fair and open to ensure competition compliance and would, again, refer this to the Board's Fair Trading Sub-Group.

ISIS

04/168 The Chief Executive also reported good progress by ISIS.

He undertook to review further with Mrs Gordon her comments on the direction now being taken by ISIS and ensure they were captured in future reports.

Waterscape

04/169 [Text omitted as commercially confidential].

It was agreed Board Members would ensure they were fully familiar with the Waterscape website before the January review.

The Chief Executive recalled his recent meeting with a major Hire Boat company. One outcome was the need to improve BW's approach to major client account management. This message was being disseminated throughout the business.

Watergrid

04/170 [Text omitted as commercially confidential].

Craft Licence Index

04/171 The Board noted that the increase in licence fees from 1st April 2005, under the Indexation method it had agreed in 2003, would be 2.9%.

Complaints

04/172 The Board reviewed complaints data for the second quarter (to 30 September). Vegetation management had been the largest single complaint as highlighted at the previous Board Meeting. It was confirmed that actions were in hand to improve vegetation management in line with the Chief Executive's commitment at the Annual Meeting.

END-TO-END REVIEW

04/173 The Board considered BWB 3158 by the Chief Executive. This gave his view of the likely outcomes of the DEFRA review of British Waterways. The Board agreed that the outcomes were generally to be welcomed. It was evident that the review had greatly increased DEFRA's perception of BW's role and recognition of its needs.

The Chief Executive briefed the Board on the arrangements for

completing the review and implementing its proposals. He advised that BW would be invited to comment on a final draft, which would then be the subject of a meeting between BW Board Members and the Waterways Minister. He would circulate an Executive Summary of the final draft to Board Members for confirmation they were content, particularly concerning the new policy "architecture" that was being recommended. Subject to the Minister's agreement to the recommendations, it would then be for DEFRA to implement them.

STRATEGIC DISCUSSION DOCUMENT

04/174 The Chairman recalled the informal Board discussion the previous day on the 10-Year Strategy Discussion Document 2005/06 – 2014/15. This had focussed on the three key issues identified at the September Board Meeting (Minute 04/144 referred) together with further discussion topics based on Board Members' comments following that meeting.

It was agreed that the Chairman, Chief Executive and Strategic Planner would consider the Strategy Discussion Document in the light of the points agreed in the discussion with a view to bringing the finally agreed strategy to the Board for approval at the January Meeting.

OPERATIONAL PROJECTS (BWB 3164)

04/175 The following project was approved: -

- **Derwent Lock & Shardlow Lock, Trent & Mersey Canal – Shardlow - £821k Arrears; £221k Risk Allocation Arrears;**

The Executive Summaries of the following projects, which has been agreed by the Executive Directors were noted: -

- **Whitely Street Washwall Repairs, Bingley, Leeds & Liverpool Canal £480k Gross (Risk Allocation £60k) £240k Net;**

- **Tring Reservoir Grand Union Canal £300k (Risk Allocation £31k);**

- **Lock Gearing Replacement, Kennet & Avon Canal, £275k (Risk Allocation £11k);**

- **Bow Locks Footbridge, River Lee Navigation £263k (Risk Allocation £31k) Arrears;**

PENSION FUND ACTUARIAL VALUATION

04/176 The Board considered BWB 3160 by the Finance and Personnel Directors.

[Declarations of interest were received from the Chairman, Ms Achmatowicz, Dr Christie and Mrs Gordon as Directors of British Waterways Pension Trustees Limited. It was agreed they should remain and participate in the discussion].

The Finance Director described the work since the last meeting of the Board to firm up proposals for dealing with the pension scheme deficit

under overarching objectives confirmed by the Board. These objectives were securing the long-term future of the Defined Benefit Pension Scheme, maintaining the affordability of the Scheme for the employer and working in partnership with employees, the Committee of Management and the Trustee.

Mr Smith then outlined the principal features of the proposed solution as set out in the Board Report and which was recommended for formal adoption by the Board prior to presentation to the Committee of Management and the Trustee.

The Board noted that there was some flexibility in terms of the proposal that emerged from this process within the overall criteria of affordability. Some options were highlighted by Board Members.

The Personnel Director also referred to informal discussions he had had with trade union representatives and the possibility that they might propose some adjustments to the Committee of Management.

