

BOARD MEETING

Minutes of the Meeting of the Board held at The Ramada Plaza Wrexham on 22 November 2007 at 9 a.m.

PRESENT:

Mr T Hales	Chairman
Mr J Bridgeman	
Dr C Christie	
Mrs M Carver	
Mr E Prescott	
Mr P Sarwal	
Mr D Sutherland	

IN ATTENDANCE

Mr R Evans	Chief Executive
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

APOLOGIES

Mr R Bowker
Mr J. Bywater
Mr N Hugill
Mr J Froomberg

MINUTES

The Minutes of the Board Meeting held on 20 September 2007 were confirmed and signed.

MATTERS ARISING

Tees Barrage (Minute 07/112)

07/125 The Legal Director reported that agreement had been reached with the Environment Agency for a scheme of fish monitoring at the barrage. This meant that the EA would withdraw the notice revoking the provisional licence for the fish pass and BW would now withdraw its action for a judicial review.

Invasive Species (Minute 07/113)

- 07/126 In response to Mr. Bridgeman, the Chief Executive advised that it would be impractical, given the extent and variety of invasive species, to produce a full audit. He would, however, arrange for an overview which would give the Board an appreciation of the scale of the issues. This would be presented to the next meeting.

Government Flooding Review (Minute 07/120)

- 07/127 It was confirmed that BW was contributing to the flooding review established by the Prime Minister. A draft submission was currently with Defra.

CHIEF EXECUTIVE'S REPORT

- 07/128 The Board noted BWB 3299.

The Helix Project

- 07/129 The Board welcomed the news that the Helix Project had been selected to receive a £25 million grant from the Big Lottery. The BW Scotland element would involve a new navigation channel alongside the River Carron to improve access into the Forth & Clyde Canal. It was agreed that the Scottish Director and his team, together with Dr. Christie, should be congratulated on this achievement.

It was noted that the overall project cost was £46 million and that further calls on the partners in the project consortium would be necessary. BW Scotland was currently contributing £2 million. It was agreed that the Board would receive a more detailed brief on the arrangements for delivering the project.

CSR Settlement

- 07/130 The Chief Executive advised that confirmation of BW's CSR settlement was expected in the next few days.

Quarterly Shareholder Meeting

Mr. Bridgeman commented on his attendance with the Chief Executive and Finance Director at the Quarterly Shareholder Meeting. He referred to Defra's request for a scoring system by which the various aspects of BW's stewardship of the network could be assessed. The Board accepted that although this was potentially an onerous task, an approach based on capturing existing data should avoid this. The approach should also be selective with the accent on those aspects which best represented the Government agenda and BW's strategic objectives.

The Chairman added that this would be taken further at the Board strategy meeting in January.

Annual Meeting

- 07/131 The Marketing & Customer Service Director concurred with Mr. Prescott that the annual meeting which he had attended did not represent all the elements of the waterways constituency. Proposals for change would follow the conclusion of the review currently in progress.

Freight

- 07/132 Mr. Salem reported on progress, following the OXERA report, in forming an informal alliance of bodies with an interest in developing waterborne freight and identifying a handful of achievable aims.

It was agreed that freight and related issues, particularly dredging, would be an element of the Board's forthcoming strategy review. The Executive would consider the best way of briefing Board Members, especially those recently appointed, so that they could participate fully in the discussion.

Data Protection

- 07/133 Mr. Prescott referred to the recent data loss at Customs & Excise. The Legal Director confirmed that BW had in place robust processes in respect of data protection and that everyone involved would be reminded of the need to adhere to these fully.

Licence Price Consultation

- 07/134 The Chief Executive confirmed that the Board would receive a full report on the outcome of the consultation and recommendations arising. This would be in the Business Plan.

Leadership Development Programme

- 07/135 The Board noted the work now underway with the Centre for High Performance Development for a long term leadership development programme in BW. It was agreed that the Nomination Committee would receive a further report on this.

Cotswolds

- 07/136 The Chief Executive reported that issues had arisen with Stroud District Council and HLF which were further delaying agreement on the commencement of the Cotswolds 1A project. Every effort would be made to achieve an early resolution of these.

Project Approvals

- 07/137 The Board noted the following projects that had been approved by the Chief Executive:
- South Stratford Canal – Wilmcote Locks Phase 1 - £920,000
 - Shropshire Union Canal – Dredging Hack Green - £639,000
 - Lee Valley Towpath Improvements - £844,000
 - Hale Wharf Footbridge, Stage 2 Design - £797,250.

FINANCE REPORT

- 07/138 The Finance Director introduced BWB 3298.

Mr. Ridal gave an update on the F6 full year forecast. He advised that he was looking at better ways of booking JV profits to provide insulation against the volatility of the income.

The Finance Director then gave a presentation on the reappraisal which the BW Pension Fund had recently carried out of its investment strategy. He asked for Board Members' confirmation that they were comfortable with this before the Trustees meeting the following week. The Board confirmed this with the proviso that the hedge fund element of 15% was considered to be high.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

- 07/139 The Finance Director presented BWB 3300 reporting on the status of the project for the conversion of BW Accounts to IFRS. The Board reviewed the converted accounts for 2006/07 and agreed a final decision would be taken at its January meeting following the review by the Audit Committee.

HEALTH & SAFETY MANAGEMENT PROGRESS REPORT

- 07/140 The Board considered BWB 3301 by the Technical Director including a full update on the breach on the Monmouthshire & Brecon Canal near Gilwern on 16 October.

Mr. Stirling advised that the HSE had visited the site and had not raised any issues which he should bring to the Board's attention.

