



BOARD MEETING

Minutes of the Board Meeting held at BW's offices, Sheldon Square, Paddington, London on 25 May 2006 at 9.00am

PRESENT:

Mr T Hales	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 M Bensted	Director - London
Mr S Dunlop	Director - Scotland
Mr J Froomberg	Commercial Director
Mr N Johnson	Legal Director
Mr V Moran	Customer Operations Director
Mr P Ridal	Finance Director
Mr S Salem	Marketing & Customer Service Director
Mr J Stirling	Technical Director
Mr C J Howells	Assistant Secretary

WELCOME

The Chairman welcomed Mr Dunlop, Director, Scotland to his first Board Meeting.

MINUTES

The Minutes of the Board Meeting held on 23 March 2006 were confirmed and signed.

MATTERS ARISING

BW Leisure Attractions – Falkirk Wheel (Minute 06/23)

06/51 Dr Christie commented that with the increase in property development interest around the Wheel site it was important that the update of the masterplan was available quickly. Mr Dunlop acknowledge this. Whilst the target for completing it remained the end of the year, an outline scoping paper would come to the Board before that. SD

Dr Christie added that the Boat Show at the Wheel site the previous weekend had been a success.

Audit Committee – Climate Change (Minute 06/25)

06/52 The Chief Executive confirmed that he had just received Professor Fleming's report on flood risk issues in respect of development sites. He would revert to the next Board Meeting on BW policy in respect of the appropriate standards to build to in future. RE

Judicial Review (Central Rates Transitional Relief) (Minute 06/32)

06/53 The Board congratulated the Legal Director on the successful outcome of BW's judicial review claim against the ODPM.

CHIEF EXECUTIVE'S REPORT

06/54 The Board noted BWB 3235.

River Lune Aqueduct, Lancaster Canal

06/55 The Technical Director advised that the leakage at the River Lune Aqueduct did not affect the integrity of this historic structure. The canal would be re-opened in July.

Waterways Ombudsman

06/56 The Board questioned the apparently high number of cases of maladministration being found by the Waterways Ombudsman (17 in 2005/06 including 14 partial findings). Mr Salem explained that most involved the giving of an apology for the late rectification of errors and the number was not disproportionate to the number that were resolved during the review process; some were due to misunderstanding and BW staff were being trained to handle issues better.

It was agreed to invite the Ombudsman to a Board Dinner and suggest she gave a brief overview of her year's work, before the start of the Board Meeting the next day. RE

Big Lottery Canal Restorations

06/57 The Chief Executive advised that whilst BW's priority was the Cotswolds restoration, this did not preclude support for other Lottery applications. He confirmed that BW welcomed the success so far of the Bedford & Milton Keynes (Western End) application and was participating at an appropriate level. He undertook to confirm to Dr RE

Christie the extent of BW's involvement in the Falkirk Council Helix scheme.

Algae Bloom – Tring Summit

- 06/58 The Board agreed that the Environment Agency approach to the algae bloom and fish loss incident at Tring last summer with a possible prosecution was unreasonable and endorsed the Executive action to have this firmly rebutted. The Technical Director would report further on the occurrence of algae bloom and measures to combat it.

JS

Efficiency Programme

- 06/59 The Board welcomed the Efficiency Programme with its objective of making operational cost savings in BW of £10 million in 3 years.

Employee Survey

- 06/60 The Customer Service Director gave an overview of the outcome of the employee survey undertaken in February/March 2006. The Board agreed the response rate of 70% was excellent. It was felt that steady progress was being made, particularly given the major restructuring completed two years previously.

FINANCE DIRECTOR'S REPORT

Finance Report – Year End Results 2005/06

- 06/61 The Board considered BWB 3231.

The Finance Director reported on the final outturn for the year. He added that although this was close to the Period 11 Forecast there were a number of variations which suggested the forecast had not been as robust as it should be. He was looking into this.

The Commercial Director responded to Board Members' questions on the write-down of fees incurred in the Hill & Smith property transaction.

The Finance Director explained the reconciliation between the management and the financial accounts.

Annual Report & Accounts

- 06/62 The Board noted that the Annual Accounts and Financial Review had not been made fully available in time for consideration by the Audit Committee the previous day. The Audit Committee would now meet on 7th June for this purpose. It was agreed that the Board would be invited to approve the Accounts by written resolution immediately the Audit Committee had met and had agreed them.

The Business Plan 2006/07 to 2008/09 would be submitted for final approval on the same basis.