The Board noted the reports from the Directors and approved the proposals that had been submitted to them. It was felt that they met the objective of retaining an affordable defined benefits scheme. They were also consistent with the values of the business. It was agreed that the scheme compared favourably with occupational pension schemes in general and this was a point to be highlighted in communicating the outcome.

It was further noted that following the presentation and discussion with the Committee of Management and the Trustee a final position would be brought forward for ratification by the Board at the January meeting. Recommended scheme changes were to be effective from 1st April 2005. The Actuary would then issue his final report to reflect both the deficit of £42m and the repayment plan. There would be a programme of internal communications to ensure the outcome was well understood by employees.

COMMERCIAL UPDATE & COMMERCIAL PROJECTS (BWB 3157)

04/177 The Board noted progress on the 2004/05 investment and disposal strategy.

The Commercial Director reported significant progress in the H_20 Joint Venture and a fuller report would be made to the next Board Meeting.

The Finance Director, responding to Professor Fleming, reported that Covelink, the company that had been manufacturing amphibious boats for BW had gone into administration. He was meeting the Administrator to reaffirm BW's exit strategy. He advised that the lessons learnt from the project were documented in an internal audit report.

Waterside Pubs Partnership (WP5)

04/178 The Commercial Director recalled that the Board had agreed at its previous meeting that final approval of WP5 should be delegated to its Sub-Group.

Sub-Group members confirmed that the issues they had raised had all

been addressed and in particular they were satisfied that the contractual documents embodied and would ensure the delivery of the individual BW values. Additionally, Mrs Gordon and Ms Achmatowicz had met a main Board Director of Scottish & Newcastle and a Director of its Pub Enterprises company. Following a detailed discussion, they were able to confirm they were a suitable partner for the venture. It had been agreed to have a progress review meeting in a year's time.

On this basis, the Sub-Group confirmed its approval of the formation of WP5 and this was noted by the Board.

Progress on Wood Wharf

04/179 The Board delegated selection of preferred bidder status to its Property Working Group with advice also from Dr Greener and Mr Bowker.

A final recommendation for the Board would follow early in 2005.

Bridge Inn Ratho

04/180 The report on the present position of the Bridge Inn and the preferred method of acquiring the business was noted. It was confirmed that BW Scotland's intention to extend its arrangements for the restaurant boats would be confined to leased moorings and a turnover related trading agreement.

Ellesmere Port & Weston Point

04/181 It was noted that full reports and recommendations for these disposals would be presented to the Board either in correspondence or at the January meeting.

Disposal of Land at Lea Road, Waltham Abbey

04/182 The Board considered a proposal for the disposal of land at Lea Road, Waltham Abbey. [Text omitted as commercially confidential].

In the discussion, the Board focussed on two elements of the proposal viz demolition of the Old English Gentleman pub and the relocation of the lock cottage. It was agreed these raised issues regarding BW's accepted role as guardian of the waterways heritage, particularly how this was defined and applied against competing resource priorities and the options for retaining heritage buildings in developments and their cost. It was noted that the future of North Warehouse, Sharpness, referred to in the Chief Executive's briefing paper, raised similar issues and that a group of Board members and BW's National Heritage Adviser would be visiting the site to explore these and would report back. It was also noted that the Waltham Abbey proposals for the pub and lock cottage were subject to further detailed technical investigations.

The Board approved the project, subject to notification if the need for an alternative solution arose from the technical assessment of the lock cottage and welcomed the opportunity for a general debate of the issues viz-a-viz Sharpness.

Stoke-on-Trent – Etruria Valley

04/183 The Board approved:

- the purchase by BW of a 49% shareholding in Festival Waters Limited. BW Board members of the Company to be Messrs. Cochrane, Griffiths and Coates;
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- [Text omitted as commercially confidential].

ISIS – Ilford & Thurrock

04/184 The Board agreed revised terms for the disposal of the Ilford and Thurrock sites to ISIS. [Text omitted as commercially confidential].

Industrial Premises at Selco Way Minworth

04/185 Disposal of Selco Way industrial premises had been approved by the Board in correspondence and was formally noted. [Text omitted as commercially confidential].

HEALTH & SAFETY MANAGEMENT PROGRESS REPORT

04/186 The Technical Director introduced BWB 3162.

Mr Sim confirmed that September was the first month ever with no reportable accidents within British Waterways.