He confirmed that internally a safety alert had been issued throughout the business on bed leaks. Lessons from the leak would be built into the current re-evaluation of the asset review process. All pre-SAP principal inspections (i.e. 2003) would be revisited to ensure nothing had been missed.

Mr. Prescott welcomed the emphasis on responding to staff concerns and stressed the importance of keeping reportees in the loop at all times.

The Board asked that its appreciation of their efforts be conveyed to all involved in dealing with the breach and its aftermath.

The Board briefly reviewed the rationale by which the expenditure on the repair could be justified in terms of competing priorities. It was agreed Board Members would receive the report on the benefits to the Forth & Clyde Canal of the Millennium Link Project. This illustrated the significant economic and other benefits which canals brought to their wider corridor.

The Board then considered the report on asset condition generally in the business.

Mr. Sarwal questioned the appropriateness of the category E5 when each of these assets (currently 4 in total) were subject to a rigid inspection regime by competent inspectors and engineers. It was agreed that it was appropriate to factor in the mitigation, e.g. by designating as E2 or E3. The Technical Director would report more fully on the assets involved and the mitigation measures within a week.

COMMERCIAL DIRECTOR'S REPORT

- 07/141 The Chief Executive introduced BWB 3297 on behalf of the Commercial Director.

The Board approved the following in respect of the H20 joint venture with blockilmartin:

- the transfer of two further sites to H20 Urban for a total consideration of *[Confidential information]* which is supported by independent valuations from asset valuers, Gerald Eve

- the approval of all future disposals to H2O Urban by the Executive provided they are within the current delegation arrangements and approved loan capital limits
- the growth strategy to be employed in respect of H2O Urban, particularly in Scotland and the North
- in the context of this strategy and the Board's policy on company directorships, changes to the corporate governance arrangements for the venture, including the formation of a new tax-transparent Limited Liability Partnership and the addition of Director Scotland to the current H2O Urban Limited Board.

Mr. Evans agreed to look further into a suggestion by Mr. Sutherland that the tax rules on LLPs were to be changed and could be less advantageous.

It was confirmed that whilst H2O had evolved from an existing business relationship and not been set up through a competitive selection process, the Board had subsequently received a full report and had been content with the position and this had been documented.

The Board noted the Wood Wharf and Gloucester Quays updates together with a progress report on BW's continued participation in a major regeneration opportunity in Grantham.

CORE WATERWAY/INFRASTRUCTURE (BWB 3302)

- 07/142 Arising from their questions about the insurance cover in respect of the breach at Gilwern, it was agreed that it would be helpful to Board Members to receive a report on BW's overall insurance policy.

STATUS REVIEW

- 07/143 The Chairman reported that the first status review report received from KPMG had validated BW's position on arrears and steady state etc. KPMG would now be concentrating on the review of future options. He was hopeful that some initial conclusions would be available for the January Board Meeting.

BOARD COMMITTEES

- 07/144 The Board noted the Minutes of the Audit Committee meeting held on 12 September 2007 and the Fair Trading Committee meeting on 20 September 2007.

The Chairman gave a brief oral report on the meeting of the Property Committee on 20 November 2007.

FEEDBACK FROM BOARD VISIT

- 07/145 The Board asked that the Wales & Border Counties team be thanked for the arrangements for the visit the previous day to the Monmouthshire & Brecon and the Montgomery Canals.

It was agreed that the format of Board visits was appropriate and should continue. Board Members felt, however, that they would benefit from some fuller briefing, in the round, on canals to be visited.

NEXT MEETING

It was agreed that the next Board Meeting would consist of the Strategy Review, beginning on the 23 January (p.m.) with a short regular Board Meeting on the 24 January (a.m.) followed by the conclusion of the Strategy Review. The venue would be at Sheldon Square, Paddington. It was accepted that effective pre-planning and early circulation of briefing material was essential.

07/146 BOARD EFFECTIVENESS AND PERFORMANCE REVIEW

The Board considered the report of Professor Stuart Timperley on his Review of the effectiveness and performance of the Board. The Board noted that this was the first occasion, since a formal requirement for annual reviews of Board performance had arisen under the Combined Code on Corporate Governance, that a review had been conducted externally. The Board agreed that an external assessment was valuable on an occasional basis (perhaps triennially) but was not necessary annually. The Board was reassured by the assessment by Professor Timperley of its performance and capability as of a high standard, particularly with regard to its focus on strategy and management of risk.

In considering how best to take forward the strategy agenda, the Board discussed a review process and agreed to devote the major part of its next meeting (in January 2008) to a strategy discussion, foregoing the usual Board visit and dinner attended by guests. The Chief Executive agreed to distribute well in advance of that meeting a summary of the views of the Executive on strategy as a 'straw man' to provide a framework for discussions by the Board at that meeting.

The executive directors (other than the Legal Director) then withdrew from the meeting.

The Board considered other issues and action points arising from the Performance Review, including Board Committee arrangements, rolling review of Board policies and some aspects of the division of functional responsibilities in the Executive. It was agreed that the Chairman would follow up the latter issue with the Chief Executive. On the former two issues it was agreed that the Property Committee should be attended by the Assistant Secretary and that the Board policies as set out in the Board manual should be reconsidered and refreshed on a rolling basis over the next four years.

The Chairman of the Board then left the meeting and the Vice-Chairman took the Chair.

As required by the Combined Code on Corporate Governance the Board then reviewed the performance of the Chairman. The Vice-Chairman agreed to provide feedback on that review to the Chairman.

The meeting then closed.