It was noted that the timetable for production of the Accounts this year was particularly demanding, and that in the light of further new accounting requirements next year, the Board and Audit Committee dates for 2007 would be reviewed.

PR

Quarter 4 Milestones

06/63 The Board noted the progress with milestones planned for the quarter ended 31 March 2006. It was agreed to use the “traffic lights” method of highlighting progress in future reports.

PR/RE

Treasury Policy

06/64 The Board considered BWB 3232 and approved the proposed Treasury Management Policy subject to adding to it that there was no trading in derivatives.

A recommendation to purchase the floating plant fleet from cash resources instead of operating lease finance, and to keep under review the policy of leasing plant and equipment, was agreed.

It was noted that paras. 6.4 and 6.5 of the report confirmed BW was in a solvent position with no going concern issues.

Development of Key Performance Indicators

06/65 The Board considered BWB 3233 reporting progress in the development of key performance indicators.

The Board endorsed the approach to capturing KPIs and suggested further refinements which the Executive would consider. This included separate environment/energy/sustainability and property development KPI's.

It was noted that DEFRA was underlining climate change as its principal objective. The Executive would report in further detail on this and how BW should respond.

RE/JS

The Chief Executive added that the KPIs would be incorporated into the management accounts as the year progressed, again on a traffic-light basis.

Professor Fleming recommended that BW examine the Strategic Environmental Assessment Directive (SEA). This, like the Water Framework Directive, may have implications for BW.

HEALTH & SAFETY MANAGEMENT REPORT

06/66 In considering BW 3229, the Board noted that the target of a 50% reduction in reportable accidents to BW employees in 2006/07 was challenging, particularly given the 25% reduction in 2005/06. The Technical Director advised that this conformed to a previously agreed benchmark agreed by the Board. He would make available the original performance chart.

JS

COMMERCIAL UPDATE & COMMERCIAL PROJECTS (BWB 3226)

06/67 The Board noted progress on the 2005/06 investment and disposal strategy.

ISIS Update

06/68 A general update on progress by ISIS was noted.

ISIS Funding for Phase 1, Islington Wharf Manchester

- **Matter Under Consideration**

06/69 The Chairman reported that the Board was, as regards the matter under consideration, acting in its capacity as a limited partner of the ISIS Waterside Regeneration Limited Partnership (**ISIS**).

The Commercial Director requested the Board to consider, and if thought fit, approve a subordination deed to be entered into by BW relating to the funding and development by ISIS of Phase 1, Islington Wharf, Manchester (**Project**).

- **Subordination Deed**

A draft deed of subordination (**Subordination Deed**) to be made between BW and Warp 4 Limited Partnership (together **Limited Partners**) as junior creditors, ISIS and the Lender as senior creditor subordinating all ISIS's indebtedness to the Limited Partners to all its indebtedness to the Lender was produced to the meeting.

- **Commercial Benefit**

After due and careful consideration of the transactions detailed in and the terms of the Subordination Deed, the Board confirmed its full understanding of the effect and implications for BW of entering into the Subordination Deed and unanimously expressed the opinion that:

- (a) It would be a proper exercise of the powers, and in the best interests of BW for BW to enter into the Subordination Deed; and
- (b) The execution and delivery of the Subordination Deed and the exercise by BW of its rights, and the performance of its obligations, under it would not contravene any provision of any agreement or any obligations binding on BW.

- **Resolutions**

Accordingly, after due and careful consideration, it was unanimously resolved that:

- (a) The execution and delivery of, and the performance of the obligations of BW under, the Subordination Deed be and are hereby approved;
- (b) The Secretary to the Board is hereby authorised to execute under Seal and to deliver the Subordination Deed:

- (c) The Secretary to the Board be and is hereby authorised to:
- (i) Do all acts and things so as to carry into effect the purposes of the resolutions referred to in this meeting:
 - (ii) Give or execute any or all notices, communications, or other documents on behalf of BW, pursuant to or in connection with the Subordination Deed or the transactions contemplated thereby;
 - (iii) To agree such amendments, variations or modifications to the Subordination Deed or such notices, communications or other documents as he may (in his absolute discretion) think fit (such opinion being evidenced by the execution of such document).

Limited Partner Corporate Governance

06/70 The Board welcomed the update on limited partnerships Corporate Governance and particularly the delineation of the Board's role.