The Legal Director then advised the Board that he had commissioned an enquiry on his behalf into the circumstances of the death of David Moore, a diver employed by a diving contractor. The contractor had been engaged to assist in the installation of a dam in preparation for an inspection of Upper Lode Lock on the River Severn. Mr Moore had died following an incident that occurred whilst he was engaged in that work. The incident was subject to a joint inspection by the Police and the HSE.

The Technical Director, who was leading the enquiry for the Legal Director, described circumstances of the accident known to date. He advised that it was premature to draw any conclusions whilst the various investigations were in progress. BW was helping the investigations in every way it could, including putting in a steel cofferdam further up river to allow dewatering of the lock.

Mr Sim added that the diving supervisor had control of the work under the Diving at Work Regulations and he made the required safety risk assessment.

It was agreed the Board would be kept informed of progress.

THE WATERWAYS TRUST

04/187 The Board noted BWB 3159, the regular update on progress of the Waterways Trust and its contract to provide services to BW.

It was noted that the Chief Executive, who was attending a dinner with the Trustees, would decide a suitable date and venue for a joint Trustees/BW Board event.

AUDIT COMMITTEE MEETING

04/188 The Board noted the Minutes of the Audit Committee held on 17 September 2004.

FORMAL RESOLUTIONS

04/189 The Board considered BWB 3163 by the Legal Director and agreed the following formal resolutions.

Bank Mandate

04/190 The Board resolved to approve the following additions to the Royal Bank of Scotland (National Westminster Bank) Mandate:

(i) Add Maureen Webber as Accounting to Reporting Manager;

(ii) Add James Green as Management Accountant.

Authorised Signatories to the BW Seal

04/191 The Board resolved that Alison Clegg, Jackie Lewis and Stephen Mendham be authorised to authenticate the application of the seal of the British Waterways Board to any document or instrument requiring execution by the Board.

AND that the authorisation of Christopher Peachey to authenticate the application of the seal be revoked with effect on and from 1 January 2005.

Assignment of Finance Leases relating to the Millennium Link

04/192 The Legal Director explained that National Australia Finance (Equipment Leasing) Limited ("NAF(EL)") had requested that their interest in the Millennium Link finance lease arrangement be assigned to another group company (National Australia Finance (Integrated Leasing No. 1) Limited) ("NAF(IL"). The Millennium Link Trust ("MLT"), the Millennium Commission ("MC") and Scottish Enterprise ("SE") were also involved in the transaction.

The latest agreed drafts of the following documents were tabled:

(i) Deed of Novation & Amendment between NAF(EL), NARF(IL), BW and MLT in relation to a Financial Agreement dated 31 May 2000 between NAF(EL), MLT and BW and a Development Agreement dated 31 May 2000 between NAF(EL), MLT and BW;

(ii) Novation & Amendment Agreement among NAF(EL), NAT(IL), BW and MLT in relation to an Option Agreement dated 31 May 2000 between NAF(EL), BW and MLT and a Renunciation Agreement dated 31 May 2000 between NAF(EL), MLT and BW;

(iii) Assignation made by NAF(EL) to NAF(IL) with the consent of BW and MLT in relation to a lease between NAF(EL) and MLT dated 31 May 2000 (the"Superior Lease Assignation");

(iv) Acknowledgement of intimation in respect of the Superior

Lease Assignation;

(v) Fourth Supplemental Agreement among MC, BW and MLT (the "Fourth Supplemental Agreement"); and

(vi) Second Supplemental Agreement among SE, BW and MLT (the "Second Supplemental Agreement");

(together the "Documents").

The Board agreed to the assignment and RESOLVED THAT:

Conditional upon the Fourth Supplemental Agreement and the Second Supplemental Agreement being executed by the Millennium Commission and Scottish Enterprise respectively;

each of the Documents, either in their current terms or with such amendments as either the Chairman or the Chief Executive consider to be appropriate; and

any other documents into which either the Chairman or the Chief Executive of BW consider it necessary or appropriate for BW to enter to enable the proposed Assignment to proceed

should be sealed and executed and issued by or on behalf of BW.

SEAL REGISTER

04/193 The Seal Register showing the document nos. 17,600 to 17,672 had been sealed since the last meeting of the Board was received.

OTHER BUSINESS

March Board Meeting 2005

04/194 It was agreed that the March 2005 Board Meeting would revert to the normal two day format (i.e. 16 and 17 March 2005).

DATE OF NEXT MEETING

27 January 2005