Projects for Approval

06/71 The following projects were approved:

[Text omitted as commercially confidential]

In response to Mrs Gordon, the Executive undertook to confirm that H20's costing was robust and there was no subsidy from BW.

[Text omitted as commercially confidential]

Economic Indicators

06/72 The Chairman noted the increasing exposure of BW to changes in the property market. It was agreed that future commercial reports to the Board would be prefaced by a short analysis of movements in the principal economic indicators, tailored to particular activities (e.g. ventures).

JF

ANNUAL REPORT & ACCOUNTS 2005/06 [BWB 3230]

06/73 The Board considered the final designed draft of the narrative part of the Annual Report & Accounts for 2005/06. The emphasis on delivering public benefits and the restoration success story were welcomed. Board Members detailed comments were noted and further detailed comments were invited immediately after the meeting.

The Board approved the narrative part of Annual Report & Accounts 2005/06 and authorised the Chairman and Chief Executive to sign the Accounts. Further that the Chief Executive and Finance and Marketing & Customer Service Directors should finalise the printing and publication of the Report.

PENSION FUND GOVERNANCE IMPROVEMENTS

06/74 The Board considered BWB 3228. The progress report on improved corporate governance arrangements for the Pension Fund was noted.

The Board agreed to nominate Susan Achmatowicz, Dr Campbell Christie, Robin Evans and Philip Ridal for the new Trustee Board.

FREIGHT

06/75 The Board considered BWB 3227 by the Chief Executive.

The recommendation to commission a report from a recognised academic to fully examine the cost benefit of freight on BW's waterways was agreed. This report would be used to inform a debate on freight policy so that the Board could fully discuss the funding, reputational, sustainability and legal issues involved.

It was further agreed that a small group, comprising of Professor Fleming, Mr Bowker, Mr Evans and Mr Salem, would manage the brief, the appointment and monitor progress.

RE/SS

FAIR TRADING GROUP

06/76 The Minutes of the Fair Trading Group held on 23 March 2006 were noted.

REPORTS FROM COMMITTEE CHAIRMEN

Fair Trading Committee

06/77 Mr Tricker reported briefly on the meeting of the Fair Trading Committee held earlier in the day.

He advised that the Committee had been re-assured by a report on control and mitigation of Fair Trading risks in areas other than marinas and moorings. Good progress had been reported on the Code of Practice with signing expected in June. Finally, the Committee had been impressed by the progress of the New marinas Unit and the excellent working relationships it had forged with the business units.

Audit Committee

06/78 Dr Langslow reported on the meeting of the Audit Committee the previous day.

He reiterated that the Committee had not been in a position to review the Financial Review and Annual Accounts and would now meet on 7th June for this purpose.

On risks, the Executive would be re-visiting ventures, including aggregating these risks to give a corporate view. An internal audit review of a venture (ISIS) had also been asked for on the basis that it respected partnership protocols.

The Committee discussed points arising from the external auditors report. No changes to the accounts were expected to result. It had received the Internal Auditors report and could confirm that the level of risks was acceptable. The number of outstanding PPAs had been a particular issue identified and the definitions and whole process involved was being overhauled.

Finally, Dr Langslow explained the arrangements for BW to select a firm of auditors for recommendation to the Secretary of State to appoint as the BW Auditors, following the transfer of the recommendation process from DEFRA.

Remuneration Committee

- 06/79 Mr Tricker, Chairman of the Remuneration Committee, gave a brief report on the meeting on 23 May. The Board agreed that the Executive had performed excellently during the year.

FEEDBACK FROM BOARD VISIT

- 06/80 The Board thanked the Director London for the arrangements for the visit to Wood Wharf, the Olympic site and the Board Dinner the previous day. The dinner guests had stimulated a number of interesting ideas on how BW should serve its stakeholders and these would be followed up by the Executive. Also, it was observed that BW was now a key player in the preparations for the Olympics and the London team were commended on their work to achieve that.

SEAL REGISTER

- 06/81 The Seal Register, showing that documents 18,542 to 18,667 had been sealed since the last meeting of the Board, was received.

BOARD PERFORMANCE EVALUATION

- 06/82 [The Executive Directors, other than the Legal Director, withdrew from the meeting].

The Board considered BWB 3234.

The Board noted the outcome of the performance evaluation and agreed action points for a simple improvement programme.

The Board then convened in the absence of the Chairman to consider his performance as required by the Combined Code on Corporate Governance.

DATE OF NEXT MEETING

20 July 2006 (Stourport)